

Kaah Islamic Microfinance Services, Somalia

Workshop on Youth Financial Inclusion, March 12, 2013,
Rabat, Morocco



The Context

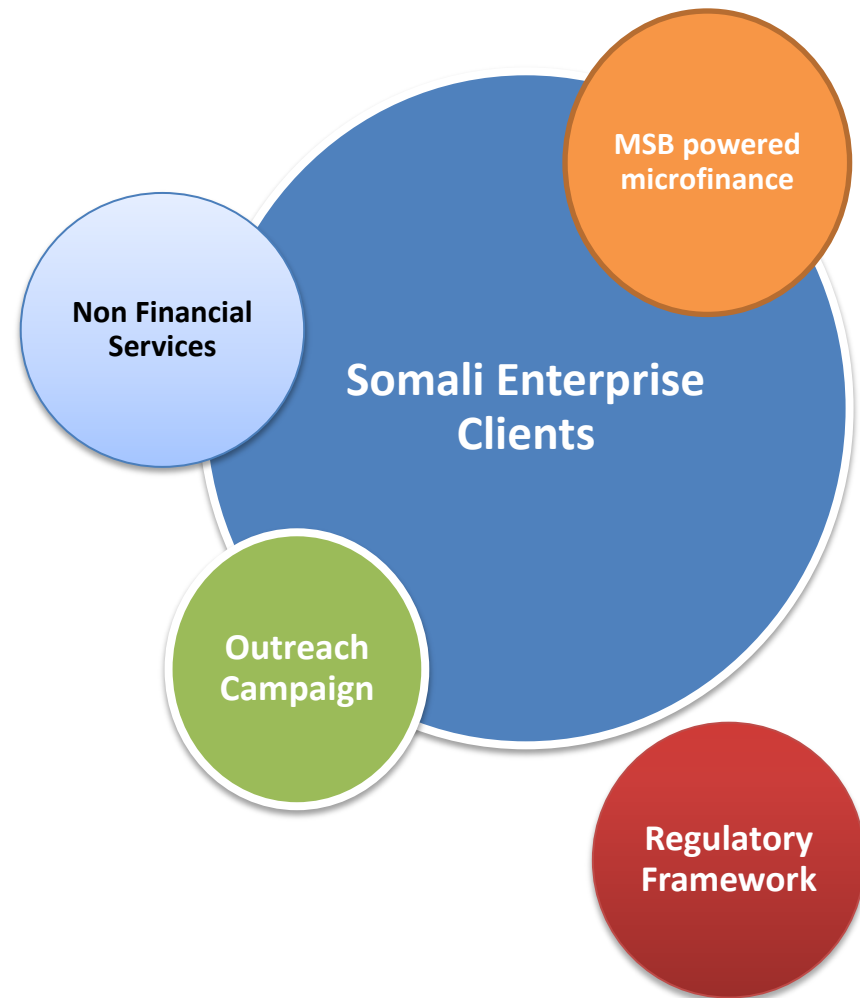
- A conflict torn country that is poor, very young and where long-term stability and future job creation is daunting
 - Women have been disproportionately affected
- Youth unemployment estimated to be 75%
- An estimated 80 percent of informal enterprises are run by women
- Lack of access to capital for entrepreneurial activities
 - 300,000 people in Puntland alone seeking credit to start an enterprise
- Lowest levels of formal finance penetration at 3 percent
- Microfinance provision that exists is unsustainable

However...

- Significant political and military gains indicate better prospects of future stability for Somalia, opportunities to innovate now exist

Intended Approach

- Introduction of commercially viable microfinance through the existing business model of MSBs, agent networks and clients
- Placing of financial services with a holistic enterprise support ecosystem
- Priority focus on vulnerable populations – providing Somali youth and women with support to enable sustainable business creation opportunities
- Provision of non-financial services in partnership with international and Somali organizations
- Outreach to change mindsets to financial access and enterprise development, and mobilize support
- Prove the market opportunity and catalyze further investment in the sector from international institutions
- Integrate service provision with traditional *hagbads*
- **Play a key role in the creation of a regulatory framework for microfinance in Somalia**



What is Innovative about the Project

- Large MSBs offer one of the most effective delivery networks for microfinance
- Leveraging of existing mobile phone enabled money transfer options to further facilitate rapid and cost effective scaling of microfinance provision
- Strong partners in Silatech and ARC with regional experience in microenterprise programming with financial institutions
- Engagement with the Somali Diaspora
- Utilisation of existing traditional community based Lending institutions

Kaah Islamic Microfinance Services

Product Structure

- Provision of Islamic financial products with a priority target for women and youth
- Provision of diversified Islamic micro-savings products
- Facilitate provision of enterprise development training, and skills building opportunities

Target Impact

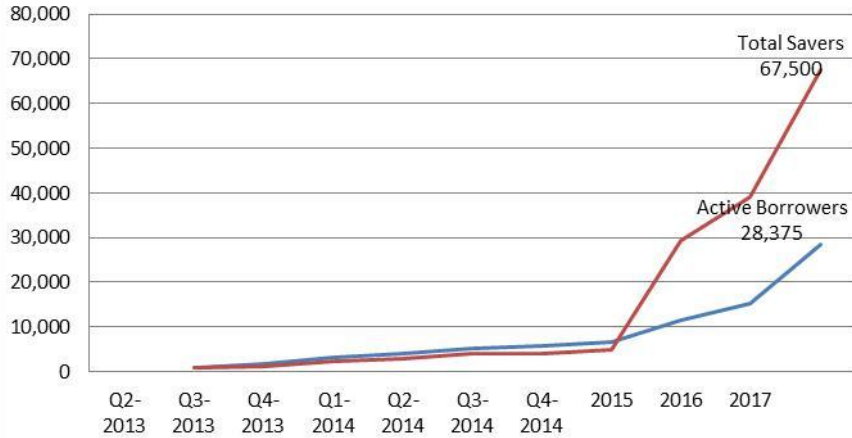
- Pilot Phase (3 months) 750 loan clients, 850 savers
- Growth Phase (12 months) 6,500 cumulative borrowers, 4,000 savers
- Scale Phase (60 months) 83,000 cumulative borrowers, 67,000 savers
- Loan Portfolio by 2015: Active \$1.8M Cumulative \$6.5M
- Total Savings Balance by 2015: \$1.5M

Financial Projections

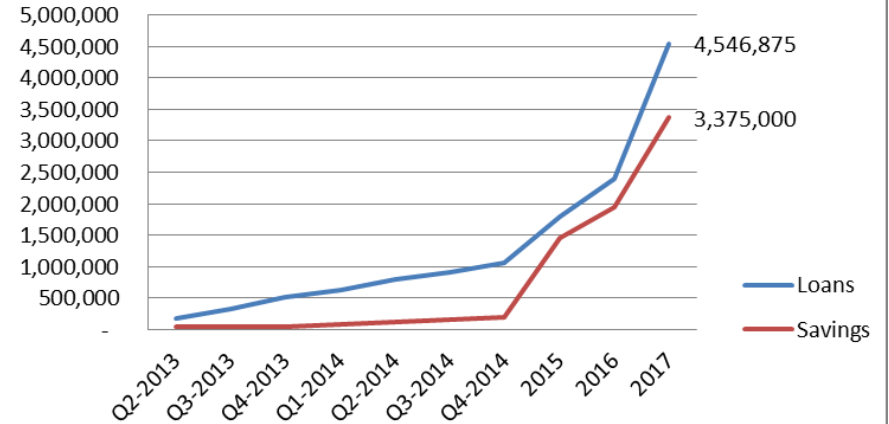
- Business Plan modeling informed by preliminary analysis in Somalia
- Long-term investment - operational sustainability by 2015
- Increasing savings balances, targeting corporate clients can have significant impact on profitability

KIMS Projections

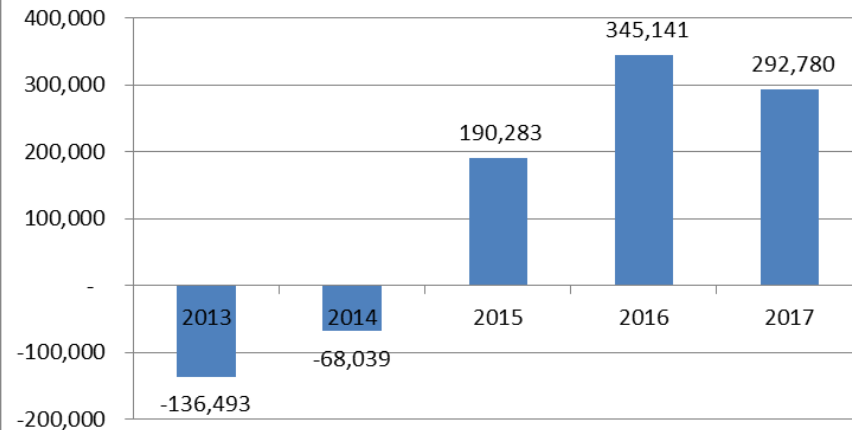
Active Client Growth



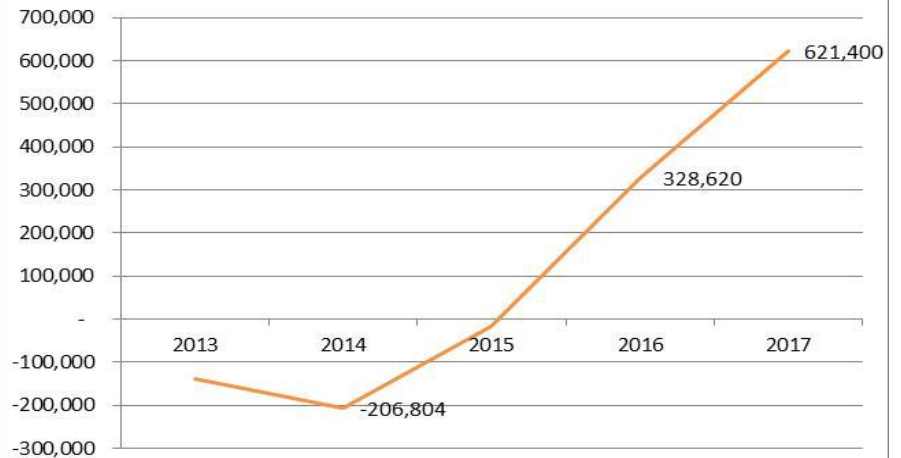
Active Portfolio



Profitability of KIMS



Cumulative Profit



Risk & Challenges

Provision of microfinance poses risks...

- Repayment challenges due to a culture of aid dependency
- **Lack of clear regulatory framework**
- **Weak legal system**
- Providing credit to vulnerable people could lead to additional economic distress
- Challenge of determining who the ultimate end-users of financing are
- Insecurity might make operations difficult

• However, KIMS will take steps to mitigate risks...

- Mobilise community leaders to support awareness raising campaigns
- **Institute a voluntary code of conduct to inform the regulatory process**
- Channel pre-screened clients from NGO partners
- Apply client protection principles
- Ensure that clients engage in productive activities with credit
- Use of existing remittance flows to manage lending risks
- Apply KYC principles
- Draw from proven techniques of delivering microfinance in unstable environments