

WAR, PEACE AND THE CIRCULATION OF MOBILE MONEY ACROSS THE SOMALI TERRITORIES

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Introduction

On 27 February 2021, the Central Bank of Somalia granted the Mogadishu-based Hormuud Telecom Somalia Inc. the country's first mobile money licence. As the bank governor Abdirahman Mohamed Abdullahi explained in a press conference, 'in formalising our existing digital payments infrastructure, we are accelerating the integration of Somalia's financial system into the global economy'.¹ By issuing a licence to Hormuud, Somali regulators attempted to extend their oversight to the telecom's mobile money platform, EVC Plus, taking stock of a sector that has been thriving for the past decade in the absence of state regulation. During this period, despite the lack of a formal legal framework—or, as we suggest in this chapter, thanks to it—access to mobile networks and mobile money have become a celebrated example of what works across the Somali territories.

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The International Telecommunication Union (2018) estimates that, in 2017, just 2% of Somalis had access to the internet but 48.3% of Somalis have mobile phone subscriptions. However, based on anecdotal evidence, this official data seems to be far lower than actual access rates. Business organisations like the GSMA, the telecom industry association,² have focused on Somaliland and, to a lesser extent, Somalia to highlight how the popularity of mobile money in the region could be replicated across other low- and middle-income countries. At the same time, the past decade has seen a growing number of media reports drawing attention to the strides made by digital finance across the Somali territories.³ These reports often contrast a sophisticated digital infrastructure for storing value within the region and transferring it elsewhere with a peculiar, and often violent, dynamic of state formation in the Horn of Africa.

This chapter discusses how the social, legal, political and technological arrangements necessary to develop reliable financial infrastructure emerged in the Somali context, and it asks what the case of mobile money in the Somali territories tells us about the role of business in state making and the hypothesised politics of circulation more broadly (see Chapter 1). Mobile money represents the financial counterpart to the circulation of goods. As Taussig (1997: 132) pointed out, money is itself ‘quintessentially’ ‘circular’. But in the case of post-war Somalia, the financial infrastructure—the very institutions that undergird the circulation of money within and across borders—had collapsed, which had implications for the circulation of commodities. This chapter describes how the vacuum left by state collapse was initially filled by *hawala* companies and, more recently, has seen the rise of mobile money operators. We explore how the collapse of the Somali state in 1991 spurred the emergence of a Somali financial-telecommunication complex characterised by interwoven historical, managerial and operational ties between the Somali financial and telecommunication sectors. These telecoms smooth the circulation of goods across Somali East Africa and, as they forge strategic partnerships with remittance companies, between the region and the rest of the world. We also show how mobile money operators have carved

out a new space of value extraction for officials and militias, thus playing a crucial role in reshaping the political economy of taxation in the area.

We combine a political economy and a social-legal perspective to argue that the popularity of mobile money in Somali East Africa builds, on the one hand, on facilitated access to a digital currency pegged to the US dollar in import-dependent economies and with scarce and volatile local currencies and, on the other, on the adaptation of ownership structures and dispute resolution mechanisms to local governance arrangements. However, contrary to most developmental narratives of mobile money across the Somali territories (Pénicaud and McGrath 2013; Hesse 2010), we suggest that the benefits of digital finance are unevenly distributed among populations.

Mobile money services in the Somali territories enable customers to convert local money into US dollars and store them in e-wallets. These services have met a specific demand for hard currency resulting from the absence of a functioning national currency due to the country's economic history and political economy. During Somalia's extended period of limited statehood, which predates the 1991 collapse of the central state, the void of state governance has been filled by a variety of social-legal structures, embedded in kin and business networks and straddling between international norms, practices, compliance requirements on the one hand, and messy, fragmented, dynamic and informal local realities on the other. These fuzzy governance structures, poised 'between the handshake and the contract', as further explored in Chapter 4, have shaped the financial-telecommunication conglomerates that have built the infrastructures through which value and information circulate inside and outside of the Somali territories.

In so doing, these conglomerates have not only met the needs of an import-export economy against a very volatile backdrop but have emerged as key actors in the politics of circulation in Somali East Africa. While the lack of formal state banking systems and regulations has enabled new innovative products to emerge, the popularity of mobile money across the region ought to be linked to a specific experience of state formation and a unique configura-

tion of political, legal and business actors. Apart from Eritrea, where the telecom sector is entirely state-run, Somalia is the only country in Africa where international telecom companies such as MTN or Bharti do not operate; it is solely Somali private telecom companies that provide services. While recipes to transplant the Somali digital finance ecosystem to other contexts may be of limited use, the case of mobile money in the Somali territories offers insights into the socio-legal embeddedness of local institutions and authorities when it comes to conflict and fragile settings.

Our arguments are based on interviews the authors have collected over the past decade of research into this area. Together, and with research teams, we have interviewed hundreds of members of leading telecoms, mobile money providers, political elites and users of mobile money. Moreover, through our interviews, we collected a small corpus of what could be considered oral case law of disputes involving telecommunications companies and mobile money users. We collected oral testimonies of conflict parties, as well as those who assisted in dispute resolution and helped determine appropriate compensation. All of our findings allowed us a better understanding of the role of various authorities in enabling the development of the mobile money ecosystem.

The chapter is structured as follows. In the first section, we chart the development of the Somali financial and telecom systems: from the rapid expansion of the money transfer industry in the 1970s, to its consolidation in the aftermath of the civil war in the 1990s, up until 2001, when the beginning of the War on Terror—following the 9/11 terror attacks in the United States—disrupted the remittance business. Then, we discuss the emergence and transformations of the Somali digital financial sector, focusing in particular on Hormuud (including Golis and Telesom) and Dahabshiil companies (and Somtel). In the third section, we delve into the political economy of mobile money across the Somali territories, highlighting how an import-driven commercial class and a volatile national currency have created the demand for a US dollar-pegged mobile wallet. Finally, in the fourth section, we discuss its socio-legal dimensions, in particular the role of informal governance structures for regulation and taxation.

Somali remittances: The birth and infancy of mobile money

Somalia's mobile money infrastructure builds upon a remittance system shaped over more than 40 years by historical circumstances and trust relationships partly based on clan-ship. Remittances have been a lifeline for Somalis both in the Somali territories and in humanitarian spaces in East Africa (Hammond 2014; Horst 2006; Lindley 2007). According to a conservative estimate, more than 1.4 billion USD per year is sent each year to the Somali territories (Somalia, Puntland and Somaliland) (Majid et al. 2018). This is higher than the amount of Overseas Development Assistance (ODA) to Somalia, which was £1.9 billion in 2019.⁴ Most remittances flow to the region through a set of money transfer practices known in Somalia as *xawaalad*, a variation on the Arabic *hawala*, based on the trading of credits and debts among agents (or *hawala-dar*), a practice that emerged in the 8th century and has historically been popular across the Muslim world. However, no precise figures on the overall volume or value of *hawala* transactions are available, since many money transfer firms operate outside the scrutiny of national and international regulators.

Somali *hawala* firms, in the large business forms that we see today, first emerged during the 1970s. This was a period of increased transnational mobility—as a growing number of Somalis migrated to the Gulf States to work in the local oil industry—as well as institutional decay in Somalia, particularly during the 1980s, when state-managed financial institutions proved increasingly inefficient (Jamal 1988; Lewis 1994; Marchal et al. 2000). Former British Somaliland was the gateway of the remittance flows to Somalia, thanks to its geographical proximity to the Arabian Peninsula and a long history of trading routes linking the Horn of Africa to the Arab world (Pankhurst 1974). Besides meeting the growing demand for money transfer services from the Arabian Peninsula, traders saw the opportunity to collect hard currency—especially US dollars—to hedge against Somalia's very volatile national currency. Based on networks of agents, often hailing from the same clan, this system was considered more trustworthy and efficient than the state-run banking system managed by the Somali Commercial and Saving Bank, tarnished by its lack of efficiency and high fees.

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In 1976, the Somali government formalised these connections to ‘stop underground trading activities and to cover the importation of certain local needs with the remittances’ (Qassim 2004: 186). It only allowed traders with an import licence into what became known as the *franco valuta* system. Through their agents in the Gulf, these businesspeople were able to collect remittances in US dollars from workers and either deliver the money directly to migrants’ families or, more often, use it to purchase goods to be sold in Somalia. In this latter case, the corresponding amount in Somali shillings—or payment in kind—was handed to the recipients, according to a previously agreed exchange rate (Lewis 1994; Qassim 2004). Interestingly, the pursuit of hard currency is a feature which has been playing a central role in Somali traders’ decision-making for a long time, as has already been observed by Burton (1943 [1856]: 289) and Lewis (1994: 129) and which, as we discuss below, would significantly contribute to the popularity of mobile money across the Somali territories decades later. Remittances in foreign currency continued outside the scrutiny of regulators, as only a small amount was funnelled through the official banking system and converted into local currency.

In 1982, the *franco valuta* system was phased out by the regime, but the *hawala* system survived and expanded. During the 1980s, the Somali central state buckled under the strain of corruption, economic crisis, political violence and Somaliland’s secessionist struggle. Clan-based money transfer firms enabled local businesspeople to move financial assets out of the country and local households to receive much-needed cash from relatives abroad. It was during this period that Dahabshiil, the most popular Somali *hawala* company, consolidated its business model. Dahabshiil was first established in Burao, the capital city of the Togdheer region, in 1970 as an import company by Mohamed Saeed Duale, a remittance broker from the Isaaq clan, which is mostly concentrated in Somaliland (Samatar 2021).

When repression in northern Somalia escalated into civil war in the late 1980s, Dahabshiil moved to Ethiopia, funneling the remittances of the Isaaq diaspora to displaced populations (Bradbury 2008) and supporting the Somali National Movement (SNM), the

main guerrilla group opposing the Siad Barre regime. Crucially, Dahabshiil channelled contributions through clan elders, thus laying the foundation of its political network (Meester et al. 2019). After the central government collapsed in 1991, the crumbling national financial institutions followed suit, wiping out the savings—as well as faith in state banks—of hundreds of thousands of Somali citizens. Somalia, and Somaliland (the former Somalia Italiana and British Somaliland) parted ways. As a result, financial institutions that developed post-1991 in the now separate entities followed different trajectories, shaping local political economies in diverging ways.

In the aftermath of the proclamation of independence of the Republic of Somaliland, Dahabshiil reorganised its commercial structure to meet the growing demands of refugees who were fleeing Somalia en masse. It shifted its headquarters from Burao to Hargeisa and Dubai and opened branches in the countries where Somalis had found shelter and resettlement, both in Africa and in the West. Mohamed Saeed Duale and later his son Abdirashid contributed actively to the state-building process in Somaliland, building on the relationships established with local authorities during the war of independence, contributing to the construction of national infrastructures and becoming a privileged partner of the Somaliland state as well as an influential political player. By 2020, Dahabshiil claimed to ‘invest 5% of its profits into community regeneration projects involving the development of schools, hospitals, agriculture and sanitation’. This is higher than the 2.5% *zakat* (a form of religious obligation or tax) that Islam requires its adherents donate to the poor. Dahabshiil employs 5,000 agents in 144 countries and works in partnership with large NGOs and the UN system (FAO, UNDP, UNICEF) to funnel funds to international development projects across the Somali territories.⁵

In Somaliland, Dahabshiil benefited from, and contributed to, the stability of political institutions, propping up the value of the state-minted Somaliland Shilling (SomSh) against the USD. In Somalia and Puntland, businesspeople who were leading or connected to private militias had Somali shillings (SoSH) printed abroad, shipped to Somali ports and injected into the local econ-

omy. As Peter Little (2021) calculated, ‘With the costs of printing and shipping estimated to be around USD 0.022 to USD 0.028 per 1,000 SoSh note, profits could be earned as long as the SoSh did not devalue to more than around SoSh 22,000 to 28,000 per USD.’ While reaping estimated profits of over 1.5 million USD, these businesspeople replaced the state in laying the financial infrastructure for the Somali economy and stabilising the value of the Somali currency against the US dollar in the late 1990s and early 2000s (Luther 2012). The flare-up of violence after the Ethiopian armed intervention in 2006, backed by the United States, and the emergence of the Islamist militia al-Shabaab in 2008 further disrupted the Somali economy. During this period, the circulation of privately minted SoSh was entwined with the flow of US dollars sent to Somali households through local *hawala* firms (Mubarak 1997).

Money transfer and communication industries have thus evolved in parallel. The historical integration of Somali remittance and telecommunication businesses is rooted in both business and socio-cultural factors. In the absence of a stock market, *hawala* companies have played a critical role in raising capital for the telecommunication industry. Most telecoms are public companies—in Somali, *shirkaad* (plur. *shirkooyin*)—started by entrepreneurs who typically set up an account into an *hawala*. Then, selected buyers—usually from the same clan of the founder and main shareholder, or local and religious authorities—would be allowed to acquire a stake in a *shirkaad*. This has enabled the consolidation of strategic partnerships, not only at the business but also at the political level.

However, while *shirkooyin* usually have a fluid and fragmented shareholding structure, one or only a few interrelated shareholders remain at the helm of the company. Therefore, although shareholding bases can include members from different clans, *shirkooyin* are perceived as having a well-defined clan identity: that of the main shareholder(s). It is particularly notable that only Somali telecommunications companies operate in the Somali territories. This contrasts significantly with the rest of the continent, where multinational companies vie for customers. The security and legal environment in Somali East Africa is seen as largely

impenetrable for investors who lack the trust of deep-rooted clan and business networks.

Communicating and receiving remittances from relatives are both sides of the social obligations which enable the cultivation of ties within the diaspora as well as between the diaspora and the homeland (Lindley 2007). Long before state collapse, communications companies provided ancillary services to *hawala*, facilitating the coordination between remittance senders and recipients while *hawala* agents offered their customers cheap and fast technologies for exchanging information with relatives abroad and soliciting remittances. Even in Kenyan refugee camps, where displaced Somalis sought shelter from political violence, money transfer services were often located in the sites where people queued to use *taar*, a two-way radio system (Horst 2006) which was the only channel of communication with family members who were resettled or still in Somalia. The entanglement of remittances and communication infrastructures enabled the constant conversion of social capital into financial capital and vice versa, underpinning both social reproduction and the possibility of improving one's living conditions.

It was against this backdrop that the Barakaat Group of Companies (BGC), a business conglomerate that has had a long-lasting influence on the entire Somali telecom sector, emerged in the early 1990s. BGC was established by Ali Ahmed Nur Jim'ale, a businessman from the Hawyie Habr Gedr clan based in Mogadishu. It included the *hawala* company Barakaat Money Transfer, the telecoms Barakaat Telecommunications, Red Sea Telecommunications, Globe Tel Telecommunications, Barakaat Bank of Somalia and Somali Refreshment Company. At its peak in 2001, Barakaat Telecommunications was Somalia's leading company and largest employer. Ali Ahmed Nur Jim'ale remained its majority shareholder. The rest of its shares were divided among more than 600 shareholders. During the 1990s, this conglomerate thrived in a volatile context characterised by the absence of formal financial institutions in Somalia as well as limited access to financial channels for refugees in humanitarian crises. This was dramatically highlighted in the wake of the 9/11 terror attacks when Barakaat

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Money Transfer, at the time the largest Somali *hawala*, was included in a list of 62 organisations and individuals suspected by the White House of having connections with Al-Qaeda, resulting in the freezing of all the company's assets (Roth et al. 2004). Thousands of account holders of BGC financial services no longer had access to their savings. Shortly after, Concert Communication, a joint venture between AT&T and British Telecom based in Atlanta, interrupted the international gateway of Al Barakaat's international phone service. The demise of Barakaat Money Transfer had disastrous repercussions on the livelihoods of many families (Cockayne and Shetret 2012), but it cleared the way for the expansion of Dahabshiil⁶ and, as we explain in the next section, led to an overhaul of the entire Somali telecom sector.

The emergence of the Somali digital financial ecosystem

In 2002, following the demise of BGC, three new companies rose from its ashes, building upon the conglomerate's assets: Hormuud, established in Mogadishu and operating across south-central Somalia; Golis, based in Bosaso, the commercial capital of the autonomous federal member state of Puntland; and Telesom, established in Somaliland's capital, Hargeisa. We shall focus on Somalia's Hormuud and Somaliland's Telesom in particular.

Since its establishment, Hormuud was a Hawyie-dominated *shirkaad* providing landlines, mobile communication, internet access and, since 2008, mobile banking services. With 3.6 million subscribers in 2020, it was the leading mobile network operator (MNO) in south-central Somalia at the time of writing, with an estimated annual turnover of 40 million USD.⁷ When the company was established, its chief executive was Ahmed Mohammed Yusuf, a businessman from Mogadishu who reportedly acquired the premises and the equipment of Al Barakaat. At the time, the company spokesperson denied any link to BGC, but it later emerged that the majority shareholder was once again Ali Ahmed Nur Jim'ale, who since 2001 had been residing in Dubai and Djibouti and who owned the *hawala* Tawakal. The main offices of the company were in Mogadishu and Dubai, where many Somali businesspeople had relocated since the late 1990s.

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Drawing on the experience of Safaricom M-Pesa in Kenya, Hormuud launched E-Voucher in 2009. This was the first Somali mobile money service to transfer and store value, relying on a network of agents and allowing transactions of up to 2,000 USD. Shortly after, al-Shabaab, which controlled large swathes of territory, banned the service, ostensibly because it was ‘un-Islamic’. The actual rationale for the ban was likely related to the militants’ difficulties in monitoring the flows of mobile money. However, because of the unpopularity of the prohibition, they eased the ban shortly after, and the transaction limit was set at 200 USD. In 2011, the platform changed its name to EVC Plus and the maximum amount for a transaction was raised to 300 USD, offering both private and business accounts. On top of that, it enabled transactions to Golis’ mobile money platform, Sahal, in Puntland and Telesom customers in Somaliland, thus eroding the internal market share of *hawala*, at least for the transfer of small amounts.

In Somaliland, Telesom soon emerged as the leading MNO, quickly outperforming the existing competitors Sitco (the first Somaliland mobile company), STC, Somtel and Sotelco. While Ali Ahmed Nur Jim’ale retained control of 49% of the conglomerate’s shares, the remaining 51% was divided among over 1,400 shareholders. In 2009, Telesom launched the mobile money platform Zaad, which enabled money transfers free of charge. Two years later, it established Salaam Financial Services bank to facilitate the interoperability of mobile and banking services. Through their handsets, Zaad customers were able to move digital funds between their mobile wallets and bank accounts. They also received access to a broad range of services, including *shari’a*-compliant micro-loans, school fees, grants and utility bills payments.

The rapid diffusion of mobile money forced competitors in the telecommunication and money-transfer sectors to adapt. While many small local money-transfer operators (MTO) saw a dramatic drop in the turnover of business, large *hawala* companies had to expand or partner with the sector’s leaders to survive. Already by 2008, Dahabshiil, the largest *hawala* operator, had become a major shareholder of Somtel, a telecoms company established in 1997 in Burao. In 2015, it launched the mobile money platform eDahab,

which relied on Dahabshiil's agent network and allowed users to transfer or withdraw funds from their Dahabshiil account. Despite large investments in infrastructure in Somalia to provide faster data services and expand its network coverage to underserved areas—such as Middle Juba, Gedo and Bakool—Somtel eDahab struggled to catch up with Hormuud, Golis and Telesom's platforms. Besides enjoying first mover's advantage, these sister companies were successful in building a loyal customer base by creating network effect while meeting a widespread demand for hard currency. Moreover, they managed to embed mobile money into local socio-legal structures through a diffused ownership structure and the reliance on informal traditional governance institutions, as we discuss in the remainder of the article.

Other major *hawala* companies Taaj, Tawakal and Kaah partnered with Hormuud/Telesom/Golis through Salaam Somali Bank based in Mogadishu, Dara Salaam Bank (former Salaam Financial Services) based in Hargeisa, Salaam Bank based in Bosaso and Salaam African Bank headquartered in Djibouti. In 2015, Hormuud/Telesom/Golis started partnering with the online remittance company HomeSend, based in Belgium, to allow online money transfers through a company based in the UK, WorldRemit, and another based in Sweden, Transfer Galaxy. These websites enabled remittances to be sent directly to mobile wallets across Somalia.

The political economy of mobile money

The first set of factors that explains the popularity of mobile money relates to local economies' dependence on imports and a history of monetary instability during which, as previously mentioned, Somali traders have long juggled multiple currencies and financial institutions (Little 2021). In designing their mobile platforms, Hormuud, Telesom and Golis took into account the widespread need in the region for hard currency. The reliance on imports, particularly from Gulf states, has remained a constant throughout the worst years of the civil war and the subsequent decrease in political violence. At the time of writing, the prices of goods for sale across the Somali territories are still often displayed only in US dollars. Mobile

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money agents initially targeted merchants and traders in strategic economic sectors, such as livestock trade, to help them open mobile money accounts to manage their companies' payrolls. Firms that were already using US dollars to pay their employees' salaries were won over by the fact that mobile money allowed them to bypass the rush on hard currency that took place at the beginning of each month. Entrepreneurs could store US dollars in their accounts and transfer the due to each employee's mobile wallet. As recipients of digitally transferred salaries started drawing on their mobile wallets to purchase items in shops, person-to-business transactions gained momentum. Moreover, the diffusion of mobile money solved what many shop owners call the 'fraction problem', meaning the issue of paying dollar fractions, which was a particular challenge for shops selling imported items (Iazzolino 2015).

Boosting person-to-business payments proved a critical factor in the popularity of EVC Plus and Zaad, as it minimised the need to cash out before each payment. As salaries started being paid directly into employees' accounts, and customers saw the benefits of paying with mobile money, a mobile money ecosystem started taking shape and cash became increasingly redundant (at least in urban areas). In Somaliland, the system was initially met with widespread reluctance by several businesspeople, particularly those loyal to Dahabshiil and accustomed to engaging *hawala* services even for sending small amounts across the country. But as the number of active Zaad users continued to rise, a critical mass of digital wallet holders emerged, reaching 700,000 active users and an estimated 78% of the population by 2019 (Khan and Casswell 2019).

Hormuud's EVC Plus, Golis' Saad and Telesom's Zaad were designed from the onset to address a strong demand for US dollars which, as previously mentioned, has been widespread across the Somali territories since the 1970s. Even in Somaliland, where the state-minted national currency is actively supported by the Central Bank, initially Telesom enabled Zaad to transfer and store only a digital currency pegged to the US dollar. As explained by a Telesom executive, besides meeting the demand for hard currency, this decision was also based on the awareness that Somaliland

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shillings were not homogeneously accepted across the country, particularly in the Eastern Sool and Sanaag regions on the border with Puntland, where the sovereignty of the Hargeisa government is contested (Hoehne 2015a). Moreover, transferring amounts in Somaliland shillings could be burdensome due to the currency's chronically high inflation.⁸

Despite its popularity, mobile money has neither entirely replaced cash, as observers predicted it would in the early 2010s (Pénicaud and McGrath 2013), nor has it led to the complete replacement of national currencies with US dollars. In fact, since the primary sources of hard currency are remittance companies, international trade and livestock operators, international organisations and NGOs, USD-based mobile money platforms initially built their customer base among urban users. Only recently have they started penetrating rural areas, where the economy is based on subsistence farming and networks and agent coverage are more limited. Mobile money in Somalia has thus further complicated the interaction 'between two intersecting spheres of currency: (i) a dollarized circuit in cities and (ii) a SoSh sphere in rural and poor urban areas' (Little 2021). In rural Somaliland, for instance, Zaad acts as an interface with the urban economy and appears more popular among rural dwellers who mostly use Somaliland Shilling (Sd Sh) in their daily lives but have frequent exchanges with urban traders as in the case of livestock keepers. Up until the time of writing, mobile money platforms have reflected and amplified the gap between urban and rural dwellers and, in general, between those with access to USD (such as large businessmen, NGOs and international organisation workers) and farmers and pastoralists (but also civil servants in Somaliland) who mostly use the national currency. This gap exists not only because of discontinuous access to the dollarised economy but also because the SoSh is utilised 'as a trusted and familiar unit of calculation and payment' (Little 2021).

State and non-state regulation

As we have described above, the mobile money sector in the Somali territories has thrived in a regulatory environment shaped

by clan-based dispute-resolution mechanisms (*xeer* law), *shari'a* law and efforts by companies to directly address grievances, often on a transnational scale (Stremlau and Osman 2015). However, since mid-2010, donors have focused on the need to improve the state's fiscal capacity (World Bank 2017) and, more broadly, strengthen oversight of local regulators in a strategically sensitive sector for the economic and political stability of the region (IOM 2016). As shall be argued in Chapter 8—also in the case of mobile money—political and financial institutions, both in Somalia and Somaliland, have increasingly viewed the adoption of a state-based regulatory framework, complying with global standards with regards to preventing money laundering and financing of terrorists, as a way to appease international donors (or, as in the specific case of Somaliland, to advance statehood claims). For instance, in March 2022, Hormuud received Somalia's first GSMA Mobile Money certification, by which the world telecom industry association recognised that the firm met 350 different criteria, including Know Your Customer (KYC) requirements. Hormuud successfully argued that, despite the lack of a national ID, its agents were able to comply with customer identification rules through the verification of records provided by local authorities (Collins 2022).

The Federal Government of Somalia signalled the will to push a regulatory process already under development in order to address issues of consumer security, fiduciary concerns and the conformity of current sector players to better meet international standards. As explained at the beginning of this chapter, this commitment was demonstrated in February 2021, when the Central Bank of Somalia granted Hormuud a mobile money licence to operate.⁹ This policy built on the momentum of the National Communications Act that was finally passed in 2017, after years of debate.¹⁰ The powerful technology companies have been ambivalent in their support for further regulation, at times encouraging government legislation and at other times undermining efforts to formalise the sector. Corruption allegations within the telecom sector abound, based on claims that public officials have financial interests within the companies (Rahman 2017), and it would seem that formalising the telecoms and mobile banking

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sector is actually not in the interests of the companies, which have struggled to reach agreements with the government over tax issues. The informal ways of doing business have become entrenched and—arguably for many stakeholders, including companies and customers—effective, suggesting that these companies have little incentive for government intervention.

While there has been significant movement towards formalising the mobile money, telecommunications and remittance sectors, the reality is that in much of south-central Somalia the federal government has little reach, leaving many disputes to be resolved outside of the state legal system. Indeed, many of these companies in these sectors argue that their operations are already being subjected to extensive taxes. The services and infrastructure one might normally expect to be provided by the state have typically been built by the companies themselves. Examples of this type of collateral taxation include building roads around remittance offices, paying *zakat* to charity and building and providing security for technical infrastructure. Furthermore, while the details are often opaque, it is clear that the companies pay substantial amounts to local authorities, such as al-Shabaab, to be allowed to operate within regions where there is no government control.

The lack of formal regulation means that agreements between entrepreneurs and local authorities, including politicians, are crucial for guaranteeing access to and protection of company assets within different areas across the Somali territories. Somali customary law (*xeer*) and *shari'a* law are central to resolving disputes and safeguarding telecommunication agents and infrastructures. Typical legal issues that repeatedly arise involve infrastructure, including damage—whether accidental, such as crashing into a telecoms tower, or intentional sabotage—and fraud or mistaken transfers with mobile money (Stremlau 2018).

Without centralised planning or investment, telecommunications infrastructure has developed in a relatively ad hoc way, largely financed by the companies themselves. This often leads to substantial duplication of infrastructure, with each business investing in its own lines, tunnels or whatever might be required for a particular service. Cables for telecommunications often use the same pipes or

lines as water pipes and electric cables, without guidance or regulation as to how each should be laid. Unsurprisingly, this ‘shared’ infrastructure has led to conflicts between companies, particularly when there has been inadvertent damage to property.

There is precedent within *xeer* for addressing property issues—including private property, such as livestock—and this has been relevant to telecommunications infrastructure and continues to retain influence (Little 2003). In the context of telecoms infrastructure, companies are often careful to employ people based on clan affiliation to ensure that their property and interests will be protected and that there will be sufficient access to recourse in the case of disputes. Employing individuals from dominant local clans ensures that any property disputes will be resolved because clan relatives will be obligated to address them and find a settlement.

The resolution of disputes involving mobile money depends on the parties involved. Telecommunication companies are regularly confronted with at least three types of disputes: fraud or theft, including password thefts resulting in unauthorised access to accounts and unapproved transfers; mistaken transfers in which one party accidentally or unintentionally transfers funds to another account and seeks to recover those funds; and disagreements on payments between parties. The first place for recourse is the company itself. In the case of Telesom Zaad, for instance, the management has the unchallenged authority to freeze money in a customer’s account, block accounts and return money to original senders without the recipient’s consent. Zaad management also has access to a variety of information, including the account owner’s identity, call history (provided by the parent company, Telesom) and contacts. This information enables Zaad management to investigate disputes and locate individuals who are accused of committing fraud or theft with more efficiency than the government’s law enforcement agencies.

However, mobile money companies have no direct role in dispensing justice or enforcing legislation. Their role in resolving disputes is limited to investigation and the gathering of evidence, as well as intermediate steps such as blocking accounts and freezing money. Cases that the companies cannot resolve are then for-

warded to the police or local elders, depending on the area and respective strength of state and customary governance institutions. In Somaliland cases are more likely to be referred to state organisations than they are in the South, where the government remains weaker. Disputes within the mobile money sector often involve individuals, and consequently their resolution depends on which clans are involved. The role played by clan elders is often highly politicised, and their intervention varies depending on the social status of the individuals in question; for example, they will engage more vigorously on behalf of those who are wealthier or more powerful (Schlee 2013). Elders are also less likely to be willing to mediate disputes involving individuals who have damaged the reputation of the clan or who are repeat offenders.

Finally, it is important to note the complexities of regulation involving taxation, particularly in south-central Somalia. Because of the Mogadishu government's limited reach, territorial sovereignty is fragmented and played out in different forms at the local level. Anecdotal evidence suggests that local strongmen often extort payments from entrepreneurs and companies, for which they are allowed to operate in a given area. For instance, on 16 April 2011, Ahlu Sunna Waljama (ASWJ), a moderate Sufi group, banned Hormuud from the territory under its control in Galguduud, Central Somalia, because the company failed to pay 2,000 USD per month. Access to the region was granted back after a few weeks. It is well known that the telecom providers, like all other actors operating in south-central Somalia, have to make deals or engage with al-Shabaab to some degree in order to operate within the areas held by the group. Without al-Shabaab's support, the companies' infrastructure would not be protected. As RBC radio, a Somali media outlet, reported, 'in Somalia, the militants frequently demand the private business companies to pay a large amount of money which they describe as taxes or sometimes as "money for jihad"' (Sabahi 2014). Extorting money from private business companies and aid agencies operating in Somalia is seen as the biggest source of investment for al-Shabaab's war with the government (Meester et al. 2019).¹¹ According to these reports, the amount of the 'taxes' vary according to different factors,

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including clan relations, business partnerships and external pressure. Research and policy reports also support the arguments that informal taxation by militant groups is a widespread practice across south-central Somalia (UNSC 2020).

Conclusion

This chapter highlighted the critical role of mobile money operators in the politics of circulation within Somali East Africa. Mobile money serves as the financial-technological infrastructure underpinning transnational commodity flows. In doing so, mobile money companies perform ‘functional sovereignty’ (Pasquale 2017), de facto taking over state functions both in self-regulating as well as addressing the disputes that arise on their platforms. The popularity of mobile money services across the Somali territories emerged within the region’s unique trajectory of state decay, internationalised economic informality, civil war and leadership of private enterprises in reconstruction. Political economy factors, such as overreliance on imports and a largely dollarised economy as a means of coping with the chronic volatility of local currencies, contributed to the prominence of mobile money in the Somali territories. Idiosyncratic socio-legal regulations cast in sharp relief the influence wielded by non-state armed actors (mainly in south-central Somalia) and traditional authorities (particularly in Somaliland) in the governance of telecommunication and financial infrastructures across the region.

When analysing the Somali mobile money sector, it is important to move beyond clear-cut dichotomies such as formal versus informal or taxation versus extortion;¹² and, as this book argues, this also applies to the analysis of other state-formation dynamics. Because of fluid conflict and alliance arrangements, telecom entrepreneurs had to develop the ability to adapt to frequent redistributions of power among conflicting factions. Nevertheless, MNOs have leveraged the strategic value of the telecom sector—the fact that no party in a conflict could do without mobile telephones—to continue operating. This is the case for both non-state authorities and state-led bureaucratic administrations. At the same time,

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the unique capacity of local MNOs to navigate such a volatile political landscape has so far staved off the penetration of foreign competitors, and they have avoided pressures to liberalise the telecommunication and financial sectors. Mobile money has thus remained a Somali success story, not only facilitating the circulation of goods and values across polities with conflicting interests but also creating ties across political divides and a shared pride. In some ways, they have acted out a role akin to that of other media in fragmented contexts, such as when the printed press contributed to modern nationalism in the Americas and, later on, Europe (Anderson 1983).

The diffusion of mobile money has reshaped the Somali financial landscape, leading firms in strategic sectors such as telecommunications and money transfer not only to protect their market niche but also to occupy new ones, as the case of Dahabshiil and its foray into the mobile money business illustrates. While the Somali experience may not directly translate to other countries in sub-Saharan Africa or elsewhere, it does hold significant lessons for understanding state building—including law-making—and the roles of various actors therein, particularly in the private sector (see Musa and Horst 2019). Understanding how mobile money infrastructures emerged and developed in the Somali context produces unique insights into tensions between attempts to comply with international institutions in exchange for recognition—and business—and the reality that ignoring local forms of authority and power structures is not an option. The private provision of a digital currency, as the case of Somali telecoms illustrates, is not so much a return to a pre-fiat currency era—as state-minted currencies are a somewhat recent innovation—but a glimpse into alternative visions of statehood.