Antony Jenkins
Group Chief Executive
Barclays Bank

ODI
203 Blackfriars Road
London SE1 8NJ
United Kingdom

Tel:+44 (0)20 7922 0300
Fax:+44 (0)20 7922 0399

2 September 2013

Dear Mr Jenkins,

I am writing to you ahead of your decision on whether or not to close Barclay's accounts with money transfer companies in Somalia.

My letter is prompted by new research from the Overseas Development Institute (ODI) on a major cash transfer programme introduced in response to the Horn of Africa famine. Carried out by eight international NGOs and local partners, the programme reached one million people over two years, delivering some US$90m in assistance. We designed the monitoring system for the programme. Later this week we are launching the attached report reviewing the delivery of support. Apart from underlining the effectiveness of cash transfers relative to food aid, we found that the risks of money laundering can be substantially mitigated through careful monitoring and engagement with *hawala* agents.

As I know you are aware, remittances play a vital role in Somalia. The $1.3bn transferred annually – some US$500m of it through the UK – far exceeds international aid. With acute malnutrition rates among displaced people in South Somalia ranging from 12 per cent in Mogadishu to 19 per cent in Kismayo, any loss of remittances will pose significant food security risks. It will also undermine the efforts of families to keep their children in school. Moreover, remittances are supporting a fragile economic recovery: some 80 per cent of all new business ventures in Somalia are funded by remittances.

Our research looked in some detail at whether or not cash was diverted. To briefly summarise some of the headline findings:

- **We found no evidence of large-scale diversion due to the money transfer system**. To cite our report: "despite the significant security and access challenges faced by humanitarian agencies, Somalia is an appropriate environment for cash interventions: it has an innovative, national system of money transfer agents (*hawala*), which regularly deals with billions of dollars from the diaspora. The market system is highly integrated and competitive as the country relies heavily on imported food."
- **Cash transfers are a particularly efficient form of support and assistance**. Although there were considerable difficulties during implementation relating to access, security and the sheer volume of transfers required, the process of cash delivery was relatively smooth, thanks largely to the previous experience of agencies and the role of local private sector partners (the *hawala* and local traders) in delivery.
- **Transfers delivered wide-ranging benefits.** Cash interventions enabled households to purchase food, increase the number of meals consumed each day and increase the diversity of their diets. Importantly, there is evidence that the intervention also allowed households to repay debts, which opened up new lines of credit. This contributed greatly to building household resilience.

None of this is intended to downplay the enormous challenges associated with aid and banking operations in Somalia. We documented cases of aid diversion during the early phase of the project, largely as a result of corruption. What is instructive in this case is that more stringent regulations introduced during later phases curtailed significant diversion.

Our report underscores the fact that preconceived ideas about risk in Somalia may be overriding a more balanced assessment. In the case of the cash transfer programme, UN agencies and international non-government organisations were able to develop institutional mechanisms for conducting due diligence and meeting strong fiduciary standards while working through the *hawala* system. If international NGOs and their partners can achieve these results, then surely Barclays can work with money transfer agents to minimise the risk of money-laundering activity.

I recognise that financing for an aid programme raises different fiduciary management issues than banking operations. Yet two common challenges stand out: tracking the money flow past the collecting agent through the clearinghouse, and conducting due diligence in verifying the identity of the receiver and ultimate beneficiaries. These challenges could be addressed through a dedicated Risk Management Unit to cover your Somali accounts. More generally, we would urge both Barclays and the UK government to develop constructive solutions to what are solvable problems.

We are, of course, aware that you are operating in a difficult regulatory environment. The US$1.9bn fine imposed on HSBC for its failure to maintain an effective anti-money laundering program has clearly had a chilling effect across the banking sector. It would be helpful, in this context, if the European Union engaged with regulatory authorities in the United States to clarify the compliance requirements for anti-money laundering legislation. In particular, there is an urgent need for a high-level political dialogue to clarify the requirements for banks to comply with the anti-money laundering requirements of the US Treasury's Office of Foreign Assets Control with respect to the 2001 Patriot Act and the 2010 Executive Order on Somalia.

By the same token, the HSBC case is a weak analogue for Barclays engagement in Somalia. It is worth recalling that HSBC was charged with allowing US$670bn in wired transfers from the Mexico, at least US$881m of it associated with drug trafficking. Such activities are hardly comparable to the operations of the *hawala* system and money transfer agencies. At risk of stating the obvious, there is a world of difference between providing banking services to drug barons in Mexico and delivering a service that pays for health, education, food, housing materials and small enterprises in Somalia.

In the last analysis, closing the *hawala* system will do nothing to reduce the risk of money-laundering or terrorist financing in Somalia. What it will do is drive the remittance economy underground. People seeking to support their families would have no alternative but to use the unregulated couriers and firms utilised by organised money launderers. This will make it more difficult to separate legitimate financial flows from illicit activity, raising the costs of remittances in the process. It is worth adding that agencies working in Somalia – including the UN, Oxfam, Save the Children, and Islamic Relief – will face higher operating costs for their programmes. If remittance channels close one of the most effective tools available to the international community in responding to future crises will be lost.

There will be no winners from the closure of Barclays' Somali accounts. Desperately poor and vulnerable people will lose a vital source of finance. The international community's efforts to support recovery and respond to humanitarian emergencies will be compromised. And Barclays will suffer the reputational damage that will come with closure of a vital lifeline.

I very much hope that you will reconsider your closure decision and would be happy to discuss the issues raised by our research in greater detail.

Yours sincerely,

Kevin Watkins
Executive Director, Overseas Development Institute