

Somalia

RISK & COMPLIANCE REPORT

DATE: September 2017

Executive Summary - Somalia	
Sanctions:	UN, EU & US Financial and Arms
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Supporter of / Safe Haven for International Terrorism Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	US Dept of State Money Laundering Assessment
<p>Major Investment Areas:</p> <p>Agriculture - products: bananas, sorghum, corn, coconuts, rice, sugarcane, mangoes, sesame seeds, beans; cattle, sheep, goats; fish</p> <p>Industries: a few light industries, including sugar refining, textiles, wireless communication</p> <p>Exports - commodities: livestock, bananas, hides, fish, charcoal, scrap metal</p> <p>Exports - partners: UAE 50.8%, Yemen 19%, Oman 12.8% (2012)</p> <p>Imports - commodities: manufactures, petroleum products, foodstuffs, construction materials, qat</p> <p>Imports - partners: Djibouti 27.4%, India 12%, Kenya 7.2%, Pakistan 6.5%, China 6.1%, Egypt 5%, Oman 4.6%, UAE 4.5%, Yemen 4.4% (2012)</p>	

Investment Restrictions:

Information unavailable

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Section 1 - Background

Britain withdrew from British Somaliland in 1960 to allow its protectorate to join with Italian Somaliland and form the new nation of Somalia. In 1969, a coup headed by Mohamed SIAD Barre ushered in an authoritarian socialist rule characterized by the persecution, jailing, and torture of political opponents and dissidents. After the regime's collapse early in 1991, Somalia descended into turmoil, factional fighting, and anarchy. In May 1991, northern clans declared an independent Republic of Somaliland that now includes the administrative regions of Awdal, Woqooyi Galbeed, Togdheer, Sanaag, and Sool. Although not recognized by any government, this entity has maintained a stable existence and continues efforts to establish a constitutional democracy, including holding municipal, parliamentary, and presidential elections. The regions of Bari, Nugaal, and northern Mudug comprise a neighboring semi-autonomous state of Puntland, which has been self-governing since 1998 but does not aim at independence; it has also made strides toward reconstructing a legitimate, representative government but has suffered some civil strife. Puntland disputes its border with Somaliland as it also claims portions of eastern Sool and Sanaag. Beginning in 1993, a two-year UN humanitarian effort (primarily in the south) was able to alleviate famine conditions, but when the UN withdrew in 1995, having suffered significant casualties, order still had not been restored. In 2000, the Somalia National Peace Conference (SNPC) held in Djibouti resulted in the formation of an interim government, known as the Transitional National Government (TNG). When the TNG failed to establish adequate security or governing institutions, the Government of Kenya, under the auspices of the Intergovernmental Authority on Development (IGAD), led a subsequent peace process that concluded in October 2004 with the election of Abdullahi YUSUF Ahmed as President of a second interim government, known as the Transitional Federal Government (TFG) of the Somali Republic. The TFG included a 275-member parliamentary body, known as the Transitional Federal Parliament (TFP). President YUSUF resigned late in 2008 while United Nations-sponsored talks between the TFG and the opposition Alliance for the Re-Liberation of Somalia (ARS) were underway in Djibouti. In January 2009, following the creation of a TFG-ARS unity government, Ethiopian military forces, which had entered Somalia in December 2006 to support the TFG in the face of advances by the opposition Islamic Courts Union (ICU), withdrew from the country. The TFP was doubled in size to 550 seats with the addition of 200 ARS and 75 civil society members of parliament. The expanded parliament elected Sheikh SHARIF Sheikh Ahmed, the former ICU and ARS chairman as president in January 2009. The creation of the TFG was based on the Transitional Federal Charter (TFC), which outlined a five-year mandate leading to the establishment of a new Somali constitution and a transition to a representative government following national elections. In 2009, the TFP amended the TFC to extend TFG's mandate until 2011 and in 2011 Somali principals agreed to institute political transition by August 2012. The transition process ended in September 2012 when clan elders appointed 275 members to a new parliament replacing the TFP and the subsequent election, by parliament, of a new president.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Somalia is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

Somalia has not yet undertaken a Mutual Evaluation relating to the implementation of anti-money laundering and counter-terrorist financing standards.

US Department of State Money Laundering assessment (INCSR)

No longer catergorised a Jurisdiction of Primary Concern however the 2017 Report has not yet been published and, therefore, below is the 2016 report.

Somalia was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

In 2013, Somalia and the international community endorsed a New Deal Compact that outlines peace and state-building goals aimed at helping Somalia become more accountable to the people of Somalia in instituting political, financial, health, and security reforms. In 2015, the Federal Government of Somalia committed itself to a slate of reforms, including improving fiscal transparency and budgeting processes. To improve fiscal transparency and build a nascent banking sector, the Central Bank of Somalia implemented reforms, including granting interim licenses to six banks and nine money transfer organizations, installing a Treasury Single Account, and developing internal procedures for banking supervision, including on and off site inspections.

Somalia's financial system is informal, operating mostly outside of government oversight, either via the black market or unsupervised money remittance firms (hawaladars). An estimated \$1.3 billion in remittances is sent to Somalia every year, primarily by the Somali diaspora that fled the country during two decades of conflict. That amount is roughly one quarter of Somalia's gross domestic product, eclipsing all international aid to the country (projected at about \$1 billion in 2015). Most remittances are routed through financial centers

in the Gulf. The World Bank estimates 40 percent of all Somalis depend on remittances for their basic needs.

With its long land borders and extensive coastline, the smuggling of currency and goods into and out of Somalia remains common, due mainly to customs and border security officials' lack of capacity to control points of entry. The UN Security Council reports piracy has declined significantly, with no large commercial vessels hijacked or held for ransom by Somali pirates in the last two years, resulting in a decrease of ransom payments.

Corruption is endemic, providing opportunities for rampant money laundering. For example, media and advocacy groups have reported that some government officials in Somalia's Jubbaland benefited from illegal charcoal exports and possibly helped to transfer profits to foreign destinations.

The African Union Mission in Somalia (AMISOM) and the Somali National Army (SNA) made progress clearing al-Shabaab from areas of south central Somalia. However, al-Shabaab continues to threaten Somalia and the region and raises funds through multiple sources, including public taxation and extortion of local businesses and private citizens in areas controlled by al-Shabaab; donations from Somali and non-Somali sympathizers, both inside Somalia and abroad; kidnapping for ransom; and sharing in the illicit charcoal and sugar trade in southern Somalia. Al-Shabaab also taxes charcoal production before the bags reach ports for export, and it has a stake in the market value of the cargo when it reaches its destinations in the Middle East. Al-Shabaab's revenues from the charcoal trade are declining, according to a UN report, increasing the group's focus on other revenue-generating activities. Despite the existing UN ban on the export of charcoal from Somalia, in its 2014 report, the UN Somalia and Eritrea Monitoring Group estimates al-Shabaab received an estimated \$7.5 – 15 million in revenue from checkpoints on illegal charcoal exports. Al-Shabaab moves some funds via cash couriers, but a significant portion reportedly passes through hawala networks and other money or value transfer services.

Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.: NO

Criminalization of money laundering:

"All serious crimes" approach or "list" approach to predicate crimes: Not applicable

Are legal persons covered: criminally: Not applicable ***civilly:*** Not applicable

Know-your-customer (KYC) rules:

Enhanced due diligence procedures for PEPs: Foreign: NO ***Domestic:*** NO

KYC covered entities: None

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not applicable

Number of CTRs received and time frame: Not applicable

STR covered entities: Not applicable

money laundering criminal Prosecutions/convictions:

Prosecutions: 0

Convictions: 0

Records exchange mechanism:

With U.S.: MLAT: NO **Other mechanism:** NO

With other governments/jurisdictions: NO

Somalia is not a member of a FATF-style regional body (FSRB).

Enforcement and implementation issues and comments:

While Somalia continues to stabilize politically, government institutions are weak and state capacity is severely constrained.

In December 2015, Somalia's parliament passed key AML/CFT legislation, an important step in establishing a functioning, regulated, and supervised financial system in Somalia. As of yearend 2015, this legislation is not yet signed into law. Somalia maintains very limited investigative and enforcement capacity related to predicate crimes. Somalia's penal code, based on the 1930 Italian penal code, does not include any provisions or penalties addressing money laundering or terrorist financing. This deficiency should be rectified once the new legislation becomes law. The key obstacles to implementing Somalia's new AML/CFT law include the federal government's limited control over parts of southern and central Somalia beyond Mogadishu; a lack of legal and financial expertise among Somalia's central bankers and Finance Ministry technocrats; pressing security threats to the government, including from al-Shabaab; a lack of capacity at all levels of government; and insufficient enforcement, policing, and investigative capacity. The Central Bank of Somalia is receiving technical assistance on the risk-based approach to supervision.

Somalia lacks a formal financial sector, with the exception of interim commercial banks. Somalia has no fully functioning government regulatory/supervisory agencies to oversee its financial sector, thereby allowing money transmitters and hawaladars to operate without any customer due diligence or suspicious transaction reporting requirements. Somalia imposes no financial record-keeping requirements. To the extent that international standards are applied in Somalia, they are self-imposed by money transmitters, hawaladars, and other businesses that must abide by those standards to do business elsewhere in the world. Most money remittance companies, for example, use commercial software which flags possible name matches between customers and the individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list. Merchant's Bank in California, one of the largest banks to service Somali money transmitters in the United States, discontinued service in 2015.

Since the collapse of the state in 1991, Somalis have relied primarily on customary and sharia legal systems to adjudicate disputes. A legal system with both civilian and military courts nominally operates under the federal government, but existing laws are difficult to enforce, given the weak capacity of judicial and law enforcement institutions and general instability.

In theory, the police reportedly are responsible for investigating financial crimes. The police lack the capacity, including financial, technical, and human resources, to investigate suspected money laundering and/or terrorism financing. No government entity is charged with, or capable of, tracking, seizing, or freezing either the proceeds of crime or terrorist assets. Somalia has no laws requiring forfeiture of the proceeds of crime or terrorist assets. The federal government has called on interim regional governments to help stem the flow of terrorism financing, including requesting local governments to trace, freeze, and seize funds believed to be related to al-Shabaab financing.

During 2015, the government made public commitments and took limited steps to improve transparency in its public financial management to reduce endemic corruption. The government increased cooperation with the Financial Governance Committee, a body mandated to review concession and public procurement contracts at or above a value of \$5 million. The Ministry of Finance has increased its cooperation with the international donor community to implement public financial management reforms.

Somalia has observer status to the Middle East and North Africa Financial Action Task Force, a FSRB. Although Somalia is not a party to either the UN Convention against Transnational Organized Crime or the UN Convention against Corruption, Somalia has cooperated with foreign law enforcement on investigations concerning suspected terrorists, kidnapping, and piracy and terrorist attacks committed both inside and outside Somalia. Somalia has no mechanisms in place under which to share information related to financial crimes, money laundering, and terrorism financing with other countries but has indicated an interest in collaboration. Somalia does not have a bilateral treaty with the United States concerning extradition.

Somalia should combat corruption, enhance its ability to cooperate with international partners, and take all necessary steps to become a member of an appropriate FSRB. As an urgent matter, Somalia should criminalize both money laundering and terrorism financing and sign into law the AML/CFT law passed by the Parliament. The government should work toward equipping its law enforcement and judicial authorities with the resources and capacity – staffing, budget, and training – to investigate and prosecute financial crimes. Although the government has significantly increased the amount of revenue it collects, it lacks resources necessary to effectively improve government capacity and will continue to rely heavily on donors.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Somalia does not conform with regard to the any government legislation deemed necessary to combat money laundering.

EU White list of Equivalent Jurisdictions

Somalia is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Somalia is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2011 (introduction):

Somalia is the world's quintessential failed state. A fragile transitional federal government controls only portions of the country's capital and remote pockets of some regions. That government is besieged by a classic insurgency, led by U.S.- designated foreign terrorist organization, al-Shabaab. Many ministries exist in name only, or have non-functioning, mostly unpaid staff. There is no court system to speak of, and policing is rudimentary. Any laws that do exist are currently unenforceable given the security threat to the government and its lack of capacity. The financial system in Somalia operates almost completely outside government oversight on the black market, or via international money transfer companies known as hawalas. The USG lead for Somalia, U.S. Embassy Nairobi's Somalia Unit, has no credible state partner with which to engage on drug control issues.

Somalia does not play a major role in the production, trafficking, or consumption of illicit narcotics or precursor chemicals associated with the drug trade. Somalia's narcotics financing is centred on the khat trade. Khat is a leafy plant grown regionally and chewed by Somalis, and citizens of other regional states in the Horn of Africa and the Arabian Peninsula, as well as in parts of Asia. It imparts a mild amphetamine-like high, manifesting in excitement, euphoria, and suppressed appetite. Although it is a controlled substance in much of the world, khat is legal in Somalia, and has aspects of a local traditional practice. Khat is grown in Kenya, Ethiopia, Yemen and Uganda, imported mostly by plane, and sold throughout Somalia. Most khat proceeds go back to khat transporters based outside of Somalia in cash or via money transfer companies. It is highly unlikely that khat money is laundered in Somalia because khat proceeds are not illegal and opportunities for legal investment are few given Somalia's weak economy.

There is no information related to drug-related currency transactions through Somalia's financial institutions (such as they are). To the extent Somalis are engaged in the drug trade in the United States, some of those proceeds are probably transferred to Somalia through hawalas in the form of remittances, however, informed observers speculate that the amounts are relatively small.

There is virtually no information sharing on narcotics and terrorist financing with the United States or other developed countries. There are no joint formal investigations ongoing of which we are aware Somalia does not officially encourage or sanction drug trafficking, and there is no evidence that senior officials are engaged in such activities. Somalia is not a party to the 1988 United Nations Drug Convention.

US State Dept Trafficking in Persons Report 2016 (introduction):

Somalia remains a Special Case for the fourteenth consecutive year. During the reporting period, the Federal Government of Somalia (FGS) controlled its capital city, Mogadishu, and regional governments retained control over most local capitals across the country. The self-declared independent Republic of Somaliland and semi-autonomous Federal State of Puntland retained control of security and law enforcement in their respective regions. The

federal government had limited influence outside Mogadishu; the al-Shabaab terrorist group continued to occupy rural areas in south-central Somalia. The FGS focused on capacity-building and securing Mogadishu and government facilities from attacks by al-Shabaab. The African Union Mission in Somalia (AMISOM) conducted military operations in 2015 to recover al-Shabaab-controlled territory; however, its efforts were countered by increased attacks on security forces by the terrorist organization. Military courts adjudicated serious cases, including those related to terrorism, and tried many civilian cases. The government had minimal capacity to address most crime, including human trafficking, and thereby yielded negligible efforts in all regions on prosecution, protection, and prevention. Somali officials also lacked an understanding of trafficking crimes, which they often conflated with migrant smuggling.

SCOPE AND MAGNITUDE

Somalia is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. Information regarding trafficking in Somalia remains extremely difficult to obtain or verify. Victims may move from Somalia's southern and central regions to Puntland and Somaliland in the north. In Somaliland, women act as recruiters and intermediaries transporting victims further, to Puntland, Djibouti, and Ethiopia for domestic servitude or sex trafficking. Criminal groups formerly engaged in piracy reportedly continue to exploit Somali women and girls in domestic and sexual servitude. Somali ethnic Bantus and Midgaan remain marginalized and are sometimes kept in servitude by more powerful Somali clan members as domestic workers, farm laborers, and herders. Due to poverty and an inability to provide care for all family members, some Somalis willingly surrender custody of their children to people with whom they share familial ties and clan linkages; some of these children may become victims of forced labor or sex trafficking. While many children work within their own households or family businesses, some children may be forced into labor in agriculture, domestic work, herding livestock, selling or portering khat, crushing stones, or in the construction industry. In 2014, an international NGO released a report documenting cases of sexual abuse and exploitation of Somali women and girls, including trafficking, by Ugandan and Burundian AMISOM personnel. An African Union investigation into the allegations concluded there was evidence of sexual exploitation and abuse by AMISOM personnel.

Internally displaced persons (IDPs) remain vulnerable to sex and labor trafficking. "Gatekeepers" in control of some IDP camps, at times allegedly in collusion with Somali officials, reportedly force girls and women to provide sex acts in exchange for food and services available within the camps. They continue to charge rent or fees for otherwise-free basic services and sell the area they control within a camp to other "gatekeepers," establishing a cycle of debt for IDPs that makes them vulnerable to inherited bondage. Traffickers and smugglers reportedly take advantage of the vulnerability of IDP women and children, mostly from southern and central Somalia, at times using false promises of lucrative jobs in Europe and North America.

According to international organizations, during the reporting period Somaliland and Puntland experienced an influx of approximately 30,000 migrants and refugees, and Somali national returnees fleeing conflict in war-torn Yemen. Although no reliable statistics are available, Ethiopian economic migrants, mostly from the Oromia region of Ethiopia continued transiting Somalia en route to Libya, Sudan, and Europe during the reporting

period. Women and girl migrants working in the informal economy were particularly vulnerable to trafficking.

Traffickers transport Somali women, sometimes via Djibouti, to the Middle East, where they frequently endure domestic servitude or forced prostitution. Somali men experience conditions of forced labor as herdsmen and workers in the Gulf States. Traffickers transport children to Saudi Arabia and force them to beg on the streets. Dubious employment agencies facilitate human trafficking by targeting individuals desiring to migrate to the Gulf States or Europe for employment. Federal government officials allegedly sell falsified travel documents to travel brokers and traffickers. NGOs and international organizations report Somalis increasingly seek to move to other African destinations, including Kenya and South Africa. Authorities in Somaliland report an increase in the transporting or kidnapping of children and unemployed university graduates, who later transit Ethiopia and Sudan and are sometimes held hostage by networks in Libya en route to Europe and the Middle East. Members of the Somali diaspora use false offers of marriage to lure unsuspecting victims, many of whom include relatives, to Europe or the United States, where they force them into prostitution or domestic servitude.

Traffickers reportedly subject Somali children fleeing al-Shabaab and seeking refuge in Kenya to forced labor or sexual exploitation. Trucks transporting goods from Kenya to Somalia sometimes return to Kenya with young girls and women; traffickers procure these young girls and women and exploit them in brothels in Nairobi or Mombasa or send them to destinations outside Kenya. Undocumented Ethiopians in northern Somalia also remain vulnerable to trafficking as they seek employment in Puntland and Somaliland to fund subsequent travel to the Middle East. Traffickers smuggle Ethiopian women through Somalia to destinations in the Middle East, where they subsequently force them into domestic servitude and prostitution. Ethiopian children travel to Somaliland seeking employment but may instead be forced to beg on the streets. Particularly in coastal regions, some traffickers reportedly compel community elders to convince community members to travel to Europe for employment opportunities; some individuals are subjected to forced labor in Europe.

US State Dept Terrorism Report 2016

Somalia is currently identified by the US Secretary of State as a Safe Haven for International Terrorism

Overview: Security and counterterrorism efforts in Somalia continued to progress through a combination of African Union Mission in Somalia (AMISOM) offensives, U.S. military strikes against al-Shabaab operatives, law enforcement operations in major urban centers, and countering violent extremism initiatives. Despite major security gains against ISIS cells in Puntland and al-Shabaab safe havens in southern Somalia, AMISOM, the Somali National Army (SNA), and other allied militias were unable to degrade al-Shabaab's ability to plan and execute attacks. Al-Shabaab leveraged clan politics and disputes to fuel noncooperation and distrust among local communities toward security forces operating in these areas. They also exploited poor economic conditions to recruit new fighters. These vulnerabilities helped to undermine AMISOM and SNA territorial gains. Federal, local, and

regional security authorities lacked sufficient capacity and efficient command and control to prevent most al-Shabaab attacks.

Al-Shabaab experienced increased defection rates and weakened leadership in 2016, yet retained the capacity to conduct asymmetric attacks throughout Somalia. The group executed attacks against harder targets in Mogadishu, including the Mogadishu International Airport (MIA), the Presidential Palace, and popular hotels with security guard forces. In the run-up to the oft-delayed electoral process, al-Shabaab increased the frequency of assassinations of government personnel, many of whom were associated with AMISOM, Somali security services, and the federal government.

In 2016, Somalia remained a safe haven for terrorists who used their relative freedom of movement to obtain resources and funds, recruit fighters, and plan and mount operations within Somalia and in neighboring countries, mainly in Kenya. While ISIS senior leadership did not formally recognize a Puntland-based ISIS-aligned faction in 2016, they have provided some support in an effort to establish a branch in East Africa. In October, the ISIS Somalia faction temporarily took control of Qandala, a coastal town in Puntland's Bari Region. Puntland's security forces organized an operation that dislodged the ISIS fighters with little resistance, forcing them into mountainous camps south of the coast.

In September, President Hassan Sheikh Mohamud launched Somalia's national Countering Violent Extremism (CVE) strategy, which aims to tackle radicalization to violence and violent extremism across Somalia. In the same month in Mogadishu, the president hosted an Intergovernmental Authority on Development (IGAD) meeting attended by several African heads of state, to discuss security and common counterterrorism strategies. Somalia is an active supporter of the Global Coalition to Defeat ISIS.

Legislation, Law Enforcement, and Border Security: The Federal Government of Somalia continued efforts to improve civilian security, although some efforts suffered for lack of legislation and human resources. With the exception of specific legislation to address anti-money laundering and countering the financing of terrorism (AML/CFT), Somalia's counterterrorism legislation remained under review through several parliamentary readings. In the absence of counterterrorism legislation, the Federal Government of Somalia tried all terrorism cases in its military court system.

The Somali Police Force (SPF) continued to conduct security investigations and operations targeting known locations of weapons caches in private homes and businesses, often in coordination with other Somali security services and AMISOM. In 2016, the United States made considerable contributions toward the development and capacity building of the law enforcement sector. Somali law enforcement capacities have improved markedly with U.S. mentoring and training initiatives launched in prior years, but additional training is needed to enhance basic police investigation skills and interagency coordination. The U.S.-funded SPF Joint Investigative Team (JIT) responded to more than 100 terrorist incidents, during which they collected evidence, maintained the integrity of the evidence by following chain of custody protocols, and ensured a safe hand-over of the evidentiary materials to the Criminal Investigative Division (CID) for further processing. NISA, Somalia's lead counterterrorism organization, also began coordinating with the JIT during responses to critical incidents. While the SPF made measurable gains to manage terrorist incidents, the judicial system remained

weak and underdeveloped, suffering from limited capacity, technical expertise, and poor interagency coordination.

Somalia's porous borders contributed to regional insecurity as al-Shabaab and others continued to move throughout the region mostly undetected. Most countries do not recognize Somali identity documents, leaving Somalia with few options for travel document verification and regional partners unable to properly vet Somali travelers. Somalia does not have a central or shared terrorist screening watchlist, nor does it possess biographic and biometric screening capabilities at ports of entry. There was little law enforcement cooperation between the Federal Government of Somalia and regional governments, limiting U.S. law enforcement's ability to investigate suspected terrorists, kidnappings, and other terrorism incidents committed in the region.

Countering the Financing of Terrorism: Somalia has observer status in the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. In February, Somalia signed into law the Anti-Money Laundering and Countering the Financing of Terrorism Act that had been passed by Parliament in late 2015. Somalia continued efforts to formalize its nascent financial sector and to develop the Central Bank of Somalia's (CBS) capacity to supervise and regulate the informal financial sector, including money service businesses. Somalia has taken initial steps to ensure compliance with the new laws and procedures requiring the collection of data for money transfers or suspicious transactions. Implementation of the new anti-money laundering/countering the financing of terrorism law requires the development of specialized capacities, in both the public and private sectors, to regulate the financial sector and ultimately allow for the identification, investigation, and prosecution of terrorist financing cases.

The Licensing and Supervision Department of the CBS continued limited on- and off-site inspections and instituted procedures governing the licensing of commercial banks and money services businesses, in part due to the training, technical assistance, and direct mentorship programs of international partners, including the United States and the World Bank.

The Anti-Money Laundering and Countering the Financing of Terrorism Act also established Somalia's financial intelligence unit, the Financial Reporting Center (FRC). Still in its nascent stages, the FRC began to create policies and procedures, develop regulations, and coordinate with the CBS to establish its role as a key agency for the prevention of money laundering and terrorist financing.

UN Security Council Resolutions

Arms

On 23 January 1992, in response to the civil war and humanitarian crisis in Somalia, the UN Security Council issued an arms embargo on the country in [Resolution 733](#).

In July 2002, [Resolution 1425](#) banned the financing of arms acquisitions and the indirect sale and supply of technical advice and military training.

In December 2006, [Resolution 1725](#) partially lifted the arms embargo.

In 2007, UN [Resolution 1744](#) partially lifted the arms embargo, to allow the supply of weapons, military equipment, and technical training and assistance intended solely for the support or use of the African Union mission to Somalia (AMISOM). AMISOM's purpose is to stabilise the country, prepare for its post-conflict restoration and create the necessary security for humanitarian assistance.

The embargo was further amended in November 2008 by [UNSCR 1844](#).

You can access Security Council resolutions on the [UN website](#)

EU legislation

In December 2002, the EU adopted UN Security Resolution 733, imposing an arms embargo on Somalia. This was enforced via [Council Regulation No 147/2003](#), which was issued on 29 January 2003. The UN Resolutions have since been modified and the scope of the EU regulations have subsequently been amended as a result.

Financial

In 2005, the [United Nations](#), amongst other matters, imposed an asset freeze on persons engaging in or providing support for acts that threaten the peace, security or stability of Somalia, including acts that threaten the Djibouti Agreement of 18 August 2008 or the political process, or threaten the Transitional Federal Institutions (TFIs) or African Union Mission in Somalia (AMISOM) by force; having acted in violation of the arms embargo imposed by UNSCR 733 (1992); and obstructing the delivery of humanitarian assistance to or access to, or distribution of humanitarian assistance in, Somalia.

Current EU regulations

[26.09.2011 Council Implementing Regulation \(EU\) No 956/2011](#) Amended Annex I to Regulation 356/2010

- [26.04.2010 Council Regulation \(EU\) No 356/2010](#) Implemented the travel and financial restrictions in UNSCR 1844(2008)

OFAC (US Sanctions)

On April 12, 2010, President Obama signed Executive Order 13536 (the "E.O.") declaring a national emergency to deal with the unusual and extraordinary threat to the national security and foreign policy of the United States posed by the deterioration of the security situation and the persistence of violence in Somalia, acts of piracy and armed robbery at sea off the coast of Somalia, and violations of the Somalia arms embargo imposed by the United Nations Security Council. In issuing this E.O., the President invoked the authority of the International Emergency Economic Powers Act ("IEEPA"), the National Emergencies Act, section 5 of the United Nations Participation Act, as amended, and section 301 of title 3, United States Code.

Effective May 5, 2010, the Office of Foreign Assets Control ("OFAC") issued a set of abbreviated regulations to implement the E.O. (75 Fed. Reg. 24,394, May 5, 2010). These Somalia Sanctions Regulations, 31 C.F.R. part 551 (the "Regulations") were published in abbreviated form for the purpose of providing immediate guidance to the public. OFAC intends to supplement the Regulations with a more comprehensive set of regulations, which may include additional interpretive and definitional guidance and additional general licenses and statements of licensing policy.

Prohibited Transactions

The E.O. blocks the property and property interests of specific individuals and entities listed in its Annex and of specific individuals and entities determined by OFAC to have engaged in acts that threaten the peace, security, or stability of Somalia, to have obstructed the delivery of humanitarian assistance to or within Somalia, to have supplied arms or related materiel in violation of the United Nations arms embargo on Somalia, or to have provided support for any of these activities. The E.O. also includes a determination by the President that piracy threatens the peace, security or stability of Somalia. This determination provides authority to target for sanctions those who engage in or support acts of piracy off Somalia's coast, including those who provide weapons, communication devices, or small boats and other equipment to pirates. The E.O. therefore imposes targeted sanctions only; it does not impose any broad-based sanctions against the people or the country of Somalia.

Arab League

The Arab League (comprising 22 Arab member states), of which this country is a member, has approved imposing sanctions on Syria. These include: -

- * Cutting off transactions with the Syrian central bank
- * Halting funding by Arab governments for projects in Syria
- * A ban on senior Syrian officials travelling to other Arab countries
- * A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

[For further information, click here](#)

The Arab League has also boycotted Israel in a systematic effort to isolate Israel economically in support of the Palestinians, however, the implementation of the boycott has varied over time among member states.

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	10
World Governance Indicator – Control of Corruption	1

Somalia ranks among the world's most corrupt countries. Insecurity is also a major issue; the ongoing instability greatly restricts business. Corrupt government officials tolerate illegal activities in return for bribes. Dysfunctional institutions facilitate an environment of lawlessness, and the absence of any form of regulatory framework hinders prospects of economic competitiveness. Business is based on patronage networks, and tight monopolies dominate the market. Somalia's Provisional Constitution criminalizes several forms of corruption (including abuse of office, embezzlement and bribery); however, implementation is non-existent. The governing elite are continuously involved in allegations of embezzlement of public funds from the already meagre Somalian coffers. Finally, bribery is commonplace in all sectors, and procurement contracts frequently involve corruption. **Information provided by GAN Integrity.**

Section 3 - Economy

Despite the lack of effective national governance, Somalia maintains an informal economy largely based on livestock, remittance/money transfer companies, and telecommunications. Somalia's government lacks the ability to collect domestic revenue and external debt – mostly in arrears – was estimated at 93% of GDP in 2014.

Agriculture is the most important sector, with livestock normally accounting for about 40% of GDP and more than 50% of export earnings. Nomads and semi-pastoralists, who are dependent upon livestock for their livelihood, make up a large portion of the population. Economic activity is estimated to have increased by 3.7% in 2014 because of growth in the agriculture, construction and telecommunications sector. Somalia's small industrial sector, based on the processing of agricultural products, has largely been looted and the machinery sold as scrap metal.

In recent years, Somalia's capital city, Mogadishu, has witnessed the development of the city's first gas stations, supermarkets, and airline flights to Turkey since the collapse of central authority in 1991. Mogadishu's main market offers a variety of goods from food to electronic gadgets. Hotels continue to operate and are supported with private-security militias. Economic growth has yet to expand outside of Mogadishu, and within the city, security concerns dominate business. Telecommunication firms provide wireless services in most major cities and offer the lowest international call rates on the continent. In the absence of a formal banking sector, money transfer/remittance services have sprouted throughout the country, handling up to \$1.6 billion in remittances annually, although international concerns over the money transfers into Somalia continues to threaten these services.

Agriculture - products:

bananas, sorghum, corn, coconuts, rice, sugarcane, mangoes, sesame seeds, beans; cattle, sheep, goats; fish

Industries:

light industries, including sugar refining, textiles, wireless communication

Exports - commodities:

livestock, bananas, hides, fish, charcoal, scrap metal

Exports - partners:

UAE 45.8%, Yemen 19.7%, Oman 15.9% (2015)

Imports - commodities:

manufactures, petroleum products, foodstuffs, construction materials, qat

Imports - partners:

Djibouti 18.7%, India 16.5%, China 11.8%, Oman 8.7%, Kenya 6.1%, Pakistan 4.4% (2015)

Banking

When the state-owned banking system collapsed, private remittance companies became the sole financial institutions providing a banking outlet to the outside world, however they operate in an unregulated market. Most banking transactions arise from foreign remittances sent to family members in Somalia internal market.

Section 4 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

mixed legal system of civil law, Islamic law, and customary law (referred to as Xeer)

International organization participation:

ACP, AfDB, AFESD, AMF, AU, CAEU (candidate), FAO, G-77, IBRD, ICAO, ICRM, IDA, IDB, IFAD, IFC, IFRC, IGAD, ILO, IMF, IMO, Interpol, IOC, IOM, ITSO, ITU, LAS, NAM, OIC, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UPU, WFTU (NGOs), WHO, WIPO, WMO

Section 5 - Tax

Exchange control

For further information - <http://www.somaligov.net/>

Treaty and non-treaty withholding tax rates

For further information - <http://www.somaligov.net/>

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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