Mapping of Financial Services for SHGs and Barriers for Women to Access Microfinance Services in Somalia

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The Share Trust is a trans-disciplinary collective at work on research, development and outreach to amplify and unite Self Help Groups and connected organizations around the world. Self Help Groups are voluntary groups, typically comprised of 15-20 people who meet every week to save, start small business activities, and create change both for themselves and their communities. The Share Trust is always looking for new ways to connect, consult and partner to support and strengthen the Self Help Group ecosystem and understand how empowerment, social capacities and collective action can combine to create transformative change. For more information, please visit: www.thesharetrust.com

Code Innovation offers strategic advice, consulting and research services to INGOs, non-profits, government and the private sector. Code focuses on digital development (ICT4D), new approaches to governance, alternative and complementary currencies, platform cooperatives, financial inclusion, biodiversity work and integrating the rights of nature into business models. Customized workshops are available to raise organizational literacy about these cutting edge areas of social and digital technology. Code lead on the development of the Self Help Group Digital Platform, which has operated in more than a dozen countries, predominantly in Sub-Saharan Africa.

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SDRI is a Somalia-focused, independent think tank, multidisciplinary research and capacity development institute specializing in addressing complex disaster and climate resilience and humanitarian crises in Somalia. SDRI focuses on institutional capacity development and the comprehensive training and study of disaster resilience, climate change adaptation, natural resources management and water, nutrition and food security, health systems, sustainable and quality education, public financial management and media and governance. For more information, please visit: www.sdri.so

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Acronyms

AML	Anti-Money Laundering
API	Application Programming Interface
APR	Annual Percentage Rate
BRCiS	Building Resilient Communities in Somalia
CBO	Community Based Organization
CESVI	Cooperazione e Sviluppo
CFT	Countering the Financing of Terrorism
CLA	Cluster Level Association
CSR	Corporate Social Responsibility
DBC	District Bank Committee
DFID	Department for International Development
DRC	Danish Refugee Council
EIDACS	Enhancing Integration of Displacement Affected Communities in Somalia
EU	European Union
EVC	Electronic Voucher Coupons
FCA	Finn Church Aid
FGD	Focus Group Discussions
FLA	Federal Level Association
GEEL	Growth, Enterprise, Employment and Livelihoods
IBS	International Bank of Somalia
IDP	Internally Displaced Person
ILO	International Labor Organization
IMF	International Monetary Fund
IRC	International Rescue Committee
KII	Key Information Interview
KIMS	Kaah International Microfinance Services
KYC	Know-your-customer
MESAF	Ministry of Employment, Social Affairs and Family of the Republic of Somaliland
MFI	Microfinance Institution
MNO	Mobile Money Operators
MODEL	Mogadishu Integrated Efforts for Improving Livelihoods of Poorer Households
MTB	Money Transfer Business
NGO	Non-Governmental Organization
NRC	Norwegian Refugee Council
SDRI	Somali Disaster Resilience Institute
SDSC	Somaliland Durable Solutions Consortium
SHG	Self Help Group
SIDA	Swedish International Development Cooperation Agency
SPHERES	Strengthening the Poorest Household’s Economy & Resilience to Shocks
SWCC	Somaliland Women's Chamber of Commerce
SWIFT	Society for Worldwide Interbank Financial Telecommunications
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar

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Executive Summary

Context

Self Help Groups (SHGs) have become a viable economic and social model in Somalia to build resilient communities and contribute to durable solutions. Community-based and sustainable, they are well positioned to work with the most vulnerable to tackle poverty outcomes. The SHG ecosystem in Somalia includes over 30 organizations working through dozens of implementing organizations and multiple large networks.

Objective of the Study

The objective of this study is to inform programme and advocacy strategies to effectively strengthen and scale the SHG ecosystem in Somalia through improved access to pro-poor microfinance services. This work explores the availability and typology of pro-poor financial products, as well as the barriers for SHG members to access them in Somalia.

Methodology

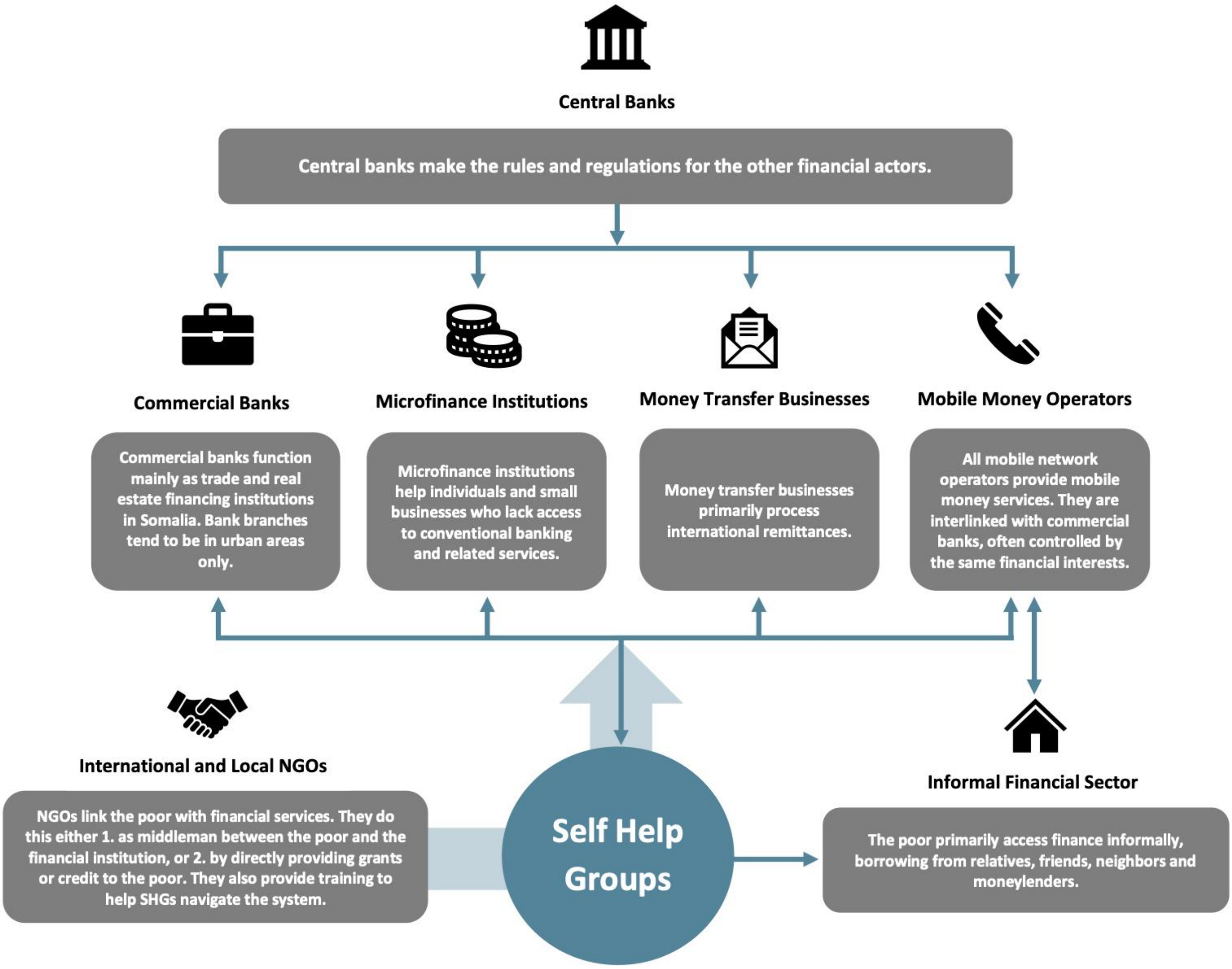
The study used a mixed methods approach, including remote consultation, a desk review, field visits with in-person consultation, focus group discussions, and a remote phone survey, to gather data across: Mogadishu (Banadir); Hargeisa, Gabiley, Borama (Somaliland); and Baidoa and Afgoye (South West State).

Key Findings – Mapping the Financial Ecosystem

There are five main categories of financial actors in Somalia's formal financial sector: central banks, commercial banks, money transfer businesses (MTB), microfinance institutions (MFI) and mobile money operators (MNO). Financial institutions in Somalia are quite young, most established within the last decade and many in the last several years. They are acutely aware of Somalia's vulnerability to a range of shocks - economic, climate, political and conflict. In general, this has resulted in a preference for very prudent lending that parts with money only briefly: hence the preference for trade or real estate, where deals are neatly time bound. Many banks lend out just a small portion of their reserves, so as to avoid crippling defaults in the event of a shock. A lack of insurance products--notably for banks themselves--also increase their vulnerability to shocks and, therefore perpetuates cautious loan strategies.

The following figure maps the different actors that comprise the financial ecosystem in Somalia. This map is a simplified version of an ecosystem that is in fact complex and with many more interlinkages than can be shown here.

Figure E1. Relationships between Financial Actors, NGOs and Self Help Groups



Though the Central Bank of Somalia does have regulations in place relating to establishing new banks, standardizing banking practices and regional administrative regulations, it still has significant room to grow in terms of its ability to enforce existing regulations and also its ability to generate supportive legal frameworks for new industries or demographics (such as MFI or MNO legal frameworks). This has implications across the full ecosystem for the types of products that are offered. For example: many banks still rely upon clan structures for accountability; banks typically only have enough capital to keep themselves afloat and are limited by the capacity and authority of the central bank; the unregulated nature of the mobile money ecosystem makes it possible that a disconnect develops between the digital and real money supply; there is a risk that inflationary or destabilizing actions are being taken without accountability, which could potentially cause a crisis of confidence in the financial ecosystem; and a lack of currency reform means that there are high levels of counterfeit bills in the system. Mobile money plays a very significant role in the Somalia financial ecosystem, largely due to a lack of faith in the Somali shilling, the difficulty of using USD for low-value transactions, and the zero-rated transaction costs and ease of use of mobile money services.

Key Findings – Mapping the availability of pro-poor products

Within this context, the availability of pro-poor products is not extensive. The system strongly incentivizes a small number of high value transactions over a large volume of low value transactions. Borrowing opportunities for small, informal or semi-formal businesses are very limited. In light of this, the most common pro-poor financial products available through financial actors are group-facing bank accounts or loans with regulations adapted to accommodate the poor. The full report provides examples of the ways in which different service providers have created pro-poor opportunities for SHGs.

Key Findings – SHG Access to Financial Services

Though financial products and services may be available, it does not mean SHG members are accessing them or even aware of their existence. Feedback from fieldwork indicates that respondents know of financial actors like Salaam Bank, Dara Salaam, Dahabshil, IBS and Amal Bank, but only a minority actually have an individual account with a bank. In many cases, particularly in rural areas, members indicated that NGOs such as Concern were the only available sources of finance outside of moneylenders. Based on these accounts and the DFID Call Centre survey, it seems that SHG members are mostly utilizing individual/group bank accounts, and if they are accessing financial services, groups are still using fairly rudimentary products such as loans primarily accessed through the informal sector.

Lessons Learned – Barriers and Successes

There are a number of key barriers impeding SHG members' access to financial products. Many, if not all, financial service providers have a very low appetite for risk and therefore have strict eligibility criteria, inflexible loans, short grace periods and binding conditions with the lenders requiring a significant amount of money to be paid each month. Constraints to accessing products include: the need for **a financial guarantor**, **proving financial identity** in a country with no national ID system, **providing documentation** i.e. licenses or registration documents, engaging in a time consuming **loan process**, and requirements for borrowers to have a **credit history** to access a loan. Further, financial institutions **prioritize traders over productive sectors** and this can penalize poor groups. These loan requirements are difficult for many poor borrowers, particularly IDPs and women. Women do not have the same resources or social networks as men that would allow them to meet collateral and guarantor requirements. They suffer from restricting gender norms on mobility and they may face pushback from their husbands, relatives and community in securing loans and establishing new businesses.

On the side of the SHG members, constraints to accessing finance include: the **knowledge gap,** both in terms of awareness of the services available and how to access them; **geographic access** as many rural areas do not have bank access; **illiteracy and mindset** can also confound access to microfinance; SHG members worry about **high levels of inherent risk,** that they will not be able to pay back a loan should they manage to access one, exacerbated by their dependency on business activities that are characterized by **low income and profits,** and**; a lack of capacity building** opportunities means that it is difficult for SHG members to move beyond existing constraints into more profitable lines of work.

However, there are an increasing number of innovations and success stories that are addressing these barriers and reducing the risk for the poor to access financial products. Many of these innovations are born from partnerships between the different financial actors, with NGOs, MFIs and commercial banks coming together to pilot more appropriate services. There is an increasing push for creativity and flexibility regarding loan requirements, such as who constitutes a guarantor and proving financial identity and credit worthiness.

Where SHGs are able to access financial services, the factors for success seem to include: higher levels of **social capital** that facilitate access to a guarantor; access to **information** about the particular services available in their area; **support** in accessing those services either through their clan or an organization; appropriate **training and capacity building** to adequately navigate the system; a **positive mindset** that allows them to believe in their ability to succeed; and a **creative business model** that helps mitigate against market saturation.

Recommendations

Programme innovations that could support SHG financial inclusion include:

- increase awareness and adoption of group accounts;
- act as a guarantor;
- lower or subsidize the cost of purchasing an ID and registering a business to encourage informal sector businesses to shift into formal structures;
- popularize the process of lending through CLAs;
- develop loan and business documents that are optimized for low literacy clients;
- invest in efforts to highlight accessibility for women;
- invest in improving capacity of SHGs, and strengthening their coordination and information sharing platforms;
- support ecosystem-wide collaboration and quality assurance around industry-specific training packages;
- expand ways to improve financial identity and trustworthiness;
- expand SHG/CLA access to digital tools to improve capacity and bridge the financial inclusion gap; and
- expand research and monitoring around group liquidity.

Advocacy strategies to influence positive change for women's financial inclusion include:

- advocate for banks to broaden their options for guarantors and create transparency around their accessibility;
- raise the profile of banks that are meeting these criteria to help them scale;
- encourage and popularize more bespoke loan products for micro-businesses (especially with group accounts);
- create and advocate for guidance for banks to create SHG-specific accounts;
- encourage banks to provide insurance; and
- join the conversation around key regulatory transformations.

Introduction

1.1 Context

Self Help Groups (SHGs) have become a viable economic and social model in Somalia to build resilient communities and contribute to durable solutions. Community-based and sustainable, they are well positioned to work with the most vulnerable to tackle poverty outcomes. The SHG ecosystem in Somalia includes over 30 organizations working through dozens of implementing organizations and multiple large networks. Supporting SHGs has become an important component of work for a number of organizations in Somalia, including Concern Worldwide, and has been implemented under different programs such as "Strengthening the Poorest Households' Economy & Resilience to Shocks" (SPHERES) and NGO Consortia (further described in Box 2).

In the scope of the Building Resilience in Somalia (BRCiS)-DFID programme, Concern Worldwide and The Share Trust conducted a stakeholder consultation in October 2018, bringing together 30 organizations working with SHGs in Somalia. Building a sustainable ecosystem for SHGs to thrive was one of the priorities identified, requiring improved access to basic services and linkages with Microfinance Institutions (MFI). There is an important need for more systematic thinking around the linkages with financial service providers and associated pro-poor financial products to support groups' sustainable growth and development of business activities.

Box 1. Terminology

Self Help Groups (SHG) are voluntary groups, typically comprised of 15-25 people who meet every week to save, start small business activities, and create change both for themselves and their communities. SHGs provide individual benefits— self-esteem, agency and aspiration— as well as a platform for collective action.

Once 8-12 mature SHGs exist in an area, they can nominate two members each to represent them at the **Cluster Level Association** (CLA). The CLA takes up social, economic and political issues that are beyond the scope of an individual group, such as advocating for access to basic services or building linkages with financial institutions.

Once 8-12 CLAs are present in an area, each CLA nominates two people to form a **Federal Level Association** (FLA). FLAs usually focus on lobbying and building relationships with larger actors to advocate more effectively on behalf of the SHGs.

1.2 Aim of this Work

The present study is commissioned by Concern Worldwide in the scope of the following programmes:

- DFID-funded “Somalia Humanitarian and Resilience”-SHARP programme (2018-2022) of the Building Resilient Communities in Somalia (BRCiS) consortium.
- DFID-funded “Enhancing Conditions for Durable Solutions for IDPs & Returning Refugees in Somalia” programme (2018-2022) of the Danwadaag Consortium.
- EUTF –funded “Enhancing Integration of Displacement Affected Communities in Somalia” – EIDACS programme (2017-2020) of the EIDACS Consortium.
- EUTF –funded “Ensuring Durable Solutions for and Reintegration of Displacement Affected Communities in Somaliland” programme (2017-2020) of the Somaliland Durable Solutions Consortium.
- Irish Aid-funded Strengthening the Poorest Households’ Economy & Resilience to Shocks (SPHERES) programme (2017-2021).
- GIZ-funded Implementation of a Farmer Field School Approach in in Upper Biji Water catchment - Somaliland project (2018-2020).

The objective of this study is to inform programme and advocacy strategies to effectively strengthen and scale the SHG ecosystem in Somalia through improved access to pro-poor microfinance services. This work explores the availability and typology of pro-poor financial products, as well as the barriers for SHG members to access them in Somalia.

More specifically, the findings and recommendations of the study will help advise programming in three main ways:

1. Inform programme design adaptations to enhance the ability of SHG members to access available pro-poor financial products that are suitable to the profile of SHG women.
2. Provide evidence to inform advocacy strategies of the NGO/donor community in promoting sector laws, regulations and policies that create an enabling environment for pro-poor financial services, particularly for the profile of women participating in SHGs.
3. Understand the existing financial services available, formal and informal, in rural and urban areas to help build relations with the existing financial institutions and advocate for tailored services adapted to the profile of women involved in SHGs.

Box 2. Relevant Consortiums Working with SHGs in Somalia

Building Resilient Communities in Somalia (BRCiS) is a consortium of six organizations (Action Against Hunger, CESVI, Concern, IRC, Norwegian Refugee Council and Save the Children) funded by DFID that takes a holistic approach to supporting Somali communities in developing their capacity to resist and absorb minor shocks without undermining their ability to move out of poverty.

Danwadaag Durable Solutions Consortium is a DFID Durable Solutions Consortium with the objective of supporting (re)integration for displacement-affected communities. Under this Consortium, Concern is already supporting 30 SHGs in Baidoa and Afgoye.

Enhancing Integration of Displacement Affected Communities in Somalia (EIDACS) and **Somaliland Durable Solutions Consortium (SDSC)** are two European Union Emergency Trust Fund Durable Solutions consortia with the objective to create a conducive environment for displacement-affected communities to reach durable solutions. Lead by Concern, EIDACS has supported 30 SHGs in South West State of Somalia, while Concern has supported 800 women in Somaliland through SDSC.

NAGAAD Network is a local consortium of 46 women’s organizations formed to serve as a collective voice of women fighting for their socioeconomic and political rights as equal citizens of Somaliland.

Methodology

2.1 Scope of the Work

The study's geographical scope included:

- Mogadishu (Banadir);
- Hargeisa, Gabiley, Borama (Somaliland); and
- Baidoa and Afgoye (South West State).

2.2 Approach

The research used five key lines of inquiry:

- Remote Consultation;
- Desk Review;
- Field Visit with In-Person Consultation;
- Focus Group Discussions (FGDs); and
- Remote Phone Survey.

The consultancy team was led by The Share Trust, an organization that supports and strengthens women's SHGs around the globe. Code Innovation -- an aid and development consultancy firm with particular expertise in digital development, financial inclusion and SHG programming -- led on in-person consultations and key informant interviews. The Somali Disaster Resilience Institute (SDRI) conducted FGDs with SHG members across the study sites. Finally, the remote phone survey was conducted through DFID's call center.

Annex A contains the questionnaires used during consultation, and Annex B contains a complete list of key informants consulted during this study.

The consultancy spanned February through April 2020. The focus group discussions were conducted by SDRI February 23rd-27th in Borama, Gabiley, Hargeisa and Mogadishu, and March 9th-10th for

Baidoa and Afgoye. The field visit with in-person consultation by Code Innovation took place the first week of March. The remote phone survey took place from March 10th until April 14th, 2020.

2.2.1 Remote Consultation

Remote key informant interviews (KII) with DFID, World Bank, International Finance Committee (IFC), and the EU at the outset gave initial background into the context and enabling environment for pro-poor financial products in Somalia. These KIIs expanded the list of key actors to speak with and resources to consult.

Additional KIIs were conducted with International Bank of Somalia (IBS), KIMS, Gravity.Earth (an organization creating digital identities for economic inclusion), the Somaliland National SHG Coordinator and the Somaliland Women's Chamber of Commerce (SWCC) since it was not possible to meet with them on site.

2.2.2 Desk Review

A desk review complemented the primary data collection, and included a limited set of secondary data sources, primarily project documents, reports, case studies and external evaluations identified through consultation with Concern and through consulted key actors. The purpose of the desk review was to identify: 1) existing pro-poor products; 2) barriers to accessing financial services (especially for the poor and for women); and 3) any innovations or alternative approaches that have been developed. It specifically included any documents relevant to the SHG ecosystem in Somalia and access to financial services.

Annex C contains a summary of findings from the desk review.

2.2.3 Field Visit with In-Person Consultation

A one-week field trip to Mogadishu and Hargeisa facilitated in-person interviews with existing actors in the financial inclusion space including financial providers, government and NGOs. It further mapped the types of financial products available to SHG members, the barriers to access and the policy framework surrounding pro-poor financial options.

In Mogadishu, in-depth interviews were conducted with Premier Bank, the Central Bank of Somalia, GARGAARA and One Earth Future. In Hargeisa, in-depth interviews were conducted with MicroDahab, Dahabshil, Telesom, Shaqodoon, NAGAAD Network, USAID's Growth, Enterprise, Employment and Livelihoods (GEEL) program, MESAF and World Vision.

2.2.4 Focus Group Discussions

Direct consultation with SHG and CLA members is critical to understanding the particular limitations and barriers members face; however, language barriers and access constraints can limit the quantity and quality of data collection. To address this, a local consulting firm, the Somali Disaster Resilience Institute (SDRI), was included in the team to undertake focus group discussions (FGD).[1]

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[1] SDRI is an independent think tank, multidisciplinary research and capacity development institute based in Somalia that focuses on the study of disaster resilience, health systems, sustainable education, natural resources management, water, nutrition, food security, public financial management, media and governance. http://sdri.so/about-sdri/

SDRI spoke directly with SHGs and CLAs in the field to understand if and how the groups used bank products and MFIs, and what the barriers to access were. A total of 42 FGDs were conducted in February in Borama, Gabiley, Hargeisa and Mogadishu and March 2020 in Baidoa and Afgoye. Six FGDs were conducted in each district, with the exception of Mogadishu where 12 FGDs were conducted in Bondhere, Karaan, Wadajir and Hamarjajab districts.

In Mogadishu, the SHGs interviewed were generally well established, with some groups in place since 2012. The groups were supported through BRCiS I, SPHERES and MODEL and included both internally displaced persons (IDP) and poor host community members. In Baidoa, the SHGs are supported under the Danwadaag Consortium and are very young. They were established in May 2019, and all the groups consisted of female members who were either IDPs, returnees or host community members, the majority being IDPs.

Afgoye is one of the most volatile zones in Somalia. Al-Shabaab has a strong presence in the region and conducts extensive attacks, and the region is subject to a number of clan conflicts. This insecurity significantly impacts vulnerable populations, including SHG members, who have been forced to flee their homes. SHGs members interviewed in Afgoye are displaced but are usually from nearby villages and communities, their groups established under BRCiS I, BRCiS II and EIDACS.

SHGs from Borama and Gabiley in Somaliland are rural. Interviewed Hargeisa SHGs are urban with IDP members. In Somaliland, the groups were supported through BRCiS II, SPHERES, GIZ and SDSC.

Annex D contains a summary of SDRI's findings from the FGDs.

2.2.5 Remote Phone Survey

The DFID Call Centre conducted a remote phone survey in early April 2020 related specifically to accessing financial services. The survey was short, approximately 5-10 minutes long, and in the local language, with structured and binary data gathered via mobile phone calls. The Call Centre contacted 690 SHG members. Of these, 249 answered the call, consented to interview, and gave valid responses. Responses came from a range of partners working with SHGs who provided phone numbers, including: Concern, Save the Children, DRC, IRC and Soydavo. Annex E outlines the DFID Call Centre findings in greater detail.

Findings

3.1 Introduction

This section brings together the key findings, drawing from across the literature review, consultation, fieldwork and the DFID call center survey, to present the following:

- **Mapping the financial ecosystem.** A short review of the main financial actors, the regulatory environment around banking as well as mobile money, and the pro-poor products that are currently offered that are suited to SHGs and their members.
- **SHG access to financial services.** Despite availability of some financial products and services, this section describes the evidence around whether and how SHG members are accessing these products.
- **Lessons learned.** This section summarizes key points that were raised across the research regarding the key barriers that prevent access of SHG members to financial services and products, as well as a description of some of the innovations and lessons learned to adapt to these barriers.
- **Factors for success.** While access to financial services is relatively limited, where it has been successful, a number of factors for that success are characterized.

3.2 Mapping the Financial Ecosystem

3.2.1 Main Financial Actors

There are five main categories of financial actors in Somalia's formal financial sector: central banks, commercial banks, money transfer businesses (MTB), microfinance institutions (MFI) and mobile money operators (MNO).

Financial institutions in Somalia are quite young, most established within the last decade and many in the last several years. They are acutely aware of Somalia's vulnerability to a range of shocks - economic, climate, political and conflict. In general, this has resulted in a preference for very prudent lending that parts with money only briefly: hence, the preference for trade or real estate, where deals are neatly time bound. Many banks lend out just a small portion of their reserves, so as to avoid crippling defaults in the event of a shock. A lack of insurance products--notably for banks themselves--also increase their vulnerability to shocks and, therefore perpetuates cautious loan strategies.

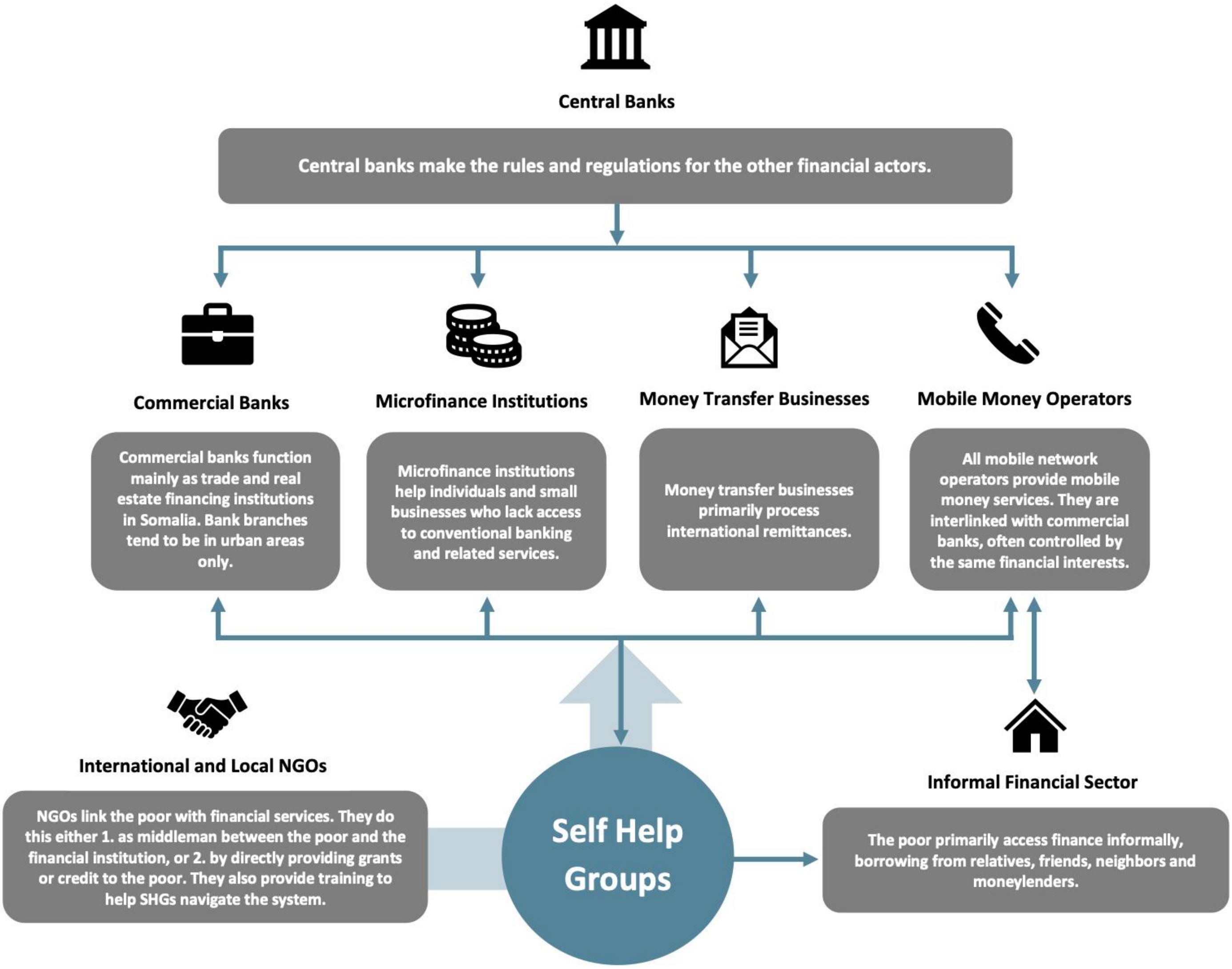
Table 1. Main Players in Somalia's Financial Sector.[2]

	Category	Description	Key Actors
	Central banks	Central banks are the main regulators of financial institutions. They license and supervise the other financial actors and develop regulation. They are not yet helping to insure local banks or to offer clearing house services between banks.	Central Bank of Somalia, Central Bank of Somaliland and the Central Bank of Puntland
	Commercial banks	Commercial banks function mainly as trade and real estate financing institutions in Somalia. Bank branches tend to be in urban areas only.	Amal Bank, Amana Bank, Dahabshil, Global Tech Bank, International Bank of Somalia (IBS), Premier Bank, Salaam Somali Bank, Dara Salaam Bank and Trust African Bank
	Microfinance Institutions	MFIs target individuals and small businesses who lack access to conventional banking and related services. Specific regulation to support MFIs does not yet exist in Somalia (though it is getting started in Somaliland). Some banks are positioning themselves in Somalia to meet the microfinance demand as soon as the supporting regulation is enacted.	Kaaba Microfinance Institution, KIMS, MicroDahab, Shuraako, and Kaalo
	Money transfer businesses	Money transfer businesses primarily process international remittances. Some are part of widely diversified enterprises with overlapping financial and nonfinancial sector interest.	Amal, Amaana Express, Dahabshil, Hodan, Jubba, Kaah Express, Taaj, Tawakal, Iftin, Bakaal Express and Globalex
	Mobile money operators	All mobile network operators provide mobile money services. The networks are consolidated into three large conglomerates, divided by region. Leading mobile network operators are part of widely diversified enterprises and are developing partnerships with money transfer businesses to facilitate international transfers.	Telesom in Somaliland is one of the major MNOs whose ZAAD system Concern uses for cash transfers and safety net payments. Other key actors include Dahabshil E-Dahab, Hormud-EVC, and Somtel

[2] World Bank (2018). "Rapid Growth in Mobile Money: Stability or Vulnerability?" Somalia Economic Update, Edition No. 3. August 2018.

Figure 1 maps the different actors that comprise the financial ecosystem in Somalia. This map is a simplified version of an ecosystem that is in fact complex and with many more interlinkages than can be shown here.

Figure 1. Relationships between Financial Actors, NGOs and Self Help Groups



Multiple NGOs, donors and Development Finance Institutions, aware of these broader circumstances, are actively seeking to capacitate, regulate and diversify the financial ecosystem.

- At the top of the pyramid, international and local actors are working to strengthen systems that can help the entire ecosystem meet international know-your-customer (KYC) and anti-money laundering (AML) transparency standards so that Somali banks can begin to trade with (and borrow from) established foreign banks.

- In the middle of the pyramid, international and local actors are making large, multi-year investments in funding pipelines that build out and support industries that Somali banks have avoided in the past: notably productive industries like agriculture and fisheries.
- At the bottom of the pyramid, international and local actors are trying to create the financial products and services (and regulatory environment) that enable people living in poverty to access capital safely.

It is common practice in Somalia for a donor to nudge a bank towards new lending practices by supplying initial grants or matching support tied to the desired lending practices. These are frequently accompanied by technical training and assistance and will be detailed further below.

Additionally, the enmeshment between MNOs and commercial banks is worth noting as a general characteristic of the ecosystem. The extraordinary prevalence of mobile money (discussed further below) is likely related to users' ability to deposit, withdraw and transfer for zero-fee. The banks that partner with the MNOs to make this possible are, as several respondents reported, able to provide products and services at zero-fee because they are, ultimately, controlled by the same financial interests as the mobile network operating ecosystem.

While not part of the financial sector, local and international NGOs play an important role in linking the poor with financial services. They do this either by serving as an intermediary between the poor and formal institutions such as banks or MFIs or by directly providing financial products such as loans or cash injections in the form of grants to their beneficiaries. NGOs who are playing this role mentioned in consultation were Shaqodoon, a local NGO founded in 2011 that prioritizes youth employment and education, Concern (grants rather than loans), World Vision, DRC and NRC. This facilitation is also done through NGO consortiums like NAGAAD Network.

Box 3. Sharia-Compliant Financial Institutions[3]

It is important to note that Somalia is a predominantly Islamic country, and the financial system frequently operates in compliance with local interpretations of Sharia. Islamic finance prohibits charging interest, and therefore there is greater focus on profit in interactions between banks and customers. Accounts can be structured in multiple ways. For example: as a leasing agreement where the bank buys something for a customer and leases it to them; as a transaction when the bank supplies goods for resale at a price that includes a margin above the costs; as a joint venture where customer and bank contribute funding to an investment/purchase and agree to share the returns and risks; or as a partnership when the bank uses a customer's cash to invest in sharia-compliant trading activities to generate a profit.

3.2.2 Regulatory Environment

Though the Central Bank of Somalia does have regulations in place relating to establishing new banks, standardizing banking practices and regional administrative regulations, it still has significant room to grow in terms of its ability to enforce existing regulations and also its ability to generate supportive legal frameworks for new industries or demographics (such as MFI or MNO legal frameworks).

Many banks rely upon clan structures to create accountability for lenders. With clans still providing the de facto identification and loan collection services, creating regulations on paper that diverge from common practice is a pitfall to avoid. While Somalia transitions into the global formal economy, there will still be ways that the banking system depends upon the ability of clans to identify, vouch for and hold customers accountable. While this is being done ad hoc by each lending organization, it may be best to acknowledge it openly and codify/sanction it nationally where all parties agree about best practices.

Numerous bankers reflected on the way their own activities are limited by the current capacity and authority of the Central Bank. According to Premier Bank, for example, banks only have enough to keep themselves afloat, and therefore want to lend little of their reserves, for very short and secure periods of time centered around trade or real estate transactions. There is no treasury function in the country. Inter-bank borrowing is not available. There is no bail out, arbitrage or other system in place to help banks manage shocks. There is no clearing house or real time settlement options (no SWIFT equivalent). There is no fractional reserve law or transparency around digital money.

Several bankers noted that the unregulated nature of the mobile money ecosystem makes it possible that a disconnect develops between the digital and real money supply. Respondents outlined the risk therefore that inflationary or destabilizing actions are being taken without accountability, which could potentially cause a crisis of confidence in the financial ecosystem. Such a crisis, at its worst, could result in customers seeking to go to cash from their digital reserves and finding that banks have very insufficient reserves.

[3] Osborne, HIlary. "Islamic Finance -- the lowdown on sharia-compliant money." *The Guardian.* Published October 29th, 2013. https://www.theguardian.com/money/2013/oct/29/islamic-finance-sharia-compliant-money-interest

According to the World Bank, one key government priority is currency reform in Somalia.[4] The International Monetary Fund (IMF) estimates that almost all current Somali shilling notes in circulation are counterfeit, as no banknotes have officially been issued by the Central Bank of Somalia since 1991 (this does not apply to Somaliland, since the Central Bank of Somaliland has been issuing its own currency, the Somaliland shilling, since 1994).[5] The reform in Somalia would introduce secure small-denomination currency notes, to develop both the Somali shilling payment system and promote financial inclusion. Reform will require intensifying central bank governance, banking supervision, payment reforms and replacing counterfeit notes with legitimate currency. Making it possible to use mobile money in Somali shillings as opposed to USD (which is already possible in Somaliland with Somaliland shillings) would also extend access to the poor in Somalia, allow conversion between physical and mobile money and formalized savings, particularly for poor households.[6]

3.2.3 Mobile Money

In its 2018 Somalia Economic Update, the World Bank reported on the vast scope of Somalia's main individual and businesses transaction instrument: mobile money. The demand for digital money has arisen largely from lack of faith in the Somali shilling, the difficulty of using USD for low-value transactions, and the zero-rated transaction costs and ease of use of mobile money services.[7] The following information is primarily drawn from the World Bank report to highlight the popularity of mobile money with Somalis.

In Somalia, 73% of the population 16 years and older uses mobile money, even though only about a quarter of the population engages in savings activities, only about 15% of the population (and just 7% of Somali women) has a bank account, and less than 5% of people with bank accounts are active users. More than half of people who save do so with a mobile money account. In its survey of SHG members, the DFID Call Centre found that 92% of respondents use mobile money daily.

Nationally, penetration rates are highest in urban areas (83%) and camps for IDPs (72%). In rural areas, 55% of the population uses mobile money. Mobile money has improved financial inclusion: about 70% of women have mobile money accounts, which is just 5 percentage points fewer than men. The number of mobile money subscriptions has grown at an average rate of about 20% a year since 2014.

The value of mobile money transactions in Somalia is estimated at $2.7 billion a month (36% of GDP). An estimated 155 million mobile money transactions are made each month. Half of all transactions are person-to-person transfers, mostly day-to-day transactions. They account for 30% of the value of all transactions. The second-highest volume of transactions are merchant/retail payments, which account for almost a quarter of all transactions and about 14% of the value of transactions. Other uses for mobile money include salary transfers, bill payments, remittances, and cash transfers from development organizations.

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[4] World Bank (2018). "Rapid Growth in Mobile Money: Stability or Vulnerability?"

[5] International Monetary Fund (2015). "SOMALIA: 2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA." IMF Country Report No. 15/208. July 2015. https://www.imf.org/external/pubs/ft/scr/2015/cr15208.pdf

[6] World Bank (2019). "Building Education to Boost Human Capital." Somalia Economic Update, Edition No. 4. August 2019.

[7] World Bank (2018). "Rapid Growth in Mobile Money: Stability or Vulnerability?"

Remittances account for about 6% of the value of all mobile money transfers. Official remittances from the diaspora are estimated at about $1.4 billion a year, equivalent to approximately 23% of Somalia's GDP. 3.4 million people—roughly 40% of the population—depend on remittances for their daily needs, and 80% of all new business ventures are funded by remittances.

Somalia is ahead of many other developing countries in its use of mobile money. In other African countries, MNOs are still trying to incentivize customers to maintain balances in their mobile money wallets. In Somalia, operators have already partnered with local retailers and merchants to ensure smooth digital exchanges, even for low-value transactions. The use of digital payment increases the speed of transactions, lowers transaction costs, ensures security of payments and provides a safe way to save.[8] The traceability of these transactions is also attractive to bankers in need of demonstrating strict KYC/AML behaviours. However, this potential benefit is tied to the MNOs ability to correctly identify their customers, which is impeded by a non-robust system of government identification.

The massive uptake of mobile money in Somalia is related to the zero cost structure of the service. Unlike users of Mpesa, Somalis can deposit, withdraw and transfer money at zero cost via any of the popular mobile money outlets. This unusual setup is made possible by a web of tightly networked businesses (which some respondents compared to a "cartel"), where telecommunications operators (Telcos) and banks are directly controlled by the same owners and jointly operate the mobile money ecosystem which supports both sides of their corporate ecosystem.

At present, they do not see the incentive or rationale for transforming this ecosystem into a platform on top of which other businesses can build financial services and products because these would compete with the offerings of their allied banks. However, holding a narrow monopoly in this fashion is less advantageous (in the long-run) than owning a digital platform, which is currently the more acceptable version of monopoly stewardship, in part because it creates the foundation for other markets to exist.

Regulation is often proposed to "break up" the control exerted by these bank/Telco combinations; but there is also a straightforward business case to be made (directly to these businesses) that takes lessons from Google, Apple or even Safaricom. Before they lose control of the market share they currently possess (from innovations described below), they could focus on creating digital infrastructure that incentivizes new businesses to develop and market new financial products and services.

In reaction to the current hegemony, some teams (such as Premier Bank or IBS, who do not have Telco partners), are considering disruptive new approaches to the ecosystem. Similarly, Sombank in Hargeisa are thinking of ways to create Electronic Voucher Coupons (EVC) without a Telco or the Internet. Foreign banks like Global Tech Bank from the UK are seeing an opportunity to enter the marketplace and bypass existing channels entirely.

As more Somali's begin to use smartphones, newly arrived banks gain the ability to create their own mobile application ecosystem and directly serve Somali banking needs without having to use existing EVC systems. Because they cannot compete with the feature of free transfers, withdrawals and deposits that telcos/banks can offer their EVC customers, newly arrived banks will compete by offering better loan products, driving interest rates down and creating flexibility about how payments are made. This will test how many lenders feel the need to comply with the letter of sharia law with regards to asset purchasing versus, for example, direct cash transfer. It seems likely that donor funds will get

[8] Ibid.

behind a bank that attempts to disrupt the enmeshed banking and Telco ecosystem that currently exists.

A final point on the mobile ecosystem: one way that carriers can distinguish themselves is via the minimum size of transactions that they permit and whether or not microtransactions are supported in local currency or USD. There is currently a diversity of policies related to this threshold.

Starting an Account with an MNO

To open an account with Telesom's ZAAD system, the minimum obligation is having a SIM card, which, with simplified KYC obligations, should require the user to provide her name, mother's name, relatives' names, and a photo. An ID is not necessary for this introductory account, and the maximum it can hold is $300 USD. For more than $300 USD, a government ID is required; these ID-verified personal accounts can hold a maximum of $2,000 USD. For an account over $2,000 USD you need a reason and either: a business license or a guarantor (a businessperson or a chief with an ID and a cell phone number). This account can hold up to $30,000 USD. After that, a business license is required. Paperwork requires notarization and multi-day delay/review periods are the norm for creating a business account. ZAAD actively seeks out rural customers; ZAAD roaming agents take pictures and fill out forms for their rural clients and help them deposit their funds at the nearest ZAAD office.

Adoption Hurdles

Sharia compliance is often interpreted to mean that lenders must purchase assets on behalf of borrowers, instead of sending or transferring them cash directly. This can be understood as a barrier to making loans instantly available via mobile money (through EVCs). Even assuming hurdles around ID verification and credit history verification are resolved, this aspect of sharia compliance might stand in the way of easy-to-distribute mobile money loans. This does create a potential opportunity for technology platforms that could verify specific purchases via certain merchants with earmarked funds and the potential to move in this direction with blockchain technology is noteworthy; but the complexity rises with this workaround.

3.2.4 Mapping the Availability of Pro-Poor Products

While it seems like the financial sector is expanding, the availability of pro-poor products is not extensive. Existing financial service providers are still relatively young, but they are growing at a good rate, mostly by loaning to low-risk networks of people. They have started by targeting the low hanging fruit, primarily other reputable businessmen from urban areas and similar clans who have strong track records, collateral and appropriate contacts. There is still not enough financing available to meet the demand of this closed network of clients, and therefore the commercial incentive to reach harder parts of the market, i.e. the rural poor, is lower for several reasons.

One banker, supervising a portfolio of loans to wealthy traders can make high profit for their bank in a small amount of time because the clients are financially literate, transacting in high volumes and in short time frames. The same banker, serving microfinance clients might have to work for a decade to earn the bank a comparable amount of profit and fees because of investments required to sensitize and support those with low financial literacy and because of the sheer administrative hours required to file paperwork on all the micro-transactions. The burden is compounded exponentially when sharia norms are followed, since the bank must spend its time going into a physical market and buying items to initiate the loan. This strongly incentivizes a small number of high value transactions over a large volume of low value transactions--just in terms of banker officer salary investments. Fortunately, repayment data from sources such as GARGAARA and MicroDahab indicates rates of repayment are incredibly high for microfinance investments which means there is enough incentive to figure out how to make such products and services scale in a profitable way.

Borrowing opportunities for small, informal or semi-formal businesses are very limited. Commercial banks have some interest in reaching out to women, but their motivation is quite often related to Corporate Social Responsibility (CSR) rather than reaching out to women as profitable clients. This is the same for banks with microfinance windows targeting the poor.

In light of this, the most common pro-poor financial products available through financial actors are group-facing bank accounts or loans with regulations adapted to accommodate the poor. It should be noted that this study examined the pro-poor products in most detail within the context of how they meet the needs of SHG members, as this is the target demographic of this report. Additionally, not all key banks are represented here due to difficulties in contacting their representatives. In addition to the Central Bank of Somalia, we spoke with representatives from three out of the nine commercial banks found during consultation.

Commercial Banks

- **Amal Bank** in Somaliland has created an account type specifically for groups, like Self Help Groups. It typically takes 5-7 days for groups to complete the procedures for opening an account. They need to bring their group constitution and must go to a notary with their account agreement (notarizing this document costs $10 USD). They must bring photos, passports or IDs of the members (or, at least, of the two group leaders). Costs for acquiring these photos and documents vary. This account type is a great example of a product that is directly supported by an NGO, in this case the NAGAAD Network. For these accounts, NAGAAD is willing to cross-verify the identity and history of the group, so that Amal Bank knows the group is both legitimate and integrated into the NAGAAD network. However, this is only possible in cities where Amal bank branches can be found. In rural areas, the other groups supported by NAGAAD mostly continue to use the 3-key lockbox approach to their savings. Accordingly, they lose the opportunity to develop a credit/savings history with a bank.

- In Somaliland, **Dahabshil** also makes an effort to serve the SHG market directly. They periodically make larger loans available to women and SHGs (in the vicinity of $10,000 USD). This lending opportunity takes place every 3-6 months and is advertised through networks that support SHGs so that sufficient demand is available for the product (and concentrated into a shortened administrative window). Like Amal Bank, Dahabshil looks for shortcuts to verify the businesses that apply for these loans. As mentioned above, NAGAAD and other SHG-supporting organizations help to serve as references. They also (in the case of NAGAAD in particular) coach the SHGs before they ask for larger loans, often writing the proposal or business plan for them. These linkage options with Dahabshil and Amal Bank from NAGAAD apply to their 1,600 SHGs across Somaliland, which they have organized into CLAs of 8 SHGs.

  In Baidoa, DRC has been working with Dahabshil under EIDACS, opening an account with the bank and depositing a revolving loan fund where members of the 15 established SHGs could access credit. The account is managed by a District Bank Committee (DBC) made up of seven people– four of whom are members selected from the best performing SHGs, while the other three are representatives of the local authority and include two religious leaders and a businessman. The revolving loan fund is accessible to all members of the 15 SHGs. To borrow from the fund, a member has to prepare a business plan, which is then reviewed by her SHG, to assess credit worthiness as well as viability. Once approved by the group, the business plan is submitted to the DBC who further reviews it, to determine that (i) it suits the market opportunities; (ii) it is profitable; (iii) borrower has premises on which they will conduct the business, and (iv) the borrower is trustworthy and has a guarantor who would pay the loan in the event that the borrower fails to repay the loan. If successful, the DBC writes a cheque to the borrower who then cashes the cheque from the bank. As part of the loan repayment plan, the borrower is required to pay a fixed amount (total amount taken divided by duration of the loan) at the end of each month throughout the loan duration. Loan repayment is monitored by the DBC. The DBC also monitors the performance of the borrower's business and may provide, where necessary, consultancy and business advice to the borrower. No service fee is charged during the process of loan giving. Moreover, the borrower is required to pay back only the amount borrowed, in order to avoid any anti sharia-related elements (such as interest). All members of the 15 SHGs were mobilized and trained on the process of loan taking. As of February 2020, 74 members had applied for loans and based on the above-mentioned criteria only six were successfully awarded. The total amount loaned out to the six individuals is $3,000 USD (one received $600 USD, two received $500 USD and three received $400 USD, each depending on their business plan).

Dahabshill won't work with an SHG directly unless it has a guarantor organization (to vouch for its legitimacy and preparedness). They also won't make or allow repayment in local currency. Everything is done in USD. In many situations, they prefer to loan to each member the same amount of money ($300, then $600, then $1,200) for the same period and under the same terms. There seemed to be some flexibility on the specific terms, since the initial pot of money for lending is often granted by an NGO and then administered by Dahabshill--something that Mercy Corps have recently done, for example. Dahabshill are committed to the actual business case of microfinance, so they want to gradually make profit on their loans to expand their pool of available capital; APRs seemed to hover around 12%. Terms could be as short as three months or as long as a year.

- **The International Bank of Somalia (IBS)** has two interesting variants on the group account. The first is being piloted in Mogadishu. There, aspiring micro-borrowers are assisted to find four other borrowers and form a group of mutual assurance. This group of four is then guaranteeing the payback of its members, and 65% of the borrowers within this product are female. IBS waits to have between 30-50 of these aspiring borrowers lined up and then schedules them for a 2-day workshop in business and bookkeeping skills that is a prerequisite for accessing loans. The bank also has a process for guiding them through the provision of necessary identity documents (which typically cost members $5-10 USD in total in Mogadishu and Baidoa, where this pilot project operates and can depend upon administrative infrastructure). The small group of borrowers is then required to go through the standard (slow) step-up process of micro-finance banks. Each member first receives $500 USD for a fixed term (usually three months); after payback, each member receives $1,000 USD for a slightly longer term and only then are they able to bid for $2,000 USD loans.

  The second form of group account supported by IBS is focused on Community Based Organizations (CBO)—this is funded by an organization called SOS Children's Villages and targets (potential) workers in the informal sector who are (willing to be) engaged in similar lines of work. They have tested this with IDPs in particular and in Baidoa. They advertise the opportunity described below and vet the respondents, ultimately selecting 140 who become a cohort together. They go through a 4-5 day training program, that includes help getting ID documents and then are broken into smaller groups around shared pursuits. The purpose of these smaller groups is to make optimal use of a productive asset that the bank can purchase for them (in accordance with Sharia)— for instance 2 or 3 motorcycles for a group of 10 moto taxi drivers. These groups also receive training in how to maintain and protect their productive assets.

- **Premier Bank** in Somalia offers customizable group accounts that can require as many signatories for banking actions as the group demands. They are also working with Dahabshil and Shaqodoon to allow the NGOs to enable SHGs to receive their first micro-grants of $300-500 USD and then microloans up to $3,000 USD. As usual, the NGO plays a capacity development role and helps to minimize risk for the bank.

- **Global Tech Bank** is a new banking player in Somaliland from the UK. They have just opened a branch in Hargeisa and are in the process of opening additional branches in other cities. They are in the process of working with the Somaliland Network of SHGs to offer loans to individuals with no interest within the SHG network. CLAs recommend the members and serve as the guarantor, with no collateral required. The loans will start at $500 USD for 10 months, and Global Tech Bank envisions giving 5,000 loans at this rate. After these initial no interest $500 USD loans, they are ready to offer larger loans for $1,000 USD, $2,000 USD and higher with a maximum 4% APR interest rate. The bank does not experience sharia compliance issues for new customers since they are not charging interest on the initial loans. They are also using digital money: the user can access and pay the loan with their own digital money on their smartphone or desktop. It is not yet available on feature phones. This is an example of a new player coming in with a new loan product and tech platform, bypassing the local ecosystem.

- **Salaam Somali Bank** partnered with Concern to set up bank accounts for Concern's SHGs under the Mogadishu Integrated Efforts for Improving Livelihoods of Poorer Households (MODEL) program. It is common for NGOs such as Concern, consortiums like BRCiS and the Somaliland Durable Solutions Consortium (SDSC) and programs such as "Strengthening the Poorest Households' Economy & Resilience to Shocks" (SPHERES) to encourage opening joint bank accounts for SHG members with commercial banks. The partnership was initially to channel Concern's $3,000 USD cash grants to the mature groups.[9] Each SHG had a group committee responsible for depositing and withdrawing the money from the account. Upon exposure to the SHGs and their savings practices however, Salaam Somali Bank gave the groups access to loans so they could enlarge their businesses. Ten SHGs received loans amounting to $20,000 USD free of charge or interest with loan repayment procedures and a one-year repayment period.[10]

Microfinance Institutions

- Following the Grameen model, **KIMS** has created group accounts since mid-2019. The entry loan size is $50 USD per member of the group, with a maximum threshold of $500 USD. The loan is for 6 months with a standard markup of 16%. There are three levels: $50 USD, $100-150 USD and $250 USD and up. Groups will switch to individual products after $500 USD. They would potentially never need a guarantor at KIMS as long as they create good repayment history.

  To start an account with **MicroDahab** in Somaliland, SHGs need a certificate showing that they have received training from an NGO in how to form and manage themselves. The two group leaders must showcase their training during an interview with the bankers, outlining their businesses and needs. It is possible for an SHG to get a loan without a bank account, but MicroDahab encourages them to open one. They do not offer savings in the local currency; all

[9] FIM Team (2016). "Assessment for MODEL Self-Help Groups in Mogadishu." *Concern*. Narrative Report. March 2016

[10] Abdikarim, Mariam and Fardowsa Mohamud (2017). "Concern Self Help Group Guide: Guidance Materials." *Concern*. October 2017.

loans are dispensed in USD (typically via the EDahab system). MicroDahab makes their first loan to SHGs available by offering $300 USD per member all at once. If the group repays successfully all together, they are advanced to the point of taking $600 USD per member per distribution. The subsequent doubling gets riskier for the MFI as it is at the $600 USD threshold when defaults or late payments may begin to become an issue. Accordingly, MicroDahab requires a guarantor at that point (which is the opposite of other banks that take past repayment records as an adequate assurance). Since MicroDahab lends via asset purchasing they need to invest, at this stage, into intimate knowledge of how the relevant businesses function. As others have pointed out, rising above the $600 USD threshold often exceeds the capacity of the microbusiness, at times specifically because of the asset purchase requirement. It forces a business person to purchase something when that might not be the most sensible business choice. SHG members do not need a business license until they are asking for more than $5,000 USD. Local counsel proof of tax payment can be a stand-in for business licenses. MicroDahab's policy is to interact with the two heads of the SHGs rather than with every single member. MicroDahab have a policy when lending to SHGs that when individual members default on their debts because of serious illness or death, the bank will absorb the loss instead of passing it along to SHG members. That stops short of being an insurance product, but it does make engaging with the system safer for SHGs and is a policy worth standardizing.

- **IBS** also has a more traditional micro-financing window, though because the Central Bank has not created the licensing model for MFIs, they do this for zero-profit as CSR and to be positioned for when the regulatory environment catches up. They have circulated 1 million USD, eight times over, even graduating some borrowers up to the $3,000 USD level, at which point they leave micro-finance and start to pay 5% on their borrowed funds. Both the International Labor Organization (ILO) and UNIDO are in the process of donating funds towards this pot of money.

Mobile Network Operators

- As mentioned above, it is possible to open a mobile money account with **ZAAD.** SHGs can set up a contribution account that pools the funds for the group. To open this sort of account, they must bring their leadership and two guarantors to mitigate against fraudulent fund-raising. Forms are then filled and notarized. When you have one of these accounts, you can, for example, put out an advertisement asking everybody to donate to the bank account for help building a new school, or supporting a political party. Reportedly, in the past, these types of accounts proved to be somewhat easily misused, and could be a vehicle for indirect funding of violence. Because the accounts that are set up to receive funds in this way are essentially vouched for by ZAAD, they are more strict about allocating them. One person has absolute authority over the contribution. The guarantors can mediate disputes if there are disagreements about how to spend the money within the groups. SHGs can save up to $30,000 USD in such an account, which is an unusually high ceiling.

3.3 SHG Access to Financial Services

Though financial products and services may be available, it does not mean SHG members are accessing them or even aware of their existence. Feedback from SDRI's FGDs indicates that respondents know of financial actors like Salaam Bank, Dara Salaam, Dahabshil, IBS and Amal Bank, but only a minority actually have an individual account with a bank. In many cases, particularly in rural areas, members indicated that NGOs such as Concern were the only available sources of finance outside of moneylenders. Based on these accounts and the DFID Call Centre survey, it seems that

SHG members are mostly utilizing individual/group bank accounts, and if they are accessing financial services, groups are still using fairly rudimentary products such as loans primarily accessed through the informal sector.

3.3.1 SHG Access to External Financial Services

The DFID Call Centre survey interviewed 249 SHG members in Somalia with a short survey to gather data on how SHGs are accessing external financial services. On average respondents have been an SHG member for two years. Average group size is 19 members and primarily includes women members whose average age is 49 years. 93% of respondents use mobile money daily.

45% of SHG members have an individual bank account, and 52% of SHG members report having a group SHG bank account. It is interesting to note that the percentage of SHG members with an individual bank account is significantly higher than the 15% cited in the World Bank study in Section 3.2.3. Of the 99 people who have an individual bank account, 64 of them also report having a group bank account; having an individual bank account does not seem to be a necessary precursor to having a group bank account, nor vice versa. The average total savings per SHG is $2,168 USD. There are significant outliers in this data, and the median savings per SHG is $1,000 USD. 72% of respondents feel safer keeping their money with a bank compared to 28% who feel safer keeping their money with family.

40% of the groups have taken out a loan through their SHG, with an average loan size of $273 USD, and a median loan size of $120 USD. The majority of the loans (46%) were used for individual business purposes, with a much smaller amount used for house repair and school fees. Whilst the average loan size across all purposes was approximately $200 USD, the average loan size for collective business activities was reported as $1,130 USD (for 5 collective businesses). The majority of respondents who took a loan for their individual business owned a shop (58%). The next most popular business activity was livestock (32%).

Half of the respondents have taken a loan outside of the SHG. 69% of these respondents borrowed from a moneylender, 25% borrowed from an MFI and 7% borrowed from a bank. 75% of respondents said that they would first go to a moneylender if they needed an individual loan and 73% said the moneylender would be the first stop if their SHG needed a loan. 21% said their SHG would first approach an MFI.

The data for urban versus rural populations is almost identical. One of the only notable exceptions is that rural populations noted that they were much more likely to go to an MFI for a loan for their SHG (29%) compared with urban populations (18%). The second was that rural populations were more likely than urban populations to have bank accounts: 57% of rural respondents said they had an individual account compared to 39% of urban respondents; and 71% of rural respondents said they had an SHG joint bank account compared to 48% of urban respondents (it should be noted however that the sample size for urban respondents was much greater than for the rural respondents, and therefore these numbers must be viewed accordingly).

3.3.2 Traditional Saving Mechanisms

Many Somalis still practice the traditional Ayuto/Hagbad system as a form of pooling money or resources together. Members pay a certain amount on a regular basis, whether daily, weekly or monthly, and then each member in turn receives the pot as a payout and return on her investment. SHG members stressed that Ayuto/Hagbad was useful to finance their needs and activities including business expenses such as purchasing livestock, household expenses such as building and renovating houses and school fees, including paying for university. It was also used as an emergency fund to pay for urgent expenses such as healthcare. Ayuto/Hagbad was even more widely practiced before the establishment of the SHGs, but a number of SHG members still participate in both groups. Table 2 outlines the main differences between the two models.

However, the Ayuto/Hagbad system poses some challenges for its members as it is inherently dependent on the commitment of the group members. The groups can suffer from unreliable membership and lack of formal documentation. If a member defaults or fails to pay back the money the entire group is affected, and it can particularly impact group members who have not had their turn with the money. Since agreements are typically done orally this has the potential to create conflict.

Table 2. Differences between Ayuto/Hagbad and SHGs

Ayuto/Hagbad	Self Help Groups
The groups are self-established by community members.	Groups are usually initially set up by local or international NGOs.
There is no specified group size. Groups could be as small as two members.	Groups are limited in size, usually including 10-25 members.
There are no selection criteria for its members; members can be men, women, young or elderly. No social or economic classification is required. Ability to pay the monthly contribution is the most important qualification.	SHGs are usually set up on the basis of affinity which can be based on gender, socio-economic status, etc. There is often specific categorization designed to support the most vulnerable such as female-headed households.
Groups do not have specific documentation or training.	SHGs can receive training on a number of topics, such as literacy and numeracy. This is usually a pre-requisite if they are to receive a grant.
No external support from other agencies or individuals.	They usually receive support from their implementing NGO. This usually includes capacity building and training and can include financial support depending on the organization. Concern typically gives grants to its SHGs after they have demonstrated a strong grasp on SHG principles and financial literacy.
There is no official documentation, agreements are usually reached orally. Trust is the main element that bonds the group together.	Larger groups with funds and grants from donors/INGOs are obliged to have some sort of legal agreement witnessed by an official notary. Concern additionally requires documentation of the cash flow to and from the common savings pot and trains the groups on how to do this.

3.4 Lessons Learned

3.4.1 Barriers and Successes

There are a number of key barriers impeding SHG members' access to financial products. Many, if not all, financial service providers have a very low appetite for risk and therefore have strict eligibility criteria, inflexible loans, short grace periods and binding conditions with the lenders requiring a significant amount of money to be paid each month. Constraints to accessing products include: the need for **a financial guarantor**, **proving financial identity** in a country with no national ID system, **providing documentation** i.e. licenses or registration documents, engaging in a time consuming **loan**

process, and requirements for borrowers to have to have a **credit history** to access a loan. Further, financial institutions **prioritize traders over productive sectors** and this can penalize poor groups. These loan requirements are difficult for many poor borrowers, particularly IDPs and women. Women do not have the same resources or social networks as men that would allow them to meet collateral and guarantor requirements. They suffer from restricting gender norms on mobility and they may face pushback from their husbands in securing loans and establishing new businesses.

On the side of the SHG members, constraints to accessing finance include: the **knowledge gap,** both in terms of awareness of the services available and how to access them. **Geographic access** can also be compromised as many rural areas do not have bank access. **Illiteracy and mindset** can also confound access to microfinance. SHG members worry about **high levels of inherent risk,** that they will not be able to pay back a loan should they manage to access one, exacerbated by their dependency on business activities that are characterized by **low income and profits**. **A lack of capacity building** opportunities means that it is difficult for SHG members to move beyond existing constraints into more profitable lines of work.

However, there are an increasing number of innovations and success stories that are addressing these barriers and reducing the risk for the poor to access financial products. Many of these innovations listed below are born from partnerships between the different financial actors, with NGOs, MFIs and commercial banks coming together to pilot more appropriate services. There is an increasing push for creativity and flexibility regarding loan requirements, such as who constitutes a guarantor and proving financial identity and credit worthiness.

Need for a Guarantor

Borrowing often requires an esteemed financial guarantor. Even with MFIs such as MicroDahab, the guarantor needs to be an eminent and reliable person who has an active account at a commercial bank who will be responsible for the borrowers and pay the loan amount owed in case of default. One consultee described this process as “a key restraint, especially for rural or peri-urban areas where guarantors are limited and likely tapped out. The whole concept of guarantors is fairly elitist and requires a social network. If you are from a vulnerable community, if you are ultra-poor, your ability to have access within your network to somebody of standing to serve as a guarantor is very limited.”

By way of explaining the centrality of the guarantor system, MicroDahab highlights that there is no enforcement mechanism in Somalia for breach of contract. This heavily contracts appetite for risk. Leverage is based on the fact that “everybody knows where your camels graze”. MicroDahab estimated that, at most, 10% of young men in Somaliland could find a guarantor to stand for them in seeking a loan.

The need for a guarantor poses a greater barrier for women. Women generally do not have the same networks as men which allow the latter to prove their reputability if they are not personally known to the bank. Women feel compelled to ask men in their family or clan to serve as a guarantor, (which could mean staking their land in the process). This is such an intimidating prospect that many would rather not try. If they do ask, it can be difficult to get men to vouch for women.

Numerous respondents expressed the difficulty of getting guarantors by pointing out that they (employed, reputable business people, often within the banking sector) could struggle to get a guarantor.

It can be especially difficult for IDPs to access a guarantor, since displacement often dissipates social capital and it can be difficult for them to build the necessary networks with prominent community members who could act as guarantors. The guarantor needs to be able to leverage the entire clan’s ability to repay in case of default; many IDP SHG members know limited people from the host community and will therefore struggle to build the necessary trust.

GARGAARA found that banks enjoy a repayment rate in the very high 90th percentile, and their credit spread is just 3%. Guarantors are very infrequently relied upon to repay loan balances. Instead, they tend to function as an alternate mode of contact for hard-to-reach business people and also, most importantly, a lever of social and reputational pressure. Banks can activate guarantors to apply repayment pressure and this, alone, is typically sufficient to guarantee repayment. This points to a possibility of greatly expanding the number of people (and groups and institutions) that can serve as a guarantor, which is further discussed in the recommendations.

Innovations: Shaqodoon is working to ensure that SHGs can serve as a guarantor for their individual members. Currently this is easiest for them to achieve with Shaqodoon's partner bank (Premier Bank) and within the context of their programs; but they are working to norm the practice more widely. A former Concern employee notes, with reference to the pattern of SHGs serving as guarantors that, "even male farmers wanted to join SHGs after seeing they could be used to access finance."

NAGAAD and the Somaliland Women's Chamber of Commerce (SWCC) are both willing to stand as guarantors for SHGs who want to seek loans from Amal Bank in particular. GARGAARA pointed out SIDA are willing to stand as a guarantor for women throughout Somalia (for 70% of the loan values). GARGAARA accepts SIDA as the guarantor in this scenario and has enjoyed a 99%+ repayment rate from women and SHGs. SIDA has never had to pay. Many financial institutions are unaware of this and many citizens and SHGs are unaware of this.

The difficulty of finding outside voices to vouch for SHG members has led to a notable innovation in internal lending. After Dahabshil would not grant a loan to Dadihiso CLA in Mogadishu for want of a guarantor, they became a source of credit in their own right after a grant of $25,000 USD from Concern in 2017 allowed them to use the capital as a revolving fund to provide loans. This case study is described in greater detail in Section 3.5 outlining the factors for success.

Proving Financial Identity

There are few mechanisms in place to identify customers or to record and exchange customer's financial history. There is no national ID system in place in Somalia, though they are currently working on implementing an ID system imported from Pakistan. Municipal IDs can be difficult to come by for the poor, and particularly difficult for IDPs. This inability to prove financial identity makes managing risk very challenging and therefore financial service providers limit lending to a small group of known businessmen who have land assets that can be used as collateral. Financial institutions are therefore incapable of fulfilling their KYC obligations regarding AML and countering the financing of terrorism (CFT), which further leads international banks to be wary of transactions with Somali banks.[11]

In Somaliland, an ID costs $25 USD--assuming you are close enough to an administrative facility, which is expensive enough that many poor or small business owners will not invest in one.

Innovations: Several financial institutions such as KIMS have reported establishing the precedent that proxy IDs issued by trusted third parties could be used, such as UNHCR IDs which are particularly valuable for the 20% of the population that are displaced.

[11] GEEL. "Somalia Growth, Enterprise, Employment & Livelihoods (GEEL) Project."

There is also a nascent partnership between GEEL and Gravity.Earth to develop digital identities for economic inclusion in Somalia. Box 4 below describes this in greater detail.

Documentation

Banks require businesses to show their licenses or registration documents in order to establish their existence. For a businessperson to organize these documents requires sustained access to a government office, the literacy and numeracy to complete registration documents as well as registration fees (up to $250 USD in Somaliland). Smaller businesses may therefore elect to remain in the informal sector because of the financial, time and labor burden required to formally register.

Land documentation is often a loan requirement since tangible assets are frequently used as collateral. Poor SHG members, particularly IDPs, may struggle to access financial services since they lack this land documentation or even permanent residency.

Innovations: Some proxies are being created to legitimate informal businesses, such as photographic or field visit evidence of a place of work (an office, a store front or a stall), attestations from within the community that the business is long standing, and evidence of bills for utilities paid by the business. This presents an opportunity to professionalize the due diligence process, perhaps with a guild or cooperative of due diligence officers that can broker their information to a variety of banks, rather like an analog credit bureau.

Shaqodoon and others are working to convince banks that an EVC transaction history, especially for an officially business-linked phone number, can constitute both a proof-of-business legitimacy and a credit history. This practice shows promise and warrants formalization.

Box 4. Addressing Financial Identity Issues through Blockchain

GEEL is developing a digital financial ID system along with a Nairobi-based organization called Gravity.Earth. A pilot project is being proposed to use blockchain technology to manage and share a secure, self-sovereign digital ID with a proportional trust score that is based on certified personal data. A digital financial identity is created by using existing data trails such as reconciling the financial history already accumulated by participating organizations, which could allow financial institutions to assess credit risk and satisfy KYC and AML. The low-cost pilot could be easily integrated into existing technology platforms and be linked with national digital identity once this is in place.

Gravity.Earth has already developed and deployed a system that enables a user to have a personal data wallet. This wallet can accumulate information about their transactions, whether via an Application Programming Interface (API) with a mobile wallet, with a bank, or by syncing transaction history with participating businesses. One of the major business development priorities of Gravity.Earth in Kenya is to enrol new businesses, teaching them how to submit transaction information into the data wallet system. These data wallets could also be used to store training and academic credentials.

The system allows for a data wallet user to place their wallet under “guardianship” so that the guardian decides when to allow business or government to view the contents of the data wallet. This can be the case when, for example, an NGO field officer takes guardianship over a large number of wallets for users that have not been trained in their full functionality. It could apply within a CLA, a business or a family and, generally, has the potential to help phase a user’s acclimation to the full technical challenge of monitoring and transacting in their own data history.

There is currently a concept paper and a commercial proposal in front of Dahabshil, Premier and KCB. If it succeeds, GEEL would take this to Dahabshil and start by implementing this for their large business customers. This trickle-down approach to launching Digital Identity is the opposite of what Gravity.Earth usually does, since they originally worked with IDPs. In Somalia, however, showing that the biggest transactions are all meticulously verified and tracked is a key step towards meeting KYC/AML standards at a level that could permit Somali banks to enter the global financial system. Experimenting first with larger volume customers also creates a need to inter-operate with various other databases—a key strength and tactic of Gravity.Earth’s work.

Loan Process and Requirements

The loan process is time consuming with strict requirements. Across the board, financial institutions admit that loan decisions are not made on the first day that a customer visits the branch. Two or more subsequent visits are normal and a process of several days to a week or more is not uncommon, particularly at banks that do not have clear time windows (especially for micro-loans). The process of receiving the loan itself can involve additional hurdles when sharia compliance dictates that the lender must purchase something on behalf of the borrower instead of making a simple cash deposit to her account. Stages within a typical process might include:

1. visiting the branch to receive the forms and relevant instructions;
2. returning to the branch *with a guarantor* after having completed the relevant forms;
3. enabling a visit by a banking agent to the place of business as a verification;
4. returning to the bank for signing of finalized / approved loan documents (sometimes with the guarantor),
5. visiting a notary to stamp and approve these new documents; and
6. organizing a time for making a purchase/investment along with a bank agent.

Note this entire process can take twice as long if a loan applicant does not have and is required to open a bank account with the lending institution. That process also involves at least two visits, onerous paperwork and stages of validation. It is also common for documents in both of these processes as well as the process of registering a business to require a form of notarization that costs at least $10 USD and creates additional delay. This high touch model of loan processing is even more burdensome for entrepreneurs who are not closely located to a branch of the financial institution. Transport costs and opportunity costs of lost work are considerable.

Numerous respondents explained the difficulty of these proceedings by pointing out that if they—with their steady jobs and international connections and good reputations—were to attempt opening a new account or getting a loan, the process would be no faster. Even with their direct and personal connections to bankers, they could not make the process faster or more guaranteed. These stories were told to emphasize how much harder and less likely it would be for the people living in poverty to navigate the process. Premier Bank noted that in the Somalia context they only approve 30% of loan applicants. That is a figure across their portfolio which is dominated by men and larger businesses—the percent approval for women or people living in poverty would be considerably lower.

It should also be noted that another loan process requirement is often overlooked: the requirement that you borrow a predetermined amount, for a predetermined amount of time. The loan terms and sizes at the micro-level are too one-size-fits-all, a point raised by the Somaliland Self Help Group Network. Banks have standardized to save time and costs at scale, but the uniformity of the amounts means borrowers often have too much or too little, for too long or not long enough. The network also points out that repayments should not require on-site deposits and should reliably accept EVC, which is not always the case. For businesswomen with some decent throughput, it is problematic that the micro-loan process always starts with very small amounts and works up gradually. This can lose valuable time, or demotivate a potential borrower whose business is already at the $2,000 USD level and who lacks the time to jump through hoops for the lower amount.

Sharia Compliance

Sharia compliance is often interpreted to mean that the bank must purchase an asset for the borrower instead of transferring or lending her cash. This creates many problems, but, in particular, it limits the ability to loan directly via technical means such as mobile or EVC payments. Additionally, multiple SHG members in Somaliland in particular felt that by providing materials, foodstuff, clothes, etc, the banks were not truly catering to their real needs. Hard currency is much more flexible and allows entrepreneurs more freedom--especially if they wish to buy things that have highly volatile prices or are required to visit and price check numerous outlets before making a purchase at a precise time.

One respondent pointed out that the cost of borrowed money is, in addition, about twice as much as most people understand. In high income countries, the repayment of interest is calculated on the reducing balance, so the amount repaid in interest and fees shrinks over time. But in Somalia, the "interest" or profit is always counted against the entire value of the original loan. It is important to remember this technicality when pressuring banks to modify their practices and when sensitizing the public to the nature of loans. If donors simply push for a lower APR, they may miss the opportunity to demand that the APR itself be applied to the remaining balance and not the principal.

Credit History

Borrowing for the poor in Somalia can feel like a Catch-22. To have a credit history they must be allowed to prove themselves and take a loan from a bank, but to take a loan from a bank, they must have a credit history. As mentioned above, banks in Somalia are risk averse and therefore want to lend to known entities with connections and tangible assets. Even MFIs tend to mobilize their limited capital to a small number of known borrowers, instead of constantly expanding their ranks to new clients, since they want to progress borrowers towards higher sums. Using borrowing history with a certain institution quickly becomes a stand-in for a more extensive credit history, which has the downside of incentivizing smaller pockets of lending.

As long as total micro-finance budgets remain small, the likelihood of a small number of recipients being disproportionately represented in the loan behavior will exist, absent policy to mitigate the risk.

Innovation: Shuraako.org has created a concept note introducing a "cultural credit history" that may become a blueprint for alternate approaches to demonstrating credit worthiness. This fits within a larger global trend of micro-credentials and could help to drive engagement with different training events offered by financial institutions or NGOs.

Prioritizing Traders over Productive Sectors

Numerous respondents point out that Somali banking institutions prefer to lend money to traders who are moving commodities and physical goods in ways that generate rapid profit and quick return on investment. Of the $120-140 million USD per annum lent in Somalia, 88% of it is for trade. Banks prefer this because the businesses are typically larger, legally established and supported by good documentation. This type of business is easily compliant with Sharia finance because the bank can purchase goods on behalf of the borrower, the turnaround time for deals is fast and risk is low as prices can be pre-negotiated and sales can be conducted before the market, the weather, or the geo-political situation can experience much volatility. Using inventory as collateral is also easier than using livestock.

Sustained efforts are underway from a variety of donors and MFIs to incentivize the financial system of Somalia to lend to the productive sectors such as agriculture and fisheries. Though the DFID Call Centre survey showed that 58% of SHG members who took loans invested in a shop, it also found that 32% invested in livestock and 8% invested in agriculture, demonstrating that investing in productive sectors could also benefit SHG members working in these sectors. These sectors are critical to the Somali economy but lack capital because they need much more time to repay loans and are not as high status or high reliability as the banks prefer.

A particular challenge posed by the productive industries is that verifying the skills or track record of a farmer or fisherman is time consuming and there is not widespread agreement about what would constitute best practices.

Innovations: Shuraako is leading the way towards investment in the productive sectors with the support of One Earth Future; but to do their work, a high burden of boots-on-the-ground due diligence is required that they can only contribute because of their charitable backing. Because they do the due diligence (visiting farms or fishing boats), they are able to ensure higher repayment for businesses or associations in these sectors. They are also using their weight and influence to create loan vehicles that require zero repayment for up to six months, a key consideration for loans to farmers or fishers who have periods of dormancy and zero cash flow. They are also creating loan vehicles that can be repaid quarterly or biannually to account for the seasonal nature of profitability in the productive sectors. They are predominantly doing this for larger businesses (looking for loans in the low tens of thousands) but their lessons learned will apply down the economic ladder.

Knowledge Gap

There is both a significant awareness gap of available financial products and a financial literacy gap among SHG members.

Somalia's oral culture is particularly prominent when it comes to spreading information about available financial services. Generally, SHG members learn about financial information through their community leaders, local committees and other community members. Even in Mogadishu, a capital city with a large number of media platforms, SHG members heavily rely on word of mouth to learn about new services and products, particularly relying on elders and district administration. Baidoa and Afgoye seem to rely on more of a mix, using committees, elders, radio and TV to gather information. Word of mouth as the primary communication channel may be perpetuating knowledge gaps by keeping information circulating within closed networks.

In Somaliland, there is a difference between how financial information is obtained by the urban IDPs and by rural groups. The urban IDPs in Hargeisa report many ways of receiving information of new financial service providers: radios, newspapers, TV advertisements, social media in addition to intra-community information sharing. In contrast, rural communities in Somaliland note that they rely on the information given by their community leaders and committees.

In Somaliland, members generally felt they did not understand the system: there was a lack of awareness of financial products, services, rules and regulations. Again, this differed based on location: in rural communities, they felt they lacked the information about where and how to access financial service providers. They did not have a strong awareness of the financial actors and the kinds of services they provided. In urban communities, however, they were more likely to report a lack of information about the process. While they knew which financial service providers were available in their area, they did not know how to engage with them.

There may be low awareness, in particular, of the flexibility banks are willing to show towards people without formal ID, formal business registration and prominent guarantors.

In Baidoa, IDP communities seemed to be less informed compared with groups dominated by host community members. They seemed generally unaware of the financial services in the main city, relying on rumours and word of mouth from other community members. In Afgoye, this was also the case, with SHG members demonstrating poor knowledge of financial institutions, services, rules, details and conditions of loans.

Geographic Access

Financial institutions are not evenly distributed throughout the country and are mainly concentrated in urban areas. Throughout Somalia, rural areas do not have bank access, so SHGs store their savings with large local businesses.[12] In Baidoa, groups indicated an inability to access financial services in the city, and therefore preferred taking individual level loans from their social networks (relatives, friends, neighbours). In Somaliland, there are few MFIs operating, and their operations and reach are limited to the main urban areas and their immediate environments. Rural, unpopulated and/or areas that are not regarded as main trading centers do not have access to microfinance services. Again, in those areas, access to finance depends on the informal sector.

Illiteracy

Loan materials are not illiteracy-friendly, whether digital or otherwise, and often literacy and numeracy are pre-conditions to even start business or financial literacy training. This is a significant barrier to access for illiterate Somalis.

Innovations: The Self Help Group network has had success with color-coding reporting forms and would like to see banks follow their lead—helping illiterate borrowers to see the patterns and correlations on key paperwork. It is important to note that this innovation requires a high degree of collaboration across all stakeholders for it to scale and persist, otherwise the colour coding will become inconsistent and potentially counter-productive.

Mindset

Finn Church Aid (FCA) in Somaliland has identified that mindset can be an obstacle to female entrepreneurs, specifically when they show a repeated willingness to put the demands of their husband and the needs of their family in front of the finances and growth of their business. Many SHG members interviewed by SDRI indicated that they wished to take out loans but lacked the courage to do so. In Baidoa, their fear stopped them from exploring new opportunities.

Innovations: FCA are working on shifting mindsets and increasing self-esteem, courage within the family, boldness and willingness to seize opportunities. FCA are looking for influencers to help accelerate this shift and change lives. Our recommendation, elsewhere, that female guarantors be celebrated and publicized is also relevant in this context. It should be widely known that women can and do serve as guarantors for one another, not just because it may encourage women to ask for loans who are currently shy to ask male guarantors, but also because it can help them envision that sort of prominence as an aspirational goal for themselves.

High Level of Inherent Risks

Many SHG members worried they would not be able to pay back the loan should they manage to access one. They described businesses that had failed due to market fluctuations, natural disasters such as floods, droughts and crop failures, limited skill sets to sustain their businesses and the borrowers' unpreparedness for the loan. The negative consequences of these business failures include being jailed and shamed, which also decreased the possibility of getting loans in the future. Loss of property is a risk, since land can be seized as collateral. The SHG members in FGDs in Mogadishu generally agreed that the loans from banks usually have such strict requirements that it is

[12] FIM Team (2016); Abdikarim, Mariam and Fardowsa Mohamud (2017); Caniglia, Dustin and Sarah Baran (2017). "Self-Help Groups: Value for Money Assessment." *Concern* and *Baran Consulting.*

very difficult to default on them once they are obtained. When taking a loan from an individual however, the risks range from losing their business to their children or other relatives taken as hostages until the money is repaid. In Afgoye, where Al-Shabab has a strong presence, defaulting carries the risk of being arrested and jailed by the militants.

Low Income and Profits

Since SHG members are usually among the most vulnerable community members, they typically come from areas that suffer from a general lack of job opportunities, limiting the economic activities they can engage in.[13] Many SHG members engage in similar business models and sell similar items in the same locations, leading to market saturation and weakening their chances of making a profit. This can make paying back a loan difficult should they get one. If they do have a successful business, often the business is still too informally structured to attract a larger loan from a commercial bank particularly.

Additionally, the unusually high cost of electricity in Somalia and Somaliland causes many businesses to experience constrained profitability. The costs of electricity prohibit entire business models that have lower margins. Multiple organizations (like One Earth Future) are working actively to drive down the cost of electricity by lending to companies who could scale decentralized renewable alternatives. Driving down this cost is likely to have a strong positive ripple effect through the business ecosystem.

Innovations: Shaqodoon are working hard to create a crowdfunding and crowd-equity ecosystem in Somaliland with support of Premier Bank, along with an incubator/accelerator that can help to boost the performance of stand-out businesses that become visible within the crowd-funding ecosystem. DRC helped to kick-start the first of these endeavours, validating a hypothesis that the Somali diaspora would be interested in funding these businesses when matching funds were present. Rather than contributing to the existing platform, World Vision requested their own separately branded crowdfunding platform without making matching funds available. Their attempt has not been nearly as successful.

Shaqodoon's accelerator fund is willing to provide revolving loans of 70% of what businesses need, after they have raised their first 30% (directly or via the crowdfunding or crowd-equity platforms). Shaqodoon have partnered with the Somaliland Association of Self Help Groups, which claims 112 CLAs and nearly 2,000 SHGs. This network is trying to identify the most promising SHG-related business, to refer them into the accelerator run by Shaqodoon, where they can receive business skills training.

It is worth noting that Shaqodoon's efforts on all these fronts, while leveraging popular tech trends, are likely to struggle with sustainability as they grow. The process of vetting and quality control with crowdfunding is difficult. Their current efforts have relied heavily on projects run by partners to manage selection and quality assurance; but any effort to make this digital infrastructure more generally available or public will occasion serious overhead costs for Shaqodoon. They do not currently have a pricing model in place that would compensate them for these vital services. Within their pipeline, Shaqodoon is facilitating loans to these start-ups via Premier Bank, of up to $5,000 USD for 12%-18% APR over 1-2 years. In this pipeline, Shaqodoon stands in as a guarantor because they have already quality controlled the business.

[13] Abdikarim, Mariam and Fardowsa Mohamud (2017). "Concern Self Help Group Guide: Guidance Materials." *Concern*. October 2017.

As fears grow that Covid-19 may constrict the flow of remittances to Somalia, the potential of crowd-funding platforms to attract funds from the diaspora should not be ignored. Diaspora who have money to loan but not to give may be more enthusiastic to lend to entrepreneurs during this crisis and any related recession. However, as Shaqodoon have found, communicating with "the diaspora" is fiendishly difficult because of their diffuse nature.

GEEL is also creating a start-up ecosystem, aimed at young businesspeople. They have a deal with Premier Bank in Mogadishu, connected to I-rise -- a business hub for youth. I-rise gives business skills training to businesses identified by GEEL. GEEL provides technical assistance around the core skills of the business. GEEL sometimes buys a technical item to advance the businesses as well. Meanwhile, Premier Bank will loan to entities within this value chain (up to $10,000 USD). This is a brand new arrangement. They have made one $10,000 USD investment in an app-based food delivery start-up. Another four loans are on the way, all trained up within their ecosystem. While most SHGs are not creating businesses of this variety, some in urban areas may be inspired by early success stories from this sort of venture.

GEEL is designing business-specific start-up "technology and finance packages" for MFIs to deliver. For example, productizing kits that help to stand up key business assets, like the "greenhouse kit" for farmers or renewable energy kits. These come with pre-designed business models and all necessary training. Business modelling makes it possible to predict a certain amount of revenue per year. Fish retailer bikes are one of their early successes, equipped with solar powered refrigeration for delivery. Pedal powered bike kits have been designed for ice cream sales. These are done in partnership with Premier Bank, who enables kit-specific loans. To get started with a kit-specific loan, a guarantor is not required at Premier Bank (because the kit is less than $5,000 USD). MicroDahab will give kit-specific loans as well, but they want a guarantor. GEEL is encouraging some of the businesses that manufacture these tech kits to ease into finance provision directly. According to GEEL, animal nutrition and health are a big sector gap and accordingly, some veterinary start-up kits are in the pipeline.

There is a real opportunity to look at the suitability of this business-kit model for SHG members. Especially when SHG members have low performing businesses (or low quality business ideas), a business kit with appropriate mentoring and investment may prove an optimal way to benefit the SHG or a subset of its membership.

Capacity Gap

The SWCC notes a capacity building gap specifically when women in SHGs are trying to graduate from $600 USD loans to $1200 USD loans. Many find that at the $600 USD level, they struggle to repay the loan and do not profit from their investments. They bow out even though they could qualify for $1,200 USD loans because they do not see a clear pathway to make that next loan profitable. Often this happens after a member has the experience of buying a liability in order to stay sharia compliant, for example, buying furniture with the $600 USD loan because no other obvious item matched the loan request.

NGO trainings are needed and useful, however they need to be carefully tailored to women to maximize access and impact. It can be more difficult for women to physically attend training, learn about their existence or have the resources to attend. It was noted that not all trainings acknowledge the particular experiences or specific needs of women, using a generalized approach that is most applicable to men.

Lesson Learned: Capacity building was raised as a key intervention to keep membership strong within SHGs. Some people are motivated to join groups because groups make it more possible to access outside loan capital. These people participate 100% for a long time but after they get an external loan, they withdraw from participation if the group's facilitation system is not strong. Relevant training, monitoring and mentoring are incentives for the groups to stay together, especially building and solidifying mutual trust. For the first 36 months or so, the groups need supervision to create enough trust so that the group will stay together after it matures to the point of receiving substantial external capital.

Post-loan capacitation is a key enabler of success with higher denomination loans, according to One Earth Future and others. Especially for businesses attempting scale, having mentorship and training available around key business vulnerabilities can be critical in building the productive sector in particular. As an example, in the process of working towards poultry farming self-sufficiency in Somalia, One Earth Future needed to fly in a resident poultry veterinarian to help at the large new facilities with poultry health. This directly addressed a key point of failure and was a very high leverage intervention. All the resources of One Earth Future, such as their curricula, are freely available to all. Banks should know this and have the opportunity to refer borrowers to these self-education materials.

Box 5. Skill Capacitation for Female Entrepreneurs

The SWCC advocates for the creation of walk-in facilities, exclusively for female entrepreneurs, where business skill capacitation can occur, whether in bookkeeping, strategy or any other area. The SWCC says digital trainings will not work for many female entrepreneurs, because many are illiterate. They therefore need a walk-in advice place. They say this should be a government service because these businesswomen are paying taxes and receiving no benefit or services for their tax dollars. Moreover, the majority of retail shops, SWCC reports, die out before they reach 6 years. This could be addressable with locations for up-skilling.

3.5 Factors for Success

As outlined above, the majority of the poor are accessing financial services through moneylenders or individuals they know. This informality and lack of access to the more formalized services of MFIs render the analysis of factors for success challenging, as the documentation is not readily available. It does currently seem like success at this stage is arbitrary: a person has a greater chance of succeeding if they happen to fall within the programmatic area of a sponsor organization that formalizes a group and commits to multi-year support. Many banks have a streamlined process for groups that are sponsored and vouched for. However, there is a risk of confirmation bias here; since documentation typically centers around the groups that are supported by organizations we do not have a clear picture of the experience of unaffiliated individuals and groups.

Within the context of the above observations, it would seem that factors for success for SHG members include:

- Higher levels of **social capital** that facilitate access to a guarantor;
- Access to **information** about the particular services available in their area, **support** in accessing those services either through their clan or an organization, and appropriate **training and capacity building** to adequately navigate the system;
- A **positive mindset** that allows them to believe in their ability to succeed; and
- A **creative business model** that helps mitigate against market saturation.

Social Capital

Since Somalia is an oral, clan-based society and, as mentioned above, “everybody knows where your camels graze” social networks are crucial for accessing capital. This is applicable for both formal and informal finance. Informally, people take loans from other community members and therefore need to be well entrenched in the community to access that capital, and formally banks require an established guarantor to provide loans. SHGs are well placed to increase all three kinds of social capital--bonding, bridging and linking--and have been proven to do so.[14] [15] [16] Increasing bridging and linking social capital is particularly useful to expand the network of poor and vulnerable populations, facilitating access to knowledge and resources outside of what can otherwise be a closed feedback loop.

Box 6: Types of Social Capital

Bonding social capital is defined as intra-community connections, usually referring to the network between family, friends and neighbours.

Bridging social capital is defined as inter-community connections, connecting people from different communities or backgrounds.

Linking social capital relates to vertical connections between communities and systems of power. An example of this would be connecting SHG members with government or financial service representatives.

Information, Support and Capacity Building

Dadihiso CLA is an excellent example demonstrating what SHGs and CLAs can accomplish with the right information and support, regarding both access to capital and capacity building on how to then manage the capital.

Concern gave Dadihiso CLA an original grant of $25,000 USD, which the CLA then used to provide in-kind loans to both SHG and non-SHG members who had no access to credit. From February 2018 to February 2020, the CLA issued loans amounting to $82,300 USD (which they use as a revolving fund) covering a total 376 borrowers. They have gained a profit of $7,840 USD. In this time, no borrowers have defaulted. The loans encouraged mothers into business and created more demand for the loans than the CLA could accommodate. This possibility is just being introduced in Somaliland where it could scale if other organizations see the value in capacitating and capitalizing CLAs.

They have set up a wide variety of various committees such as the Credit Approval Committee, Sales and Acquisition Committee, and Loan Repayment Follow-up Committee. They issue in-kind Sharia-compliant loans based on Islamic Sharia-law without interest (Ribo) as used by Salaam Somali Bank and Dahabshil Bank. The loan documents are simple, in Somali and only ask for name, age, address, amount, purpose, period and terms.

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[14] Knowles, Gordon and Belinda Luke (2018). “Creating Conflict or Harmony? The impact of microfinance programs and self-help groups on social order in poor communities.” Third Sector Review 24.2
[15] Ruducha, Jenny, Xinran Huang, James Potter, Divya Hariharan, Danish Ahmad, Sampath Kumar, P. S. Mohanan and Avishek Hazra (2018). “Perceived Social Networks and Newborn Health: Evidence from Self-Help Group Communities in Northern India.” Societies 8(4): 92.
[16] Sanyal, Paromita, Vijayendra Rao and Shruti Majumdar (2015). “Recasting Culture to Undo Gender: A Sociological Analysis of JEEVIKA in Rural Bihar, India.” World Bank Group Policy Research Working Paper 7411

The terms are as follows: borrowers should be in business and be represented by a guarantor who will be liable for them if the loan is not repaid on time. The guarantor is responsible if the borrower should default on a loan obligation. The guarantor has space to self-describe in loan documents and can simply be a "familiar face" rather than a person with assets. The CLA do not require ID (for the individual or the business), they work within their districts. The loan is not provided in cash but rather given as in-kind or as materials bought for the borrower by the sales committee when the price of the goods is appraised. The sales committee purchases the goods, and then sells them back to the borrowers with a reasonable profit that the borrowers can afford to repay within one of three different periods. The loan amount—as cash for sale—is between $100 to $250 USD per person, and the loan repayment period is either 3 months, 6 months or one year. There is 5% profit on the 3-month loans; a 10% profit for the 6-month loans and a 15% profit for the 12-month loans. Borrowers mostly choose to repay through EVC because of the proven record of repayment. Cash payments require witnesses on both sides (2-3 other persons), so are prohibitive.

Anyone interested in this loan can first make a verbal request to the Credit Approval Committee; if approved, they submit a written statement identifying the price of the goods, type of the product and duration of loan repayment period. The application is not approved until it is signed by the Credit Approval Committee members consisting of two CLA and one District Authority representatives. In the event that loans are not repaid on time, CLA members may call on the members of the district authority who are signatories for loan approval to enforce payment of the loan. If the debtor fails to repay the loan on time, the guarantor will be responsible for the debt owed by order of the local authorities.

The CLA has also been issuing loans free of charge to Somali returnees coming back from neighbouring countries like Yemen and Kenya. In addition, the CLA organizes them as SHGs and provides technical skills to generate income for their children.

Positive Mindset

Qualities such as self-esteem, courage, boldness and willingness to seize opportunities can impact female entrepreneurs' ability to access finance. In Somaliland, one FGD participant recounted: "There is a woman I know that took a loan and started a business from scratch. She then continued to work hard and get bigger loans. Now her business operates regionally between Ethiopia and Somalia as a whole seller of clothes. This teaches me that she is not smarter or better, but this shows that every success depends on taking a risk." SHG members are influenced by their peers, motivated and inspired by role models in their communities. One woman's success can inspire others to seek out similar opportunities, but there needs to be an initial appetite for risk. A positive mindset generating confidence, self-efficacy and aspiration can give people the courage to take that risk.

Creative Business Models

There were also a number of examples of SHG members taking informal loans and investing them in innovative ways. According to the FGDs, a woman in Mogadishu bought a portion of land with a loan, built a house, rented out the house and paid back the loan that way. Another woman in Mogadishu invested in a *bajaj* (three wheeled taxi) and paid back the loan working as a *bajaj* driver, while another bought a solar panel and a battery and started charging telephones to generate income, paying off the loan. Examples such as these differ from businesses SHG members usually start and thus mitigate against market saturation.

Recommendations

4.1 Overview

The following section describes a set of recommendations based on the findings outlined in this report. These recommendations center around the following:

- Programme innovations that could support SHG financial inclusion:
  - increase awareness and adoption of group accounts;
  - act as a guarantor;
  - lower or subsidize the cost of purchasing an ID and registering a business to encourage informal sector businesses to shift into formal structures;
  - popularize the process of lending through CLAs;
  - develop loan and business documents that are optimized for low literacy clients;
  - invest in efforts to highlight accessibility for women;
  - invest in improving capacity of SHGs, and strengthening their coordination and information sharing platforms;
  - support ecosystem-wide collaboration and quality assurance around industry-specific training packages;
  - expand ways to improve financial identity and trustworthiness;
  - expand SHG/CLA access to digital tools to improve capacity and bridge the financial inclusion gap; and
  - expand research and monitoring around group liquidity.

- Advocacy strategies to influence positive change for women's financial inclusion:
  - advocate for banks to broaden their options for guarantors and create transparency around their accessibility;
  - raise the profile of banks that are meeting these criteria to help them scale;
  - encourage and popularize more bespoke loan products for micro-businesses (especially with group accounts)**;**
  - create and advocate for guidance for banks to create SHG-specific accounts;
  - encourage banks to provide insurance; and
  - join the conversation around key regulatory transformations.

The recommendations, in many cases, require a mix of partnerships across programming, advocacy and research. Further, while it is difficult to categorise them as distinctly short, medium and long term, as they each have components across time, they are ordered more or less from those that could reasonably be pushed forward in the shorter term through to those that might require a longer-term perspective and additional investment to make substantive change.

It is also important to note that the current context in Somalia offers a significant opportunity for influence, and the recommendations should be viewed within this context. The financial ecosystem in Somalia is undergoing unstructured and extremely rapid growth and disruption. There was a surprising lack of awareness across a variety of actors of key developments and innovations; most seemed to only know of those they were involved in. Innovation is happening in at least three key areas: the definition and creation of financial services and products, the digitization of financial services and products, and the localization of financial services and products. Somalia has a very high prevalence of zero cost mobile banking and a starting point of risk-averse capital within a cultural setting that is ultimately quite high trust. The ecosystem is rapidly evolving, with potential partnerships and investment opportunities that could change the landscape. Further, the demand for financial services and products is currently extremely under- and poorly served. This leaves a lot of space for new opportunities to arise. The appropriate strategy and posture during a period of such profound and rapid change is to optimize for adaptability and quick learning, and this is embedded in the findings and recommendations presented below.

As a result, this is not a mature, consistent ecosystem that consortiums like BRCiS, Danwadaag, SDSC or EIDACS can navigate with a stable map; new market forces are entering and reshaping the financial ecosystem in real time, and dramatic and rapid changes can be expected. This presents a clear opportunity for NGO consortiums to play a key role as one of those market forces advocating for pro-poor services and signalling clear demand and pressure towards those priorities that are needed for this marketplace to be pro-poor.

The recommendations are designed, to the extent possible, to highlight how Concern and other consortiums members might engage. As mentioned, however, many of these recommendations will involve multiple actors, and sit within a dynamic context. The research team was surprised at the number of innovations and activities that are ongoing. As a result, these recommendations are not designed to be very specific with concrete next steps (though these are highlighted where possible), but rather to provide a sense of the many potential openings for engagement, so that Concern, other consortiums members, as well as donors and other actors can develop iterative and agile plans and tools to help nudge this ecosystem forward.

4.2 Programme Innovations

Increase awareness and adoption of group accounts. Group accounts are a very high leverage approach to spreading financial and business literacy. They have the possibility of creating healthy incentives within aligned groups to become more financially literate and to interface with a bank more directly, all while beginning to establish identity and credit histories. Given that the DFID Call Centre survey showed that half of respondents do not have a bank account, it would be a low risk and accessible way to familiarize groups with the financial system and to begin building trust between SHG members and financial service providers.

- Concern and its partners can take specific steps to disseminate information with SHGs and CLAs around specific products that are available in their immediate area. It would be advisable to accompany such recommendations with easy to understand, short, step-by-step guides that describe each of the key steps required to open a group account, potentially tailored by context. Concern and its partners could consider organizing sessions where bank officials or owners of financial institutions are invited to interact with SHG/CLA leaders.

- NGOs and donors have much to request in the world of financial products and services. But it makes tactical sense to focus on conceptualizing and requesting a truly optimal template of group account for SHGs. Concern and its partners should sit, perhaps with CLAs or mature SHGs and discuss what sort of group account would be most optimal for their needs. Does it require flexibility about the number of signatories? Is the opportunity to repay with EVC a priority? How important is diversity of loan terms and conditions within and amongst members? Once Concern and its partners have an optimal idea of what such a group account would look like, they can guide the financial sector by requesting this specific group account template consistently. The added benefit of focusing demand on group accounts is that the terms and conditions that borrowers become accustomed to within group accounts will lay the foundation of their future self-advocacy, as individuals toward banks. The introduction of flexible loan products to groups that do not force all members to take identical loans at identical times would be beneficial, because such pressures could lead to bullying or failures and would be good to design out the system early.

Act as a guarantor. Based on the SIDA pilot experience, described above, there is a clear opportunity for Concern and its partners to act as guarantor, unlocking access to finance for SHG members. Contingency funds could be embedded in multi-year project budgets to cover any loan defaults. Evidence from the SIDA experience and others shows high rates of repayment, and therefore risk would be relatively low, and this might provide a less costly approach to providing direct cash injections in the form of grants.

- As a next step, Concern and its partners should understand the specific parameters of the SIDA initiatives, and adopt it into a structure that is feasible for the NGO, and determine under what conditions the NGO could serve as a guarantor, the risks involved and how best to mitigate those risks.

Lower or subsidize the cost of purchasing an ID and registering a business to encourage informal sector businesses to shift into formal structures. At $250 USD (in Somaliland) for business registration, and $25 USD for an ID card, the cost is very prohibitive. MicroDahab, for example, are turning away creditworthy clients because they lack these documents. This is out of a need to accommodate the KYC/AML regulation that is critical to Somaliland's banks getting international recognition.

- Whilst changing the legal structure is outside the scope of Concern and others, NGOs can be playing a key role in finding opportunities to bring down this cost through subsidization or other mechanisms.

Popularize the process of lending through CLAs. The case study of Concern's CLA becoming a profitable micro-bank deserves significant amplification. Because of the CLA's ability to operate hyper-locally with known and trusted entities, it is uniquely positioned to lower the hurdles and overheads of loan provision. It would be worth researching their administrative costs, per dollar lent, and comparing that to any other financial institutions. Based on our conversations, it seems likely that they are many orders of magnitude more efficient and affordable than bank offices. Other NGOs and donors that we met with were not aware of this success and expressed interest. Other organizations that create CLAs should be supported in copying and learning from this experiment by coalitions of funders and partners who are prepared to monitor and evaluate the results. Evidence gathered on the smooth repayment of loans by borrowers will encourage the banks to support this type of initiative.

- Concern can create practical guidance around how the CLA micro-bank was created and how this can be replicated with other organizations, advocate for replication to take place, and monitor the impacts for ongoing design adjustments. Such guidance would need to specify the precise conditions that constitute "readiness" of the CLA to serve as a micro-bank. Concern can also then keep record (along with other SHG-supporting organizations) of how many CLAs are "ready" but lacking capital. Providing a workable definition of "readiness" and a quantifiable demand for funds defines a market and an impact opportunity.

- Since the idea is to structure and fund a parallel banking system for SHGs (by CLAs), Concern and partners should consider reaching out to the organizations who are most focused on fundamentally shifting how the financial system works in Somalia. Both GEEL and GARGAARA believe in out-of-the-box approaches to creating a more diverse financial ecosystem and both organizations can help to flow funding towards financial system innovations that are highly leveraged. Concern and partners could, for example, approach these organizations and ask if they have an idea for what strategy might unlock funding directly for CLAs that wish to become micro-banks. Perhaps Concern would need to serve as a guarantor of sorts; perhaps it is necessary to pilot the approach at greater scale for longer duration before the case is proven. Regardless, the initial success was noteworthy and now is the time to bring on board potential partners (even as knowledge/research partners) so that further momentum and success can lead more directly to funding.

- An entirely different approach would be to approach a microfinance institution (or, indeed, a regular bank) with the data and case studies about the CLA micro-banks and suggest the creation of an entirely new loan product that would enable the MFI to capitalize the CLA. If the initial target is a $25,000 USD loan, however, it is likely that the bureaucratic hurdles of the bank sector, which typically needs formal business registration documents for any loan over $5,000 USD and a great deal of transparency into how all that money flows, will be high. There is also no guarantee that the cost of that loan will be sustainable for the CLAs themselves.

Develop loan and business documents that are optimized for low literacy clients. Loan materials are not designed for low literacy, whether digital or otherwise. The Self Help Group network operated by Khalid Sa'ad has had success with color-coding reporting forms and would like to see banks follow their lead—helping illiterate borrowers to see the patterns and correlations on key paperwork.

- Concern and partners could work alongside the SHG networks to agree on visual standards to hold constant across banks and organizations (these could be especially geared towards highlighting fees and penalties, as well as any common conditions that modify a contract for or against a client's favour) and use these standards across their ecosystem of SHGs. This can constitute a way to ensure that low literacy business people always know which part of a contract to scrutinize, instead of allowing them to be led, passively, through the process. A simple first step might be to request that all penalties described within contracts be in a sufficiently large font size and against a bright red background, whereas all fees might be against a yellow background – these are just explanatory examples, not specific guidance. The point is that it is possible to nudge the ecosystem towards greater transparency (and low literacy friendliness) in small, easy-to-understand increments. Concern and partners could then keep their internal database up-to-date with a list of which banks are low literacy friendly in this regard and which are not.

Invest in efforts to highlight accessibility for women. Information about the feasibility (or existence) of female guarantors is highly limited. There is currently a disconnect between banks and INGOs who maintain that female guarantors are now welcome or encouraged, and prominent respondents in the field that claim this is still logistically and culturally impossible. It speaks to the need for increased messaging and storytelling about the successes. It would take sustained, multimedia messaging to create public awareness that the trend is embracing women guarantors.

- There is an opportunity to organize a sustained social marketing campaign across all channels that portrays women as proud and viable guarantors. Visual media campaigns depicting women (or groups of women) serving as guarantors would be a good accompaniment to the transparency initiatives mentioned above.

- Where the circumstances permit, Concern and partners might bring these female guarantors to present at meetings of SHGs or CLAs to further underscore the accessibility of this pathway forward. It could be advisable, in such circumstances, to bring a bank loan officer along as well to help explain why the guarantor was a good fit and to answer additional questions from the bank point of view. Such in-person sensitizations would also help those with low literacy.

- Concern and partners could further support representative voices in the Somali Bankers Association and/or MFI association, to ensure that the needs and constraints faced by women are part of the conversation.

Invest in improving capacity of SHGs, and strengthening their coordination and information sharing platforms. It was clear from the fieldwork that information sharing on financial products and how best to access them is highly differentiated depending on where SHGs are located. SHG members are still highly dependent on moneylenders and more traditional forms of lending. However, the federated SHG structure offers a key opportunity to coordinate and share information and learning across a wide ecosystem of SHG members, and could be used to effectively improve the capacity of SHGs to effectively access financial products and services, as well as advocate for pro-poor developments in this space. Capacity building for SHGs should also encompass the development of good and viable business plans to enable them to attract varied sources of funding and enhance returns on investment.

- Concern and its partners can address the information/knowledge gap by implementing simple measures such as facilitating meetings/fairs, support/subsidies for travelling to banks, etc. Concern could partner with the SHG network in Somaliland, expand it to Somalia, and work together to create a platform for knowledge sharing and coordination.

- Concern and partners can provide delivery of training and workshops, as well as creating information brochures around the types of financial products and services available, their limitations and opportunities to access them. The type of capacity building is a foundational approach to financial literacy along with an orientation that helps people navigate their way into bureaucracies and financial services.

- Business planning training that is already included in the SHG curriculum could be strengthened and address specific needs/concerns to help SHG members attract funding from financial institutions or from crowdfunded modalities/mechanisms. When borrowing money in a sharia-compliant way causes a borrower to invest, up front, in a singular purchasable asset, enormous strategic care must be taken. Many businesses need liquidity to fund a variety of purchases and activities when they do not need new inventory or equipment. Yet a requirement to make things easy on the purchasing officer from the sharia-compliant bank obligates vulnerable business people to contextualize loans within the constraints of these major purchases. Some NGOs are solving this by creating purpose-built business development kits along with the appropriate instructions and business plans; but more needs to be done for the established businesses that need support and formalization.

- Draft capacity building material that explains the pitfalls and opportunities of loan size, possibly by sector. Several respondents point out that going from $600 to $1,200 USD loans, in particular, is often a break point for vulnerable entrepreneurs. The doubling of revenues that is necessary to repay such loans within the necessary time frame can cause high levels of risk of default. Materials that build capacity and knowledge around the inherent risks can help SHG members to make more informed choices.

Support ecosystem-wide collaboration and quality assurance around industry-specific training packages. At the moment there appears to be no feedback mechanism to create institutional memory around which income-generation and business/financial literacy trainings are successful and which ones are not. Several banks felt that NGO trainings were setting beneficiaries up for failure, by leading them into industries with more start-up costs than they understood or more maintenance requirements. Beekeeping, sewing and fishing were all listed as industries that are more difficult than people understand and that require longer term investments and capacitation. Workshops to flash-train vulnerable people towards these industries were highlighted as a risk by some of the microfinance respondents in particular. There is goodwill and relevant knowledge across the ecosystem that is not being captured and learners living in poverty are paying the price.

- This presents an opportunity to identify trainings that deliver the greatest value and which ones create the most problems. Concern and/or consortium partners could undertake and publish an annual survey to help shine a light on the best-in-class trainings (and to highlight misguided ones) and promote these trainings across the ecosystem. While there is a reputational risk to organizations whose trainings are spotlighted as less effective, the risk to the livelihoods and wellbeing for the vulnerable people who might otherwise continue to spend their time and energy on ineffective trainings is of greater concern. The loan officers at banks are the exact people who need to be impressed with training results; so anything that creates a clear flow of information between them and the INGO community will be a beneficial feedback loop with the capacity to meaningfully improve programming.

Expand ways to prove financial identity and trustworthiness. The cost and complexity of registering a business (and opening business accounts) is high. It is preventing legitimate (but informal) businesses from accessing financial services. The cost of doing due diligence into the legitimacy of informal sector businesses is also high (and currently borne by non-profits, effectively under-writing the due diligence on behalf of the banks that will eventually profit from the loans).

An opportunity exists to begin authenticating transactions between business-relevant merchants as a way of demonstrating the approximate cash flow and ability-to-pay of informal sector businesses. Shaqodoon and others are working to convince banks that an EVC transaction history, especially for an officially business-linked phone number, can constitute both a proof-of-business legitimacy and a credit history. This practice shows promise and warrants formalization. Another related effort may be piloted by the team at Gravity.Earth who are making similar efforts in Kenya.

A second opportunity exists to create a financial sustainability engine for the due diligence activities currently being provided by NGOs like One Earth Future. The process for this due diligence is already proven (and open sourced); now the workforce can be cooperativized, so that the due diligence officers can serve as a kind of credit bureau for the informal sector, with the ability to serve business authentications to a variety of banks, and not just One Earth Future's current partners.

A third opportunity exists around creating more centralized or verifiable databases that record when people or businesses have undergone training or capacitation exercises. Micro-credentialing can go hand-in-hand with the sort of innovation Gravity.Earth are designing; or it can be collectively held and validated by a consortium of stakeholders.

- Concern and partners should be liaising with these organizations to seek entry points to a larger community of stakeholders to invest in and partner on these initiatives so that the design process and lessons learned can be accelerated.

Expand SHG/CLA access to digital tools to improve capacity and bridge the financial inclusion gap. Early experiments helping CLAs to provide banking services were highly successful, especially at overcoming major barriers to capital for women in particular (as described previously). Because of this, it makes sense to invest in systems and programs that spread SHG programming and raise the quality of SHG programming in particular. The SHG Digital Platform was built with funding from DFID and The Bill & Melinda Gates Foundation to help SHG programming to scale with quality.

- Concern and partners could invest in adapting this platform into Somali and encouraging uptake within large SHG networks in Somalia to create more transparency about where the conditions are ripe for new CLAs. The platform could be modified for the specific use of CLAs that are expanding into the provision of banking services as a way for them to have greater awareness of the strength and progress of member groups. Data on loans and repayment could be collected and used to create credit scores for groups, to support their ability to access more formal financial service products. The platform can be modified to track the different trainings that Self Help Groups receive in order to help quantify program impacts and customized dashboards can be created for CLAs that depict the comparative progress and strength of their member SHG groups.

Expand research and monitoring around group liquidity. The evidence presented above shows that SHGs surveyed through the DFID call center have between $1000 and $2,168 USD in savings (depending on whether the median or mean values are used). By comparison, most group accounts/loans described during the course of this research provide each member with $300 USD at once, equivalent to up to $6,000 USD of liquidity injected into the group. While SHG members also report average individual loan sizes of just under $300 USD, and therefore receiving the equivalent from a bank is similar to their existing experience, the fact that all group members get this amount at the same time represent a significant cash injection. This can provide a significant uplift in potential business activities of group members, but also carries its own inherent risks.

- Concern and partners can be investing in ongoing research and monitoring to understand how much is too much (or too little), and whether a uniform distribution size is helpful. So, for example, Concern's research might indicate that in an average group of 20 members, when they are forced to take $300 USD each, there is typically a 10% internal default rate that causes stress to the group. As a result, Concern might request that groups always have the opportunity to nominate 10% of members to receive no loan during a given period. Or Concern might discover that for 9 months out of 12, the group is in disagreement about seeking a loan product because they cannot achieve 100% readiness for the loan. But for 12 out of 12 months, there is 75% willingness to borrow. As a result, Concern might approach the banks and say they could have many more applications if they would permit groups to borrow for 75% of members at a time instead of 100%.

4.3 Advocacy Strategies

Advocate for banks to broaden their options for guarantors and create transparency around their accessibility. Aggressively market these changes to help the public perception of "guarantor" to be more diverse and achievable**.** All financial institutions should be tracked and publicly compared (and rated) based on their progress away from high net worth, male guarantors. This could be achieved by asking them to be transparent about their portfolio of guarantors. How many guarantors were women? How many guarantors were NGOs? How many guarantors were groups? Banks can be incentivized to accept more groups as guarantors, more women as guarantors and more proxy organizations as guarantors--even being awarded for innovating in this arena. This can create competition to be the most accessible bank. The simplest form of incentive available to Concern and partners is recognition across their platforms, in, for example, a blog or communications blast about the annual rankings. A second incentive could be the generation of a case study and dissemination of some joint media materials. A third incentive could be being recognized as a preferred merchant (in a certain area, for a certain year). These sorts of choices are being made de facto already, but they are not being leveraged as the market-shaping moments that they are. IFC, GEEL and others are working on developing products that are targeted at women entrepreneurs, and this type of tracking and transparency could be used to encourage IFC to look at providing training to financial institutions on different approaches to guarantors as part of their existing risk assessment support to financial institutions.

Similar transparency can be created around the portion of a bank's lending that goes to women or the productive sector, to youth, to groups or to first time customers. As the financial ecosystem expands, it will help clients and the public to, ideally, have a single place to go (perhaps the Central Bank's website) to see this scorecard of bank lending practices. For NGOs, this tracking can at least be done for their portfolio of SHGs -- or via a consortium of NGOs -- as they try to access bank loans, through good monitoring. Ideally, this would then expand to a wider ecosystem of actors so that banks are held accountable across a wider percentage of the population. Such a dashboard or report should include (at least):

- What percent of a bank's loans have gone to women? (And what percent of women applicants were approved?)
- What percent of a bank's loans have gone to IDPs? (and what percent of IDP applicants were approved?)
- What percent of a bank's loans have gone to group accounts? (and what percent of group applicants were approved?)
- What percent of a bank's loans have gone to the productive sector? (and what percent of productive sector applicants were approved)?
- What percent of a bank's loans were given to first time borrowers? (and what percent of first time borrowers were approved?)
- How many hours/days does it take to open an account (from start to finish) and how much does it cost?
- How many hours/days does it take to apply for and receive a loan (from start to finish) and how much does it cost?
- What percentage of guarantors were women (and what percent of women guarantors were accepted)?
- What percentage of guarantors were groups (and what percent of group guarantors were accepted)?
- What percentage of guarantors were sponsor organizations?
- How many regions does the bank have a partnership with a sponsor organization who might help to serve as a guarantor for women or groups?
- What percentage of bank documents have been modified to meet approved standards for low-literacy clients?
- Does the bank sell or release any information about the client and the client's financial and business activities to any third parties?

At first this information can be gathered informally, by program officers and input into either a shared google spreadsheet or, better, an editable wiki-type resource, each of which have "roll back" capacity in case the sheet is accidentally compromised in the future. Since the most important thing is the variable itself, the sheet or wiki should be organized by variable (loan portfolio breakdown; guarantor breakdown, process time and costs). Under each variable, the service providers should be ranked from best to worst, with their location and reach described in a subsequent column. This enables NGO consortiums to easily spread accurate word of mouth information around best practices, to guide the market and incentive good bank behaviour. If there is concern about the need to stand behind such a ranking in a public way, the rankings could be circulated amongst Concern and partners as high value internal collateral, always with a “do not publish” embargo. At the least, they are key shared insights amongst a community of practice.

Finally, transparency can be created around the number of hours or days it takes to open an account or to process a loan (along with the percentage of loans that are granted). Starting to count the precise expense (in time and hours) for engaging with different banks for different services will be a first step towards getting them to shorten the runway.

Raise the profile of banks that are meeting these criteria to help them scale. The influence of these comparisons is dramatically raised when used as a carrot to reward ethical behaviour. Listed below are a few lending entities that seem credibly poised to distribute more funds through reliable channels with decent capacity building and oversight. Right now, several organizations are at step one of creating from scratch the systems that these organizations (below) have already developed. Once Concern becomes suitably impressed with the integrity and reliability of a bank at serving SHGs, they should work to encourage other organizations to make use of that bank’s relevant services. This is a way of increasing the long-term bargaining power of Concern and the NGO consortiums within the financial ecosystem. However, as noted above, the financial ecosystem is in a rapid state of change, and therefore flexibility and adaptability should be at the core of these investments.

- **KIMS** has recently achieved financial sustainability and demand for their loan products far outstrips supply. They are taking investments (and loans) to finance their expansion and seem a credible pipeline to enlarge. One flag to raise: KIMS already has a 16% APR standardized across their loan vehicles, which is amongst the highest that we discovered. They are currently piloting efforts to raise that APR further, which raises the possibility of lending practices that are more profit-focused than is optimal in the micro-lending context.
- **Gargaara** is another entity using its loan capital to nudge the Somali financial industry towards more inclusive practices. They also appear to be in a position where additional lending capital would favourably increase their influence on the ecosystem.
- **MicroDahab** in Somaliland have dispensed $6 million USD since their inception in micro-loans. They service six thousand clients per year: four thousand are women and two thousand are group clients. The demand for their loan products is at least twice as high as their lending capacity. Their leadership expressed a desire to circulate more capital. Their own profitable activities swell their micro-lending capital by $300,000 USD per year; but they could process and distribute millions more.

Encourage and popularize more bespoke loan products for micro-businesses (especially with group accounts). Currently, micro-borrowers are subjected to very uniform terms: often being forced to start with small $300-500 loans for 3-month periods, and then gradually doubled over time. More variability in terms of amounts and loan terms should be introduced into the market, as it also helps business owners to weigh their options and practice business forecasting.

This is especially true of loans that are offered to groups. Everyone we spoke with described group loan products where every member receives the same size/termed loan at the same moment. This lazy habit should be broken as soon as possible, even if, at the beginning, the solution is just to allow groups to take the loan for a subset of members and to process the second subset at a later date. The flexibilities encouraged here could, similarly, be reflected on a centrally updated lender scorecard.

Concern and partners can play a key role in advocating for different loan sizes, and providing evidence and research around the impact of variable loan amounts (building off the related recommendation in the previous section).

Concern and partners can play a role by forming relationships with banks standing as the guarantor for SHGs that have reached a certain phase of readiness. When Concern is willing to take on this role for many SHGs, it gives Concern and partners the bargaining power to request minor modifications to the terms of the loans that the bank is offering, for which the NGO is standing as guarantor.

Create and advocate for guidance for banks to create SHG-specific accounts. The diversity and innovation in bank-created group accounts is not without merit. But many of these group accounts are a manifestly poor match for the types of groups that actually exist. This is because group accounts can be limited in size (for example to 5 micro-borrowers), or expected to be engaged entirely in one industry or line of business. The emphasis should be on the group's ability to support itself (and guarantee itself) and not the potential way that a group of customers could make bank functions easier. As mentioned above, all members in a group should not be forced to progress through the exact same timing and quantities of borrowed capital. Especially since the SHG ecosystem is so healthy and robust in Somalia, there is an opportunity to work with banks to advocate for the creation of accounts that are specifically for SHGs.

Encourage banks to provide insurance. Commercial banks are more risk-averse because a central bank does not insure them and borrowers or businesses may be more risk-averse if they cannot hedge against likely forms of instability or failure. Because the country has gone through so many shocks, bankers have reason to anticipate a high volume of shocks in the future--while they might lack the actuarial ability to model the probability of these shocks. Presently, NGOs like SIDA or NAGAAD (along with some of NAGAAD's member organizations), are the organizations most likely to play the role of insurer. Every time an NGO agrees to pay the bank when a poor customer defaults, the NGO is essentially providing free insurance to the bank, even though the bank is not paying for that insurance product or sharing from the profit on the entire loan portfolio. While this may prove a useful transitional step, it is perverse that charitable money is insulating financial capital from downside risk, especially without a plan for stepping out of this somewhat exploitative arrangement. NGOs that play this role while demonstrating to banks that microfinance is financially viable, should consider creating exit plans which, for example, role X% of bank profits from the micro-finance portfolio into a default/insurance fund that can be available for harder times. It could be advisable, as well, for banks to set aside an additional Y% of profits for a cushion in the event of a wave of defaults caused by local conflict or natural disasters. Since this financial system is young in its evolution, it is still possible to break the assumption that banks should always be bailed out by the social sector. These banks, should, instead, be guided towards creating part of the nation's safety net, becoming part of the shock absorptive capacity of the nation, instead of tranche of society that profits most from shock. Banks should be encouraged to compete with one another for offering the greatest flexibility about reasonable default. Microdahab offers forgiveness when a borrower dies, and this could offer a good entry point.

Join the conversation around key regulatory transformations. Regulation is going to play a key role in shaping the fast-growing digital and financial ecosystem of Somalia. At present, quite a variety of stakeholders are taking part in these discussions and it is reasonable for Concern and consortium partners to give a voice to their stakeholders in this context. Engagement could being by identifying the partner organizations that are driving legal reform (GEEL, GARGAARA, IBS and others) and establish a biannual cadence of phone calls to stay aware of the key strategic implications. After regulation is set, banks can always use the defence that "it's legal" what they are doing--before the law is set, stakeholders can advocate for better protections. Another important reason for staying current on these conversations is that Concern's efforts to help CLAs function as de facto micro-banks is something that could be either helped or harmed by future regulations. If regulators move to tighten up protections for borrowers, they could inadvertently complicate efforts by INGOs or civil society to provide liquidity. Having a seat at the table could prevent the establishment of a regulatory environment that is crafted to enshrine further dominance by the formal financial ecosystem—this would limit innovation and alternative forms of social safety net creation. Two potentially relevant and current discussions happening where Concern could engage include:

- *Creating transparency on the flows of capital through EVC.* World Vision reported that the Somaliland government is exploring ways to tax Telcos and banks based on the flows of money detected in EVC systems. They were motivated to explore the possibility that banks and Telcos were self-reporting lower capital flows than actual. This sort of transparency is a first step towards any future regulation, and a step towards clarity around the existing money supply. It would likely bring more financial stability to the economy in a long-term way and, critically for SHGs, the more certified and assured EVC transaction records become, the sooner they can stand in as a proxy for business validation, or credit-worthiness.

- *Advocate for a legal structure that requires financial services provided on the back of mobile money to be provided by licensed third parties.* Such a regulation would cut down on corruption and help to generate a new industry. Since Telcos were the original players in this market and since Telco money stood up the existing banks (which are all less than 10 years old), there is not a lot of room for competition or transparency in the current system. If the banking/telco agglomeration in Somalia succeed in erecting defensive regulation that blocks new entrants or limits interoperability between EVC systems and new entrants, then poor customers become essentially trapped within ecosystems that can become gradually more predatory. Unless the public or the poor own their banking infrastructure, it is within their interest to allow new innovators or competitors to drive down costs.

- *Advocate for data privacy and sovereignty.* Many of the financial players that arrive in Somalia from overseas will be aware that the value in serving poor customers is in surveilling them and selling their data to advertisers or other companies. It is important for Concern and partners to track vulnerabilities around privacy and data protections, especially since unscrupulous actors are already engaging in widespread predatory lending behaviour towards the poor in neighbouring countries. In Kenya, for example, some Silicon Valley based lending companies use highly invasive data from customer cell phones to determine credit-worthiness. Researchers have noted a spike in phone-based offers of cheap credit that arrive during late night weekend hours--correlated with drinking and low inhibitions.[17] People living in poverty are rarely current on these risks and as an intermediary, encouraging engagement with the financial system, Concern and consortium partners could track policies around privacy considerations on behalf of their constituents. This is particular important for women. As a first pass, Concern and partners could ask each bank: do you sell the financial or location information about your banking customers to any third parties and, if so, who? Then Concern and partners can generate a list of each bank that says, "does sell" "does not sell" or "sells with some protections." From that point, Concern and partners can give priority consideration to the "does not sell" list. There is no consumer protection watchdog in this space, so that role falls to the most aware and most ethical actor in the equation. When Concern and partners are advocating digital financial inclusion in particular, this role becomes critical.

[17] http://bostonreview.net/class-inequality-global-justice/kevin-p-donovan-emma-park-perpetual-debt-silicon-savannah

Annex A. Data Collection Tools

Questionnaire for Financial Institutions – Banks and MFIs

1. What kinds of pro-poor products do you currently provide?
    a. Under what terms are these provided?
    b. What are the collateral or guarantee requirements?
    c. What physical or locational limitations apply to your offerings?
    d. What is the average wait time or processing time of a poor client seeking to apply for and receive any of these products?
    e. What actions do you take if someone cannot repay their loan, for example?
2. What factors make it most difficult for you to offer financial products and services to people living in poverty and/or who are IDPs? Which factors make it more difficult to reach women in particular? Do you have special options for illiterate customers?
3. What are particular innovations in financial products and services that could be used or adapted to help you to serve people living in poverty better? What is your future strategy for doing this?
4. What are current laws, regulations and policies around pro-poor financial services and how do they impact your organization? What would a more supportive regulatory environment look like?
5. Have you had any pro-poor financial products that turned out to be very unpopular or notable failures? If so, what lessons did you learn from these failures? (How about successes?)
6. How do you advertise or communicate about financial products to people living in poverty/IDPs?
7. What specific ideas for tailored services for the poor, particularly poor women, have you wanted to create but haven't been able to? For tailored services to SHGs? What would need to be in place for them to happen?
8. Have you created or thought about creating financial products for savings groups or SHGs ? What about cooperatives, community associations or other less conventional business entities? (Please describe these financial products.)
9. When you work with digital financial services, what sort of data and privacy protections do you incorporate and how do you educate your customers about these protections?
10. What concerns do you have about the understanding of very poor customers (especially when it comes to informed consent)? What are the best strategies that you've seen for increasing the financial literacy and business understanding of very poor customers?

Questionnaire for Government Representatives

1. Does the government provide any sort of pro-poor financial products/social safety nets/grants and/or loans?
    a. If so, what are the terms of these services?
2. What are current laws, regulations and policies around pro-poor financial services, if any? What mechanisms does the government have for enforcing these? Are there any policies to protect debtors if they cannot repay, ie limit of liability?
3. Do you see any amendments to current laws, regulations and policies that would improve financial access for the poor/IDPs?
4. What are the limitations and barriers that make providing these products difficult?
5. What would you say are some of the main barriers the poor have in accessing financial services? Are there particular barriers for women as compared with men?

6. What are particular innovations in financial products that could be used/adapted for this context?
7. What specific ideas for tailored services for the poor, particularly poor women, have you wanted to create but haven't been able to? What would need to be in place for them to happen?
8. How are the poor made aware of particular services available to them?
9. Are there any policies about data privacy in particular that are relevant for people living in poverty who wish to access financial products?
10. Are your citizens generally borrowing from other citizens and local/domestic companies or is borrowing from foreign companies and organizations more common? What trends do you see in this area?

Questionnaire for INGOs

1. What are the pro-poor financial products currently available?
2. What are the key gaps between poor people and available financial products? What have you learned about how to bridge these gaps?
3. Are there particular barriers that impact women more than men? And which financial product innovations have the most promise to boost inclusion of women and why?
4. How do you inform your beneficiaries of new opportunities? What are your most effective advertising or social marketing channels?
5. What sort of concerns do you have about the capacity or understanding of very poor customers/IDPs? What are the best-in-class strategies that you've seen for increasing the risk awareness, financial literacy and business understanding of customers living in poverty?
6. Have you tried to incorporate any financial products into programming that turned out to be very unpopular or notable failures? If so, what lessons did you learn from these failures?
7. What facilitation and advocacy role could the NGO and donor community play to improve access to pro-poor micro-finance products?

Questionnaire for Remote KIIs

1. What are the pro-poor financial products currently available?
2. What are the key gaps between poor people and available financial products? How can these gaps be bridged in your opinion?
3. Are there particular barriers that impact women more than men?
4. What kinds of innovations can be built upon to strengthen financial inclusion? Which financial product innovations have the most promise to boost inclusion of women and why?
5. How can the poor be supported in making informed decisions, considering opportunities as well as risks? What are the best-in-class strategies that you have seen for increasing the risk awareness, financial literacy and business understanding of customers living in poverty?
6. What are the most effective advertising or social marketing channels for products?
7. Have you heard of any pro-poor financial products that turned out to be very unpopular or notable failures? What lessons can be drawn?
8. What are current laws, regulations and policies around pro-poor financial services? What would a more supportive regulatory environment look like?
9. What facilitation and advocacy role could the donor community play to improve access to pro-poor micro-finance products?
10. Who else should we speak on the ground who works in this space?
11. Are there any relevant reports we should see?

Questionnaire for FGDs for SHGs

1. How many different loan or financial service providers can you name who are active in your area? (Think about banks, companies, individuals, organizations, anyone that would help you to loan, store and save money or even buy insurance.)
2. From that list of financial service providers, which ones are offering the products and services most relevant or helpful to you and other group members? (Please explain why, with reference to the terms and details of these products and services.)
3. From that list of financial service providers, which ones are offering products and services that are most unhelpful or most difficult to access? (Please explain why with reference to the terms and details of these products and services.) Why are they difficult to access?
4. Have you ever tried to practice HAGBAD or AYUTO to finance one of your projects/activities? What have you used? What do you like about this method of pooling money? What don't you like about the HAGBAD? Any story about this method?
5. Think of a time that a woman in your community was able to access a loan that helped her to succeed in a remarkable way. Is this woman's strategy and experience available to your group members to copy or learn from? Why or why not?
6. Think of a time that a woman in your community was able to access a loan that caused greater trouble in her life. Are the negative outcomes that this woman experienced a likely risk for women in groups like yours? Why or why not?
7. If new financial services become available in your community, how are you likely to hear about them? If they are new financial services, how will you decide whether or not they can be trusted?
8. What are the main challenges do you currently face when accessing financial service providers?
9. What would make members of your group most motivated to seek loans outside of the group? What conditions or circumstances cause members to do this?

Questionnaire for the DFID Call Centre

1. In which district within X region are you currently living?
2. Are you the household head?
3. Who is the head of your household? Age? Sex?
4. How many people live in your immediate household?
5. How many children under five live in your household?
6. How many pregnant women?
7. Are there elderly people over 60? How many?
8. Are you or anyone in your HH living with a disability?
9. How long have you been a member of your SHG?
10. How many people are in your SHG?
11. How many are women?
12. How many are men?
13. What is the approximate average age of the members of your SHG?
14. What is the total savings to date for your group?
15. Have you taken a loan through your SHG?
16. How much was it for?
17. What did you use it for?
18. If you invested in a business, what type of business do you have?
19. Do you have a bank account? yes/no
20. Does your SHG have a joint bank account? yes/no
21. Have you ever accessed a loan from outside of your SHG? yes/no
22. What kind of institution was it from? (circle all that apply) informal (e.g. moneylender); MFI; bank; other (please specify)

23. If you needed a loan, where would be the first place you would go? Informal, MFI, bank, other?
24. Where would be the first place your SHG would go if you needed a loan? Moneylender, MFI, bank, other?
25. How often do you make use of mobile money or other forms of digital, non-cash money? (choose one) never, daily, weekly, monthly
26. Would you feel safer keeping your money in a bank or keeping it with yourself and your family?
27. If you are planning to take a loan from outside your SHG, do you discuss it with your SHG members first? (choose one) Always, sometimes, maybe, probably not, never.
28. If you could take a loan, digitally, straight to your mobile phone, would you be more or less likely to discuss the loan with your other SHG members? (choose one) Much more likely, more likely, same, less likely, much less likely

Annex B. Consultation List

	Name	Organization
1.	Benoit Larielle	European External Action Service
2.	Abdi Abdullahi	Central Bank of Somalia
3.	Mariam Abdikarim Mohamed	Concern
4.	Sahra-kiin Abdirahmaan	Concern (former)
5.	Hodan Ali Hassan	Dahabshil
6.	Jenny Lopez	DFID
7.	Aysha Johnson	DFID
8.	Abdirizak Hassan	GARGAARA
9.	Philip Corper	GEEL
10.	Johannes Ebert	Gravity.Earth
11.	Mahat Mohamed	International Bank of Somalia (IBS)
12.	Patricia Mwangi	International Finance Committee
13.	Sinji Buri	International Finance Committee
14.	Jimmy Karima Chakacha	International Finance Committee
15.	Justin Sykes	KIMS
16.	Lull Adan Geddi	MESAF
17.	Hodan Ali	MicroDahab
18.	Nafisa Yusuf Mohamed	NAGAAD Network
19.	Mahad Awale	One Earth Future
20.	Osman Dualle Ahmed	Premier Bank
21.	Abdihakim D Farah	Shaqodoon Organization
22.	Khalid Sa'ad	Somaliland Self Help Group Network
23.	Huda Mahad	Somaliland Women's Chamber of Commerce
24.	Guuleid M. Gacalle	Telesom
25.	Ben Musuku	World Bank
26.	Mubarik Mohamoud Ahmed	World Vision

Annex C. Desk Review

Access to Finance for SHGs

The desk review primarily consisted of project documentation and case studies, which provided a lens primarily into the financial services provided by NGOs to their beneficiaries. It was found that many NGOs like Concern, consortiums like BRCiS and SDSC and programs such as SPHERES incorporate opening joint bank accounts for SHG members. These accounts with commercial banks serve as a way to process grants and loans from the organizations to the groups. Examples of this include:

- The Mogadishu Integrated Efforts for Improving Livelihoods of Poorer Households (MODEL) program linked 44 SHGs with Salaam Somali Bank to receive cash grants provided by Concern. Each SHG was given a total of $3,000 in two instalments once they were deemed mature enough.[18] Each SHG had a group committee responsible for depositing and withdrawing the money from the account. Upon exposure to the SHGs and their savings practices, Salaam Somali Bank gave the groups access to loans so they could enlarge their businesses. Ten SHGs received loans from the bank amounting to $20,000 USD free of charge or interest rate with loan repayment procedures and a one-year repayment period.[19]

- The Somaliland Durable Solutions Consortium (SDSC) Wadajir project opened SHG bank accounts with Dara Salam Bank with group representatives named as signatories.[20]
This was also to enable the transfer of Concern's start-up pooled grants to the SHGs. Each group received $3,300 USD to invest in IGAs. In 2018, the SHGs chose to invest in activities including fattening livestock and petty trades. Profits from these IGAs from April 2018 to February 2019 were shared among the group members, and each group transferred an amount of $1,000 USD into their respective bank account to be made available as smaller individual loans to group members in times of need.[21]

- For its Farmer Field School Approach in Upper Biji Water Catchment, Concern facilitated the opening of formal bank accounts at Darasalaam Bank for each SHG in December 2019. Three representatives from each group came to Hargeisa to sign as signatories and create direct links with the bank. They received Concern's start-up grant of $3,300 USD. The groups will manage the grants for income-generating activities independently to invest in small businesses, while Concern will monitor the use of the funds and continue to support the groups with advice on their IGAs as well as gardening activities.[22]

- Under SPHERES and the GIZ-funded project, Concern linked SHGs to Salaam Bank and Dahabshil so they could access credit for their business start-ups. Instead of providing the SHGs with a cash grant directly, Concern used a lump sum of project funds to provide a

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[18] FIM Team (2016). "Assessment for MODEL Self-Help Groups in Mogadishu." *Concern*. Narrative Report. March 2016

[19] Abdikarim, Mariam and Fardowsa Mohamud (2017). "Concern Self Help Group Guide: Guidance Materials." *Concern*. October 2017.

[20] SDSC (2018). "'Wadajir' - Enhancing Durable Solutions for and Reintegration of Displacement Affected Communities in Somaliland: Annual Narrative Report." Reporting period 1st March 2017– 28th February, 2018

[21] SDSC (2019). "'Wadajir' - Enhancing Durable Solutions for and Reintegration of Displacement Affected Communities in Somaliland: Annual Narrative Report." Reporting period: 1st March 2018– 28th February, 2019

[22] Concern (2020). "Sustainable Land Management in Somaliland: Implementation of a Farmer Field School Approach in Upper Biji Water Catchment." Progress report of a project financed by a grant agreement between Concern Worldwide and GIZ. Reporting period 01 July to 31 December 2019.

guarantee to the bank in case any of the SHGs default. By providing this collateral Concern intended to give the banks an opportunity to test the experience of loaning money to these groups at no risk. While any bank transaction is monitored during the project period until graduation of the SHGs, the bank accounts are handed over and managed by representatives of each SHG and the groups continue to channel their saving and income activities through the bank.

Main Barriers to Financial Access

- **Borrowing requires an esteemed financial guarantor.** Even with MFIs such as Microdahab, the guarantor needs to be an eminent and reliable person who has an active account at a commercial bank who will be responsible for the borrowers and pay the loan amount owed in case of default. Dahabshil would not negotiate with a CLA named Dadihiso because of a lack of guarantee, which then prompted them to start their own loaning process separately (described in greater detail below).[23]
- **Geographic access.** Financial institutions are not evenly distributed throughout the country, mainly concentrated in urban areas. In Somalia, rural areas do not have bank access, so SHGs store their savings with large local businesses.[24] In Somaliland, there are few MFIs operating, and their operations and reach are limited to the main urban areas and their immediate environments. Rural, unpopulated and/or areas that are not regarded as main trading centers do not have access to microfinance services. In those areas, access to finance depends on the informal sector.
- **The government provides little financial support.** There are no government banks that SHGs can turn to.[25]
- **There are no mechanisms in place to identify customers or to record and exchange customer's financial history.** There is no national ID system in place in Somalia. This inability to prove financial identity makes managing risk very challenging and therefore financial service providers limit lending to a small group of known business*men* who have land assets that can be used as collateral. Financial institutions are therefore incapable of fulfilling their "know your customer" (KYC) obligations regarding anti-money laundering (AML) and "countering the financing of terrorism" (CFT), which further leads international banks to be wary of transactions with Somali banks.[26]
- **Trust is lacking.**[27] Many, if not all, financial service providers have a very low appetite for risk and therefore have strict eligibility criteria, inflexible loans, short grace periods and binding conditions. Lack of international trust means 100% of transactions to and from Somalia are unregulated cash and remittance channels. Businesses are forced to conduct trade offshore and pay high costs and payments.[28]
- **SHG members are also lacking information on available financial options.** In Somaliland, several MFIs have partnerships with international donors and partners, but the overall terms, results and impact of these operations and joint partnerships are not well-documented.

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[23] Concern. "IAPF 2018 Reporting Matrix Somalia FINAL." *SPHERES*.

[24] FIM Team (2016); Abdikarim, Mariam and Fardowsa Mohamud (2017); Caniglia, Dustin and Sarah Baran (2017). "Self-Help Groups: Value for Money Assessment." *Concern* and *Baran Consulting.*

[25] FIM Team (2016).

[26] GEEL. "Somalia Growth, Enterprise, Employment & Livelihoods (GEEL) Project."

[27] FIM Team (2016).

[28] GEEL. "Somalia Growth, Enterprise, Employment & Livelihoods (GEEL) Project."

- **There is a general lack of job opportunities** which limits economic activities.[29]
- **Most SHG businesses are the same, which leads to market saturation and less profit for small enterprises.** There are also few opportunities for SHG businesses to expand elsewhere due to poor market access. They are restricted to small geographic areas due to limited travel and unstable security.[30]
- **Consistency is important and a volatile situation can jeopardize this.** Many SHG members are IDPs, and they may move from program target areas to other districts, which limits their access to finance.[31]

Innovations

Dadihiso CLA emerged as the primary innovation mentioned in the documents reviewed. This CLA based in Mogadishu became a source of credit after Dahabshil Bank would not give them a loan for want of a guarantor. Concern gave them an original grant of $25,000 USD in 2017, which the CLA then used to provide in-kind loans to both SHG and non-SHG members who had no access to credit. From February 2018 to November 2019, the CLA issued loans amounting to **$68,300** in nine batches covering a total **317 borrowers**. [32]

Solving Financial Identity Issues Through Blockchain[33]

To address issue of financial identity, a start-up called Gravity.Earth is proposing a pilot project to use blockchain technology to manage and share a secure, self-sovereign digital ID with a proportional trust score that is based on certified personal data. They create a digital financial identity by using existing data trails such as reconciling the financial history already accumulated by participating organizations, which could allow financial institutions to assess credit risk and satisfy KYC and AML. The low-cost pilot could be easily integrated into existing technology platforms and be linked with national digital identity once this is in place.

Regulatory Environment

Financial institutions generally lack regulatory framework and government support, and the system is in need of increased regulation.

According to the World Bank, one key government priority is currency reform. The International Monetary Fund (IMF) estimates that almost all current shilling notes in circulation are counterfeit, as no banknotes have officially been issued by the Central Bank of Somalia since 1991.[34] The reform would introduce secure small-denomination currency notes, to develop both the Somali shilling payment system and promote financial inclusion. Reform will require intensifying central bank governance, banking supervision, payment reforms and replacing counterfeit notes with legitimate currency. Making it possible to use mobile money in Somali shillings as opposed to USD would also

[29] Abdikarim, Mariam and Fardowsa Mohamud (2017). "Concern Self Help Group Guide: Guidance Materials." *Concern*. October 2017.

[30] FIM Team (2016).

[31] FIM Team (2016).

[32] Concern (n.d) "SHG CLAs supported by Concern in Mogadishu, Banadir."

[33] Gravity.Earth. "Financial Identities for Businesses in Somalia."

[34] World Bank (2018). "Rapid Growth in Mobile Money: Stability or Vulnerability?"

extend access to the poor, allow conversion between physical and mobile money and formalize savings, particularly for poor households.[35]

Mobile Money

In its 2018 Somalia Economic Update, the World Bank reported on the vast scope of Somalia's main individual and businesses transaction instrument: mobile money. The demand for digital money has arisen largely from lack of faith in the Somali shilling, the difficulty of using USD for low-value transactions, and the zero-rated transaction costs and ease of use of mobile money services.[36] The following information is drawn from this 2018 report to highlight the popularity of mobile money with Somalis.

In a country where only about a quarter of the population engages in savings activities, only about 15% of the population (and just 7% of women) has a bank account, and less than 5% of people with bank accounts are active users, **73% of the population 16 years- and older use mobile money.** More than half of people who save do so with a mobile money account. Penetration rates are highest in urban areas (83%) and camps for IDPs (72%). In rural areas, 55% of the population uses mobile money. Mobile money has improved financial inclusion: **about 70% of women have mobile money accounts, which is just 5 percentage points fewer than men.** The number of mobile money subscriptions has grown at an average rate of about 20% a year since 2014.

The value of mobile money transactions in Somalia is estimated at $2.7 billion a month. An estimated 155 million mobile money transactions a month are made. About 36% of GDP flows through mobile money systems. Half of all transactions are person-to-person transfers, mostly day-to-day transactions. They account for 30% of the value of all transactions. The second-highest volume of transactions are merchant/retail payments, which account for almost a quarter of all transactions and about 14% of the value of transactions. Other uses for mobile money include salary transfers, bill payments, remittances, and cash transfers from development organizations.

Remittances account for about 6% of the value of all mobile money transfers. Official remittances from the diaspora are estimated at about $1.4 billion a year, equivalent to about 23% of Somalia's GDP. About 3.4 million people—roughly 40% of the population—depend on remittances for their daily needs, and about 80% of all new business ventures are funded by remittances.

Somalia is ahead of many other developing countries in its use of mobile money. In other African countries, mobile network operators are still trying to incentivize customers to maintain balances in their mobile money wallets. In Somalia, operators have already partnered with local retailers and merchants to ensure smooth digital exchanges, even for low-value transactions. The use of digital payment increases the speed of transactions, lowers transaction costs, ensures security of payments and provides a safe way to save.

This wide scope—paired with the absence of consumer protections, lack of KYC requirements, and lack of regulation—does significantly increase the system's vulnerability. Disruption of service delivery due to a technical glitch for example could greatly impact the livelihoods of Somalis.

Regulation of mobile money is vital, but a major concern for policymakers and regulators is how to introduce mobile money supervision and regulatory frameworks in a smart way that encourages

[35] World Bank (2019). "Building Education to Boost Human Capital." Somalia Economic Update, Edition No. 4. August 2019.
[36] World Bank (2018). "Rapid Growth in Mobile Money: Stability or Vulnerability?"

innovation and competition. The World Bank recommends introducing regulation gradually to strengthen compliance and reduce potential disruptions. It also recommends promoting innovation through a “regulatory sandbox” approach, crucially linked with capacity development at the CBS. The regulatory sandbox would enable the regulator, i.e. CBS, to allow financial providers to ignore some or all legal requirements in order to experiment with and test new products and business models.

Additionally, there is much potential in linking mobile money regulation and a robust identification system; they are closely connected and need to be developed in parallel.[37]

[37] World Bank (2018). “Rapid Growth in Mobile Money: Stability or Vulnerability?”

Annex D. Findings from FGDs

SDRI spoke directly with SHGs and CLAs in the field to understand if and how the groups used bank products and MFIs, and what the barriers to access were. A total of 42 FGDs were conducted in February in Borama, Gabiley, Hargeisa and Mogadishu and March 2020 in Baidoa and Afgoye.

Afgoye is one of the most volatile zones of the Southern states. Al-Shabaab has a strong presence in the region, and it conducts extensive attacks and operation. The region experienced episodes of conflicts with different agendas, for instance, clan conflicts, terrorist attacks and other violations against the vulnerable people. Many people, including the SHG members, were forced to flee from their localities due to the wars between the hostile parts. SHGs in Afgoye district are those people from the nearby villages and communities, but they displaced from their areas as the result of the conflict. SHGs are categorized as pre-urban members; each group consists of 20 members. Concern has been the main supporter of the groups and assisted in saving money and helping each other. The groups in Afgoye fall under either BRCiS I, II or EIDACS.

In Baidoa, SHGs are supported under the Danwadag Consortium. They were established in early May 2019. All these groups were less than one year old, with the oldest one existing for six months. All of the groups consist of female members with great inclusivity consisting of IDPs, returnees and host community members. The majority of the group members are IDPs living in camps either inside or on the edges of the city. A total of 108 female participants gathered during the data collection sessions.

A team of two enumerators and a supervisor were dispatched in Mogadishu to conduct data collection on the mapping of financial service providers in the city. The team went to four districts (Wadajir, Bondhere, Hamarjajab, and Karaan). In each district, three groups of ten SHG women participated in the data collection, for a total of 12 FGDs. All members of the FGDs were women. The SHGs in Mogadishu have been in the city for a while and they consisted of IDPs and poor host members. The groups were supported through BRCiS I, SPHERES and MODEL. Some of the SHGs have existed since 2012. SHG members reported that while there is financial service availability in Mogadishu, they had difficulty enjoying access to these services. Vulnerable women cannot access banks and loans as they lack personal documents, guarantor or referees, and the initial payments.

In Somaliland, a total of 18 focus group discussions were conducted, covering communities and villages in Borama, Gabiley and Hargeisa from February 23rd to 26th, 2020. Six groups were conducted in each district. In Somaliland, the groups were supported through BRCiS II, SPHERES, GIZ and SDSC.

1. How many different loan or financial service providers can you name who are active in your area?

Afgoye: Members noted Salam Somali Bank and Dahabshiil as the main financial service providers in the districts. Salam Somali Bank was repeated various times in the text. Some of the members noted they have an account at the bank where they save money. SHGs in Afgoye had good information about the service availability and institutions. These banks provide loans and investment opportunities for the residents, but still, marginalization and exclusion had been stressed in the sessions. Concern has been the main supporter of the groups and assisted them in saving money.

Baidoa: Members noted limited access to financial services. Some of the participants admitted having received cash support earlier in that they used to sustain their livelihoods, but the groups mentioned that Concern trained them and provided the necessary skills on bookkeeping, saving and overview of the SHGs and they hoped to obtain grants from Concern. Certain individuals are noted to have heard about Dahabshil, and Salaam Somali Bank. They also heard that some of the international organizations like DRC and Concern provide grants/loans for the poor; others have received cash support from DRC and NRC.

Mogadishu: The majority of the women who participated in the FGDs mentioned Salaam Bank as a financial provider followed by Dahabshil, IBS and Amal. The least mentioned bank was Bakaal. Some participants underlined that they know these financial institutions exist, but they do not have any interactions with them in terms of investment provision or saving services. A small number of women said they have individual saving accounts in Salam Bank.

Somaliland: Participants in the FGDs noted different financial service providers in their locality naming Dahabshil, Dara Salaam Bank and Premier Bank. In many cases, particularly in rural areas, members indicated that NGOs such as Concern and UN agencies such as FAO and IFAD were the only available sources of finance.

2. From that list of financial service providers, which ones are offering the products and services most relevant or helpful to you and other group members?

Afgoye: Some of the SHG members addressed saving as a crucial and helpful service that banks provide for free and that they could access instead of risking their money. Salaam Somali Bank and Dahabshil banks were praised, and their role was mentioned in terms of saving money. Their contribution in investment and provision of loans was stressed. Some of the members reported having heard of the loans and banking information from their relatives in Mogadishu. A person noted, “Salaam and other banks are offering good services to the community, the example they provide saving, investment, assurance and other services, the most relevant services to our group is the saving service which has 0 costs, and investment.”

Baidoa: Banks like Salam Bank, IBS and Dahabshil were helpful service providers according to SHG members, but they were focusing on the importance of these institutions for the greater community not as a direct benefit to themselves. One of the members has said, “Salam Bank is the best service provider that I know in terms of giving money to the community members in order to help themselves and refund the money back to the Bank”. IBS was also mentioned as one of the helpful service providers. Others noted the importance of the services of some NGOs like NRC. It seems that members confused cash programs and other financial services. Members said that it is easy for them to take a loan from other individuals, including relatives and friends. It has been widely practised as it involves personal knowledge and trust. A member noted that “I took loans from individuals, and it is difficult sometimes to deal with it.”

Mogadishu: The groups made it clear that Salaam Bank provided a loan and they started a business with it with the help of Concern. They used the loans to start small businesses such as shops, kiosks, charcoal business and a retail clothing business.

Somaliland: Most of the members indicated the support given by Concern as relevant and needed. Concern helped them in the group formation and provided them with financing at the beginning, they provided three to six months training on numeracy and literacy which the communities benefited extremely, also they helped them with managing, monitoring and guidance of the SHG. Participants in Hargeisa reported that Dahabshil and Dara Salaam were helpful in terms of their micro-financing and support in establishing and developing businesses for these communities. These banks buy goods and items for those who want to start businesses as a loan and then the person has to pay it back to the bank according to initial agreed terms and timeframe. “Dahabshil bank was more reliable comparing to other loan providing banks is that first; the bank will provide you a small amount of money then if the beneficiary returns the amount of money provided to him/her then the bank will provide second installment and will continue as you required unless you stop taking the loan".

3. From that list of financial service providers, which ones are offering products and services that are most unhelpful or most difficult to access? Why are they difficult to access?

Afgoye: Some of the participants expressed to have been marginalized and excluded from the financial service providers. The conditions of the loans classify people, and it creates classes: those who are able to fulfil the banking requirement and those who cannot afford to meet such requirements.

Baidoa: Taking loans for IDPs is not an easy thing since it is harder for them to fulfil the conditions to secure credit, like land documentation, passport/ID cards and guarantor. Banks and financial institutions need a guarantor, someone who pays back the loan if the person fails to return the credit. Financial services also require specific documentation to grant loans for individuals and the IDPs do not have these primary documents, including the passport and the municipal IDs.

Somaliland: Many did not believe however that these banks mean to provide for their real needs; the banks don't offer hard currency. Instead, they provide materials, foodstuff, clothes as well as other equipment and furniture as well. This was unhelpful for members as they need the cash.

4. Have you ever tried to practice HAGBAD or AYUTO to finance one of your projects/activities? What have you used? What do you like about this method of pooling money? What don't you like about the HAGBAD? Any story about this method?

Afgoye: Many SHG members still practice Ayuto as a way of saving money. The participants shared their experience in utilizing the Ayuto method. "Yes I practised AYUUTO, I paid 50,000 SHILIN SOMALI every day, and one of us takes one million SHILIN SOMALI every ten days, when I received the money I used to finance my small shop". Others noted its negative and positive impact; this is one of the members noting: "Yes I practised AYUUTO, it has an advantage and disadvantage for example misappropriation occurs sometimes, so you don't get your money completely because some group members get angry and don't pay the remaining turns, so I joined once and stopped because there are no good groups in our village."

Baidoa: Baidoa SHGs stressed the importance and benefits of the traditional Hagbad system that many of them also practice in addition to their SHG. Some of the members shared their success stories of Ayuto. It is one of the old ways to pool money or resources, in the rural areas people may collect milk together and give it to each group member in a rotational way. A woman among the group has said "I joined AYUUTO group of 5000SSH and we saved that money where each person takes their turn. It was five days, and the group consisted of 30 people to pool money together." One of the adverse effects of the Hagbad is that the member may default anytime as there is no written documentation and the losses may not be shared. It may affect some of the members, particularly those who are wishing to take their turn. Some of the members criticized Ayuto as they experienced delays of the payment. It shows if the commitment of the group members is poor, then it will not be successful.

Mogadishu: Most women practice Ayuto. If they do not, it stems from the belief that Ayuto carries conflict within and problems arise as the members fight for taking turns, and some members become unfaithful when they receive their turn which creates anger among those who did not take turns. Some of the women who do not practise argue that Ayuto can be illegal religiously and they prefer not to engage with it. Others have limited choices due to their income status, and they cannot practice that method. Most of the women have practised it at some time or another as it is necessary when you need a sizable amount quickly. Most of the groups remarked on the possibility of succeeding in business when the person is a member of an Ayuto group. School Fees, the extension of business activities, and household expenses are mostly where Ayuto money is spent. “Yes, I participate in Ayuto. We are ten individuals, and we collect $1 each one of us every five days. I used the money when I received it to pay for school and university fees. I like it as it can be used for urgent needs, especially when someone is out of money.”

Somaliland: Somalis still practise the traditional Hagbad system as a form of pooling money together. Members are obliged to pay a certain amount on a rotation basis, and it could be daily weekly, or monthly. SHG members stressed that the Hagbad was useful to finance their needs and activities including household expenses and education and it has been widely practiced before the establishment of the SHGs. Many still practice both simultaneously. IDPs seemed to have access to various services and can utilize their savings for such amenities, unlike the rural groups who had limited facilities to use. Zeynab Mohamed lives in Digale IDP Hargeisa and narrated positive impact of Hagbad saying “for me and including my husband are in Hagbad because of its system that I have faith in and the money that I take I pay for my children’s university tuition fee of the University of Hargeisa. Not only that I even renovated my house and one time, but my husband also got really sick then I took him to Ethiopia which he was treated and now he is the one that encourages me. Yes, divinity, I trust it.”In addition to that, another woman said “I have been involved in HAGBAD since I was teenager till now and I am 55, and thanks to almighty Allah that I have built two houses for myself and my children and even it helped me in paying the expense of children’s marriage like wedding ceremony which now they are married and have wonderful kids. This all accomplishment is because of HAGBAD.” Some of the members reported that they are no longer using the Hagbad method due to the limited reliability of the group members as some of the members may default or fail to pay the money. Another critical issue for the Hagbad is the lack of documentation; normally the agreement is oral based which weakens the process.

5. Think of a time that a woman in your community was able to access a loan that helped her to succeed in a remarkable way. Is this woman’s strategy and experience available to your group members to copy or learn from? Why or why not?

Afgoye: For IDPs and other poor populations, it is always difficult to access loans and financial services. Multiple factors may cause the problem, including limited social networks, lack of strong referees, low income, the absence of land documentation and IDs, and limited information.“My sister got a loan from a businessman in Afgoye, she started to design small shop for sweats, then the shop turned in to the supermarket and paid back the loan, then she buys generator and cultivates a farm, now she has a business which is vegetables and fruits, and she has a car.” Women in Afgoye mainly use loans to invest in agricultural related projects like farming or selling farm products, some of them mentioned having had successful businesses due to credits they received. Others indicated to have used loans for charcoal and

Baidoa: Generally, the Baidoa groups indicated an inability to access financial services in the city. They prefer individual level loans relying on their social networks, including relatives, friends and neighbours. IDPs seemed to be less informed as compared with groups dominated by host members. Some of the host members were able to access loans and financial services. Some of the participants shared successful experience of taking loans as they were able to finance their business and return the credit. One member’s story was inspirational for other women in the group. She took a loan from Salaam Somali Bank and bought a dump truck, and was able to pay the loan back. Her story became a role model for the group. Local people influence each other, for example, if a village woman attempts to open a small kiosk, others will be inspired and try to be like their peer. A woman among the SHGs noted “Yes, we have got some experience those women who open the small kiosk; there are our role model and we can also do it.”

Mogadishu: The groups shared stories of women who took a loan from individuals, not from banks. They all agreed though that loans provided by the banks are strict in adherence with the requirements so defaulting is rare, but the loans provided by individuals can often end badly. However, this is the story of a woman who was able to return the loan: “My aunt received a $300 loan from a man in Kaawa Godeey. She started a charcoal business. After several weeks of business activities, she was able to pay back the loan, increased her revenues and resumed her business with her own money. She thanks that man every day.”

Somaliland: Taking a loan is a hard decision for women and poor people as they fear to fail to pay back the money. Nevertheless, there are people who dare to take a loan and benefit from it. One woman said, “I once got a loan from the community savings kitty and started a very good business. After I secured the loan, I have expanded my business, and other community members are encouraged to secure loans and fund their businesses like me.” An IDP woman in Hargeisa said, “I myself succeeded in opening a restaurant because I took a loan from a relative of mine and now the restaurant is still functional because I sell local food to customers and the profit from it, I pay the bills of my children.” Another woman reported, “there is a woman that I know that took a loan and started a business from scratch, then continued the work hard and got bigger loans which now her business operates in a regional way like between Ethiopia and Somalia as a whole-seller of clothes. This teaches me that she is not smarter or better, but this shows that every success depends on taking a risk.”

6. Think of a time that a woman in your community was able to access a loan that caused greater trouble in her life. Are the negative outcomes that this woman experienced a likely risk for women in groups like yours? Why or why not?

Afgoye: Some of the individuals fail to return the loan, and they suffer its burden. One woman was arrested and imprisoned by Al-Shabaab when her business failed. Natural and manmade disasters can also make businesses fail and collapse as they destroy the coping mechanisms and the livelihood sources for the affected persons living them more vulnerable for other hardships. In addition to that, the consequences may be the result of market fluctuations; the prices go up and down for certain sessions. This leaves some people to lose the money they invested in the farms.

Baidoa: Some people fail to pay back the loans due to the poor performance of their business and other risks associated with the loans. One of the causes of this problem might be the limited experience of the poor, particularly the IDP community.An SHG member has said, “I know a woman who went to borrow a loan from Salaam Somali Bank to start a business and refund the debt but her business collapse and caused trouble in her life later on she got assistance from her relative”. It goes back to Somalia’s resilient culture; clans members assist their relatives during the crisis; for example, if someone experiences loss or business failure, then the clan constituents pool money together to help them.

Mogadishu: The negative consequences may include losing the business due to the poor skills of managing small initiatives. Some of the women had a bad experience after failing to pay back credits taken from individuals. It risked their children and relatives as they could be taken as hostages until the money was returned. “I know a woman who was indebted with an amount of $120 and was not able to pay back. Unfortunately, her 9-year-old child was taken away. Neighbours collected money and paid back the loan. The child was returned.” When women were asked what may facilitate them to acquire a loan, the majority of them pointed out having a guarantor, personal acquaintance between the lender and the borrower and being employed as the possible facilitators for getting accepted for a loan. Other conditions include having an account for one of the banks.

Somaliland: One of the main reasons that discourage women from taking loans is the fear of failing to pay the debt. Some of the persons take loans to spend on their initiatives or small business but fail due to market fluctuations, limited skills to sustain the business, and unpreparedness for the loan. The negative consequences of loans include being jailed and shamed, which risks the possibility to get loans in the future. The following quote narrates the story of an IDP woman who failed to return the loan as her husband became irresponsible and made it very difficult to pay family expenses. The women managed to get a loan from Premier Bank but unfortunately could not pay back the debt. “The market was unstable, and there were even fluctuations her business did last long, and the bank arrested the husband later the money was paid through clan contribution, and the husband was released. Since then there were family problems and now they are divorced.”

7. If new financial services become available in your community, how are you likely to hear about them? If they are new financial services, how will you decide whether or not they can be trusted?

Afgoye: People normally rely on radios, TVs, friends and community elders and committees. Somalis are characterized to be an oral community and help them spread the information on an oral basis from a person to another.

Baidoa: Members rely on their committees and elders when it comes to receiving financial information. They use individuals they know to help them assess the trustworthiness of the new commercial service and knowledge. Others rely on their immediate family members like this lady who said: “I ask my brother who is working their whether the new financial services provider is well trusted.” Others noted listening to radio advertisements to obtain new financial services.

Mogadishu: Although Mogadishu is the capital city with a large number of media platforms, the SHG members seemed to obtain and rely on information from individuals. Participants’ primary source of receiving information were the district authorities, community elders and other villagers. Elders and the district administration were highlighted as the sources of information related to SHGs or any other community development programs.

Somaliland: There is a difference between how financial information is obtained for the IDPs and rural groups. The urban IDPs reported having many ways of receiving information of new financial service providers noting the radios, newspapers, TVs and intra-community information sharing while the rural communities noted to rely on the information given by their leaders and other community members.

8. What are the main challenges you currently face when accessing financial service providers?

Afgoye: Women face difficulties when engaged in loans. The following are the issues reported during the FGDs in Afgoye:

- The burden of Al-Shabaab courts and influence during the loans. Some of the persons narrated stories of victims who were arrested by the group due to the loans they have taken.
- The pre-urban locality in Afgoye relies on farm products. They invest in agricultural activities if they receive loans. So, the natural disasters including the floods, droughts and crop failures may destroy their input and make them exposed and vulnerable.
- To some of the members interviewed, access to financial services is a class-based amenity. Only, the middle income and rich classes benefit and enjoy those services. The poor persons are being marginalized and excluded from these facilities.
- Inability to meet the conditions to secure credit. The SHGs in Afgoye are IDPs and subsistence farmers who have close linkages with the urban locality but face bottleneck in attaining loans, for example, the land documentation, the referee or guarantor, and personal IDs for the residents.

- Poor knowledge on financial institutions and services: respondents addressed limited knowledge and information regarding the rules, details and conditions of loans and financial services.

Baidoa:

- SHGs may find difficulties in accessing financial institutions due to the absence of permanent residency and land documentation; eviction reduces their reliability to use financial services as forced displacement makes them more vulnerable and lose their social networks. They face challenges in having access to guarantor if they want to secure loans. They also lack the basics to receive credits. Microfinance institutions and other financial institution require a guarantor to approve loans for the clients, but this is difficult for the IDPs as they know limited persons from the community. Some of the members reported that the community does not trust them.
- Fears of failure: Members among the interviewed indicated to wish to have loans but lack the courage to take loans. Participants of different groups in Baidoa shared this problem. These fears discourage their ability to receive credits and explore new opportunities for their lives. Certain members noted to have fears of dying while indebted, which is not a good sign for Muslims.
- While others were afraid of losing the piece of land as they witnessed people who have experienced losses due to poor business management and saving. Some of the group members had a land certificate, but they didn't want to risk their land. One of the participants said "I have seen Salam Bank giving loans with the conditions of land documents, but I fear for my land. They could take it if I fail to pay back the money."
- One of the main issues in which the researchers observed during the data collection in Baidoa was IDP's limited information about financial institutions. They seemed unaware of financial services in the main city. They rely on rumours and words of mouth from other community members. They seemed to have been excluded from this sector.
- Some of the women stressed to face difficulties from their husband in securing loans and establishing new businesses. It proves that more awareness is needed for men and women or families to help themselves. "Women are particularly isolated from the elders; they don't have many friends and connections. Also, I fear to die while indebted, which is not good for me. I was about to deliver a baby, and I am not dying with others' property."

Mogadishu: Most of the women appreciated the role banks can play in assisting the poor in terms of giving loans, but they described challenges that obscure the provision of these services to the poor. Among these challenges are:

- Trust between the poor clients and banks is lacking
- Need for a guarantor when many cannot access one that meets the criteria. Most of the guarantors are the relatives or close individuals of the persons willing to take loans.
- Having a tangible asset like a house or any non-liquid asset so if the person defaults the bank takes the asset as a compensation for the loan.
- Stagnant small businesses. One of the Concern staff members said in an interview that SHGs initiate business projects and sell similar items in the same locations which weakens their chances of making profits.
- The underprivileged class has difficulties in attaining municipal and national documentation including the passport and IDs. It limits their probability to access financial institutions or take loans.

Somaliland: Lack of availability of financial service providers in rural areas is the biggest challenge to the rural communities. Rural communities do not have information about where and how they can find and access financial service providers. They do not know who can provide the financial services and what services they provide. In urban communities the main challenges they reported were lack of information of the process, they do know the financial service providers available in their area, but they do not have an idea on how they can initiate the process. Also, they noted the banks require from the beneficiaries to qualify and meet their strict requirements and conditions such as financial guarantee, land or house documents, and the lenders need a huge amount of money to be paid by each month which is difficult for the borrowers. Moreover, lack of identity cards have also been a challenge for borrowers.

9. What would make members of your group most motivated to seek loans outside of the group? What conditions or circumstances cause members to do this?

Afgoye: The following are the main factors that motivate people to seek loans:
- Changing the existing poverty conditions, people aim to reduce poor income status, and invest in certain projects with the loans.
- If the person has the necessary property to put in the bank as a guarantee, poverty makes people, not to lose interaction with the FIs.

Baidoa: The following are the key issues that motivate persons to look for credit from external sources:
- Preservation of dignity: people prefer to work for themselves instead of relying on others. They therefore wish to apply and look for loans.
- Increasing income sources: individuals try to change the present conditions by increasing their income, and It pushes them to seek for credit.
- Extreme living conditions make people look for money/credit to save their family and sustain livelihoods.

Annex E. Call Centre Findings

The DFID Call Centre survey interviewed 249 SHG members in Somalia and Somaliland with a short survey to gather data on how SHGs are accessing external financial services. Of this 249, 36% of respondents were associated with DRC, 24% of respondents with SOYDAVO, 20% of respondents with Concern, 14% with Save the Children and 6% with IRC.

SHG members interviewed usually have 9 members in their household. On average respondents have been an SHG member for 2 years. The average group size is 19 members and primarily includes women members whose average age is 49 years. The average total savings per SHG is $2,168 USD. The median amount of savings is $1,000.

40% of respondents had taken a loan through their SHG. The average loan was $273 USD, the median loan was $120 USD.

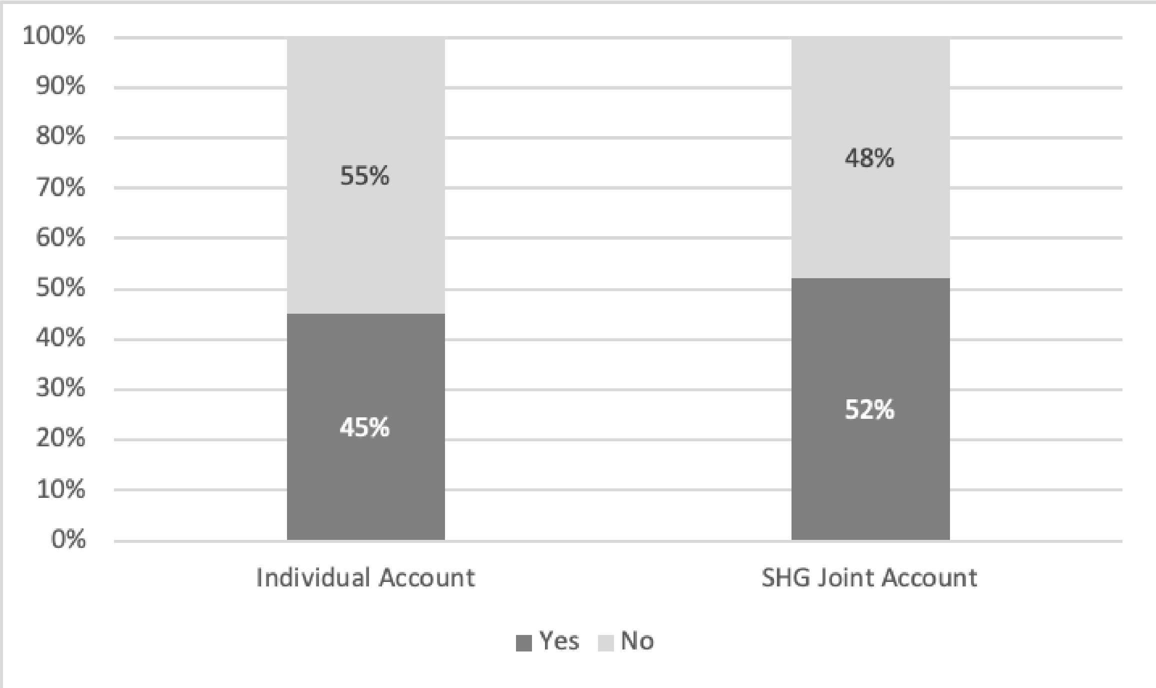
Table 3. Use of Loan Taken Through SHG

Loan Use	Respondents (#)	Percentage (%)	Average Loan Size (USD)
School Fees	13	10%	237.69
Medicine	15	11%	118.87
House Repair	14	11%	296.07
Clothing for Children	7	5%	152.14
Food	6	5%	87.50
Moneylender	9	7%	216.67
Individual Business	60	46%	253.62
Collective Business	5	4%	1130.00
Other	2	2%	262.50

The majority of respondents who invested in a business own a shop (58%). 32% of respondents have livestock. 8% have an agriculture business and 1% had other.

221 respondents answered a question regarding working with the community. 105 respondents worked with their SHG to do something for the benefit of the community, whereas 116 had not.

Figure 2. Percentage of Total Respondents with Individual and SHG Joint Bank Accounts (%)



Out of 221 respondents, 110 respondents accessed a loan from outside their SHG compared to 111 who have not.

Figure 3. Percentage of Respondents with a Bank Account (Individual/SHG Joint-Bank Accounts) in Urban vs. Rural Areas (%)

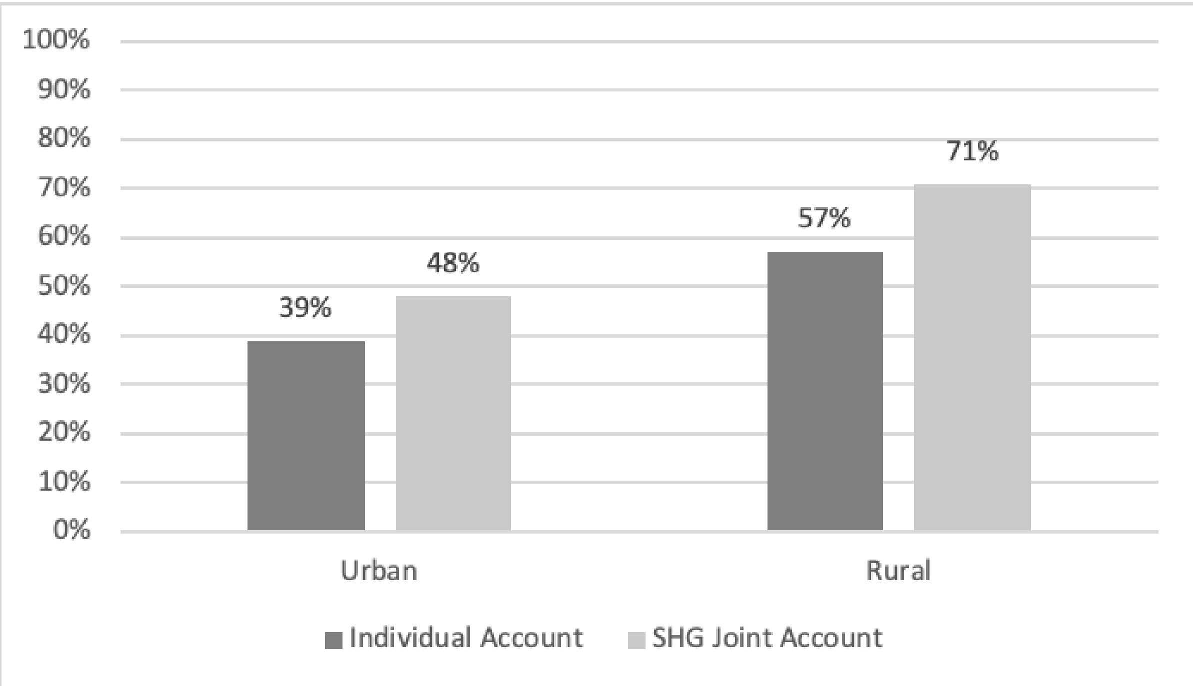


Table 4. Financial Service Provider Approached for Individual Loan

Financial Service Provider	Respondents	Percentage
Informal (moneylender)	76	69%
MFI	27	25%
Bank	8	7%
Other	1	1%

Figure 4. First Place Individuals and SHGs Would Go to Access a Loan

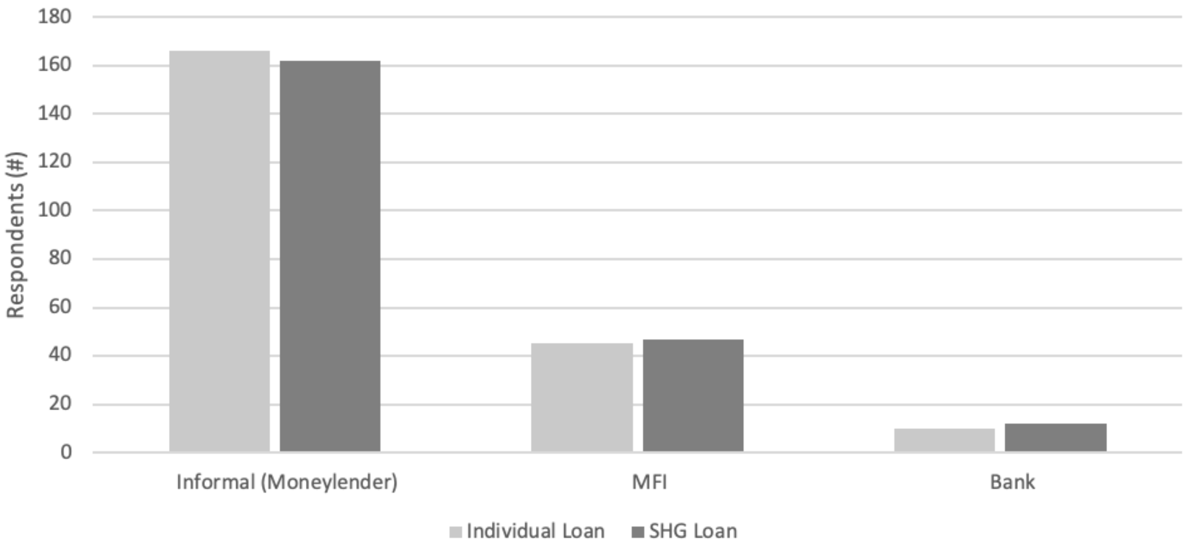


Table 5. Frequency of Mobile Money Use (or other Digital- Non-Cash Money)

Frequency	Respondents	Percentage
Never	5	2%
Daily	205	93%
Weekly	9	4%
Monthly	2	1%

Out of 221 respondents, 160 respondents (72%) feel safer keeping their money in a bank, compared to 61 respondents (28%) who prefer to keep it with themselves or their family.

Table 6. If you could take a loan from outside your SHG, do you discuss it with your SHG members first?

Frequency	Respondents	Percentage
Always	49	22%
Sometimes	105	48%
Maybe	30	14%
Probably Not	24	11%
Never	13	6%

Table 7. If you could take a loan, digitally, straight to your mobile phone, would you be more or less likely to discuss the loan with your other SHG members?

Frequency	Respondents	Percentage
Much more likely	26	12%
More likely	78	35%
Same	63	29%
Less likely	43	19%
Much less likely	11	5%

Annex F. Negative and Positive Sentiments on Loans by SHG Members

Region	Positive/ Negative	Respondent Sentiments
Afgoye	N	*"I saw someone invested in his farm with loan, then the farm burned and lost the money in that way, so the lender claimed to took the farm if he did not pay back, so the neighbors collected money to give it back to the lender."*
	N	"*I met a lady, she took a loan in order to prepare the marriage of her son, and finally she didn't afford to pay the money, she sold her land and she is still in debt."*
	P	*"I started my business with loan, and also my house was built with a loan and I returned the loan, my business is working until now and I generate more profits."*
	P	*"The group lent me 200,000 then I cultivate a farm, now I have my own cultivated farm and I retuned back the loan."*
	P	*"I am a mother which works in the goat market, my family was living in a rent house, every month I was worrying about the rent of the house, sometimes I can't pay the school fees because of the rent, so I thought to have a land and I can't afford to pay the money of the land at once, a land owner in my village sold me his land by loan, there is an agreement to pay the debt in one year, $150 per month, now I am the owner of that land and finished the debt, so sometimes when you get a loan, you can repay it back and built a beautiful house like me."*
	N	*"I took fruits and vegetables from a grocery and I can't afford to pay after a time the owner of the shop arrested me and then my family gathered to collect the money and gave it to him."*
	N	*"I know a neighbor lady started loan with her shop, she was the only person who pays the bill of the house, the shop turned in to supermarket, and she returned the loan and her children graduated school because of that loan."*
	N	*"I know a woman who took clothes from another woman to sell and generate income, after a time, she lost the clothes, the woman who lent the money came to her house claiming that she will work for her house as a house maid if she does not pay the money as soon as possible, the lady has no property and did not have support from her family to repay the loan, after a week the lender came back to the woman with ALSHABAB militias and she was arrested."*
	P	"*My sister got a loan from a businessman in AFGOYE, she started to design small shop for sweets, then the shop turned into supermarket and she paid back the loan, then she bought generator and cultivated her own farm, now she has business, a farm that grows vegetables and fruits and she has her own car."*
	N	*"A lady who had generator cultivated a farm with loan; she cultivated lettuce, when the lettuce reached for harvesting, the farm lost due to the floods, my sister was completely lost, so the lender arrested her."*

	N	*"My neighbour invested her farm with loan, and cultivated a lemon, when she harvested the lemon the price goes down so she lost the value of the product*. "
Baidoa	P	"*I borrow a loan of 10,000USD from Salam Bank then I bought a dump truck, and after that, I returned the credit I took. It has enabled me to achieve and attain the living for my family, pay schools fees for my children, their uniforms, and providing food for them. Currently, I do sell Khat to earn income."*
	P	*"We practice AYUTO system within our group members we normally collect some amount of money for seven days then we give one person, and it rotates like that."*
	N	*"I have taken a loan of 20 liters of milk, but unfortunately, they spilt. Until now, the lender is waiting for me to return it but I can't pay it."*
	P	"*I know a woman who received a loan, and she was suffering, but she runs her business and makes a profit. She works in the primary market."*
	P	*"I got a loan from local business persons. They gave me four million Somali Shilling. I used the money to invest in Kat business, and I was able to pay back the loan and make profits."*
	P	*"Yes, I borrowed a loan from Dahabshil Bank. It has assisted me very well and motivated me to upgrade my business shortly."*
Borama	*N*	*"There are cases where some women have had negative experience with loans and cannot return the loan to the owner."*
	N	*"One of the challenges is how to access information about loans and the process of applying for loans."*
	P	*"When one member takes a loan and become successful, Community members are motivated to access loans to replicate the success story."*
	P	*"I took a loan from HAGBAD group than I utilized it for livestock fattening and selling for profit."*
Gabiley	*P*	*"I know a woman who took loan after as their shop suffered losses and used that money to recover and back their business."*
	P	*"I was once a member of HAGBAD group and started cabbage supply business and managed to purchase a piece of land in Borama."*
	P	*"In our group, we have a loan system in our group which is very small like 900,000 shl like hundred dollar for farming purposes only."*
Hargeisa	*P*	*"Genuinely speaking, I have been practicing Hagbad for long time and now, as I am speaking to you I am in this kind of money-saving helped open a restaurant in Digaale IDP which is now operational. I trust the Hagbad and I believe where I am now is because of it."*
	P	*"I myself succeeded in opening a restaurant because I took a loan from a relative of mine and now the restaurant is still functional because I sell local food to customers and the profit from it, I pay the bills of my children. There is a friend of mine who took a credit from Darasalam Bank and gradually her business succeeded which now she owns a big electronic store which is a model example that I want to be like her. In life, we need to go up and not to be satisfied in the current situation."*

	P	*"I know a woman who took a loan and started a business from scratch then continued to work hard, and get bigger loans which now her business operates in a regional wise like between Ethiopia and Somalia by selling whole clothes. This teaches me that she is not smarter or better but this shows that every success depends on taking a risk."*
	N	*"The banks provide loans and I recall the story of my cousin who had business ambition because her husband who supposed to be a breadwinner became irresponsible. So, she took a loan from one of the banks {…} and opened a business in the IDP that is situated in the State House. The market was unstable {…..} her business did last long and the bank arrested the husband later the money were paid by clan contribution and the husband were released."*
Mogadishu	*P*	*"There was a lady, she was divorced by her husband, she was given 50,000 sh/so by somebody, she worked hard and she bought her own house, she also manages a small shop, and cleared her debts".*
	N	*"Our neighbour, her son's wife took a loan from someone, she didn't afford to pay back, she has 9 children, and the son was killed by debt owners."*
	P	*I do a petty trade business, first I begun with $60 loan, I was paying 300,000 sh/so per week, the next time, I borrowed $300 and $1000 respectively, now I have my own business and cleared my debts.*
	P	***"***she saw a lady, she took a loan from someone, she opened small shop, and when she got the profits, she paid back the loan, now she manages a big supermarket".*
	N	***"***There was lady that sells Utensils, she lost the business, and she couldn't afford to pay back the loan, they attacked her home and killed her husband"*
	N	*"Our neighbours took loans from different parts, they couldn't repay it, the debtors arrested two of their children, and they sold their own house to repay the loan."*
	P	*"I know a woman who bought a portion of land with a loan, she built a house on the land, rented, paid back the loan. Now she lives in the house"*
	P	*"I know a woman in my neighbourhood who had the access to buy bajaj with a loan, she paid back the loan bought a new bajaj with the money generated by the first one. She earns her living from these tricycle bajaj."*
	N	*"I know a woman who was indebted with an amount of $120 and did not able to pay back. Unfortunately, her 9 year old child was taken away. The neighbours collected money and paid back the loan. The child was returned."*
	P	*"I know a friend of mine in the village took a loan and opened a small kiosk. Now she owns a large store for selling cloths."*
	P	*"I know a woman who opened a small with a loan given by one of her relatives, now, the women repays the loan in instalments, the shop got bigger and earns bigly. That is the good story that I know about someone benefitted from a loan"*
	P	*"I know a young woman whose father has died, she had to take the responsibility of her siblings, to do so, and she had to come up*

		with source of income. She asked for a loan, she was provided the loan by a businessman in the village. She opened a shop. The local residents started to buy the products from the shop to support her and her siblings. Today the loan was repaid and the shop has become a big one with numerous clients."
	N	*"I did not see with my own eyes but I was told that a woman was taken to the jail because she could not pay back the loan, she was in the prison for 5 days then her family paid the debt and she was later released."*
	N	*"I know a woman who owns a shop in nearby village; she used to take loans from a store in Bakaro. She was owed an amount of $300. She could not pay back. the lender went to the police station, she was arrested and later released the loan was paid by the villagers."*
	P	*"I know a woman who came to Mogadishu from the rural areas. She was very poor at first. A man gave her $100 as a loan, she then she started to open a small kiosk. Today she owns two stores and one big shop."*
	P	*"I know a woman who was divorced with 5 kids. The man rejected to provide the kids with foods or any other basic needs. Two of her friends gave her a loan. The woman started vegetable business, she paid the back the money and started to provide for her kids."*
	N	*"I know a woman who took responsibility of another woman for the loan she took. When the woman could not pay the money and she was arrested."*
	N	*"There is a young woman in our village, she used to take cloths out of the store to sell in the village and pay the money back to the store owners. At last she could not pay the loan, her business has closed and she had to sell her assets to repay the loan."*
	P	*"I got from someone 150$ loan and I bought a Solar and its battery then I started charging telephones to generate income, after a time I returned the loan, now the solar is mine and I work with it."*
	N	*"I know my sister in law who took loan of $4,000. After she lost to her business due to burning of BAKARA market, she is smuggled to Yemen, to escape the people who owed her the loan."*