



Regulatory Frameworks Surrounding Somali Fintech





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Executive Summary

The rapid growth of Financial Technology (FinTech) globally has transformed financial services, driven innovation, and enhanced financial inclusion. However, this development also brings unique regulatory challenges, particularly in emerging markets like Somalia. This report presents a comprehensive analysis of the global and Somali regulatory frameworks surrounding FinTech, identifying key gaps and offering recommendations for fostering a more secure, innovative, and inclusive financial ecosystem in Somalia. The lack of formal legislative acts to support these regulations further contributes to the legal uncertainty for FinTech companies and consumers. As a result, key issues such as data protection, payment systems security, and financial transparency remain unaddressed, increasing risks for all stakeholders involved.

In Somalia, the FinTech sector has grown significantly due to the widespread adoption of mobile money platforms. These platforms have contributed to financial inclusion, especially among rural populations. Despite this growth, Somalia's regulatory landscape lags behind, marked by outdated frameworks, weak enforcement, and gaps in consumer protection. The Central Bank of Somalia (CBS) has made efforts to regulate the sector, but its capacity remains limited. The absence of different licenses for various FinTech platforms, weak Know Your Customer (KYC) measures and poor implementation of existing regulations pose significant challenges to the industry's sustainable development. The research highlighted critical regulatory gaps in Somalia, including the lack of specific FinTech licensing, weak legal frameworks for consumer protection, political influence on the regulatory formation process, and limited enforcement of data protection and mobile money transaction limits. The malfunctioning regulatory environment, exacerbated by weak institutional coordination, has resulted in inconsistencies in oversight, allowing risks such as fraud, money laundering, and consumer exploitation to persist. Furthermore, interoperability between mobile money platforms remains an issue, hampering the efficiency of financial services and increasing operational costs for users.



1.0 Introduction

Financial technology (FinTech) is revolutionizing the financial services industry by driving innovation, increasing efficiency, and expanding access to financial services. In Somalia, where traditional banking infrastructure has been severely impacted by decades of conflict, FinTech, particularly mobile money, has become a vital part of the financial landscape. Mobile money transfer platforms have played a key role in promoting financial inclusion, especially for unbanked populations in rural areas. However, despite these advancements, the regulatory framework governing FinTech in Somalia remains underdeveloped and is not up to standards. For instance, the existing regulations, including the National Data Protection Act (2023), National Payment System (2021), Cybersecurity Regulations (2021), Mobile Money Regulations (2019), and the Financial Institution Law (2012), remain largely ineffective due to weak enforcement mechanisms and limited institutional capacity.

While Somalia has introduced regulations such as the National Identification System (NIS) and interoperability guidelines to enhance FinTech governance, the challenge lies in their weak implementation. The lack of effective enforcement of these regulations has left FinTech companies operating in an environment where both businesses and consumers are exposed to risks such as fraud, data breaches, and insufficient consumer protection. The absence of a fully operational NIS complicates implementing Know Your Customer (KYC) requirements, further hindering the sector's regulation.

Understanding the significance of these regulatory challenges is crucial for unlocking the full potential of FinTech in Somalia. As the nation seeks to rebuild and modernize its financial system, it becomes imperative to analyze existing regulations, identify gaps, and propose comprehensive reforms that align with international best practices while catering to local needs. This research aims to provide a detailed examination of the regulatory frameworks surrounding FinTech in Somalia, shedding light on the current regulatory situation and recommending strategies to foster a conducive environment for the growth and sustainability of the sector. By addressing the regulatory landscape, this study aspires to contribute to the broader discourse on financial inclusion and economic development in Somalia, ultimately paving the way for a more resilient financial future.

2.0 Overview of Regulatory Frameworks Surrounding Somali FinTech

The global FinTech industry has experienced rapid growth in recent years, significantly transforming financial services through technological innovation. Innovations such as mobile payments and blockchain technology have notably impacted regions where traditional banking infrastructures are weak or underdeveloped. Somalia presents a unique context in this landscape, emerging from decades of conflict and instability. Despite the challenges, Somalia has witnessed the rise of FinTech solutions, especially mobile money platforms, which have become essential to the daily lives of its citizens. These advancements have substantially contributed to financial inclusion, particularly among unbanked populations in rural areas.

However, the regulatory landscape in Somalia has struggled to keep pace with the rapid development of FinTech. The country's financial system is still in a state of reconstruction, and existing regulatory frameworks are incomplete and unimplemented. This situation creates significant challenges for FinTech companies and consumers, including consumer protection, cybersecurity, and compliance with international financial standards. This paper examines the regulatory frameworks surrounding Somali FinTech, highlighting existing regulatory gaps and identifying necessary legal reforms to foster the growth and sustainability of the sector.

Decades of civil conflict and political instability have severely disrupted Somalia's financial system. The collapse of the central government in 1991 disintegrated formal banking institutions, leaving a vacuum



filled by informal money transfer operators (hawala) and, more recently, mobile money services. The re-establishment of the Somali Central Bank (CBS) in 2009 marked the beginning of efforts to rebuild the country's financial system. However, these efforts have faced numerous challenges (World Bank, 2020). Although CBS has been tasked with regulating the financial sector, a lack of resources, expertise, and infrastructure severely limits its capacity. Consequently, the regulatory environment for financial services, including FinTech, remains fragmented and underdeveloped. Current regulations primarily focus on traditional banking activities and provide little specific guidance for FinTech companies. This has led to a regulatory gap where FinTech operations, particularly mobile money services, operate largely unregulated, posing significant risks to consumers and the financial system (Access to Finance and Financial Inclusion, 2022).

One of the primary challenges in the Somali FinTech regulatory landscape is the absence of effective Know Your Customer (KYC) regulations. The lack of a biometric-based National ID system complicates the implementation of robust KYC procedures essential for preventing money laundering and other financial crimes (Osman, 2023). FinTech companies often rely on alternative methods, such as mobile phone registration data, without a standardized identification system, which may not suffice to meet compliance standards. Another critical challenge is the weak legal framework for consumer protection. The judiciary in Somalia is still developing, and there is a shortage of trained personnel capable of handling complex financial disputes. This weakness in the legal system makes it difficult for consumers to seek redress in cases of fraud, data breaches, or other issues related to FinTech services. Additionally, widespread corruption within legal and regulatory bodies undermines the enforcement of existing regulations, further exacerbating risks for both consumers and businesses (World Bank, 2020).

Despite these challenges, CBS has taken steps to regulate the financial sector, including FinTech. The bank employs a three-level supervisory system designed to monitor and promote compliance within the financial industry. This system includes periodic outreach programs to educate financial institutions about regulatory requirements, risk-based examinations to assess their financial health and compliance, and continuous monitoring of industry trends and developments (Access to Finance and Financial Inclusion, 2022). However, the current regulatory measures are mainly reactive rather than proactive. They primarily focus on addressing immediate risks instead of creating a comprehensive regulatory framework that accommodates the unique characteristics and rapid evolution of the FinTech sector. This reactive approach has led to a situation where FinTech companies operate with significant regulatory uncertainty, stifling innovation and growth in the industry. Additionally, the lack of effective implementation of existing regulations is compounded by institutions' poor monitoring and reinforcing capacity, which hinders compliance and effective oversight. This regulatory gap limits the effectiveness of current regulations and undermines trust in the FinTech ecosystem in Somalia.



3.0 Global Financial Technology Regulatory Frameworks

Financial technology (FinTech) has emerged as a transformative force in the financial services industry, driving innovation, increasing efficiency, and expanding access to financial services. However, these advancements also introduce new risks and regulatory challenges. Regulatory frameworks surrounding FinTech are crucial for ensuring consumer protection, market integrity, financial stability, and fostering innovation. This section examines global and regional regulatory frameworks governing FinTech, incorporating case studies to illustrate these regulations' varying approaches and impacts on the industry. Globally, FinTech regulation is marked by a combination of harmonization efforts and diverse national approaches, reflecting varying levels of development and regulatory priorities across jurisdictions.

3.1 Financial Stability Board (FSB) and International Coordination

The Financial Stability Board (FSB) plays a pivotal role in coordinating global regulatory approaches to FinTech. The FSB emphasizes the need for a balanced approach that fosters innovation while mitigating risks, particularly those related to financial stability (FSB, 2019). International cooperation is essential given the cross-border nature of FinTech services. The FSB has identified key areas requiring regulatory attention, including cybersecurity, data privacy, and anti-money laundering (AML) measures. Global Coordination on Cryptocurrency Regulation The rise of cryptocurrencies has posed significant challenges for regulators worldwide. In collaboration with other international bodies like the International Monetary Fund (IMF) and the Bank for International Settlements (BIS), the FSB has worked towards establishing global standards for cryptocurrency regulation. This coordinated effort aims to address risks such as money laundering, terrorist financing, and market manipulation while allowing countries to adopt localized regulations suited to their specific contexts (IMF, 2021).

3.2 Basel Committee on Banking Supervision (BCBS)

The Basel Committee has addressed FinTech within the broader context of banking regulation. The committee's work focuses on the potential impact of FinTech on traditional banking models, emphasizing the need for banks to adapt to the new technological landscape (BCBS, 2018). The committee has also highlighted the importance of operational resilience, particularly concerning cybersecurity threats posed by FinTech innovations. Basel III and FinTech Integration in Banks are designed to strengthen bank capital requirements and have been a focal point for banks integrating FinTech solutions. For example, European banks have increasingly adopted digital banking services while complying with Basel III's capital adequacy and liquidity requirements. The integration of FinTech has helped banks enhance their risk management capabilities, particularly in stress testing and real-time monitoring, aligning with the regulatory goals of Basel III (European Banking Authority, 2020).

3.3 European Union (EU) Regulatory Framework

The European Union (EU) has established a comprehensive regulatory framework for FinTech through various directives and regulations. The Revised Payment Services Directive (PSD2) is a cornerstone of the EU's FinTech regulation, promoting competition and innovation by opening up payment services to non-bank entities while ensuring strong consumer protection (European Commission, 2018). The General Data Protection Regulation (GDPR) also significantly impacts FinTech firms, imposing strict data privacy and security requirements (European Commission, 2016). PSD2 and Open Banking in the UK The implementation of PSD2 in the UK has led to the development of open banking, where banks must open their payment services and customer data to third-party providers (TPPs) through application programming interfaces (APIs). This initiative has spurred innovation by allowing FinTech companies to create new financial products and services tailored to consumer needs. Companies like Revolut and



Monzo have leveraged open banking to offer personalized financial services, significantly enhancing consumer choice and competition in the banking sector (UK Open Banking Implementation Entity, 2021).

3.4 United States Regulatory Landscape

In the United States, FinTech regulation is fragmented, with oversight spread across multiple federal and state agencies. The Consumer Financial Protection Bureau (CFPB) plays a significant role in regulating FinTech firms, particularly those offering consumer financial products and services (CFPB, 2020). The Office of the Comptroller of the Currency (OCC) has also been proactive, granting special-purpose national bank charters to FinTech companies (OCC, 2020). However, the fragmented regulatory landscape poses challenges, particularly ensuring consistent oversight across state lines. The OCC's decision to grant special-purpose national bank charters to FinTech companies was a landmark move in U.S. FinTech regulation. This charter allows FinTech firms to operate nationwide without needing state-by-state licensing, facilitating expanding their services across the U.S. For example, Varo Bank became the first FinTech firm to obtain such a charter, allowing it to offer a full range of banking services without partnering with a traditional bank. This regulatory innovation has enabled Varo to compete directly with established banks, offering a fully digital banking experience (OCC, 2021).

3.5 Asia-Pacific Region

The Asia-Pacific region is a hotbed of FinTech innovation, with countries like China, Singapore, and Australia leading the way. In China, FinTech regulation has evolved rapidly in response to the sector's explosive growth. The People's Bank of China (PBoC) has implemented stringent regulations on online lending platforms and payment service providers to curb systemic risks (PBoC, 2020). Singapore has adopted a more facilitative approach, with the Monetary Authority of Singapore (MAS) introducing the FinTech Regulatory Sandbox to encourage innovation while ensuring consumer protection (MAS, 2016). China's Regulation of Ant Group Ant Group, the financial affiliate of Alibaba, has faced stringent regulatory scrutiny in China. Chinese regulators halted the company's planned IPO in 2020 due to concerns over its lending practices and the potential risks to financial stability. Subsequently, the PBoC imposed new regulations requiring Ant Group to restructure its operations, including transforming into a financial holding company subject to stricter capital requirements (Bloomberg, 2021). This case underscores the Chinese government's proactive stance in managing the risks associated with large FinTech firms. Singapore's FinTech Regulatory Sandbox Singapore's FinTech Regulatory Sandbox has fostered innovation while managing risks. For instance, Grab, a leading Southeast Asian super app, used the sandbox to test its digital payments services before launching them widely. The sandbox provided a controlled environment where Grab could innovate while ensuring compliance with regulatory requirements, ultimately contributing to the company's successful expansion into financial services across the region (MAS, 2018).

3.6 Middle East and North Africa (MENA) Region

The MENA region has seen a growing interest in FinTech, particularly in the Gulf Cooperation Council (GCC) countries. The United Arab Emirates (UAE) has established itself as a FinTech hub, with the Dubai International Financial Centre (DIFC) providing a regulatory framework that supports innovation while maintaining high standards of financial regulation (DIFC, 2020). The Central Bank of Bahrain (CBB) has also introduced a FinTech regulatory sandbox, allowing companies to test innovative products under a controlled regulatory environment (CBB, 2017). UAE's FinTech Ecosystem has developed a robust FinTech ecosystem, particularly within the DIFC. The DIFC's Innovation Hub provides a supportive environment for FinTech startups, offering regulatory support, mentorship, and access to funding. For example, the startup YAP, a digital banking platform, leveraged the DIFC's regulatory framework to launch its services, providing



a comprehensive suite of financial products without the need for a traditional banking license. This approach has enabled YAP to quickly scale its operations across the MENA region (DIFC, 2021).

3.7 Sub-Saharan Africa

In Sub-Saharan Africa, FinTech has emerged as a key driver of financial inclusion, mainly through mobile money services. Kenya, a pioneer in mobile money, has developed a regulatory framework that supports the growth of FinTech while ensuring consumer protection (Central Bank of Kenya, 2019). The Central Bank of Nigeria (CBN) has also introduced regulations to govern the FinTech sector, focusing on issues such as electronic payments, cybersecurity, and AML/CFT compliance (CBN, 2020). M-Pesa in Kenya, launched by Safaricom in 2007, is one of the world's most successful mobile money services. The Central Bank of Kenya (CBK) played a crucial role in its success by adopting a light-touch regulatory approach that allowed M-Pesa to scale rapidly. Over time, the CBK introduced more stringent regulations to ensure consumer protection and financial stability, including establishing a framework for e-money issuers. This regulatory evolution has enabled M-Pesa to become a cornerstone of Kenya's financial system, driving financial inclusion and economic growth (Jack & Suri, 2011). Nigeria's FinTech Landscape Nigeria has experienced rapid growth in its FinTech sector, driven by mobile payments, lending platforms, and digital banking services. The Central Bank of Nigeria (CBN) has implemented various regulations to guide this growth, including licensing requirements for payment service providers and frameworks for electronic payments and cybersecurity. Startups like Paystack and Flutterwave have thrived under this regulatory environment, facilitating digital payments across Africa and attracting significant international investment (CBN, 2020).

4.0 Cases from Other Countries

During the rapid expansion of the telecommunications industry in Nigeria, interoperability issues became a significant challenge. The refusal by dominant operators to interconnect with smaller rivals created an environment where consumers were forced to use multiple SIM cards to access different networks. This lack of seamless connectivity was driven by a strategy to maintain market dominance and customer base, often at the expense of user experience (Akinola, 2017; Alabi & Oyelade, 2014). The Nigerian Communications Commission (NCC) took decisive steps to address this issue by enforcing mandatory interconnection regulations. Additionally, the introduction of Mobile Number Portability (MNP) in 2013, as noted by Adepoju and Oyeyinka (2014), was a critical move that empowered consumers to switch networks without changing their phone numbers, thereby increasing competition and reducing the need for multiple SIM cards. The success of these measures in Nigeria highlights the importance of regulatory oversight in maintaining a competitive and consumer-friendly telecom market.

India's telecom industry also faced severe interconnection challenges, especially when new entrants tried to gain market share in a sector dominated by a few large players. The lack of willingness among established operators to interconnect with newcomers resulted in poor call quality and dropped calls, leading consumers to maintain multiple SIM cards to ensure connectivity (Mukherjee, 2013; Raghavan, 2012). The Telecom Regulatory Authority of India (TRAI) played a pivotal role in resolving these issues by mandating interconnection agreements and penalizing non-compliance. The introduction of MNP in 2011 allowed customers to switch providers without losing their numbers, significantly reducing the inconvenience of carrying multiple SIM cards (Ghosh, 2012). According to Sharma and Lal (2014), this move improved service quality and spurred competition, leading to better pricing and service innovations.

The Kenyan telecom market experienced similar challenges, where interconnection issues led to high



costs for cross-network calls. Dominant players in the market had little incentive to lower these costs, which resulted in consumers using multiple SIM cards to manage expenses and ensure reliable connectivity (Chege, 2014; Ochieng & Muthoni, 2015). The Communications Authority of Kenya (CAK) introduced regulations requiring operators to interconnect and reduce cross-network call costs. The introduction of MNP in 2011 enhanced competition by enabling customers to switch providers while retaining their numbers. This not only leveled the playing field but also improved service quality and reduced costs for consumers (Karanja, 2015).

Ghana's telecommunications market also faced interoperability challenges in its early stages of liberalization. With multiple operators vying for market share, interconnection disputes became common, leading to poor service quality and the widespread use of multiple SIM cards among consumers (Darko, 2013). The National Communications Authority (NCA) of Ghana implemented strict interconnection guidelines and facilitated the launch of MNP in 2011. This allowed consumers to switch networks without losing their numbers, significantly reducing reliance on multiple SIM cards and improving overall market efficiency (Agyeman, 2015).

In South Africa, the early stages of telecom liberalization saw major players refusing to interconnect with smaller competitors, leading to network inefficiencies and poor service quality. Consumers responded using multiple SIM cards to navigate the fragmented network landscape (Gillwald et al., 2012). Regulatory interventions by the Independent Communications Authority of South Africa (ICASA) enforced interconnection and promoted competition through MNP, which was introduced in 2006. This regulation ensured that consumers could switch providers while keeping their numbers, reducing the need for multiple SIM cards and encouraging operators to improve service quality (Gillwald et al., 2012).

4.1 Lessons for Somalia

The experiences from Nigeria, India, Kenya, Ghana, and South Africa emphasize the importance of robust regulatory frameworks to enforce interconnection among telecom operators. Regulators must be empowered to ensure that all operators comply with interconnection requirements, thereby preventing dominant players from exploiting their market position to the detriment of consumers (Agyeman, 2015; Mukherjee, 2013). Introducing mobile number portability (MNP) in Somalia could be a significant step forward in promoting competition and consumer choice. By allowing users to retain their numbers while switching providers, MNP reduces the need for multiple SIM cards and compels operators to offer better services and prices (Sharma & Lal, 2014; Karanja, 2015). Encouraging collaboration among telecom operators through industry associations or government-facilitated initiatives can help overcome technical and competitive barriers to interoperability. Such cooperation can lead to developing shared infrastructure and services that benefit all stakeholders, including consumers (Chege, 2014; Gillwald et al., 2012).

5.0 General FinTech Challenges in Somalia

The rapid proliferation of FinTech services in Somalia has outpaced establishing effective regulatory frameworks. The country's financial system is still nascent, grappling with unimplemented and incomplete regulations that do not adequately address the unique challenges faced by FinTech innovations. This regulatory vacuum poses risks not only to consumers but also to the integrity and stability of the financial system as a whole. Issues such as inadequate consumer protection, cybersecurity threats, and compliance with international financial standards exacerbate the challenges faced by FinTech companies operating in this environment.



5.1 Lack of Effective FinTech Regulation

Somalia is grappling with significant challenges in regulating its rapidly expanding fintech sector. As fintech continues to reshape the financial landscape, mainly through mobile money and digital wallets, the absence of a robust and specific regulatory framework has become a pressing concern. One of the primary issues is the lack of tailored fintech licenses. The Central Bank of Somalia currently issues a single, broad license for all financial institutions operating in the fintech space, irrespective of the range of services offered. This general license is applied across various activities, including mobile money transactions and digital wallet services. Given the complexity and diversity of fintech services, such a one-size-fits-all approach is inadequate. As a result, the current licensing regime fails to provide adequate supervision, governance, or differentiation between fintech products and services offered (Yermack, 2018). Without specific licensing categories, the fintech sector remains vulnerable to regulatory gaps that could result in financial instability, risks to consumer protection, and difficulties in ensuring compliance with anti-money laundering (AML) standards. The lack of clarity also creates a grey area where financial institutions operate without clear guidelines on what is permissible under their licenses, increasing the risk of misconduct or malpractice.

Further complicating the issue is the absence of formal legislative acts that underpin the existing regulations, particularly in the mobile money sector. Although some regulations exist for mobile money operators, these are not supported by comprehensive legal frameworks that would ensure consistency and enforceability. The lack of formal laws creates an environment of legal uncertainty for fintech companies operating in Somalia. This absence of clear legal backing for mobile money regulations means that enforcement is often inconsistent, leaving companies and consumers without the legal protection needed for fair, transparent, and secure financial transactions (Mas & Klein, 2019).

One of the biggest challenges Somalia's financial technology faces is the lack of effective implementation of existing regulations. Even where regulatory frameworks exist, their execution remains weak, and enforcement mechanisms are either absent or insufficiently resourced. This lack of effective implementation leads to widespread non-compliance and creates opportunities for financial institutions to bypass rules without facing consequences. The limited capacity of regulatory bodies to monitor and enforce compliance exacerbates the risks within the fintech sector, such as fraud, money laundering, and customer exploitation. This gap between regulation and enforcement creates uncertainty and undermines the trust of both consumers and investors in Somalia's fintech ecosystem.

The influence of international organizations, such as the International Monetary Fund (IMF) and the World Bank, has also shaped Somalia's regulatory landscape, especially under debt forgiveness programs requiring compliance with international standards. While these institutions provide critical support in terms of technical expertise and financial stability, the imposition of third-party-driven regulations may not always align with the local context or the specific needs of the Somali fintech ecosystem. International frameworks often prioritize global standards over local conditions, potentially stifling innovation or imposing restrictions that do not consider Somalia's unique economic and social factors. For example, the heavy focus on formal banking structures in these global frameworks may overlook the importance of mobile money and other informal financial systems that have become integral to financial inclusion in Somalia.

Given these challenges, Somalia needs to develop a more comprehensive and localized regulatory framework to address the specific needs of its fintech sector. The creation of fintech-specific licenses would enable regulators to supervise different types of financial services better and tailor oversight to the risks associated with each product. Additionally, establishing formal legislative acts would provide the necessary legal backing to ensure consistent enforcement and offer greater certainty to companies operating in the fintech space. Such reforms would help create a more stable and transparent fintech ecosystem, fostering innovation while protecting consumers and ensuring financial stability.

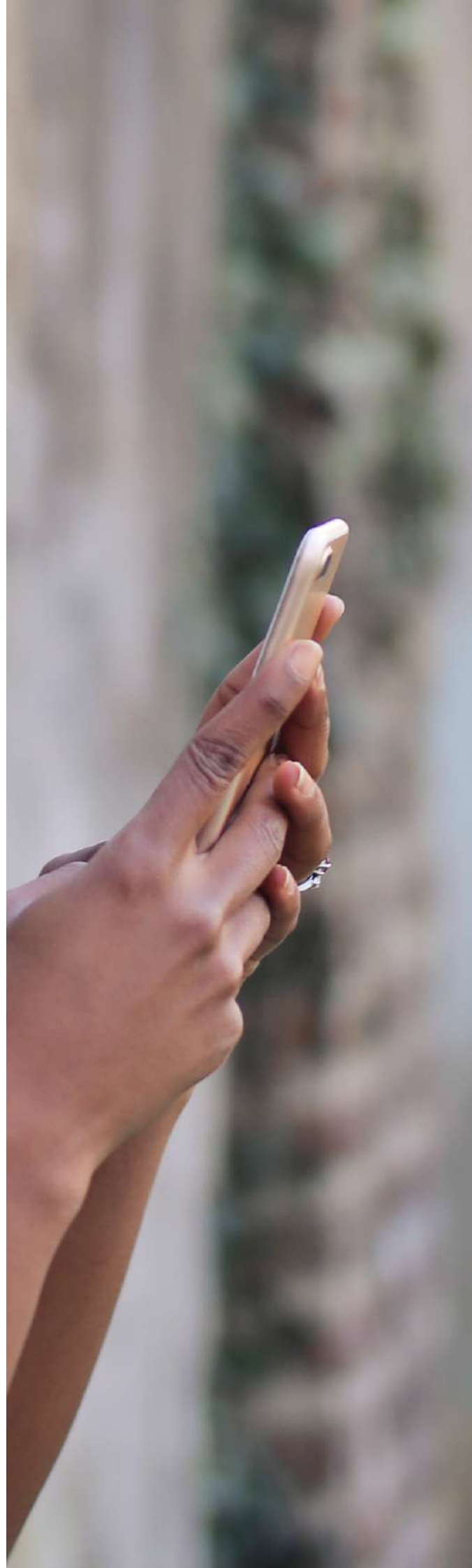


5.2 Weak Implementation of Existing Regulations in the FinTech Sector

Despite some progress in establishing national regulatory instruments, Somalia faces significant challenges in effectively implementing its fintech regulations. For instance, while the National Identification System (NIS) and data protection policies have been introduced as key components to support the fintech ecosystem, their practical application remains minimal. The NIS, crucial for verifying identities and reducing fraud in financial transactions, has not been fully operationalized. The lack of a functioning national identification system hampers the ability of fintech providers to conduct reliable customer due diligence, leaving room for fraudulent activities and identity theft. Without a fully operational NIS, the fintech sector struggles with weak Know Your Customer (KYC) processes, which are vital for ensuring security and transparency in financial transactions (Lynskey, 2017).

In addition to the weak operationalization of the NIS, data protection regulations, though formulated, exist only on paper. These regulations ensure the security and privacy of users' personal and financial data, particularly as fintech platforms handle sensitive information. However, fintech companies and other digital service providers operate in a regulatory vacuum without proper enforcement mechanisms. The lack of real-world application of data protection policies exposes users to risks such as data breaches, identity theft, and unauthorized use of personal information. In this context, fintech companies, consumers, and other stakeholders face increased risks, with little recourse in the event of a violation. The absence of effective implementation of data protection policies thus leaves significant gaps in user protection and regulatory governance in the fintech ecosystem.

One of the more pressing issues in Somalia's fintech sector is the ineffective enforcement of transaction limits on mobile money platforms. While regulatory frameworks set transaction caps to prevent financial crime and protect consumers, users and companies often circumvent these limits. This indicates that the capacity of regulatory bodies to monitor and enforce compliance is severely lacking. Many users are able to bypass transaction limits, whether by splitting payments across multiple transactions or through informal channels that escape regulatory oversight. The absence of strict monitoring and enforcement mechanisms raises concerns about the potential for money laundering and other illegal activities that could undermine the integrity of Somalia's fintech sector. This challenge is not unique to Somalia; developing



economies often face difficulties in enforcing regulations due to a lack of funding, technical expertise, and institutional capacity (Arner et al., 2017). In Somalia, these problems are exacerbated by the political instability and weak governance structures, which limit the effectiveness of regulatory agencies.

Interoperability, a key feature for the success of any fintech ecosystem, also suffers from weak implementation in Somalia. Although technical solutions for interoperability between different mobile money platforms and financial services exist, they are not fully implemented in practice. This lack of seamless interaction between different financial platforms limits the efficiency of the fintech ecosystem and reduces user convenience. Without interoperability, users are forced to hold multiple accounts or SIM cards across different providers, creating inefficiencies and additional costs. For example, if mobile money platforms and banks were fully interoperable, it would allow instant transfers between different systems, significantly enhancing the user experience and improving financial inclusion. However, the lack of full implementation of interoperability continues to create barriers, particularly for rural populations who rely heavily on mobile money for access to financial services.

The weak implementation of regulations, such as mobile money transaction limits and interoperability requirements, speaks to a broader issue of limited regulatory capacity. In Somalia, regulatory enforcement mechanisms are underfunded and poorly developed, which makes it difficult for authorities to monitor compliance effectively. This lack of enforcement creates opportunities for regulatory arbitrage, where companies and individuals exploit loopholes in the system to bypass rules and regulations. Moreover, it undermines public confidence in the fintech sector, as consumers are not assured that regulations meant to protect their interests are being enforced.

Somalia must prioritize strengthening its regulatory institutions and enforcement mechanisms to address these challenges. This can be achieved through capacity building within regulatory bodies, increased oversight funding, and technical infrastructure development to monitor compliance. Effective implementation of existing regulations, such as the NIS and data protection policies, should be a top priority to ensure that fintech services operate in a secure, transparent, and user-friendly environment. Additionally, implementing strict enforcement of transaction limits and ensuring full interoperability between platforms will be crucial for enhancing the efficiency and inclusivity of the fintech ecosystem.

5.3 Gaps in Government Awareness and Institutional Coordination

One of the most fundamental challenges Somalia faces in developing an effective regulatory framework for its rapidly growing fintech sector is the government's limited awareness and understanding of the critical role fintech plays in driving economic growth and financial inclusion. This lack of awareness has significantly hampered the development of fintech-specific regulations and policies, leaving the sector largely overlooked in national development plans. In many developing countries, including Somalia, governments often struggle to keep up with technological advancements, particularly financial technology. This lag in understanding leads to delayed or inadequate policy responses that fail to fully harness the transformative potential of fintech (Gomber et al., 2017).

In Somalia, fintech has become a vital component of the financial system, providing services such as mobile money, digital wallets, and other forms of financial inclusion that reach millions of unbanked and underbanked citizens. Despite the sector's importance, fintech has not been prioritized in national development strategies, and there is a notable lack of governmental initiatives to promote or regulate this crucial industry. The absence of clear policy direction is compounded by the fact that key policymakers often have limited knowledge of the fintech landscape and its impact on the broader economy. This results in a lack of political will to introduce reforms and modernize the financial system to accommodate and regulate new fintech innovations. Furthermore, the disconnect between the fast-evolving fintech sector and the slower-moving regulatory environment has created gaps in oversight, leaving the industry without the regulatory support it needs to flourish sustainably.



Another major issue in Somalia's fintech regulatory framework is the lack of coordination among key government institutions. Effective regulation and oversight of fintech require seamless cooperation among various stakeholders, including the central bank, the Attorney General's Office, law enforcement agencies, and other relevant entities. However, in Somalia, this coordination is often weak or entirely absent. For example, in instances where an individual is arrested for a fintech-related offense, the lack of communication between law enforcement agencies and judicial bodies such as the Attorney General's Office can result in fragmented enforcement of the law. One government institution may proceed with actions against the individual without informing or coordinating with other relevant authorities, leading to inconsistencies in how regulations are applied and enforced (Di Castri, 2013).

This disjointed approach to regulation and enforcement weakens the overall efficacy of the legal framework, as offenders may exploit the gaps in communication between institutions. Without a cohesive and coordinated approach, it becomes difficult to track violations, enforce penalties, and ensure compliance with regulations. The absence of an integrated oversight mechanism also limits the ability to collect and share information about fintech-related offenses, hampering efforts to monitor and mitigate risks such as fraud, money laundering, and other financial crimes. The lack of institutional coordination not only undermines enforcement but also contributes to legal uncertainty, as fintech companies and consumers alike are left unsure about which regulations apply to their activities and how they will be enforced.

In addition, this lack of coordination extends to the formulation and implementation of fintech policies. Key institutions responsible for regulating the sector, such as the Central Bank of Somalia and the Ministry of Finance, often operate in silos, with little collaboration on developing a unified policy framework. This fragmented approach has resulted in overlapping responsibilities, regulatory gaps, and inconsistencies in how different aspects of fintech are governed. For instance, while the central bank may issue broad regulations for mobile money, there may be no corresponding legal provisions from other government entities, such as the Ministry of Communications and Technology, to support these regulations. This further exacerbates the lack of clarity in the regulatory environment and makes it difficult for fintech companies to navigate the complex legal landscape.

Moreover, the weak institutional coordination in Somalia also reflects the broader governance challenges the country faces. Decades of political instability and conflict have left many government institutions underfunded, understaffed, and lacking in capacity. As a result, there is limited institutional knowledge or technical expertise to regulate emerging sectors like fintech effectively. Many regulatory bodies in Somalia are still in the early stages of development and struggle to meet the demands of a rapidly growing and increasingly complex fintech ecosystem. This lack of capacity is evident in the inconsistent enforcement of regulations, as well as the slow pace at which new policies are introduced to address emerging fintech challenges.

To address these challenges, Somalia must prioritize raising government awareness of the importance of fintech in national economic growth and financial inclusion. This can be achieved through capacity-building initiatives that give government officials and policymakers a deeper understanding of the fintech sector and its potential to drive development. Additionally, integrating fintech into national development plans and ensuring it receives the necessary regulatory attention will be crucial in unlocking the sector's full potential.

Improving institutional coordination is equally critical. Somalia's government should establish a coordinated regulatory framework involving all stakeholders in the fintech ecosystem, including the central bank, law enforcement, the judiciary, and other financial regulators. Clear channels of communication and information-sharing mechanisms need to be established to ensure that all institutions are aligned in their regulatory efforts. A central coordinating body could be set up to oversee fintech regulation, ensuring that policies are consistently applied and enforced across the sector.

Finally, fostering collaboration between government institutions and the private sector will also be essential in building a regulatory environment responsive to the needs of both fintech companies and consumers. By



working together, government agencies and fintech providers can develop regulations that balance innovation and consumer protection, ensuring the sustainable growth of Somalia's fintech industry.

5.4 Regulatory Gaps in Consumer Protection in Somalia's FinTech

One of the most pressing concerns in Somalia's fintech regulatory framework is the absence of effective consumer protection mechanisms. As fintech adoption, particularly mobile money, continues to grow exponentially, the lack of a structured and reliable system for safeguarding consumer rights has become increasingly apparent. Consumers are at risk of financial misconduct, fraud, and privacy violations without a solid regulatory framework that includes clear avenues for recourse. While mobile money platforms have revolutionized financial access for millions of Somalis, they also expose users to unaddressed risks by the existing regulatory environment.

One glaring example of this gap is the lack of established institutions or regulatory bodies mandated to handle consumer complaints related to financial misconduct. If an individual experiences fraud, theft, or unauthorized transactions via mobile money, there is no centralized body with the authority or resources to address these grievances. In many countries with developed fintech sectors, dedicated financial consumer protection agencies are in place to provide legal recourse and mediate disputes between consumers and financial service providers. However, in Somalia, such institutions either do not exist or are in their infancy, resulting in significant consumer protection weaknesses (Zetzsche et al., 2018).

For instance, when mobile money users face issues such as stolen funds or fraud, their only recourse may be through the service provider. However, given the lack of independent oversight, there is no guarantee that service providers will handle complaints fairly, timely, or transparently. This creates a situation where consumers are left vulnerable to exploitation and abuse, with little assurance that their complaints will be addressed adequately. In a rapidly expanding fintech ecosystem, such vulnerabilities pose significant risks to user trust and the overall stability of the sector.

Additionally, the lack of effective complaint-handling structures hampers the ability to build public confidence in fintech services. Trust is a critical component of financial systems, and without mechanisms to address grievances, consumers may become hesitant to adopt new fintech solutions. This is particularly concerning in a context like Somalia, where fintech is often the only accessible form of financial service for vast portions of the population, especially in rural and underserved areas. The absence of a formal consumer protection framework could slow the sector's growth and reduce its potential for fostering financial inclusion.

Another significant challenge in Somalia's fintech landscape is the insufficient enforcement of existing data protection regulations. While some regulations are designed to protect financial data, these laws exist mainly on paper and lack practical enforcement. Given the sensitive nature of financial information, weak data protection poses a serious risk to consumers, particularly in mobile money and digital wallets, where large volumes of personal and financial data are exchanged daily. In a rapidly digitalizing financial sector, the lack of robust data protection laws can expose consumers to identity theft, data breaches, and other forms of cybercrime (Greenleaf, 2017).

The issue of weak data protection is particularly concerning given that fintech platforms in Somalia collect vast amounts of personal data, including phone numbers, financial transaction histories, and sometimes even biometric data. Without adequate safeguards, this data could be vulnerable to misuse by service providers, hackers, or other malicious actors. In other countries, fintech companies are subject to strict data protection and privacy laws, which mandate how consumer data is stored, processed, and shared. In Somalia, however, the absence of such comprehensive legislation means that consumers have little control over their financial information, increasing their exposure to privacy risks.

Moreover, the absence of robust data protection laws affects individual consumers and undermines the financial system's broader integrity. Insecure data practices can lead to significant breaches of trust, eroding public confidence in fintech platforms. This is particularly dangerous in a sector where digital trust is



paramount for adoption and growth. Suppose consumers feel that their data is not adequately protected. In that case, they may be reluctant to engage with fintech services, slowing the sector's expansion and impeding its potential to drive economic growth and financial inclusion in the country.

In addition to these direct risks to consumers, lacking a comprehensive consumer protection framework creates challenges for fintech companies operating in Somalia. Without clear regulations, fintech firms may find it difficult to navigate the legal landscape, particularly in cases involving fraud, data breaches, or other consumer-related issues. Without established regulatory guidance, fintech companies are left to manage these challenges on their own, often leading to inconsistent practices and potentially further undermining consumer trust. Moreover, the lack of oversight may allow unscrupulous companies to take advantage of consumers without fear of legal repercussions, further destabilizing the market and reducing the sector's credibility.

Addressing these regulatory gaps is essential for ensuring the long-term sustainability of Somalia's fintech industry. A well-regulated fintech sector, backed by strong consumer protection mechanisms, would safeguard consumers and foster a more resilient and trustworthy financial system. To achieve this, Somalia's government must prioritize developing and enforcing fintech-specific consumer protection regulations. This includes establishing an independent consumer protection body tasked with handling grievances, investigating complaints, and ensuring fair treatment of fintech users. Such an institution would provide consumers with a clear avenue for recourse, enhancing confidence in the fintech ecosystem.

Furthermore, the government should strengthen existing data protection regulations and ensure they are effectively enforced. This could involve establishing stricter guidelines on how fintech companies collect, store, and use consumer data and introducing penalties for companies that fail to comply with data protection laws. Additionally, the government could work with international organizations and other countries with more developed fintech sectors to adopt best practices for consumer protection and data security.

6.0 Fintech Companies as National Assets: A Strategic Approach

Fintech companies are pivotal in modernizing financial systems, promoting financial inclusion, and stimulating economic growth. In Somalia, fintech firms should be regarded as national assets due to their potential to significantly enhance the country's economic infrastructure. Beyond regulatory oversight, the government must actively support these companies by fostering a conducive environment for their development. Moreover, recognizing fintech companies as integral to national development will allow Somalia to integrate fintech growth into broader economic strategies. This approach would enable the government to leverage the fintech sector to achieve key national objectives, such as poverty reduction, financial inclusion, and job creation, particularly for the youth and rural populations, who often face significant barriers to accessing traditional financial services. By aligning fintech development with these goals, the government can ensure that the sector contributes meaningfully to Somalia's overall socio-economic advancement.

Several countries have successfully integrated fintech into their national development plans. Singapore has positioned itself as a global fintech hub through its Smart Nation initiative, fostering innovation and economic growth with support from the Monetary Authority of Singapore's regulatory sandbox. India, as part of its Digital India initiative, has focused on financial inclusion with programs like Pradhan Mantri Jan Dhan Yojana (PMJDY) and the Unified Payments Interface (UPI), expanding digital payments and financial access, particularly in rural areas. With its mobile money platform M-Pesa, Kenya has leveraged fintech for financial inclusion, supported by enabling regulations and public-private partnerships, significantly boosting its economic development. Meanwhile, China has emphasized fintech innovation through the Made in China 2025 plan, fostering digital payments through platforms like Alipay and WeChat Pay,



promoting financial access and economic growth. In conclusion, by viewing fintech companies as national assets and incorporating them into the national development agenda, Somalia can create a supportive ecosystem for fintech innovation.

7.0 Conclusion

In conclusion, the regulatory landscape for FinTech in Somalia is marked by significant gaps and challenges that hinder the sector's growth and effectiveness. While the Somali financial system has seen the emergence of innovative FinTech solutions that are crucial for economic development, existing regulations are often overly simplistic and inadequately implemented. The National Identification System (NIS) exists, but its full potential is not realized due to ineffective operationalization. Furthermore, the Central Bank's reliance on a singular licensing framework for all FinTech services fails to recognize the diversity of products like mobile money and digital wallets, necessitating tailored regulations.

Although established, data protection measures are not adequately enforced, leaving consumers vulnerable to financial misconduct and fraud. The regulatory environment is largely shaped by third-party influences, primarily from international organizations like the IMF and World Bank, under debt forgiveness programs, rather than being driven by local needs and contexts. This lack of local ownership leads to a disconnect between regulations and the realities of the Somali market, compounded by a significant deficit in infrastructure and institutional capacity to enforce these regulations effectively.

Moreover, the government demonstrates limited awareness of FinTech's potential to drive financial inclusion and economic growth, resulting in insufficient prioritization within national development plans. Collaborative efforts among regulatory institutions are weak; for instance, law enforcement actions often occur without the necessary coordination with the Attorney General's office, leading to legal ambiguities and consumer distrust.

To address these challenges, the Somali government urgently needs to develop a coherent regulatory framework that facilitates the growth of FinTech while ensuring consumer protection. Simplifying regulations and creating distinct licensing categories for different FinTech services will enable a more structured and supportive environment for innovation. Enhancing the NIS and promoting broader digital ID availability will bolster KYC compliance and strengthen data protection.

Recognizing FinTech companies as national assets will allow the government to leverage their contributions to economic development effectively. By integrating FinTech strategies into national development programs, Somalia can unlock the full potential of this vital sector, fostering sustainable growth and financial inclusion for its citizens. Ultimately, a proactive and localized approach to FinTech regulation is essential for Somalia to navigate its economic challenges and capitalize on the opportunities presented by technological advancements in finance.

8.0 Recommendations

1. **Develop Contextualized and Simplified Regulations:** Create a regulatory framework that is simple, localized, and tailored to the specific needs of the Somali FinTech landscape. Somali FinTech regulations must be driven by local companies rather than third-party influences. This should involve engaging local stakeholders to ensure that regulations are relevant and effective in fostering innovation while addressing potential risks.
2. **Establish Specific FinTech Licenses:** The Central Bank of Somalia should introduce distinct licenses for different FinTech services and products, such as mobile money, digital wallets, and payment processing. This approach will enable targeted oversight and regulation, ensuring appropriate standards and practices



govern each segment.

3. **Enhance Implementation of the National Identification System (NIS).** The government should prioritize fully operationalizing the National Identification System (NIS) to facilitate effective Know Your Customer (KYC) processes. By increasing the accessibility of the NIS through digitalized services and establishing standardized requirements for both public and private sector services, the government can significantly reduce the risk of fraud and enhance consumer protection.
4. **Strengthen Data Protection Regulations:** While data protection regulations exist, their enforcement is lacking. The government should develop and implement comprehensive data protection laws that outline how consumer data is collected, stored, and used. Establishing an independent body to oversee data protection compliance can enhance consumer trust in FinTech services.
5. **Invest in Regulatory Infrastructure and Capacity Building:** Enhance the capabilities of regulatory bodies by providing them with the necessary resources, training, and technical support to monitor and enforce FinTech regulations effectively. This will empower them to address the challenges of a rapidly evolving sector.
6. **Establish Complaints and Dispute Resolution Mechanisms:** Create a centralized system for handling consumer complaints related to FinTech services. This body should be equipped to address issues such as fraud, unauthorized transactions, and other grievances, providing consumers with clear avenues for recourse.
7. **Facilitate Effective Inter-Institutional Collaboration:** Improve coordination among relevant government institutions to ensure that actions taken by one agency are communicated and supported by others. Establishing inter-agency task forces or committees can enhance regulatory consistency and enforcement.
8. **Integrate FinTech into National Development Plans:** Recognize FinTech's critical role in Somalia's economic development and include it as a key component of national development strategies. This approach ensures that FinTech receives the attention and resources needed to thrive.
9. **Reinforce Interoperability in FinTech Services:** While interoperability exists, its effective implementation is crucial for enhancing user experience and service efficiency. The government should set clear guidelines and standards to promote interoperability among different FinTech platforms and financial services.
10. **View FinTech Companies as National Assets:** The government should recognize FinTech companies' contributions to economic development and support them as vital components of the financial ecosystem. This recognition can foster a collaborative environment where FinTech firms actively participate in shaping regulations that impact their operations.
11. **Establish a Stock Market and Its Regulation.** Somalia should establish a stock market and develop regulations to govern its operations. These regulations should ensure transparency, protect investors, and promote orderly trading practices. A well-regulated stock market will attract investment and support economic growth by providing businesses with better access to capital.
12. **Establish Wallets and Digital Money Interoperability Systems.** Creating a system that facilitates the interoperability of wallets and digital money platforms is critical. This will allow seamless money transfers between different FinTech platforms and mobile operators, streamlining transactions for consumers and businesses.



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