



Understanding Canadian-Somali Remittance Flows: Money Services Businesses and the Trend of De-risking

[APRIL 2019]

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Acknowledgements

To execute this project, a team of 14 Master of Global Affairs (MGA) students at the Munk School of Global Affairs and Public Policy - University of Toronto partnered with clients from across the Somali diaspora community in the Greater Toronto area. We would like to extend our sincere appreciation to Mending A Crack In The Sky - Somali Mothers Group, Midaynta Community Services, and the various Money Services Business owners who provided their support and expertise throughout the process. We would also like to thank the numerous experts in the financial, security, and technology sectors, as well as the lawyers and researchers who were kind enough to participate in this research.

This report represents the authors' synthesis of desk research and perspectives that emerged during interviews and does not necessarily reflect the views of all the authors, the client, and other parties interviewed throughout the course of research.

Executive Summary

The global Somali diasporas are widespread and well connected, and beginning in the mid-late 1980s, Canada became home to a significant Somali-diaspora population. Since the civil war began in 1991, many parts of Somalia remain in a state of protracted humanitarian crisis and remittances from the Somali diaspora have become a crucial lifeline for Somalia. Twenty-five to forty-percent of the country's GDP comes from diaspora remittances. Canadian-Somali Money Services Businesses (MSB) facilitate these transfers but their ability to transfer funds has been increasingly limited in recent years. Canadian banks have closed many Somali-Canadian MSB bank accounts consistent with an international trend of de-risking, which has substantially disturbed remittance transfers to Somalia, despite MSB owners' insistence of compliance with strict regulations. This international trend is rooted in the geopolitical legacy of the Global War on Terror and international efforts to purportedly reduce the risk of money laundering and terrorist financing. As a result, money transfers to Somalia are now facilitated through expensive third-party accounts (such as larger MSB organizations like Dahabshiil) or informal, and often unmonitored, alternatives.

This research provides recommendations for stakeholders to address the complex problem of money-transfers particular to Somali-Canadian MSBs. The research undertakes a multi-faceted analysis of the roots of Somali de-risking and includes considerations of its implications for the Somali-Canadian diaspora, and for development in Somalia.

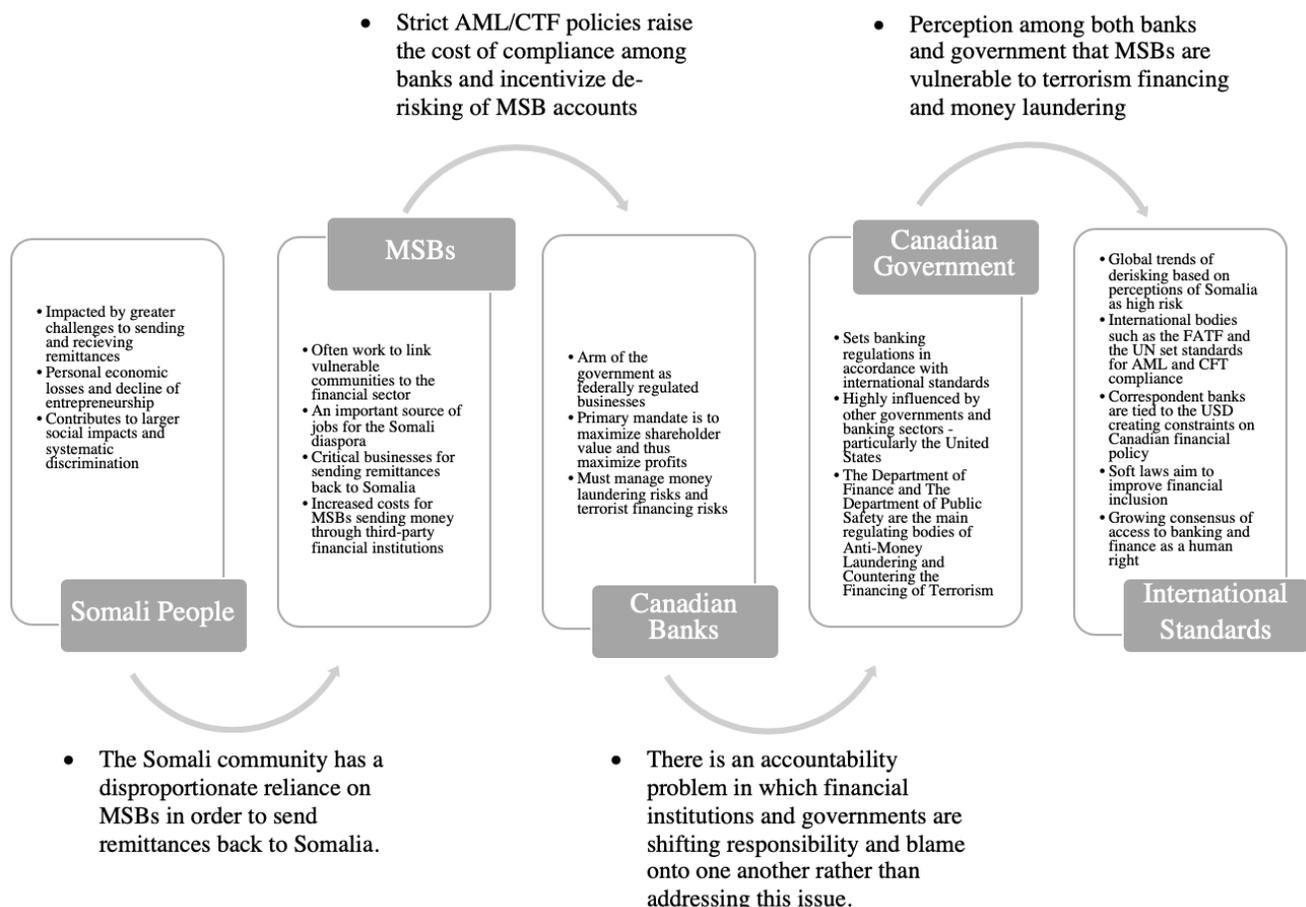


Figure 1: Stakeholder Map
 AML – Anti-Money Laundering, CTF – Counter Terrorism Financing,
 FATF – Financial Action Task Force

Recommendations for MSB Owners

MSB owners should explore a relationship with the Canadian Money Services Business Association, which participates in the Advisory Committee on Money Laundering and Terrorist Financing. Furthermore, they should review their anti-money laundering (AML) and counter-terrorist financing (CTF) reporting and methodology, and then revisit the banks to be evaluated on a case by case basis. When doing so, it is strongly suggested that MSB owners appeal to the banks individually to demonstrate compliance and mitigate potential spoilers.

MSB owners should also explore the adoption of Distributed Ledger Technology (DLT) such as RippleNet. These platforms perform cross-border transactions without the involvement of correspondent banking services. In this case, it is recommended that community MSB owners adopt this technology collectively due to the potential costs associated.

Recommendations for the Community

Within the Somali Community, we propose a three-step advocacy process that involves mobilization with other stakeholders, collective appeals to entities such as the Ministry of Finance and FINTRAC, and ultimately the possibility of litigation against the Canadian government using international humanitarian law. *Find the entire Advocacy Strategy in the Recommendations Section.*

Recommendations for Canadian Government

As the head of Canada's AML and CTF regime, the Department of Finance should conduct a comprehensive assessment of the impacts of de-risking at the national level, as there is currently a lack of data and therefore an inability to assess the scope of the problem. The introduction of an appeals process would allow for greater nuance in decision making and an opportunity for the affected parties to be heard.

Recommendations for Canadian Banks

Banks should review guidance issued by FINTRAC and the FATF, with a focus on a more discretionary risk-management approach that does not involve risk avoidance of the entire MSB sector or particular regions.

Recommendations for the FATF

The FATF holds regular plenary meetings which are currently only attended by policy makers. The institution additionally held nine private sector dialogues, with one involving civil society participation to discuss issues including information sharing, correspondent banking, remittances and de-risking. We recommend greater inclusion of civil society in plenary meetings and ongoing dialogues in order to better address those impacted by FATF member decisions.

Acronyms

AML - Anti-money laundering
AMISOM - African Union Mission in Somalia
ARCPA - Australian Remitters and Currency Providers Association
B2B - Business to business
CMSBA - Canadian Money Services Business Association
CSR - Corporate Social Responsibility
CTF - Counter-terrorist financing
DLT - Distributed Ledger Technology
FATF - Financial Action Task Force
FINRA - Financial Industry Regulatory Authority
FINTRAC - Financial Transactions and Reports Analysis Centre of Canada
FIU - Financial Intelligence Unit
FSNAU - Food Security and Nutrition Analysis Unit
IDP - Internally Displaced Person
IHL - International Humanitarian Law
KYC - Know your customer
KYCC - Know your customer's customer
MSB - Money services businesses
MTO - Money transfer operators
NGO- Non-governmental Organization
NPO - Non-profit Organization
OFAC - Office of Foreign Assets Control
OHCHR - Office of the United Nations High Commissioner for Human Rights
OSFI - Office of the Superintendent of Financial Institutions
PCMLTFA - *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*
PPP - Public-Private Partnerships
RCMP - Royal Canadian Mounted Police
RSP - Remittance service provider
SSA - Sub-Saharan Africa
STR - Suspicious Transaction Report
UN - United Nations
UN OCHA - United Nations Office for the Coordination of Humanitarian Affairs
UNHCR - United Nations High Commissioner for Refugees
UNSOM - United Nations Assistance Mission in Somalia

Definitions

Disclaimer: The following definitions are used for the purposes of this study.

Correspondent banking: refers to the provision of banking services by one bank (the “correspondent bank”) to another bank (the “respondent bank”). Large international banks typically act as correspondents for thousands of other banks around the world. Respondent banks may be provided with a wide range of services, including cash management, international wire transfers, cheque clearing, payable-through accounts and foreign exchange services¹.

De-banking: Refers to the loss of access to financial services, leading to a reliance on inconvenient and often risky means to manage money.²

De-Risking: Refers to financial institutions exiting relationships with and closing the accounts of clients considered “high risk.”³

Development Aid: Refers to aid that responds to ongoing structural issues, particularly systemic poverty, that may hinder economic, institutional and social development in any given society, and assists in building capacity to ensure resilient communities and sustainable livelihoods.⁴

Financial Institutions: Refers to any person doing business in one or more of the following capacities: bank (except bank credit card systems); broker or dealer in securities; money services business; telegraph company; casino; card club; a person subject to supervision by any state or federal bank supervisory authority.⁵

Financial Operational Risk: Refers to risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes human error, fraud and malice, failures of information systems, problems related to personnel management, commercial disputes, etc.⁶

Hawala: The word “hawala” comes originally from the Arabic language and means transfer or remittance. Hawala provides a fast and cost-effective method for worldwide remittance of money or value, particularly for persons who may be outside the reach of the traditional financial sector.⁷

Humanitarian Aid: Refers to aid that is designed to save lives and alleviate suffering during and in the immediate aftermath of emergencies.⁸

¹ Correspondent Banking Services. FATF Guidance October 2016.

<http://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-Correspondent-Banking-Services.pdf>

² World Bank <http://www.worldbank.org/en/news/infographic/2012/04/19/who-are-the-unbanked>

³ Durner, Tracey, and Liat Shetret. “Understanding Bank De-Risking and Its Effects on Financial Inclusion.” *Oxfam*, 2015, www.oxfam.org/sites/www.oxfam.org/files/file_attachments/rr-bank-de-risking-181115-en_0.pdf

⁴ Humanitarian Coalition. “From Humanitarian to Development Aid.” <https://www.humanitariancoalition.ca/from-humanitarian-to-development-aid>

⁵ FINCEN. “Financial Institution Definition.” <https://www.fincen.gov/financial-institution-definition>

⁶ “The Operational Risk.” Fimarkets. <https://www.fimarkets.com/pages/en/operational-risk.php>

⁷ US Department of the Treasury. “Hawala and Alternative Remittance Systems.”

<https://www.treasury.gov/resource-center/terrorist-illicit-finance/Pages/Hawala-and-Alternatives.aspx>

⁸ Humanitarian Coalition. “From Humanitarian to Development Aid.”

Money Services Business (MSB): Refers to any business in Canada offering services such as foreign exchange dealing, money transferring, cashing or selling money orders, or traveler's cheques.⁹

Regulatory Risk: Refers to the risk of having the 'license to operate' withdrawn by a regulator, or having conditions applied (retrospectively or prospectively) that adversely impact the economic value of an enterprise.¹⁰

Remittance Service Provider: Refers to an entity, operating as a business, that provides a remittance service for a price to end users, either directly or through agents. There are many different ways that remittance transfers can be made, including cash-based services offered by individuals, services from specialized global money transfer operators (MTO), money services business (MSB), services offered by card schemes and bank-to-bank transfers.¹¹

Reputational Risk: Refers to the risk of damage to a bank's image and public standing that occurs due to some dubious actions taken by the bank. This can be due to perception or negative publicity against the bank. Reputational risk leads to the public's loss of confidence in a bank.¹²

Terrorism: There is no current definition of terrorism suitable for all circumstances, as government entities across the world have decided on their own definitions. The US government defines terrorism as "premeditated, politically motivated violence perpetrated against noncombatant targets by subnational groups or clandestine agents".¹³ However, broad use of this definition has been criticized for three specific reasons. First, it is considered too general and has failed to capture the implication of terrorism as inflicted by groups with far-reaching influence and territorial control.¹⁴ Secondly, the definition of terrorism offered above suggests that acts of terrorism are inherently political which would lead to the misidentification of non-terrorist groups in order to fit a political agenda.¹⁵ Lastly, with states adhering to their own specific definitions of terrorism, efforts in counter-terrorism financing (CTF) across the world vary from state to state, reducing opportunities for cooperation in policy responses.¹⁶

⁹ FINTRAC. "Money services businesses." <http://www.fintrac-canafe.gc.ca/msb-esm/intro-eng.asp>

¹⁰ PwC Laos. "Regulatory Risk Management." <https://www.pwc.com/la/en/risk-assurance/regulatory-risk-management.html>

¹¹ Geithner, Timothy F. U Klein, Michael. "General principles for international remittance services" Committee on Payment and Settlement Systems and The World Bank, January 2007. <https://www.bis.org/cpmi/publ/d76.pdf>

¹² Perez, Saul. (2014). "Reputational risk: when banks lose the public's trust." <https://articles.marketrealist.com/2014/09/must-know-reputational-risk-banks-lose-publics-trust/>

¹³ Annual Country Reports on Terrorism. *Title 22: Foreign Relations and Intercourse*, 22 U.S.C §2625f

¹⁴ Cordesman, Anthony B. "The New State Department Report on Terrorism: Rethinking the Numbers and Coverage," *Center for Strategic & International Studies*, September 20, 2018.

¹⁵ United Nations Office on Drugs and Crime, "Module 4: Criminal Justice Responses to Terrorism," *E4J University Module Series - Counter-Terrorism*. (2018) - <https://www.unodc.org/e4j/en/terrorism/module-4/key-issues/defining-terrorism.html>

¹⁶ *Ibid.*

Methodology

Workflow Details

The project's overall scope of work was divided into two initial sub-streams:

1. **Financial sub-stream:** This group consisted of eight team members and focused on the legislative framework and the interpretation of that framework by the regulatory bodies, financial institutions and law enforcement.
2. **Development sub-stream:** This group consisted of six team members and focused on development and humanitarian impacts for Somalia, the impacts on Somali diaspora and those in Somalia, and the role of international humanitarian law.

Workflow Process

This study was completed through a mixed-methods approach. Our team conducted research of both academic and grey literature, as well as community-based research. The following process was used to collect, synthesize, and analyze information:

1. **Academic and Grey Literature Research:**

During this stage the teams collected available relevant data:

- Analysis of the background resources provided by the project supervisor.
- An extensive review of literature including academic sources, reports, banking and de-risking policies and legislation, briefs, and newspaper articles.
- Summarize information and data to determine overall themes and organize information into relevant categories.

2. **Community-Based Research:**

At this stage the teams focused on preparing, conducting and analyzing stakeholder interviews. A midterm presentation was also given to the clients at this time.

- Identifying key stakeholders, which were then approached for interviews. Stakeholders included: Toronto MSB owners, Somali community members, Somali community development workers, academics, individuals working in financial, security, and technology sectors, lawyers, and researchers.
- Developed interview questions for stakeholders based on literature reviews and internal consultations in order to conduct semi-structured interviews.
- Overall a total of 32 interviews and 1 focus group was conducted.
- Analysis of interviews.

3. *Development of Recommendations:*

The final phase of this project required synthesizing all information into concrete recommendations. This process included the following steps:

- Identification of core problems/issues and how the clients could address these issues.
- Development of recommendations based on key actors.
- Development of an advocacy strategy.

Limitations

This project required an in-depth analysis of various different topic areas. The following challenges were faced throughout the project:

1. Lack of accessible and reliable data on de-risking. Reasons for this: banks do not reveal client information. Also, businesses who are de-risked may be reluctant to talk about it publicly for fear of ruining their chances with another bank (for fear of greater financial exclusion).
2. Limitations of using one case study to draw larger conclusions.
3. The short interview schedule was challenging and not all interviewees were available during our time frame.
4. The scope of work for this project was immense.
5. Limited ability to speak with anyone currently living or working on Somalia.
6. The positionality of the research team was a limitation, as none of the researchers were Somali which may have created an additional barrier in the community-based research.

Key Findings

Canadian Financial Regulations and Somali MSBs

- The interpretation of Canadian financial regulations by financial institutions (in line with global trends of de-risking money services businesses) have undermined the transfer of funds for humanitarian aid.
 - Banks strictly interpret Canadian legislation to protect their reputational and regulatory risk because they are private enterprises driven by profitability assessments.
 - Canadian banks also have to consider American anti-money laundering legislation because Canadian banks have to follow the standard set by correspondent banks in the United States as international transactions are made in US dollars.
- MSBs are facing a sector-wide problem in Canada and internationally. MSB de-banking is not unique to the Somali diaspora in Canada (Syria, Haiti, Liberia etc.) and the situation is not unique to Canada.
- However, the barriers are highest for MSBs serving jurisdictions perceived to be high risk, like Somalia (and Syria, Venezuela, etc.).
- While the Somali MSBs are not unique in how they are being treated by the legislation, the Somali diaspora is unique because they do not have access to other formal channels to get money to Somalia.
- The practice of de-banking is increasing the flow of money through indirect and informal channels that are more opaque and difficult for financial intelligence units and security services to track.
- Somalia relies on the international remittances facilitated by MSBs for survival and development.

Detrimental Effects on Somalia

- The closure of MSB accounts have impacted community development in Somalia because it has become more difficult for the Somali diaspora to send large amounts of development and humanitarian aid back to the country. The Somali diaspora is a vital source of development and humanitarian aid in Somalia.
- Humanitarian aid organizations have also been impacted by the restrictions placed on remittances to Somalia, making it increasingly difficult for many organizations to operate in Somalia. This aid is crucial to mitigating risk in time of crisis, thus these restrictions are impacting the humanitarian response and ultimately the country's stability.

Detrimental Effects on Somali Diaspora

- There is a general perception and experience of discrimination and marginalization among the Somali diaspora in Canada, in part due to financial exclusion, with detrimental impacts on the Somali-Canadian community.¹⁷
 - There is a demonstrated willingness to comply with anti-money laundering and counter-terrorist financing policies amongst MSB owners, however there is a lack of clarity about what is sufficient compliance to maintain their accounts.

Innovation

- DLT/Blockchain has the potential to disrupt the traditional payment infrastructure, namely the correspondent banking and SWIFT message system that was built before the internet. Such innovations speed up the process, reduce cost, and are in line with Know Your Customer (KYC) protocols, as illustrated by case studies in this report. Therefore, Canadian-Somali MSBs could connect with the receiver through the Somali mobile banking networks that are already in place.

The issue of de-risking Canadian-Somali MSBs is part of a global multi-faceted problem which involves the international financial system, various regulatory bodies, several government jurisdictions, the Somali diaspora and the protracted humanitarian crisis in Somalia. The issue has implications for the wellbeing of the Somali diaspora in Canada, the development of Somalia, as well as domestic and international security and stability implications.

¹⁷ Financial exclusion refers to “the inability to access appropriate financial services” according to the Financial Exclusion & Poverty in Canada Project at the University of Winnipeg.

Introduction

The extensive de-banking of money services businesses (MSBs) in Canada and around the world is having an adverse effect on the Somali diaspora communities in Canada. Motivated by the inclination of banks to reduce the risk of money laundering and terrorist financing, the trend has led to the closure of MSB bank accounts and the subsequent disruption in remittance transfers from Canada to Somalia. This report examines the geopolitical context that shaped the global anti-money laundering and counter-terrorism financing (AML/CTF) regime and the context in Somalia that has led to the perception of risk. Our study has elaborated on the significance of remittances to Somalia and the impact that these money transfers have on the development of the region. The report will begin with a detailed outline of the context of the problem, followed by a discussion and analysis of the implications of Canadian financial regulations and financial institutions on security, development and diaspora communities.

Global War on Terrorist Financing and Anti-Money Laundering

Despite today's heavy focus on the United States in discussions on AML/CTF, such efforts have been practiced in Western countries for decades. Examples of this can be seen in the 1980s in the United Kingdom (UK), with attempts to block Irish paramilitary troops from accessing funds, and in the 1970s as Italy and Germany both experienced terrorist threats from specific groups.¹⁸ The difference today, however, is that AML/CTF has evolved from a predominantly regional initiative to one that is global in scope and influence, with the United States (US) as the key player in such endeavours.

The focus on CTF on the part of the US is said to have begun in the mid-1990s, with more concentrated efforts beginning in 1998 after the bombing of US embassies in Kenya and Tanzania.¹⁹ After the terrorist attacks of 9/11, national financial regulatory bodies began tightening AML/CTF regulations and demanded that banks provide information that is crucial for reducing the ability of terrorist groups to finance large scale attacks. It was quickly recognized that the international banking system was also vulnerable to illicit activity, and the US pushed for a globally coordinated effort to address AML/CTF.²⁰ Later, following the financial crisis of 2008, the Obama administration spearheaded a series of financial regulation reforms headed by the Financial Industry Regulatory Authority (FINRA).²¹ Given the influence of the US economy on the Western hemisphere, several countries including Canada and the UK strengthened their national regulations to follow FINRA. The US's efforts in this respect

¹⁸ Levi, Michael. "Combating the Financing of Terrorism: A History and Assessment of the Control of 'Threat Finance,'" *The British Journal of Criminology*, 50, no.4 (2010), 650-669.

¹⁹ Levi, p.651

²⁰ *Ibid.*

²¹ Anti-Money Laundering (AML). October 19, 2018. <http://www.finra.org/industry/anti-money-laundering>

have led to a common belief by security experts that the global financial regulatory system has gradually adopted American methods for the purposes of CTF.²² The primary practices and suggestions of CTF in the global financial system, such as the freezing or blocking of assets for designated individuals and maintaining lists of terrorist entities and supporting groups, are all practices that the US Treasury Department's Office of Foreign Asset Control have used for many years.²³

Evidence of the adoption of American CTF techniques internationally can be seen through the likes of the Financial Action Task Force (FATF). The FATF was originally established in 1989 to tackle criminal money laundering, with a specific concentration on the drug trade.²⁴ The FATF's mandate was therefore expanded to include counter-terrorist financing, and the task force became an extension of the United States' actions against terrorist financing.²⁵ With the United States' CTF policies as inspiration, the FATF works with the global community by putting forward recommendations on the formulation, evaluation, and monitoring of CTF policies.²⁶

The prevalence of CTF initiatives has given rise to the creation of efficient institutional infrastructure that is capable of implementing CTF policies.²⁷ This institutional infrastructure also gives the international community the ability to work against other related crimes, such as tax evasion.²⁸ The consequences of CTF, however, have arguably been wider in scope. While CTF efforts may have made it more difficult for terrorist groups to access money through the global financial system, various academics have stated that the war on terrorism financing has been largely unsuccessful as there is minimal evidence suggesting that such efforts have succeeded in preventing terrorist campaigns.²⁹ As will be discussed in this report, it has been noted that it is not only terrorist entities that tend to experience the impacts of CTF initiatives; rather, it is innocent individuals and groups who also become the targets and casualties of such efforts.

Al-Barakaat

The implications of financial regulations and decisions pertaining to the Global War on Terror on transfers of remittances to Somalia are best demonstrated in the closure of al-Barakaat in 2001. It could

²² Biersteker, Thomas J. "Unintended Consequences of Measures to Counter the Financing of Terrorism," *Rethinking Security Governance: The problem of unintended consequences* (2010), 127-136.

²³ *Ibid.*, p. 127

²⁴ Heng, Yee-Kwang; McDonagh, Ken. "The other War on Terror revealed: global governmentality and the Financial Action Task Force's Campaign against terrorist financing," *Reviews of International Studies*, 34 (2008), 553-573.

²⁵ Biersteker, p.127

²⁶ *Ibid.*

²⁷ *Ibid.*, p. 132

²⁸ *Ibid.*

²⁹ Neumann, Peter R. "Don't Follow the Money: The Problem with the War on Terrorist Financing," *Foreign Affairs* 96 no.93 (2017), 93-102.

be argued that the closure of this organization was the catalyst for many of the difficulties Somali Money Services Business (MSB) owners are experiencing today as a result of increased financial regulations.

The al-Barakaat network was established in Somalia in 1989, becoming a fundamental institution for international money transfers after the collapse of the Somali government in 1991.³⁰ At its peak, the organization represented a substantial part of Somalia's economy as the country's biggest employer, a major player in banking and telecommunications, with links to a variety of other industries.³¹ Prior to 9/11, American intelligence began to make claims that al-Barakaat had ties to terrorist groups and individuals affiliated with groups, such as Osama bin Laden.³² It was further alleged that al-Barakaat was actively supporting terrorist organizations financially or otherwise, including through the facilitation of money laundering, provision of internet and telecommunications services, and arranging the shipment of weapons.³³ In a matter of weeks after 9/11, the United States announced that it had "solid and credible" evidence that the organization was providing a variety of services to terrorists, and most damning, the allegation that al-Barakaat had used \$25 million from its transactions to fund terrorist activities.³⁴ The global response to these allegations was instant and severe. After the Bush administration made an order to freeze all of al-Barakaat's assets in 2001, all other key countries in the organization's network followed suit.³⁵ The organization was also swiftly added to the United Nations Security Council's list of suspected terrorist supporters.³⁶

Following the closure of al-Barakaat, it became increasingly apparent among the international community that the actions against the organization may have been implemented without just cause. Calls for evidence of the charges by countries such as Canada and Sweden largely went unanswered, and it was soon discovered that the only credible evidence that existed against al-Barakaat was that the organization's services had been used for the purposes of sending remittances by Somali migrants who had engaged in welfare fraud and drug dealing.³⁷ One American intelligence official was even quoted as saying that proper procedures had not been followed in the decision to close al-Barakaat, but such actions had occurred because the United States needed to "make a splash" in counter-terrorism efforts in the wake of 9/11.³⁸

³⁰ Razavy, Maryam. "Hawala: An underground haven for terrorists or social phenomenon?" *Crime, Law & Social Change*, 44 (2007), 277-299.

³¹ Abdel Salam, El-Fatih A. "War on Terror: Fantasy and Fiction Behind the Myth of Terrorist Financing," *Intellectual Discourse*, 17 no.1 (2009), 1-23.

³² Lindley, Anna. "Between 'Dirty Money' and 'Development Capital': Somalia Money Transfer Infrastructure Under Global Scrutiny," *African Affairs*, 108 no.433, 519-53.

³³ De Goede, Marieke. "Hawala discourses and the war on terrorist finance," *Environment Planning D: Society and Space* 21 (2003), 513-532.

³⁴ Abdel Salam, p.12; Lindley, p. 529

³⁵ *Ibid*, 535

³⁶ *Ibid*.

³⁷ De Goede, p.520

³⁸ *Ibid*, p. 523.

While American authorities considered the closure of the company to be the earliest victory in counter-terrorist financing measures after 9/11, the loss of the al-Barakaat network to the Somali population and diaspora communities around the world was significant.³⁹

*As the sole provider of internet, financial services, water purification, and many other essential services in Somalia, the absence of such an important institution has served to undermine efforts in rebuilding the Somali State.*⁴⁰

With the main financial institution in the country disabled, investment and labour opportunities in the country became scarce and key infrastructure sectors were left to ruin.⁴¹ Somalia's humanitarian crisis also became more dire after al-Barakaat's closure because the organization was used by UN organizations to transfer funds for relief operations and other humanitarian work on the ground.⁴²

On a micro level, the closure had a considerable impact on the ability for members of Somali diaspora groups around the world to transfer money back to family members in Somalia. In the short term, monitored remittances to Somalia reduced by half as the cost of sending money increased substantially.⁴³ With flows of remittances far outpacing flows of official development assistance, the absence of al-Barakaat and the reduced avenues through which Somali migrants could send money home negatively affected the economic livelihoods and social protection of the Somali population.⁴⁴ Furthermore, al-Barakaat's closure had a socio-political effect within Somalia as well. Various academics have posited that the increase in anti-Western sentiments in Somalia as a result of the closure of al-Barakaat may have contributed to the increase in Islamic fundamentalism in the country.⁴⁵

Somali Context

Somalia has been generally understood to be a failed state due to ongoing conflict, lack of robust domestic institutions, and the presence of al-Shabaab, a militant group that has been designated as a

³⁹ Abdel Salam, p.11.

⁴⁰ Medani, Khalid Mustafa. "Informal Networks, Economic Livelihoods and the Politics of Social Welfare: Understanding the Political and Humanitarian Consequences of the War on Terrorist Finance," *UCLA Journal of Islamic and Near Eastern Law*, 10 (2010-2011), 99-138.

⁴¹ De Goede, p. 521.

⁴² Abdel Salam, p. 13.

⁴³ *Ibid*, p. 14.

⁴⁴ Medani, p. 101.

⁴⁵ Abdel Salam, p. 18.

terrorist organization by the US State Department.⁴⁶ While progress made in recent years should not be undervalued, including the development of a Central Bank, some country experts seem less than optimistic that this will change the reality on the ground.⁴⁷ The traditional state structures of Somalia collapsed in 1991, when the regime of Mohamed Siad Barre fell apart due to the government's mismanagement of the national economy and provocation of factional disputes.⁴⁸ This state collapse led to a civil war that was exacerbated a drought-induced humanitarian crisis from 1991-1993. The food aid and deployment of peacekeepers in response to the humanitarian crisis eventually contributed to the creation of a new civil war economy in the country.⁴⁹

In the early 2000s, al-Shabaab was the youth militia group to the Islamic Courts Union which, by 2006, had taken control of Mogadishu and most of Southern Somalia.⁵⁰ When Ethiopia invaded Somalia in 2006, al-Shabaab launched an insurgency against the Ethiopian forces from the southern regions of the country and allied with al-Qaeda.⁵¹ While there are differing objectives within factions of the group, the overall objective of al-Shabaab continues to be the establishment of an Islamic state in Somalia and the opposition of any Western-backed government.⁵²

Today, Somalia ranks seventh in the world when it comes to impact of terrorism.⁵³ The United Nations Assistance Mission in Somalia (UNSOM) reports of 1,228 civilian casualties between the months of January and September 2017, with the majority as a result of attacks carried out by al-Shabaab.⁵⁴ Al-Shabaab is estimated to have 3000 to 5000 active fighters that are involved in controlling a substantial amount of territory in Somalia.⁵⁵ Until April 2018, al-Shabaab controlled 11 of 18 Somali regions, as well as parts of Kenya's coast and North Eastern provinces.⁵⁶ Despite support from the US military and presence of an African Union peacekeeping mission that is 20,000 strong, Somali troops

⁴⁶ "Foreign Terrorist Organizations." U.S. Department of State. Accessed April 01, 2019. <https://www.state.gov/j/ct/rls/other/des/123085.htm>.

⁴⁷ Helmrich, Rolf. "Interview with Rolf Helmrich." Interviewed by David Michalski, Gita Goolsarran, Vanessa Hayford, Laura Kennedy, 26 February 2019.

⁴⁸ Aisha Ahmad. *Jihad & Co.: Black Markets and Islamist Power*. (New York: Oxford University Press, 2017), 103.

⁴⁹ *Ibid*, 104.

⁵⁰ Claire Felter, Jonathan Masters, and Mohammed Aly Sergie, "Al-Shabab," *Council on Foreign Relations*, last updated January 31, 2019, <https://www.cfr.org/backgroundunder/al-shabab>

⁵¹ *Ibid*.

⁵² *Ibid*.

⁵³ Ian Livingston, "Somalia, facing severe challenges, also shows signs of hope," Brookings Institute, May 3, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/05/03/somalia-facing-severe-challenges-also-shows-signs-of-hope/>

⁵⁴ World Report 2018: Somalia, Human Rights Watch, <https://www.hrw.org/world-report/2018/country-chapters/somalia>

⁵⁵ "Al Shabaab," Counter Extremism Project <https://www.counterextremism.com/threat/al-shabab>

⁵⁶ "The Evolution of Al-Shabaab," Hiraal Institute, April 3, 2018, <https://hiraalinstitute.org/wp-content/uploads/2018/04/Evolution-of-Al-Shabab.pdf>

have been unsuccessful in completely eradicating al-Shabaab's presence in the region.⁵⁷ The group continues to have a steady presence in rural areas in the southern parts of Somalia.

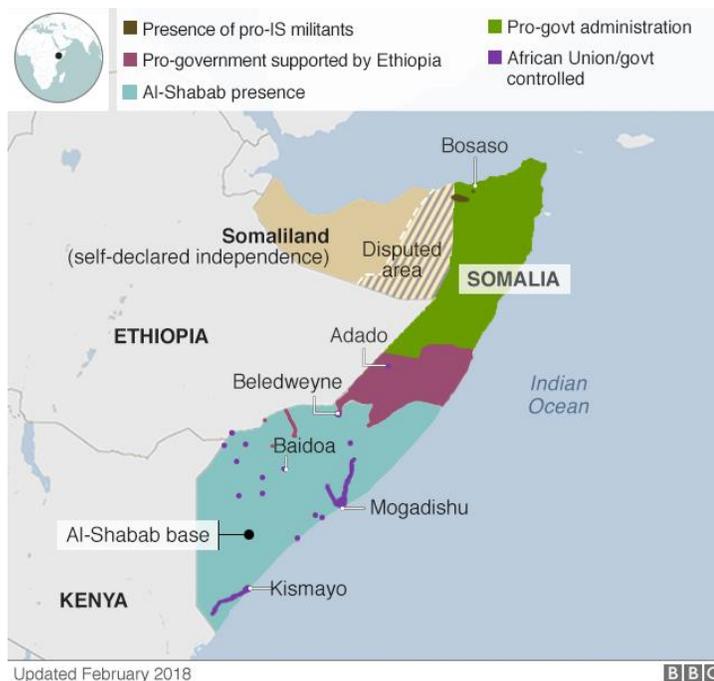


Figure 2: Map of territorial control in Somalia

In terms of impact, al-Shabaab has only been active in Somalia, Kenya, Uganda and Ethiopia. Since the group's main targets have been Kenya and Somalia, the governments of both countries have been supporting the African Union Mission in Somalia (AMISOM) in fighting al-Shabaab. To date, there is no credible evidence that al-Shabaab has attacked any locations in the Western world.⁵⁸

Vast unemployment and poor living conditions of the majority of Somalis provide al-Shabaab with an opportunity to fill the void that state incapacity leaves behind. Roughly 70 percent of Somalia's population is under the age of thirty, while 67 percent of the country's population is unemployed.⁵⁹ The demographic of unemployed youth and other vulnerable populations is an attractive recruiting base for al-Shabaab as the group is able to provide a steady income and a sense of belonging that is otherwise unavailable. From 2010 to 2016, child recruits totaled 6,163 with al-Shabaab responsible for 70 percent

⁵⁷ Aljazeera. "Major Al-Shabaab attacks targeting Kenya." January 15, 2019.

<https://www.aljazeera.com/news/2019/01/major-al-shabab-attacks-targeting-kenya-190115143008990.html>

⁵⁸Terrorist Financing Assessment: 2018, Financial Transactions and Reports Analysis Centre of Canada, <http://www.fintrac-canafe.gc.ca/intel/assess/tfa-2018-eng.pdf>

⁵⁹Brookings. "Somalia, facing severe challenges, also shows signs of hope." May 3, 2018.

<https://www.brookings.edu/blog/order-from-chaos/2018/05/03/somalia-facing-severe-challenges-also-shows-signs-of-hope/>

of these cases.⁶⁰ Additionally, al-Shabaab's success in maintaining control can be attributed to its ability to manipulate clan rivalries in order to collect taxes and increase their support base.⁶¹ State leaders, on the other hand, have largely been unsuccessful in addressing these clan rivalries.

Al-Shabaab has directly funded itself through a robust charcoal smuggling trade, and control over key territory through which they levy taxes and extort local populations, businesses, and humanitarian organisations.⁶² Al-Shabaab is financed mainly by the taxes it collects from the businesses and individuals both from controlled and non-controlled territory.⁶³ Al-Shabaab collects taxes in two ways: livestock Zakawaat and monetary Zakah.⁶⁴ Under the Zakawaat tax, al-Shabaab's troops collect one camel out of 25 camels and one goat out of every 40 goats from individuals during the period of Ramadan.⁶⁵ Furthermore, the Zakah tax system requires businesses to pay 2.5 percent of their business value (before profit) in cash at the end of the year to al-Shabaab.⁶⁶ In the past, the fundamentalist group used to receive funds from sympathisers abroad, yet this practice has been greatly halted by foreign governments.⁶⁷ In Canada, FINTRAC reports that there has been "limited indication" that al-Shabaab has ever received funds from Somali diaspora that are sympathisers to their cause.⁶⁸

Humanitarian Context

After 30 years of civil war, the humanitarian crisis in Somalia continues as its population grapples with displacement, drought, famine and flooding. As one of the least developed nations in Sub-Saharan Africa, Somalia lacks crucial infrastructure and government programming. This has contributed to poverty levels ranging from 26 to 70 percent regionally.⁶⁹ Levels of poverty are especially high among internally displaced persons (IDPs), of which every seven out of ten were considered poor as of 2016.⁷⁰ Since the onset of severe drought the following year, the number of internally displaced and those dependent on humanitarian aid increased to more than 975,000 by September 2017.⁷¹ Moreover,

⁶⁰ Asylum Research Consultancy, "Situation in South and Central Somalia". (2018). Accessed March 20, 2019, <https://www.refworld.org/pdfid/5a6f16d44.pdf>.

⁶¹ Hiraal Institute. (2018)

⁶² Fanusie, Yaya J. and Entz, Alex. "Al-Shabaab: Financial Assessment," in Terror Finance Briefing Book. *Center on Sanctions and Illicit Finance*, June 2017, 3. https://s3.us-east-2.amazonaws.com/defenddemocracy/uploads/documents/CSIF_TFBB_Al-Shabaab_v05_web.pdf;

⁶³ "The AS Finance system," Hiraal Institute, July 2018, <https://hiraalinstitute.org/wp-content/uploads/2018/07/AS-Finance-System.pdf>

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

⁶⁷ *Ibid.*

⁶⁸ Terrorist Financing Assessment. (2018)

⁶⁹ Utz Pape, "Somalia Poverty Profile 2016," *UNICEF*, June 2017, p. 8, Accessed 15 March 2019, <https://www.unicef.org/esaro/2016-UNICEF-Somalia-Poverty-Profile.pdf>.

⁷⁰ *Ibid.*

⁷¹ *Ibid.*

poverty in Somalia is usually coupled with illiteracy and other forms of non-monetary deprivation, resulting in further exclusion from the labour market.⁷²

Persistent and severe bouts of drought have crippled the country and aggravated existing levels of poverty, thereby contributing to the widespread humanitarian crisis. After a lack of rainfall over several consecutive seasons, Somalia experienced increases in food insecurity in 2017 as massive crop failures and livestock deaths occurred in the south-central region of the country.⁷³ The resulting emigration, malnutrition, and spread of disease triggered a need for humanitarian assistance for 6.2 million people, according to United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA).⁷⁴ This represents over half of the country's population. The Food Security and Nutrition Analysis Unit (FSNAU) continues to monitor the prevalence of malnutrition and humanitarian response to famine is still necessary today.⁷⁵

In combination with large scale internal displacement, poverty, and malnutrition, more than 77,000 cholera cases resulting in 1,100 deaths, and almost 16,000 cases of measles were reported in 2017.⁷⁶ These numbers indicate the dire conditions in which many Somalis live, especially in IDP settlements, where access to clean water and sanitation are severely limited. Across greater Somalia, only 58 percent of people have access to clean water and 10 percent of Somalis have access to adequate sanitation.⁷⁷ This means greater risk of exposure to waterborne diseases, disproportionately impacting children and women.⁷⁸

Remittances

Although the Central Bank of Somalia is in the process of rebuilding, financial institutions remain weak compared to informal services that served as placeholders for an ineffective formal sector. The United Nations Development Programme (UNDP) estimates that remittances by way of MSBs account for a third of the country's GDP, with money received from the diaspora accounting for 80 percent of

⁷² *Ibid.*

⁷³ "Somalia: Drought 2015-2019," *ReliefWeb*, 2019, Accessed 15 March 2019, <https://reliefweb.int/disaster/dr-2015-000134-som>.

⁷⁴ UN OCHA, "Somalia: Operational Plan for Famine Prevention," *ReliefWeb*, Feb 2017, p. 1, Accessed 15 March 2019, https://reliefweb.int/sites/reliefweb.int/files/resources/operational_plan_for_prevention_of_famine_in_somalia_in_2017__0.pdf.

⁷⁵ UN OCHA, "Horn of Africa: Humanitarian Impacts of Drought," *ReliefWeb*, 16 June 2017, p. 2, Accessed 20 March 2019, https://reliefweb.int/sites/reliefweb.int/files/resources/HOA_drought_update_16June2017.pdf.

⁷⁶ Taraboulsi-McCarthy, "The challenge of informality Counter-terrorism, bank de-risking and financial access for humanitarian organisations in Somalia," *ODI*, June 2018, p. 3, Accessed 10 March 2019, <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12258.pdf>.

⁷⁷ Pape, "Somali Poverty Profile 2016," *UNICEF*, p. 7.

⁷⁸ Enzo Vecchio, "Contaminated water a grave threat to Somalis," *OXFAM*, 21 March 2014, Accessed 10 March 2019, <https://www.oxfam.org/en/pressroom/pressreleases/2014-03-21/contaminated-water-grave-threat-somalis>.

the nation's start-up capital.⁷⁹ At a humanitarian level, it is understood that crises as a result of poverty and famine have been partially mitigated by remittances. One UNDP coordinator stated, "They [money transfers] have been more consistent than aid, investment or social welfare programs...Famine would have been declared long ago if not for money from the diaspora."⁸⁰ This points to a strong stabilizing effect of remittances as a resource that essentially prevents, or at least reduces the impact of conflict and natural disasters on local populations. Besides the ethical concerns of stifling remittances intended for food, healthcare and education staples as a response to this threat, most sources indicate that de-banking Canadian MSBs is an ineffective tool against terrorist financing because of al-Shabaab's more profitable financing alternatives, as well as because the Shabaab has generally demonstrated an awareness or disinclination to "over tax."⁸¹

Money transfers are an integral part of most humanitarian aid programs in Somalia, and therefore humanitarian organizations also face difficulties in moving money into the country.⁸² In this way, the implications of MSB de-risking is twofold, limiting both the mitigating power of diaspora remittances, and the potency of humanitarian aid in times of crisis.

⁷⁹ Taraboulsi-McCarthy, p. 6.

⁸⁰ *Ibid.*

⁸¹ Fanusie, Yaya J. and Entz, Alex. "Al-Shabaab: Financial Assessment," in Terror Finance Briefing Book. *Center on Sanctions and Illicit Finance*, June 2017, 3-4. Retrieved from https://s3.us-east-2.amazonaws.com/defenddemocracy/uploads/documents/CSIF_TFBB_Al-Shabaab_v05_web.pdf

⁸² *Ibid.*

Discussion and Analysis

The next section of the report examines how the Canadian financial regulations and institutions are positioned in the context outlined above and how this affects security, development and the Somali diaspora communities. First, we examine the evolution of the financial regulations in Canada and how they address AML/CTF domestically, before explaining how financial institutions in Canada operate within these regulations and within the global market. This section is followed by an analysis of the effects of these policies, including a discussion on the implications for security, development, and the diaspora communities in Canada and abroad.

Legislation

In 2000 the Canadian Parliament enacted the *Proceeds of Crime (Money Laundering) Act*, which became the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) the following year.⁸³ The Act not only imposes reporting obligations on certain Canadian businesses, but also establishes the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), a federal agency accountable to the Minister of Finance, who is in turn accountable to Parliament.⁸⁴ As a financial intelligence unit, FINTRAC is responsible for the analysis of information relevant to money laundering, associated predicate offences, and the financing of terrorism.⁸⁵ The unit is also responsible for monitoring and enforcing compliance with the Act.⁸⁶ As of 2018, nearly 31,000 Canadian financial institutions and designated non-financial businesses and professions had reporting obligations under the PCMLTFA.⁸⁷

Since 2008, any person or entity engaged in foreign exchange dealing; money transfer; or cashing or selling of money orders, traveller's checks or other similar instruments in Canada is considered to be an MSB, and is therefore required to register with FINTRAC.⁸⁸ Prior to this requirement, there was no registration regime for MSBs in Canada, which the FATF flagged as a

⁸³ "Guideline 1: Background." FINTRAC. January 17, 2019. Accessed April 02, 2019. <http://www.fintrac-canafe.gc.ca/guidance-directives/overview-apercu/Guide1/1-eng.asp>.

⁸⁴ "Who We Are." FINTRAC. December 14, 2018. Accessed April 02, 2019. <http://www.fintrac-canafe.gc.ca/fintrac-canafe/1-eng.asp>.

⁸⁵ "Financial Intelligence Units (FIUs)." The Egmont Group. Accessed April 02, 2019. <https://egmontgroup.org/en/content/financial-intelligence-units-fius>.

⁸⁶ "2017–18 Annual Report." FINTRAC. November 27, 2018. Accessed April 02, 2019. <http://www.fintrac-canafe.gc.ca/publications/ar/2018/1-eng.asp>.

⁸⁷ "Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime." Government of Canada, Department of Finance. February 07, 2018. Accessed April 02, 2019. <https://www.fin.gc.ca/activty/consult/amlatfr-rpcfat-eng.asp>.

⁸⁸ FATF. "Anti-Money Laundering and Counter-Terrorist Financing Measures - Canada, Fourth Round Mutual Evaluation Report." FATF, September 2016. Retrieved from <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf>

significant deficiency in Canada's anti-money laundering and counter-terrorist financing framework.⁸⁹ In addition to registering with FINTRAC, under the Act MSBs have obligations regarding regulatory compliance, knowing their clients, reporting, and record keeping.⁹⁰ Importantly, MSBs are responsible for managing any money laundering and terrorist financing risks arising from their own clients.⁹¹ Today, there are approximately 850 registered MSBs in Canada estimated to handle \$39 billion a year in transactions.⁹²

As part of our research, we contacted FINTRAC to confirm our understanding of their registration function. The unit emphasized that their role in registering MSBs does not include a comprehensive security check on market participants. In their response, FINTRAC stated:

*A registration with FINTRAC does not indicate an endorsement or licensing of the business; rather, it indicates only that the business has fulfilled its legal requirement under Canada's Proceeds of Crime (Money Laundering) and Terrorist Financing Act to register with the federal government. FINTRAC does not regulate money services businesses beyond the framework of this specific legislation and therefore cannot offer any assessment of their overall business practices.*⁹³

Further research revealed that the only exception to the federal registration system is in Quebec, which administers a licensing system for MSBs.⁹⁴ The Quebec licensing process requires applicants to provide a significant amount of information, meet conditions of suitability, and obtain a security

⁸⁹ FATF. "Third Mutual Evaluation on Anti-Money Laundering and Combating the Financing of Terrorism - Canada." *FATF*, February 2008. Retrieved from <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Canada%20ES.pdf>

⁹⁰ "Money Services Businesses (MSBs)." FINTRAC. March 21, 2019. Accessed April 02, 2019. <http://www.fintrac-canafe.gc.ca/msb-esm/intro-eng.asp>.

⁹¹ "Submission by the Commissioner of Competition to the Department of Finance Canada - Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime." Competition Bureau Canada. June 01, 2018. Accessed April 02, 2019. <https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04364.html>.

⁹² "Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada." Department of Finance. July 31, 2015. Accessed April 02, 2019. <https://www.fin.gc.ca/pub/mltf-rpcfai/index-eng.asp>.

⁹³ FINTRAC, *Email (28 March 2019)*.

⁹⁴ FATF. (2016)

clearance from police.⁹⁵ As has been reported by several news outlets, the Attorney General of British Columbia is considering a similar licensing system for MSBs in the province.⁹⁶

Financial entities such as banks have an independent accountability under the PCMLTFA to manage money laundering and terrorist financing risks relating to their clients. As will be discussed in more detail below, this can sometimes result in MSBs being deemed high risk even when the MSB has fulfilled all the procedural requirements to conduct business. In recent years, Finance Canada and FINTRAC have published reports providing an opinion on the risks of money laundering and terrorist financing associated with various industries and jurisdictions. While these reports are used to inform policy, it should also be expected that banks use them as input for their risk management models. As such, we surveyed the reports for opinions relevant to the MSB sector and/or Somalia.

According to the Finance Canada report, the MSB sector is “broadly vulnerable” to money laundering and terrorist financing.⁹⁷ However, the degree of vulnerability is not consistent “largely because of the variation in terms of size and business models found among the MSBs across the sector”.⁹⁸ Of the five types of MSBs assessed, the report ranks two as “very high”, two as “high”, and one as “medium” risk.⁹⁹ As stated in the report:

*[T]here are two types of MSBs that are most vulnerable. The first consists of the national full-service MSBs that have the most dominant presence in Canada... The second type of highly vulnerable MSB consists of the small, predominantly family-owned MSBs located across Canada that provide wire transfer services largely through informal networks.*¹⁰⁰

Finance Canada also identifies a dozen countries that they consider to be the “most likely locations” where Canadians would send money or goods abroad to fund terrorism: Afghanistan, Egypt,

⁹⁵ Hipolito, Chad. “B.C. Attorney General Opens Door to Background Checks for Money Transfer/exchange Businesses.” *Vancouver Sun*. March 19, 2019. Accessed April 02, 2019.

<https://vancouversun.com/business/local-business/bc-attorney-general-opens-door-to-background-checks-for-money-transfer-exchange-businesses>.

⁹⁶ *Ibid.*

⁹⁷ “Archived - Assessment of Inherent Risks of Money Laundering and Terrorist Financing in Canada.” Department of Finance Canada. July 31, 2015. Accessed April 03, 2019. <https://www.fin.gc.ca/pub/mltf-rpcfai/index-eng.asp>.

⁹⁸ *Ibid.*

⁹⁹ *Ibid.*

¹⁰⁰ *Ibid.* **The report further states that small, predominantly family-owned MSBs are “vulnerable because they can allow high-risk clients to wire funds to high-risk jurisdictions through their informal networks. In addition, because they tend to be small, low-profile businesses, they may be vulnerable to being exploited for illicit purposes”.**

India, Lebanon, Pakistan, Palestinian Territories, Somalia, Sri Lanka, Syria, Turkey, United Arab Emirates and Yemen.¹⁰¹ Later, the report acknowledges that al-Shabaab in Somalia obtains a “significant amount” of funding from “leveraging the area that is under its control and influence”.¹⁰² However, the report maintains that al-Shabaab has a “diversified global fundraising network” with “some financing networks in Canada” while “fundraising techniques observed in the United States and some Scandinavian countries have also been used in Canada”.¹⁰³

FINTRAC’s report, which is said to be based on 2017 trends, also identifies Somalia as a “higher risk” jurisdiction for terrorist financing activity.¹⁰⁴ According to the report, while the Somali diaspora “contributes to a relatively high exposure to remittances” to the country, Somalia has a small profile in the reporting FINTRAC receives.¹⁰⁵ The report also notes that the majority of financial transactions to and from Canada occur through MSBs due to “Somalia’s extremely weak banking sector”.¹⁰⁶ The report cautions entities under the PCMLTFA as follows:

Particular vulnerabilities reporting entities should consider for terrorist financing in relation to Somalia include financial activity that appears to indicate that an individual is acting as an unregistered money services business, as well as financial indicators associated with extremist travellers who may be travelling to or from the country.

Taken together, these reports should be understood to contribute to a perception that (1) the MSB sector in Canada is broadly vulnerable to money laundering and terrorist financing and (2) Somalia is among the higher risk jurisdictions for terrorist financing activities.

Every five years, a committee of Parliament must review the administration and operation of the PCMLTFA.¹⁰⁷ In preparation for the last review, which took place in 2018, Finance Canada published a discussion paper called *Reviewing Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime*.¹⁰⁸ The paper was developed in consultation with an Advisory Committee on Money Laundering

¹⁰¹ *Ibid.*

¹⁰² *Ibid.*

¹⁰³ *Ibid.*

¹⁰⁴ “Terrorist Financing Assessment: 2018.” FINTRAC. December 13, 2018. Accessed April 03, 2019. <http://www.fintrac-canafe.gc.ca/intel/assess/tfa-2018-eng.asp#Somalia>.

¹⁰⁵ *Ibid.*

¹⁰⁶ *Ibid.*

¹⁰⁷ This is mandated by Section 72(1) of the PCMLTFA. See “Reviewing Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime.” Government of Canada, Department of Finance. February 07, 2018. Accessed April 02, 2019. <https://www.fin.gc.ca/activty/consult/amlatfr-rpcf-ang.asp>.

¹⁰⁸ *Ibid.*

and Terrorist Financing, a public-private sector forum with representatives from the Department of Finance, FINTRAC, The Office of the Superintendent of Financial Institutions (OSFI), Public Safety Canada and each reporting entity sector, including the Canadian Money Services Business Association (CMSBA).¹⁰⁹

Of relevance to our client, there is a sub-section devoted to the issue of MSB de-risking. The section characterizes de-risking as a global trend based upon a complex set of factors, including changes in business focus and risk tolerance.¹¹⁰ The paper suggests that MSBs in particular have had difficulties maintaining bank accounts due to a “perception that MSBs are inherently high-risk and the mistaken belief in some cases that financial institutions must know your customer’s customer”.¹¹¹ The paper clarifies that under the PCMLTFA, reporting entities such as banks are “expected to manage (but not necessarily eliminate) their exposure by taking a risk-based approach”.¹¹² Under this approach, banks are supposed to evaluate clients and potential clients on a case-by-case basis and not make decisions that impact “an entire industry”.¹¹³

In addition to identifying drivers of the issue and addressing expectations under the Act, the paper acknowledges that de-risking has negative consequences for Canadian businesses and potentially for Canadian national security objectives. As stated in the paper:

[De-risking] hampers their capacity to transmit remittances and therefore seriously impacts the business model for these MSBs. Furthermore, if they are unable to maintain accounts with legitimate financial institutions, this could drive financial transactions to informal channels which make these transactions more opaque to regulators and law enforcement when they are investigating money laundering and terrorist financing.

¹⁰⁹ **OSFI is a federal agency that regulates and supervises federally regulated financial institutions, including banks. For more information on the Advisory Committee**, see "Advisory Committee on Money Laundering and Terrorist Financing (ACMLTF)." Advisory Committee on Money Laundering and Terrorist Financing (ACMLTF). September 25, 2018. Accessed April 03, 2019. <https://www.fin.gc.ca/act/acmltf-ccbafat/acmltf-ccbafat-eng.asp>.

¹¹⁰ *Ibid.*

¹¹¹ "Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime." Government of Canada, Department of Finance. February 07, 2018. Accessed April 02, 2019. <https://www.fin.gc.ca/activty/consult/amlatfr-rpcfat-eng.asp>.

¹¹² *Ibid.*

¹¹³ *Ibid.*

By May 2018, Finance Canada had received sixty responses to the paper.¹¹⁴ Among the submissions made public, the project team judges those of the Competition Bureau and the CMSBA to be of most relevance to our client.

The Competition Bureau submission indicates that it agrees with Finance Canada's assessment, and extends Finance Canada's logic along several dimensions. According to the Bureau, while de-risking indeed reflects the perception that MSBs are inherently high-risk, there could be other factors at play "unrelated to risk", such as exclusion of an existing or potential competitor.¹¹⁵ As stated in the submission:

MSBs require an account with a domestic financial institution in order to operate. Many MSBs offer services, such as electronic funds transfers and international remittances, which may compete with a financial institution's own product offerings. Owing to this unique dynamic, financial institutions are in a position to potentially foreclose the entry of new competition.

According to the Bureau, in a general climate of uncertainty, legitimate new businesses may abandon entry.¹¹⁶ Further, de-risking may "limit the extent to which MSBs can act as a competitive constraint on incumbent financial institutions" resulting in "higher prices as well as reduced innovation, quality and choice for Canadians".¹¹⁷ As a result, the Bureau recommends (1) that banks "be required to provide evidence-based reasons when terminating or refusing to provide account services to businesses such as MSBs" and (2) that there "be a suitable course of redress in the event of an undue termination or refusal".¹¹⁸

The CMSBA submission also indicates that they agree with Finance Canada's assessment, and amplifies certain areas. According to the association, the MSB population has shrunk from more than 2,400 to approximately 800 MSBs in five years because of the de-risking actions of banks.¹¹⁹ For the

¹¹⁴ **Finance Canada received responses from a variety of stakeholders including financial entities, life insurance companies, securities dealers, money services businesses, lawyers, industry associations and real estate agents.** See Government of Canada, "Government Response." *Government of Canada*, https://www.ourcommons.ca/content/Committee/421/FINA/GovResponse/RP10326634/421_FINA_Rpt24_GR/421_FINA_Rpt24_GR_PDF-e.PDF

¹¹⁵ "Submission by the Commissioner of Competition to the Department of Finance Canada." 2018.

¹¹⁶ *Ibid.*

¹¹⁷ *Ibid.*

¹¹⁸ *Ibid.*

¹¹⁹ "Submission of Comments by the Canadian MSB Association Addressing the "Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime" Consultation Paper." The Canadian Money Services

MSBs that remain, the only alternative to a bank account is settling transactions through cash payments, and thus “carrying large volumes of cash across borders is a reality that many MSBs rely on for the continuation of their businesses”.¹²⁰ The association therefore claims that de-risking worsens cash problems, presumably by increasing poorly traceable cash transactions relative to more traceable bank transfers.¹²¹ The association recommends (1) that there be a reporting requirement for banks “whereby they are required to report all de-risking decisions to their regulator”, (2) that there be consequences when banks “are found to apply blanket de-risking to an entire industry”, and (3) that regulators clearly communicate to banks that “de-risking that has stemmed from a focus on knowing your client’s clients is a misdirected understanding of the guidelines”.¹²²

In November 2018, a committee of Parliament published its five-year review of the PCMLTFA, which contains thirty-two recommendations for consideration by the Government of Canada. The project team examined the recommendations, finding none that explicitly address the issue of de-risking. Under Chapter Two of the review, the project team located one section that refers to the issue of de-risking in the context of possible changes to legislation on information sharing within the private sector.¹²³ This section considers how increased information sharing might enhance the capability of financial institutions to combat money laundering and terrorist financing, while simultaneously aggravating the problem of de-risking and raising privacy concerns.¹²⁴ Aside from commentary on de-risking in this specific context, the review does not address the issue or suggest a way forward. It is the opinion of the project team that a lack of responsibility for the unanticipated de-risking noted in other jurisdictions appears to exist also in Canada.¹²⁵ As such, recommendations at the end of this report will include measures for improving accountability.

Financial Institutions

What follows is an illustration of the position of the Canadian financial institutions as crucial stakeholders in the larger problem of de-risking discussed in this report. This section is meant to highlight the position of Canadian banks, the factors that inform their interactions with Somali MSBs, and the intricacies of their decision to close these MSB bank accounts. While the large financial

Business Association. May 18, 2018. Accessed April 02, 2019. <https://www.fin.gc.ca/consultresp/amlatfr-rpcfata/mlatfr-rpcfata-43.pdf>

¹²⁰ *Ibid.*

¹²¹ *Ibid.*

¹²² *Ibid.* The CMSBA submission contains additional recommendations to the ones highlighted in this report.

¹²³ Canada. Parliament of Canada. Standing Committee on Finance. November 2018.

<https://www.ourcommons.ca/DocumentViewer/en/42-1/FINA/report-24/page-ToC>.

¹²⁴ *Ibid.*

¹²⁵ **As Oxfam International and other actors have noted, responsibility for the issue of de-risking tends to shift among policymakers, regulators, banks and other stakeholders.** See Durner and Shetret. (2015)

institutions in Canada hold great influence and the penetration of banking services is well established in this country, it must be made clear that banks offer their services based on profitability assessments. Similar to any other business, banks will serve profitable clients and regions, while avoiding markets where they believe they will experience losses.

In order to better understand the issue of de-risking from the perspective of banks, we conducted private interviews with highly ranked individuals in the risk management divisions of some of Canada's major banks. Those who were interviewed will be kept anonymous at their request. In these private interviews, bank staff expressed the following views and areas of concern:

"The goal is not to kick out MSBs but to follow international standards. To compete in the global market, banks must be compliant."

"If banks don't understand their customers, their correspondent banks will sever relations and close their accounts."

"Some banks are definitely more cautious than others of doing business with MSBs. Also, some jurisdictions would pose more of a risk."

"It's not wise for banks to take on risks they don't understand."

"The reputational element is very important. Banks have a responsibility to shareholders."

Risk Mitigation and Risk Avoidance

Risk is a crucial concept of finance. The appetite for risk mitigation is at the center of a financial institution's strategy. They evaluate risk at the market level; for example, whether a jurisdiction is politically stable or if an industry is on the decline.¹²⁶ At the client level, risk can be evaluated in the form of operational risk and credit risk, which include elements such as potential for fraud or legal issues¹²⁷. Once a client's level of risk is determined, the bank then charges an amount proportionate to that risk level. In the interest of risk mitigation, banks attempt to invest in a diverse set of risk levels to maximise profits for their shareholders, while controlling their exposure.

¹²⁶ "Systematic Risk - Learn How to Identify and Calculate Systematic Risk." Corporate Finance Institute. Accessed March 19, 2019. <https://corporatefinanceinstitute.com/resources/knowledge/finance/systematic-risk/>.

¹²⁷ "The Operational Risk." The Operational Risk, as Defined by the Basel Committee. Accessed March 19, 2019. https://www.fimarkets.com/pagesen/operational-risk.php#_header1.

Beyond risk mitigation, financial institutions are also registered and subject to national regulatory bodies, namely the OSFI and FINTRAC. While some international guidelines exist, they are not legally binding. National regulations, however, are legally binding on banks. These regulatory institutions are tasked with keeping the banks accountable to their clients.¹²⁸ Indeed, these regulatory bodies are responsible for determining how much risk each of the different financial institutions represent for their customers and must also play an important role in assessing whether or not specific regions, clients and industries are safe. This assessment is based on their lines of business and investments. Given that the business of financial institutions rests on the fragile public perception that banks are trustworthy, banks are incentivized to follow the guidelines of these regulatory bodies.¹²⁹ This pressure represents the concept of reputational risk and banks are motivated to avoid it.

De-Risking and Its Impacts

Following the reform of the financial system, there were multiple instances where major banks were convicted of violating AML regulations. These convictions acted as further deterrence for other banks to engage with clients that might represent a reputational risk.¹³⁰ The banks found to have violated AML regulations, namely Standard Chartered Bank and HSBC, were fined billions of dollars and saw their stock prices plunge to a point where the former was never able to fully recover.¹³¹ The consequences of non-compliance added pressure on banks to focus on risk avoidance. Financial institutions now require their clients to be able to quickly provide any information to demonstrate that they are complying thoroughly with the national financial regulations. This information is verified by professional compliance officers on staff and a sophisticated AML reporting method.¹³² Banks now ensure that they are aware of their clients' clients and are moving out of any region or industry that may pose a threat, leading to smaller access to the global market for multiple entities and individuals. While each financial institution has its personalized method to address AML, the pressure to comply, especially in relation to terrorism funding, may also lead to discrimination against clients¹³³.

¹²⁸ "Risk Management Expert 1." Interview by G. Plante. March 7, 2019.

¹²⁹ "Risk Management Expert 1." Interview by G. Plante. March 7, 2019.

¹³⁰ *Ibid*

¹³¹ Treanor, J. (2012, August 14). Standard Chartered to pay \$340m fine to New York bank regulator. Retrieved from <https://www.theguardian.com/business/2012/aug/14/standard-chartered-pay-fine-regulator>

¹³² "Risk Management Expert 4." Interview by G. Plante. March 21, 2019.

¹³³ *Ibid*

Implications for Security and Stability

“If no MSB goes unbanked, no MSB goes unmonitored.”

- Canadian MSB Association, 18 May 2018

Information and Avoidance

This report has already laid out the legislation and policy relevant to Canadian CTF strategies and de-risking outputs. It has also established the government’s awareness of the practice of de-risking, and its inability or unwillingness to provide concrete strategies to make changes. This subsection highlights the degree to which the government’s facilitation or complacency with risk divestiture has a negative effect on anti-terrorism efforts.

There is an evident tension between the two security imperatives of Canadian financial security. FINTRAC, in describing its purpose as a Financial Intelligence Unit (FIU), outlines (1) the need to keep formal financial channels clean, and (2) the need to use formal channels for monitoring and detection purposes.¹³⁴ Near wholesale divestiture of MSBs, therefore, highlights that the contentions between the two yield an implicit bias for the first imperative, as a result of the incentives structures within the system, as described in the *Financial Institutions* section above.

Understanding MSB Risks

Registered MSBs in Canada include *hawalas*, and already fall under a licensing regime for remittances and other services in Quebec.¹³⁵ In theory, the registration and licensing processes, should they operate effectively, serve to formalize MSBs. Strengthening licensing and registration has been recognised by various provincial and federal government entities as necessary moving forward.¹³⁶ The FATF has studied licensing and registration requirements globally to facilitate this and has recommended that Canada to institute country-wide licensing of MSBs.¹³⁷

In the Canadian context, MSBs are perceived as particularly risky in terms of money laundering activities.¹³⁸ The FATF’s country assessment of Canada highlights the vulnerabilities of the MSB sector

¹³⁴ FINTRAC. “FINTRAC Annual Report 2017-2018.” *Government of Canada*, 2018, p. 2.

¹³⁵ FATF, *Canada Mutual Evaluation Report*, 78.

¹³⁶ Department of Finance Canada. “Reviewing Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime.” 2018.

¹³⁷ FATF, *The Role of Hawala*, 45-49; FATF, *Canada Mutual Evaluation Report*, 78.

¹³⁸ FATF. “Anti-Money Laundering and Counter-Terrorist Financing Measures - Canada, Fourth Round Mutual Evaluation Report.” *FATF*, September 2016, 3-4. Retrieved from <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf>

at large, including the connection of MSBs to drug trafficking.¹³⁹ Of FINTRAC's 2,466 disclosures in 2017-2018, 1,821 were related to money laundering and 447 to terrorist financing, with 198 related to both.¹⁴⁰ Prominent examples of money laundering by foreign nationals in Vancouver, has resulted in movement towards implementation of a registry for MSBs in the province.¹⁴¹ In addressing Canadian security concerns, attention to MSBs is therefore not necessarily unwarranted.

However, there is a notable degree of consensus among various government entities and international organisations as to the evidence of systemic and disproportional de-banking of MSBs.¹⁴² On the other hand there is some documentation suggesting more could be done on the part of some MSBs to present themselves as diligent about compliance, and to develop trust-based relationships with banks.¹⁴³ There can, naturally be difficulties with how cost-intensive these reforms could be on small and medium sized businesses, with estimates among our network hovering around \$15,000 (CAD) for annual audits since 2008.¹⁴⁴ This is perhaps one indication among many of why certain larger MSBs appear to have a higher likelihood of sustaining formal banking relationships. Nevertheless, the MSB owners interviewed for the purposes of this report stated that there have been casualties even among compliant and business savvy owners, with implications for Canadian jobs explored in other sections.

Dispelling Hawala Myths

In understanding the security risks of *hawalas*, including those operating the context of conflict affected and fragile states like Somalia, Afghanistan and Syria, it is important to differentiate between real risks and the uncertainties that arise from insufficient or misinformation.¹⁴⁵ The term *hawala* refers to the historical and often informal money transfer systems popular in parts Asia, Africa and the Middle East, which essentially transfer funds without the direct movement of money for that specific transaction. It is important to note that *hawala* systems are often used by diaspora communities of these regions, including Somalia, and are subject to de-banking as a result of persistent myths in the sector. The FATF has published literature on *hawalas*, and money laundering and terrorist financing crimes that outlines these myths.

¹³⁹ FATF, *Canada Mutual Evaluation Report*, 16.

¹⁴⁰ FINTRAC, *Annual Report 2017-2018*, 3.

¹⁴¹ FATF, *Canada Mutual Evaluation Report*, 16; See *Legislation* section above for further detail.

¹⁴² Canadian MSB Association, *Submission of Comments*; Department of Finance, *Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime*.

¹⁴³ Anonymous, "Interview with Senior AML/CFT Professional at one of the Big Five (12 March 2019)." Interview by Laura Kennedy, Jewel Daley and Gita Goolsarran. *Munk School of Global Affairs and Public Policy*, 12 March 2019.;

¹⁴⁴ Anonymous, "Interview with Anonymous MSB owner (12 March 2019 and 13 March 2019)." Interviewed by Erica Roa and Emily Schepers, *Munk School of Global Affairs and Public Policy*

¹⁴⁵ Interviews have mentioned issues with these other states.

Such myths include the assumption that *hawalas* are “ancient and static,” paperless, and deal only in remittance transfers.¹⁴⁶ Both myths have implications for the ability of these businesses to comply with regulations. Other myths include that they are cheaper, “trust” based, underground and uniformly high-risk.¹⁴⁷ In reality, many *hawalas* rely on their good reputations and keep detailed and accessible records, often stored on digital databases.¹⁴⁸ Differences in legal and regulatory requirements and evolution of businesses means *hawalas* vary across countries and time in terms of transaction processes, recordkeeping and databases.¹⁴⁹

Understanding *hawalas* as “formal” financial institutions is generally contradicts the understanding of these entities among many in the financial services industry. However, the cultural heritage of the institutions for a particular community need not detract from the processes of adoption of standards, technologies and practices that some *hawalas* have undergone. Persistent *hawala* “myths,” therefore, may be unintentionally increasing perceptions of risk levels of the Somali businesses in our network who are both Somali *hawalas* and formal Canadian MSBs.

Addressing Cash-Intensive Transfer

The resources required for MSBs to present as “bankable” and for banks to confirm that perception, have increased since the PCMLTFA’s introduction and refinement. The consequences of the varying abilities of MSBs and financial institutions to meet the additional time and monetary requirements have important implications for Canadian security.

According to comments submitted by the CMSBA on the PCMLTFA review, not only has the MSB sector been “almost entirely” de-risked, but a consequence of de-banking has been that transactions within the MSB sector have become increasingly cash intensive, where “MSBs have been forced into transacting in a reckless manner...”¹⁵⁰ This raises issues with self-reporting on border declarations, and the transfer of value laden products such as jewelry.¹⁵¹ Transfers are therefore increasingly vulnerable and opaque to financial intelligence, thereby pushing the responsibility of monitoring disparate elements of single bulk transfers across the jurisdiction of different security services.¹⁵²

¹⁴⁶ FATF. “The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing.” *FATF*, October 2013, 19. Retrieved from <http://www.fatf-gafi.org/media/fatf/documents/reports/Role-of-hawala-and-similar-in-ml-tf.pdf>

¹⁴⁷ *Ibid*, 20.

¹⁴⁸ Anonymous, “Interview with Anonymous MSB owner (16 March 2019).” Interviewed by Gitanjali Goolsarran and Jewel Daley, *Munk School of Global Affairs and Public Policy*, 16 March 2019.; FATF, *The Role of Hawala*, 19.

¹⁴⁹ FATF, *The Role of Hawala*, 45-49.

¹⁵⁰ Canadian MSB Association, *Submission of Comments*, p. 4.

¹⁵¹ *Ibid*, pp. 2-4.

¹⁵² Helmrich, *Interview* (26 February 2019).

Financial intelligence from banks, while not perfect, forms a key component of Canada's strategies in combating illicit financial flows and transnational organised crime. Canadian public-private partnerships (PPP) between Government and banks have had successes in this regard, including Project Protect on human trafficking and Project Chameleon on drug trafficking.¹⁵³ However, cash intensive transfers present complications to the tracking, monitoring and regulating of money flows in and out of Canada. Banked MSBs are monitored and regulated, and transactions inside this framework are within the line of sight of banks, FIUs and security services.

Challenges for Financial Intelligence

Concerns and challenges related to the privacy of Canadians have been highlighted over the course of our research process.¹⁵⁴ First, privacy anchors the concerns of citizens on the operational end of KYC information gathering. While this process is important, increases in KYC and identification requirements for compliance mean that appropriate measures should be taken to maintain the privacy of citizens, as explained by the CMSBA.¹⁵⁵ Second, privacy requirements for bank clients, both current and divested, have been said to create challenges in dealing with repeat offenders.¹⁵⁶ This report, nevertheless, emphasizes that these requirements are important despite the fact that they add challenges for banks, because they protect legitimate individuals and businesses.¹⁵⁷ Similarly, privacy of FIU lists has been raised as a difficulty but is nevertheless required.¹⁵⁸

Additionally, there is some indication that the comprehensiveness of risk assessment procedures used by banks may vary, likely due to time and resource constraints under increased pressures to produce enhanced numbers of suspicious transaction reports (STRs).¹⁵⁹ FINTRAC's 2015-2016 Departmental report cites a 24 percent increase in suspicious transaction reporting in that year, and 63 percent over the five year time period.¹⁶⁰ There appears to be a discrepancy between the resources required for financial institutions to develop or institute appropriate strategies and

¹⁵³ FINTRAC, *Annual Report 2017-2018*, 5.

¹⁵⁴ Department of Finance Canada, *Reviewing Canada*, 31.; Canadian MSB Association, *Submission of Comments*, 3

¹⁵⁵ Canadian MSB Association, *Submission of Comments*, 3.

¹⁵⁶ Anonymous. "Interview with AML/CTF Professional (24 March 2019)." Interviewed by Laura Kennedy and Gita Goolsarran, *Munk School of Global Affairs and Public Policy*, 24 March 2019.

¹⁵⁷ Anonymous, *Interview (24 March 2019)*.

¹⁵⁸ *Ibid.*

¹⁵⁹ Anonymous. "Interview with AML/CTF Professional at one of the Big Five (11 March 2019)." Interviewed by Gita Goolsarran and Vanessa Hayford, 11 March 2019.; Anonymous, *Interview (12 March 2019)*.

¹⁶⁰ FINTRAC. "Departmental Performance Report 2015-2016." *FINTRAC*, November 2016, 31. Retrieved from <http://www.fintrac-canafe.gc.ca/publications/dpr-rmr/2015-2016/dpr-rmr-eng.asp>

methodologies for STRs, and the resources institutions can be willing or able to expend towards that end, despite apparently strong lines of communication between banks on “best practices.”¹⁶¹

As a consequence, this report acknowledges the possibility of inconsistencies in investigation and reporting standards in the AML/CTF regime across banks, specifically, with respect to the level of AML/CTF compliance procedures, KYC investigation, and even enhanced due diligence procedures for higher “value” clients. It is important to note that this report makes no claims that such inconsistencies in the Canadian context exist; rather, it questions the risks to the quality of the overall financial intelligence received by FINTRAC and the RCMP should this be the case. It should be noted that in 2018 FINTRAC achieved a 92 percent effectiveness rate for reports passed onwards to other intelligence agencies globally.¹⁶² However, the entity receives a staggering 16 million reports per year.¹⁶³ A 2017 Royal United Services Institute for Defence and Security Studies (RUSI) report, which discusses the effectiveness of Canadian and other public-private partnerships in CTF, states that 80-90 percent of STRs were of “no immediate value to active law enforcement.”¹⁶⁴ This indicates that the burden of any quality concerns for Canadian financial intelligence and law enforcement, including extensive and accurate screening processes for intelligence, would be felt within the financial intelligence unit (FIU) and law enforcement entities.¹⁶⁵

Implications for Development

Extremism

A reduction of remittances to Somalia may also have negative impacts for extremism in the country. In this way, policies that led to the closure of MSB accounts may actually be counterproductive, and may “lead to the further impoverishment and possible radicalization of average Somalis who rely on these services for their daily survival”.¹⁶⁶ These remittances, which the Somali population had been receiving for decades, have been used for both state-building efforts and supporting the day-to-day lives of many in Somalia. While we can confirm remittances are still reaching Somalia in one way or another, the closure of MSB accounts has blocked an estimated \$400 million to \$1 billion USD from

¹⁶¹ Anonymous, *Interview (11 March 2019)*; Anonymous. “Interview with AML/CTF Professional at one of the Big Five (28 February 2019).” Interviewed by Laura Kennedy and Gita Goolsarran, 28 February 2019; Anonymous, *Interview (26 March 2019)*.

¹⁶² FINTRAC. *Annual Report 2017-18*, 4.

¹⁶³ Anonymous, *Interview (26 March 2019)*.

¹⁶⁴ Maxwell, Nick J. and Artingstall, David. “The Role of Financial Information-Sharing Partnerships in the Disruption of Crime.” Occasional Paper, Royal United Services Institute (RUSI), October 2017, vi-vii.; Figure according to interviews conducted with financial intelligence unit heads.

¹⁶⁵ FINTRAC. *Annual Report 2017-18*, 4.

¹⁶⁶ Medani, Khalid M. “Financing Terrorism or Survival? Informal Finance and State Collapse in Somalia, and the US War on Terrorism.” *Middle East Report*, no. 223 (2002): 2-9. doi:10.2307/1559456. p. 3.

formally entering the country.¹⁶⁷ For those relying on these remittances for daily survival, this could have a severe negative impact.

The barriers to the transfer of remittances may ultimately leave individuals more susceptible to extremism in the country. Many Somali refugees and asylum seekers have fled to Kenya; however, with the introduction of the voluntary repatriation process in May 2016, 33,178 people had returned to Somalia in 2016 alone.¹⁶⁸ The UNHRC found that only 25 percent of these returnees were willing to return.¹⁶⁹ Many citing forced recruitment into armed groups as a substantial fear.¹⁷⁰ Lastly, al-Shabaab control over various areas of Somalia means they can also control the flow of aid and resources into those areas.¹⁷¹ Because of this they effectively have a way to control these populations, and therefore people may be forced to engage in al-Shabaab activities out of necessity rather than choice. When interviewed, former al-Shabaab fighters claimed that economic factors were the most significant reasons for joining the extremist group over religious motivations.¹⁷² With the closure of MSB accounts leading to increased hardship amongst communities in Somalia due to decreased remittances, the de-risking efforts that drove the closure of MSB accounts in the first place may actually be counterproductive to the goals of reducing extremism.

Impact on Development in Somalia

A once overlooked source of aid, remittances are starting to be recognized and an “integral” aspect of development assistance.¹⁷³ Remittances are also used to contribute to economic stability and business growth across developing countries.¹⁷⁴ They are used for savings, land or housing purchases, business development, agriculture, and investments in public goods such as education and healthcare.¹⁷⁵ More specifically, diaspora remittances have been known to fund development initiatives. For instance, one way this is done is through “hometown associations” where the diaspora will pool

¹⁶⁷ *Ibid.*

¹⁶⁸ Amnesty International. “*Nowhere else to go: Forces returns of Somali refugees from Dadaab refugee camp, Kenya*”. (2016). Accessed March 20, 2019, <https://www.amnesty.org/download/Documents/AFR3251182016ENGLISH.PDF>

¹⁶⁹ *Ibid.*

¹⁷⁰ *Ibid.*

¹⁷¹ International Crisis Group. “*Instruments of Pain (III): Conflict and Famine in Somalia*”. (2017). Accessed March 20, 2019, <https://d2071andvip0wj.cloudfront.net/b125-instruments-of-pain-iii.pdf>.

¹⁷² Institute for Security Studies. “*Radicalisation and al-Shabaab recruitment in Somalia*”, (2014). Accessed March 19 2019, <https://issafrica.s3.amazonaws.com/site/uploads/Paper266.pdf>.

¹⁷³ “Remittances are three times greater than aid-how can they go even further?” *The Guardian*. May 11, 2016. Accessed March 21, 2019, <https://www.theguardian.com/global-development-professionals-network/2016/may/11/remittances-three-times-greater-aid-sdgs>.

¹⁷⁴ *Ibid.*

¹⁷⁵ Grabel, Ilene. “Remittances: Political Economy and Developmental Implications.” *International Journal of Political Economy* 38, no. 4 (2009): 86-106.

together funds for development projects in their homelands.¹⁷⁶ In Somalia, Oxfam Novib, the Dutch office for Oxfam had previously set up partnerships with Somali diaspora in the Netherlands to fund development projects.¹⁷⁷ Diaspora remittances for development aid in Somalia continues to be important, however MSB account closures are making this more difficult. While Somalia's current government is considered the most stable it has been in twenty years, and the country is making both socioeconomic and political progress, MSB account closure may jeopardize this.¹⁷⁸ The UN representative to Somalia has stated that this "momentum needs to be sustained."¹⁷⁹

Lindley (2009) notes that there are three main ways that MSBs facilitated the transfer of development aid to Somalia. First, aid agencies relied on this for the transfer of salaries and project money. Second, development actors in Somalia had begun to see MSBs as private sector partners and "potential constituencies for peace." Third, the Somali diaspora has used them to directly fund development initiatives.¹⁸⁰ The Somali diaspora has been active in various development initiatives including education, health, and other community projects.¹⁸¹ Further to this, the civil war in Somalia led to a significant amount of brain drain.¹⁸² Thus, the diaspora is interested in facilitating knowledge transfer.¹⁸³ See below for examples of diaspora funded development projects:

¹⁷⁶ *Ibid.*

¹⁷⁷ Orozco, M., & Rouse, R. "Migrant hometown associations and opportunities for development: A global perspective." *Migration Policy Institute*. February 1, 2007. Accessed April 3, 2019, <https://www.migrationpolicy.org/article/migrant-hometown-associations-and-opportunities-development-global-perspective>.

¹⁷⁸ "Somalis fear Barclays closure of remittance accounts will cut lifeline", *The Guardian*. June 24, 2013. Accessed March 20, 2019, <https://www.theguardian.com/global-development/2013/jun/24/somalis-barclays-remittance>; "Somalia rising from the ashes", *Africa Renewal*. April 2016. Accessed March 13, 2019, <https://www.un.org/africarenewal/magazine/april-2016/somalia-rising-ashes>.

¹⁷⁹ *Ibid.*

¹⁸⁰ Lindley, Anna. "Between 'Dirty Money' and Development Capital: Somali Money Transfer Infrastructure under Global Scrutiny." *African Affairs* 108, no. 433 (2009): 519-39.

¹⁸¹ Lindley, *Between 'Dirty Money' and Development capital*.

¹⁸² "Brain drain is the migration of skilled human resources for trade, education, etc." As states in, Dodani, S., & LaPorte, R. E. (2005). Brain drain from developing countries: how can brain drain be converted into wisdom gain? *Journal of the Royal Society of Medicine*, 98(11), 487–491. doi:10.1258/jrsm.98.11.487

¹⁸³ Lindley, *Between 'Dirty Money' and Development capital*.

Examples of diaspora development aid in Somalia:

- Nomad International, an organization funding health and education development in Somalia.
- Sabar, an organizational project working to rehabilitate vulnerable and marginalized groups. They had raised \$100 000 from 2000-2008.
- The Markabley Relief and Development Trust, a charity working to build a University in Somalia.
- Horn Relief, an international NGO that uses diaspora support to implement programming across Somalia.¹
- Edna Adan Ismail, a member of the Somali diaspora who studied in the UK and has engaged in many initiatives including the creation of the Edna Adan Maternity Hospital which also works to train nurses to provide maternal health care across rural Somalia.¹

Gendered Impact in Somalia

Reducing gender inequality in developing countries can partially be achieved through financial inclusion as this leads to economic empowerment.¹⁸⁴ Women can also be a driver of economic growth, through increased labour production and alternative spending patterns when compared to men. For instance, women tend to use money “for human development inputs such as food and education”.¹⁸⁵ Unfortunately the closure of MSB accounts has exacerbated inequalities faced by Somali women.

For the 40 percent of vulnerable people in Somalia who rely on remittances, the highest percentage is remitted to women led households.¹⁸⁶ As Somali women are often viewed as “caregivers, peacekeepers, innovators, [and] providers” the impact on them is particularly substantial.¹⁸⁷ For many women in Somalia, remittances are their only source of income. According to Dr. Shukria Dini, Founder of the Somali Women’s Study Centre, women typically face difficulties accessing existing financial systems, lack savings, and are viewed as riskier loan recipients.¹⁸⁸ Thus, remittances are vital to the economic empowerment of women.¹⁸⁹

Further, decreased humanitarian aid also has a disproportionate impact on women in Somalia. As with decreased resources comes more burdensome responsibilities. As women will typically take care of their families before themselves, they are usually the last to be helped, if at all. For instance,

¹⁸⁴ Durner and Shetret. (2015)

¹⁸⁵ *Ibid*, p. 22.

¹⁸⁶ Durner, Tracey and Shetret, Liat. *Understanding Bank De-Risking*. Pg. 58; Nairobi Form for Research, Policy & Local Knowledge. “*Remittance transfers to Somalia: Keeping the lifeline open.*” (2013). Accessed March 31, 2019.

¹⁸⁷ Chege, Alexandra. “International Women’s Day: Remittances are a lifeline for women in Somalia.” *Oxfam International*. (2019). Accessed April 1, 2019, <https://blogs.oxfam.org/en/blogs/15-03-06-international-womens-day-remittances-are-lifeline-women-somalia>.

¹⁸⁸ *Ibid*.

¹⁸⁹ Duke Law International Human Rights Clinic and Women Peacemakers Program, “Tightening the Purse Strings: What Countering Terrorism Financing Costs Gender Equality and Security” (March 2017), available at: <https://law.duke.edu/sites/default/files/humanrights/tighteningpursestrings.pdf>.

when it comes to food distribution they will usually eat last meaning they receive less.¹⁹⁰ According to the World Food Program, women and girls were the most affected when funding cuts led to the closure of 12 food distribution sites.¹⁹¹ Women and children also made up the majority of those forced to flee Somalia due to famine. For instance, in the first part of 2011, approximately 70 percent of those arriving at the Dadaab refugee camp in Kenya were women led households.¹⁹² These women who fled to Kenya not only faced increased exposure to gender-based violence on their journey, but this continued in the refugee camp.¹⁹³

Overall women are affected by the closure of MSB accounts on two fronts. Firstly, through the reduction of remittances, which is used to sustain their day-to-day, lives. And secondly, through decreased humanitarian aid. These impacts have initial effects, but as you can see, they extend far beyond this.

Humanitarian Organizations

As has previously been mentioned, Somalia has contended with conflict and natural disasters over the past few decades. The practice of de-risking and the subsequent impact on remittances severely affects the Somali population's ability to cope with crises, or for aid agencies to provide timely and effective programming. These hurdles are further compounded in a context where formal banking channels are already hindered by governmental and infrastructural limitations. In this way, AML/CTF policies have complicated the provision of necessary aid and promoted more opaque and informal financial practices, ultimately threatening the very policies that create humanitarian provision issues.

Operational Difficulties

One of the most common complaints by humanitarian organizations in the wake of de-risking is the impact on operational efficiency. Namely, AML/CTF regulations have resulted in the closure of bank accounts or the arbitrary delay of transactions without clear justification. One respondent working for a local Somalian organization expressed frustration, stating, "We are constantly in an emergency situation and life-saving is a top priority, we don't have the luxury to think about resilience and recovery! We must respond now!"¹⁹⁴

¹⁹⁰ *Ibid.*

¹⁹¹ *Ibid.*

¹⁹² *Ibid.*

¹⁹³ *Ibid.*

¹⁹⁴ Taraboulsi-McCarthy, *ODI*, p. 10.

Undermining Cash Transfer Programs

In addition to money sending services, humanitarian organizations have recently implemented the use of mobile money, especially for the provision of cash programming. This has become a significant part of the drought response in Somalia. Cash transfers are also used to address basic needs such as shelter, education, and protection, along with food and water.¹⁹⁵ Without the use of MSBs, these cash transfer programs are at significant risk.

Legal Consequences

Because al-Shabaab is an internationally recognized terrorist organization, humanitarian agencies must operate with increased caution in order to avoid being accused of aiding or funding terrorist operations under UK and US anti-terrorism laws.¹⁹⁶ Although US government agencies such as the Office of Foreign Assets Control (OFAC) “provide guidance to the public regarding making donations toward or undertaking the delivery of humanitarian assistance to Somalia,” these do not provide actual legal protection for operations aiming to work in al-Shabaab occupied territories.¹⁹⁷

Humanitarian officials have stated that it is almost impossible to guarantee that no resources will reach the extremist group, thereby contributing to a ‘chilling effect’ on the provision of vital aid. The country director of a major NGO stated, “at the very least, you could end up wasting a huge amount of time explaining yourself; at worst, if substantial amounts of aid were appropriated by al-Shabaab – as has happened to people in the past – you could end up in court with your organization shut down.”¹⁹⁸ This prioritization of compliance over the humanitarian imperatives in Somalia have far-reaching negative consequences for aid provision.

¹⁹⁵ “Doing cash differently How cash transfers can transform humanitarian aid,” *ODI*, September 2015, p. 20, Accessed 10 March 2019, <https://www.cgdev.org/sites/default/files/HLP-Humanitarian-Cash-Transfers-Report.pdf>.

¹⁹⁶ Taraboulsi-McCarthy, *ODI*, p. 10.

¹⁹⁷ US Department of the Treasury, “Somali Sanctions,” *OFAC*, 2019, Accessed 25 March 2019, https://www.treasury.gov/resource-center/faqs/Sanctions/Pages/faq_other.aspx#somalia

¹⁹⁸ Jason Burke, “Anti-terrorism laws have ‘chilling effect’ on vital aid deliveries to Somalia,” *The Guardian*, 26 April 2017, Accessed 20 March 2019, <https://www.theguardian.com/global-development/2017/apr/26/anti-terrorism-laws-have-chilling-effect-on-vital-aid-deliveries-to-somalia>

Implications for Canadian Somali Diaspora

Importance of Remittances

Conflict disrupts not only the livelihoods of populations but also pathways to development.¹⁹⁹ This is further motivation for encouraging diaspora investment in development initiatives, particularly because remittances to Somalia account for more than “foreign aid and investments combined.”²⁰⁰

While small remittances used to sustain day-to-day life for those in Somalia are still being transferred, interviews with Toronto MSB owners as well as Somali community development workers have revealed that it is the larger sums of money for the purpose of development aid that are being obstructed.²⁰¹ This is problematic for two reasons. First, given the often-politicized nature of aid in fragile settings and highly bureaucratic procedures, some aid agencies have had their reputations tarnished.²⁰² Second, the diaspora may choose to raise money for a specific development project or region in Somalia.²⁰³ Therefore, if the community were to donate this funding to a larger organization with explicitly stated objectives and obligations, this funding may not be used for the purpose or region the community intended. When interviewing Somali community members, we learned that after a truck bombing killed 587 people in Mogadishu in October 2017, a Women’s group in Toronto raised \$23,000 to send to orphaned and injured children. To date they are still unable to send this money through recognized channels to Somalia for its intended purpose.²⁰⁴

Overall the Somali diaspora has proven to be an important source of development aid. However, the closure of MSB accounts has hindered the diaspora’s ability to contribute to the stabilization and development of their home country. It is important to understand that those wishing to send aid are not stating that the overarching objective of anti-risk initiatives are wrong; rather, as many humanitarian agencies have stated before, they are emphasizing that targeting MSBs is not the way to do so. In other words, they do not support “the manner of the intervention of the financial war on terror”.²⁰⁵

¹⁹⁹ Hassan & Chalmers, *UK Somali remittances*.

²⁰⁰ “US bank regulators may destroy Somalia’s economy”, *Aljazeera America*. 27 February 2015. Accessed 12 March 2019, <http://america.aljazeera.com/opinions/2015/2/us-banks-seek-to-destroy-somalia-economy.html>

²⁰¹ Canadian and international regulations flag sums of money exceeding \$10,000 meaning that smaller sums of money are easier to transfer; Anonymous, “Interview with Anonymous Somali Community Member.” Interviewed by Emily Schepers, Vanessa Hayford, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 23 March 2019; Anonymous, “Interview with Anonymous MSB Owner.” Interviewed by Emily Schepers, Vanessa Hayford, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 23 March 2019

²⁰² Lindley, *Between ‘Dirty Money’ and Development capital*.

²⁰³ Grabel, *Remittances: Political economy and development implications*.

²⁰⁴ Anonymous, “Focus Group with Somali Community Member.” Capstone team, *Munk School of Global Affairs and Public Policy*, 16 February 2019

²⁰⁵ Lindley, *Between ‘Dirty Money’ and Development capital*. p. 536

Somali Resettlement in Canada and Social Effects

Beginning in the mid-1980s, tens of thousands of Somalis came to Canada seeking refuge from escalating violence and the eventual civil war that broke out in Somalia in 1991. It is estimated that between 55,000 and 70,000 Somalis came to Canada from 1988 to 1996.²⁰⁶ The first Somali refugees in Canada arrived as Convention refugees as per the UNHCR, and they faced significant initial resettlement challenges. The majority did not have existing social networks in Canada, and prior to 1980 there were very few Somali immigrants in Canada at all.²⁰⁷

Canada introduced Bill C-86, in 1993, which made it difficult for some Somali refugee claimants to qualify for permanent status in Canada.²⁰⁸ Claimants were now required to show official identification or passports that met the standards stipulated in the Bill. This amendment was widely criticized for discriminating against refugees from 'failed states', as it particularly affected Somali and Afghan refugee claimants who had difficulty or no ability to obtain satisfactory identification.²⁰⁹ The collapse of the Barre regime in Somali in 1991 left the country with no functioning authority to issue satisfactory identification. Consequently, at least 13,000 Somali refugee claimants to Canada were not granted permanent resident status and were left in limbo. In an interview, a Somali-Canadian social worker described the systemic barriers to integration for this community: "The first recognition that there was going to be tension was at the border – this had a lasting impact for a number of years."²¹⁰ Describing the Immigration Act amendment, which resulted in a five year waiting period for permanent status for Somali refugees who did not possess identification that met Canada's standards, she articulates that, "There was suspicion around them...there was stagnation facilitated by an institution that was very distrusting. They were not believed that they were truly fleeing war."²¹¹

Other legal challenges specific to Somali refugee claimants have occurred in Canadian immigration policy.²¹² The integration of the recently settled Somali refugee population was hindered by these institutional barriers. Claimants were left in a precarious living situation in the absence of a permanent resident status as they had limited access to services and higher education, experienced

²⁰⁶ "Somali Refugee Resettlement in Canada," Ontario Council of Agencies Servicing Immigrants, March 2016, http://ocasi.org/sites/default/files/OCASI_Presentation_Somali_Resettlement_Metropolis_2016.pdf

²⁰⁷ *Ibid.*

²⁰⁸ "Somalis and Canadian Immigration," Canadian Council for Refugees, February 2015, <https://ccrweb.ca/en/somalis-and-canadian-immigration-policy>.

²⁰⁹ "Somali Refugee Resettlement in Canada," Ontario Council of Agencies Servicing Immigrants, March 2016, http://ocasi.org/sites/default/files/OCASI_Presentation_Somali_Resettlement_Metropolis_2016.pdf

²¹⁰ Anonymous, "Interview with Anonymous Somali Community Member." Interviewed by Emily Schepers, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 28 March 2019

²¹¹ *Ibid.*

²¹² "Somalis and Canadian Immigration," Canadian Council for Refugees, February 2015, <https://ccrweb.ca/en/somalis-and-canadian-immigration-policy>.

delays in family reunification applications, and faced difficulties in accessing employment.²¹³ By 2000, Canada settled a legal challenge of discrimination against Somali refugee claimants, which partly remedied the identification issue for Somalis.²¹⁴

There are now at least 62,550 Somali-Canadian citizens according to the 2016 Canadian census.²¹⁵ The Somali-Canadian community is now into its third generation in Canada, and the community maintains a unique connection to Somalia and Somali identity. The majority of Somali-Canadians live in Toronto, Ottawa, Edmonton, and Calgary. The Rexdale neighbourhood in Etobicoke, Toronto, known as 'Little Mogadishu', has the largest population of Somali-Canadians in Canada.²¹⁶

Somali-Canadian Identity and the Cultural Importance of Remittances

Diaspora identities are formed through processes of connection to the country of origin and countries of settlement. Though it would be beyond the scope of this report to undertake an analysis of how these processes work for the Somali-Canadian community, other research in this area has informed the major points of identity, including language, dress, religious practice, and family and gender relations.²¹⁷ Second and third generation Somali-Canadians, like most diaspora communities, tend to lose some linguistic fluency in the native language of their community. Charity and financial support through sending remittances is identified by participants as a significant point of connection to the Somali-Canadian identity and culture in this report.²¹⁸

The affordable and legal sending of remittances is of significant importance for diaspora populations because it upholds and strengthens connection to the home country. Remittances for Somali-Canadians are not only financially important, but they also serve a symbolic cultural purpose of maintaining a cohesive Somali-Canadian identity across generations.²¹⁹ An interview participant noted this importance, and highlighted the concern in the community over the cultural effect of the de-banking that has closed the channel for many Somali-Canadian MSBs:

²¹³ "Somalis and Canadian Immigration," Canadian Council for Refugees, February 2015, , <https://ccrweb.ca/en/somalis-and-canadian-immigration-policy>.

²¹⁴ "Somali Refugee Resettlement in Canada," Ontario Council of Agencies Servicing Immigrants, March 2016, http://ocasi.org/sites/default/files/OCASI_Presentation_Somali_Resettlement_Metropolis_2016.pdf

²¹⁵ "Census Profile, 2016 Census," Statistics Canada, 2016, <https://www12.statcan.gc.ca/census-recensement/2016/>

²¹⁶ Bokore, Nimo. "Somali-Canadian Women: Historical Past of Survival and Facing Everyday Challenges of Resettlement". *York University*. April 2016

²¹⁷ Hopkins, Gail. 2010. "A Changing Sense of Somaliness: Somali Women in London and Toronto." *Gender, Place and Culture* 17 (4): 519-538.

²¹⁸ Anonymous, "Interview with Anonymous Somali Community Member." Interviewed by Emily Schepers, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 28 March 2019

²¹⁹ Kleist, Najua. 2008. Mobilising 'The Diaspora': Somali Transnational Political Engagement. *Journal of Ethnic and Migration Studies* 34(2): 307-323.

“Yes, [the closing of MSBs]... will cause problems. When you have communication channels open, you are contributing to their well-being, and keep a close heart with them. When you are not there when they are broken, or in need, it is important to keep that channel open.”²²⁰

A community participant noted that for the second generation, the “memory of Somalia is not there”, and that only after the first trip home did she understand the extent of the importance of her mother’s encouragement to continue the financial support back home.²²¹ Many Somali-Canadians see themselves as “the ones who got out”, and maintaining the financial connection is important to them morally, and culturally.²²²

Peer-reviewed research on this issue affirms the significance of the potential loss to cultural identity and connection if the financial connections between the diaspora and families in Somalia;

One source of distress in diasporic communities has been the inability to provide for others in the community, as individuals are hampered by few economic resources and need to remit funds to overseas kin. The levelling effect of the refugee experience has reduced the ability of Somalis to help one another in diaspora while at home those with resources could be counted on to assist those in need.”²²³

Systemic Challenges for the Somali Diaspora Community

Following the original barriers for the first Somalis who came to Canada as refugees, the institutional discrimination of Somali-Canadians is pervasive in the education system, healthcare and mental health services, criminal justice and policing, and financial institutions, amongst other issues. Because these challenges are well documented by peer-reviewed research, and appropriately addressing each of these would be exhaustive, this section instead seeks to highlight to voices of the research participants that affirm and expand on existing research.²²⁴

²²⁰ Anonymous, “Interview with Anonymous Somali Community Member.” Interviewed by Emily Schepers, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 28 March 2019

²²¹ *Ibid.*

²²² *Ibid.*

²²³ Spitzer, Denise L. “The impact of policy on Somali refugee women in Canada.” *Refuge*, Summer 2006: 51

²²⁴ Bokore, Nimo. “Somali-Canadian Women: Historical Past of Survival and Facing Everyday Challenges of Resettlement”. *York University*. April 2016

Education

Two interview participants disclosed their feelings of experiences of discrimination in the Ontario educational system. One participant, now a social worker in Toronto, stated that “School systems are hyper-punitive to young Somali men – they have a perceived criminality imposed upon them.”²²⁵ A participant described the issues facing her community as “stemming from the education system that sets Somali youth, especially boys, up to fail.” She continued by disclosing an instance of discrimination – which she noted is a common occurrence for Somali-Canadian youth – during which she subsequently complained to the school board. Her daughter, whose goal was to become a doctor, was told by a school guidance counsellor, “you will never be that”.²²⁶

Healthcare and Mental Health

In accessing healthcare, a Somali-Canadian Youth-Worker participant summarized the issues in accessing healthcare that she identifies in her community, stating that “Somali-Canadians can face linguistic barriers, in mental health especially, and barriers in addressing war-based trauma. During [the initial resettlement], the eldership didn’t focus on what they needed to for their health... there was no time to address their own needs.” She continued to describe the barriers to accessing mental health services, stating that “there are not a lot of resources trying to invite access to mental health services, and there’s a lack of identification of serious mental health issues that could come from post-traumatic stressful experiences...Diagnoses are not happening in healthy spaces, [they happen] after entering criminal justice processes.” She noted that the stigma of mental health issues are still present in the Somali-Canadian community, but highlighted that her generation is “trying to counteract that, but there are still serious gaps.”²²⁷

Financial Institutions and Remittances

A community participant and local business owner expressed how Somali-Canadians seeking loans in the Toronto Somali-Canadian community are often unsuccessful; “[it’s] hard to prove you have income... banks are becoming so hard on people. We don’t get loans, period. We don’t get loans, whether government or private, so we cannot grow.”²²⁸ The participant later stated that, “You cannot grow, you are always drained, you won’t have savings. On top on that, there are also all the social

²²⁵Anonymous, “Interview with Anonymous Somali Community Member.” Interviewed by Emily Schepers, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 28 March 2019

²²⁶ *Ibid.*

²²⁷ *Ibid.*

²²⁸ *Ibid.*

issues surrounding us.”²²⁹ She noted that, “Definitely banking is part of the discrimination. We are taken advantage of...the government is not doing anything, and [we] are getting ripped off, and they are exploiting people who are poor.”

In the Toronto neighbourhood of Rexdale, where many Somali-Canadians live in community housing she expresses that due to financial discrimination, “We cannot ever leave because we can’t get a mortgage.”²³⁰ It is beyond the confines of this report to appropriately articulate the losses and trauma that Somali people have endured as a whole, from colonization, civil war, national fragmentation and political unrest. This experience is compounded by forced displacement, family separation and criminalization in the places where they have settled, as well as the countless and immeasurable individual losses. For more information about the effects of marginalization and criminalization see Appendix A.

Implications for Global Somali Diaspora

The trend of de-risking and subsequent closure of MSB bank accounts over the past decade is not limited to the Canadian context. Some of the countries with significant financial markets also host large concentrations of the Somali diaspora, namely the US, the UK, Sweden and Australia. Remittance flows from the Somali diaspora account for approximately 25 to 45 percent of Somalia's GDP, serving as a critical source of income and acting as a means of survival for over 40 percent of its vulnerable population.²³¹ Due to several factors previously mentioned in this report, there has been a domino effect where the closure of MSB bank accounts by at least one major bank in these countries motivates other financial institutions to reassess MSB accounts, which has, in turn, resulted in closures globally.²³² For Somali MSBs in particular, the current concern revolves around funding to al-Shabaab and piracy.²³³

The US, which has the largest Somali diaspora population, closed the accounts of many Somali MSBs without providing any specific reasons or justifications to the business owners. Somali MSB owners in the US stated that they invested significantly in compliance systems, policies, and training to ensure compliance with American AML/CTF requirements.²³⁴ However, the major US banks proceeded with account closures, and some have labeled Somalia as a risky destination for money transfers in general.

²²⁹ *Ibid.*

²³⁰ *Ibid.*

²³¹ Durner and Shetret. 2015.

²³² *Ibid.*

²³³ *Ibid.*

²³⁴ Orozco and Yansura. 2013.

Similarly, the UK's major banks discontinued services to MSBs, especially in light of the fine on HSBC for its lax money-laundering controls.²³⁵ It is also worth mentioning Barclays decision to close Dahabshiil's accounts. Dahabshiil won a temporary injunction to keep its account open, and the company eventually changed banking partners. Even with the global clampdown on AML/CTF regulations, the UK government recognized the importance of Somali remittances and have implemented various initiatives to ensure that the flow of remittances to Somalia continues from the diaspora in the UK. These initiatives include the Action Group on Cross Border Remittances, which brings together multiple stakeholders to oversee a safer corridor for money transfers, provide increased supervision of MSBs, and risk analysis, among other activities.²³⁶

Australian MSBs also experienced significant account closures in August 2014 when the last remaining major bank processing their transactions, Westpac Bank, announced it was terminating relationships with MSBs due to concerns about AML/CTF and rising compliance costs.²³⁷ However, even though the Somali diaspora is much smaller in Australia than in the UK or US, the community was able to partner with the Australian Remitters and Currency Providers Association (ARCPA) to create an active and vocal lobby.²³⁸ The lobbying efforts caused the Australian government to develop an inter-agency task force with various stakeholders to serve as an intermediary between financial institutions and those affected.²³⁹ While this is a promising first step, there has not been significant evidence on how effective this initiative has been. So far, stakeholders directly affected and impacted by this initiative have expressed difficulties getting solution-driven feedback or outcomes from the government and banks involved in the process.²⁴⁰ In Canada, the CMSBA liaised with the House of Commons Finance Committee to provide recommendations addressing the supervision of self-regulated professions, the examination of security dealers by security regulators, among other issues to improve Canada's anti-money laundering and anti-terrorist financing regime.²⁴¹ So far, the government has responded stating that considerations such as constraints in Canada's AML/ATF regime framework must be taken into account in order to respect the Charter of Rights and Freedoms and privacy rights, as well as federal/provincial/territorial jurisdictional issues.²⁴²

²³⁵ Atlantic Council. "IntelBrief: Barclays and the Somali Remittances Crisis." *Atlantic Council*, 2013, www.atlanticcouncil.org/publications/external/intelbrief-barclays-and-the-somali-remittances-crisis.

²³⁶ Durner and Shetret. 2015.

²³⁷ *Ibid.*

²³⁸ *Ibid.*

²³⁹ *Ibid.*

²⁴⁰ *Ibid.*

²⁴¹ CMSBA. 2019. "Government Response to the 24th report of the Standing Committee on Finance (FINA). <https://www.canadianmsb.org/government-response-to-the-twenty-fourth-report-of-the-standing-committee-on-finance-fina/>

²⁴² FINA Report. 2019. "Government Response". http://www.ourcommons.ca/content/Committee/421/FINA/GovResponse/RP10326634/421_FINA_Rpt24_GR/421_FINA_Rpt24_GR_PDF-e.PDF

Implications for Other Diaspora Communities

The Somali diaspora is not the only one affected as a result of de-risking. Syria is also vulnerable to reductions in remittance flows due to the pressing humanitarian concerns resulting from ongoing conflict.²⁴³ Despite completing its AML/CTF action plan by criminalising terrorist financing and establishing procedures for freezing terrorist assets, Syria remains subject to the FATF global monitoring process and is listed as a risky jurisdiction, mainly as a result of its security situation.²⁴⁴ The presence of terrorist groups in the country poses an additional transactional risk because of the potential misappropriation for terrorist financing.

MSBs owners from the Haitian, Liberian and Nepalese diasporas have also lost their bank accounts during the last ten years.²⁴⁵ Like the Somali diaspora, many Haitian money transmitters that lost bank accounts are facilitating remittance transfers without using bank accounts. Almost all of the MSBs from these fragile states expressed that they are experiencing difficulties in getting new accounts.²⁴⁶ Most of these MSBs articulated that the banks did not provide a reason. The few that did receive some explanation were told that banks were merely responding to pressure from regulators to terminate money transmitter accounts.²⁴⁷

Non-Profit Organizations (NPOs) operating in conflict or unstable zones also suffer from de-risking. In the UK, there are a growing number of NPOs working in the Middle East and other high-risk geographic areas that have experienced payment delays or account closures.²⁴⁸ In July 2014 Ummah Welfare Trust, which works in places such as Syria and Gaza, had its account abruptly terminated by HSBC Bank.²⁴⁹

Foreign embassies also experience account closures as a result of de-risking. In May 2004, the US regulatory body issued a \$25 million fine to Riggs Bank in Washington, DC, for violations of suspicious activity reporting and for failure to establish adequate AML controls for its numerous foreign diplomatic clients.²⁵⁰ This situation led other banks to be wary of reputational risk, leaving embassies

²⁴³ *Ibid.*

²⁴⁴ FATF. "Improving Global AML/CFT Compliance: On-Going Process - 19 October 2018." *Financial Action Task Force (FATF)*, 2018, www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-october-2018.html#Syria.

²⁴⁵ GAO. "Remittances to Fragile Countries: Treasury Should Assess Risks from Shifts to Non-Banking Channels." *United States Government Accountability Office*, Mar. 2018.

²⁴⁶ *Ibid.*

²⁴⁷ *Ibid.*

²⁴⁸ Dyke, Joe. "Analysis: NGOs and Anti-terror Laws—How To Keep Your Bank Manager Happy," IRIN News, 31 December 2014, www.irinnews.org/report/100980/analysis-ngos-and-anti-terror-laws-how-to-keep-your-bankmanager-happy

²⁴⁹ *Ibid.*

²⁵⁰ Durner and Shetret. (2015)

struggling to find new banks to take their accounts.²⁵¹ The embassy of Angola, in Washington, DC, was the first to have all of its US bank accounts closed against its will when Bank of America terminated business with the embassy in November 2010.²⁵² The reason provided by US banks for the account closures was that foreign embassies pose increased money laundering risks due to their diplomatic exemption from reporting source of funds and also suspected corruption.²⁵³ As in the case of MSBs, this led to contention among banks, regulators and the US government. However, the threat to US foreign relations and American businesses abroad made the political stakes much higher and many large banks began reopening accounts with foreign embassies at a premium.²⁵⁴

While this example illustrates the potentially powerful role a government can play in the de-risking situation, it is less likely that MSBs or small charitable organizations will have the same results as there is arguably not enough political incentive for government to intervene.

²⁵¹ Zarate, Juan. "Treasury's War: The Unleashing of a New Era of Financial Warfare." New York: Public Affairs, 2013. www.washingtonpost.com/opinions/treasurys-war-the-unleashing-of-a-new-era-of-financial-warfare-by-juan-c-zarate/2013/09/27/f33809b0-08ff-11e3-9941-6711ed662e71_story.html?utm_term=.f2a230923cf9

²⁵² Durner and Shetret. (2015)

²⁵³ *Ibid.*

²⁵⁴ *Ibid.*

New Approaches

Human Rights

The rights to access to money is under the broader category of economic rights and social rights, which are the main parts of human rights. According to the Universal Declaration of Human Rights, States have the obligation to respect people, which is the first level of human rights. The basic life needs, like food and accommodation, is people's human rights in this catalog. In the Somali case, the remittances help people to have access to their basic needs. Therefore, states have the obligation to make their citizens have access to remittances from their overseas families. Though this violation does not happen inside Canada, the Canadian government should not ignore this violation.

On the other hand, the Somali Canadians, who try to send money to their families back home, have the rights to support their families.²⁵⁵ This right to family life has been recognized in a variety of international human rights instruments. In Article 16(3) of the Universal Declaration of Human Rights, "The family is the natural and fundamental group unit of society and is entitled to protection by society and the State."²⁵⁶ The similar languages have also been used in the Article 23 of the International Covenant on Civil and Political Rights²⁵⁷, and Article 8 of the European Convention on Human Rights.²⁵⁸ Therefore, family members need to assist each other, especially when there are special needs.²⁵⁹ The Somali Canadians have the rights to send money back to Somali for supporting their families in need. The lack of legal channel to send money is a violation of the human rights of Somali Canadians.

Legal Framework

International Law Mechanisms

There exists an expanding domain of soft laws and guidelines applicable to this case. These protocols could be used in an advocacy campaign within Canada to raise public awareness of this violation and lobby for political change without a formal lawsuit.

²⁵⁵ "Human Rights and Family Status (Fact Sheet)". 2019. *Ontario Human Rights Commission*. Accessed April 2. <http://www.ohrc.on.ca/en/human-rights-and-family-status-fact-sheet>.

²⁵⁶ "Universal Declaration of Human Rights". 2019. *United Nations*. Accessed April 2. <https://www.un.org/en/universal-declaration-human-rights/>.

²⁵⁷ "International Covenant on Civil and Political Rights". 2019. *Office of The United Nations High Commissioner for Human Rights*. Accessed April 2.

<https://www.ohchr.org/en/professionalinterest/pages/ccpr.aspx>

²⁵⁸ "European Convention on Human Rights". 2019. *ECHR*. Accessed April 2. https://www.echr.coe.int/Documents/Convention_ENG.pdf.

²⁵⁹ "Article 16 – IOF". 2019. *International Organization for The Family*. Accessed April 2. <https://profam.org/article-16/>.

United Nations Guiding Principles

The main international law relevant to this case are the UN Guiding Principles endorsed by the UN Human Rights Council in 2011, which stipulate that all business enterprises, which includes banks, must respect human rights through all their engagements.²⁶⁰ Banks have an obligation under International Humanitarian Law not to infringe on the human rights of individuals and to actively work to address adverse impacts on human rights. The principles recommend banks achieve this by developing clear human rights policies, conducting “due diligence” of human rights protections, and by developing processes to remediate any impacts they cause or to which they contribute.²⁶¹ While the UN Guiding Principles do not create new legal obligations for states, they do outline what obligations states already have under international law and set standards for national legislation regulating business activities of banks.²⁶²

Geneva Conventions

Under international humanitarian law (IHL), states are obliged to not deprive individuals from fulfilling their human right to access basic needs, including financial aid. Rule 55 in the Geneva Convention IV²⁶³ explicitly states that “parties to the conflict must allow and facilitate rapid and unimpeded passage of humanitarian relief for civilians in need.”²⁶⁴ Although Canada is not a direct party to the Somali conflict, under the Responsibility to Protect²⁶⁵ they hold an international obligation to do everything in their ability to stop human suffering and protect human rights, which inherently includes allowing unimpeded access of humanitarian assistance and financial aid to those in Somalia.²⁶⁶ Money transfers are a critical component of humanitarian aid, as access to money allows communities to support themselves, build resilience, and reduce suffering.

²⁶⁰ Foley Hoag, LLP and UNEP FI. “Banks and Human Rights: A Legal Analysis.” *UNEP Finance Initiative*. December 2015. <https://www.unepfi.org/publications/banking-publications/banks-and-human-rights-a-legal-analysis-2/>

²⁶¹ *Ibid.*

²⁶² *Ibid.*

²⁶³ The Geneva Conventions were adopted in 1949 following WWII to establish humanitarian standards in periods of war. They are made up of four treaties, of most relevance is treaty IV relative to the protection of civilian persons in war.

²⁶⁴ “Rule 55: access to humanitarian relief to civilians in need.” *ICRC*. https://ihl-databases.icrc.org/customary-ihl/eng/docs/v1_rul_rule55

²⁶⁵ The Responsibility to Protect is a global commitment endorsed by member states of the United Nations at the 2005 World Summit. This protocol establishes a universal obligation to protect human life from mass atrocities and human rights violation.

²⁶⁶ “About R2P.” *Global Centre for the Responsibility to Protect*. http://www.globalr2p.org/about_r2p

While the right to banking and access to finance is not explicitly outlined in any international law agreement, a soft law does exist surrounding the human right of banking. Nobel Peace Prize Laureate Muhammad Yunus has argued that access to money through a bank account is a human right and is essential for alleviating poverty and suffering.²⁶⁷ Putting up obstacles to this human right can therefore be considered an abuse of human rights under international soft law.

However, blocking assets is the responsibility of the banking sector which while regulated by the government is not directly controlled by the government and is not obliged to follow the same international laws as states. As private enterprises, banks are not parties to the Geneva Conventions or the Responsibility to Protect.²⁶⁸ However, the government expects banks to follow human rights protocols such as the Canadian Charter of Rights and Freedoms. Additionally, since the government provides oversight and sets regulations for the banks, the banks are an arm of the federal government and thus bound to IHL indirectly.

Canadian Legal Mechanisms

Federal government regulations require banks to provide clear rationale for blocking any financial transaction.²⁶⁹ Banks should be required to provide the same clarification to individuals when closing a business account. According to a UN Independent Expert on the humanitarian situation in Somalia, “all governments concerned have a duty to make sure that legitimate funds can continue to flow to the people of Somalia, whose livelihoods stand to suffer if these remittances are curtailed.”²⁷⁰

Canada currently has sanctions on Somalia relating to export of arms, military assistance, trade of charcoal, and travel.²⁷¹ There are no current sanctions on financial transfers; in fact, there is a specific exception allowing for the financing of humanitarian and development initiatives. Even without such sanctions, banks are de-banking businesses because they are apprehensive to take on unnecessary risks in this context and are acting to avoid being fined for lack of compliance. Banks, regulatory bodies, and government all appear to be “passing the buck” on responsibility for this issue rather than solving it.²⁷²

²⁶⁷ “Is access to banking a human right?” *IPTMA*. <http://iptma.com/2016/02/is-access-to-banking-a-human-right/>

²⁶⁸ Hoag and UNEP FI. “Banks and Human Rights.” <https://www.unepfi.org/publications/banking-publications/banks-and-human-rights-a-legal-analysis-2/>

²⁶⁹ “Frequently Asked Questions.” *Government of Canada*.

²⁷⁰ Press Release, Office of the U.N. High Comm’r for Human Rts., Counter-terrorism Measures Threaten Money Sent Home by Somali Diaspora, UN Rights Experts Warn, U.N. Press Release (Jan. 18, 2016).

²⁷¹ “Canadian Sanctions Related to Somalia.” *Government of Canada*. March 4, 2019.

https://international.gc.ca/world-monde/international_relations-relations_internationales/sanctions/somalia-somalie.aspx?lang=eng

²⁷² International Human Rights Clinic. “Tightening the Purse Strings: What Countering Terrorism Financing Costs Gender Equality and Security.” *Duke University of Law*. March 2017, page 30.

<https://law.duke.edu/sites/default/files/humanrights/tighteningpursestrings.pdf>

A case could be made against the Canadian government for regulatory policy which limits the banks' position in operating with MSBs. This in turn impacts the lives of Somali Canadians and Somali residents in Canada who rely on these businesses to support their families back home. As simply put by an MSB user, "I do not want to break the law to keep my family alive."²⁷³ The humanitarian impact of remittances from MSBs for individuals in Somalia is unmatched, and the Canadian government's financial regulations are placing additional strain on the Somali population in through clear financial exclusion.²⁷⁴

Technology

Finance Technology in Sub-Saharan Africa

The finance technology or fintech development scene has taken off in the last decade in Sub Saharan Africa (SSA).²⁷⁵ Today, SSA is a global leader in mobile money, with 40 out of 45 countries using some form of finance technology. This is particularly true for countries in East Africa that lead in adoption and usage rates.²⁷⁶ With the privatization of telecommunications companies and the subsequent penetration of mobile phones across the continent, solutions in this space have emerged to fill in the gaps left by traditional finance organizations.²⁷⁷ Mobile money became a popular option for transferring funds domestically to relatives in rural villages, but it soon became a common way to pay bills and purchase products and services.²⁷⁸ Today, users can go beyond this simple transaction and apply for loans. Telecommunications companies can also calculate credit scores by analysing phone bill payment behaviour.²⁷⁹ In light of these developments, regulators have enacted flexible rules that have allowed companies and users to reap the benefits of these innovations. A key figure today is that the number of bank deposits is lower than the number of people with mobile money accounts.²⁸⁰ Even more impressive is the number of mobile money transactions as a percentage of GDP is higher for SSA

²⁷³ Muhammad Dubet "Interview with Muhammad Dubet." Interviewed by Natasha Comeau and Vanessa Hayford, *Munk School of Global Affairs and Public Policy*, 9 March 2019

²⁷⁴ Karen Cooper and Clive Walker. "Security from Terrorism Financing: Models of Delivery Applied to Informal Value Transfer Systems." *The British Journal of Criminology*, Vol. 56(6), November 2016.

<https://academic.oup.com/bjc/article/56/6/1125/2415454>; Financial exclusion is the inability to access appropriate banking services. This limitation has been linked to compounding poverty, vulnerability, and a lack of financial security.

²⁷⁵ Fintech: products and companies that employ newly developed digital and online technologies in the banking and financial services industries. (Merriam Webster).

²⁷⁶ Amadou N. Sy et al., "FinTech in Sub-Saharan African Countries : A Game Changer?," IMF, February 14, 2019, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2019/02/13/FinTech-in-Sub-Saharan-African-Countries-A-Game-Changer-46376>.

²⁷⁷ The density of mobile phones in SSA is established at 81 per 100 inhabitants, according to the IMF.

²⁷⁸ Sy et al.

²⁷⁹ Sy et al.

²⁸⁰ Based on banking and mobile money data available for 17 countries in SSA.

(~20 percent) than for any other region in the world.²⁸¹ It is clear that Fintech has been a vehicle for financial inclusion and innovation in the region.

In the context of Somalia, mobile money accounts for a large proportion of the money supply to its domestic economy as digital payments are far more common than cash payments. Currently, 90 percent of the population has access to mobile phones, and 73 percent use mobile money.²⁸² Roughly 155 million mobile money transactions occur per month, with a value of \$2.7 billion. As expected, the use of mobile money is improving the efficiency and speed of transactions, lowering costs, and ensuring the safety of payments and savings.²⁸³

International inflows are a lifeline income for Somalis, whether in the form of remittances or humanitarian aid, are being severely impacted by the de-risking behaviour of international correspondent banks.²⁸⁴ These inflows have experienced a steady increase in fees and, as a consequence, there has been a volume reduction.^{285 286}

Fortunately, given the ubiquity of mobile money in East Africa in general and Somalia in particular, it is plausible that remittances or cross-border transactions can move away from traditional banking and capitalize on fintech innovations. The cost of sending remittances to SSA is the highest in the world.²⁸⁷ With fintech solutions, more precisely with Distributed Ledger Technology (DTL), the cost of cross-border transactions can be reduced, which in turn can increase the volume of remittances sent to the region.

²⁸¹ Sy et al.

²⁸² The World Bank Group, Country Management Unit, AFCE1 Africa Region, "COUNTRY PARTNERSHIP FRAMEWORK FOR THE FEDERAL REPUBLIC OF SOMALIA FOR THE PERIOD FY19 – 22," no. Report124734-SO (August 29, 2018), 16, <http://documents.worldbank.org/curated/en/941361537906125793/pdf/SOMALIA-CPF-08312018.pdf>.

²⁸³ Thilasoni. World Bank. (2018)

²⁸⁴ The World Bank Group, Country Management Unit, AFCE1 Africa Region. p. 48.

²⁸⁵ According to World Bank: "The global average cost of sending \$200 remained stagnant at 7.2% in the third quarter of 2017. This was significantly higher than the Sustainable Development Goal (SDG) target of 3%. Sub-Saharan Africa, with an average cost of 9.1 percent, remains the highest-cost region. Two major factors contributing to high costs are exclusive partnerships between national post office systems and de-risking by commercial banks, as they close bank accounts of MTOs, to cope with the high regulatory burden aimed at reducing money laundering and financial crime" "Remittance flows to the region are projected to decline by 0.5% in 2016, compared to the 0.8% decline of 2015. Flows to Nigeria, Somalia and other countries in the region are also impacted by a disruption to the services of many money transfer operators due to de-risking behaviour by international correspondent banks."

²⁸⁶ "World Bank Makes Progress to Support Remittance Flows to Somalia." "Remittances to Recover Modestly After Two Years of Decline" Press Release World Bank, October 17, <https://www.worldbank.org/en/news/press-release/2017/10/03/remittances-to-recover-modestly-after-two-years-of-decline>

²⁸⁷ Sy et al.

The Potential of Distributed Ledger Technology

Moving funds through current corridors requires transfers to pass through domestic payment systems with different operating hours and locations. In most cases, funds hit several banks and intermediaries before their final destination, leading to higher fees and slower settlement. The traditional SWIFT messaging network operating under business-to-business (B2B) cross-border payments technology, is slow and fragmented.²⁸⁸ Remittances are available to recipients within days. On the remittance service provider (RSP) side, funds even take longer time to move through intermediary correspondent banks. These deficiencies make the cross-border payment industry (swift messaging and correspondent banking networks), an ideal subject for innovation and disruption.²⁸⁹

The DLT concept will be reviewed before moving to the benefits of Blockchain/DLT technology. Within the realm of fintech, DLT is one of the most exciting innovations. DLT can be thought of as a large spreadsheet on the Cloud, but rather than having one copy held centrally, there are copies available globally. Thus, any changes in this Cloud-based and collectively-owned spreadsheet are reflected simultaneously.²⁹⁰ DLT has the potential to drive huge change to traditionally fragmented and opaque networks. Blockchain is a form of DLT that underpins the cryptocurrencies as Bitcoin, and although the terms are often used interchangeably, it is important not to confuse these concepts as our research is primarily focused on the potential use of DLT for remittances (see Figure 3 below).

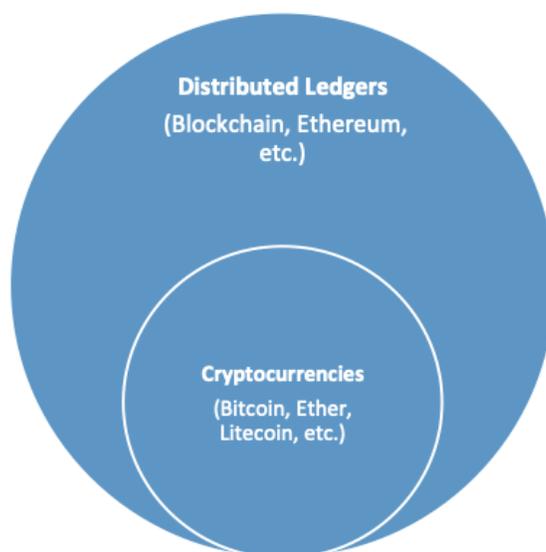


Figure 3: Graphic depiction of the relationship between Distributed Ledger Technology and cryptocurrencies.

²⁸⁸ Denecker, Oliver, Florent Istace, Pavan K. Masanam, and Marc Niederkorn. "Rethinking Correspondent Banking." McKinsey & Company. June 2016.

²⁸⁹ Geithner, Timothy F. U Klein, Michael. "General principles for international remittance services" Committee on Payment and Settlement Systems and The World Bank, January 2007. <https://www.bis.org/cpmi/publ/d76.pdf>

²⁹⁰ Cary, Nicolas. "Blockchain, the Future of Money | Nicolas Cary | TEDxManchester." YouTube. April 19, 2017. <https://www.youtube.com/watch?v=qdCCYVnxtW4>.

DLT for remittances has tangible benefits for MSB owners, users and regulators. For Somalia, DLT has a high potential as an enabler of remittances because of the rapidly increasing usage of mobile banking, young population, and the regulators' resilience to fintech options. The technology can serve as a comprehensive solution for low-income countries with fragile institutions like Somalia as explained below.

Through the facilitation of remittances by DLT, the sender and the receiver can trace the funds every step of the way. The transaction and user details will remain on an immutable, secure, and transparent public record, that is encrypted to ensure privacy, and that can be completely verified. In other words, compliance and intermediary banking costs are brought down, as transparency and traceability of remittance is substantially improved.²⁹¹ Additionally, the DLT speeds up the process and reduces the confirmation times.

DLT solutions bypass the de-risking issue by enabling remittance service providers to operate without the need of a correspondent banking relationship, while the money transfer operators. In this case the Somali MSBs, are satisfying the international AML/CTF standards because KYC protocols are easily met. Regulators can also oversee and audit these publicly-recorded transactions. Consequently, a DLT- remittance system eases the impact of the de-risking phenomenon driven by the banking sector that has affected the remittance services industry over the past years.²⁹²

This report will present two pilot projects and two case studies where DLT's benefits mentioned above from the regulator, from the messaging protocol business and from the remittance business spaces, are corroborated.

From the regulator's perspective, several central banks from different countries including Brazil, Europe, Japan, Singapore, Canada and South Africa have conducted pilot projects and real-time simulations to test the potential of DLT.²⁹³ The transactions were processed in seconds and the benefits in terms of regulatory oversight, financial stability and protection in case of cyber-attacks were proven. In both cases, the processing time of an individual transaction was reduced to less than two seconds and, as a result, all daily transactions were processed in less than two hours by these institutions.²⁹⁴ Moreover, DLT enhanced the traceability and reliability of the information and the data generated can

²⁹¹ "The Future Is Decentralised." United Nations Development Program. March 2, 2018.

<https://www.undp.org/content/dam/undp/library/innovation/The-Future-is-Decentralised.pdf>.

²⁹² Denecker, Oliver, Florent Istace, Pavan K. Masanam, and Marc Niederkorn. "Rethinking Correspondent Banking." McKinsey & Company. June 2016. <https://www.mckinsey.com/industries/financial-services/our-insights/rethinking-correspondent-banking>.

²⁹³ Amadou N. Sy et al., "FinTech in Sub-Saharan African Countries : A Game Changer?," IMF, February 14, 2019, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2019/02/13/FinTech-in-Sub-Saharan-African-Countries-A-Game-Changer-46376>.

²⁹⁴ Sy et al.

support credit risk assessment. These two pilot projects were conducted across a network of geographically distributed nodes, with distributed consensus providing the required resilience.²⁹⁵

From the messaging protocol business' perspective, for the last forty years, the majority of B2B cross-border payments were supported by financial messaging provider SWIFT, but as mentioned before the service is expensive, slow and opaque. A company that has innovated in this sector is Ripple.²⁹⁶Ripple is a fintech start-up that conducts inter-bank cross-border payment transfers in seconds, significantly reducing the settlement risk. By 2018, Ripple had signed up more than 100 financial institutions operating in multiple countries together with domestic banks.²⁹⁷

From the remittance business' perspective, there are concrete examples as to how DLT technology can support cross-border transactions. In 2018, Ant Financial, an Alibaba Group subsidiary, developed a digital wallet platform specifically with the market of remittances between Hong Kong and Philippines in mind. Philippines received \$33 billion in remittances in 2017 and there are 180,000 Filipinos residing in Hong Kong.²⁹⁸For this purpose, they partnered with the Filipino telecommunications company, Globe Telecom, and their longstanding mobile money service GCash. The Standard Chartered Bank is the financial institution responsible for the liquidation of funds and currency exchange.²⁹⁹ During the launch the first transaction was reportedly completed in under three seconds, as opposed to days or weeks.³⁰⁰ Their second venture was launched earlier this year to service the \$1 billion remittance market between Pakistan and Malaysia.³⁰¹ In this case, Ant Financial partnered with a telecommunications company and a bank (Telenor Microfinance Bank and Telenor 4G), both owned

²⁹⁵ Sy et al.

²⁹⁶ Denecker, Oliver, Florent Istace, Pavan K. Masanam, and Marc Niederkorn. "Rethinking Correspondent Banking." McKinsey & Company. June 2016. <https://www.mckinsey.com/industries/financial-services/our-insights/rethinking-correspondent-banking>.

²⁹⁷ Denecker, Oliver, Florent Istace, Pavan K. Masanam, and Marc Niederkorn. "Rethinking Correspondent Banking." McKinsey & Company. June 2016. <https://www.mckinsey.com/industries/financial-services/our-insights/rethinking-correspondent-banking>.

²⁹⁸ John, Alum. "Ant Financial's Hong Kong Venture Launches Blockchain-based..." Reuters. June 25, 2018. <https://uk.reuters.com/article/us-ant-financial-strategy/ant-financials-hong-kong-venture-launches-blockchain-based-remittance-service-idUKKBN1JL143>

²⁹⁹ Clouder, Alibaba. "World's First Blockchain-Based Cross-Border Remittance Service by Ant Financial." Alibaba Cloud. September 26, 2018. https://www.alibabacloud.com/blog/worlds-first-blockchain-based-cross-border-remittance-service-by-ant-financial_594030.

³⁰⁰ Clouder, Alibaba. "World's First Blockchain-Based Cross-Border Remittance Service by Ant Financial." Alibaba Cloud. September 26, 2018. https://www.alibabacloud.com/blog/worlds-first-blockchain-based-cross-border-remittance-service-by-ant-financial_594030; Hsu, Jenny W. "AlipayHK, GCash Launch Cross-Border Remittance Service via Blockchain." Alizila. October 05, 2018. Accessed March 31, 2019.

³⁰¹ Antony Peyton, "Alipay Powers Pakistan's 'first' Blockchain-Based Cross-Border Remittance Service," FinTech Futures, accessed March 27, 2019, <https://www.bankingtech.com/2019/01/alipay-powers-pakistans-first-blockchain-based-cross-border-remittance-service/>; "Pakistani Bank Teams With Alipay for Blockchain Remittances - CoinDesk," CoinDesk (CoinDesk, January 9, 2019), <https://www.coindesk.com/pakistani-bank-teams-with-alipay-for-blockchain-remittances>.

by Telenor Group, a Norwegian holding, that have years of experience with mobile money in both countries.

Although DLT can serve as an enabler for remittances, it is not without its challenges. First, extensive and continuous investments in telecommunications and energy infrastructure will be needed to support its birth and growth in Somalia. Another challenge is that regulators, both in the country and internationally must understand the risks without impeding innovation. Finally, DLT is not exempt from potentially being used as a vehicle for financial crimes. Ultimately, criminals and terrorists may also use this technology to finance illicit activities just as they use traditional banking systems.

Recommendations

Recommendations for MSB Owners

1. MSB owners should consider increasing engagement with the Canadian Money Services Business Association, which participates in the Advisory Committee on Money Laundering and Terrorist Financing. This would be expected to improve our client's ability to take advantage of the regulatory regime as it exists today and would also provide modest opportunities to influence the evolution of Canada's anti-money laundering and counter-terrorist financing legislative framework.
2. MSB owners should consider reviewing their AML reporting and methodology and going back to banks to be evaluated on a case by case basis. It was operationally easier for banks to de-risk from the entire sector and reassess MSB clients one by one before reentry.
 - a. There are multiple consulting agencies that could assist with the technical aspects of the negotiations. Risk management experts have mentioned Grant Thornton, Deloitte, A.T Kearney; however, there are numerous other competitors in this industry.
 - b. When negotiating with banks, it is better for each MSB owner to do so individually. Joining forces and acting as a group when interacting with financial institutions might be detrimental to the MSBs that are most compliant with AML regulations.
 - c. However, this might not lead to any improvements given the dependency of the Canadian financial institutions on their US correspondent banks.
3. MSB owners should explore, and when possible adopt, Distributed Ledger Technology (DLT) advancements like RippleNet. Such platforms offer to perform cross-border transactions without the need of a corresponding banking services and swift messaging system, which eliminates one of the bottlenecks we identified that the MSBs face. We recommend exploring this route as a group rather than individually due to the potential costs associated with the technology.

Recommendations for Canadian Government

1. As the lead of Canada's AML/CTF regime, the Ministry of Finance should conduct a comprehensive assessment of the impacts of de-risking at the national level. At present, there is little empirical data about the types, numbers and reasons for business relationship terminations. Some of the reasons for this are as follows: financial institutions are incentivized to protect their client data and business strategies; there is no mechanism for individual affected

parties to be heard, such as an appeals process; and clients who have been de-risked may be reluctant to discuss the problem publicly for fear of risking their chances with another bank. This lack of data is particularly concerning because it presents a barrier to assessing the scope of the problem and identifying vulnerable communities affected by de-risking.

2. In parallel, the Department of Finance should increase engagement with smaller and community-specific money services businesses. It is known that these businesses often serve populations already experiencing a degree of isolation from the formal financial system, and therefore may be disproportionately impacted by reduction in service.

Recommendations for Canadian Banks

It is important to note that commercial banks offer services based on profitability assessments and will avoid markets where they believe they will experience losses. As such, this report has focused on recommendations to the legislative and regulatory bodies that create the framework within which banks operate. The project team believes that changing the regulatory framework and the incentives of the banking industry is the most strategic way forward to addressing this issue. However, banks could review their risk management strategies based on domestic and international guidelines and potentially improve the situation for Somali-Canadian MSBs while further optimizing their own business interest.

1. Banks should review guidance issued by FINTRAC, with a focus on a more discretionary risk-management approach that does not involve risk avoidance of the entire MSB sector or particular regions. The *PCMLTFA* expects reporting entities to take a risk-based approach when assessing their clients, however, it also expects these assessments to take place on a case-by-case basis so as not to impact an entire sector (for more details on these guidelines and source information see page 27). Likewise, banks should review guidance issued by FINTRAC regarding the customer due diligence requirements in the *PCMLTFA* regarding the “know-your-customer” rule.
2. Banks should review guidance issued by the FATF regarding financial inclusion and misperceptions about hawalas. To the extent that banks misunderstand the expectations of regulators, or the business models of existing or potential clients, this could represent a missed opportunity for business (for details about misperceptions of hawalas and source information see page 33).

Recommendations for the Financial Action Task Force (FATF)

1. The FATF should encourage greater participation of civil society in plenary meetings and ongoing dialogues in order to better address those impacted by FATF member decisions. The FATF holds regular plenary meetings which are currently only attended by policy makers. The institution additionally held nine private sector dialogues, with one involving civil society participation to discuss issues including information sharing, correspondent banking, remittances and de-risking.

Recommendations for Community: *Mobilize, Advocate, Litigate*

We propose a three-step advocacy process that involves mobilization with other stakeholders, collective advocacy to entities in the regulatory framework, and ultimately the possibility of litigation against the Canadian government using international humanitarian law.

Step 1: Mobilize with the other stakeholders

In this section we outline various stakeholders you as a community of Canadian Somali MSB owners can work with throughout your advocacy efforts. Our suggestion is that when dealing with banks advocating for your account, you work on an individual basis. However, when advocating to government and intergovernmental organizations (FINTRAC, Ministry of Finance, OSFI, OSBI, and FATF), this should be a collaborative effort.

Stakeholders:

- Mobilize the **Canadian MSB Association:**
The Canadian MSB Association provides a platform where MSB owners can collaborate, share information, and advocate for issues regarding their regulations and compliance in Canada.³⁰²
 - Somali-Canadian MSB owners should consider becoming a member (for those not already members) to ensure Somali-Canadian MSB issues are incorporated as a priority for the Canadian MSB Association.
 - Get involved with lobbying efforts to ensure Somali-Canadian MSB perspective is considered and incorporated appropriately. (See “*Legislation*” section on page 25 of the report for details on lobbying efforts of the Canadian MSB Association.)
- Mobilize with other **Somali-Canadian MSBs and communities within and outside of Toronto:**

³⁰² “About Us”, *The Canadian Money Services Business Association*. <https://www.canadianmsb.org/about/>.

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- Lead the development of a collaborative information and resource sharing network to amplify and improve advocacy efforts. This can include Somali diaspora communities in Ottawa, Calgary, Edmonton, and Winnipeg as recommended starting points.
 - This should also involve collaboration with Somali community groups who would be interested in remittance issues facing the Somali diaspora.
 - Consider also engaging with Somali-Canadian youth by educating and incentivising their engagement with issues related to remittances.
 - Engage with Somali-Canadian MSB owners that operate in multiple cities across Canada. For example; Amal Express (Brooks, Edmonton, and Saint Laurent) and Kaah Express (Toronto, Ottawa, and Edmonton).³⁰³
 - Mobilize with the **global Somali diaspora**:
 - Engage with the global Somali community on MSB and remittances issues to build a cohesive front. De-risking is an issue facing Somali diasporas around the world and working with other Somali diaspora communities could be beneficial. Somali diaspora communities outside of Canada exist in: The United States (with the majority living in Minnesota, New York, and Texas),³⁰⁴ the UK, Yemen, United Arab Emirates, Sweden, Norway, South Africa, Germany, Australia, and the Netherlands.
 - This will create network sharing with the effect of an increasingly wider and more global network of informational sharing and support.
 - Starting points for global mobilization: Somali Remittance Action Group in Australia which had success in the litigation of a banking corporation; the Somali-UK diaspora who succeeded in lobbying efforts, and the Minneapolis Somali Diaspora.³⁰⁵
 - Mobilize with **academics and researchers**:
 - Further research could be conducted by academics working on this issue to provide a more in-depth analysis of key components, for instance:

³⁰³ “FINTRAC- Money services businesses (MSB) registry search”, *Canada Government*. Accessed April 8, 2019, <http://www10.fintrac-canafe.gc.ca/msb-esm/public/msb-search/search-by-name/>.

³⁰⁴ “Population Movements.” *Centers for Disease Control and Prevention*.

<https://www.cdc.gov/immigrantrefugeehealth/profiles/somali/populationMovements.html>

³⁰⁵ Mirjam Donath. “Somali expats fear bank curbs on sending money home.” *Reuters*. 27 June 2014.

<https://www.reuters.com/article/us-somalia-expats-idUKKBN0F222420140627>; Swati Pandey. “Remittance firms sue Australia’s Westpac as banks shun money transfer firms.” *Reuters*. 27 November 2014; Martin Arnold.

“Barclays and remittance group reach deal on Somalia services.” *Financial Times*. 16 April 2014.

<https://www.ft.com/content/54aca3a4-c557-11e3-89a9-00144feabdc0>

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- What recommendations can be made to the Somali government to assist communities in facilitating the transfer of remittances on the receiving end?
 - Is competition between Canadian banks and MSBs for service provision a factor contributing to de-risking?
 - What is the current state of financial management and regulation in Somalia, what institutions, policies, and practices exist?
 - Overseas Development Institute (ODI): They are a global think tank that engages in partnerships to confront global challenges and develop solutions.³⁰⁶ They currently have a presence in Somaliland, and they conducted a research project to understand the impact of de-risking on humanitarian aid.³⁰⁷
 - Mobilize with **civil society actors, including NGOs and community organizations**:
 - Communicate with organizations who are engaged with this issue including Oxfam, Adeso, Amnesty International, and Libera.
 - Human rights-based advocacy can be framed around a number of international principles and protocols, including the UN Guiding Principles for banks and the Geneva Conventions on access to humanitarian aid.
 - Humanitarian agencies also have stake in this issue as the 2016 Canadian Mutual Evaluation from the FATF marked the sector as an area of non-compliance. Indicating that humanitarian organizations need to be further reviewed by the Canadian government.³⁰⁸

Step 2: Focus advocacy on these specific actors:

- **Financial Transactions and Reports Analysis Centre (FINTRAC)**

FINTRAC is Canada's financial intelligence unit (FIU). It assists in the detection, prevention and deterrence of money laundering and the financing of terrorist activities. FINTRAC was established by, and operates within the ambit of, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and its Regulations, which is led by the Ministry of Finance.³⁰⁹

³⁰⁶ "About ODI", *Overseas Development Institute*. <https://www.odi.org/about-odi>.

³⁰⁷ "Understanding the impact of de-risking on humanitarian aid," *Overseas Development Institute*. <https://www.odi.org/projects/2919-understanding-impact-de-risking-humanitarian-aid>

³⁰⁸ Financial Action Task Force, Anti-money laundering and counter-terrorist financing measures: Canada Mutual Evaluation Report. September 2016, www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf.

³⁰⁹ "Who We Are." FINTRAC. December 14, 2018. <http://www.fintrac-canafe.gc.ca/fintrac-canafe/1-eng.asp>.

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- The Somali MSB association should request an interpretative note with the purpose of clarifying FINTRAC's position on what are the recommended best practices for MSBs to comply with the Know Your Customer policy in a fragile institutions' context (i.e. the case of Somalia).
 - After receiving an interpretive note, request a sit-down meeting with FINTRAC executives to discuss this matter more directly.

- **Ombudsman for Banking Services and Investments (OBSI)**

OBSI is Canada's independent dispute-resolution service for consumers and small businesses with a complaint they can't resolve with their banking services.³¹⁰

- **Step one:** The Somali MSB association should send a formal complaint to the compliance department of banks (the team suggests RBC as this was the last bank to de-risk Somali MSBs). This communication should request elaboration on the decision of de-risking Somali MSBs in light of compliance evidence.
- **Step two:** The Somali MSB association should request an interpretative note from the OBSI on what constitutes "just and fair treatment" of MSBs by banks, attaching the bank's reply from the previous step.
- Although not legally binding, OBSI's answer to this petition may act as leverage before the Canadian government. For example, these two documents, in addition to FINTRAC's answer, may support negotiations with the Ministry of Finance.

- **Office of the Superintendent of Financial Institutions (OSFI)**

OSFI is an independent federal government agency that regulates and supervises financial institutions to determine whether they are in sound financial condition and meeting their requirements. OSFI regulates by developing rules, interpreting legislation and regulations and providing regulatory approvals for certain types of transactions, including risk management and compliance.³¹¹

- Follow up with the Canadian MSB Association, on the letter sent by this organization to OSFI in 2016. This is a potential avenue Somali MSBs need not navigate alone as they can join efforts with the Canadian MSB Association.

³¹⁰ "Can OBSI Help?" OBSI. <https://www.obsi.ca/en/for-consumers/can-obsi-help.aspx>.

³¹¹ "About Us." Office of the Superintendent of Financial Institutions. February 04, 2019. <http://www.osfi-bsif.gc.ca/Eng/osfi-bsif/Pages/default.aspx>.

- **Financial Action Task Force (FATF)**

FATF is an inter-governmental “policy-making body” that works to set standards and promote the legal and regulatory measures of AML/CTF efforts, as well as any other threats to the international financial system.³¹²

- Engage with the Canadian MSB Association in an attempt to obtain a seat at the table for FATF’s annual meeting. The FATF should strive for greater inclusion of civil society in order to better address those impacted by FATF member decisions.
 - The FATF holds regular plenary meetings which are currently only attended by policymakers. They have previously held nine private sector dialogues, with one involving civil society participation to discuss issues including information sharing, correspondent banking, remittances and de-risking.

- **Minister of Finance and the Minister of Public Safety**

FINTRAC is accountable to the Minister of Finance and the Minister of Public Safety, who are in turn accountable to Parliament for the activities of the Centre. The Ministers are not in a position to prescribe or prohibit which services banks can offer to clients, but it can issue guidelines that encourage financial inclusion while observing AML, CTF and KYC policies.

- The Somali MSB association should advocate for a comprehensive assessment of the impacts of de-risking at the national level because there is little empirical data about the types, numbers and reasons for business relationship terminations. The lack of data is a barrier to assessing the scope of the problem and identifying vulnerable communities affected by de-risking.
- The Somali MSB association should advocate for regulations that require banks to provide clear rationale to individuals when closing a business account, similar to the federal government regulations that require banks to provide clear rationale for blocking any financial transaction.³¹³
- The Somali MSB association should advocate for more communication channels and engagement between the Ministry of Finance and the Ministry of Public Safety and Emergency Preparedness and smaller and community-specific MSBs, especially those businesses that serve populations already experiencing a degree of isolation from the formal financial system.

³¹² “Who we are”, *Financial Action Task Force*. <http://www.fatf-gafi.org/about/>.

³¹³ “Frequently Asked Questions.” *Government of Canada*. https://www.international.gc.ca/world-monde/international_relations-relations_internationales/sanctions/faq.aspx?lang=eng

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- The Somali MSB association should advocate for guidelines that incentivize a more selective risk-management approach from banks and discourage the wholesale risk avoidance of entire sectors or regions.
 - These advocacy efforts may be strengthened by the involvement of the Canadian MSB Association and the interpretative notes from OBSI and FINTRAC.

Step 3: Litigation

- This recommendation should not be considered legal advice as it is not provided by legal professionals, however the research team consulted with legal professionals to determine that there is a pathway for litigation if advocacy efforts do not yield the desired results.
- Litigation against the **Canadian Government**:
 - A case could be made against the Canadian government for expanding the space within regulatory policy to allow for MSB's operation in line with AML and CTF policies. This can be justified by the significant impacts felt by Somali residents in Canada who rely on these businesses to support their families back in Somalia.
 - The humanitarian impact of remittances from MSBs for individuals in Somalia is unmatched, and the Canadian government's financial regulations are placing additional strain on the Somali population through clear financial exclusion.³¹⁴
- Litigation against **Canadian Banks**:
 - A case could be made against the Canadian banks for closing accounts without reason. A similar case had success in Montreal through formal litigation, in this case an Iranian business account was closed by TD without clear rationale.³¹⁵
 - *The legal advisors we met with were hesitant to advise this option as it is a lengthy process, costly, and unlikely to be successful.*

³¹⁴ Karen Cooper and Clive Walker. "Security from Terrorism Financing: Models of Delivery Applied to Informal Value Transfer Systems." *The British Journal of Criminology*, Vol. 56(6), November 2016. <https://academic.oup.com/bjc/article/56/6/1125/2415454>; **Financial exclusion is the inability to access appropriate banking services. This limitation has been linked to compounding poverty, vulnerability, and a lack of financial security.**

³¹⁵ Jesse Feith. "Montreal businessman wins 'David versus Goliath' case against TD Bank." *Montreal Gazette*. 1 August 2018. <https://montrealgazette.com/news/montreal-businessman-wins-david-versus-goliath-case-against-td-bank>

Appendix A

Effects of Marginalization and Criminalization

The report discusses some of the systemic challenges facing the Canadian-Somali diaspora, including discrimination in education and healthcare services, as well as accessing financial services. These are just part of broader feelings of ostracization and marginalization. For “those who made it out”, and through all of the issues Somali-Canadians face, there is also the loss of many of its young boys and men to violence and the criminal justice system here in Canada. Beyond the statistics, our participants are amongst those in Canada who have lost family and friends to the violence. The Toronto Somali-Canadian community suffers, mourns, and seeks justice alongside its youth. A participant from an organized group of mothers of the victims of gun violence in the Somali-Canadian community, described this connection; “I am not one of the mothers of those incarcerated or killed, but the issue is close to my heart. I feel their pain.”³¹⁶ In our discussion, we spoke of the social issues highlighted earlier in the report, which the participant referenced to explain the complex set of connected issues that result in violence and poverty in her community. She stated that it is, “All interconnected, like dominos...[without] mental health access...people become in despair. Every door closes.”³¹⁷

An interview participant also emphasized the generational trauma of Somali-Canadians, which is understood to be an effect of forced migration from conflict.³¹⁸ She explained that this is compounded by the ongoing trauma the community endures from the high levels of violence; “Voices are weathered by trauma, loneliness, and we are in the headlines. We are constantly seeing our young members of the community in the news.” Another participant in the Mother’s group stated that, “[There is a] longstanding gap of coming to funerals, [we] give our condolences, and walk away until the next funeral.”³¹⁹

Community-Building, Resilience, and Somali-Canadian Women

Interview participants pointed to the “devastation” that the entire community feels over the loss of its youth. One community member stated that, “We are grieving, but trying to make sense of it, to deal with the grief.”³²⁰ As part of the Mother’s group, she highlighted their emphasis on taking action,

³¹⁶ Anonymous, “Interview with Anonymous Somali Community Member.” Interviewed by Emily Schepers, Vanessa Hayford, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 23 March 2019

³¹⁷ *Ibid.*

³¹⁸ Sangalang, Cindy C., and Cindy Vang. “Intergenerational Trauma in Refugee Families: A Systemic Review,” *Journal of Immigrant and Minority Health*, 19, no. 3 (June 2017), 745-754.

³¹⁹ Anonymous, “Interview with Anonymous Somali Community Member.” Interviewed by Emily Schepers, Vanessa Hayford, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 23 March 2019

³²⁰ *Ibid.*

“To see the problem in different ways, to create solutions from family to community level, and then to the social level... [the Women’s group] builds morale, to help identify the problem – and you say, ‘Yes it’s too much to deal with’, but then you also have to say, ‘What can I do?’” Many of the Somali-Canadian women in the Mother’s Group have lost their sons to gun violence or to the criminal justice system. The same interview participant describes the Women’s Group as a “safe place to come together, to express opinions, validate feelings, and share the heartbreak... and there is growing solidarity between Somali-women, [we are] learning together to make more impact, to support each other,” which she continues to describe as “very empowering, knowing that something like this is happening, and then making an effort to educate the community and come up with solutions.”³²¹

The burden on Somali-Canadian women is significant. As an interview participant conveyed, Somali-Canadian women, “...have denied themselves education and time for themselves. They give out every inch of themselves to kids, husbands, families, extended families, and they need something back from society. We need society to give back to the mothers – all mothers – but especially struggling Somali mothers. Most just give and give and give.” This participant sponsored her family for reunification in Canada, and then completed higher education, but noted that many Somali women “cannot even try to pursue education...many are working mothers struggling to put bread on the table.”³²²

A Somali-Canadian belonging to the ‘millennial’ generation, who moved to Canada from Somalia at the age of three, also expressed the burden on the first generation of Somali-women, and noted the depth of the process of forced migration: “[Somali women were] teenagers or young adults when they came to Canada, some had children already – a very disruptive time to move to Canada.” She continued, noting that Somali women, “are the cultural and religious voices of the community. They make efforts to ensure that young people don’t lose aspects of their identity...women became focused on being cultural messengers.”³²³ The burden of the cultural connection of Somali-Canadians to Somalia rests mostly on the women, and remittances are emphasized by participants as a significant factor in the maintenance of connection and a common identity. This vital link from the diaspora to Somalia is made demonstrably more difficult for Somali-Canadians, contributing to a negative effect on the Somali diaspora in Canada and development and remittance aid to Somalia. This report does not assert that the de-risking of Somali MSBs and the difficulties in sending remittances *directly* results in the social issues outlined. However, participants of this research have expressed that de-risking contributes to reifying the systemic discrimination that the community endures and reinforces feelings of marginalization and discrimination.

³²¹ *Ibid.*

³²² *Ibid.*

³²³ Anonymous, “Interview with Anonymous Somali Community Member.” Interviewed by Emily Schepers, and Rose Davies, *Munk School of Global Affairs and Public Policy*, 28 March 2019