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
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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