

A REPORT ON

The Somali Remittance Sector in Canada

Prepared for

Nathanson Centre for the Study of Organized Crime and Corruption

Osgoode Hall Law School

York University

By

Buri M. Hamza
York University
April, 2006

TABLE OF CONTENTS

1.0	Executive Summary.....	3
2.0	Introduction.....	6
2.1	A Brief Overview of the Hawala.....	6
2.2	The Objectives of the Research.....	9
2.3	Methodology.....	9
3.0	Somalia: A Brief Overview.....	12
4.0	Brief History of The Somali Hawala Remittance.....	17
4.1	The Perspective of the Interviewees on the History of Hawala.....	18
5.0	The Hawala Firms Operating in Canada.....	20
5.1	Amal Express.....	20
5.2	Al-Mustaqbal Express.....	20
5.3	Dalsan Trading.....	21
5.4	Dahabshiil.....	21
5.5	Kaah Express.....	26
5.6	Towfiq.....	27
6.0	The Licensing and Registration of the Hawala Firms.....	28
7.0	The Flow of Funds in the Hawala Remittances.....	30
7.1	The Interviewees' Feedback.....	30
8.0	Reasons for Choosing Hawala Remittance System.....	33
8.1	Interviewees' Feedback.....	33
9.0	The Services and Spin-Offs of the Somali Hawala.....	35
9.1	The Impact at the Household level.....	35
9.1.1	Interviewees' Feedback.....	35
9.2	The Socio-Economic Impact.....	36
9.2.1	Interviewees' Feedback.....	37
10.0	Canada's Outflows from the Hawala Firms.....	39
11.0	The Challenges.....	41
12.0	Recommendations.....	43
13.0	Conclusions	45
	Appendix.....	47
	Bibliography.....	52

1.0 Executive Summary

Global flows of migrant remittances have recently attracted a great deal of attention and have become highly publicized. In light of September 11 tragedy, public interest in these informal money transmissions has significantly increased because of the alleged role of such transfer mechanisms in financing terrorists. This reality has elicited governments and other stakeholders' determination to explore further the intricacies of the informal remittance systems and propose regulations governing them to avert the risk of their closure

It is now an established fact that remittances constitute the fastest growing and most stable capital flow to developing countries. Both the formal and informal flows of remittances to developing countries in 2002 were estimated to be about US \$ 100 and 200 billion (Sander, 2003).

The Somali Remittance Sector, also referred to as Hawala or Alternative Remittance System or Money Services Businesses (MSB's), targets immigrant communities in North America, Western Europe, the Middle East, Australia, and New Zealand. It allows for the transfer of funds from the Somali diaspora in these areas to Somalia, and facilitates trade between Somalia and the rest of the world. Some argue that it is mistake to refer to hawalas as "alternatives" to banking systems as the former predate conventional channels.

In the absence of governance and banking sector in Somalia, the Somali remittance firms are the only available channels for Somalis to transfer money. It provides a lifeline for the Somali diaspora to send money to family members and relatives who live in war-ravaged Somalia. Money is remitted also to Kenya, Ethiopia, Yemen, Egypt, Syria, etc. where Somali refugees live. If these hawala operations are disrupted, hundreds of thousands of Somalis will face grave consequences. Moreover, if overly restrictive regulation is imposed on the hawala firms, it is likely to force these firms "underground".

The Somali hawala market necessitated by the protracted civil war in Somalia is estimated to be between US\$750 million and US \$1 billion annually (Omer, 2003). The money transmission firms are effective and efficient and are capable of transferring money to any country where there are Somalis, and to any remote area inside Somalia, very rapidly and reliably and in less than 24 hours.

This paper aims at studying how the Somali hawala firms operate in Canada. At the outset, the paper gives a brief account of the historical background and development of the Somali hawala banking system. This is followed by how the Somali firms operating in Canada observe the procedures and regulations of the regulatory agencies of the hosting country. The latter includes how firms maintain records of transactions and for how long; the mechanisms at the disposal of the firms that can detect money laundering and illegal transactions; and how the Somali firms in Canada deal with any transactions that are associated with some serious offence such as narcotics trafficking, fraud, etc.

The paper later analyzes how the Somali community members and businesses in the GTA and the surrounding cities transfer money through this system and the reasons why they prefer to use this informal banking system instead of the formal one. A detailed account is also given on the spin-offs of the hawala banking system, particularly its effects at the household level and its overall impact on the socio-economic conditions of the society.

The paper explores the challenges that the hawala firms face, particularly issues related to the sustainability of this informal system; the intense international scrutiny, which depicts hawala remittance as illegal; and the negative media reports.

The paper deals also with the impact of September 11 tragedy on the Somali hawala system and how it has led to the closure of some firms. A brief account is provided to highlight how the international community has successfully intervened on behalf of the Somali hawala firms in order to avert further freezing of the remaining hawala firms' assets. Somali hawala remittance system is critical to the economy of the war-ravaged nation. A slow-down of the private sector investment and labour opportunities, reduction in transport and communication activities, and a loss of a major source of income to poor Somali

households, can have a devastating impact on the country and exacerbate the already high levels of poverty and misery.

The last part of the paper provides some recommendations on how the Somali hawala sector can introduce anti-money laundering best practices, adopt the compliance programmes needed for their firms, provide technical training to firms' personnel, ensure that proper auditing and accounting standards are met by their firms, and engage in other issues pertaining to: how to know your clients (KYC), how to keep transactions records, how to monitor accounts, and report suspicious transactions

2.0 Introduction

2.1 A Brief Overview of the Hawala Remittance

The alternative remittance system or hawala operates outside of, or parallel to conventional banking or financial channels. It was developed in India, before the introduction of Western banking practices, and is now a major remittance system used around the world (Sandhu, 1998). This system of remittance is no longer referred to as an "underground banking", as it is now operating with full legitimacy and it is openly advertised in a variety of media, such as ethnic newspapers and Internet websites¹. The major distinctive feature of this informal banking system that differentiates it from other forms of remittance systems is trust and the extensive use of connections such as family or clan relationships in the processes of money transactions. Trust is therefore a very important component in hawala banking system. It is now well established that hawala firms are honest and trustworthy in their dealings with their customers. Breaches of trust are extremely uncommon and rare.

Transfer through hawala remittance functions without any actual movement of money. As will be revealed later in the paper, migrants in the diaspora prefer hawala banking system to transfer money to their families or friends because this type of transaction is faster, more efficient, and more reliable than in formal bank transactions. While the conventional means of remitting money usually requires one week or so to reach the beneficiary, the hawala remittance takes less than 24 hours. Furthermore, the cumbersome bureaucracy of the formal banking systems at both the sending and receiving ends encourage migrants, particularly those who cannot, for one reason or the other, open a bank account, to resort to the hawala remittance as a preferable alternative.

Communications between hawala banks in the diaspora and those inside the receiving countries occur by phones or fax; but lately many firms have commenced using the Internet in transferring money. As will be seen later in the paper, some of the most remote areas in Somalia now have access to Internet services. This has enabled the hawala

¹ www.hiiraan.com; www.hornafrik.com; www.dayniile.com; www.markacadeeey.com; www.shabelle.net

firms in Canada to transfer money electronically.

The Somali hawala firms, in Canada and in other places, are considered to be the only available channels for Somalis to transfer money in the absence of a banking sector in Somalia. This informal banking system allows for the funds to be transferred into and out of the country. Moreover, it promotes trade between Somalia and the rest of the world.

Contrary to the widely held myth that no records of transactions are kept, the remittance companies maintain these records for the sake of their business credibility and prudence. Complying with the host countries' regulations is actually one of the reasons why hawala remittance is still used. Following September 11 tragedy, the Somali remittance sector has made considerable progress with regard to compliance with regulations. The firms have witnessed automation of operations and increased transparency of their operations. This was done in order to avert any potential crackdown on all the hawala firms or the freezing of their assets. In late 2001, the United States alleged that Al-Barakaat, then the largest Somali hawala firm, was a "terror-supporting financial network". Because of this allegation, the US froze the assets of all the organizations and individuals associated with Al-Barakaat. The United States has not, however, been able to offer any evidence for its allegations, and no one associated with the firm was accused of terrorist financing. Some Al-Barakaat agents in the US were charged with failing to disclose their money deposit or transmission systems to the state authorities. But these were minor offences compared with the original damaging allegations (Dudley, 2003).

Many contend that the closure of Al-Barakaat had a minimal impact on the delivery of remittances to individual Somali families and businesses, as other remittance firms have filled the void (Omer and El Koury, 2004). Nevertheless, the hawala firms all over have responded positively to the recommendations of the regulatory agencies following September 11 tragedy. Countries that host hawala firms have set up systems for registering and licensing hawala firms, and have demanded compliance with anti-money laundering regulations.

The Somali remittance sector operates under strained conditions caused by the lawlessness that is prevalent throughout Somalia. Other constraints encountered by the firms include lack of postal services in Somalia, the counterfeit currency introduced into the country, and the absence of insurance companies.

In terms of the spin-offs of the remittance, they are considered to be among the largest employers in the country. As will be seen in a bit more detailed later in the paper, the remittance flows to Somalia have contributed to the development of a private sector in the country and strengthened livelihoods for hundreds of thousands of families. While the effects of hawala remittances are significant in transient poverty, the long-term effects on structural poverty are less clear, ostensibly because the consequences for economic development in general are not well understood (Kapur, 2004)

Some of the challenges that the firms face include the negative media reports and the intense international scrutiny which depict remittance as illegal. Because of the current political situation in the Somalia, it is important to recognize the uniqueness and particular circumstances of the Somali remittance sector. It is important also to understand that allegations of terrorist financing and suspicious activity on the part of Somali remittance companies are unfounded. The continued implication of the Somali remittance sector in such activity is likely to ultimately force the sector underground.

Other challenges of the Somali hawala systems are connected with lack of legal and regulatory framework in the receiving country. The fear that lingers is that if Somalia continues to be without a government and hence lack of the enforcement of rules and regulations, the booming private sector that has emanated as a result of remittances would eventually decline.

Hawala remittances are also associated with some negative side-effects. Some of the most conspicuous include the loss of educated and skilled labour force and the perpetuation of the “dependency syndrome”. The brain drain has brought about a critical shortage of qualified workers in Somalia at a time when the need for them is extremely crucial (Ahmed, 2000). Those who receive money through the hawala system on a regular basis from their relatives abroad become dependent on that money and refrain from making any attempt to work and lessen the burden on the remitters who may sometimes have some serious financial difficulties in the hosting countries.²

² Interview with Dr. Khadija M. Ali, Community Activist in Toronto.

2.2 The Objectives of the Research

The title of the research paper is “The Somali Hawala Remittance Operating in GTA and the Surrounding Cities”. The objective of this research is:

- To collect empirical information on the Somali hawala remittance firms operating in the GTA and the surrounding cities.
- To identify the Somali Canadians and the Somali Canadian businesses in the GTA and the surrounding cities that participate in this informal banking system and the funds that flow from and out of Canada.
- To explore whether the hawala firms observe the procedures and regulations of the regulatory agencies in Canada.
- To explore whether the hawala firms have established the mechanisms designed to control, monitor and report suspicious transactions.
- To identify the rationale why the Somali Canadian community and the businesses prefer to use the informal hawala remittance system in lieu of the conventional banking channels.

2.3 Methodology

The research is prepared for the Nathanson Centre for the Study of the Organized Crime and Corruption at Osgoode Hall School of Law, York University, Toronto. The research involved document reviews, interviews, and data analysis. The principal documents reviewed include the Report Supporting Systems and Procedures for Effective Regulation and Monitoring of Somali Remittance Companies, prepared for UNDP Somalia; Feasibility Study on Financial Services in Somalia, prepared by the KPMG for the UNDP Somalia and for the European Commission Somalia Unit; the Report and Conclusions of the Conference on the Somali Remittance Sector organized by the UNDP Somalia and the Department for International Development in the United Kingdom; Anti-Money Laundering – Compliance Guide prepared by the Somali Financial Services Association; and reports on the Somali hawala remittance sector prepared by researchers and international research institutes.

Interviews and workshops were conducted with Somali Canadian professionals, households, community leaders, and representatives of the different hawala firms in the GTA and the surrounding areas (Appendix).

Interviewees were initially identified and later approached with the help of the community leaders and other prominent Somali Canadian professionals, and questionnaires were emailed to them well ahead of time prior to the convening of the workshops and the interviews.

Interviews were conducted at community centres in GTA, at the residences of the Somali Canadians, and on the phone. Because hawala is now transparent and is no longer considered an ‘underground’ operation, the interviewees were very cooperative and provided the interviewer with all the necessary data.

The questionnaire that was developed and later submitted to the interviewees covered the following topics:

- The historical background and development of the Somali hawala remittance system.
- The reasons why the remitters use the hawala remittance system instead of the conventional banking channels.
- The spin-offs created by the Somali hawala remittance system, both for the households and for the society as a whole.
- The sustainability of the Somali hawala remittance sector. First generation Somali migrants are very much attached to their country of origin. Second and third generations may have very weak links with their country of origin. The latter reality, inter-alia, needs to be taken into account to determine whether hawala is sustainable.
- Information on the amounts sent by the Somali Canadians in the GTA and the surrounding cities to families/relatives in Somalia or in other parts of the world.
- Information on whether gender and age are important factors to consider when assessing the size of remittances.
- Data on how much Canada contributes to outflows from the Somali hawala remittance firms.
- Information on how the firms operating in the GTA and the surrounding cities

- transfer money, and how globalization has affected the transaction mechanism.
- Information on the clearing houses in Dubai in the United Arab Emirates, and in other parts of the world.
 - Information on how the hawala remittance firms in the GTA and the surrounding cities comply with the regulations in Canada, and how registration requirements are met.
 - Information on how firms maintain records of transaction and for how long.
 - Information on the mechanisms at the disposal of the firms that can detect money laundering and illegal transactions.
 - Information on the challenges that hawala firms face in Canada and their relationship with the formal banks.
 - What are the recommendations or policy options that can ensure the sustainability of Somali hawala remittance sector; increased transparency and compliance; and help firms establish standard book keeping, auditing and reporting.

3.0 Somalia: A Brief Overview

Because Somalia has been in a state of virtual anarchy since the outbreak of the civil war in 1988, lack of central authority and a functioning government has made it difficult to obtain reliable and documented information and statistics about the country. Based on the information of the library of Congress Studies website³, Somalia is located in the northeastern section of Africa. It occupies a land of approximately 637,600 square kilometers, a size slightly smaller than Texas. Before the disintegration caused by the civil war, the country consisted of the area comprising the former colonies of Italian and British Somaliland. The south and east coasts were formerly under Italian administration and area along the Gulf of Aden coastline was the British colony.

The northern and eastern boundaries of Somalia are the Gulf of Aden and the Indian Ocean respectively. The total coastline is approximately 3300 kilometers with 1000 kilometers the Gulf of Aden and 2300 kilometers bordering the Indian Ocean.

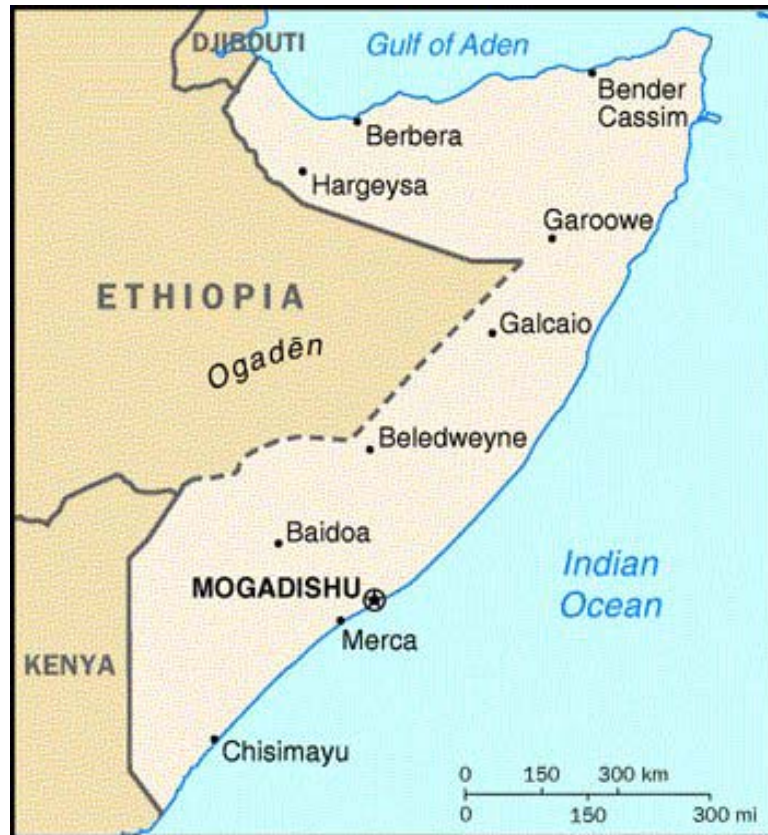
The border with Djibouti is 58 kilometers. It begins along the Gulf of Aden and runs on a straight line southwesterly to the Djibouti-Ethiopia-Somalia tri-point.

The border with Ethiopia is approximately 1,600 kilometers long. It begins at the Djibouti-Ethiopia-Somalia tri-point; the border runs in a southeasterly direction.

The border between Somalia and Kenya is 682 kilometers long. At the Kenya-Ethiopia-Somalia tri-point, the boundary runs southwest in straight-line segments to a town called El Wak. It then runs north, to south and then to southeasterly to the Indian Ocean.

³ <http://memory.loc.gov/frd/cs/sotoc.html#so0007>

The Map of Somalia



The Location of Somalia in Africa



Somalia became independent in 1960 when the former Italian Somaliland united with British Somaliland. The civilian government was overthrown in a military coup led by General Mohamed Siad Barre in 1969. Because of the dictatorial rule of this regime and the oppressive policies of all post-independence governments, the Somali state collapsed in 1991; and since then the country has been striving for peace, governance and democratic rule.

While ethnic and religious divisions are by and large qualified as major grievances that contribute to the outbreak and perpetuation of conflicts, the absence of ethnic and religious distinctions in Somalia has been substituted by clan cleavages and differences. The Somali society has created an equivalent of inter-ethnic hatred in an ethnically unified society, and has enabled the adversaries to use clan memberships as the basis for creating cohesion and unity to fight for political and economic dominance.

In fact, clan manipulation by the regime of Mohamed Siad Barre boosted the longevity of his authoritarian rule. However, this strategy of clan manipulation could have only worked because of the massive aid provided by the superpowers during the Cold War. Ken Menkhaus and John Prendergast, in their study on the *Political Economy of the Post-Intervention Somalia* (1995:2), affirmed that Somalia was always sustained by the Cold War-driven aid. The east-west competition provided a window of opportunity for the elites to amass huge

amounts of money, a good chunk of it was used to mollify different clans to ensure loyalty to the regime and encourage them to wage wars against the “rebel” clans. When the Cold War ended and the quantity of foreign aid for Somalia declined drastically, the government began losing its control and was no longer able to come to grips with the ever-increasing demands of the greedy elites and the clans they represented.

Somalia has, therefore, been classified as one of the countries that have succumbed to intra-state wars. These intra-state wars, as Mary Kaldor (2001:1) argues, are localized but involve numerous transnational connections. In these wars there is what the author refers to as “global/local divide” between those who can use information technology, faxes, telephones and travel freely, and those who live on humanitarian assistance, confined to their localities and excluded from the global processes.

The central argument here is that these new wars have to be understood in the context of globalization. Globalization is a process that can promote integration and homogenization as well as fragmentation and differentiation in the war-torn societies. The lives of people inside can be altered by what happens in the diapsora, and the global processes can profoundly affect local politics.

If we attempt to relate the above argument to Somalis inside the country and in the diapsora to determine how globalization has affected them, we can argue that there are Somalis who still harbour attachment to their particularistic identities and have used new technologies and improved communication to assert their continued allegiance to their clans. This is implemented through the provision of resources needed for the perpetuation of exclusiveness, which foments further destabilization.

Others have taken a different course and made use of the impact of globalization in reducing conflicts and in breaking up clan divisions. For instance, globalization has eased money remittances from the diaspora to the most remote areas of Somalia. Remittances in their turn, have contributed to the development of the private sector. Despite the devastation witnessed as a result of the prolonged civil war, the private sector’s growth in Somalia has succeeded in providing the basic services, including those normally provided by the state such as power, telecommunication, water and education, thanks to the flow of funds from the diaspora.

In order to bring about a lasting solution to the crisis that has plagued Somalia and lasted for more than a decade, a series of Somali peace conferences have been convened. Almost all reconciliation conferences convened particularly in the southern regions of the country have succumbed to repeated failures. In Somaliland (The North-western part of the country), an indigenously worked out peace still prevails and some degree of order has been restored. The regions of the south are still immersed in the grip of uncontrolled violence driven by the political power as well the economic greed of warlordism. All efforts to reconcile the contending parties in the conflict plaguing the south have failed. A dozen attempts were made to bring together key warlords and faction leaders to find a way to undo Somalia's political logjam, but none of these events progressed beyond the places where conferences were convened. The only exception to these national attempts was the broad-based conference held in Arta, Djibouti in the year 2000. Despite its relatively inclusive participatory framework and the promise, the Transitional National Government, formed at the end of this process, failed to translate the outcome into a viable post-conflict peacebuilding programme.

What then are the prospects for reconciliation and national redemption? The international community views the current Transitional Federal Government of Somalia incepted in October of 2004 after a 2-year peace negotiations convened in Kenya and brokered by IGAD⁴ as the last hope for Somalia.

⁴ IGAD stands for Intergovernmental Authority on Development, the name of the East African regional organization that sponsors the Somali Peace Process.

4.0 Brief History of the Somali Hawala Remittance Sector

The hawala remittance system has been operating in Somalia since the oil boom in the Gulf in 1970s. As of 1970s, Somalis went to the Gulf States as migrant labourers. Because foreign exchange regulation adopted by the Somali Central Bank prior to the state collapse made it very difficult for the local merchants to convert Somali Shillings into foreign currency to finance imports, hawala dealers in the Gulf States collected hard currency from the migrant workers in the Gulf to enable them purchase commodities for sale in Somalia. Traders later paid the equivalent in local currency to the migrant families or relatives once the commodities are sold. Though the latter can be perceived as being a foreign exchange speculation or black market currency dealing; however, this type of hawala services provided a window of opportunity for the Somali private sector to provide essential services for the country and import commodities of vital necessities.

Hawala gained more momentum following the outbreak of the civil war in 1988 and the inter-clan fighting after the fall of Siad Barre in 1991. This has sparked an exodus of hundred of thousands of Somalis to Africa, Australia, Europe, the Middle East, New Zealand, and North America. It is estimated that over 750,000 Somalis currently reside and work in these countries (Ahmed, *ibid*).

Hawala has since then played a very crucial role in the survival of the people in Somalia and it is considered to be an important factor in linking the Somalis in the diaspora with their country of origin.

Prior to the civil war, the Gulf States were by far the largest sources of remittances for the Somali people. In the late 1980s, these remittances represented at least 60 per cent of the total transfers (Green and Jamal, 1987). But the outbreak of the civil strife in Somalia and the subsequent migrations of its people have significantly changed the sources of the transfers. Moreover, the decrease in the number of migrants in the Gulf States because of the latter governments' decision to gradually phase out foreign workers, has made Europe and North America the two most important sources of remittances for Somalis. For instance, from the late 1970s up to \$ 300 million was remitted annually. In the late 1980s, this jumped to \$ 370 million, with migrant workers in the Gulf accounting for about 75%. In the 1990s, the diaspora constituted predominantly by refugees, accounted for a greater

proportion of hawala.

With regard to the growth of the Somali hawala remittance sector, the system of sending money to relatives from the diaspora as of the first half of the 1990s was highly informal and personalized (KPMG, 2003). Remittance literally relied on trust relations between brokers and the recipients. HF radio communications were then the sole means available for handling remittances and inform the beneficiaries to receive the funds sent from Nairobi, Kenya. This small-scale remittance system handled only small sums of money each time a transaction through HF radio was carried out; and this precluded the expansion of the services.

However, with the advances witnessed in telecommunications services, both in sending and receiving ends, the flow of money from the diaspora and outside of Somalia has been eased. With telecommunication thriving in Somalia despite the absence of any functioning national government since 1991, contacts between the huge Somali diasporic communities around the world and millions of Somalis inside the country has been made possible. The satellite phone systems were initially confined to major cities, but have been expanded to reach some of the most remote areas of the country. Internets connections are widespread in the country and are extremely cost-effective and the hawala firms are now sending and receiving money electronically.

4.1 The Perspective of the Interviewees on the History of the Hawala Remittance

The perspective of the Somali Canadians interviewed with regard to the history of the hawala remittance system is as follows:

- Somalis have a long tradition of emigrating and working at sea. Many Somalis went to live as seamen in Britain before the First World War in all the major ports of Cardiff and Liverpool. These seamen used to remit money to their families in the former British Somaliland through Arab merchants in Aden, which was also a British colony. The Arab merchants in Aden would then transfer to relatives and families in different parts of British Somaliland through their local agents. The Arab merchants had engaged in these transactions because of their need for foreign exchange because of the difficulty in transferring funds abroad. The remitters in this case would not be charged any commissions for the transfer. This input from

the interviewees is consistent with what Professor Lee Cassanelli asserts in his volume *“The Shaping of Somali Society – Reconstructing the History of a Pastoral People, 1600-1900”* that Somalis in the nineteenth century migrated to take up employment as seamen in the maritime trade. He goes further to state, “one of the most striking features of this Somali diaspora is the extent to which it remained linked to the local pastoral economy. A considerable share of the overseas earnings of these enterprising individuals was traditionally sent back to kinsmen in the interior” (1982:260)

- Prior to the independence of the former Italian Somaliland, Somalis used the hawala system for intra-regional and inter-regional transfer of money. This was necessitated by the absence of formal financial institutions in the remote areas of the country. Because Somalis in small villages and in the remote areas of the country lacked proper identification documents and were therefore unable to open accounts in the few banks prevalent in some of the major cities, senders were compelled to resort to informal hawala channels for transferring their money.
- Somalis started migrating to the central and eastern parts of Africa in the 1960s because of its lucrative opportunities in the area of transportation industry. These migrant workers were using hawala through brokers or merchants in need of hard currency to transfer part of their income to their families in Somalia.
- With the decrease in the Somali migrants in the Gulf States, many Somalis have opted to go to Italy to work as maids, cooks, drivers, and household caregivers. Through brokers and merchants, these workers were able to remit money to their families in different parts of Somalia. The brokers and merchants transfer the money to beneficiaries in Somalia without charging any commissions. The merchants use the foreign currency obtained from the remitters to purchase commodities for sale in Somalia. These merchants pay the equivalent in local currency to the migrant families or relatives once the commodities are sold.

5.0 The Hawala Firms Operating in Canada

The Somali hawala remittance firms that operate from Canada and internationally are as follows:

5.1 Amal Express:

The headquarters of Amal Express is Dubai, in the United Arab Emirates. It had started operating in Canada 7 – 9 years ago. The amount of its outflow from GTA and cities in Canada is estimated to be around \$ 700,000 to 800,000 per month⁵. It has five branches in Toronto: three at Weston and Lawrence area; one in downtown Toronto; and one in Scarborough.

5.2 Al- Mustaqbal Express:

The headquarters of Mustaqbal Express is Dubai, United Arab Emirates. It has four branches in Toronto: a branch at 1901 Weston Road, Unit 10, Toronto - intersection: Weston and Lawrence; a branch at 1735 Kipling Avenue, Etobicoke; a branch at 175 Dundas Street East, Toronto; and a branch at 2390 Eglinton Avenue East, Scarborough - intersection: Eglinton and Kennedy. The outflow from GTA, Hamilton and Kitchener is around US \$ 600,000⁶.

The interviewee asserted that the firm strictly adheres to the laws and regulations of Canada:

- i) If a new client asks to remit more than \$ 3,000, two pieces of ID, his/her address, his/her phone number are required to be presented.
- ii) He/she is also required to declare the source of the funds to be sent.
- iii) If the amount to be remitted is less than \$ 3,000, one piece of ID is required.
- iv) However, if the amount of the transaction is \$ 10,000 or more, the firm undertakes to report the transaction to FINTRAC.

The interviewee affirmed that the firm complies with anti-money laundering regime and undertakes to report any suspicious transactions to FINTRAC. In the case of this suspicion, the firm would undertake not to tip off its clients that it is making suspicious

⁵ Interview with Mr. Abdullahi Roble, Agent of Amal Express in Toronto.

⁶ Interview with Mr. Mukhtar Adan Hassan, Consultant at Mustaqbal Express, Toronto.

transaction reports.

5.3 Dalsan Trading:

The Headquarters of Dalsan Trading is Dubai, United Arab Emirates. It has only one branch in the GTA and it is located at 1987 Kipling Avenue, Unit 1A, Etobicoke. The firm has branches in Ottawa, Windsor, London, and Kitchener. The size of the firm's outflow from the GTA is estimated to be around 250 – 300,000 per month⁷. The interviewee affirmed that his firm fully complies with the laws and regulations of Canada. If a client remits more than \$ 3,000, he/she is asked to fill out a form in which the following information is recorded:

- i) The full name of the sender
- ii) The full address of the sender and his phone number
- iii) Type of the ID of the sender
- iv) Full name of the receiver
- v) The method of payment (US-Cash; CN-Cash; US Chq (No); CN Chq (No); and the amount). However, if the amount of the transaction is \$ 10,000, the firm undertakes to report the transaction to FINTRAC.

5.4 Dahabshiil Financial Services Inc.:

This is the largest Somali hawala firm. It operates in Canada and worldwide. It was founded by its current Chairman: Mohamed Said Duale (Dahabshiil). It has 400 branches and agents in 34 countries worldwide⁸. In the GTA, there are 5 branches: the main branch at 2083 Lawrence Avenue West, Unit 205, Toronto, intersection: Weston/Lawrence; the Mississauga branch at 3196 Erindale Station Road, Unit 220, Intersection: Erindale Station Road/Dundas West; a North York branch at 1 York Gate Mall, Unit 214 (2nd floor), intersection: Jane/Finch; a Toronto downtown branch at 234 Parliament Street, intersection: Parliament/Shuter, and a Scarborough branch at 2390 Eglinton Avenue East, Unit 202C, intersection: Eglinton/Kennedy. There are also branches in London, Ontario, Hamilton, and Windsor.

⁷ Interview with Mr. Mahmud Jama, Manager, Dalsan Trading in Toronto.

⁸ See the website of the firm: www.dahabshiil.com

The headquarters of Dhabshiil is Hargeisa, Somaliland (Northwestern part of Somalia). According to the interviewee from Dhabshiil in Toronto, Hargeisa inhabitants receive about \$ 5 million dollars monthly through remittance firms. Dahabshiil manages over 70% of this amount. In the city of Hargeisa alone, Dahabshiil has 17 branches with a staff of over 100 employees. The interviewee estimates also that two thirds of the amount remitted to Hargeisa contributes to the livelihoods of more than a quarter of households. One third of the amount remitted monthly is channeled towards investment in the construction industry and related business activities.

The size of outflow from Canada to different part of the world ranges from US \$ 3.5 to 4 million per month⁹. According to the General Manager of Dhabshiil in Canada, interviewed in his office in Toronto, the firm advises all of its agents in the GTA and other cities in Canada to follow the Canadian Federal Government Laws to prevent money laundering and financing of terrorism. He contends that all agents of Dhabshiil money transfer businesses are required to comply with the following:

- Collect basic identification information from all individuals and organizations using the firm's services.
- Collect detailed information with respect to transactions of \$ 3,000 or more.
- Report all suspicious transactions
- Collect detailed information about and report all transactions involving cash of \$ 10,000 or more. This includes smaller transactions that could be considered part of one overall large transaction.
- Client information record will set out the client's name, address and the nature of the client's principal business or occupation. In addition, the firms requires the individual's date of birth, and if the document used to confirm the individual's identity was a birth certificate, driver's license, provincial health insurance card, passport or other similar records issued by the provincial, territorial, or the Federal Government.
- For some categories of transactions, the following information will also be recorded and may be reported:
 - i) The amount and currency of the cash received.

- ii) The date and nature of the transaction
- iii) The purpose and details of the transactions
- iv) The type of transaction (for example, the cash was used to buy a money order, etc.)
- v) Whether any other individuals or entities were involved in the transaction
- vi) How the cash was received (for example, in person, by mail, by armoured car, or any other way)
- vii) The number and type of any account affected by the transaction
- viii) The full name of the client that holds the account, and the currency in which the account's transactions are conducted.

The General Manager of Dhabshiil in Canada affirmed also that the agents are required to know the following responsibilities:

- **Record Keeping:** At a minimum, the following records must be kept:
 - i) Client information.
 - ii) Transactions concerning \$ 3000 or more (in cash or other instruments)
 - iii) Large cash transactions \$ 10,000 or more. The agents must make sure that clients' information records are detailed and complete, identifying both the individuals and the companies involved.
 - iv) The agents are also reminded that certain transactions necessitate the gathering of information on the transaction itself, such as the recipient information.
 - v) The agents are also required to determine whether its clients are acting for another third party. In the case of the latter scenario, the agents are required to collect information about the third party and his relationship to the client who comes with the cash.
- **Matching:**
 - i) Agents are required to review the names on the "Listed Entities at the Solicitor General's website:
http://www.sgc.gc/national_security/counter-terrorism/Entities_e.asp

⁹ Interview with Mr. Shakir Haji Hussein Nur, General Manager, Dahabshiil, Canada.

- ii) Agents are also required to review the names on the lists of individuals and organizations under the Suppression of Terrorism section of the website of the Office of the Superintendent of Financial Institutions (OSFI):

http://www.osfi-bsif.gc.ca/eng/publications/advisories/index_supervisory.asp?#Supter or

<http://www.osfi-bsif.gc.ca/eng/default.asp?ref=home> (click

“Suppression of Terrorism” on the link at the right hand side); The agents are required to match the names at the time of transaction or at regular fixed intervals (daily, weekly or monthly). If the names of any of the clients of agents or intended recipients match the names on the lists and the clients are still in the office, the agents are supposed to “tip” them off that there is a problem. In this case, the staff will be expected to act normally and process the transaction at the teller window as usual until the client departs.

- iii) The agent will later undertake to inform the Dahabshiil management. When the matching is made certain, the agent would file a report, and the assets of the client would be frozen.

- **Reporting:**

Dahabshiil is by law required to report the following to the Financial Transactions Reports Analysis Centre of Canada (FINTRAC):

- i) Suspicious transactions if there are reasonable grounds to suspect that the transactions are related to the commission of a money laundering offence or to the commission of a terrorist activity financing offence.
- ii) When the firm has in its possession a terrorist property. This can be known by the firm through matching of names on the list as described above. In this case, the firm will disclose this to the RCMP and CSIS without any delay.
- iii) Any cash transaction that exceeds \$ 10,000, or transactions done in smaller amounts that could be considered part of one overall transaction of \$ 10,000 or more.

When all of the above procedures are reviewed by the agents of the firm, the agents are requested to sign the following acknowledgement and then return the signed copy to the Head Office in Toronto:

“I, the undersigned agent of Dahabshiil, hereby acknowledge reading the foregoing requirements for my continued agency relationship with Dahabshiil and hereby agree to learn and acquaint myself with the requirements for compliance under the applicable laws and to take responsibility to implement and diligently follow procedures for compliance both on my own initiative and as directed by Dahabshiil from time to time.

_____ (Signature)

_____ (Printed Name)

_____ (Address)

_____ (Date)

The following Funds Transfer Form of Dahabshiil Financial Transfers Inc is filled out by senders:

Dahabshiil Financial Transfers Inc
Funds Transfer Form

SENDER

Name -----

Address-----

Total Funds to be Sent-----Currency of Funds Sent-----

Social Insurance Number-----Drivers License Number-----

Purpose of Funds-----

RECIPIENT:

Name-----

Address-----

Total Funds to be Received-----Currency of Funds Received-----

Relationship to Sender-----

Declaration

I hereby declare that I am engaging the services of Dahabshiil Financial Transfers Inc. to transfer on my behalf and in my name to the above-noted recipient. I hereby warrant that these funds are being transferred for personal and/or business purposes and that the transfer is in accordance with all Canadian laws and regulations. For greater certainty, I hereby present that the funds are not proceeds of crime and the funds are not being sent for illegal purposes and/or to fund and/or to finance any illegal activities. I hereby agree to indemnify Dahabshiil Financial Transfers Inc., its officers, directors, shareholders, agents, and employees from any and all costs, charges, expenses incurred as a result of any misrepresentation with respect to the source, use and/or final destination of the funds transferred by me.

Sender-----

5.5 Kaah Express:

Kaah Express (Canada) Inc. is 75% owned locally in Canada; 25% is owned by Kaah Express (FS) Inc. in Minnesota, USA. The headquarters of Kaah Express is Minnesota, USA and its outflow from GTA and other cities in Canada is estimated to be around US \$ 400,000¹⁰.

This firm maintains a high level of transparency in its operations and implements a

¹⁰ Interview with Mr. Abdirzaka Omargodane of the Kaah Express in Toronto.

full range of anti-money laundering controls as required by the Canadian laws and regulations¹¹. The key features of the anti-money laundering compliance programme consist of:

- i) Know Your Client (KYC)
- ii) Know Your Transaction (KYT)
- iii) Matching the clients names to the list of the government indicating possible terrorists.
- iv) Undertake to report any suspicious transactions to FINTRAC
- v) Record keeping

5.6 Towfiiq:

The Headquarters of Towfiiq is Dubai, United Arab Emirates. It has five branches in the GTA and 3 in other provinces. The monthly outflow from the GTA and other cities in Canada is around US \$ 400 – 500,000¹²

Table 1: The Somali Hawala Remittance Firms in Canada

Name of the Hawala Firm	Headquarters	The Size of the Outflow In US \$
Amal Express	Dubai, United Arab Emirates	700 – 800,000
Al-Mustaqbal	Dubai, United Arab Emirates	600,000
Dalsan	Nairobi, Kenya	
Dahabshiil	Hargeisa, Somaliland	3.5 – 4,000,000
Kaah Express	Nairobi, Kenya	400,000
Towfiiq	Dubai, United Arab Emirates	400 - 500,000

Source: Interviews with the Agents of the Firms

¹¹ Ibid

¹² Interview with Mr. Abdullahi Hassan Alasso, Branch Manager Towfiiq, Toronto.

6.0 The Licensing and Registration of the Hawala Firms in Canada

To better understand registration requirements in Canada for the Money service businesses (MSBs) or hawala remittances, it would perhaps be relevant to examine how remittance firms are regulated elsewhere. In the United Kingdom, the firms are required to register with Her Majesty's Customs and Excise (HMCE) as money service businesses (MSBs)¹³. The registration procedures are as follows:

- i) Register with Customs and Excise before commencing money transfer.
- ii) Notify HMCE of agent details and pay a fee of 60 GBP for all premises that receive and transmit money.
- iii) Notify National Criminal Intelligence Service (NCIS) where there have reasonable grounds for knowledge or suspicion of money laundering or funding of terrorism; and
- iv) Put in place anti-money laundering systems and policies:
 - Control your business
 - Appoint a nominated officer to report suspicious transactions
 - Train your staff
 - Confirm the identity of your customers
 - Hold all records for 5 years.

¹³ Report and Conclusions of the Conference on the Somali Remittance Sector, UNDP, Somalia supported by DFID (December 3 and 4, 2003, London, UK).

Upon the approval of the registration, the hawala remittance firms are required to comply with the laws and the regulations related to anti-money laundering. HMCE visits the offices of hawala firms to inspect and make sure that they comply. HMCE recognizes that “overly constraining legislation and regulation would force hawala companies to go underground, hence posing a greater risk to the authorities”.¹⁴

In the Netherlands, on the other hand, the hawala firms are required to do the following to be able to register:¹⁵

- i) Of The business must be registered with Chamber of Commerce.
- ii) A copy of Shareholders Register and Articles of Association must be submitted
- iii) Questionnaires used for “fit and proper” assessment of management and owners must be completed.
- iv) Strategic plan and operating manuals must be submitted.
- v) An external auditor must have been appointed.
- vi) Recent annual accounts, if available, should be provided; and
- vii) Bank guarantee must be provided.

Upon the completion of the registration, firms undertake to comply with certain regulations issued by the Dutch National Bank (DNB). The regulations include the submission of information and reports every month, and audited accounts every year to DNB. Moreover, DNB has the prerogative to carry out on-site inspections of the hawala offices whenever it deems essential to assess the transaction flow and compliance with laws and regulations.

But with respect to Canada, requirements for hawala firms’ licensing and registration are not any different from how other businesses are licensed and registered. They are not as bureaucratic and cumbersome as in the cases stated above.

¹⁴ Ibit, page 11

7.0 The Flow of Funds in the Hawala Remittances

7.1 Interviewees' Feedback:

The hawala agents interviewed have stated that money transaction from and to Canada occurs as follows:

- The person who intends to remit money to families or relatives found in Somalia or in other parts of the world contacts an agent of the hawala firm in the city where he/she resides and presents the amount to be transferred in cash. If the amount to be transferred does not exceed US \$ 2000, the remitter is asked to provide his/her name, and phone number and pay the transaction fee. The transaction fee is usually 5% but decreases with the increase in the amount transferred. He/she is also asked to provide the name, phone number, and clan identity of the recipient.
- If the amount to be transferred exceeds US \$ 3000, the remitter is required to provide 2 pieces of ID, address, phone number, and source of funds. In the case of large cash transactions, i.e. \$ 10,000 or more, the firms undertake to inform FINTRAC.
- Depending on the hawala firm that transfers the money, the amounts collected from the senders are deposited in a local bank account and later transferred to the firms' clearing houses. Most of the hawala firms use Dubai as their central clearing houses. The clearing houses in Dubai are where all transfers are controlled and distributed to their respective destinations. According to SFSA Compliance Guide¹⁵, the United Arab Emirates has issued Federal Law No. 4 of 2002 (Criminalization of Money Laundering) and United Arab Emirates Central Bank Circular 24/2000, which require hawala firms to:
 - i) Register with the Central Bank
 - ii) Keep the records of the identity of the customer
 - iii) Keep records for a period of five years
 - iv) Keep key information on transactions
 - v) Report suspicious transactions to the relevant authority

¹⁵ Ibid, page 13

¹⁶ Anti-Money Laundering Compliance Guide prepared by Somali Financial Services Association (July 2004).

vi) Appoint a compliance officer

- The United Arab Emirates has, therefore, shown great understanding in terms of the needs of the Somali people. Dubai is a major trade partner of Somalia and most of the consumer products move from this city to Somalia. Hawala remittances from overseas help in financing trade.
- Because Dubai is an important trade partner of Somalia, all the hawala firms' clearing houses have complied with the new rules in the United Arab Emirates. The firms' compliance officers coordinate with the host country's central bank. The Somali Financial Services Association (SFSA) that has been recently established undertakes to organize training programmes for the firms employees on issues related to anti-money laundering.
- The agents in GTA and the surrounding cities send a fax, telephone message, or email to the clearing house in Dubai to instruct the firms' branches in the recipients' locations to pay the beneficiaries.
- The recipients are contacted as soon as the message is received. The recipients then go to the firm's office where they are required to provide full details of the remitter, as well as proof of their own identity.
- The Royal Bank of Canada is ostensibly the only financial institution in Canada that deals with the remittance firms. The interviewees from the firms suspect that the reluctance of the other Canadian Banks to deal with the hawala firms might be attributed to the negative media reports and the intense international scrutiny which depict hawala remittances as illegal.
- Other reasons lie perhaps in the fact that the money deposited by the hawala firms in the banks remains for a relatively short period of time pending its immediate transfer to the firm's clearing house.
- Lack of interest from the banks may be linked to the fact that hawala remittance is unregulated in Canada.
- Firms' agents interviewed contend also that the decision of the banks not to open accounts for hawala remittances was a wrong decision because Canadian Bankers failed to clearly define the alternative; could not collect the right information; and the costs and benefits were not accurately weighed.

- The Director General of Dahabshiil in Canada argued, “Up to now Dahabshiil Financial Services have not experienced any problems with from Canadian regulatory systems, but other Somali hawala firms complain about Canadian banks. Thus, banks like to believe that they make decisions rationally and objectively. But the fact is, we all carry biases and those biases influence the choice we make”.
- Other interviewees suspect that this lack of cooperation between the hawala firms and the Canadian banks could be attributed to the sheer absence of effective communication and dialogue between the different stakeholders: the government, members of the Somali community, firms’ agents and employees, the banks, and the regulatory agencies.

8.0 Reasons for Choosing Hawala Remittance

The reasons for choosing hawala are numerous. It is less expensive, swifter, more reliable, more convenient, and less bureaucratic than the conventional banking channels. It is argued that government policies, which favour currency controls, high taxes, and expensive licensing processes for financial institutions, are all conducive to the emergence of hawalas. Hawalas thrive in countries where there are political instabilities and wars.

In the case of Somalia, for instance, the pre-civil war government had introduced foreign exchange controls that made it difficult for local traders to have access to the hard currency needed for the purchase of commodities from abroad. Because of this, traders resorted to the Somali migrant workers in the Gulf States to collect the hard currency to enable them to purchase commodities for sale in Somalia. Traders later paid the equivalent in local currency to the migrant families or relatives once the commodities are sold.

The hawala in Somalia continued to prosper with the protracted civil war, which has led to the destruction of all the governance structures of the society.

8.1 The Interviewees' Feedback:

Those interviewed had the following to say with regard to the reasons why hawala remittance is preferred by the remitters:

- The civil war in Somalia has destroyed institutions of governance including all the functioning financial institutions. The hawala banking remains the sole channel for the transfer of money to war-ravaged Somalia in the absence of the conventional financial channels. The hawala banking is known for its good customer service and swift payment system.
- Transaction through hawala system is more cost-effective than the formal services. This means that the fees charged by the hawala firms are lower compared to those charged by the conventional remittance institutions; and this is primarily due to the lesser overhead expenses incurred by the hawala firms.
- It is reliable with attractive foreign exchange rates. Foreign exchange controls generally lead to a higher use of informal channels.
- Transfers are very fast, some are transferred through door-to-door delivery.

Because of the advances in IT, transactions are now carried out electronically.

- Reasons why hawalas are swifter than the conventional channels include: lack of bureaucracy and the simplicity of its operating mechanisms; correspondents are given instructions by phones, faxes, or email; the correspondents in the remote areas in Somalia normally have access to the inhabitants in the villages and are able to deliver money door to door within a reasonably short period of time; the time needed for transactions is significantly reduced because of lack of bureaucratic procedures; and clan and personal relations between the Somalis in diaspora and the hawala firms make the hawala system much easier to operate. For this reason, you tend to see the hawala firms located in areas where there are large concentrations of Somalis.
- Instead of going to the office, regular customers may choose to phone the firm to instruct the agents to send the money.
- Operate in very remote areas of the country where there are no financial services.
- The reconstitution of the government financial institutions will not eventually dissuade remitters from using the informal channels. The interviewees contend that private informal banking will continue to be more transparent, accountable, trustworthy, and efficient.
- Lack of identification documents does not impede the transaction mechanisms. In lieu of these trust and clan affiliations are used in determining the identities of the users of the hawala system.

9.0 The Services and the Spin-offs of the Somali Hawala Remittance System

9.1 At the Household Level:

Remittances from the Somali diaspora in Canada are primarily intended for supporting the needs of the households in Somalia and those families and relatives who are still in refugee camps in Africa and in other parts of the world. A survey conducted by UNDP estimates that more than 25% of families in Somalia receive remittances from abroad (UNDP, 2003). The money received is used for basic necessities such as food and clothing and for simple investment purposes such as the purchase of house or land, or set up a small business.

9.1.1 Interviewees' Feedback:

- Members of the Somali diaspora in Canada send money to contribute towards the livelihoods of their families in Somalia and in the refugee camps in the neighbouring countries like Ethiopia, Djibouti, Kenya, and Yemen. Cindy Horst (2001) in her study of the Somali refugees in the Dadaab camps in Kenya asserts that receiving a monthly allowance of \$ 100 from a relative in Toronto makes an immense difference to these refugees. She contends that the assistance that the refugees get every 15 days in terms of rations of maize, wheat flour or beans from the international community last only about ten days. The hawala from abroad therefore compensates for this shortage.
- The money sent range from 100 – 200 US \$ per month. However, some representatives of the hawala firms interviewed asserted that the amount remitted may range from as low as 10-20 \$ per month. This assertion is corroborated by the transaction records kept in the firms' systems.
- The transfer of amounts as low as 10-20 \$ per month can be regarded as a significant contribution from the diaspora in Canada to the very poor families and relatives in the country of origin because it can be crucial for their survival. "Somalia is one of the poorest countries in the world, with an estimated 43 per cent

of the population in 2002 living in extreme poverty (defined as the proportion of the population living on less than 1 US dollar a day measured at purchasing power parity), while over 73 per cent of the population live in general poverty (defined as the number of people living on 2 US dollars a day” (Hansen, 2004)

- According to the interviewees, the money sent for the sake of the livelihood of the receiving households can also help them in contributing to the local economy and investment in human capital, such as in health and education.
- The spin-offs created by the remittances to the receiving households include: sending parents or other close relatives to pilgrimage and helping in other family occasions such as marriage; helping families in funeral expenses; hiring guards to protect properties abandoned after the eruption of the civil war; and repairing the shelters destroyed because of the protracted civil war. The money that is remitted to refugee camps activates the economy of the camps. The money benefits shopkeepers and businessmen. In other words those refugees who do not have relatives abroad may benefit from the spin-off created by the hawala system by engaging themselves in small trade activities such as selling, cooking, brewing tea, etc.
- The interviewees have also indicated that remittances sent to households are unevenly distributed, since poorer households in Somalia may not have relatives in the diaspora.

9.2 The Socio-Economic Impact:

Prior to the collapse of the Somali State and immediately after the eruption of the civil war, the Somali diaspora in Canada and in other parts of the world was engaged in sending money to help their fighting militias (Hansen, *ibid*). Today, however, the same diaspora is heavily involved in post-conflict peacebuilding and reconstruction in the absence of a functioning state. For instance, the diaspora from Somaliland (The northwestern regions of Somalia) have undertaken to establish a “Somaliland Forum” composed of 400 Somalilanders living in Europe and North America with the view to developing their regions through monetary remittances.

These diasporic communities have through hawala remittances sponsored programmes in education, health and infrastructure. They have supported the construction of secondary schools and universities, general and maternity hospitals, and orphanage centres. They have also remitted funds for the purchase of school supplies for the Ministry of Education and in opening small-scale businesses, such as restaurants, beauty salons, transport companies, supermarkets and vending kiosks. Moreover, traditional government services, such as the provision of electricity, telephone services, garbage collection, have been taken over by the private sectors which are sustained by hawala remittances. These services have created jobs and sparked the creation of further business endeavours.

Hawala remittances have also encouraged migrants to send their children back to areas of the country which enjoy some degree of peace and stability and which have been able to re-establish education, health, and other basic services.

Because of the absence of conventional banking channels in Somalia, the hawala remittance systems have been the sole conduits for moving funds to and from Somalia for trade activities. Notwithstanding the relative positive impact these remittances have on the economy of Somalia, it is so far not clear whether the hawala firms are now able or would eventually be effective in channeling remittances towards development. The absence of a central government and the lack of formal financial infrastructures in Somalia preclude, at this juncture, the possibility of undertaking studies to determine the impact of informal remittances on development.

9.2.1 The Interviewees' Feedback:

- Despite the fact that most remittances are primarily spent on consumption; however, interviewees have stressed that remittances do also contribute to private sector development.
- Somali Canadians organize fundraising campaigns to generate money for the construction of schools, universities, and clinics. The money is remitted through the existing Somali hawala firms in Toronto and in other parts of Canada.
- The remittances from Canada to families and relatives in refugee camps in the neighbouring countries such as Ethiopia, Djibouti, Kenya, and Yemen have

contributed to the improvement of conditions of refugees, particularly in terms of refugees housing and water provision in the camps, and the introduction of good telephone linkages that help contacts between refugees and their relatives in the diaspora.

- The remittances from Somali Canadian businessmen or from professionals with good income have contributed to investment in Somalia, such as buying a house, land, or starting a small business.
- Some of the interviewees have expressed their concerns that the diaspora investments, particularly in hospitals and educational institutions appear to be concentrated mainly in urban areas rather than in rural settings. Fewer rural households appear to receive remittances than those in urban settings. However, the construction boom in many parts of the country has generated substantial spin-offs, prompting rural-urban migration.

10.0 Canada's Outflows from the Somali Hawala Firms

10.1 The Interviewees' Feedback:

- Interviewees from the Somali hawala firms in the GTA and the surrounding cities argue that there is a correlation between the outflow and the employment opportunities. In the GTA area and the surrounding cities, hawala transactions and outflows are less compared to, for instance, some of the major cities in the United States where employment opportunities for the Somali immigrants are more elevated. The outflow from Nashville, Tennessee is much higher than from the city of Toronto because of the availability of jobs for the Somali immigrants in the former¹⁷.
- Other interviewees from the firms argue that employment may not necessarily be a factor that bolsters remittance. For instance, Somali immigrants in Portland, Maine are predominantly on welfare but their remittance is comparatively high¹⁸. Moreover, remittances from Toronto have not lessened because of the cuts in the welfare after 1997.
- The interviewees from the firms contend that there is also a correlation between the outflow and the exchange rate of the currency. The Canadian dollar has been weak in relation to the US dollar, the Euro, and the Sterling pound. Because all transactions are in the United States currency, remitters from Canada have to convert their money to US dollars, and this has led to a decrease in outflow from Canada compared to that from the United States, the UK, and other countries in Europe. Moreover, Canada as a whole cannot contribute even one third of the outflows from the firms in Minneapolis in the United States.
- The interviewees from the firms reveal also that because Hawala in Canada is not regulated, the hawala business is construed as an illegal financial activity, and as a consequence, banks and other financial institutions can and may be reluctant to

¹⁷ Interview with Mr. Abdirazak Omargodane, Research and Compliance Services. Kaah Express in Toronto.

¹⁸ Interview with Mr. Mukhtar Aden Hassan of Mustaqbal Express in Toronto.

conduct business with hawala firms. This is one of the challenges faced by the hawala firms in Canada, and it might also be one of the reasons why the outflow from Canada to Somalia and to other places where Somalis reside is significantly lower than that from the United States and Europe, where hawala is regulated.

11.0 The challenges Facing the Hawala Remittance Firms

The Somali hawala remittance firms need to take all measures necessary to counteract the negative image that has been leveled against their operations. Though the firms in Canada and in other parts of the world have made notable progress in meeting international standards for accountability and transparency, it appears, however, that these firms are still confronted with certain impediments that can lead to the creation of a climate of suspicion and uncertainty (Omer, *ibid*). Some of the challenges of the firms include:

- The Canadian banks are still reluctant to allow the Somali hawala remittance firms to hold accounts with them. This being the case, the hawala remittance firms must embark on a serious dialogue with the formal financial institutions and the regulators to ensure the continued operation of the remittance sector in Canada.
- The absence of a centralized government in Somalia is precluding the possibility of the establishment of the formal financial institutions and the laws and regulations that govern them.
- September 11 tragedy has prompted the United States of America and other countries that host hawala remittance firms to focus on money laundering and its role in the financing of terrorism. The USA Patriot Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) passed in the United States requires all the hawala remittance firms to comply with the Anti-Money Laundering Compliance Programme.
- There is little research being conducted on the intricacies of the hawala remittances. The knowledge available on the impact of remittances on the livelihood and on the economy of the people is relatively scanty. The sustainability of the hawala remittance sector in general needs further research. Second generation Somali Canadians will have very little to do with their country of origin; and this will have an impact on the flow of remittances from Canada. In light of this, the hawala firms will have to formulate long-term strategies to counteract any negative effects that may eventually arise as result of the change of the attitudes of the second generation migrants.

- Western countries may consider tightening immigration for Somalis still stranded in refugee camps. The new immigration policies will certainly have some impact on the flow of remittances from the diaspora.

12.0 Recommendations:

There is little doubt that hawala remittances could be good means and mechanisms to fund terrorism, civil wars, and other illegal activities. Initially, the Somalis in the diaspora used the hawala remittance to supply arms to the guerillas who overthrew the dictatorial regime of Siad Barre in 1991. It has occurred in other failed states where remittances were used not only for family survival and household consumption but to finance conflicts and support military operations. Nonetheless, the importance of remittances and their social insurance roles in the failed states and in other poor countries has been widely acknowledged. Remittances in failed and poor states have provided many times what the aid agencies have been providing to alleviate the suffering of the devastated populations. In other words, given the scarcity of the international funding for these war-torn societies, the people have been able to bear the brunt of the reduced international commitment and do things for themselves.

Notwithstanding the fact that the hawala remittances became the people's lifeline, there is, however, a dire need for more effort to legitimize these informal channels of transfers and bring them under internationally established banking rules and regulations.

Many of the Somali Canadian community leaders, professionals, and hawala firms' agents interviewed, contend that the firms' operations must be consistent with the laws and regulations of the regulatory agency of Canada. Mr. Osman Ali, President of the Somali-Canadian Association of Etobicoke, interviewed in his office, stated that for the hawala firms to be effective in reporting suspicious transactions, sufficient training should be given to its staff. He has also reiterated the importance of appointing trained money laundering reporting officers in the different branches of the firms. These trained officers can help in the implementation of the reporting procedures for suspicious transactions as detailed by the regulatory agency in Canada.

Others interviewed argue that the Canadian Government should be proactively involved in supporting these informal financial institutions. Hawala remittances have filled the gap because there are no formal financial institutions in Somalia and the Somalis in the diaspora have to remit to their relatives and families for their survival.

Other Somali Canadians interviewed reiterated that the hawala firms in Canada

must be encouraged to establish a “Somali-Canadian Financial Services Association” with the view to fostering collaboration among the firms, on one hand; and enhancing cooperation between the hawala firms and the formal financial institutions, on the other. The Somali-Canadian Financial Services Association can also assist in formalizing the sector and engage together with the host country in all matters pertaining to regulatory issues, and the adoption of the anti-money laundering (AML) compliance programmes. The Association can undertake to convene a series of workshops and meetings for the firms’ agents, and other important stakeholders (representatives from the Canadian banks, FINTRAC, community leaders, Somali Canadians professionals, members of provincial and federal parliaments, and the different Canadian enforcements agencies). The topics of the workshops and meetings would include issues such as: compliance with international financial rules and regulations; compliance with the Canadian laws related to remittances; how to standardize bookkeeping, auditing and reporting; how to Know Your Customer (KYC); how to know the rules and regulation of the countries that host the firms’ clearing houses; and how to foster and enhance relations between the hawala firms and the formal Canadian financial institutions.

The Somali Canadian hawala firms should also be familiar with the Financial Action Task Force (FATF) against money laundering.¹⁹ Besides, these firms should also attempt to establish working relations with the United Nations Development Programme (UNDP). For instance, in December 2003, the UNDP helped the hawala firms establish their first Somali Financial Services Association (SFSA) with the view to: acting as a self-regulatory body until a central authority is formed in Somalia, and representing its member interest, e.g. supporting compliance training workshops (Omer and El Koury, *ibid*).

¹⁹ As reported in A. Omar’s Report on Supporting Systems and Procedures for the Effective Regulation and Monitoring of Somali Remittance Companies, the FATF is an inter-governmental body that develops and promotes policies, both nationally and internationally, to combat money laundering. It has 29 member countries and two regional organizations. It works in close cooperation with other international bodies involved in this area such as the United Nations Office of Drug Control and Crime Prevention, the Council of Europe, the Asia-Pacific Group on Money Laundering, and the Caribbean Financial Action Task Force.

Conclusion

The Somali hawala remittance has expanded enormously following the collapse of the Somali state and has come a long way in a relatively short time. It is tantamount to a lifeline service on which the livelihood of millions of Somalis depends. Money sent from the diaspora save lives daily, and if this transfer to the war-ravaged people is disrupted, the survival of millions of people will be jeopardized. Hawala remittance has, on the other hand, promoted investment and reconstruction, created employment, enabled the construction of schools and hospitals, and played an important role in strengthening peace and reconciliation in the country.

The events of September 11 had an enormous impact on the Somali hawala remittances. Prior to this tragedy, there were no regulations governing this financial services sector. Moreover, law enforcement agents and legislators paid very little attention to the sector. But nowadays public interest in these informal money transmissions has significantly increased because of the alleged role of such transfer mechanisms in financing terrorists. This reality has elicited governments and other stakeholders' determination to explore further the intricacies of the informal remittance systems and propose regulations governing them to avert the risk of their closure.

In response to pressure from all over, the hawala remittance firms embarked on a campaign to regulate their operations through proper licensing and registrations, training of their staff on rules and procedures, and the formulation of proper guidelines for their agents on issues pertaining to: anti-money laundering compliance; adherence to mandatory reporting requirements; incorporation of a "lookout list" published by the international authorities; and the introduction of reliable mechanisms for the detection of the suspicious transactions.

Canada must be proactively engaged in promoting dialogue and communication between these informal channels of money transactions and the formal ones. It should undertake to organize training programmes to upgrade the skills of the Somali Canadian staff in the firms. It could also convene workshops for the firms' staff on topics related to anti-money laundering compliance programme and on the mechanisms for detecting

suspicious transactions. Canada should also endeavour to provide the firms with the strategic guidance and technical advice needed in their operations.

Appendix

Workshops and Consultations

1.0 Workshops Convened

March 27, 2005

Somali Banadir Association of Canada in Toronto

Participants:

- | | |
|---------------------------------------|--------------------------------------|
| 1. Prof. Mussa Mohamed Nasser | Vice President of the Association |
| 2. Mr. Mohiddin Mohamed Mohiddin | Secretary General of the Association |
| 3. Mr. Abdullahi Mohamed Osman (Bono) | Treasurer of the Association |
| 4. Mrs. Falstin Yassin | Executive Board Member |
| 5. Mr. Khalif Hassan | Executive Board member |
| 6. Ibrahim Ikar | Executive Board Member |
| 7. Mr. Mohamed Bussuri | Executive Board member |

March 28, 2005

Somaliland Women's Organization in Scarborough

Participants:

- | | |
|---------------------|--------------------|
| 1. Mrs. Zahra Adam | Executive Director |
| 2. Mrs. Zeinab Adam | Consultant |
| 3. Fawzia Essa | Consultant |

April 2, 2005

Dixon Community Centre in Etobicoke

Participants:

- | | |
|-------------------------------|--|
| 1. Mr. Omar Warfa | Executive Director of the Centre |
| 2. Mr. Abdirahman Mahadalle | Employee at the Canadian Tire,
Toronto |
| 3. Mr. Abdirahman Hosh Jibril | Lawyer, Toronto |
| 4. Mr. Abdirahman Sh Isse | Teacher in High School, Toronto
District School Board |
| 5. Mr. Abdirazak Omar Mohamed | MES Candidate York University |

- | | |
|-------------------------|--|
| 6. Mr. Ahmed Jama Hamud | Professional Engineer at the Ministry of the Environment, Ontario. |
| 7. Mr. Mohamud Musse | Teacher in High School, Toronto District School Board |

April 10, 2005

Tools for Humanity and West Toronto Neighbouring Centre in Toronto

Participants:

- | | |
|---------------------------------|----------------------------------|
| 1. Mr. Mohamed Maye | Tools for Humanity |
| 2. Mr. Abdullahi Daash | West Toronto Neighbouring Centre |
| 3. Mr. Said Mohamed Nur | West Toronto Neighbouring Centre |
| 4. Mr. Abdisalam Abdulakdir | West Toronto Neighbouring Centre |
| 5. Mr. Abukar Nur Abdulle | West Toronto Neighbouring Centre |
| 6. Mr. Mohamed Aden | West Toronto Neighbouring Centre |
| 7. Mr. Abdirahman Mohamed Ahmed | West Toronto Neighbouring Centre |
| 8. Mr. Mohamed sheik Ali | West Toronto Neighbouring Centre |

2.0 Consultations with the Somali Canadian Community Leaders, Professionals, Businesses and Households

- | | |
|-------------------------|---|
| 1. Mr. Ibrahim Absiye | Executive Director, MIDAYNTA Association of Somali Service Agencies, Toronto. |
| 2. Mr. Mahad Yusuf | Executive Director
Somali Immigrant Aid Organization
Toronto |
| 3. Mr. Osman A. Ali | President, Somali Canadian Association of Etobicoke |
| 4. Dr. Mohamed S. Tabit | Programme Manager, MIDAYNTA |
| 5. Mr. Said Ahmed | Settlement Counselor, MIDAYNTA |
| 6. Mr. Abdiqani Ismail | Franchise Owner – Liberty Tax Service, Toronto |
| 7. Mr. Salim Mao | Senior Computer |

- | | |
|---|---|
| | Programmer/Analyst,
Statistics Canada, Ottawa |
| 8. Mrs. Faduma Awo | Executive Director, Labour
Community Services,
Toronto. |
| 9. Mr. Hanad Hassan | Senior Consultant,
Accounting,
Bookkeeping,
Income Tax, Financial
Systems. (Weston and
Lawrence), Toronto. |
| 10. Mrs. Zeinab Sh. Hussein | Owner, Textile and
Beauty Products Shop,
(Weston and Lawrence)
Toronto |
| 11. Mr. Ali Bakri Sheik and Mr. Hamid
Shegow | Owners, Waaberi Studio
Entertainment (Weston and
Lawrence) Toronto |
| 12. Mrs. Fadumo Ibrahim | Case Manager, Canadian
Mental Health Association of
Metro Toronto. |
| 13. Mr. Said Mohamed Nur | Software Engineer and former
Manager of Smart Money
Transfer, Toronto. |
| 14. Dr. Hussein Mao | Research Scientist, London,
Ontario. |
| 15. Mr. Mohamed Subiye | Chairperson and Manager
of Alif Enterprise Inc.
2011 Lawrence Ave. West – Unit1
Toronto |
| 16. Mr. Sharif Osman | Social Researcher, Toronto |
| 17. Mr. Abdullahi Sid Ahmed | School Settlement Worker,
Settlement and Education
Partnerships in Toronto – CIC
and Toronto School Boards. |

- | | |
|--------------------------|--|
| 18. Dr. Khadija M. Ali | Executive Officer, Ministry of
Community and Social Services
Toronto, Ontario. |
| 19. Ms. Shukria Dini | PhD Candidate, York University,
Toronto. |
| 20. Mrs Halima Saad | Social Activist, Toronto |
| 21. Mrs. Farhan Hussein | Employee at Pearson International
Airport. |
| 22. Mrs.Amina Osman Omar | Employee, Toronto District School
Board. |

5.0 Consultations with the Agents of the Hawala Firms in the GTA and other Cities in Ontario

- | | |
|-----------------------------------|--|
| 1. Mr. Abdirazak Omargodane | Research and Compliance Services
Kaah Express , Toronto. |
| 2. Mr. Shakir Haji Hussein Nur | General Manager, Dahabshiil Financial Services Canada , Head Office, 1778 Weston Road, Suite 107, Toronto, ON M9N 1V8 |
| 3. Mr. Mukhtar Adan Hassan | Consultant, Mustaqbal Express
1901 Weston Road, Unit 10
Toronto, ON |
| 4. Mr. Abdullahi Hassan Alasso | Branch Manager, Towfiq
1778 Weston Road, Suite 102,
Toronto, ON M9N 1V8 |
| 5. Mr. Abdulakdir Mohamed (Kishk) | Agent, Dalsan Trading , 200
Highland Road
Kitchener, ON M2M 3C2 |
| 6. Mr. Abdullahi Roble | Agent, Amal Express |
| 7. Mr. Mohamed Hassan Omar | Agent, Dalsan Trading
Windsor, Ontario |
| 8. Mr. Mahmud Jama | Manager, Dalsan Trading
Toronto, Ontario. |

References

- Ahmed, I (2000), Remittances and their Economic Impact in Post-War Somaliland, *Disasters* 24, 4: 380-38.
- Cassanelli, Lee (1982), *The Shaping of the Somali Society, Restructuring the History of the Pastoral People, 1600-1900*, University of Pennsylvania Press.
- Dudley, N. (2003), Somali Financial Network Hit Hard by Hyperbole, *Euromoney* September: 1-3
- Green, R. and V. Jamal (1987), *Somalia: Paradoxes of Private Prosperity, Poverty Pockets, Volatile Vulnerability and Public Pauperization*. UNICEF, New York
- Hansen, Peter (2004), Migrant Remittances as a Development Tool: The Case of Somaliland, *Migration Policy Research, Working Paper Series No. 3 – June 2004* - Danish Institute for Development Studies, Denmark.
- Horst, Cindy (2001), Vital Links in Social Security: Somali Refugees in the Dadaab Camps, Kenya, *New Issues in Refugee Research – Working Paper No. 38*
- Kaldor, Mary (2001), *New and Old War – Organized Violence in a Global Era*, Stanford University Press, Stanford, California.
- Kapur, Devesh (2004), Remittances: The New Development Mantra?, *G – 24 Discussion Paper No. 29*, Harvard University and Centre for Global Development
- KPMG (2003), *Feasibility Study on Financial Services in Somalia*. Nairobi: UNDP and EC.
- Menkhaus, Ken and John Prendergast: Political Economy of Post-Intervention Somalia, *Somalia Task Force Issue Paper # 3*, April 1995.
- Omer, A. (2003) *A Report on Supporting Systems and procedures for the Effective Regulation and Monitoring of Somali Remittance Companies (Hawala)*, UNDP Somalia, <http://www.so.undp.org/Remittances/ssp-hawala.pdf>.
- Omer, A. and El Koury, G. (2004), Regulation and Supervision in a vacuum: The Story of the Somali Remittance Sector, *Somali Enterprise Development* 15 (1): 44-52.
- Sander, Cerstin (2003) "Migrant Remittances to Developing Countries, A Scoping Study: Overview and Introduction to Issues for Pro-Poor Financial Services", Prepared for the UK Department of International Development (DFID).

Sandhu, Harjit Singh (1998) "Hawala - A Good Old Vehicle for the Movement of Bad Money" *Laundering News* (Sydney, Australia) 2:1998.

United Nations Development Programme/World bank Somalia, Socio-Economic Statistics, Somalia, Report No. 1 *Somalia Watching Brief 2003, draft*