THE EMERGENCE OF FOREX TRADING IN SOMALIA

Analysis of its regulatory, economic and social impact.

AARAN CENTER
For Social and Economic Development

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AARAN CENTER for Economic and Social Development is an independent, nonpartisan, nonprofit research institute registered with the Federal Government of Somalia based in Mogadishu, Baidoa and Nairobi. AARAN CENTER offers public policy research studying and supporting policy decisions at the national and sub-national levels.

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LEGEND

AML/CT	Anti Money Laundering/Counter Terrorism
ASIC	Australian Securities and Investments Commission
CBS	Central Bank of Somalia
CID	Criminal Investigation Department
CMA	Capital Markets Authority
ESMA	the European Securities and Markets Authority
FATF	Financial Action Task Force
FRC	Financial Reporting Center
FSCA	Financial Services Conduct Authority
FMS	Federal Member States
FGS	Federal Government of Somalia
FX	Foreign Exchange
IMF	International Monetary Fund
KYC	Know Your Customer
MP	Member Of Parliament
MTO	Money Transfer Operators
FATF	Financial Action Task Force
FRC	Financial Reporting Center
FSCA	Financial Services Conduct Authority
FMS	Federal Member States
FGS	Federal Government of Somalia
FX	Foreign Exchange
IMF	International Monetary Fund
KYC	Know Your Customer
MP	Member Of Parliament
MTO	Money Transfer Operators

Executive Summary

• Despite global economic downturn due to global pandemic, online forex trading continues to thrive trading around US$6.6 trillion worth of currencies daily. UK, US, Singapore, Hong Kong and Japan remain the largest centers of Forex trading combined they facilitate 79 per cent of global forex trading.

• The market is loosely regulated and traded is an electronic network of banks, brokers, and liquidity providers. Regulation has increased in Europe, US and Australia. Due to these restrictions, more brokers are moving less regulated markets primarily in emerging markets like Asia and Africa.

• Online Forex companies started in Somalia in 2017 and strengthened in 2019 which attracted hundreds of young traders mainly in Mogadishu. There were 93 forex traders registered in Somalia. These companies do not have a license from the Central Bank of Somalia and have no permission to trade in Foreign Exchange Trading.

• According to government records as many as 18,395 people invested in retail forex market totaling close to 100 millions. Almost all investors lost their investment. According to our survey, over 90% of the customers either lost their entire investments or recovered very little.

• Also in 2019 investors both from Kenya and Somalia were swindled of around 60 million US dollars in a fraud scheme by a fake company, based in Nairobi, which has been coning investors as a Foreign Exchange company for seven years.

• Regulating foreign currency exchange is not an easy task. Since there's no centralized exchange system and transactions take place in a global and digital landscape. There is currently no regulatory framework governing forex trading in Somalia. Central bank of Somalia lacks financial regulatory agencies to protect investors from scams and fraud.

• In Somalia, there is no clear sanctioning regime in deterring the illegal forex traders. It seems there is confusion of how to handle AML/CT related cases. Commercial banks of Somalia did the heavy lifting for the Somalia FX retail traders to overcome KYC requirement.

• How Somalia and Kenya governments handle forex fraud raised the issue of politically exposed person (PEP) as there is significant number of politicians invested or have vested interest in forex companies in both countries.

• Beside the registration and licensing requirements, one of the contentious issue surrounding the forex is it is permissibility in Islam. While making money and exchanging currencies are allowed in Islam, in online forex trading no physical ownership of any currencies being traded, therefore online forex trading involves several processes which are called into question by the Islamic ruling on usury.

• Forex market created a lot of excitement as it was seen as source of wealth creation and employment opportunities for the destitute youth. Contrary to the popular belief, Consequence was a loss of millions of hard earned money from poor families which was illicitly taken out from the country.

Background

The foreign exchange market or currency market commonly known Forex (FX) is a worldwide market mostly used by large banks and financial institutions to trade various currencies. Forex market is the biggest and most liquid market in the world - there are approximately 6.6 trillion dollars traded per day.[1]

This market determines foreign exchange rates for every currency. It includes all aspects of buying, selling and exchanging currencies at current or determined prices. Electronic trading via online portals has made it easier for retail traders to trade in the foreign exchange market.

The market is loosely regulated and traded is an electronic network of banks, brokers, and liquidity providers. Regulation has increased in Europe and the US and is expected to increase in Australia. Due to ESMA's new restrictions, more brokers are looking to move and develop business in regions that are not affected by those measures.[2] The forex market is set to grow, but primarily in emerging markets like Asia and Africa.[3]

According to a recent KPMG study, the average daily FX volumes traded in Asia have climbed 20 percent since 2013 to US$1.16 trillion.[4] Singapore is the third-largest foreign exchange center globally, after Britain and the United States.[5] In recent years retail forex trading has seen huge growth across Africa and massive surge in interest from the public. For example in 2013 South Africa retail forex market was worth US $1 billion and it has grown to US $21 billion in 2016. Nigeria and South Africa are the two largest African markets with over 190,000 and 200,000 traders respectively, followed by Kenya with around 50,000 traders.

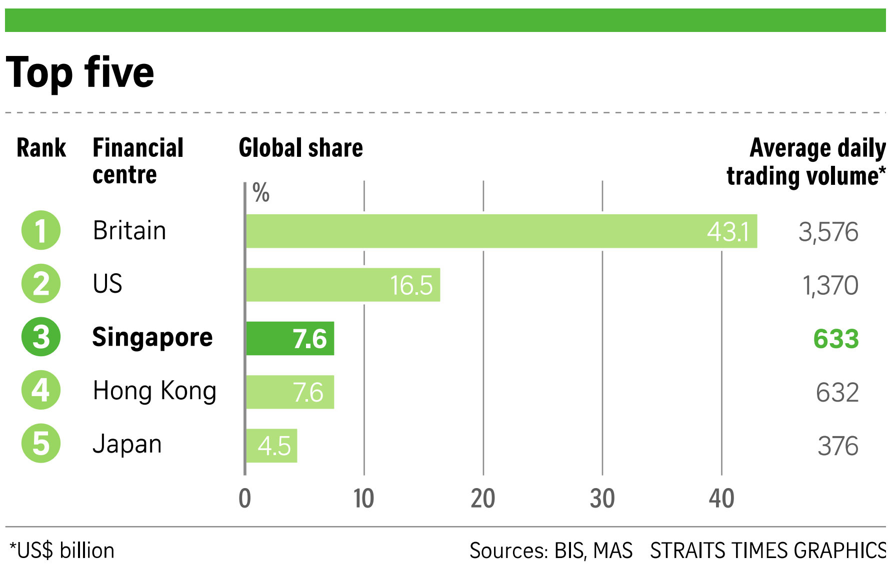
Online Forex companies started in Somalia in 2017 and strengthened in 2019 which attracted hundreds of young traders mainly concentrated in Somalia's capital Mogadishu.

[1] 2019 Triennial Central Bank Survey
[2] https://www.financemagnates.com/forex/analysis/africas-fx-industry-is-benefitting-from-esmas-regulations/
[3] notes Justin Grossbard, co-founder and CEO of broker comparison platform Compare Forex Brokers.
[4] https://www.asifma.org/wp-content/uploads/2018/05/the-asia-pacific-fx-markets.pdf
[5] https://www.straitstimes.com/business/companies-markets/spore-is-third-largest-forex-centre-globally-and-tops-in-asia-survey

Global Forex Market

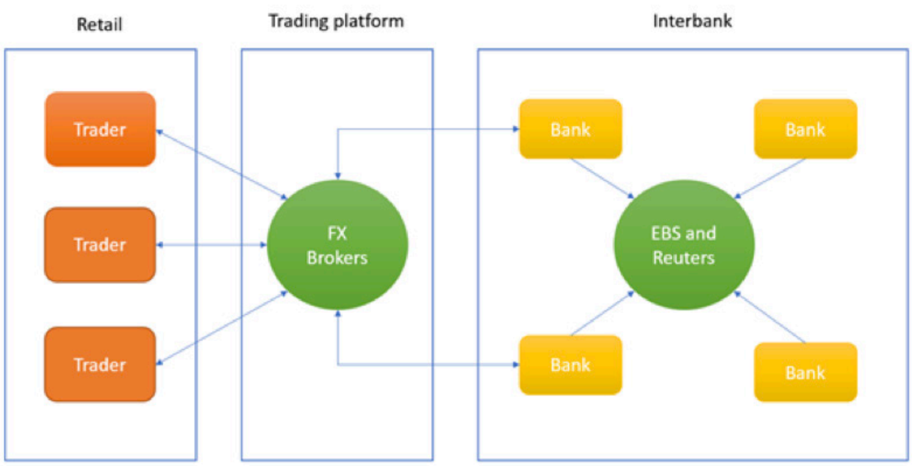
Market Size

Global FX market daily turnover reached $6.6t in 2020. Between 2016 and 2019, daily FX volume grew by $1.5t over the period, represented the record high FX market growth for the last 19 years.[6] 9.6 million people around the world are now online traders: that's 1 in every 781 people. UK and US remain by far the largest centers of Forex trading activity followed by Singapore, Hong Kong and Japan. These top five financial centers facilitated 79 per cent of global forex trading.



How it Works - Conceptual Framework

The FX market is decentralized and distributed, with no real central location. The forex market is composed of three primary segments: the Interbank market, the FX brokers and retail forex traders. The following sections will describe each currency market segment and the nature of its primary participants.



Forex Market Hierarchy

[6] https://asianbankingandfinance.net/foreign-exchange/more-news/global-fx-market-daily-turnover-hits-66t-in-2020

Interbank Market

The forex interbank market is the wholesale currency arena, where traders from large banking institutions trade amongst one another. Trade flow through the FX interbank market is approximately 50% of the 6.6-trillion dollars a day that is transacted in the forex markets.[7] Participants include commercial banks, investment banks, central banks, along with investment funds and brokers. The largest players in the interbank market are commercial banks such as Citibank, Deutsche Bank, Union Bank of Switzerland, and Hong Kong Shanghai Bank. Transactions that are conducted in the interbank markets are either transacted directly between large financial institutions, or through brokers who are executing trades for their clients.

Forex Brokers

A forex brokerage is an entity that connects retail forex traders with the forex market. A forex broker works as an intermediary between FX trader and the interbank system. the Forex broker is a type of financial institution that acts as an intermediary between the Interbank and retail forex traders. They make money by marking up the price from Interbank before offering it to retail traders. Typically a Forex broker will offer you a price from the banks of which they have lines of credit. 80% of retail traders use MetaTrader 4 or MetaTrader 5 platforms for their daily trade.

To get an account with a forex broker, it's a bit like opening a bank account. It requires paperwork and steps, such as identity verification. The whole process takes a few days. A forex trading account is where you can purchase currencies and hold them. Forex brokers make their money by taking a slice of the pie when you make a trade. Whether you win or lose while trading, the forex broker will continue to make a profit. The commission of brokers reaches 5 or 10% of the trader's profit, which means hundreds of billions of dollars a day.[8] The main job of a forex brokerage is to provide you easy access to the forex trading market and make some money in the process.

Retail Forex Traders

Retail forex traders need Forex brokers to trade currencies because they cannot access the Interbank market independently. Retail foreign exchange trading is a small segment of the larger foreign exchange market where individuals speculate on the exchange rate between different currencies. This segment has developed with the advent of dedicated electronic trading platforms and the internet which have allowed individuals to access the global currency markets. In 2016, it was reported that volume from retail foreign exchange trading represents 5.5% of the whole foreign exchange market or $280 billion in daily trading turnover. Individuals log on to a broker's online platform to deposit cash and bet on the short term direction of exchange rates, or currency pairs.

Characteristics of the FX Market

The foreign exchange market is largest global market and unique because of its huge trading volume, geographical spread and its 24 hours operation. Accessibility is one of the biggest advantages of forex trading - you can buy or sell currency pairs depending on the market. Low transaction costs and the availability of leverage is perhaps the most appealing as it allows retail traders to open a high position with a relatively small amount of capital.

Although large financial institutions and banks are responsible for a substantial portion of trading in this market, modern technology has also made it accessible to a broader base of customers. Brokers have developed easy to use, online trading platforms that have simplified the process of trading, and made it available from almost anywhere in the world.

One of the biggest problems of the forex market is that it is fast and volatile, which means that you can make money fast; the downside is that you can lose money is just as fast. The most dangerous downside of forex trading is that there are many scammers out there Forex trading requires knowledge and time; without completely knowing the market's rules and without having patience your investments might very well soon vanish.

[7] https://forextraininggroup.com/professional-interbank-fx-market-explained/
[8] https://www.prnewswire.com/news-releases/bridge--the-revolutionary-approach-to-forex-trading-301016506.html

Somalia's Financial Sector

The Somali financial sector is rapidly transforming from a low base in response to market demand and technological change. Dollarization of both the banking and mobile money systems is contributing to disparities in financial access and opportunities to improve livelihoods across the population.
Money exchangers operate freely in the country as the system is dollarized. Somalia does not have licensed Forex brokerages. Prior 2019 Somali currency market was mainly open-air market traded in Somali shillings. With emergence of online forex traders the Somalia financial market has taken new shape impacting other players in the financial sector. Somalia's financial sector is not a centralised system with clear checks and balances. Instead, it operates through various formal, less formal and informal actors, including Central Bank of Somalia (CBS), commercial private banks, money transfer operators (MTOs) and mobile money operators.

CBS is authorised to perform currency exchange services exclusively and no independent currency exchanges existed in Somalia. Forex trading like other financial sectors fall within the remit of the Central Bank in terms of regulation and licensing. The central bank regulates the exchange rates of the national currency to ensure fluctuations within the desired limit and keep control over the money supply in the market. The CBS has not issued legal tender Somali banknotes since the collapse of the state in 1991 resulting in a largely dollarized economy. The only banknotes in circulation in Somalia is the 1,000 shilling of which 98% of it are considered fake by the IMF.

The private banking segment of the market is still largely embryo stage. First private bank licensed started operating in 2016. There are 13 privately owned commercial banks registered with CBS in Somalia.

Money Transfer Organizations (MTOs) has constituted the backbone of Somalia's informal financial system. MTOs rely on cross-border wires in order to settle its accounts. MTOs remain critical for international flows, for private and public flows alike. MTOs are yet to be regulated by the CBS and oversight of their activities is inadequate.

Mobile money has become the dominant retail payment system, with users having the option to pay bills, buy goods or airtime, and transfer money. The e-payment transactions are also all made in dollars, which makes these telecom companies owners of large foreign exchange reserves. Mobile money is extremely popular in Somalia. three-quarters of the population use it, compared to 7% who possess bank accounts. Mobile services have been described as 'acting as a virtual, dollarized currency' in their own right. Like MTOs, mobile money is largely unregulated and lacks adequate oversight to ensure the transparency of transactions.[9] A new telecoms law passed in 2017 was meant to regulate the sector, but appears to have had little effect so far.

Without a viable central bank which meant to provide such essential service instead the Bakaara market, Somalia's biggest open-air market filled the void, where the value of the Somali shilling is now regulated, largely by a network of guesswork and rumour. Today Somali shillings can be easily printed and inserted into the markets at will. The consequent unregulated private supply of money seeking to capture foreign exchange has raised prices, eroded the market value of Somali banknotes and reduced it to pure commodity money. The money is also exchanged against currencies of neighbouring countries and major world currencies.

[9] Firestone et al., 2017

Somali Forex Market

Emergence of Retail Forex Traders

Online Forex companies started in the country in 2017 and strengthened in 2019 which attracted hundreds of young traders mainly concentrated in Somalia's capital Mogadishu. There were 93 forex traders registered in Somalia. These companies do not have a license from the Central Bank of Somalia and have no permission to trade in Foreign Exchange although they have business licenses issued by the Benadir County Council and the Ministry of Commerce. In a very short period, these companies have been growing in number and raised huge sums of money from the public, claiming to be investing in the forex market and promising hefty returns of 30% to 70%.

Forex trading was relatively new in the country and the Somali people had no idea as there was no system that regulates Forex trading. When people saw these companies having accounts with private banks and many government officials investing in forex, people increasingly encouraged and dared to trust their money unfortunately it turned out to be disaster.

Aaran analyses 62 forex companies that manage a total capital of over 94 million dollars. Their investment size ranged from as low as 8000 to over 22 million. GL Market and Camel Group had largest portfolios each managing over 22 million capital. The second tier group was four companies each managing 2-5 million.

In terms of customer base only one firm (Future Trade) had the largest number of customers with average investment of just over 1000 dollars per customer. Vast majority of the traders had an average of 40 to 350 customers per company.

	Companies	Size in USD
	2	over 22 million
	4	2 to 5 million
	4	1 to 2 million
	9	500,000 to 1 million
	20	100 to 500 thousand
	23	under 100 thousand
TOTAL	**62**	**94,359,025**

	Companies	Customer size
	1	over 3,000
	3	1,000 to 2,000
	4	500 to 1,000
	21	100 to 1000
	30	less than 100
	3	no data
TOTAL	**62**	

While some forex traders in Somalia are genuine traders who understand the market, fast majority of the forex companies are scam and run by swindlers who target friends and families that may have financial difficulties, figuring such persons may be particularly receptive to a proposal that offers fast and large profits.

Ownership and Management Structure

Obtaining an ownership over forex company either directly or via sub-agent is relatively easy. Anyone want to register business have to go through notary public who prepares rules of the company and provide proof of ID as part of business licensing process. According to the Government records, retail forex traders have registered one to seven business owners. Out of 38 companies reviewed 10 companies were sole owner, 14 had 2-3 owners and 14 firms registered 4-7 owners as shareholders. All registered owners were male.[10]
In terms of the management, almost all retail traders are managed by young people. This is mainly due to technological necessity of the forex trading. Recent studies indicate that over 43 percent of traders belong to the millennial age group. In other words, a big segment of the forex trading community is already well-acquainted with these new technologies.[11]

[10] FGS ministry of commerce
[11] https://www.flipscience.ph/technology/forex-trading-technology/

There is no background checks applied to Forex businesses owners during the business registration process. To deal with these vulnerabilities, background check should have been applied to the owners and managers of the Forex providers at least as a component of a licensing/registration procedure. As a minimum standard, this background check usually include evaluating the qualification, creditworthiness, and criminal record of the owners and managers of the company.

Brokers and Platforms

Forex companies operate in three different ways:
1. Companies that deal directly with Broker
2. Companies that collect and pool investors' money and make money from a account management
3. Individuals who use own expertise and trade on behalf of investor(s).

Brokers provide gateways for clients to deposit. Those gateways are banks, credit cards, online wallets and other brokers.

The most common trading types are Account Management and Live Trading with the option to trade in a regulated with insurance or unregulated without insurance. Minimum investment required for regulated and unregulated are 200,000 and 70,000 respectively.

Somalia forex companies reviewed show that they use MetaTrader4 platforms of XM, ICM Capital, FXDD, FXPRIMUS and IQoption. While these brokers are legit they are headquartered in a less regulated jurisdiction such as Cyprus, Malta and Bahamas. Here is the snapshot of main brokers used by Somalia forex traders:

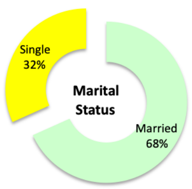
Somali Retail Forex Trader	Broker/Platform Used	Description
	XM	XM broker established in 2009 and operating from over 196 countries. Headquartered in Cyprus, it's European clients can trade only in limited products.[12] due to the regulatory reasons, XM does not provide services to residents in the US, Canada and Israel.[13]
GL Markets	ICM Capital	ICM Capital was founded in 2009 and its parent company, ICM Holdings SARL, is based in Luxembourg, though ICM is located in London, UK. ICM Capital do not services traders residing in Belgium, US and number of restricted countries.[14]
GL Markets	FXDD	FXDD formed in New York in 2002 and FXDD Europe is headquartered and licensed in Malta.[15] On September 18, 2013 US watchdog (CFTC) orders FXDD to Pay $2.74 Million for Supervision Failures Relating to Trading Platform.[16]
HUBAAL	FXPRIMUS The Safest Place To Trade	FXPRIMUS is licensed and domiciled in Cyprus and has clients in more than 200 countries around the world.[17]
GT Godad Trades	iq option	Unlike above companies, IQ Option is a multi-functional trading platform used by traders from more than 210 countries. IQ Option founded in 2013 and managed by IQ Option Ltd, based in Cyprus.[18] However, users from many countries such as USA, Japan, Turkey, Belgium, Russia, Australia, Canada, Germany, Italy, Netherlands and Spain are banned from using IQ Option.

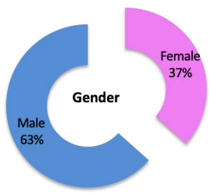
It is important to note there is only 5 legal forex brokers are allowed to provide retail forex trading in US and previous largest broker-FXCM, now run from London after being banned from United States markets for defrauding its customers.[19]

[12] https://55brokers.com/xm-trading-review/
[13] https://hercules.finance/faq/any-countries-which-xm-does-not-provide-services.
[14] https://www.forexbroker.com/brokers/icm-capital
[15] https://www.forex-ratings.com/forex-reviews/fxdd/
[16] https://www.cftc.gov/LawRegulation/Enforcement/EnforcementActions/index.htm?year=2013&page=3 17 https://www.dailyforex.com/fxprim-us/fxprimus-review/454
[18] https://www.forexfraud.com/forex-broker-reviews/iq-option/
[19] https://www.quora.com/Is-Forex-legal-in-the-United-States

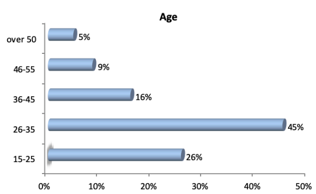
Investors

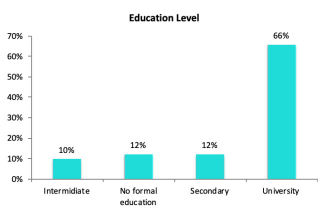
According to government sources as many as 18,395 people invested in retail forex market. Individual investments ranged from as little as 500 to over 50,000 with estimated investment of 100m dollars. The real picture of the total is very hard to ascertain as many traders manage client account instead of direct investment. To better understand investors, Aaran Center conducted random survey of investors in Mogadishu over two week period in July 2020. Online and direct mail were used. 82 investors responded of which 63% were male and 37% female. Majority of them (68%) are married and 32% are single. They were pronominally young people 71% were aged between 15 and 35, 17% were between 36 and 45 where 10% were over 45 years old. This is consistence with general demographics where over 70 per cent of Somalia's population is under the age of 30.





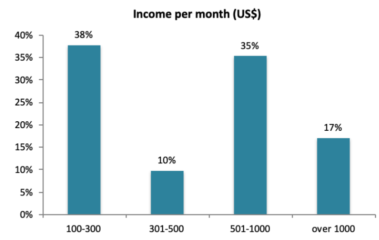
Most of respondents have attained tertiary education (67%), 22% intermediate and education and 12% had no formal schooling. In terms of occupation, most of the respondents were civil servants (40%) followed by traders (30%). 38% of them their monthly income ranged between 100 and 300 per month and 45% were earning between 500 and 1000 per month. 17% earn over 1000 per month.

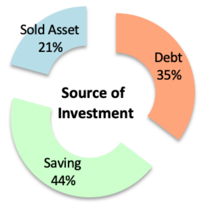




When asked how did you hear about Forex, overwhelming majority (83%) heard through word of mouth and learnt from friends or relatives. Online Ads and direct company approaches were not effective. Again 78% of the respondents were convinced to invest in Forex by their friends or relatives only 20% were attracted by the company presentation.

In terms of the size of initial investment, over 50% invested between 500 and 2000 dollars followed by 31% who invested between 2000 and 5000 dollars. Very few people invested over 10,000 dollar. Source of their Investment were long term saving (44%), debt financing (35%), proceeds from sale of other assets such as property (21%).





Almost all investors lost their investment. Close to half (43%) of the customers lost their entire investments while 40% investors recovered less than 50% of their initial investment. Less than 10% recovered over 50% of their investment. Close to 50% never received any profit while 38% received profit only once. only 5% received profit more regularly. Furthermore, 70% do not expect to recover their investment while 21% hope they may recover partial of their lost capital. Less than 10% are confident to fully recover their investment. To make matter worse, 79% of the respondents believe the Company they invested in is no longer in business while 21% say their company is still operating. When asked what steps would you take to recover your investment, 44% do not plan to take any action while 48% decided to sue the company. Respondents do not consider traditional means to be an option.

46% believe that the forex firm to have deceived them while 15% say the person who initially recommended to have misguided them. Large number of respondents (32%) blame themselves for their loss. Very few people (7%) blame Government. Close to 60% have been warned about the risk in investing forex while 40% said their never been warned. Not surprisingly 82% said they will not invest again in Forex while 10% plan to reinvest in forex and 8% are undecided.

Investors will typically be led to believe that their first investment has made a profit. The fraudster will then contact the victim to suggest they invest more money or introduce friends and family with the false promise of greater profits. However, eventually the returns stop, the customer account is closed and the scammer disappears without further contact, leaving many of the investors destitute.

The business environment in Somalia is one of the most challenging in the world and the protection of minority investors is problematic. There is little investor protection in Somalia. The most important thing is brokers should be regulated by the government to make investors deposits safer. Trading is hard enough and customers do not want to worry about the safety of their hard-earned money.

[7] https://forextraininggroup.com/professional-interbank-fx-market-explained/
[8] https://www.prnewswire.com/news-releases/bridge--the-revolutionary-approach-to-forex-trading-301016506.html

Foreign Exchange Fraud

Forex is a relatively new arena for many investors. the lack of knowledge that many have due to the uniqueness of the forex market. There are individuals and companies that have registered online Forex and directly trade using existing broker platforms, and there are handful of companies that have opened accounts abroad but work for foreign brokers. There were also individuals who use their own money by opening accounts with brokers. However, it was very difficult to distinguish between genuine and non-genuine Forex companies as there was no single standard for distinguishing between them. It turned out that they were 99% fake.

The difficulties that a novice trader will face will be the choice of a broker, a trading interface and a transaction and deposit management system. Types of Frauds might include improperly managed "managed accounts", pyramid or Ponzi schemes, false advertising and outright fraud.

Legitimate investors are exposed to fraudulent traders offering pyramid scheme scams while purporting to trade in the Forex Market. A forex trade was actually a pyramid scheme, popularly known as Ponzi scheme in the U.S. A Ponzi scheme is a form of fraud that lures investors and pays profits to earlier investors with funds from more recent investors. The scheme leads victims to believe that profits are coming from product sales or other means, and they remain unaware that other investors are the source of funds. A Ponzi scheme can maintain the illusion of a sustainable business as long as new investors contribute new funds, and as long as most of the investors do not demand full repayment and still believe in the non-existent assets they are purported to own. The U.S Ponzi scheme architect Bernard Madoff was sentenced to 150 years in jail in 2009 by a federal court in U.S for masterminding a $65 billion fraud that wrecked thousands of investors.[20]

One of the oldest schemes going involves paying fast, large profits to initial investors (actually from their own or other peoples' investments) knowing that they are likely to recommend the investment to their friends. And these friends will tell their friends. Soon, the scammer no longer needs to find new victims; they will find him.

Con artists often generate trust through their behavior. For example, they exhibit lavish lifestyles and generously support charities in order to make themselves appear as trustworthy and successful businessmen. Some Somali Forex managers went first class. Using profits from previous scams, they open well decorated offices that has the appearance (but not the reality) of a reputable investment firm. Some swindlers join local civic groups, contribute to charities, and generally play the role of a solid citizen.

A great number of sham Forex traders, using sponsored adverts on social media, continue to filch millions of hard-earned savings of hapless 'investors'. The scammers prey on subscribers by using a number of irresistible guiles: huge offers, hefty returns, communication messages, alluring adverts, testimonials and names and titles that lead the unwary to believe that he/she is dealing with a bonafide, international forex platform.[21] Somali immigrants are also aggressively targeted over social media by introducing brokers and other representatives of the industry.

The vast majority of fraudulent Forex brokers are sophisticated "con-men" experienced in hiding their tracks using a series of convoluted inter-connected limited liability companies, registered in different jurisdictions, with some dormant and some active leaving their victims and the regulating authorities struggling to navigate their way to the fraudsters.

Investment scams are often difficult to distinguish from legitimate investments. Many hundreds of people around the world are targeted each day. Frequently they are novice investors who are unfamiliar with the markets and do not recognise that the broker they are dealing with and its so-called trading platform and its way of working are bogus.

There is no shortage of busted scams : (1) In November 2019 US Federal authorities arrested dozens of forex traders alleged of illegal currency trading firms.[22] (2) In 2019 investors both from Kenya and Somalia were swindled of around 60 million US dollars in a fraud scheme by a fake company, based in Nairobi, which has been coning investors as a Foreign Exchange company for seven years.[23] (3) Recently Saudi Arabia investors lost more than $10 billion dollars in five years to unauthorized foreign exchange dealers.[24]

[20] https://www.nytimes.com/2009/06/30/business/30madoff.html
[21] https://menafn.com/1099778344/Somalia-SCAMMED-False-Forex-Traders-Lure-Victims-Through-Social-Media-Platforms 22 http://www.nbcnews.com/id/3540930/ns/business-corporate_scandals/t/dozens-forex-traders-arrested/
[23] https://www.somaliaffairs.com/news/somali-officials-among-investors-swindled-of-millions-in-fraud-scheme/
[24] https://www.arabnews.com/node/1708241/saudi-arabia

Case Studies

Case Study 1: Forex Scammer Swindles Somalia MPs of US$ 59m

As the Central Bank was warning Somalis against the get-rich-quick schemes in Mogadishu, politicians were wiring their money to Nairobi joining ranks with fellow Somalis abroad sending money in troves to Maalin Group Companies headed by Abdalle Mohamed Ali. The firm runs Forex Trading business in Nairobi and promised its members huge returns on investment. To qualify as an investor, one had to part with a minimum of $20,000 promising unusually huge returns of up to 50% profit. Some individuals had at some point deposited between $500,000 and $8,000,000.[25] Prior to going burst, the company had registered 600 members drawn from Somalia, Dubai, Saudi Arabia, US and Kenya. Among them were 20 Somali MPs and other senior government officials. Most of the money came from investors based in Saudi Arabia, UK and Dubai.

Abdalla operated 13 accounts with 10 of them managed by company staff while 3 were directly managed by him. Some of the accounts were based in Turkey. When money landed in any of the ten accounts, they were immediately transferred to the three accounts. The man disappeared with $59 million held in the three accounts that he had a direct control. Only $6000 was recovered from all the ten accounts managed by the staff.

In March 2020, Abdalla vanished into thin air. He was spotted at Jomo Kenyatta International Airport (JKIA) on 16 March 2020, but his destination remains unknown. Members were told the company was duly registered in Kenya but it is emerging the company was not registered as a forex-trading company in Kenya, but rather as a clearinghouse - a financial institution formed to facilitate the exchange of payments, securities, or derivatives transactions. Forex trading in Kenya is regulated by the Capital Markets Authority (CMA) and the Central Bank.

Case Study 2: A 23 Years Old Boy Who Turned Into A Millionaire In A Year

Mohamed Awale is also known Loge Yusuf Ali, but he claims his real name to be Mohamed Awale.[28] Awale is a manager of a forex retail company known Future Trade. Future Trade had by far the largest number of customers (3,697) with investment size of 4,496,327. Awale proudly shared in his facebook staggering $428,100 deposit in a single day on 3 Feb 2020. He predicted if this level of deposit continues his capital will hit $908 million by December 2020.26 His first trip to Mogadishu was 15/3/2018.27 To understand Awale personal ambition, Aaran Center reviewed his facebook posts. He describes himself to be very hard working person and works 20 hours per day. He also sees himself being a Professional ICT technician and IT developer. As his 2020 roadmap, he talked about mega projects like building industrial park to substitute many imported goods and then expanding to Ethiopia, Nigeria and South Sudan.[29]

Awale was arrested on 5 Jan 2020 at the Mogadishu airport and banned to travel. He was cleared by the Benadir Court only to be arrested again and detained for 23 days. During his detention he met Head of FRC, CBS Governor and Somalia Police Commissioner. He claims no due process was followed for his arrest. To exert pressure on the government he organized public protest against FGS but it did not result his release. He was later released on bail signed by his clan MP. Upon his release he fled to Somaliland where he continues to podcast frequently his messages via Facebook showcasing his lavish lifestyle. He claims to be innocent but run for his life. He alleges conspiracy against him of people who are jealous about his success and unable to repay investors because of his funds were frozen. The frozen funds are estimated to be just a fraction of the 4.5 million investment.[31] He widely publicized staged event making token payments to investors.[30]

He is now symbol of the doomed Somali Forex retail market and he represents politically connected, talented and articulate handful young men who escaped justice and dwindled millions from innocent poor. He also represent how Somalia authorities failed spectacularly to protect investors.

[25] https://www.hiiraan.com/news4/2020/Mar/167446/about_20_somali_mps_senior_government_officials_and_somali_ diaspora_lose_59m_in_nai-robi_based_ponzi_scheme.aspx
[26] https://m.facebook.com/story.php?story_fbid=10157668832633207&id=665203206
[27] https://m.facebook.com/story.php?story_fbid=10157694454788207&id=665203206
[28] Facebook Post on 13.7.2020
[29] https://m.facebook.com/story.php?story_fbid=10157086032193207&id=665203206
[30] source: Live telecast via Maxamed Cawale facebook on
[31] https://m.facebook.com/story.php?story_fbid=10157696925798207&id=665203206

Regulation

There is currently no regulatory framework governing forex trading in Somalia. Regulating foreign currency exchange is not an easy task. Since there's no centralized exchange system and the transactions take place in a global and digital landscape.

Across the world, there are many financial governing bodies that regulate the Foreign Exchange market. In some countries like Indonesia, they are regulated by the central bank. In other countries, it is the responsibility of various security commissions. One of the most reputable licensing bodies is ASIC (Australian Securities and Investments Commission). One of the main thorns in Africa is the lack of regulators. Only South Africa has a relatively effective body- the Financial Services Conduct Authority (FSCA), formerly known as the Financial Services Board, is an independent component of the South African government that acts as the country's regulator for all non-banking financial firms. Kenya is another country which is trying to monitor the sector under the Capital Markets Authority (CMA) controlled by the Central Bank. However, the overall absence of strong regulatory bodies in the FX industry has led to an increase in scams, lower trading education, and a lack of awareness of trading risk. [32]

Registration and Licensing

In Somali business registration is required for all businesses regardless their type of business or services. Ministry of Commerce and Federal Member States (FMS) are generally mandated to issue business registration licenses. However there no due diligence carried out before registration certificate issued. Most of the forex companies are run by young people who have not adequate experience and most likely do not meet 'fit and proper' standard.

All forex retail traders based in Mogadishu acquired business registration approvals from Banadir County Administration and Federal Ministry of Commerce. Company Law endorsed by the parliament on December 25, 2019 will be instrumental in establishing the legal framework under which companies are established, run and even dissolved in Somalia. It also provides the regulatory framework for licensing and management of both public and private companies in the country. This law deals specifically with registration of companies, closure of business and the provisions that govern how foreign and local investors can set up business in the country.

As regards the provision of Forex services, a license is required in most countries. Central bank of Somalia lacks financial regulatory agencies to protect investors from scams and fraud. Some of these traders, seeking licenses from the Central Bank, failed how they could adequately cover the millions they collected from investors which were no way near deposits lodged with the banks. With World Bank support, the CBS is implementing a number of reforms, including introduction of mobile money regulations and a new Payment Systems Law, and updating the Financial Institutions Law. Diagnostic work on credit referencing and moveable collateral registries have been initiated.[33]

The current registration/licensing system is ineffective and amendments to the legal framework is paramount in order to introduce the statutory registering/licensing system.

Supervision

After granting the registration to a company in Somalia no ongoing monitoring is applied and action is only taken if there is evidence of unlawful activities surfaces. The central bank currently oversees 13 commercial banks and 11 money transfer companies, the majority of which are located in the capital.

The Central Bank of Somalia (CBS) and Somali Financial Reporting Center (FRC) carries out AML/CFT supervision over the money remitters and currency exchanges. On February 24, 2020 after receiving continues complains the Central Bank of Somalia has issued a warning letter to the Somali people that invest Forex market in Mogadishu. There is no Forex online company that has a license given by the Central Bank of Somalia.[34] FRC also investigated 91 forex companies.[35]

The mayor has issued a press statement banning the issuance of registration to Forex trading firms and on February 24, 2020 he sent a stern warning to the Somali citizens who invested in the Forex trading where he compared the risk posed by forex trading frauds to the dangers of Al-Shabaab. [36]

[32] https://www.financemagnates.com/forex/analysis/africas-fx-industry-is-benefitting-from-esmas-regulations/
[33] http://documents1.worldbank.org/curated/en/558971579600952629/text/Concept-Project-Information-Document-PID-Somalia-Currency-Exchange-Project-P172057.txt
[34] https://goobjoog.com/english/somalia-central-bank-warns-citizens-over-forex-investment-2/
[35] https://allafrica.com/stories/201910180266.html
[36] https://aqbaaronline.com/2020/02/24/surging-of-forex-trading-firms-in-somalia-pose-threat-to-somalia-s-economy-says-banadir-governor/

Sanctions

The regulators in advanced countries set up operational standards. The consequence of violating the standards is a loss of a license. Knowing that the brokers aren't eager to run that risk. Those standards help to foresee misconducting activities of all the regulated brokers. It also provides protection of investors' capital in the event of default.

On 23rd December 2019 the Somali Central Bank (CBS) issued a notice to Somali Banks to suspend all accounts owned by suspected individuals and firms in the unregulated Forex Trade. CBS also instructed commercial banks to provide information about suspect firms historical account deposits.[37] Following CBS order, some forex companies dared to tell their customers that they lost all their investment. One such company is Forex 252 which issued a stark notice to its clients through WhatsApp group message informing that they lost entire $252,000 investment.[38]

In October 2019, Somali security forces raided online forex centers in Mogadishu and directed the staff to stop operations and close their businesses. Those actions, however, have not stopped locals trading forex on platforms operated by foreign brokers, which appear to be exploiting regulatory loopholes.[39]

In Somalia, it is not clear existing sanctioning regime (if any) to be effective in deterring the illegal forex traders. It seems there is confusion how to handle AML/CT related cases. The case of Future Trade illustrates how the FGS is unable to enforce sanctions. On 5 Jan 2020 Future Trade manager was summoned and investigated by CID and after few days he was cleared of any wrong doing and praised for their transparency. Only to be arrested again by police and released on bail after 23 days in custody without charges.

In contrast, On 30th August 2020 Banadir Court sentenced a well-known businessman 3 year jail and almost 1 million dollar fine for operating deposit taking business without a license. The irony is to date there is no forex company is convicted despite operating unlicensed forex trading which requires central bank approval. It is not clear how many cases of arrests related to forex trading were made.

Political and legal environments

Politicians and government officials involvement in forex as investors, owners, protectors and law enforcement creates complex situation. In Somalia it is well known that some forex managers were offered government bullet proof cars and security personnel while some forex are rumoured politicians to own or part own. A sitting Kenyan Cabinet Secretary was on the spotlight for allegedly aiding the escape of Abdalle Mohamed Ali , chief architect of the ratchet in which dozens of novice investors have lost close to K.Sh.15 billion. Deputy Inspector General of police, Immigration officials, two prominent law firms, a middle east embassy in Nairobi and a senior politician from the Northern Kenya was also cited as having a hand in the collapse of the Pyramid scheme.[40]

In Somalia, the case of Future Trade manager who was arrested for 23 days without appearing in front of court and later released on bail. According to Article 39 of Somalia Panel Code, a person arrested without warrant shall be taken before the competent Court not later than 48 hours from the time of his arrest. If the arrest is not confirmed by the Judge within a period of 8 days from the day when it took place, the arrest shall be considered as rescinded and the arrested person shall be released. Such a person shall be considered as the accused during all stages of the proceedings, until such time as the judgment of conviction or acquittal has become final, or until it has been decided not to proceed further with the case and close the case.[41] According to documents circulating on social media bail doc signed by the MPs and a traditional elder did not follow correct procedure and its legality is questionable.

It so opaque, suspected offenders detained longer than the law allows and released on bail without court process. All is done within the police jurisdictions. There are serious legal implications for those released on bail without being charged. According to Article 59 of Somalia Panel Code, bail may only be granted by a competent judge. If a person is charged and released by the police on bail, the first court appearance must be within 28 days from the date of the charge. On the other, the Public Prosecution must consider the charges and consider if there is still a need to keep the person in custody. The Persecutor will ask the court to remand someone in custody if they consider that there is a risk of the defendant running away, threatening witnesses, perverting the course of justice, committing further offences and being a threat to public order. The accused Future Trade who was released on bail is still at large.

[37] https://www.financemagnates.com/forex/regulation/somali-central-bank-closes-accounts-related-to-fx-brokers/
[38] https://www.hiiraan.com/news4/2020/Feb/167186/anxiety_grips_somalis_as_forex_companies_announce_losses_fold_up.aspx
[39] https://www.financemagnates.com/forex/brokers/police-raid-affiliate-offices-in-mogadishu/
[40] https://www.pd.co.ke/news/national/how-russian-pyramid-scheme-sank-with-kenyans-foreigners-billions-of-shillings-28759/
[41] http://mojracor.pl.so/wp-content/uploads/2019/12/1963_criminal_procedure_code_of_somalia_-_english_version.pdf

Somali politicians (often MPs) regularly provide personal guarantee for individuals arrested for various offences including terrorism related crimes. Bail often means a defendant enters into a recognisance. Anyone providing a guarantee (or surety) may also have to enter into a recognisance. Beside the legality issue with the process, the other worrisome issue is the appropriateness and adequacy of a politician signing surety which he has no capacity to fulfill. The irony is, for example a Somali MP signing an undertaking of paying back staggering amount $3.7m when his salary is merely under 5000 dollars per month and he is not depositing any bond or have no sufficient asset as leverage. This also brings the issue of politically exposed person (PEP) as there is significant number of politicians invested or have vested interest in forex companies in Somalia and Kenya.

A politically exposed person (PEP) is defined by the Financial Action Task Force (FATF) as an individual who is or has been entrusted with a prominent public function. Due to their position and influence, it is recognised that many PEPs are in positions that potentially can be abused for the purpose of committing money laundering (ML) offences and related predicate offences, including corruption and bribery, as well as conducting activity related to terrorist financing (TF).[42] Also Art. 10 of AML/CT Act describes persons who are identified as politically exposed persons (PEP) or any entities, which include PEP as an owner, beneficial owner, or board member, or serve in any senior management position, shall be classified as higher risk.

Anti-Money Laundering (AML)

AML and KYC are very important, especially when offering financial services. Forex traders providing financial services is obliged to adhere to Anti-Money Laundering (AML) policies with due diligence and maintain a strong and aggressive stance to prevent illicit money laundering activities.

Since forex brokerage firms are actually dealing with millions of dollars of other people it's very easy for customers to transfer money from one country to another country. Also, people can try to deposit dirty money into their trading accounts and withdraw it afterwards, which is generally known as money laundering. That's why forex brokers can't accept deposits in cash. Traders are themselves open to more serious financial crimes from money laundering and terror financing. Therefore forex traders are required by corresponding broker to open a trading account and declare source of funds. In Somalia AML/CT Bill require financial institutions to undertake mandatory Money Laundering Risk Assessment to enable them identify, assess, monitor, manage and mitigate the risks associated with money laundering.

Most developed countries consider Forex dealers to be a generic "high risk", largely because the nature of their businesses allows money to be moved around different countries and bank accounts quickly. Once deemed 'high risk', the banks must show that they are managing and mitigating the risk posed by these customers or risk being reprimanded. When forex traders open account with Somalia commercial banks suddenly their deposit created much headache to the banks as Banks later on realized that something was not right as the forex companies accounts with the banks as mounting deposit was unusual movement. Due diligence measures applied by Forex traders in Somalia are usually confined to identification and verification of the identity of the person, without the possibility of ongoing monitoring of the customer's activities.

Know-Your-Customer (KYC)

All brokerage companies are obliged to subject any clients they are onboarding through a KYC process. KYC is a common process where proof of identity is required to verify the identity of clients. The negligence of the KYC requirement may result in fines and other legal actions. Typical KYC documents for forex that may be requested include a passport or national ID card, document confirming home address and other financial information such as bank account and source of funds, etc. KYC documents are requested from a variety of financial institutions, such as banks.

Somalia commercial banks did the heavy lifting for the Somalia FX retail traders to overcome KYC requirement. Licensed commercial banks in Somalia are relatively new and they are starting from a very low customer base. In Somalia, only 7% of the population use formal banking service. These banks are in stiff competition over market share. Only two banks offer credit card service and to attract more customers they make it easy for customers to open account and get credit card.

Somali Forex traders were able to easily meet KYC requirement by asking investors to open account with licensed commercial bank and apply for a credit card. During the bank account opening process the customer have to provide ID and proof of address. Once the customer provides account and credit details to the forex company, he/she is then asked to provide copies of the same documents that customer gave to the bank. Forex retail trader then submits customer documents to the Forex Broker in overseas.

[42] https://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-PEP-Rec12-22.pdf

Religion perspective: Is Forex Trading Halal

Beside the registration and licensing requirements, one of the contentious issue surrounding the forex is it is permissibility. The issue of whether online forex trading is halal or haram according to Islam is a very controversial one and it is beyond the scope of this paper. However because Somalia being a Muslim nation it is worth highlighting key issues surrounding the permissibility of forex trading. Many Islamic law scholars have trouble understanding the complexities of forex trading. Scholars and Islamic community is divided and have yet to rule conclusively on whether forex trading is in fact is Halal or Haram. While some agree that forex trading adhering to Islamic principles can be considered as Halal, some forbid it entirely.

While making money and exchanging currencies are allowed in Islam, in online forex trading no physical ownership of any currencies being traded, therefore forex trading does not fit the typical concept of "trading". Online forex trading involves several processes which are called into question by the Islamic ruling on usury.

1. A carry trade is a popular strategy in currency market whereby a trader borrows the currency with the low interest rate and sells it to the currency with the higher interest rate. The carry trade is a form of interest rate profiting strategy providing a basis for profiting from the differential between the rates. The trader is also paid interest for holding a long position on the higher-yielding currency. Which means there is also the issue of overnight swap associated with this. Swaps are categorized as "riba", in the same way, that interest on loans is categorized as such. Swaps are therefore prohibited in Islam.

2. There is also the issue of speculation. The speculative nature of online forex trading has triggered debate among Islamic scholars over whether online forex trading are religiously permissible. There are those who have distinguished speculation from investing and have likened speculation to gambling, which is expressly prohibited in Islam.[43]

3. Another issue that comes up is the issue of leverage and margin. Leverage is basically a loan used to enhance the size of trade positions in the financial markets. The issue is not the loan per se, as Islamic financial institutions are known to provide loans and credit facilities to clients. However, the problem seems to stem from the purpose for which the loan is being applied for. So are the forex brokers. Rather, the words "credit facility" may be more apt in describing what the Islamic banks and financial institutions provide. These are usually interest-free. In the same vein, the leverage provided by the forex brokers is interest-free. You do not get to pay charges on leverage.

Many brokers that offer swap-free accounts must have a Sharia-compliant investment approval board which approves and periodically audits the investment vehicles offered to their Muslim clients.

Apparently, the situation with Islamic Forex trading still remains quite unclear. Several decisions and fatwas have been issued, while some Muslim countries prohibited trading in forex others have not issued similar prohibition.

[43] https://www.islamicfinanceguru.com/islamic-finance/forex-a-fresh-look-with-more-industry-perspective/

Impact of Forex in Somalia

The socio-economic implications

Forex market created a lot of excitement as it was seen as source of wealth creation and employment opportunities for the destitute youth. Contrary to the popular belief, Forex trading is not a get-rich-quick scheme. Rather, it is a long-term strategy that requires knowledge and a keen understanding of how global events can affect the market. Many Somali people invested in FX market without having adequate knowledge and how the market work. Consequence was a loss of millions of hard earned money from poor families which was illicitly taken out from the country.

With no way of reclaiming their lost fortunes and little avenue to institute legal proceeding against swindlers, the aggrieved 'investors' held several protests in front of the forex buildings demanding for accountability and whereabouts their investments. One of most felt implication was Mogadishu financial market liquidity problems. Somalis are among the poorest people in Africa, with a poverty incidence of 69.4% and per capita income of about $400.[44] Almost all customers who invested in forex market lost their entire investments eroding their long term saving and/or their assets. Others were indebted causing them financial stress as they are required to repay the debt.

Frustrated by the lack of alternative livelihood opportunities, youth are both culprits at the same time victims of Somalia forex retail scams. Over 70 per cent of Somalia's population is under the age of 30. The unemployment rate for youths in Somalia to be among the highest in the world at a startling rate of 67%.[45] This jobless or discouraged group is the most disadvantaged and most vulnerable to risky and criminal behaviours. Vast majority who managed forex companies were young male. Overwhelming majority of investors who lost their entire investment were also young people under the age of 35 causing many young people to leave their jobs. Somalia's National Development Plan 2020–2024 recognizes that one of the major contributors to poverty is the lack of opportunities for youth. Youth employment is a cornerstone of stability in Somalia.

Property market is also negatively impacted by the introduction of forex market. In Mogadishu real estate is a very lucrative and striving market. In past few years land vendors known as Gaadleey are main beneficiaries of the increasing land commodification that is taking place in Mogadishu. Land vendors, who are main recipients of commercial banks loans, purchase a piece of land hold for few months/years and resell at a higher price, then reinvest the money in another piece of land. Many land vendors who were making money through property market speculation have shifted their investments to Forex trading. They were attracted by the get rich easy scheme. According to real estate agents property prices in many Mogadishu suburbs have declined up to 40%. Also a large number of small plot owners sold their assets and invested in Forex. According to Aaran survey 21% of respondents sold their asset to invest in forex. Compared to real estate investing in forex is very appealing due to small starting capital, the leverage provided by forex brokers, and it's liquidity. In forex trading, investors don't need to go through the rigmarole of negotiating a price with the other party. Unfortunately, most of these investments have vanished leaving most real estate players both vendors and buyers dry.

There was also anxiety among existing Commercial banks in Somalia when large number of small investors flocked to open bank accounts and apply for credit cards as part of forex requirement. Commercial banks initially thought this was a good business as they attracted many new customers. The banks faced many challenges, operationally they run out of credit cards as they could not meet the demand, secondly they can't turn away new customers who were using them just to meet AML requirement demanded by forex brokers. Banks were also shocked to find out that large amounts were withdrawn and these funds were accumulating in the forex companies accounts exceeding rapidly the deposit threshold. Some banks tried to surcharge forex companies. In addition, banks were used to transfer large amount of forex money to overseas compromising their due diligence and AML requirements. Banks were not responsive enough as well to act quickly on FRC directives to suspend forex account allowing many forex companies to withdraw their funds before FRC directive become effective.

A large amount of cash has been illegally money laundered from the country, and it is difficult to repatriate it legally. Remittance companies are the main mechanism to transfer money in and out of Somalia. Forex companies use hawala and commercial banks to transfer money between Somalia and Turkey or Dubai. bank transfer option was not popular due to AML/CT restrictions on sending money abroad a bank transfer also takes several days to move the funds. Besides, choosing credit cards involves a very high fee which may lead to 5–6% of the total cost, depending on card issuers. So to avoid detection they also use commercial companies where money is bought with goods and imported to Somalia and then converted into cash. Where the forex broker face difficulty to withdraw large amount they use skrill account by charging a fee to a commercial company in Dubai to buy goods in Somalia or Kenya.

[43] https://www.islamicfinanceguru.com/islamic-finance/forex-a-fresh-look-with-more-industry-perspective/
[44] The Somali High Frequency Survey, wave 2, of 2017
[45] file:///Users/mohamed/Downloads/Thematic%20briefing_youth_ENG.pdf

Conclusion

Online Forex trading companies mushroomed in Somalia in 2019 which attracted hundreds of young traders. Over 90 forex traders registered in Somalia and around 20,000 people invested in retail forex market. Forex market created a lot of excitement as it was seen as source of wealth creation and employment opportunities for the destitute youth. Contrary to the popular belief, consequence was a loss of millions of hard earned money from poor families which was illicitly taken out from the country. Almost all investors lost their entire estimated 100 millions investment. Aaran Center analysed 62 forex companies that manage a total capital of over 94 million dollars. According to our survey, over 90% of the customers either lost their entire investments or recovered very little.

These companies do not have a license from the Central Bank of Somalia (CBS) and have no permission to trade in Foreign Exchange Trading. There is currently no regulatory framework governing forex trading in Somalia. CBS lacks financial regulatory agencies to protect investors from scams and fraud and there is no clear sanctioning regime in deterring the illegal forex traders. There is little avenue to institute legal proceeding against swindlers due to weak regulatory and complex government officials involvements. Somalia being a Muslim nation the paper highlighted key issues surrounding the permissibility of forex trading.

Forex introduction in Somalia has left bad taste as it created adverse socio-economic implications. Overwhelming majority of investors who lost their entire investment were also young people under the age of 35 causing many young people to leave their jobs. Property market is also negatively impacted by the introduction of forex market. A large amount of cash has been illegally money laundered from the country creating liquidity problems in the Mogadishu financial market. Somali government needs to act quickly to institute necessary regulatory framework and safeguards to protect novice investors.

Recommendation

1. Close all FOREX companies offices, trace all embezzled funds, decide on frozen funds and prosecute companies that misappropriated investors funds.

2. Set up a task force specifically to deal with pyramid schemes in the country and work with International regulatory bodies to share information to safeguard investors and traders.

3. Introduce Registration and Authorisation licensing regime for brokerages inviting multi-national approved firms as part of Banking sector reforms.

4. Government should focus on protecting investor rights and formulate investor protection policy that will comprehensively address investor protection against swindlers.

5. Government should stop fraudulent forex activities by providing information for investors about the Somali Forex Market including nationally approved and reputably licensed firms and by raising awareness about the problem and highlighting the number of scams being investigated or punished.

6. Have in place appropriate risk management systems to determine whether the customer or the beneficial owner of the customer is a PEP, establish the source of funds and conduct enhanced, ongoing monitoring of those business relationships with PEPs.

7. Sustainable employment creation and youth employment promotion should be essential aspects of any overarching economic growth strategy.

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