FINAL REPORT

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MID-TERM EVALUATION OF THE FINANCE FOR INCLUSIVE GROWTH (FIG) PROGRAMME IN SOMALIA

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AECF Somalia

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LIST OF ACRONYMS

AECF	Africa Enterprise Challenge Fund
BDS	Business Development Services
CBS	Central Bank of Somalia
EU	European Union
FGDs	Focus Group Discussion
FIG	Finance for Inclusive Growth
FIL	Financial Institutions Law
IBS	International Bank of Somalia
ILED	Inclusive Local and Economic Development
KIIs	Key Informant Interview
MFI	Microfinance Institution
MSMEs	Micro, Small & Medium Enterprises
NBFI	Non-bank Financial Institutions
PGF	Partial Guarantee Facility
SMEs	Small & Medium Enterprises
SOMMA	Somali Microfinance Association

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EXECUTIVE SUMMARY

The Finance for Inclusive Growth in Somalia (FIG – Somalia) programme, implemented by AECF through MFI partners is a pilot programme component under the European Union-funded Inclusive Local and Economic Development (ILED). The programme seeks to revitalize and expand the local economy, with a focus on livelihood enhancement, job creation and achievement of broad-based inclusive growth for Somali women, youth, and producers; and build the capacity of the partner financial institutions. FIG - Somalia works through Microdahab and the International Bank of Somalia (IBS Bank) to fill a financing gap in Somalia. AECF commissioned a midterm review to evaluate the programme's implementation and propose corrective actions for the remaining period of the project implementation.

Summary of Key Findings

Programme Relevance

The midterm review assessed the extent to which the design and objectives of the programme were relevant and aligned with the local context. On the programme's alignment with beneficiary needs, the programme's primary focus is on women, youth and producer groups. As a result of the civil war, many Somali women became the sole breadwinners and providers of their households, and the drivers of enterprise creation in Somalia.[1] In addition, despite the Somali women comprising about 60% of business owners and making up 70% of the informal sector[2] and the youth consisting of the largest portion of the Somali population, these groups have low access to credit. Therefore, the programme's deliberate focus of allocating 40%, 30% and 30% of total loans to women, youth and producer groups respectively is highly relevant to the context of Somalia.

In addition, the programme was designed to catalyze sustainable increase in lending while cushioning the MFIs from default by borrowers through the provision of a Partial Guarantee Fund (PGF). Complementing the PGF is the programme's strategy to ensure low visibility of the main implementing partner (AECF) and the donor (EU) which is one of the main reasons why there was no default in repayment of the loans. Moreover, the selection of Microdahab and IBS bank through a competitive bidding process was informed by their competitive strength anchored in their comparative advantage of large country-wide network and long service in offering lending to a wide range of clientele.

Similarly, the programme is seen as contributing to national priorities. For example, key among the strategies outlined in the National Development Plan (NDP) 2020 - 2024 is to promote micro, small and medium enterprises (MSMEs) to increase productive employment and income opportunities in Somalia.[3] The programme is also designed as an integral part of the European Union's ECDEV Pillar of the Multi-annual Indicative Programme (2021-2027) for the Federal Republic of Somalia to which the programme implementation contributes.

Programme effectiveness

Overall, the evaluation finds that the programme has met its stated results and achieved milestones toward key performance indicators e.g., increased access to finance, employment opportunities and household income.

Loan disbursement: Analysis of the loan database shows the total amount of loans disbursed as of April 2023 as $7,854,235, advanced to a total of 6,150 clients, with Microdahab MFI advancing a total amount of $4,213,999 to 3,880 clients, and IBS bank loaning a total amount of $3,640,236 to 2,270 clients. By gender, female clients received a total of $3,704,417, representing 47.2%, while male clients received a total of $4,149,818 which is 52.8% of total loan disbursements. This means the total amount leveraged by the two Financial Institutions is approaching the set targets of EUR 8 million and is likely to surpass that figure by March 2024. Distribution of the loan by region suggests that Banadir region received the highest loan disbursement of $2,877,040, serving 1,914 clients, followed by Somaliland where $2,062,526 was disbursed to 2,111 clients. South West region, mainly Afgoye district received the least amount of $279,680 serving a total of 141 clients; a total of 845 clients from Hirshabelle, 577 from Puntland, 330 from Jubaland and 232 from Galmudug regions also accessed the loans. By age group, analysis shows that overall, 44% of the loans went to borrowers below the age of 35 (considered as youth), while 56% was loaned to business owners aged above 35 years - this shows the youth have received higher loans than the project target of 30%. In terms of sector, 49% of total loans was advanced to producer groups – agriculture receiving 36% ($2,852,664, livestock 10% ($823,118) and fishery 3% ($159,299), while 51% was loaned to business owners from 'trade' sector

Increased access to finance: Overall, 45% of the businesses have received a loan for the first time with more (46%) of the female-owned businesses receiving the loan for the first time as compared to the male-owned (44%) businesses, and a higher proportion (53%) of the youths receiving the loan for the first time as compared to the adult-owned businesses (40%).

[1] UN Women. 2016. Strengthening Women's Business Associations in Somalia. Briefing Paper 2/2016.
[2] UNDP (2012) 'The Role of Somali Women in the Private Sector', UNON Publishing Services, Nairobi
[3] Somalia National Development Plan 2020 to 2024

The survey also revealed that the majority (88%) of the beneficiary respondents had not accessed credit from any other source for their businesses other than Microdahab MFI and IBS Bank. Interviewed borrowers explained that most of them were not able to previously access loans due to the long and tedious loan application processes characterized by stringent requirements which often ended up in rejection of their applications.

Flexible loan security: Beneficiaries of the three loan products reported that they were relieved of strict collateral requirements compared to other clients of the MFIs. The evaluation observed that clients were either required to be recommended by a credible guarantor, or organize themselves into groups for them to access the loans. This assertion is further strengthened by the survey results where 75% of the respondents reported that all they needed for them to access the loans was a family member, friend, or well-known personalities who would act as a security to guarantee the loan. Additionally, the duration of processing loans was also made relatively fast with nearly half (48%) of the businesses indicating that it took them a week for their loan applications to be approved. This was further confirmed by the MFIs themselves who indicated that since the strict security/collateral requirement was waived from these borrowers, the process took shorter time.

Expansion of businesses: Overall, all respondents indicated that the borrowed loans have added value to their businesses, with majority (65%) reporting that the loan was 'very useful' and the remainder (35%) describing it as 'useful'. Upon enquiring the reasons why, 85% indicated expanding their current business and/or buying new assets for their business. Similarly, 13% reported the loan was useful in enabling them start new businesses, demonstrating that the programme targeted and offered opportunities to both startups as well as existing SMEs.

Increased sales & profits: While the volume of sales is determined by the size of businesses, survey results show that, overall, 42% of the businesses were making estimated monthly sales of above $3000, 28% had between $1001 – $3000 of estimated monthly sale and 30% had estimated monthly sales of between $100 – $1000. Regarding the monthly profit of the businesses, nearly all (99%) reported that the profit of their businesses increased after accessing the loan from the financial institutions. Over half (59%) realized an average monthly profit margin of between $10 – $500, a quarter (25%) had a monthly profit margin of between $501 – $1000 and 16% had a monthly profit margin of above $1000.

Comparing the survey results with baseline data of the same clients show a remarkable increase in the average profit for the loan borrowers. For example, 36% of the business owners reported receiving a monthly profit of up to $100 at baseline (when they first applied for the loans) which is in sharp contrast with only 5% reporting receiving a profit margin of $100 and below in the midline review – indicating most have grown their profits to more than $100. Similarly, only 2% of the businesses made a profit of above $1000 at baseline, but at midline 16% of the same group of businesses reported making an average profit of above $1000, suggesting a significant increase. By gender, at baseline, 40% of the female-owned businesses were in the $10 - $100 monthly profit category, with only 6% remaining in that range; male-owned businesses improved from 31% to 4% in that category. Similar results were seen among the women-owned businesses in the >$1000 category which comprised only 1% at baseline but increased to 10% during midline, showing a 9% increase. A similar increase in monthly profits was also noted among all other profit ranges.

Employment opportunities: Overall, 34% of the businesses have employed people in the 12 months preceding the survey. This was higher (49%) in male-owned businesses as compared to female-owned (21%) businesses and higher among the youth-owned (39%) businesses as compared to the adults-owned (31%) businesses. Additionally, 74% of the businesses employed 2 or more people in their business, with only 26% of the businesses employing one person. However, the chi-square test revealed that there was no statistically significant association of business type and the number of staffs employed. Looking at the employee wages and modality of payment, results show that over half (58%) of the respondents were paying their employees on a monthly basis, compared to 42% who paid employee wages daily. For those who received their dues monthly, 51% were receiving between $30 – $150, while 44% of the respondent business owners were paying between $151 – $300, and 6% were paying over $300. However, for beneficiary businesses paying their employees daily, the majority (84%) were paying between $2 – $10 daily and 16% were being paid above $11 daily.

Support to dependents: Nearly half (46%) of the business owners reported that 6 – 10 household members depended on their businesses, 33% reported that their businesses supported household members above 11 and 22% indicated that their businesses supported between 1 – 5 members - the average household members who depended on the business was 9. Business owners further indicated that income received from their businesses does not only support those living within the households, but other dependents in far-flung rural areas such as their close relatives, parents and grandparents.

Financial skills of beneficiaries: Generally, the transfer of knowledge to the end clients was limited as most business owners did not report receiving proper coaching and skills transfer from the MFIs' staff - only 26% of the businesses had admitted having received skills transfer related to business management from the MFIs, compared to 74% of who did not receive any coaching or skills transfer. On their part, officials of both MFIs could not fully justify why they could not coach and boost the financial literacy of the supported clients. They indicated that this was due to poor monitoring from the senior bank staff who did not set up systems to routinely monitor the work of the loan officers responsible for this role. The evaluation also notes that the reluctance by the MFIs would have been forestalled by continuous monitoring from AECF on this specific activity. However, while the majority (74%) confirmed having not received any form of training or coaching from the MFIs, they have learned crucial business skills by the mere fact that they are now engaged in business and have the mandatory responsibility of repaying debts to the MFIs.

Improved performance of MFIs: The programme delivered a capacity development training package for the MFIs' staff to enable them reach out to programme target clients and offer them relevant services. Officials of the two MFIs concurred that the programme offered useful institutional development support to the MFIs, through the development of policies, and training on loan application improvements, know-your-customer (KYC), reporting, staff job descriptions etc. They added that due to the trainings offered to their staff, knowledge about loan availability was also spread across locations, enabling them reach a larger number of clients. They particularly pointed out that having a cadre of trained personnel who act as in-house trainers for new staff will allow them to provide the necessary training quickly and efficiently to new loan officers, back-office staff and managers to meet the expansion and outreach goals outlined in the programme goals. Additional benefits the MFIs attributed to the institutional development component include an increased customer base, and improved knowledge and experience on risk management and customer service. This notwithstanding, the evaluation concludes that while there is evidence of the impact of the capacity-building support to the MFIs, there is a need for continuous support on modern microfinance practices through product development, expansion of coverage to rural areas, aggressive marketing strategies etc.

Regarding outreach to customers, survey results show that over a half (52%) of the businesses reported hearing about the loan offer from friends, while 15% of the businesses heard from agents/road shows by the financial institution. But it is interesting to note that despite the programme's efforts in reaching out to clients through social and mainstream media, only 9% and 5% of respondents heard about the loans through social media and radio respectively. This points to a possible gap in the publicity of the programme through the normal media channels. In addition, IBS bank has expanded its geographical coverage, opening five new branches in Garowe, Bossaso, Kismayo, Beledweyne, and Galkayo; while Microdahab MFI expanded scope and coverage, especially in Southcentral Somalia where its customer base has tremendously grown, thanks to FIG – Somalia programme.

Establishment of SOMMA: One of the unintended positive outcomes of the programme was the establishment of the Somalia Microfinance Association (SOMMA). Officials of SOMMA indicated that the need for creating the agency was long overdue and stakeholders appreciate the programme's support in this respect. They specifically noted that the organization has come into existence at a time when there are ongoing efforts in amending the Somalia Financial Law. They further suggested that, while the organization was barely six months old at the time of the midterm review (having been set up in September 2022) they were confident that it would play a key role in lobbying for the amendment of the Somalia Financial Law that doesn't currently cover microfinance and insurance sectors in detail, despite their crucial role in the local economy. MFI officials noted that the Central Bank of Somalia does not currently allow MFIs to accept direct deposits and operate conventional bank accounts, limiting their liquidity and capacity to lend. Therefore, they believe that SOMMA will fight for their place in the financial sector, especially in regard to these systemic challenges.

Sustainability and Future Programming

Beyond the immediate provision of the finance/credit, the programme has laid the groundwork for establishing an enabling environment for promoting employment opportunities and supporting SME owners' dependents as multiplier effects. In addition, catalyzing sustainable increases in lending to women and youth in Somalia have already shown early signs of impact on these vulnerable groups as they are also becoming more bankable. Insights from women, youth and producers suggest many of the loan beneficiaries' businesses have grown and already realized profits as the programme has increased access to finance required for scaling up business operations.

In addition, AECF's approach of working through existing structures, seeking to establish lasting relations, makes the programme an interesting model with promising indications for sustainability. For example, the programme only holds a facilitator role where the most important role is the establishment of lasting partnerships among service providers (MFIs) and end-users, demonstrating a keen focus on sustainability. Similarly, the investment capacity building of MFI institutions has created an environment of learning for staff who were not exposed to formal trainings before. Further, the programme's efforts of setting up SOMMA will pave the way for increased engagement of MFIs with relevant government agencies, international development partners and other private sector companies that may help develop the sector. Testimonies from MFIs' staffs and SOMMA officials shows that due to the absence of relevant laws and regulatory framework in the country, MFIs are currently struggling to serve their clients, progress and compete with other actors in the financial sector. Therefore, they believe that SOMMA will lobby for the sector in terms of developing policies and regulatory frameworks that are currently weak or absent.

Programmatic challenges

- Survey results show that only 26% of the businesses have received skills transfer related to business management from the MFIs, compared to 74% who reported no skills transfer or coaching.

- Limited investment financing tools - most MFIs, if not all, provide credit in the form of Murabaha which involves the sale of a commodity for cash/ deferred price at a profit.

- Currently, the Central Bank of Somalia (CBS) does not regulate microfinance institutions operating as non-bank financial institutions (NBFI) due to the limitations of the Financial Institutions Law (FIL). MFIs are not allowed to accept deposits, hence struggling with liquidity challenges affecting their capacity to lend and expand to rural/remote locations.

- Value chains in the existing productive sectors, especially in the fishery sector, lack adequate infrastructure for scaling up because existing productive sector value chains are mostly informal with little or no value addition.

- Although both MFI partners have, to varying extents, succeeded in establishing networks and promoting access to the six products, the limited penetration of the MFIs in rural areas, as well as a relatively low level of product awareness in these areas, have all provided a challenging context to the programme.

- Insecurity, especially in rural locations limits access to deserving SMEs, hence excluding the population in need of financial inclusion.

- Climate shocks, such as frequent droughts and floods continues to hinder MFIs' ability to finance productive sectors like small-scale farmers and livestock owners in Somalia. The natural disaster has affected crops, pastures, and livestock, which are the main sources of income for rural households in the country.

Key lessons learned

- Despite the popular belief that default and non-payment of loans to the programme target groups are common in Somalia, the programme has so far not experienced any default to repay the loans. The MFIs efforts in lending to credible clients with reliable guarantors, and the use of group lending and the programme's strategy of ensuring the low visibility of the donor (EU) and AECF in the programme implementation were helpful in this case.

- Partial Guarantee Funds play a key role in motivating financial institutions to extend credit, especially in fragile contexts where regulatory frameworks and relevant national policies are weak or non-existent. MFIs admitted that the availability of the PGF encouraged them to risk lending to clients without tangible collateral.

- MFIs and banks in Somalia prefer Murabaha as the main investment financing tool for businesses which involves the sale of a commodity for cash/deferred price at a profit. Other products may not work well in the current context of Somalia due to the high risks involved.

- Leverage matching funds are a win-win for both target clients and MFIs. With an initial fund of four million euros, the funds have been recycled increasing to nearly $8 million in less than 2 years which is an impressive performance.

- Group lending is a reliable risk management model for low-income SMEs in Somalia. When clients are given loans in a group, they are more responsible for meeting repayment schedules as members of the groups work together and help each other in paying required instalments.

- The establishment of collaboration with some of the most successful and strongest MFIs in Somalia provides an entry point to extended networks of key stakeholders in the specific field of financial inclusion for women, producer groups and youth.

- Working with multiple partners (Microdahab and IBS) is a risk-minimizing approach in pilot programmes such as FIG - Somalia where performance is dependent on multiple counteracting factors.

- The low capacity of the MFIs combined with a context of private sector stakeholders that are unfamiliar with the engagement in partnerships aimed at addressing social issues while making a profitable business underscores the need for a sufficient timeframe for them to also learn, i.e., at least five years.

Recommendations

- Diversify investment financing tools beyond Murabaha-based loans to facilitate access to finance that meets the unique needs of various clients. The evaluation recommends consideration of Mudarabah financing for SMEs with a reliable track record in loan repayments.

- To enhance coverage of the financial inclusion intervention, there is a need to increase the number of MFIs to provide access to financial services for the rural folks and communities living in areas that are not currently served by IBS Bank and Microdahab.

- Technical Assistance complement the financial services provided by MFIs; therefore, the programme should continue providing technical assistance to the partner MFIs to enable them discharge their mandate of increasing access to finance.

- AECF should engage a Third-Party Monitoring (TPM) Agent to continuously monitor the implementation of FIG Programme by the MFIs. This would ensure deliverables by the MFIs are met on time, failure in which the TPM agent will report for immediate corrective actions by AECF.

- Supporting infrastructure in the productive sector value chain as incubators for women and youth entrepreneurs is recommended. The programme should link beneficiaries in the productive sector value chain, specifically in the fishery sector to other relevant agencies or programmes for them to be supported with facilities that would assist them in scaling up value addition for better margins.

- In consultation with the MFIs, it is recommended to increase the loan ceiling to $5,000 for medium-scale enterprises to enable businesses expand their scope and capacity.

- Exchange programmes and tours for MFIs in neighboring countries such as Kenya, Uganda, Tanzania, and Egypt (for Islamic Finance) are recommended for exposure and capacity building for MFI staff.

- Microdahab reported that the capacity-building training for their staff was conducted online. While the choice of the online training was based on their request, future training should be done one-on-one to enhance the effectiveness of the training.

- Based on the strong performance and relevance of the FIG programme at midterm, the evaluation recommends scaling up the programme and ensuring the continuity to enhance financial inclusion in the country.

- Since the database provided by the MFIs lacks some crucial data such as disaggregation of clients' information by rural and urban, there is need for thorough audit of the MFIs' records and loan database and ensure all gaps are plugged for future programming.

- To enhance outcome of business coaching for the loan borrowers, AECF should closely monitor the contracted Business Development Service (BDS) provider. Submission of monthly reports by the BDS would be helpful in ensuring the platform meets the needs of the end clients.

BACKGROUND AND CONTEXT

1.1 Background & Context

Prolonged instability and over three decades of conflict have inhibited the economic growth potential of Somalia, destroying key economic infrastructure; public facilities, transport, and communication networks, rendering the country to be one of the poorest countries in the world. The lack of basic economic infrastructure that supports economic growth and stimulates enterprise development has resulted in limited investments in the productive sectors, effectively constraining the people to rely predominantly on international humanitarian aid.[4] It is estimated that about 69 per cent of the population is poor,[5] with 76% being under 29 years of age, unemployment is widespread among Somalia's young population,[6] and youth unemployment is at 74 per cent and 61 per cent for women and men, respectively.[7] A poverty gap of 29 per cent suggests that the consumption levels of many of the poor are far from the poverty line and they face deprivations in both monetary and non-monetary dimensions.[8]

However, despite the protracted economic challenges, Somalia has a vibrant private sector, characterized by a networked business community and a desire for trade and investment - the agriculture sector, mainly livestock being the backbone of the country's economy. One of the ways to achieve sustained economic growth is through the creation of financial inclusion, especially for the youth and women who are the most disadvantaged in society. Research has shown that increasing access to finance is associated with developing people's lives and the business environment by enabling businesses to build capital over time and the household to smooth consumption (Anarfo et al., 2019)[9]. Furthermore, financial institutions' services and functions are vital drivers of business development, economic growth, and poverty reduction (Bruhn and Love, 2014)[10] and hence need to be strengthened.

Analysis of gender gaps in Somalia concerning financial access suggests that women particularly face discrimination and considerable socioeconomic barriers to accessing livelihood opportunities including credit/loans. This is partly because traditional gender roles still limit women's employment opportunities, often excluding them from work in formal sectors, generating gender gaps in labour market participation. Nevertheless, Somali women are largely responsible for growth in microenterprise activity but are not yet fully supported to grow and expand their businesses. A recent review of the World Bank's Small and Medium-Size Enterprise Facility (SMEF), reiterates that women-led businesses struggle to access funding, even though there is demand for financing among female-headed SMEs. This is partly because financial service providers do not necessarily offer financial products that target women, nor do they implement a cohesive policy that targets women in a way that removes barriers that currently restrict access.[11]

It is against this backdrop that the European Union (EU) in partnership with Africa Enterprise Challenge Fund (AECF) introduced a programme entitled Finance for Inclusive Growth in Somalia (FIG – Somalia) under the Inclusive Local and Economic Development (ILED). Designed to provide financial products and services to clients through two microfinance institutions, the programme seeks to ensure targeted clients are growing and becoming more bankable: catalyzing sustainable increase in lending for women, youth and producers. The programme also seeks to build the capacity of the partner financial institutions to increasingly provide appropriate financial services for a wider scope of customers living in urban and rural areas and build the capacity of targeted end clients to profitably use the financing for business growth.

1.2 About the Programme

Finance for Inclusive Growth in Somalia (FIG – Somalia) is a pilot programme component under the European Union - funded Inclusive Local and Economic Development (ILED). The programme's overall objective is to contribute to stability in Somalia by extending state authority and services, promoting local reconciliation and peacebuilding, creating inclusive economic opportunities, and protecting the most vulnerable. The programme seeks to revitalize and expand the local economy with a focus on livelihood enhancement, job creation and broad-based inclusive growth for Somali women, youth, and producers through offering appropriate and sustainable financial products and services to the youth, women, and producers. The programme also seeks to build the capacity of the partner financial institutions and targeted end clients to profitably use the financing for business growth.

[4] Programme Appraisal for 'Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Programme', World Bank 2019

[5] 2017 World Bank Somali Poverty and Vulnerability Assessment Findings for Wave 2 of the Somali High Frequency Survey

[6] World Bank Group. 2015. Somalia Economic Update: Transition Amid Risks with a Special Focus on Intergovernmental Fiscal Relations.

[7] World Bank Group Gender Data Portal. http://datatopics.worldbank.org/gender/country/somalia.

[8] World Bank. 2018. Somalia High Frequency Survey. December 2017, Wave 2.

[9] Anarfo, E. B., Abor, J. Y., Osei, K. A., & Gyeke-Dako, A. (2019). Financial inclusion and financial sector development in Sub-Saharan Africa: A panel VAR approach. International Journal of Managerial Finance.

[10] Bruhn, M., & Love, I. (2014). The real impact of improved access to finance: evidence from Mexico. Journal of Finance, 69(3)

[11] Programme Appraisal for Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Programme, World Bank 2019

FIG - Somalia works through Microdahab MFI and the International Bank of Somalia (IBS) to fill a financing gap in Somalia by providing them with access to a revolving fund for access to on-lending capital to women and youth in business and producers. Each of the two financial intermediaries received €1m as a revolving fund for on-lending in Jubaland (Kismayo), Southwest State (Afgoye), Galmudug (Dhusamareeb & Adado), Hirshabelle (Beledwayne & Balcad), Puntland (Bossaso, Garowe & Galkaio), Somaliland (Hargeisa, Borama, Gabilay, Wajale, Berbera, Bur'o, Erigavo, Las'anod and Buhodle) and Banadir (Mogadishu).

The three major components of the program are the revolving fund, partial guarantee fund and technical assistance to the bank staff and clients. The budget for the revolving fund was €2,000,000, with an additional €2,000,000 contributed by the two MFIs (€1,000,000 each). The budget set aside for the Partial Guarantee Fund (PGF) was €664,600, while a total of €337,752 was budgeted for the technical assistance for the MFIs.

Revolving Loan Fund	•On-lending capital to finance micro-enterprises owned by youth, women, and producers; •Repayable financing to financial institutions; •Expected to be matched by the financial institutions at the ratio of 1:1.
Partial Guarantee Facility	•Mitigates the risk of non-repayment for loans advance; •Capped at 30% of the end beneficiary loans; •Complements the revolving loan fund component; •Facilitates greater access to formal borrowing for targeted beneficiaries.
Technical Assistance	•Build the capacity of the financial institutions through policies, products etc.; •Build capacity of the end beneficiaries – financial literacy, business planning etc.; •Build capacity of local support structures e.g. Business Development (BDS) services providers and the Somali Bankers Association.

1.3 Purpose of the Evaluation

- The purpose of the midterm review is to evaluate the programme's implementation and propose any corrective actions for the remaining period of the programme. Specifically, the evaluation seeks to assess the following: -
- The investees' use of AECF investment funds and the pre-and post-investment performance of the MFIs;
- Whether the targeted groups are receiving access to finance as expected, and if not, why;
- Whether the programme is on track to meeting its stated results including the outputs, outcomes, and program objectives;
- The development impact generated by borrowers from the use of funds made available by the programme;
- Initial lessons learned on, substantial microfinance practices in alignment with Islamic finance principles, risk management of lending in Somalia and support provided or required to mitigate risk; and
- Necessary changes that may be required to meet the programme goals.

METHODOLOGY

2.1 Approach

The midterm review adopted a rigorous and evidence-based evaluation design that assessed the status of programme activities, potential challenges and successes of the programme. A mixed methods approach of both quantitative and qualitative techniques was used; utilizing the programme log-frame as the basis for assessing the achievements of the programme.

2.2 Data Collection Methods

Based on the proposed approach in section 2.1, the evaluation collected both quantitative and qualitative data from the sampled respondents of the study.

2.2.1 Data collection tools

2.2.1.1 Desk review

A comprehensive desk review of all available literature was conducted. The evaluation draws on relevant internal programme documents, including programme log-frame, programme annual report, financial reports, market assessment report etc. The documents have primarily been used to get an understanding of the intervention and to evaluate the outcome indicators. In addition, the midterm review draws on desk research of external documents to answer research questions related to the contextual circumstances and relevance of the intervention.

2.2.1.2 Key Informant Interviews (KIIs)

Key-informant interviews with programme staff, microfinance institutions' staff, Somali Microfinance Association (SOMMA) officials and other stakeholders were conducted. During the evaluation, the team conducted semi- structured key informant interviews with 2 AECF staff, 36 beneficiary clients and 2 staff of the MFIs, 2 government representatives and one interviewee from SOMMA. The interviews with the programme implementing teams were mainly used to answer questions related to the context, activities, output and effectiveness of the intervention, focusing on relevance, effectiveness, impact and sustainability. In addition, interviews with business owners assessed the programme's success in creating the desirable impact and achieving its strategic objectives through its activities.

2.2.1.3 Focus Group Discussions (FGDs)

The midterm review also used participatory methodology through focus group discussions with the end clients (loan beneficiaries) - in total, 10 focus group discussions were conducted with end clients. Focus group discussions were particularly useful to elicit information regarding perceptions about programme results, challenges, social customs, and other aspects related to the programme implementation.

2.2.1.4 Quantitative survey

Researchcare collected quantitative data to obtain quantifiable information on beneficiaries' views and perceptions about the programme. To ensure representativeness, a multistage sampling process was adopted involving several sampling methods - a disproportionate and systematic sampling method was used to ensure equity in beneficiary distribution and representation in the final sample. A total of 358 end clients were interviewed during the survey.

2.3 Data Management & Analysis

The evaluation team ensured that the methods and assessment framework employed for the study facilitated the collection and analysis of data that was relevant to the questions outlined under each specific evaluation question, and made optimal use of the available data and literature. In terms of data analysis, content analysis was done on all interview transcripts to provide an informative narrative for the evaluation. To overcome the weaknesses and biases, associated with using individual methods and sources of data, the key informant interviews and FGDs complemented the desk review analysis.

2.4 Ethical Consideration & Duty of Care

Ethical considerations were integral to the whole process of data collection (survey, FGDs and KIIs) and management. Researchcare team sought the consent of all the participants; no person was compelled to participate in the survey, FGDs and KIIs, nor would they be made to remain if they wanted to leave/stop participating in the interviews. The evaluators also provided a clear statement of the purpose of the study and ensured participants that the information collected would only be used for the intended purpose and that it will not be disseminated outside the programme. Moreover, all our staff signed confidentiality and duty of care forms and committed to the principle of ethics in research and ensured data collected was accurate and objective.

FINDINGS

3.1 Respondents' Profile

3.1.1 Background Information

A total of 358 end clients were interviewed, 55% of which are female business owners as compared to male business owners (45%). Over half (56%) of the business owners were heads of their households, out of whom 23% were women; and 82% were married, which indicates that the vast majority of the programme beneficiaries are individuals supporting other dependents. In terms of age group, 40% of the clients were youth (<35 years), while 60% were above 35 years. Over a third (38%) of the entrepreneurs had attained secondary and higher education with only 7% reporting not having been to school. Moreover, 56% of the respondents had a monthly income of between $500 and below, 28% had a monthly income of between $501 – $1000 and 16% had a monthly income of above $1000 – this shows that the loan beneficiaries are low-income earners who were indeed in need of the loans to improve their lives.

Table 1: Demographic Information of the beneficiaries

Background Information	Percentage (%)
Gender of respondents	
Male	45%
Female	55%
Head of the household	
Yes	56%
No	44%
Age of Respondent	
<= 35 Years	40.2%
Above 35 years	59.8%
Monthly Household Income	
0 - 500	56%
501 - 1000	28%
Above 1000	16%

3.1.2 Economic Activity

In the context of Somalia, SMEs are generally defined as businesses operating capital worth up to $15000.[12] Survey results show that all the respondents are persons involved in small and medium enterprises (SMEs) as revealed by the main economic activity they are involved in. Overall, trading was the major sector majority (44%) of the business owners participated in. This was followed by agribusiness at 40% and livestock at 13%. Fishery (3%) was the least sector business owners invested in.

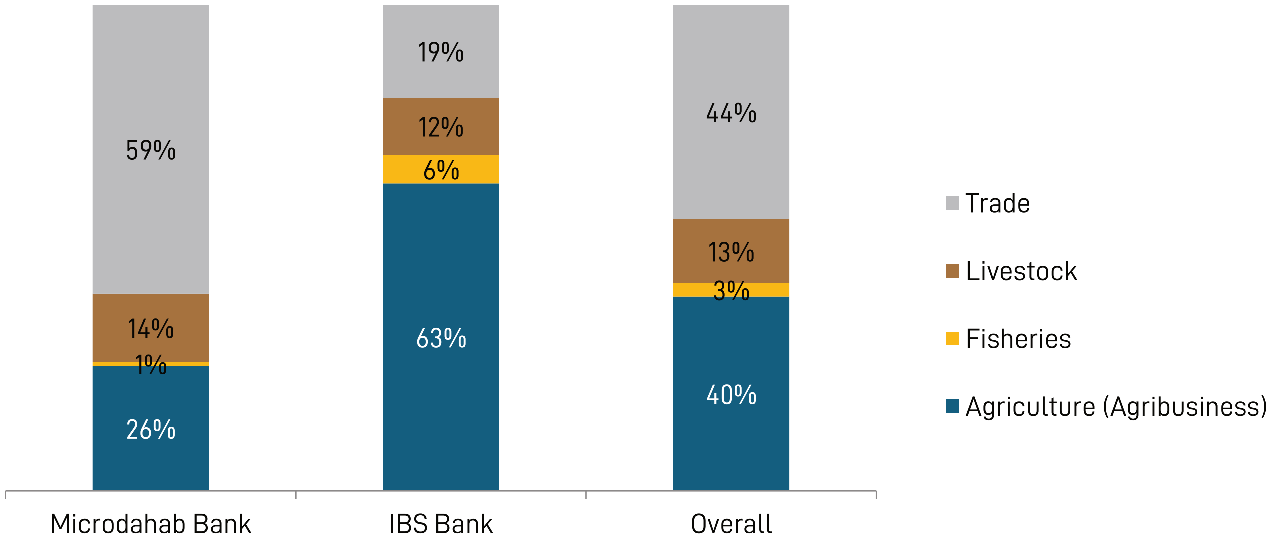


Figure 1: Type of business engaged in by the beneficiaries.

[12] Indicative Programme for ILED Microfinance Facility Report – Adam Smith International

3.2 Programme Relevance

The midterm review assessed the extent to which the objectives of the programme were relevant and aligned with the local contexts, including the needs of the business owners and priorities of the Federal Government of Somalia; and whether the intervention was aligned with EU policies and thematic priorities.

3.2.1 Programme design

Overall, the study found that the programme was designed to catalyze a sustainable increase in lending for women, youth and producers while cushioning the MFIs from default by borrowers through the provision of a Partial Guarantee Fund (PGF). The Partial Guarantee Fund (PGF) is a key component of the programme that was designed to support partner institutions to expand their lending activities to Small and Medium Enterprises (SMEs) in those markets that are not well served by the financial sector. These include SMEs that either do not have access to finance and/or lack adequate financing, to support their operations sustainably. Opinions of the MFI partners confirmed that the PGF offered them courage to ignore some of the long and tedious loan application processes they would have otherwise subjected to the women, youth and small producer groups who often do not meet their normal collateral requirements. Therefore, the Facility opened frontiers for SMEs that suffered exclusion due to the risk of non-repayment of loans, hence its relevance.

> Since our products are largely Murabaha based and have lower risks as compared to other models, with the Partial Guarantee Fund in the background, we were not very much worried about higher risks on the loans' **remarked an MFI official.**

Complementing the PGF is the programme's strategy to ensure low visibility of the main implementing partner (AECF) and the donor, which stakeholders argued was one of the main reasons for non-default in repayment of the loans. The programme's forward-thinking in this aspect was seen as very relevant to the context of Somalia.

> 'If the businesses would have known that part of the money loaned to them is from the EU, or any other donor for that matter, who knows, some clients may have disappeared with the borrowed funds' **said an MFI official.**

Moreover, the partnership with two well-established local MFIs and the programme's effort in providing technical support to these institutions is seen as a strategic approach to ensuring the success of the programme. The selection of Microdahab and IBS Bank through a competitive bidding process was informed by their comparative advantage of large country-wide network and long service in offering lending to a wide range of clientele. AECF's strategy of the open bidding process for the potential implementing MFIs at the start of the rollout of the programme ensured that they selected the best partners operating in the sector. Stakeholders also observed that, with the absence of a proper regulatory framework in the country, trusting local organizations with a relatively huge amount of funds (2 million Euros) is a relevant step towards creating an environment of trust between international partners and local agencies.

> 'The partnership we have with AECF is an indicator that international organizations have trust in local companies. We know that the World Bank works with Gargaara Company[13] but the money is deposited at the Central Bank of Somalia which shows the low-level of trust they have in the local company (Gargaara)', **said an MFI official.**

[13] Gargaara is a Somali financial institution funded by the World Bank that is facilitating access to finance for Micro, Small and Medium enterprises (MSMEs)

3.2.2 Alignment with beneficiary needs

Somalia's financial sector faces an increasing challenge in doing business in a very complex business environment with high default risk, excluding most of the vulnerable groups, e.g., women and the youth.[14] Likewise, the World Bank Enterprise Survey (WBES, 2019) shows that access to finance (30.8%) is one of the most notable obstacles affecting businesses. Furthermore, as a result of the conflict, many women became the sole breadwinners and providers of the households, and the drivers of enterprise creation in Somalia.[15] In addition, despite Somali women comprising about 60% of business owners and making up 70% of the informal sector[16], they face high structural barriers and discrimination that prevents them from growing their businesses. The Gender Inequality Index for Somalia is 0.776, making it the fourth most unequal place for women versus their male counterparts on the globe.[17] Also, youth which consist of the largest portion of the Somali population lack opportunities, be it formal employment or self-employment. Therefore, the programme's deliberate focus of allocating 40% and 30% of total loan disbursement to women and youth respectively is highly relevant to the context of Somalia.

Similarly, the financial products offered, and the technical support to the two MFIs were seen as relevant to the needs of the end clients and the MFI staff. Interviewed clients described the introduction of three (for each MFI) tailored products to women, youth and producers as having been based on the prevailing needs in the Somali economy. Below is a summary of these products: -

IBS Bank

Product name	Description
KALKAAL (Agri-food Transformation Fund)	This scheme supports the transformation of the productive sectors into one that is productive, climate - resilient, and resource - efficient. The scheme leverages the financial sector to support the local farmers, fishers, and pastoralists to build and expand their production capacities and capabilities and support their value chain.
HAWEEN KAAB (Somali Women Financing Fund)	This product aims to strengthen women's participation in the financial sector that had little access to formal lending. It seeks to strengthen IBS Bank's market positioning by lending to women owners of micro- enterprises and providing requisite coaching and training.
ILEYS (Youth self-Employment Fund)	This product aims to support poverty alleviation, create job opportunities, and provide access to finance for small businesses among economically active youth.

Microdahab

Product name	Description
XOOGMAAL (Producers)	This scheme supports the transformation of the productive sectors into one that is productive, climate-resilient, and resource-efficient. The scheme leverages the financial sector to support the local farmers, fishers, and pastoralists to build and expand their production capacities and capabilities and support their value chain.
HIIL-DUMAR (Women)	This product is focused on strengthening women's participation in the financial sector that had little access to formal lending. It sought to strengthen its position by lending to women owners of micro-enterprises and providing requisite coaching and training.
DHALINKAAB (Youth)	This product aims to support poverty alleviation, create job opportunities, and provide access to finance for small businesses among economically active youth.

The business owners further confirmed that women and the youth are generally disadvantaged and have fewer opportunities in accessing loans. Equally, the training content and material for the two financial institutions were also termed by interviewed officials as very relevant and timely as their staff have never received such training before – the content and approach were well received and was an excellent means of transmitting knowledge, allowing for the participants to acquire new skills. Testimonies from the interviewed officials suggest that the training offered through the programme has exposed their loan officers to formal systems of customer relations, due diligence mechanisms, restructuring loan approval matrices, capturing necessary information of clients and businesses, and proper reporting. All these point to the strong relevance of the programme components to the needs of the end clients the MFIs.

[14] AECF Market Assessment in Somalia, 2022

[15] UN Women. 2016. Strengthening Women's Business Associations in Somalia. Briefing Paper 2/2016.

[16] UNDP (2012) 'The Role of Somali Women in the Private Sector', UNON Publishing Services, Nairobi

[17] Ali Hussein Yusuf. 2019. A Call for Inclusive Entrepreneurship in Somalia: Opportunities and Barriers for Female Entrepreneurs in Accessing Micro-Finance. Somali Institute for Development Research and Analysis (SIDRA)

3.2.3 Alignment with Country & EU Priorities

According to Wydick & Kevan (2001)[18], the provision of credit to micro enterprises encourages economic growth in the informal sector through promoting increased capitalization of the businesses, employment creation, and long-term income growth. Therefore, the accessibility and establishment of a good financial service is considered as one of the engines of economic development, and instruments to break the vicious cycle of poverty (Yehuala, 2008)[19]. Consequently, financial inclusion is positioned prominently as an enabler of other development goals in the 2030 Sustainable Development Goals (SDG), where it is featured as a target in eight of the seventeen goals;[20] some of which are especially relevant to the FIG – Somalia Programme, e.g., SDG 5 on achieving gender equality and economic empowerment of women.

Moreover, key among the strategies outlined in the National Development Plan (NDP) 2020-2024 is to create conditions that incentivize and enable informal enterprises to engage with, and become part of Somalia's formal economy, and ensure the financial inclusion of vulnerable groups – particularly for women, youth, and displaced persons. The NDP further acknowledges that the promotion of micro, small and medium enterprises (MSMEs) is a major avenue for increasing productive employment and income opportunities in Somalia.[21] Consequently, the programme's efforts of building the capacity of the two MFIs and enhancing their visibility are strategically relevant for Somalia's national policy and strategy frameworks.

The midterm review also observes that the programme is designed as an integral part of the overall European Union Multi-Annual Indicative Programme (2021-2027) for the Federal Republic of Somalia to which the programme implementation contributes. Priority areas of the EU's cooperation with Somalia, specifically under Priority Area 2 (Inclusive and green economic growth) state that *'...the EU will continue to encourage public-private dialogue, promote access to finance, particularly for women and youth, and support direct investments in private enterprises to increase green growth and job creation...'*[22]

3.3 Programme effectiveness

This midterm review looks at progress towards programme outcomes and results, particularly on the status of loan disbursements, access to finance, the impact of the loans etc. The evaluation finds that the programme has generally met its stated results and achieved remarkable milestones towards key performance indicators; increased access to finance, creating employment opportunities and increasing income for client households.

[18] Wydick, B. & Kevan. (2001). Micro Enterprise Lending to Female Entrepreneurs: Sacrificing Economic Growth for Poverty Alleviation? [J]. World Development and Cultural Change, 47(4): 853–869.

[19] Yehuala. S (2008), Determinants of Smallholder Farmers Access To Formal Credit: The Case of Metema Woreda, North Gondar, Ethiopia

[20] Financial Inclusion and the SDGs https://www.uncdf.org/financial-inclusion-and-the-sdgs?ref=hackernoon.com

[21] Somalia National Development Plan 2020 to 2024

[22] EU Multi-annual Indicative Programme (2021-2027) Federal Republic of Somalia https://international-partnerships.ec.europa.eu/system/files/2022-01/mip-2021-c2021-9070-somalia-annex_en.pdf

3.3.1 Summary of key programme results

The below table summarizes the target and achieved results for some of the key indicators of the Finance for Inclusive Growth programme.

Table 2: Summary of key programme results

Output	Indicator	Target	Achieved
Reduction of risk for microfinance targeting women, youth and producers in Somalia	Number of loans guaranteed	8,000	Loans guaranteed
	Value of loans guaranteed	Euro 8 million	Loans guaranteed
Increased access to credit for women, youth and producer groups	Number of loans disbursed	8,000 Women (40%) Youth (30%) Producers (30%)	6150 Women (47%) Youth (44%)
	Number of products developed targeting women, youth and producers	6	6
Enhanced capacity of the financial institutions to provide appropriate financial products and services to women, youth and producers living in rural and decentralized areas in Somalia	Number of training/business coaching toolkits developed	6	6
	Number of clients training	13,340	26%
	Number of staff trained	60	117
Enhanced knowledge of financial products targeting the end beneficiaries of the programme	Number of MFI marketing fairs held	6	5
Summary of key programme results			
Access to finance	• 45% of the businesses received the loan for the first time with more (46%) of the female led-businesses receiving the loan for the first time as compared to the male-owned businesses (44%). • A higher proportion (53%) of the youth entrepreneurs received a loan for the first time as compared to adult-owned businesses (40%). • A majority (88%) of the businesses had not accessed financial/credit from any other source for their businesses other than Microdahab MFI and IBS Bank. • 43% of the businesses had received a loan one time from a financial institution; those who took the loans twice comprised 35% of all interviewed clients, 9% took the loan three times and 8% took the loan more than four times.		
Flexible loan security	• 75% of the business owners needed only a family member, friend, or well-known personality as security to guarantee the loan, which shows that access to the loan was made easier. • Duration of processing loans by the financial institutions was made relatively faster with nearly half (48%) of the businesses indicating that it took them a week for their loan applications to be approved.		
Usefulness of loans	• A majority (65%) reported the loan was 'very useful' and (35%) described it as 'useful'. • Upon enquiring why, a majority (85%) indicated expanding their current business and/or buying new assets for their business. • Similarly, 13% reported that the loan was useful in enabling them to start a new business.		
Business performance	• 42% of the businesses made monthly sales of above $3000, 28% made $1001 – $3000 and 30% made $100 – $1000. • By gender, more males (45%) as compared to females (39%) had higher sales of above $3000 - 65% of women-owned businesses made an average profit of $10-$500, 26% made between $501-$1000, and 10% made an average profit of above $1000. • A similar result was seen among the youth-owned businesses where the majority were in the average profit category of $10-$500. • End-clients of IBS Bank (22%) made higher profits as compared to those from Microdahab (13%) - IBS charged a flat interest rate of 8%, but Microdahab has a higher markup rate. • Comparing the baseline with the midterm review, there is a remarkable increase in profit for the loan borrowers – during the baseline 36% reported profit of up to $100, with only 5% receiving the same profit margin in the midline review. • Similarly, only 2% of the businesses made a profit of above $1000 at baseline, while 16% of the same group reported making an average profit of above $1000 at the midline. • The Multiple linear regression analysis revealed that loan amount and business type were positive determinants of profits in the business while loan duration was a negative determinant of the profit in the business.		
Employment opportunities	• Overall, 34% of the businesses have employed people in the 12 months preceding the survey - this was higher (49%) in male-owned businesses as compared to female-owned (21%) businesses. • 74% of the businesses employed 2 or more people in their business with only 26% of the businesses employing only one person. • By sector, trade employed a higher (36%) proportion of employees in the 12 months preceding the survey, followed closely by agriculture at 33%. Livestock and fisheries recorded 32% and 30% respectively. • The Chi-square test revealed no statistical significance between business type and number of staffs employed exists.		
Support to dependents	• 46% of business owners reported that 6 – 10 members depended on their businesses. • 33% reported that their businesses supported household members above 11 members. • 22% indicated that their businesses supported household members between 1 – 5 members. The average number of household members who depended on the business was 9 members.		

3.3.2 Analysis of loan disbursement

Scrutiny of the loan database shows that the total amount of loan disbursed as of April 2023 was $7,854,235, advanced to a total of 6,150 clients/beneficiaries: with Microdahab disbursing a total amount of $4,213,999 to 3,880 clients, and IBS Bank loaning a total amount of $3,640,236 to 2,270 clients.

By gender, female clients received 47% of the total disbursement amounting to $3,704,417, while male clients received a total of $4,149,818 which is 53% of the total loan disbursements. This means that the total amount leveraged by the two financial institutions is approaching the set targets of EUR 8 million, and is likely to surpass that figure at the close out of the project in March 2024.

Table 3: Total loan amounts disbursed by gender and financial institution.

Gender	IBS Bank		Microdahab MFI		Total	
	Clients	Amount	Clients	Amount	Clients	Amount
Female	1076	$1,652,370	1991	$2,052,047	3067	$3,704,417
Male	1194	$1,987,866	1889	$2,161,952	3083	$4,149,818
Totals	**2270**	**$3,640,236**	**3880**	**$4,213,999**	**6150**	**$7,854,235**

In addition, although not much different, the average disbursed loan amount was slightly high among the male business owners ($1,346) as compared to the female-owned businesses ($1,208). This is also explained by the slightly higher male business owners in the overall number of loan beneficiaries. In terms of the financial institutions, IBS Bank disbursed the highest amount on average as compared to Microdahab.

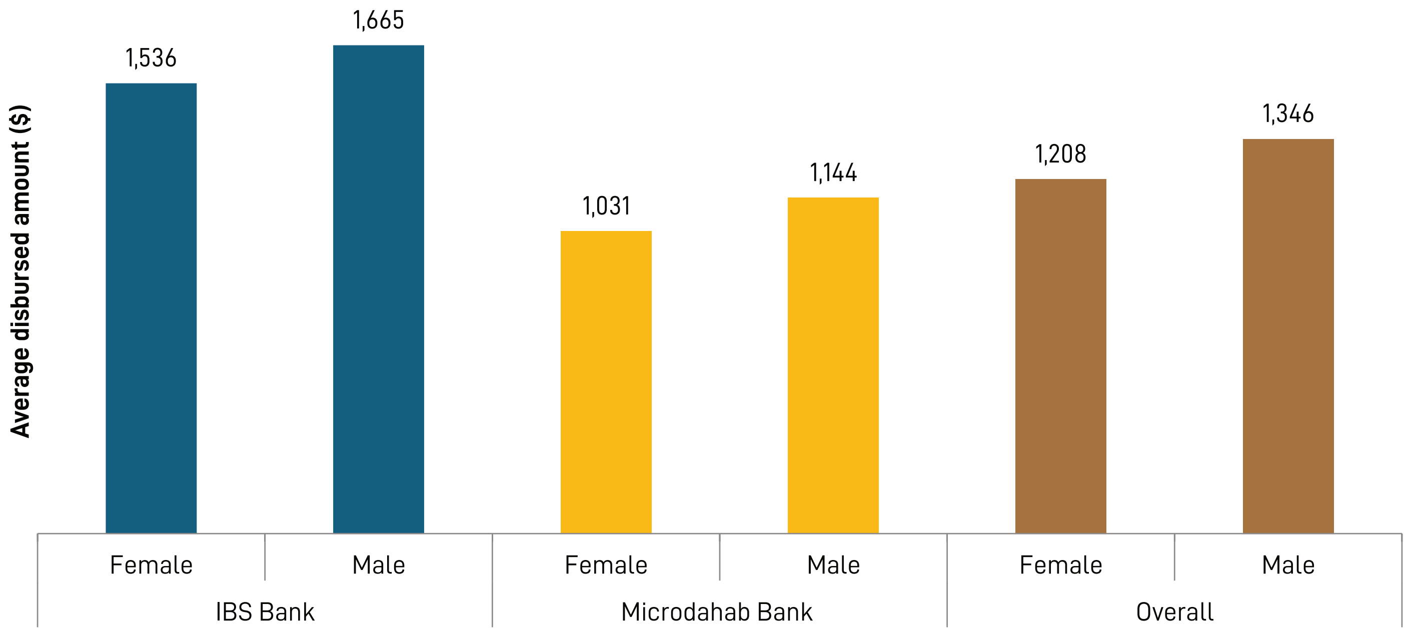


Figure 2: Average disbursed loan amounts by gender and financial institution

The distribution of the loan disbursement by region suggests that Banadir region received the highest loan disbursement of $2,877,040 serving 1914 clients, followed by Somaliland receiving loan disbursement of $ 2,062,526 serving 2111 clients. South West region, mainly Afgooye district received the least amount of loan disbursement of $279,680 serving a total of 141 clients. A total of 845 clients from Hirshabelle, 577 from Puntland, 330 from Jubaland and 232 from Galmudug regions also accessed the loans provided by the two MFIs. While this analysis points to most clients being from the main urban centers, officials of the MFIs argued that there is diversity regarding the locations of their clients as they also serve a large number of rural clients. For example, they pointed out that a large number of their clients served in Banadir, Balcad and Afgoye branches are mainly from Middle and Lower Shabelle regions that are quite remote farming areas with low access to financial services.

Table 4: Total Loan disbursed to the clients

Region	Number of Clients	Total amount disbursed
Banadir	1914	$ 2,877,040
H.Shabelle	845	$ 1,134,264
Jubaland	330	$ 424,552
Somaliland	2111	$ 2,062,526
Puntland	577	$ 735,273
Gal-Mudug	232	$ 340,900
South West State	141	$ 279,680
Total	**6150**	**$ 7,854,235**

By age group, the non-youth clients received the highest amount of loan disbursement of $4,415,748 as compared to the youth age group who received a total of $3,438,487. However, more youth (<=35 of age) i.e., 1194 clients in IBS Bank received slightly higher loan disbursements totaling $1,937,684, as compared to the non-youth age group who received loan disbursement totaling $1,702,552. Regarding loans accessed by individual businesses, the youth led-businesses received a slightly higher loan amount ($1,309) as compared to the non-youth business owners ($1,253). However, the non-youth in Microdahab Bank database received a slightly higher loan amount ($1,108) as compared to the youth who received a loan amount of ($1,048) from IBS Bank. This also shows that the programme improved financial inclusion among the youth, regardless of their gender. Findings of FGDs and KIIs also corroborate this as participants agreed that women and youth are the biggest beneficiaries of the programme.

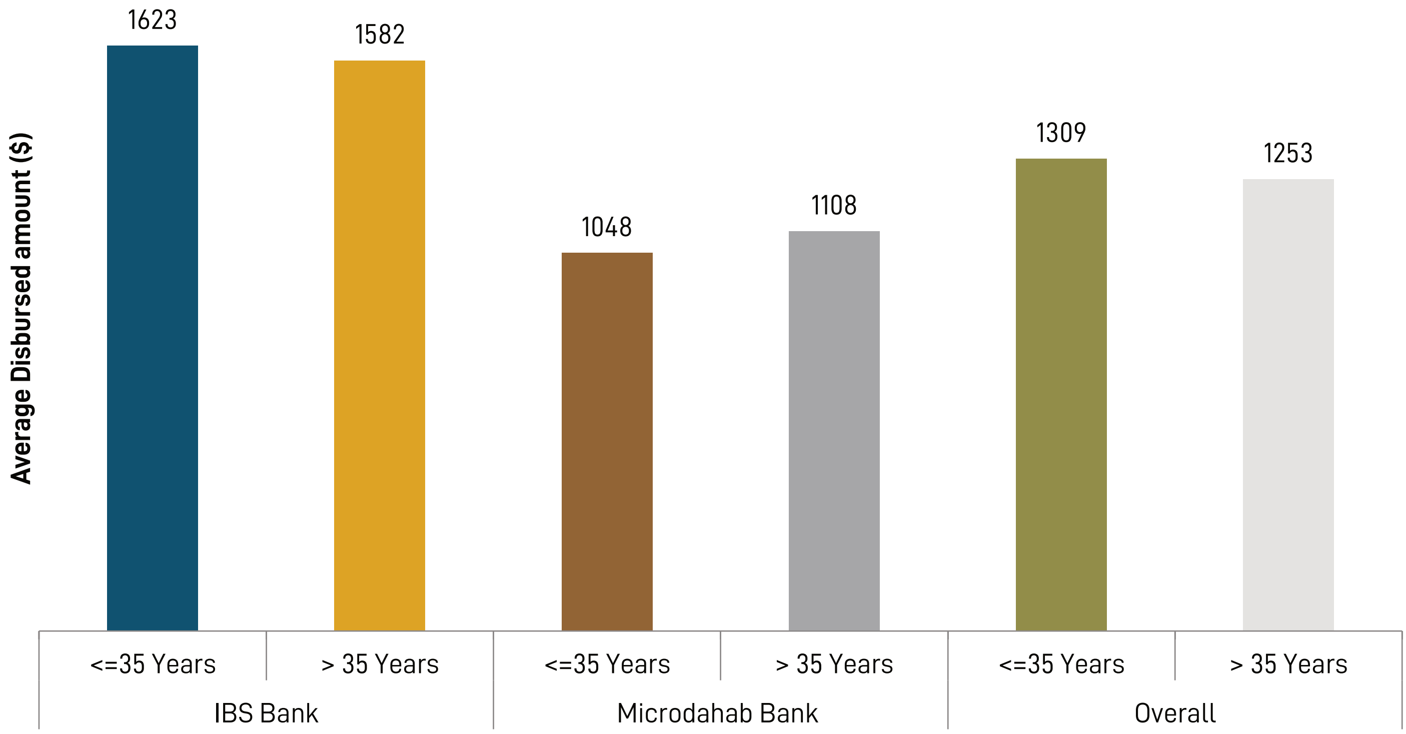


Figure 3: Average disbursed amounts by age groups and financial institution

In terms of sector, trade received the highest amount of disbursement totaling $4,027,154, at 51%, while the producer sectors (agriculture, livestock and fishery) received a total of $3,835,081 at 49% - breaking down producer groups loan shows agriculture received $2,852,664 (36%), livestock received $823,118 (10%) and fishery (2%) was the sector with the least disbursement at $159,299. This shows the prominent role trade plays in the SME sector of Somalia. On the same note, analysis shows that overall, 44% of total disbursement went to borrowers below the age of 35 (considered as youth), while 56% was loaned to business owners aged above 35 years - this shows that the youth have received higher than the project target of 30% (for the youth).

Table 3: Total loan amounts disbursed by gender and financial institution.

Sector	# Clients	Amount of loan Disbursed	Proportion
Producer	3080	$3,835,081	49%
Trade	3070	$4,027,154	51%
Age group			
<= 35 Years	2626	$3,438,487	44%
Above 35 Years	3524	$4,415,748	56%

For the loan repayments, the midterm review observed that no client has defaulted on their scheduled repayments, except for occasional delays from a few clients. For example, some borrowers of IBS Bank with shops in Isgoyska Banadir and Bakaaro market in Mogadishu delayed their payments after their shops were burnt down. Microdahab also supported clients who were affected by the fire incident in Hargeisa's central market that resulted in huge losses, the majority of who were women SME owners. These clients however repaid their loans after the MFIs re-scheduled their loan repayment, demonstrating flexibility by both institutions. The good track record of the clients in repaying their loans was partly credited to the bank's efforts in conducting proper due diligence and their use of well-known guarantors before issuing the loans. Key Informant Interviews and FGDs with the borrowers also noted that the flexibility of the loan repayment and the group lending modality adopted by the MFIs were instrumental in ensuring clients paid their loans on time. Women business owners particularly hailed the group lending as having helped them avoid defaulting on their loans – they said that the group lending acted like their usual ayuuto arrangement which is a successful savings model in Somalia. Borrowers also argued that Murabaha being asset/ merchandise financing tool, borrowers do not have the flexibility to access direct cash that would otherwise lure them to use for other personal expenses.

> Many people think that Murabaha is not a flexible model and they do not consider it as a real loan, but I feel that if you give cash to a person who is already struggling with other family needs, they may just decide to defer their use of the cash for business and spend it on other things' **a female businesswoman in Beletweyne**

The MFI officials also added that because the SMEs are often characterized by a relatively smaller scope of operation, they do not enjoy access to credit as compared to the relatively large and well-established firms, making them face a major hurdle in accessing funds from formal lending institutions like commercial banks because they are perceived to be too risky. Therefore, with the opportunity presented by loans of the Finance for the Inclusive Growth Programme, most of the beneficiaries appreciated and would always endeavour to settle their loan balances on time to avoid losing trust with the MFIs. MFI officials further indicated that group lending was key in compliance by their clients – besides, staff training, institutional capacity building, and significant improvements in loan application processes also contributed to the high compliance levels by the end clients.

> 'We did not expect this high level of compliance, considering the vulnerabilities of the targeted clients who are largely youth and people who live on hand-to-mouth. But the programme's support in training our staff on know-your-customer was key in due diligence, and creating a friendly atmosphere between our loan officers and the clients' **said an MFI official.**

3.3.3 Outcomes of the loans

The private sector landscape in Somalia is still in its nascent stages and most of the Small and Medium Enterprises (SMEs) in the country are in the domestic trade sector.[23] This is primarily due to a lack of access to finance in the domestic market - the domestic credit to the private sector as a percentage of GDP is 7.5 per cent (2017)[24] - one of the lowest in Sub-Saharan Africa. Many of these enterprises grow by investing their profits back into the business and not leveraging credit from financial institutions. Therefore, stimulating access to finance through micro-finance programs has long been seen as the solution to enhancing the economic empowerment of small and medium enterprises.

Based on the findings there is evidence of increased access to finance, improved volume of sales and profits and realization of other multiplier effects such as informal employment opportunities and support to dependents of the beneficiary clients.

3.3.3.1 Increased access to credit finance

Overall, 45% of the businesses have received the loan for the first time with more (46%) of the female led-businesses receiving the loan for the first time as compared to the male-owned businesses (44%). Analysis further show that a higher proportion (53%) of the youth entrepreneurs received the loan for the first time as compared to the adult-owned businesses (40%). In addition, majority (88%) of the businesses had not accessed financial/credit from any other source for their businesses other than Microdahab and IBS Bank. According to interviews with the MFI staffs, this was achieved because the financial institutions deployed dedicated loan officers to directly reach out to the three groups the programme targeted, namely women, youth and producer groups, without the involvement of AECF and the Donor. These efforts by both institutions compounded by the technical support in terms of training ensured aggressive customer engagement and marketing of educating existing as well as recruiting new clients to access the loans – this consequently resulted in more people getting informed about the loans which also had less-strict loan application processes.

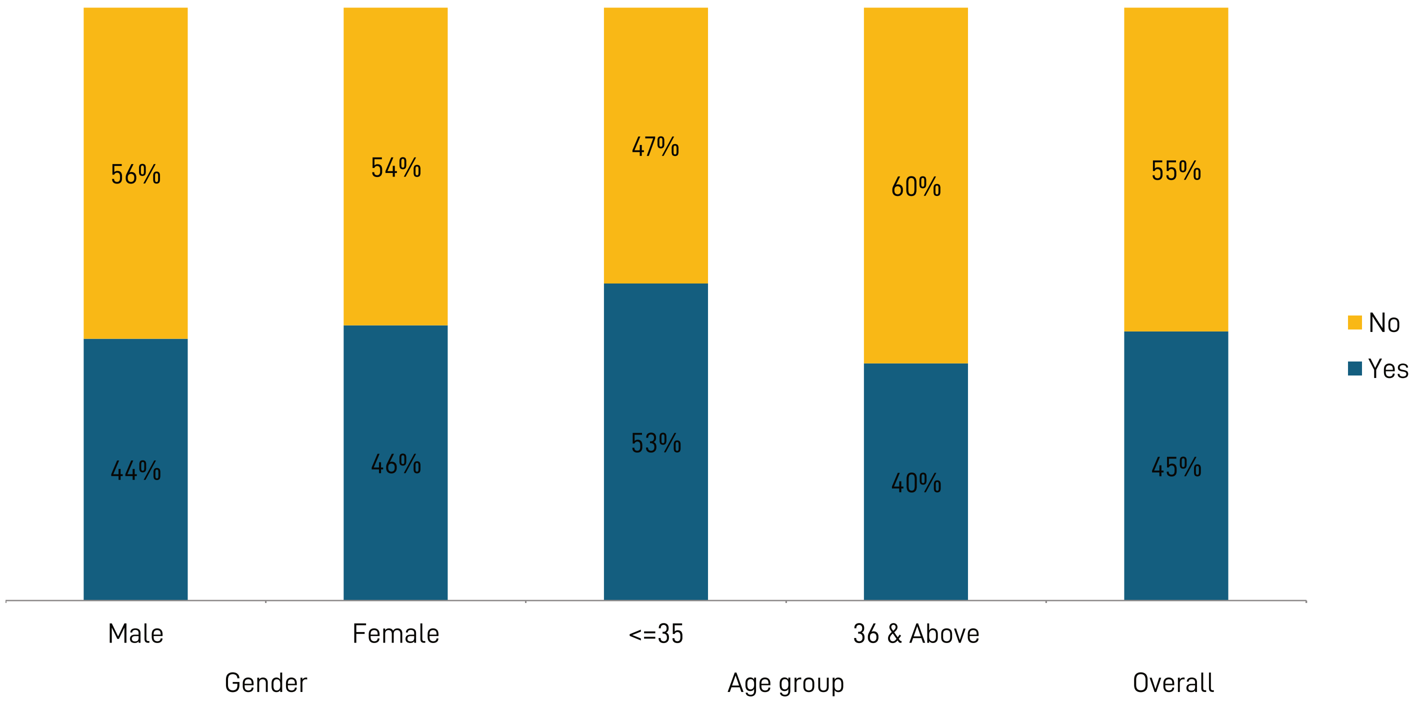


Figure 4: First time the businesses received loans from the financial institutions.

Survey results also show that 43% of the interviewed businesses had received a loan one time from a financial institution, with those who took the loans twice comprising 35% of all interviewed clients, 9% took the loan three times and 8% took the loan more than four times - more (12%) of the businesses from IBS Bank had received more than four times as compared to the businesses from Microdahab.

[23] UNDP – Role of Somali women in the private sector;
[24] Somalia Economic Update, World Bank, August 2018

Table 6: Number of times the businesses received loans from the financial institution

Frequency	Microdahab (n=222)	IBS Bank (n=136)	Overall (n=358)
One time	43%	43%	43%
Two times	37%	31%	35%
Three times	9%	11%	9%
Four times	5%	4%	5%
More than four times	6%	12%	8%
Total	**100%**	**100%**	**100%**

The analysis further shows that the businesses that accessed loans multiple times did receive the highest average amount of loans ($ 1,338) as compared to the new businesses with an average loan amount of $1,258.

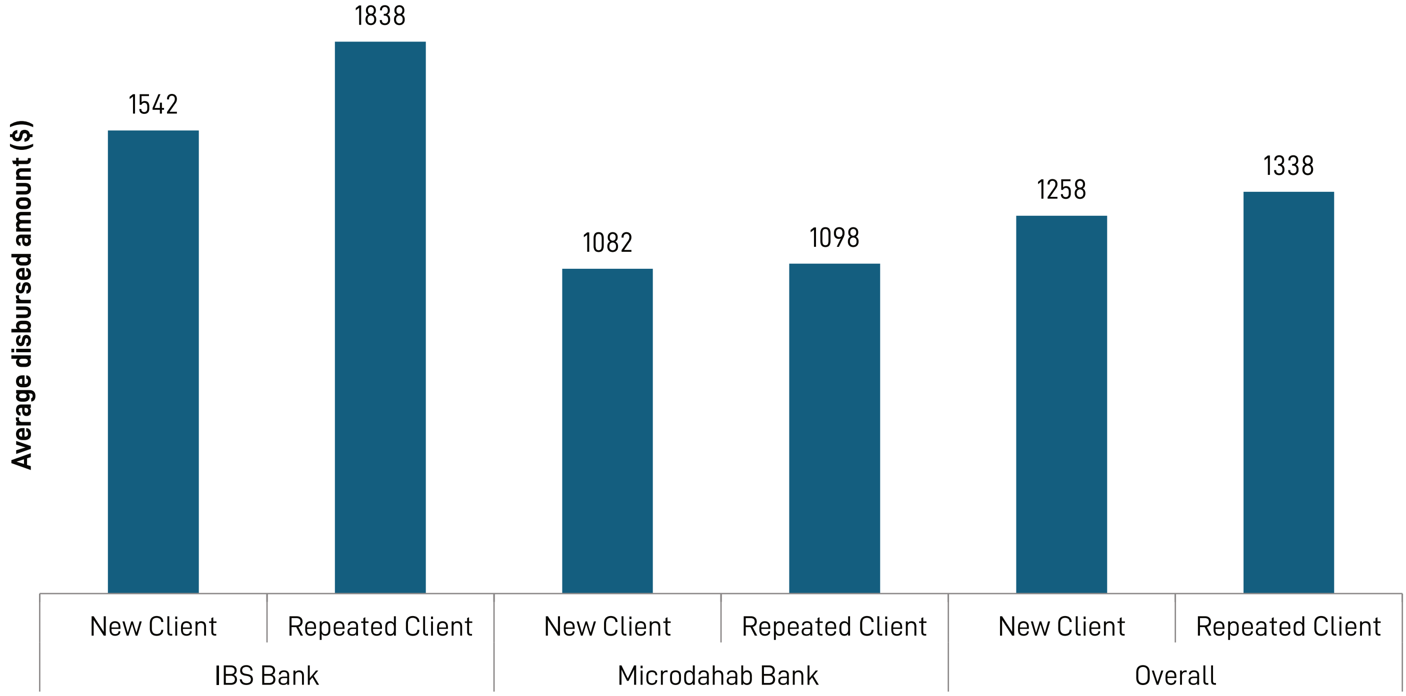


Figure 5: Average disbursed amounts by new clients / repeated clients and financial institution

3.3.3.2 Flexible loan security

A study by Fredriksson & Moro (2014)[25] showed that banks and financial institutions are generally hesitant to provide credit to the SME sector due to the possibility of early-stage projects with inadequate funds, lack of established track record and low capitalization. As a result, they do not regard such businesses as viable enterprises, thus not seeing a worthwhile return on investment by small and medium-sized businesses or whether such investment will have a possible pay-off. Similarly, according to Ali, Abu-Hadi and Ali (2013)[27], access to microfinance services in Mogadishu could be considered a challenge for small businesses due to the high-security requirements that MFIs can impose. The midterm review learned that clients were relieved of strict collateral requirements as all they were required to provide was a guarantor or to organize themselves into groups, compared to otherwise strict loan application processes by financial institutions across the country. Survey results confirmed this with 75% of the respondents reporting, all they needed to access the loans was a family member, friend, or well-known personality as security to guarantee the loan, which shows that access to the loan was made easier. Key informant interviews and FGD participants added that group lending was a key tool in accessing loans from both MFIs. They noted that this was particularly useful for the women borrowers who traditionally have *ayuuto*[27] savings groups which they often use as a savings modality and as a security for loans.

[25] Fredriksson, A., & Moro, A. (2014). Bank–SMEs relationships and banks' risk-adjusted profitability. Journal of Banking & Finance, 41, 67-77.

[26] Ali, A. H., Abu-Hadi, A. O., & Ali, A. (2013). The accessibility of microfinance for small businesses in Mogadishu, Somalia. International Journal of Humanities and Social Science, 3(11), 172-180.

[27] Also known as 'hagbad', ayuuto is an interest-free rotating savings scheme based on mutual trust and primarily run by women from the same neighborhood who are not only acquainted but also share similar experiences.

Table 7: The guarantee /collateral/security to secure the loan

Requirement	Microdahab (n=222)	IBS Bank (n=136)	Overall (n=358)
Guarantee by others (Family members, friends, well-known person etc.)	68%	86%	75%
Inventory (Shop items etc.)	19%	2%	13%
Assets (such as land, Building, vehicle etc.)	9%	6%	8%
Livestock (goats, sheep, camel cattle etc.)	3%	2%	3%
None (guarantee in writing, verbal, swearing etc.)	0%	4%	2%
Total	**100%**	**100%**	**100%**

Besides the flexibility in loan security, the duration of processing loans by the financial institutions was also made relatively faster with nearly half (48%) of the businesses indicating that it took them a week for their loan applications to be approved - Microdahab clients had a higher (58%) proportion of the respondents in this category compared to IBS Bank (31%). Nevertheless, the majority (52%) reported that it took them 2 weeks or more for their loans to be processed. This was also confirmed by the MFIs themselves who indicated that since the strict security/collateral requirement was waived from these borrowers, the process took a shorter period of time.

'Apart from a guarantor, the loan I received from IBS Bank did not have any much requirements which meant that I did not have to have an asset or any other security', **IBS Bank client**

Table 8: Loan processing time of the financial institution

Duration	Microdahab Bank (n=222)	IBS Bank (n=136)	Overall (n=358)
Within a week	58%	31%	48%
Within two weeks	24%	33%	28%
Within three weeks	10%	14%	12%
Within four weeks	6%	14%	9%
More than a month	2%	8%	4%
Total	**100%**	**100%**	**100%**

3.3.3.3 Expansion of businesses

Overall, all respondents indicated that the borrowed loans have added value to their businesses, with the majority (65%) reporting that the loan was 'very useful' and the remainder (35%) describing it as 'useful' - a higher proportion (77%) of the businesses from Microdahab reported that the loans were 'very useful' as compared to the businesses who received loans from IBS Bank (46%). Upon enquiring about the reasons why they felt the loans were useful, majority (85%) cited expanding their current business and/or buying new assets for their businesses. Similarly, 13% reported that the loan was useful in enabling them start a new business, with more (17%) from Microdahab financed businesses as compared to the businesses from IBS Bank (6%). This shows that the loans targeted and offered opportunities to both startups as well as existing Small and Medium Enterprises that were in dire need of expanding their businesses for increased income.

'I took the loan at a time when my business was going down due to low inventory since I gave out a lot of debts to my clients who were grappling with the effects of drought, and they could understandably not settle the debts. Therefore, the loan compensated me for the gap as it enabled me to restock my shop', **Microdahab client.**

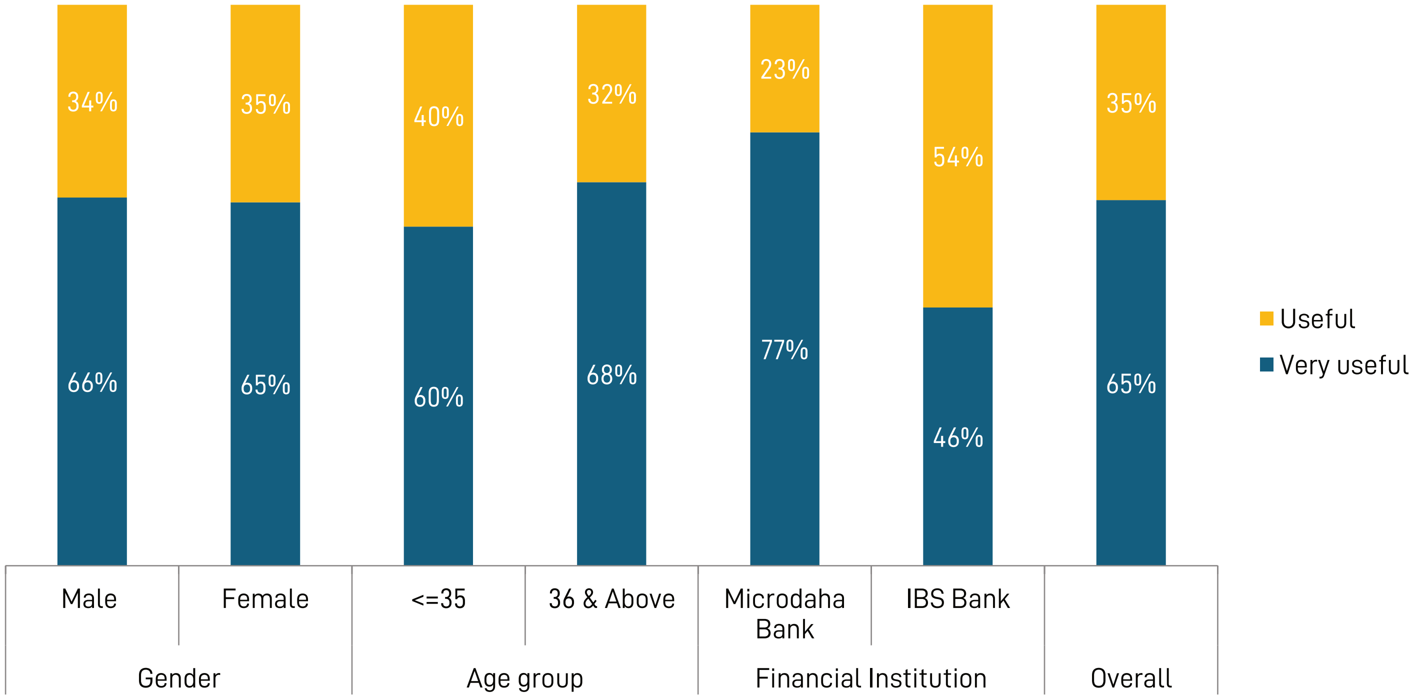


Figure 6: How useful was the loan you acquired from the financial institution?

3.3.3.4 Increased volume of sales & profits

While the volume of sales is determined by the size of businesses owned by the clients, it is remarkable to observe that, overall, 42% of the businesses reported estimated monthly sales of above \$3000, 28% had between \$1001 – \$3000 of estimated monthly sale and 30% had estimated monthly sales of between \$100 – \$1000 - businesses that received financial loan from IBS Bank had more sales (47%) as compared to those who received financial loan from Microdahab (38%). By gender, more male (45%) as compared to female (39%) had higher sales of above \$3000. Similarly, adult-owned businesses had more sales (46%) as compared to youth businesses (35%), which could be attributed to the smaller sizes of their businesses or lower business skills common among the younger entrepreneurs.

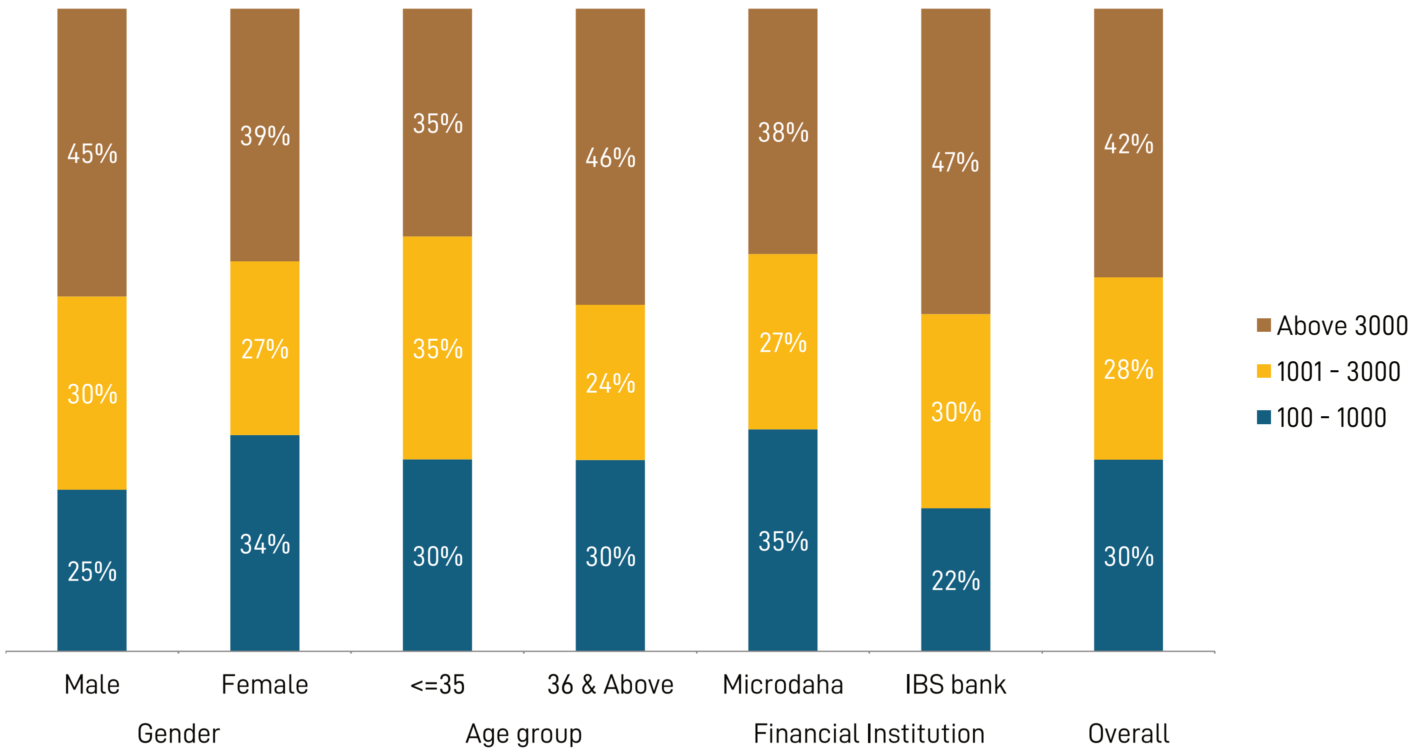


Figure 7: Estimated Monthly Sales by gender, age group and Financial Institution

Regarding the monthly profit of the respondents' businesses, nearly all (99%) of the businesses reported that the profits of their businesses increased after receiving the loans. Over half (59%) realized an average monthly profit margin of between $10 – $500, 25% had a monthly profit margin of between $501 – $1000 and 16% had a monthly profit margin of above $1000. There was a higher profit margin among the beneficiaries from IBS Bank (22%) as compared to the beneficiaries from Microdahab (13%). In terms of gender, 65% of women-owned businesses made an average profit of $10-$500, 26% made an average profit of between $501-$1000, and 10% made an average profit of above $1000. A similar result was seen among the youth-owned business where the majority were in the average profit category of $10-$500.

Table 9: Estimated monthly profit by gender, age group and MFI

Profit Category	Gender		Age group		Financial Institution		
	Male (n=162)	Female (n=196)	<=35 (n=144)	36 & Above (n=214)	Microdahab Bank (n=222)	IBS Bank (n=136)	Overall (n=358)
10 - 100	4%	6%	4%	5%	3%	7%	5%
101 - 200	7%	16%	13%	12%	10%	16%	12%
201 - 300	12%	16%	15%	14%	15%	13%	15%
301 - 500	28%	27%	29%	26%	30%	22%	27%
501 - 1000	25%	26%	26%	24%	23%	28%	25%
Above 1000	24%	10%	13%	19%	18%	13%	16%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Comparing the above results with baseline data of the same clients show a remarkable increase in the average profit for the loan borrowers. For example, 36% of the business owners reported receiving a monthly profit of up to $100 during the baseline which is in sharp contrast with only 5% reporting to have received the same profit margin in the midline.

Table 10: Estimated monthly profit by gender, age group and MFI – vertical version

Gender	Monthly Profit Category						
	10 - 100	101 - 200	201 - 300	301 - 500	501 - 1000	Above 1000	Overall
Male	35%	27%	38%	46%	44%	67%	45%
Female	65%	73%	62%	54%	56%	33%	55%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Age group							
<= 35 Years	35%	43%	40%	43%	42%	31%	40%
36 and above	65%	57%	60%	57%	58%	69%	60%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Financial Institution							
Microdahab Bank	41%	50%	65%	69%	58%	69%	62%
IBS Bank	59%	50%	35%	31%	42%	31%	38%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Similarly, only 2% of these businesses made a profit of above $1000 at baseline, while 16% of the same group of businesses reported making an average profit of above $1000 at midline, suggesting a notable increase. Interestingly, this improvement comes against a backdrop of prolonged drought and high commodity prices occasioned by inflation.

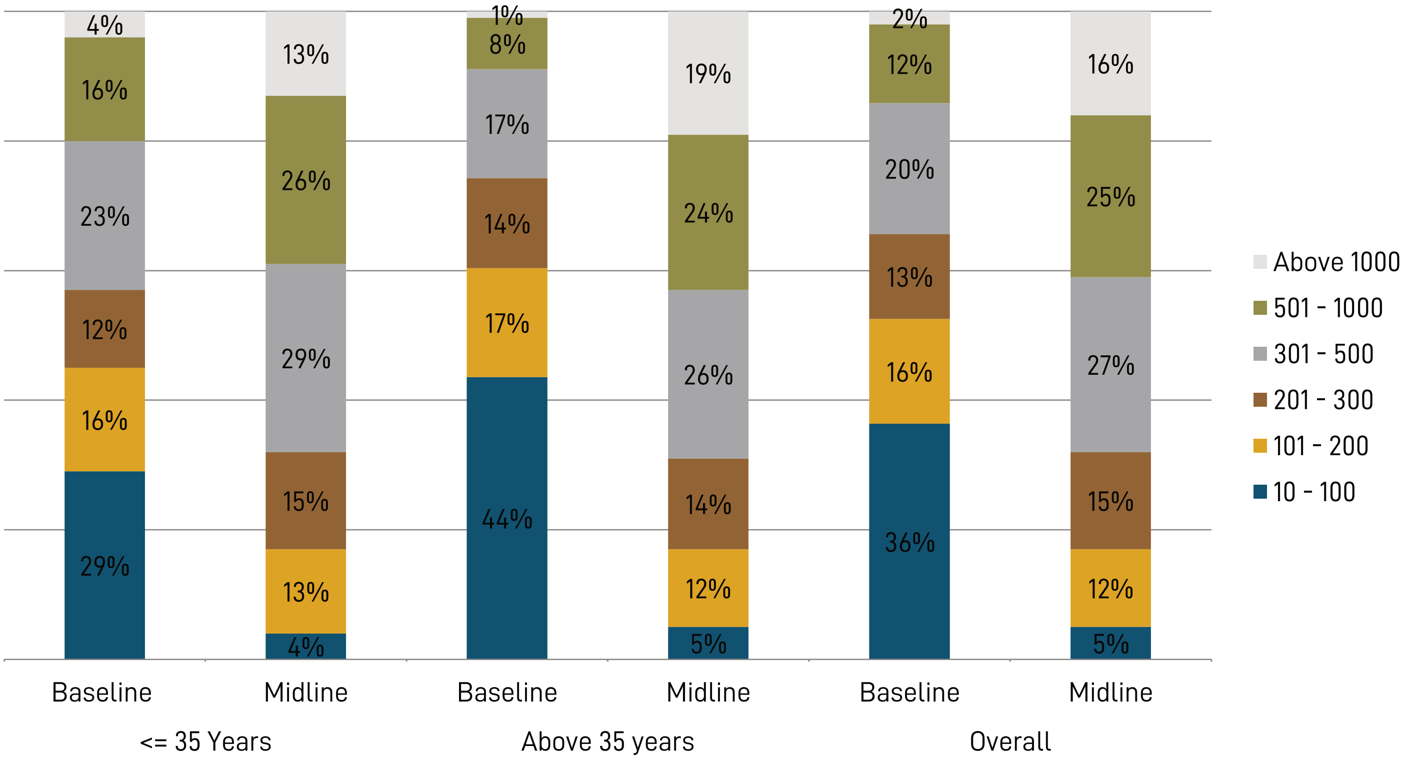


Figure 8: Estimated Monthly Profit from Baseline to Midline by age group

The comparison of the monthly average profit was also done by sector. Results show that trade was the most improved sector where 36% of the businesses earned a monthly average of up to $100 – at the endline none of them were in this category, indicating all of them earned above $100. Only 10% of businesses from this sector earned a monthly average profit of $101 – $300, with 39% and 23% earning a monthly average profit of $501 – $1000 and above $1000 respectively. This was followed by the livestock sector where the majority (51%) of the clients are in the $301-$500 category, from a baseline of 17%.

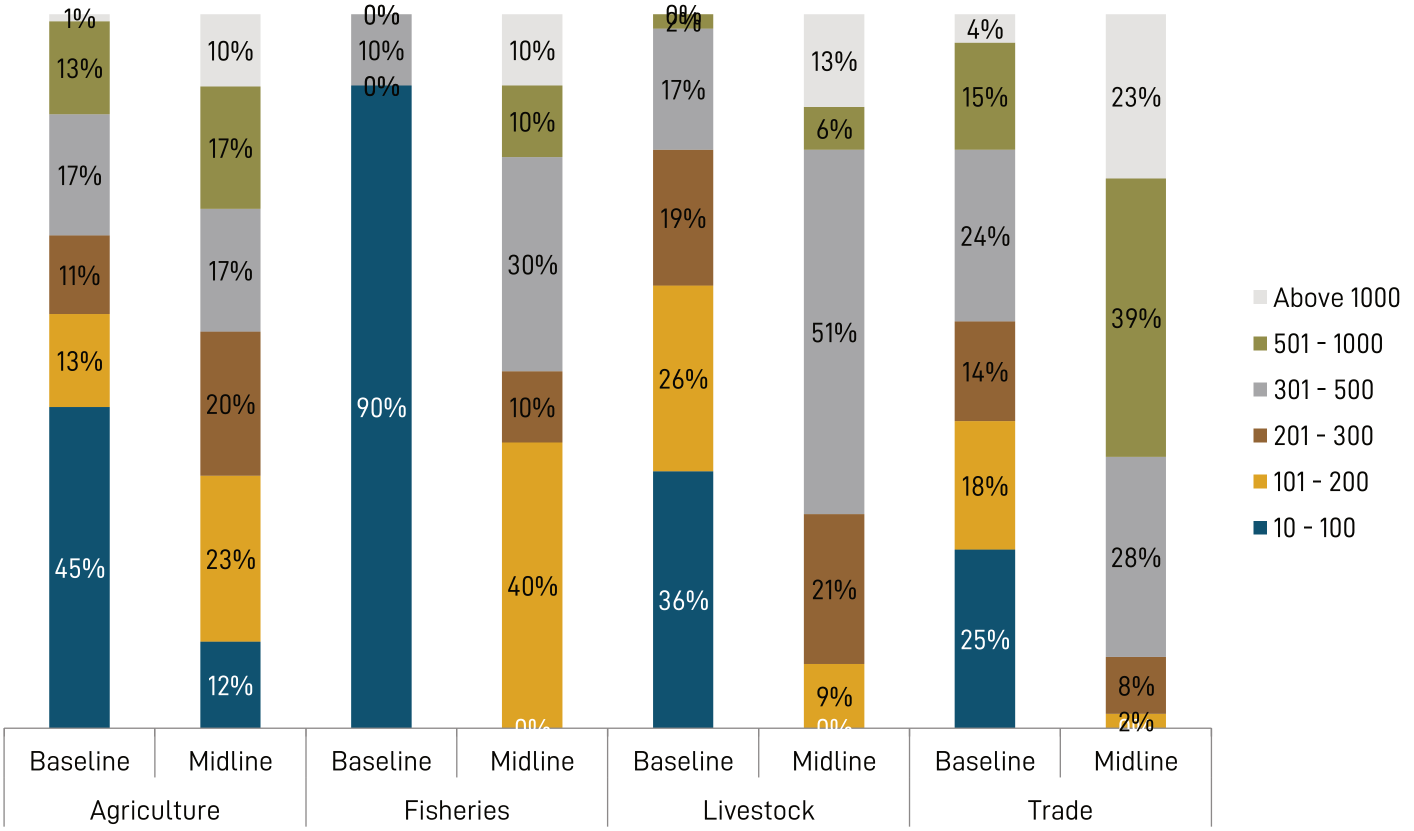


Figure 9: Estimated Monthly profit from Baseline to Midline by sector

Finally, by gender, there is a general improvement in the average monthly profit across all business owners. At baseline, 40% of the female-owned businesses were in the $10-$100 category with only 6% remaining in that range; male-owned businesses improved from 31% to 4% in that category. Similar results were seen among the women-owned businesses in the >$1000 category who recorded only 1% at baseline but were at 10% during midline, showing a 9% increase.

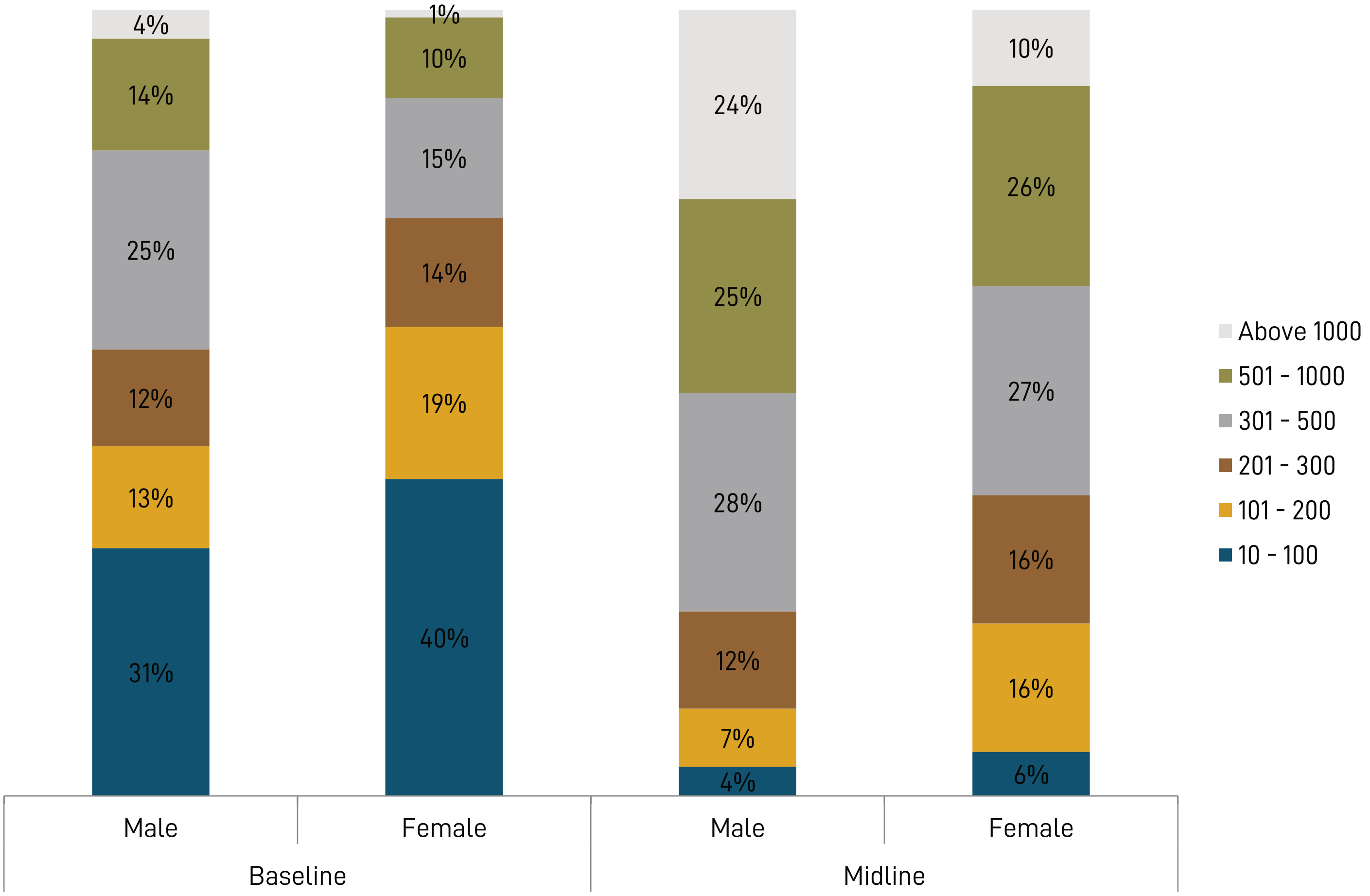


Figure 10: Monthly Estimated Profit from Baseline to Midline by Gender

In order to determine the factors that affects profit, a multiple linear regression analysis was used. The model revealed that, loan amount (p=0.031) and value chain (p=0.003) were positive determinants of profit while loan duration (p=0.043) was a negative determinant of profit – increase in loan duration reduced the profit margin. However, the region/location of the businesses was not a significant factor in determining the profit margin of the loan borrowers.

Table 11: Multiple Linear Regression of factors that affect profit

Factors	Coefficient	Std. Err.	t	P>t	95% Confidence Interval	
Region	12.79	11.67	1.1	0.274	-10.15	35.74
Loan Amount	0.03	0.01	2.16	0.031	0.00	0.06
Value Chain	51.48	17.14	3	0.003	17.76	85.20
Loan Duration	-17.36	8.54	-2.03	0.043	-34.16	-0.57
Interest rate	1421.45	393.65	3.61	0.00	647.23	2195.67
Constant	72.30	107.24	0.67	0.501	-138.62	283.22

3.3.3.5 Employment opportunities

Overall, 34% of the businesses have employed people in the 12 months preceding the survey. This was high (49%) in male-owned businesses as compared to female-owned (21%) businesses and similarly high among the youth (39%) owned businesses as compared to the adult (31%) owned businesses. Additionally, 74% of the businesses employed 2 or more persons in their business with only 26% of the businesses employing only one person. Regarding the terms of engagement of their employees, the majority (72%) of the employees were engaged full-time for all the months of the year, with only 17% being engaged seasonally for a few months of the year for all the employees. Interviews with the clients showed that the choice of full-time employment for their employees was because it is often cheaper and more convenient to engage labourers on a longer-term basis than on daily terms. They also noted that casual workers often have less output since they are not bound by any agreements or contracts.

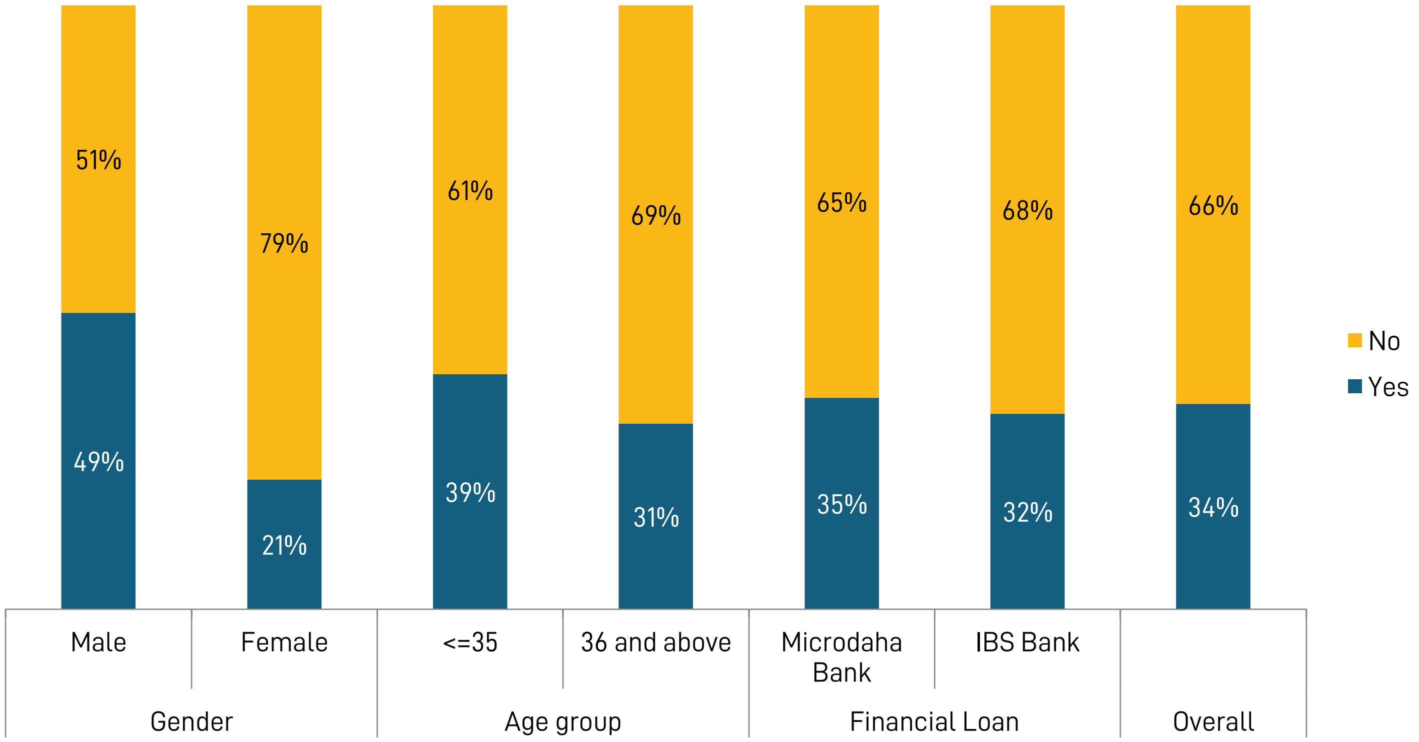


Figure 11: Have you employed any people within the last 12 months?

In terms of the sector, trade employed a higher (36%) proportion of employees in the 12 months preceding the survey, followed closely by agriculture at 33%. Livestock and fisheries recorded 32% and 30% respectively. KIIs and FGDs also confirmed this finding, indicating that most employment opportunities are found in the shops and farms where people work as casual laborers.

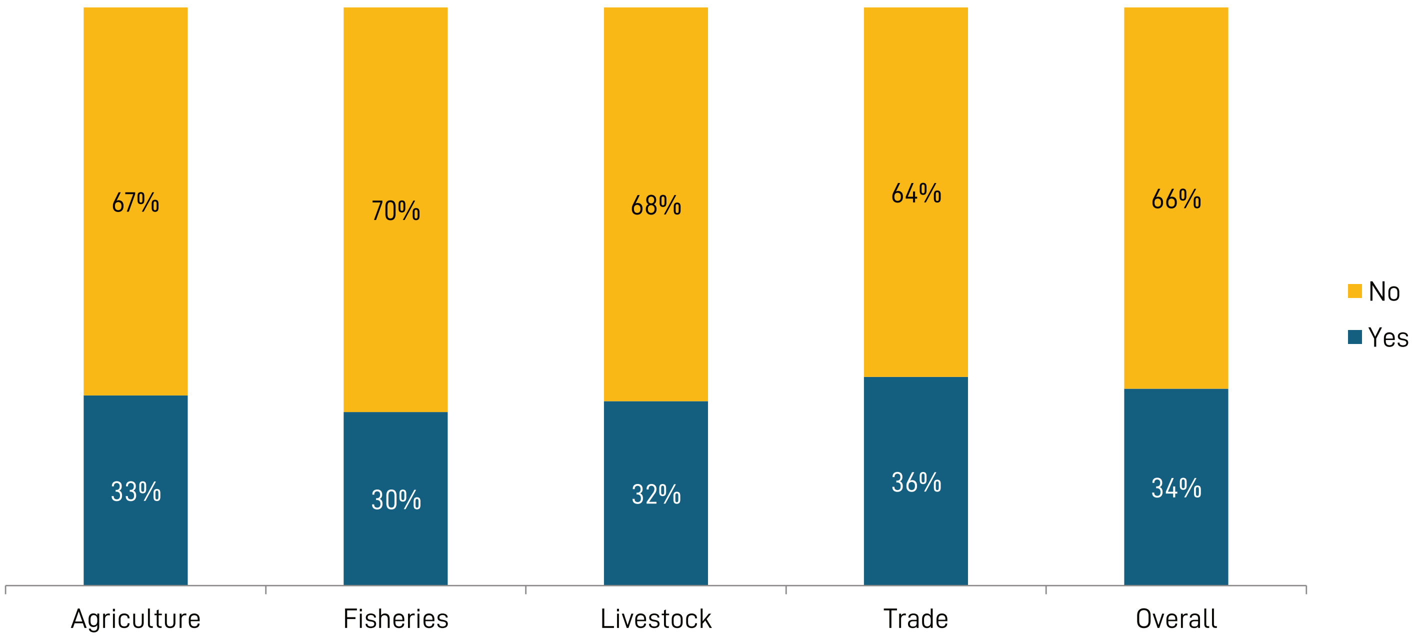


Figure 12: Employment by sector

The evaluation also looked at the additional employment opportunities created by the respondent businesses after they accessed the loans. Comparing the survey results with the baseline data of the same group of clients reveals not much improvement, but it is important to note that businesses who employed an average of five (5) or more employees improved from zero to 19%. Loan borrowers explained the reason why this was the case, noting that the last year has been quite difficult for them due to the drought, therefore most business owners were on a cost-cutting strategy to cope with the effects of the drought and inflation.

Table 12: Number of employees from Baseline to midline by sector

No. of Employees	Baseline					Midline				
	Agric.	Fish.	Livest.	Trad.	Overall	Agric.	Fish.	Livest.	Trad.	Overall
0	7%	0%	6%	6%	6%	0%	0%	0%	0%	0%
1	25%	10%	23%	26%	25%	32%	100%	7%	23%	26%
2	24%	70%	53%	32%	33%	23%	0%	33%	33%	29%
3	37%	20%	11%	27%	29%	19%	0%	33%	14%	18%
4	7%	0%	6%	8%	7%	9%	0%	0%	11%	8%
5 or more	0%	0%	0%	1%	0%	17%	0%	27%	19%	19%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

In order to determine if the sector had an effect on the number of staffs employed, a chi – square test was done to determine the association between the sector and the number of staffs employed. The test revealed that there was no statistically significant association of the loan amount received and the number of staffs employed (p=0.360).

Table 13: Association between Sector & number of staffs employed

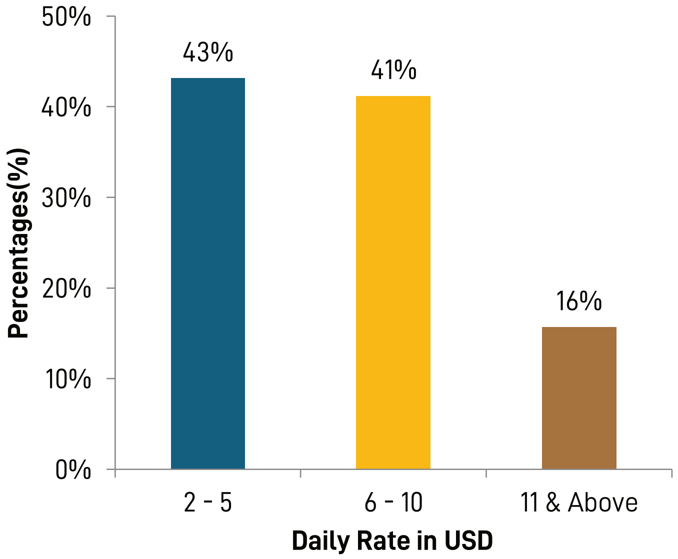
Sector	Number of Staffs Employed								
	Zero (n=236)	One (n=32)	Two (n=35)	Three (n=22)	Four (n=10)	5 or more (n=23)	Overall (n=358)	Chi - Square	P/v
Agriculture	41%	47%	31%	41%	40%	35%	40%	16.3404	0.36
Fisheries	3%	9%	0%	0%	0%	0%	3%		
Livestock	14%	3%	14%	23%	0%	17%	13%		
Trade	43%	41%	54%	36%	60%	48%	44%		
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**		

To further determine if the loan amount received by businesses had an effect on the number of staffs employed, a chi – square test was done to check the association between the loan amount received and the number of staffs employed. The test revealed that there was no statistically significant association of the loan amount received and the number of staffs employed (p=0.369).

Table 14: Association between Loan Amount received and number of staffs employed

Loan Amount	Number of Staffs Employed								
	Zero (n=236)	One (n=32)	Two (n=22)	Three (n=22)	Four(n=10)	5 or More (n=23)	Overall (n=358)	**Chi Square**	**P/v**
200 - 1000	13%	16%	3%	14%	20%	4%	12%	16.2036	0.369
1001 - 3000	38%	53%	43%	41%	20%	43%	40%		
3001 - 5000	28%	13%	23%	18%	20%	39%	26%		
Above 5000	22%	19%	31%	27%	40%	13%	23%		
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**		

Looking at the employee wages and modality of payment, survey results show that over half (58%) of the respondents were paying their employees monthly compared to 42% who received their wages daily. For those who received their dues monthly, 51% were receiving between $30 – $150, while 44% of the respondent business owners were paying between $151 – $300 and 6% were paying over $300. However, for beneficiary businesses paying their employees daily, the majority (84%) were paying between $2 – $10 daily and 16% were being paid above $11 daily. Business owners explained that the vast majority of these employees were shopkeepers, restaurant waiters/chefs or workers who deliver products to customers, e.g., for butchery shops.



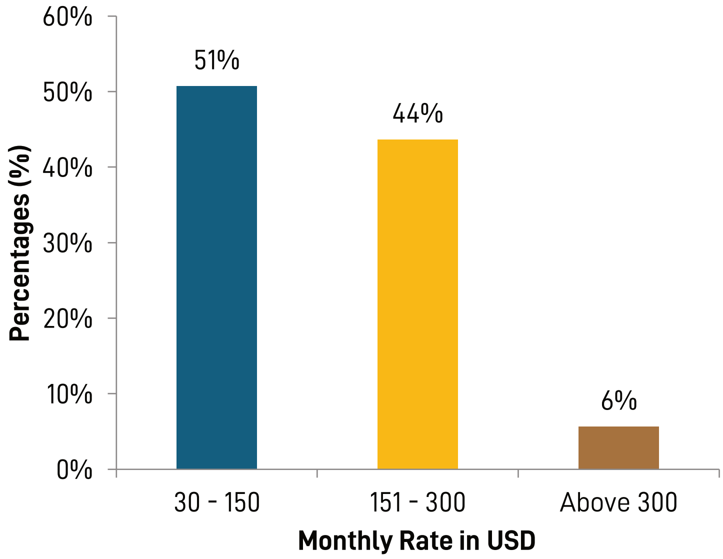


Figure 13: Daily and Monthly rate of payment for employees

3.3.3.6 Support to Dependents

In the Somali context, the basic household structure is traditionally large and multi-generational and household composition includes several extended family members and often exceeds ten persons. The extended family includes paternal and maternal relatives, aunts, uncles, and cousins, including those who may even belong to other clans or tribes.[28] Survey results show that nearly half (46%) of the business owners' have household members between 6 – 10 depending on their businesses, 33% supported household members above 11 members and 22% supported household members between 1 – 5. The average number of household members who depended on the businesses was 9. Interviews with the business owners further revealed that the income they received from the businesses does not only support those living within the households but also other dependents in far-flung rural areas such parents, relatives and grandparents whom they send money monthly.

> 'The proceeds of this shop feed several persons, which include those who currently live with me and my dependents living in our rural home. My elderly mother and sister depend on me and I have to send them money every end month', **a woman loan beneficiary in Mogadishu**

[28]Hawa Ibrahim A. Koshen (2007) Strengths in Somali Families, Marriage & Family Review, 41:1-2, 71-9

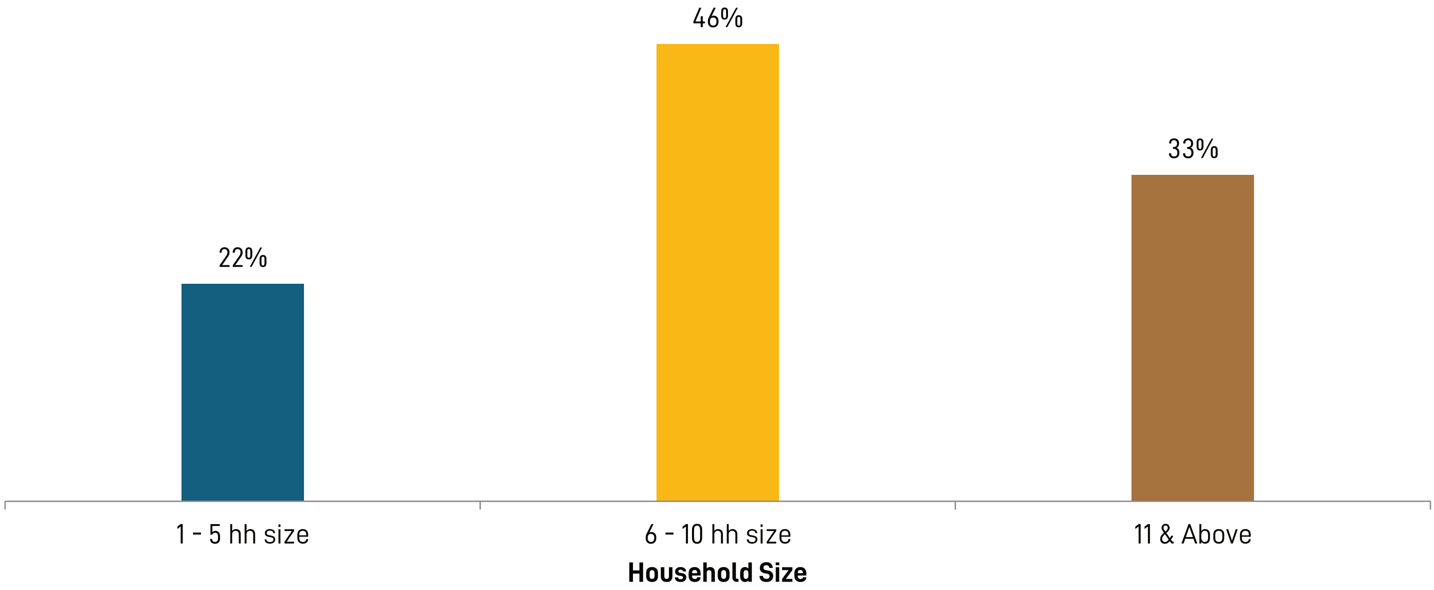


Figure 14: Household members depended on beneficiaries' businesses.

3.3.3.7 Financial skills of the clients

In addition to the credit facility, the programme envisaged the provision of business coaching to the end clients to achieve improved business performance and repayment rates. Generally, the transfer of knowledge to end clients was limited as most businesses did not report receiving proper coaching and skills transfer from the MFI staff - only 26% of the businesses had admitted having received skills transfer related to business management from the MFIs, compared to 74% who did not receive any transfer of skills. Those who admitted to receiving the coaching reported that skills transfer was in the form of advice from the loan officers while on their marketing missions or when receiving applications for the loans, hence no formal training. Statements from women and youth during the FGDs confirm that financial literacy boosts self-confidence and provides crucial tips to maximize profits and expand their businesses.

On their part, while the MFIs admitted that AECF trained ToTs and provided them with business coaching toolkits, they could not justify why the skills transfer activity could not be fully implemented. They indeed acknowledged that the activity boosts the financial literacy of the supported clients, and is an important factor in the overall performance of businesses and loan repayment capacity. But this gap was due to poor monitoring from the senior bank staff who did not set up systems to routinely monitor the work of the responsible loan officers. The evaluation also notes that the reluctance by the MFIs would have been forestalled by continuous monitoring of AECF programme staff of this specific activity.

But it is noteworthy that AECF contracted a Business Development Service (BDS) provider to develop a mobile application platform with coaching capabilities that help end clients access information and gain knowledge on business management and inventory control. The platform aims to allow administrators to upload weekly coaching video lessons and send to AECF to ensure that end clients fully utilize the platform, with support from the BDS firm. Therefore, it is important for the programme to optimize this valuable tool which has the potential to efficiently enhance the skills of business owners. The application will also ease routine monitoring of the skills transfer activity and improve platform effectiveness while ensuring it meets the needs of end clients.

However, it is important to highlight that while the majority (74%) confirmed having not received any form of training or coaching from the MFIs, they have learned crucial business skills by the mere fact that they are now in business and have the mandatory responsibility of repaying debts to the MFIs. For example, women now understand how to access loans and are conversant with the normal turnaround period for loan processing. Consequently, the majority (80%) of the businesses were keeping their records including sales, expenses, and inventory. This was more (82%) among the youth as compared to the adult (79%) and among the male business owners (82%) as compared to the female (79%) beneficiaries. Similarly, over a half (63%) of the businesses separated the records for household finances and the business, with more youth (68%) as compared to the adults (59%) separating the household finances and businesses and more male-owned businesses (72%) as compared to female-owned businesses (55%).

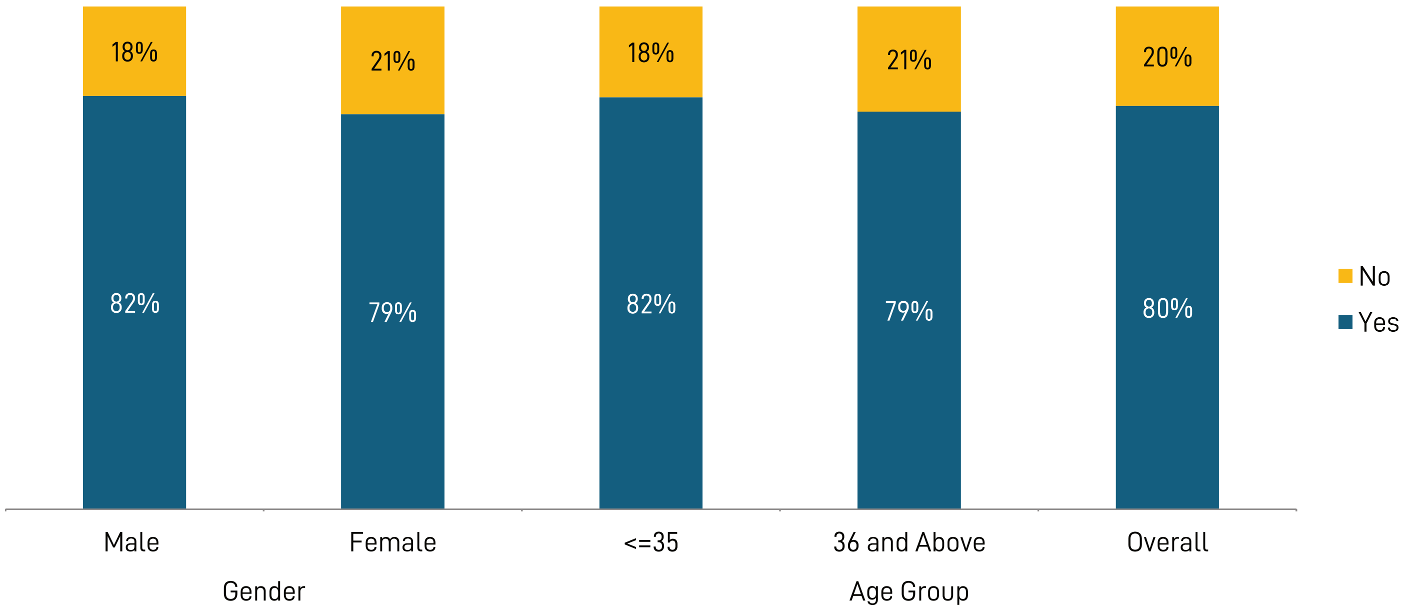


Figure 15: Record keeping of businesses

The survey also found out that majority (85%) of the businesses operated an account from a formal financial Institution for their businesses. This was reported by the younger entrepreneurs (90%) as compared to the adult-owned businesses (82%) and more male-owned businesses (89%) as compared to female-owned businesses (82%). Among the businesses that had an account for business from a formal financial institution, 62% had separate accounts for personal and business purposes. Results also show that a business that has existed for more than five years was more likely to have an account and more likely to borrow from a financial institution – this explains that young entrepreneurs continue to be largely unbanked and are thus less able to get credit. This was attributed to the experiences gained over time through participating in the programme. Testimonies from the beneficiary borrowers echoed this finding, indicating that the loans came with a liability in the form of responsibility thereby pushing loanees to adopt new financial management mechanisms to maximize profits and avoid losses.

> 'With the loans we were supposed to service, we are required to meet deadlines that if we fail might attract penalties or cost the good relationship we have with the MFIs. Therefore, we had to learn business management, keeping records and managing our accounts the hard way' **said, a respondent loanee.**

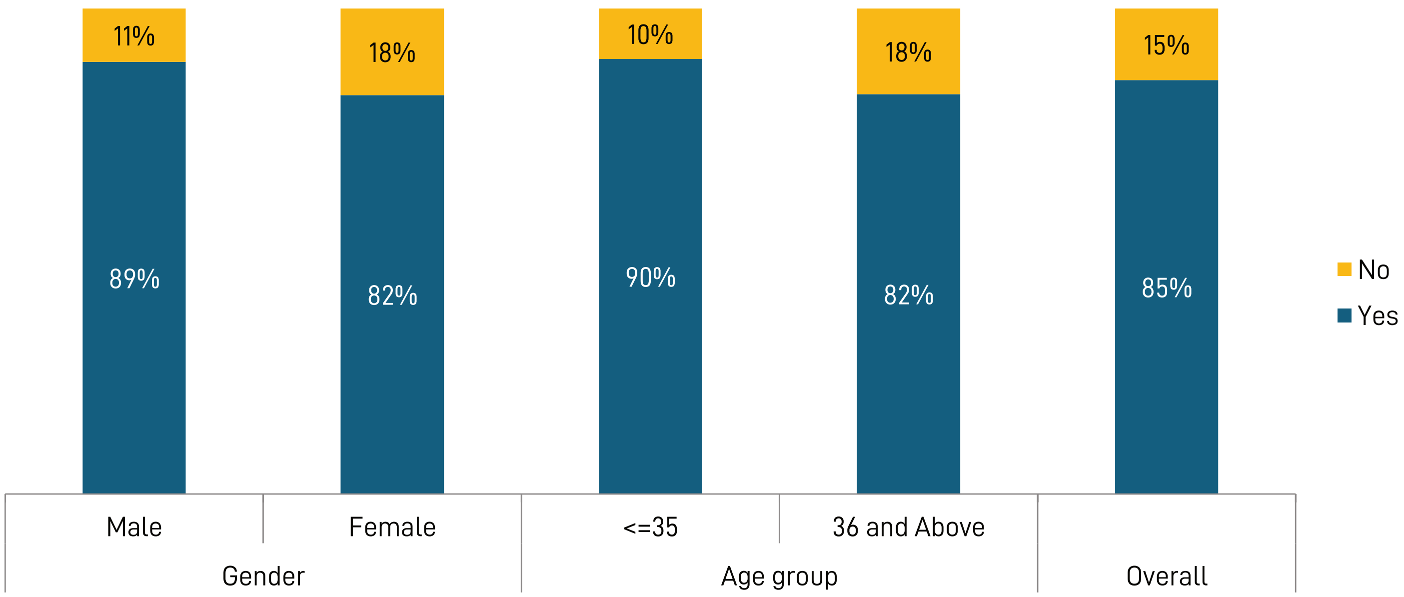


Figure 16: Account for business from formal financial Institution

3.3.3.8 Improved performance of MFIs

One of the key objectives of the programme was to build the capacity of the partner financial institutions through policies, training, development of products etc. to increasingly provide appropriate financial services for a wider scope of customers living in urban, rural, and decentralized areas in Somalia. The programme offered useful institutional development support to the MFIs, through developing policies and procedures, restructuring loan approval matrices, developing clear job descriptions for the loan officers and support staff, improving know-your-customer (KYCs) skills and loan application processes to capture necessary information of the clients and businesses, improving ICT and code banking system report etc. The development of policies and procedures for the MFI policies contributes to the existence of efficient supervision, reporting and investment risk management for these institutions – these are generally seen as relevant to institutions operating in countries where regulatory systems are not effective and the risks are higher. Moreover, the existence of internal controls brought about by these policies and procedures contributes to the quality of risk management within the MFIs to determine whether the key personnel have adequately identified the risks related to their work. Officials of the MFIs also reported that the developed credit procedures and policies used to select potential borrowers, assess repayment capacity and follow-up on issued loans have helped ensure that no default was reported across regions.

The evaluation observed the delivered capacity development training package for MFIs staff enabled them reach out to programme target clients and offer services to the clients. From programme documents and interviews with MFI staff, a total of 117 MFI staff members from both MFIs were fully trained – 76 from MicroDahab MFI and 41 from IBS Bank. The training covered six modules: MSME credit risk management, key tasks of the MSME loan officer, financial analysis, marketing and product development and adult training techniques and best practices (ToTs). MFI staff noted that due to the training offered, knowledge about loan availability was also spread across locations enabling them to reach a larger number of clients. They particularly pointed out that having a cadre of trained personnel who will act as in-house trainers for new staff allowed them to provide the necessary training quickly and efficiently to new loan officers, back-office staff and managers to meet their expansion and outreach goals. Additional benefits the MFIs attributed to the institutional development component include an increased customer base and improved knowledge and experience in risk management and customer service. This notwithstanding, the evaluation concludes that while there is evidence of the impact of capacity-building support on the MFIs, there is a need for more training and system support through attaching experts to the institutions for the longer-term benefits.

In addition, during the programme's implementation, IBS Bank reached three ILED corridors by supporting clients along the Juba River Corridor, Shabelle River Corridor and Central-North Corridor[24], expanding its geographical coverage, and opening five new branches in Garowe, Bossaso, Kismayo, Beledweyne, and Galkayo. The Bank with technical support from the programme, is also expanding into the Somaliland region, having received an operational license from Somaliland authorities to operate in the region. Microdahab has also expanded its scope and coverage, especially in Southcentral Somalia where its customer base has immensely grown, thanks to FIG – Somalia programme.

Survey results show that over a half (52%) of the businesses reported hearing about the loan offer from friends, while 15% of the businesses heard from agents/road shows by the financial institution with more (30%) of businesses from IBS Bank reporting hearing the offer from agents/road shows as compared to the businesses from the Microdahab. But it is interesting to note that despite the programme's efforts in reaching out to clients through social and mainstream media, only 9% and 5% of respondents heard about the loans through social media and radio respectively. This points to a possible gap in the publicity of the programme through the normal media channels. Furthermore, the evaluation notes that this component was not structured well as there were no quite clear activities for outreach targeting businesses in terms of training and coaching them. It is also important to note that the biggest portion of the publicity and awareness activities was started towards the end of 2022 and completed in March 2023.

[29] Finance for Inclusive Growth Somalia (FIG Somalia) 2021 Annual Report

Table 15: How did you hear about the loans offered by the financial institution?

Source of information	Microdahab Bank	IBS Bank	Overall
Friends	59%	42%	52%
From agents/road shows by the MFIs	6%	30%	15%
Family member	13%	12%	13%
From the social media	11%	4%	9%
From advertisements on the radio	3%	9%	5%
From the advertisement on TV	5%	3%	4%
Other	2%	0%	1%
Total	**100%**	**100%**	**100%**

Besides, there is a percentage markup profit charged on the value of loan advanced which has increased their revenue. The markup for IBS is a flat rate of 8% while Microdahab's rate ranges from 5% to 40%. Analysis of MFI data shows that, for Microdahab, an average loan of $1,392 attracts an interest of 7% for a loan duration of 8 months, and an average loan amount of $3,797 was charged at 27% interest rate for an average length of 15.5 months - for IBS Bank, an average loan amount of $1,673 was being charged at 8% interest rate for 12 months. Although no complaints were reported during the midterm review, it would be worth reviewing these rates and possibly rationalizing them in the interest of the end clients.

Table 16: Average Loan amount disbursed and the average interest rate charged

Name of Bank	Average Loan Amount Disbursed	Average length	Av. Interest rate
Microdahab Bank	$ 1, 392	8	7%
	$ 2, 637	13	13%
	$ 1, 784	13.5	19%
	$ 3, 797	15.5	27%
IBS Bank	$ 1, 673	12	8%

3.3.3.9 Establishment of SOMMA

Under the technical assistance component, the programme aimed to build the capacity of local support structures. As a result, the programme team in consultation with the MFIs supported the establishment of a new national microfinance umbrella agency named, Somalia Microfinance Association (SOMMA). The support involved the setting up of the institution's board and other staff, development of relevant organizational policies, and funding a launch event that publicized the new organization. SOMMA officials indicated that the need for creating such an agency was long overdue and stakeholders appreciate the programme's support in this respect. Officials also pointed out that since the Federal Government Ministry of Commerce senior officials were involved in the setting up and registration of the organization, they believe the initiative has the goodwill of the government, hence the prospect for a good working relationship between the agency and the government. They added that the registration and strengthening of the new organization by the programme enabled them attract a good membership – currently, the organization has 7 MFI members including, Microdahab, Kaah International Microfinance Services (KIMS), Midnimo Microfinance, Bushra Microfinance, Maal Microfinance, Raas Microfinance and Amana Microfinance. Registration for three other MFIs, namely IBS, Som Microfinance and Himilo Microfinance that have relevant licenses is in process.

The staff of both MFIs and SOMMA further revealed that the establishment of the umbrella body is bound to inject new impetus into the growing sector. They specifically noted that the body would play a key role in lobbying for the amendment of the Somalia Financial Law that doesn't cover MFIs and Insurance sectors in detail, despite their crucial role in the economy.

> 'Because of Gargaara Finance Limited[30] the World Bank is currently pushing for new policies and the Central Bank of Somalia is in the process of setting up a new regulatory framework for the microfinance sector' **Remarked, a SOMMA official.**

3.4 Sustainability and Future Programming

One of the key programme strategies for ensuring the sustainability of results is by building access to appropriate and sustainable financial products and services for women and youth and catalyzing a sustainable increase in lending to these economic actors in Somalia, to enable them grow and become more bankable. AECF's approach of working through existing structures, seeking to establish lasting relations, makes the programme an interesting model with promising indications for sustainability. In addition, the fact that the programme is not a traditional development programme, but holds a facilitator role, where the most important role is the establishment of lasting partnerships among different market operators, service providers and end-users demonstrates a keen focus on sustainability. The anchorage of financial inclusion initiatives with the private sector will strengthen the sustainability of the services available for poor women and the youth. For example, women and youth are the largest proportion of the beneficiaries, and the fact that there were no defaulters thus far, provides a potential for increased access to finance for these groups who were traditionally believed to be prone to non-repayment of loans.

Beyond the immediate provision of finance/credit to vulnerable groups (women and youth) and supporting SME owners' dependents, the programme has led to the creation of short-term employment opportunities as multiplier effects. Respondents expressed satisfaction and appreciation for the opportunity to access loans for their businesses. Insights from women, youth and producers suggest many of the loan recipient businesses have grown and already realized profits as the programme has created the enabling environment that is required for scaling up business operations.

The investment's capacity building of MFI institutions has also exposed both institutions' staffs to relevant skills development, the majority of who did not participate in formal trainings before. Moreover, through the programme's efforts of setting up SOMMA, respondents have reported that the initiative will pave the way for increased engagement of MFIs with the relevant government agencies and other private sector companies that may help develop the sector. They further noted that there is a huge prospect for tangible results from SOMMA which is expected to be a strong agency that will lobby for the sector in terms of government policies and developing friendly regulatory frameworks that are currently weak or absent.

3.5 Key lessons learned.

1. Despite the popular belief that default and non-payment of loans are common in Somalia, the programme has so far not experienced any default by clients to repay the loans. The MFIs' efforts in lending to credible clients with reliable guarantors, and the use of group lending and the programme's strategy of ensuring the low visibility of the donor (EU) and AECF in the programme implementation were helpful in this case.

2. Believing in, and supporting local private financial institutions is key to unlocking some of the myths related to local organizations in Somalia. It is also a strategy to promote localization that would strengthen local institutions.

3. Partial Guarantee Funds motivate financial institutions, especially in fragile contexts where regulatory frameworks and relevant national policies are weak or nonexistent. MFIs admitted that the availability of the PGF offered them more courage to risk lending to clients without tangible collateral.

4. MFIs and banks in Somalia prefer Murabaha as the main investment financing tool for businesses which involves the sale of a commodity for cash/deferred price at a profit. Other products may not work well in the current context of Somalia due to the high risks involved. For example, Musharaka requires clients to contribute a certain percentage where the risk sharing is proportional to the contributed amount, which is a challenge for vulnerable people; Mudaraba requires financial institutions to fully finance proposals by clients where the client contributes his/her skills and time to run the project. Therefore, the need for a more robust assessment/study on the most ideal Islamic Finance Models that would also serve the interest of the lenders as well as the borrowers.

5. Leverage matching funds are a win-win for both target clients and MFIs. With an initial fund of four million euros, the funds have now grown to nearly 8 million euros in less than 2 years which is an impressive performance.

6. Group lending is a reliable risk management model for low-income SMEs in Somalia. When clients are given loans in a group, they are more responsible for meeting repayment schedules as members of the groups work together and help each other in paying required instalments.

[30] Gargaara is a Somali financial institution funded by the World Bank that is facilitating access to finance for Micro, Small and Medium enterprises (MSMEs)

7. Working with multiple partners (Microdahab and IBS) is also a risk-minimizing approach in pilot programmes such as FIG - Somalia where performance is dependent on multiple counteracting factors.

8. The low capacity of the MFIs combined with a context of private sector stakeholders that are unfamiliar with engagement in partnerships aimed at addressing social issues while making a profitable business underscores the need for a sufficient timeframe for them to learn, i.e., at least five years. For example, Microdahab MFI in particular indicated it no longer wanted more publicity because it was already dealing with an influx of clients to its branches following an offer in December 2022. It noted that all the publicity materials be held back for dissemination until April/May 2023.[31]

3.6 Programmatic challenges

1. Although both partner MFIs have, to varying extents, succeeded in establishing networks and promoting access to the three products to a large clientele, the limited penetration of the MFIs' networks in rural areas, as well as relatively low level of product awareness have all provided a challenging context to the programme. Therefore, the knowledge gap, both in terms of awareness of the services available and how to access them; and challenges related to geographic access as many rural areas do not have bank access, affects financial inclusion, especially for those living outside the main urban centres.

2. The programme's limited efforts in transferring relevant entrepreneurial skills to end clients of the loans have been identified as a key gap in the programme implementation. While the midterm review notes that 26% of the end clients have admitted the MFIs offered them coaching on business management, the majority (74%) did not report receiving any skills transfer from the MFIs.

3. Limited investment financing tools - most MFIs, if not all, provide credit in the form of Murabaha which involves the sale of a commodity for cash/ deferred price at a profit. However, small businesses often need customized and diversified loan products that would not limit them to only in-kind loans.

4. Somalia's Doing Business ranking is the lowest at 190 out of 190 (Doing Business 2019) and the country has one of the most expensive electricity rates, at almost US$1 per kilowatt[32], and correspondingly the lowest rates of electricity usage in the world. This often affects the profitability of SMEs who are already grappling with the harsh business environment and the high transport costs.

5. Currently, the Central Bank of Somalia (CBS) does not regulate microfinance institutions operating as non-bank financial institutions (NBFI) due to the limitations of the Financial Institutions Law (FIL). As it happens, MFIs are not allowed to accept deposits, hence struggling with liquidity challenges affecting their capacity to lend. Supporting microfinance institutions through regulatory policies, and formalization procedures could play a pivotal role in improving access to finance for the local populations.

6. Value chains in the existing productive sectors lack adequate infrastructure for scaling up and adding value because existing productive sector value chains are mostly informal with little or no value addition. This particularly affects the fishery sector as the fisher folks lack adequate capital, and are not educated on the opportunities of the sector and hence need investment in the relevant systems, and infrastructure e.g., cold storage and marketing – the current loan ceiling doesn't allow for such expansions. Most of the raw materials are sold un-processed or semi-processed with marginal benefits for the producers.

7. Insecurity, especially in rural locations limits access to deserving SMEs, hence excluding the population in need of financial inclusion.

8. Climate shocks, such as frequent droughts and floods, continues hindering MFIs' ability to finance productive sectors like small-scale farmers and livestock owners in Somalia. The natural disaster has affected crops, pastures, and livestock, which are the main sources of income for rural households in the country. Additionally, the increased frequency and severity of climate shocks have made lending activities challenging for MFIs, leading to reluctance to lend to sectors that are most vulnerable to climate risks.

[31] Communications Support to MFIs in Somalia Report, AECF (2023)

[32] Programme Appraisal for Somalia Capacity Advancement, Livelihoods and Entrepreneurship, Through Digital Uplift Programme, World Bank 2019

3.7 Suggestion for further research

The midterm review observes that, while the assessment has covered the primary purpose of the evaluation, the findings presented are not free of limitations inherent to the research questions, hence a number of crucial indicators were not captured well in the study. Consequently, this study suggests further research focus on the following key areas; number of rejected loan requests and the reasons for such rejection, portfolio at risk, the effects of credit on salaries paid to employees. The evaluation also suggests the need for a more robust assessment/study on the most ideal Islamic Finance Models that would also serve the interest of the lenders as well as the borrowers. In addition, deeper analyses on the relations between the Technical Assistance provided and MFI policies and how the MFIs work with saving groups needs to be studied.

RECOMMENDATIONS

1. Diversify investment financing tools beyond Murabaha-based loans to facilitate access to finance that meets the unique needs of various clients. The evaluation recommends Mudarabah financing (one partner gives money to another for investing in a commercial enterprise and the profits generated are shared in a predetermined ratio) for larger SMEs with reliable track records in loan repayments.

2. To enhance coverage of the financial inclusion intervention, there is a need to increase the number of MFIs to provide access to financial services for the rural folks and communities living in areas that are not currently served by both IBS Bank and Microdahab MFI.

3. Technical Assistance services complement the financial services provided by MFIs, as the entrepreneurial ecosystem is still very nascent in the country. Local enterprises often lack knowledge and know-how of the various processes, procedures, and technologies that contribute to the faster growth of the private sector. Therefore, the programme should continue providing technical assistance to the partner MFIs to enable them discharge their mandate of increasing access to finance.

4. AECF should engage a Third-Party Monitoring (TPM) Agent to continuously monitor the implementation of FIG programme by the MFIs. This would ensure deliverables by the MFIs are met on time, failure in which the TPM agent will report for immediate corrective actions to be taken by AECF.

5. Supporting infrastructure in the productive sector value chain as incubators for women and youth entrepreneurs is recommended. The programme should endeavor to link beneficiaries in the productive sector value chain, specifically from the fishery sector to other relevant agencies or programmes for them to be supported with facilities that would assist them in scaling up value addition for better margins.

6. In consultation with the MFIs, there is a need to increase the loan ceiling to $5,000 for medium-scale enterprises to enable businesses expand their scope and capacity.

7. Facilitate exchange programmes and tours for MFIs in neighbouring countries such as Kenya, Uganda, Tanzania and Egypt (for a wider understanding of Islamic Finance for marginalized groups) for exposure and capacity building for MFI staff and for them to borrow ideas to improve their internal systems.

8. Microdahab MFI reported that the capacity-building training for their staff was conducted online. While the online training was based on their request, future training should be done one-on-one to enhance effectiveness and outcomes of the training.

9. Based on the strong performance and relevance of the FIG programme at midterm, the evaluation recommends scaling up the programme and ensuring the continuity to enhance financial inclusion in the country.

10. Database provided by the MFIs lack crucial data such as disaggregation of clients' information by rural and urban, hence the need for thorough audit of the loan database and ensure all gaps are plugged for future programming.

11. To enhance outcome of business coaching for the loan borrowers, AECF should closely monitor the contracted Business Development Service (BDS) provider. Submission of monthly reports by the BDS would be helpful in ensuring the platform meets the needs of the end clients.