

## **Congressional Testimony**

### **Safe and fair supervision of money service businesses**

#### **Written testimony submitted for the record to the House Sub-Committee on Financial Institutions and Consumer Credit**

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Madam Chairman, Congresswoman Maloney and Members of the Committee, thank you for the opportunity to submit written testimony for the record today.

Adeso is a humanitarian and development organization who strongly believes that development must come from within, not outside African communities. We work hand-in-hand with communities to ensure that they can realize their full potential, and focus on building skills for life and work, reinvigorating local economies, delivering humanitarian aid, and influencing policy. Since 1991, we have been implementing development and humanitarian projects in Somalia, and have recently expanded our work to Kenya and South Sudan. For over 20 years, we have worked hand-in-hand with African communities to prevent, manage, and overcome situations that adversely affect their wellbeing – whether environmental, social, economic, or otherwise. Wherever we work our approach is the same: we help vulnerable communities through partnerships and shared decision-making.

This testimony is submitted on behalf of Adeso in support of efforts to ensure that money service businesses which facilitate the transfer of funds into Somalia through the US banking system can continue to provide a much-needed lifeline to people in need. While we are pleased to see efforts being made to ensure safe and fair supervision of these businesses, we are concerned by the precedent set by Sunrise Community Banks' decision in December 2011 to block money transfers from Minnesota's Somalia community to people in Somalia.

In most parts of Somalia, money service businesses facilitate trade between distant regions where conventional banking institutions are absent, weak, or unsafe. According to recent United Nations estimates, between \$1.3 billion and \$2 billion in remittances is transferred to Somalia each year through money service businesses. Beyond facilitating remittances, and under the difficult circumstances that prevail in Somalia, money service businesses also allow much-needed humanitarian aid to reach marginalized populations.

Adeso has been working with money service businesses in the direct implementation of humanitarian programs in Somalia since 2003, when we implemented the first large-scale cash program in the country in response to a severe drought in the Sool Plateau area of Sool and Sanaag regions. As the implementing agency, we used money service businesses to distribute cash grants to the beneficiaries of our project, and were able to reach almost 98,000 people, allowing them to meet their basic food and non-food needs in a time of crisis. Since then, we have expanded our use of money service businesses

to deliver humanitarian programs to both South Sudan and Kenya, and to date have been able to reach almost 600,000 people through cash transfer programs by making use of money service businesses. During the 2011 drought and famine in the Horn of Africa, we used money service businesses to deliver much needed emergency cash assistance to 20,887 households (or 146,209 people) in South Central Somalia. Given that other forms of aid were not available (with major food aid agencies unable to operate, including the World Food Program and CARE), the cash assistance helped saved thousands of lives. This would not have been possible without the use of money service businesses, as they are one of the primary reasons any Somalia-based cash program can operate. Without a functioning banking system, we would not be able to implement such projects, or even pay our staff members in the field. The entire humanitarian community in Somalia fully relies on the availability of money service businesses to do their business including transferring funds for project activities to their staff or local partners and paying for staff and office running costs. Without money service businesses, the United Nations and NGO community in Somalia would be forced to carry cash to pay day-to-day operational and program costs, placing the funds and the staff at risk in an insecure environment such as Somalia.

In a humanitarian context, the advantages of using money service businesses are multiple. Among other things, it enables safe, quick, and cost-effective disbursement of money to beneficiaries in a project area. The money service businesses form a trusted link between the local population and the rest of the world, enabling the transfer of much-needed assistance in times of need. The money service businesses are also able to distribute cash at minimal risks. In each location they employ individuals trusted by local communities, who in turn work closely with agency staff. For Adeso, this means that we transfer the risk of handling cash to the money service businesses, who carry the cash and travel to rural areas on our behalf, reducing the risk to our staff. At the same time, the use of money service businesses also reduces the risk to community members who do not have to travel long distances to collect their cash.

With regards to concerns about diversion of funds and corruption, it is important to note that almost all money service businesses operating in Somalia have internal mechanisms to ensure compliance with international money laundering and anti-terrorism regulations. Most of them have as such been vetted by the US and European countries for compliance with anti-terrorism and money laundering laws. They have vested interest in their core business – the transfer of remittances primarily from the US, Canada, Europe, and Australia to Somalia and neighboring countries – and, therefore, heavily depend on their ability to operate internationally. This translates to a compelling incentive to mitigate risk by not engaging with certain groups. Unlike local contractors, they could compromise their reputation and ultimately their international business by diverting resources to certain groups. When compared with projects employing dozens of contractors and many more sub-contractors, using money service businesses means money passes through fewer hands. And fewer hands translate to a decreased risk of money diversion.

Money service businesses provide ordinary Somalis with an opportunity to receive and transfer funds securely, and allow many humanitarian organizations such as ourselves to deliver aid to those that are most in need of it. To avoid interruption of remittances and delivery of humanitarian assistance, Congress should strive to create an enabling environment for banks to facilitate remittances to these businesses.

I thank your time and your attention on this matter.