



# **FINANCIAL SECTOR DIAGNOSTIC STUDY FOR** **HARGEISA, SOMALILAND**

**April 2013**

## **ACKNOWLEDGMENTS**

This study is the result of collaboration between ILO Somalia and the Government of Somaliland. It was made possible through the contribution of ILO African Regional Office. The study was conducted for ILO, Somalia by Finline Systems & Management Ltd; a microfinance consulting firm based in Nairobi, with the assistance of the Ministry of Planning, Somaliland. The team was led by Kamau Kabbucho and included Humphrey Kajimba and Ibrahim Madar (Finline); Ilias Dirie; Najma Elmi (ILO); and Dr. Elmi M. Nur (Ministry of Planning, Somaliland). The team would like to thank Somaliland government departments and private sector financial institutions that collaborated with information, the team of ten Hargeisa University students who participated in the field research as enumerators and the ILO Hargeisa office staff that provided administrative and logistical support. It was through the support and direct involvement of each of them that the completion of this report was made possible.

## Executive Summary

The study was commissioned by ILO to assist the Somaliland administration in developing a road map on how to develop and make the financial sector policy more inclusive and recommendations on how to provide financial services, while meeting the needs of the various actors; and development of a project document based on findings and opportunities for ILO and other development partners to assist in development of an inclusive financial sector. The report also provides a framework for capacity building for both the supply side and demand side stakeholders. The diagnostic study takes a holistic look at the financial sector current capacity and gaps for banking, insurance, microfinance and Savings and Credit Cooperatives (SACCOs) as well as non-financial sector social economy service providers such as producer and marketing cooperatives, by identifying market opportunities, policy imperatives as well as potential market and regulatory barriers to exploit these opportunities. The study is based on literature review and field assessment conducted in Hargeisa in December 2012 to analyze access to financial services by households and businesses.

### Supply side analysis

The survey indicates that a few finance service providers are available on the market, providing limited loans and savings facilities to small and medium enterprises as well as groups of low income and small scale entrepreneurs, particularly women, and low salaried workers. Products offered by service providers include use of *Murabaha*<sup>1</sup>, *Mudaraba*<sup>2</sup> and *Qardul Hassan*<sup>3</sup> as instruments of financing their clients. *Murabaha* mode of financing has the highest share of *clients* whereas the clients consuming *Qardul Hassan* mode of financing have relatively small proportion. Average size of loans offered is about US\$ 500 for low income borrowers and as much as US\$ 45,000-300,000 for larger borrowers. To a limited extent, non-financial services such as skills training, financial literacy and record keeping trainings, marketing and business management trainings are provided to clients.

Over the past 15 years, a number of international NGOs and multilateral organizations have set up microcredit programs, particularly targeting low-income women and formerly displaced persons. Savings-led models that build upon traditional *hagbed* savings groups also exist and continue to be common in both rural and urban areas.

Dahabshiil is the main supplier of formal financial services. It offers remittances, checking, savings, and debit cards (e-cash). They are about to launch a mobile money product called E-

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<sup>1</sup> Murabaha is not an interest-bearing loan, which is considered *riba* (or excess). Murabaha is an acceptable form of credit sale under Sharia. Read more: <http://www.investopedia.com/terms/m/murabaha.asp#ixzz2JkTvsnKS>

<sup>2</sup> "Mudarabah" is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise

<sup>3</sup> "Qardul Hassan" "This is a loan extended on a goodwill basis, and the debtor is only required to repay the amount borrowed. However, the debtor may, at his or her discretion, pay an extra amount beyond the principal amount of the loan (without promising it) as a token of appreciation to the creditor. In the case that the debtor does not pay an extra amount to the creditor, this transaction is a true interest-free loan.

Dahab. In terms of “credit,” the company provides overdraft services. For businesses that have a good history with Dahabshiil, during which they can show their consistent business activity, Dahabshiil will offer overdrafts of \$100,000-\$300,000 regularly, and even up to \$1 million which requires the signature of the CEO. Using Islamic finance practices, interest is not charged on this overdraft.. Loans are offered based on assessment of applicant and how applicant is known by Dahabshiil. These are short period loans of up to 12 months. Currently Dahabshiil has issued some 500 loans with a value of \$500m . About 70% of the portfolio is in goods and the rest mainly in real properties.

### **Demand side analysis**

In addition, demand side analysis targeting both households and businesses has been undertaken to establish the need for financial services and products; levels of access to financial services and products; landscape of access in terms of transactional, credit, savings and insurance products. The study also analyses the drivers and barriers of financial inclusion (rich, poor, in urban and rural areas).

Survey results reveals that households have an income of US\$ 407 per month from various sources and spend an average of US\$ 281 per month on various expense items, leaving disposable income of US\$ 140 per month which could be saved or used for other forms of investments. Out of 164 respondents, only 16% had formal accounts, mostly with the remittance companies. The accounts are mainly used for receiving payments for work done or trade and savings and for remittance from family members elsewhere. However majority (84%) do not have accounts, mostly attributed to the perception of not having enough money to save (74%); expensive services (8%); interest charged/riba 6%); lack of trust of financial institutions (4%); others lack necessary documentations such as ID card etc (4%) and distance factor (2%). There are those who feel that they do not need to own accounts because someone else in the family has an account (2%). Deposits and withdrawals to the accounts are mainly done 1-2 times a month (12%) or 3-5 times (2%), mainly over the counter (9%), mobile phones (4%); cheque (2%) and ATM (1%).

About 44% of the households save money in one form or another while 56% do not save. The main reasons for saving are to buy goods and services (46%); pay school fees (21%); buying house (19%); saving for emergency, especially health purposes (7%); for extension or renovation of house (4%) and for performing last rites/marriage (1%); and to buy livestock or farm inputs (1%). Amongst those who save, there is higher preference to save with hagbeds (25%); banks of remittance companies (22%); 17% save using the mobile money service. Other forms of savings include keeping in the strong room at home (13%); keeping with the shopkeeper (13%); or keeping with the family or friend (7%) or saving in form of property e.g. livestock (4%).

Hagbed (also referred to as rotating savings and credit associations-ROSCA) form of saving and access to funds are common amongst households due to the trust placed on such models. About 44% of households use ROSCA (hagbed), and contribute frequently. In terms of gender,

more female than male contribute frequently to ROSCAs i.e. at 24% and 11% respectively. The main reasons is to save on periodic basis (23%); to purchase household goods (5%) for unexpected emergency/events (4%); and 2% to purchase fixed assets (land, houses, and cars) while 1% indicate that formal institutions financial institutions are located too far.

There is limited borrowing by households within Hargeisa Municipality, as only 30% have borrowed money while 70% have not. Borrowing is mainly from friends (18%); purchase of goods and services on credit (3%); (3%) borrowed from employers; 2% from *hagbed* while the remaining 2% borrowed from remittance companies and or deposit takers or private money lenders. The main reasons for borrowing has been to buy goods and services (11%); none (10%); to pay school fees and related expenses (5%); emergency and health purposes (3%) and for building, extension or renovation of house (1%).

Money transfer is also common amongst households. About 45% confirmed that they have sent and received money within Somaliland in the past 12 months. Out of these, 27% have used mobile phone money transfer services (*zaad*), while 14% have used the services of remittance companies (*hawala*); and 4% have used friends or family members to send money. This indicates an emerging trend of technology in accessing financial services, especially mobile money services. 27% of respondents use mobile money services (*zaad*) mainly for sending or receiving money; 23% use it for paying goods and services; 15% for saving money while 3% use it for buying airtime.

### **Access to finance services by businesses**

About 168 business people were interviewed from 5 districts of Hargeisa Municipality. Most of the businesses interviewed are general retail businesses such as shops, butchery, hardware etc. as indicated by 84% of respondents. Other important businesses include dairy businesses (8%); khat trade (2%); fish business (2%) barber/beauty salons (2%) and automobile/motorcycle repair (1%). They can be categorized as small and micro enterprises (58%); 33% are medium enterprises while 10% are large enterprises. These businesses are owned sole proprietor businesses (86%); 13% are partnerships and 1% company owned.

The businesses seemed profitable and on average, all businesses make monthly sales of US\$ 10,724 per month. Specifically, large enterprises have monthly sales of over US\$ 62,919 and make profits of US\$ 7,313; medium enterprises have monthly sales of US\$ 11,384 and a profit of about US\$ 3,404. Small and micro enterprises have monthly sales of US\$ 10,724 and make an average monthly profit of US\$ 2,063.

Most of the businesses had important documents held in the business name, namely tax registration documents (33%); operating licenses (32%); and certificate of registration (29%). Other documents include government tax (4%); and audited tax account (1%).

However, only 26% of businesses have and use accounts with the formal institutions, while 74% do not. The accounts are mainly for receiving money or payments for work or selling of goods and services (15%). About 10% use it for savings while 1% use accounts for receiving money or

payments from the government. Most of the transactions are done on daily basis (13%), especially over the counter (6%), mobile phone (4%) or through cheque (2%) and ATM (1%). Transactions are also done on monthly basis as indicated by 9% of the traders, in this case mostly through cheque (5%), over the counter (1%). About 4% of the traders transact with their accounts on weekly basis, while only 1% transact once in 3 months.

For those who do not operate accounts with the formal financial institutions, various reasons were given. About 33% claim not to have any money; 15% don't trust financial institutions while 13% claim that service fee or premiums are too expensive. Other important reasons include interest charged/riba (5%); financial institutions are located far away (4%); or someone else in the family has an account already (4%). Lack of necessary documentation such as ID card, wage slips etc. was a reason for only 1% of the traders interviewed.

In addition to ownership of accounts, 33% of the traders who have accounts with money transfer companies belong to *Hagbed*, while out of the 74% that do not have accounts, 46% are not in *ROSCA/Hagbed*. The main reason why traders are in *hagbed* is mainly for them to save on periodic basis (26%); and for the unexpected event or emergencies (3%). Other reasons are attributed to the high cost of maintaining formal accounts (1%) and the fact that formal financial institutions are generally located far away (1%).

The usage of mobile money transfer is high amongst traders. About 161 (96%) use mobile money services. However, the usage is higher amongst traders aged between 18-30 years (53%) and 31-40 years (31%). The usage amongst age group of 41-60 years is 12%, while the rest are above 60 years.

Traders save their money (63%) mainly for buying goods and services (39%); buying houses (13%); to pay school fees and related expenses (5%); for building extensions or renovation (3%); to buy livestock or farm inputs (2%); or for emergency/health purposes (1%); and for performing last rites or marriage (1%). Most of the saving is done through mobile money service popularly known as *zaad* (18%) the *hagbed* (16%); banks, mainly remittance companies (14%); and keeping in the strong room at home (8%). Others save with shopkeepers (5%); keep with family or friends (1%) and saving in form of livestock or property (1%).

Most of the traders in Hargeisa Municipality have not borrowed money in the last 12 months. This constitutes 65% of the total number of traders interviewed. However, for those who have borrowed, about 19% have been buying goods from suppliers on credit; while 10% have borrowed from family or friends. About 4% have borrowed from *hagbed* while the remaining 3% have borrowed from employers, microfinance institutions or remittance companies. The main purpose of borrowing has been to buy goods and services as indicated by 27% of the traders; However, about 3% borrow for emergency or health purposes; 2% borrow for buying house; 2% for building extension or renovation purposes and 1% borrow to pay for school fees and related expenses.

In terms of gender, more men than women traders have access to financial services. Majority of men (24%) have accounts with the formal money transfer companies as opposed to 2% women. In mobile phone money transfer, about 79% of the users are men in comparison to 17% women. About 24% of men use hagged services compared to 8% of women. There are various factors which affect women in accessing financial services, some of which are religious or cultural.

### **Policy and regulatory framework**

Policy and regulation analysis of the finance sector (institutional, product, market and prudential regulation) has been undertaken to understand the finance market and how it is currently regulated. The study acknowledges efforts in developing policy and laws to facilitate access to financial services, such as Banking Act; Micro finance act. However, gaps have been identified in the development and enforcement of policies, legal, regulatory and institutional reforms for the finance sector.

- The policies are piecemeal in nature (i.e. sector specific and delinked from each other) and not anchored on a whole financial sector system.
- All policies and laws have not been operationalised due to lack of resources, capacity challenges etc. and thus not effectively used;
- The policy and regulatory instruments are weak, without supportive infrastructure;
- New emerging technologies like mobile phone and banking services is taking up root in Somaliland and gaining public trust amongst population. However, there challenge in developing policies and laws that keep up with technology pace. This opens an opportunity for finance service providers in developing self-policing practices for this industry in the absence of government interventions.
- Are weak and inadequate in client protection
- The country's own institutional capacity for statistical information generation for policy is limited. Lack of information is very much reflected in inadequacies in policy formulation. One is not sure if even the available limited information is validated for its reliability and authenticity.

Therefore Development Partners should consider supporting development and operationalization of a whole financial sector framework for the country. For example, establishing policies; building legal and regulatory framework; building other financial infrastructure; developing key institutions; and developing/upgrading skills. Development partners may support the government and private sector players in designing client protection laws; improve regulation and supervision of financial institutions; and development of prudential regulation and supervision (in general), and self-regulation. Development partners should support development of regulations that promote access to financial services through technology advancement.

In order to reach financial inclusion, programs and strategies put in place should (i) address full financial product suite; (ii) products provided with quality; (iii) reaching all who can use the services; (iv) in a diverse, competitive marketplace; and (v) to an informed clientele. However, reflecting on each of these pillars draws attention to the gaps that exist on both the quantity

side (excluded population) and the quality side (existing clients with poor services). Therefore, to achieve financial inclusion in Somaliland, efforts are required through intervening in the following areas (i) Financial education and literacy; (ii) product range, informed by understanding client needs; (iii) technology-enhanced delivery channels; (iv) client protection; (v) institutional capacity building; and (vi), sound policy and regulatory framework.



## List of acronyms

ATM	Automated Teller Machine
DRC	Danish Refugee Council
GDP	Gross Domestic Product
FSD	Financial Sector Deepening
ILO	International Labour Organization
IOM	International Organisation for Migration
K-MFI	Kabaa Microfinance Institution
K-REP	Kenya Rural Enterprise Programme Bank
LCs	Letters of Credit
MFI	Micro Finance Institution
MTO	Money Transfer Organization
NRC	Norwegian Refugee Council
NGO	Non-Governmental Organisation
RoS	Republic of Somaliland
ROSCA	Rotating Saving and Credit Organization
SACCO	Savings and Credit Cooperative Organisations
SME	Small and Medium Enterprises
TOR	Terms of Reference
UNHCR	United Nations High Commission on Refugees

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# 1.0 INTRODUCTION

## 1.1 Background to the study

There is a significant demand for financial services from both individuals and small-medium businesses, which remains unsatisfied, even at basic levels in Somaliland. This could be partly attributed to the fact that there are few formal financial institutions operating in Somaliland, including the Central Bank and the remittances companies, which have extensive networks of agents that service all towns and villages, as well as major cities in countries populated by the Diaspora.

The principal pillar of the current financial system in Somaliland is the remittance industry, which offers money exchange, remittance services, checking accounts as well as overdraft facilities for a small number of trusted customers. While commercial banks and formal microfinance institutions do not exist in Somaliland, there are a few NGOs that offer microfinance services to a limited segmented of the business community. These include donor programs supporting income generation projects that provide small grant capital for starting micro, small and medium enterprises (MSMEs)<sup>4</sup>.

Investors have expressed an interest in establishing formal banking operations in Somaliland, but have been constrained by the absence of a sound legal and regulatory framework, a strong property rights culture, enforceable collateral contracts, accessible credit information systems and related financial infrastructure.

The financial sector development is dependent on a sound legal and regulatory framework and the ability of central banks to provide the necessary support and supervisory functions. However, no legal framework has been established for banks, and no banking supervision function and regulatory skills have been developed within the Bank of Somaliland. Without a clear legal framework enforced by a functioning regulator, there is little scope for attracting private sector investors to establish banks and other financial institutions across Somaliland. There have been attempts by the Somaliland Parliament to introduce a new banking law that would strengthen its regulatory functions in support of a functioning commercial banking system. If this proposed banking law is passed it would allow these remittance companies to evolve their financial services within Somaliland.

The objectives of this initiative is to help create basic financial institutions that can work with low income Somalis, special target groups such as retired civil servants, unemployed youth, etc. and provide financing to create MSME that create jobs and livelihoods to the target groups so that unemployment (and social ills linked to it) is reduced and Somalis get decent income that the government has not been able to provide at present by way of social protection, pensions and other traditional means of helping retiring civil servants, youth entering the job market,

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<sup>4</sup> Who Needs a Bank? A Rapid Market Survey of Somaliland's Financial Service Landscape. Report submitted to PAC in January 2012 by Fineline.

women who face specific barriers to wage and self-employment, and others who are able and ready to work.

There is very little valuable documented study on the demand, supply and regulatory sides of financial access; and, therefore, this diagnostic study is carried out in order to establish the policy and regulation as well as the market development needs of Somaliland. To achieve financial inclusion in Somaliland, there is urgent need for clear information of financial services providers and distribution networks as well as their efficiency and outreach, in particular in the rural agricultural/ pastoralist and urban informal sectors.

## **1.2 Objectives of study**

As per the Terms of Reference (TOR), this study is to provide a solid information base in order to facilitate/catalyse a collaborative domestic process led by the Somaliland Ministry of Planning and Development that will, in turn, serve as the basis for planning and implementing actions and programs that will access to financial services to at least 50% of the population in the next five years.

The diagnostic study takes a holistic look at the financial sector current capacity and gaps for banking, insurance, microfinance and SACCOs as well as non-financial sector social economy service providers such as producer and marketing cooperatives, by identifying market opportunities, policy imperatives as well as potential market and regulatory barriers to exploit these opportunities.

The diagnostic study forms the basis of a broader process whereby local stakeholders drawn from financial institutions, relevant government ministries e.g. finance, planning, commerce; and international/local development organisations are engaged and supported to remove barriers and promote financial inclusion. The process will catalyze the involvement of a wide range of stakeholders ranging from policy makers and regulators to market players, intermediaries and different entities that can represent the currently excluded population. Particular attention will be given to involving parties that are relevant but are not typically involved in specific sector discussions.

The output of this study is a diagnostic report that provides a road map on how to make the financial sector policy more inclusive and recommendations on how to provide financial services, while meeting the needs of the various actors. The report also provide framework for capacity building for both the supply side and demand side stakeholders.

## **1.3 Scope, approach and Methodology**

### **1.3.1 Scope and approach**

Somaliland finance sector is mainly in the hands of private sector and has been operating in unregulated environment. An effective protection of the rights of investors and a framework of known legal rules are conducive to stronger economic development. However, developing effective legal and regulatory models in Somaliland may be a challenge given the inadequacies

in resources (both financial and skills) by the government in implementing the framework. A legal or regulatory system may need to be designed differently to take this and other factors into account.

A supply side analysis was undertaken to cover the full financial service product, provider and distribution landscape (including both formal and informal financial providers, informal and formal channels of finance products distribution, informal and formal financial products being provided on the market (in terms of costs, access and targeted population). A number of providers of financial service providers have been interviewed, such as money transfer agents like Dahabshiil, Kabaa, mobile phone companies and a few NGO microfinance providers.

In addition, demand side analysis targeting both households and businesses has been undertaken to establish the need for financial services and products; levels of access to financial services and products; landscape of access in terms of transactional, credit, savings and insurance products. The study also analyses the drivers and barriers of financial inclusion (rich, poor, in urban and rural areas).

Policy and regulation analysis of the financial sector (institutional, product, market and prudential regulation) has been undertaken to understand the financial market and how it is currently regulated. In this category, a review is being undertaken on the policy and supervisory mandates, authority and objectives; find out the defacto/de jure institutions. The study aims to build on what the World Bank has done in this area and review the Central Bank Law and draft Commercial Banking Law to assess the depth that these legal instruments go towards increasing financial inclusion and if not, to make necessary recommendations.

The findings will be presented to a stakeholder workshop in Hargeisa for review, comments, inputs and validation. Based on the recommendations and input from the stakeholder consultation develop a proposal for financial inclusion for Somaliland.

### **1.3.2 Methodology for data collection and analysis**

#### **a) Literature Review**

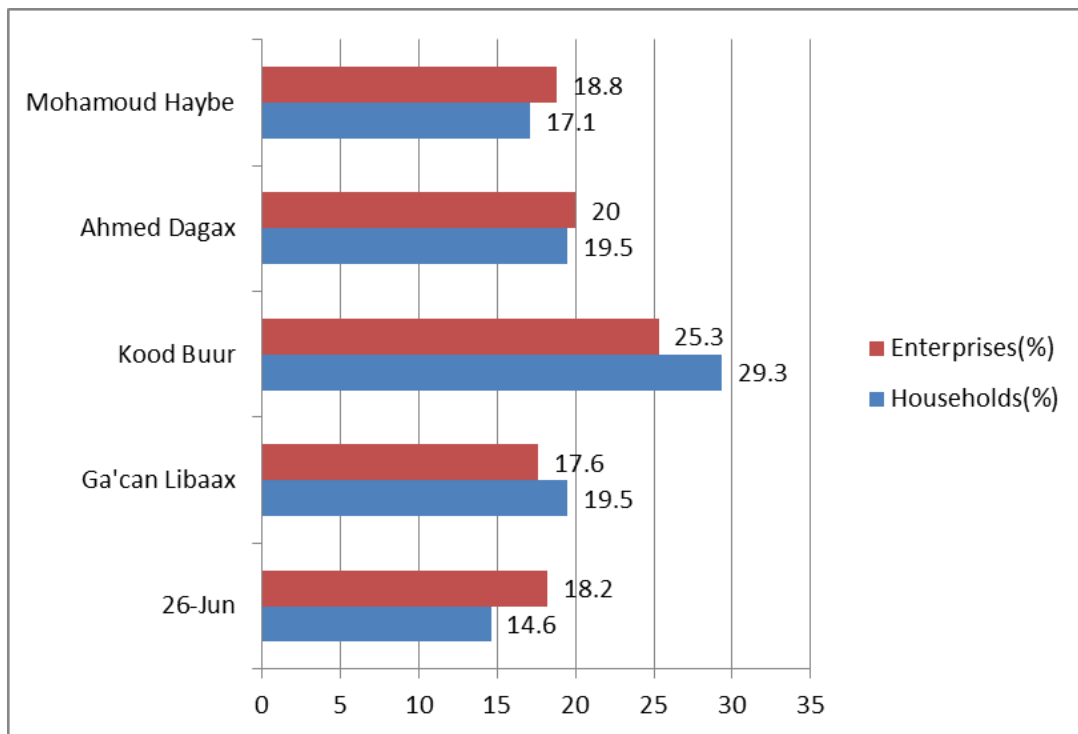
Initial review of existing information has been undertaken on banking, cooperatives and microfinance/insurance sector in Somaliland; review the finance regulations that are deemed necessary for a successful completion of this task after prior consultation with the relevant government ministries, central bank, chamber of commerce. The study team has also reviewed a wide range of documents development plans, diagnostic studies for other related sectors and obtain statistics of business licensing data base from the Hargeisa Municipality and ministry of ministry of Commerce - though it may not be statistically fully reliable but reasonably informative.

## b) Field Data collection

Fineline developed and administered the supply and demand side questionnaires largely modified from the existing Financial Sector Deepening (FSD). Questionnaire was developed to enable collection of data from households and businesses. The questionnaire was pretested in Hargeisa and reviewed to make it more useful in collecting data<sup>5</sup>. Fineline trained enumerators to collect data from a range of enterprises in Hargeisa.

The survey began by training of the research assistants on 4th December 2012, followed by pre-testing of the study tools and revision of the questionnaires on 5th December. The data collection then began in all the five districts of 26 June, Ahmed Dagax, Ga'can Libaax, Mohamoud Haybe, and Kood Buur until the 11th December with a total sample consisting of 164 households and 170 entrepreneurs randomly selected all in Hargeisa municipality. Excluded from the sample were the non-urban areas of the municipality due to difficult access and limited time for the study.

**Figure 1: Selection of household and business respondents in Hargeisa Municipality**



To conduct the financial inclusion survey, ten local interviewers affiliated with undergraduate courses in economics and statistics were selected mainly from the University of Hargeisa (responsible for groups of municipalities in the town's five districts), and two field supervisors.

<sup>5</sup> The final versions of questionnaires used have been annexed to this report



In addition to the coordinator, supervisors, and interviewers, a study of this size required collaboration by numerous professionals who contributed anonymously to the survey's success.

The data was input into SPSS analytical package cleaned and analysed and report developed.

### **c) Interviews**

Fineline introduced the team and the assignment to government and key stakeholders. Interviews were also held with key stakeholders in the sector. These include the government ministries like Ministry of finance, Ministry of Planning National Development and International relations; ministry of commerce and industry; Bank of Somaliland to establish the current status of banking/ finance/ cooperative/ microfinance, and current government thinking and initiatives in regulating the finance sector; how regulation is undertaken in other sectors; effectiveness of current efforts in regulating different sectors following the three pillars of regulation (independence, transparency and investor/consumer protection). In addition, interviews were held with the private sector players in the finance market like the remittance companies such as Dahabshill, micro finance and existing cooperative societies to understand their thinking and willingness to work under a regulated finance market as well as investor confidence.

### **1.4 Limitations of the study**

The major limitation of this study was availability of reliable data given that there is no clear validation and determination of accuracy. Therefore all estimates regarding the magnitude of financial inclusion to Somali people must be treated cautiously. Such data was not freely available, neither was it possible to extract such information since most of the financial service providers regard such information as a commercial secret.

Other main challenge was to reach the most distant households and have all citizens appreciate the importance of their participation in the usage financial service and improvements for the entire Somaliland population and finally the limited language proficiency that called for interpretation of the questions by the interviewers into the Somali language.

### **1.5 Organization of this report**

The report is organized in six sections. Section 1 is the introduction; section two presents the overview of financial sector in Somaliland and analyses the supply side landscape and products; section 3 is an analysis of the financial assess to households; section 4 is the analysis of financial services for business. Discussion of findings, conclusions and recommendations has been presented in section 5. Section six is the list of references used in the study.

## **2.0 OVERVIEW OF FINANCIAL SECTOR IN SOMALILAND**

### **2.1 SOCIO-ECONOMIC CONTEXT**

Somaliland, which was a British Protectorate until 26 June 1960, became a part of the Somali Republic on 1 July 1960 and independent Republic of Somaliland (RoS) on 18 May 1991. It is a democracy with a multi-party system. It is located in the Horn of Africa. It shares its boundaries with the Gulf of Aden in the north, Somalia in the east, the Federal Republic of Ethiopia in the south-west, and the Republic of Djibouti in the north-west. Somaliland covers an area of 137,600 sq km with a coastline of 850 km in length. Geographically, the country consists of thirteen regions, viz., Awdal, Maroodi-jeeh, Saahil, Togdheer, Sanaag, Sool, Gabilay, Salal, Oodweine, Saraar, Buhoodle, Hawd, and Badhan, which together consist of 81 districts. It had an estimated population of 3.85 million in 2009, of whom 55 per cent constituted nomads and the rest urban and rural residents. The country has a population density of just 29 per square km in 2009 (RoS, 2010).

With the absence of macroeconomic data it is extremely difficult to pin down the Gross Domestic Product (GDP) of Somaliland. However, there are various estimations, based on statistical projections, of the GDP of Somalia provided in different reports which can be used as a reference in determining the GDP of Somaliland. For instance, the World Bank's socio-economic survey of 2002 gives the figure US\$1.6 billion as the GDP of Somalia. In another report (2006), the World Bank estimated the GDP at \$1.3 billion. Most of the international institutions use these reports as a source. But according to the latest CIA Fact Book figures for Somalia GDP in PPP prices is given as \$5.896 billion, and the per capita income as \$600. The nominal GDP at the official exchange rate is estimated at \$2.372 billion which implies a GDP per capita of about \$240<sup>6</sup>

According to the World Bank report (2002), Somaliland's income per capita is relatively higher compared to that of Somalia due to peace and political stability achieved which enabled faster economic growth. Across Somaliland regions income per capita ranges from \$250 to \$350. Assuming an average nominal per capita income \$300, and \$600 at purchasing parity price (PPP), and a population of 3.5 million, Somaliland's GDP would be about \$1.05 billion in nominal prices and \$2.10 billion in PPP terms. Again due to dearth of reliable macroeconomic data, we can only go by estimates about the contribution of agriculture, industry and service to GDP, and according to the most common figures Agriculture (including livestock) accounts for 65%, services 25% and industry 10% of the GDP.

Livestock is not only a major source of income (60-65% of Somaliland's GDP), employment and government revenue (30%) but also a source of foreign exchange. As far back as 1997, livestock exports earned a foreign exchange of US\$ 120 million. It played such a crucial role in determining the exchange rate that a ban on imports from Somaliland by the Kingdom of Saudi Arabia and other states in the Arabian Peninsula led to a decline in dollar exchange rate of Somaliland shilling from Sl. Sh. 3487 in September 2000 to Sl. Sh. 6200 in December 2002. It

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<sup>6</sup> According to Somaliland National Development Plan 2012-16

also caused domestic inflation of imported commodities and led to an increase in migration from rural to urban areas, urban unemployment and urban poverty (Holleman, 2002).

Remittance is another major source of income in the state; tentative estimates ranged from US\$ 93 up to 540 million per year during the 1990s (Holleman, *op cit.*). Remittance was instrumental in insulating the economy from adverse macroeconomic consequences of a decline in livestock exports; thus, played a major role in stabilizing the economy and livelihood of the population.

## **2.2 PROVIDERS OF FINANCIAL SERVICES IN SOMALILAND**

Somaliland has been without a formal commercial banking and financial institutions sector and in the absence of a formal financial sector, the informal financial sector has, to some extent, filled this void. The latter has traditionally been comprised of remittance companies. The remittance sector dates back several decades. Even though the remittance sector plays a vital role in the current Somali economy, the existing financial sector can be characterized by the following:

- Virtual lack of financial intermediation i.e. deposit-taking and lending through financial intermediaries, although some limited lending does take place through non-governmental organizations in form of micro-finance;
- The economy is predominantly cash-based;
- Lack of public confidence in a banking system especially where the government is a key player. This is not surprising given that the public has lost their monies in the past. Hence, the revival of the banking system will depend on regaining public confidence to a very large extent;
- The provision of very limited banking services, such as money transfers, foreign exchange and deposit facilities, provided by the remittance companies operating formally and informally;
- The banking sector currently comprises of an active informal sector and virtually non-existent formal sector. The private sector remittance companies dominate the informal sector, whereas the formal banking sector includes the central bank.

### **2.2.1 Banking services**

The Bank of Somaliland or the central bank, established in 1994, is responsible for monetary policy. It acts as a central bank and a commercial bank at the same time. It has a board of seven members chaired by the Governor. The bank (i) maintains price and exchange rate stability; (ii) promote credit and trade conditions which support balanced economic growth; (iii) support the economic and financial policies of the government where possible.

Current functions of the central bank include the following:

- (i) Printing and issuing currency dependent on demand and supply of money, especially against the US dollar;
- (ii) Government bank – i.e. deposits and withdrawal of all government income, mostly using a voucher/checking system;

- (iii) Stabilizing exchange policy i.e. exchange policy and mopping up excess cash;
- (iv) Offer some commercial banking activities where businessmen can deposit cash in return for Central Bank cheque which they can cash at any central bank branch;
- (v) Control remittance companies by licensing and supervising them but lacks capacity to supervise – e.g. Dahabshill operates like a bank but without a banking license – the sector needs regulation as it grows.

The Central bank has a staff of 310, 12 branches and a presence in all the regions of the country. It has been in discussions with ILO since 2011 on issues of inclusive financial sector policy framework and the capacity of the bank to supervise the sector.

An interview with the central bank staff reveals the following issues:

- (i) The country is not recognized, and therefore has no international banking relations;
- (ii) Having to operate as a commercial bank undermines its supervisory and regulatory authority. Currently the Central Bank is working with the World Bank to develop a supervisory and regulatory department. This will also entail training of select staff (3) both on the job and through exchanges in Malaysia and possibly in Kenya (Islamic and conventional banking). Training for another five staff planned for Europe;
- (iii) Bloated staff most of whom are old and of low education and unable to adapt to modern technology and banking. Needs to rationalize staff and to employ young well-educated new staff. Needs training for existing staff (35 young graduates with some still at the university)
- (iv) IT system and modern banking technology – currently computers at the bank (10 at H/O and 2 at each branch) are used only as typewriters;
- (v) Lacks internal financial management systems and capacity, especially reporting, internal audit and financial controls. Currently only able to prepare income statements and balance sheet.

### **2.2.2 Microfinance services**

The potential of creating institutional credit and deposit services for poverty alleviation in Somaliland is quite significant. About 2 million people, or 60% of the population, are considered poor and have no access to formal financial services. According to the Microfinance Baseline Survey (2011), there are over 100,000 micro-small enterprises that provide employment opportunities to nearly quarter of a million people or 33% of the country's total employment. Accordingly a large number of urban and rural households derive their livelihood from micro-small enterprises. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long-term.

However, in spite of the importance of this sector, the baseline survey shows that provision and delivery of credit and other financial services to the sector by formal NGOs and non-financial institutions has been inadequate. According to the Baseline Survey, more than 50 private

enterprises, including 15 local NGOs, practice some form of microfinance services in almost all the major towns of Somaliland. In addition, a number of MFIs have operated in the country without appropriate legal and regulatory framework. Therefore, microfinance services have been grossly misused by some NGOs and other providers or entirely robbed by privately-organized money launders<sup>7</sup>.

An example of existing microfinance institutions in Somaliland have been described below:

**a) Salaam Financial Services**

Salaam is the financial services subsidiary of Telesom, whose main product line is remittance services. The company has established a registered bank in Djibouti, with representative offices in Hargeisa and Mogadishu. Salaam remittances can process wire transfers from Somaliland, by transferring money to the Djibouti Bank and doing the wire transfer from there. However, management declares that the company is still facing problems with Letters of Credit (LCs). Salaam also offers checking and savings accounts, as well as investment and microfinance loans to Telesom affiliated customers.

Investment loans are available to Telesom shareholders or require a Telesom shareholder guarantee. The loan requires a 30 percent down payment, a flat fee averaging 10 percent annual (larger loans over \$100,000 may be as low as 8 percent, while smaller or riskier loans are 12 percent). There are between 1,300 and 2,000 shareholders, so this guarantee does appear to have some reach throughout Somaliland. Salaam has been offering this loan product for one year, and has given about 30 to 40 loans as at the time of the study.

Some example borrowers include food import businesses, vehicle purchases, building materials firms, housing, and land purchase. Since the program is still new, management is unsure of the level of repayment or potential challenges that may arise with delinquencies.

In addition to Salaam Financial Services, Telesom also offers Zaad domestic mobile phone money transfer and payment system. Zaad is offered as a “value-add” service, primarily to capture market share of customers and maintain customer loyalty for Telesom. There are currently no fees for using Zaad service.

**b) Kabaa Microfinance Institution (K-MFI)**

The mother organization, Doses of Hope was established in 1997 in Netherlands by Somali women in the diaspora. Locally in Somaliland, Doses of hope started a lending project in in 1999 with a clientele of 100 women (interviews with management). This has since evolved

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<sup>7</sup> ‘Jiif-oo-Jaq’ was an example of fake microfinance project initiated in collaboration with local women groups that has cheated depositors with highly attractive but fake saving returns and finally run away with an estimated US\$ 2 million in late 2009.

into Kaaba MFI, the only MFI in the country currently with a vision to transform into an MFI bank.

Kabaa MFI has 13,000 cumulative borrowers to date (active clients in Dec 2012 were 2,000). It issues a sharia compliant loan of maximum \$ 500 through groups of 25 members organized in smaller cells of five members (buys good/item and lends to borrower with a profit margin).

There exists no regulatory framework for the microfinance sector, so Kabaa remains registered as an NGO and relatively unregulated by the government. From 1999 to 2007, Kabaa engaged in conventional Grameen Bank-style microfinance. However, as the organization attempted to expand, its management declares that it was frequently confronted by community members and religious leaders who were more and more disapproving of the conventional (non-Islamic) style of its loan products. In 2008, in partnership with Oxfam, Doses of Hope began the transformation of the program into an independent Islamic microfinance institution, registered as an NGO in February 2009.

Kabaa's main microfinance product has an average loan size of \$140-200, with a maximum of \$300. The *Murabaha* 'mark-up' is 8 percent, with loan terms between 4-6 months, paid either on a weekly or monthly basis. There is compulsory savings for all microfinance borrowers, but no collateral. Groups are made up of five members, who know and trust each other; and five groups make up an association. Each member must have a guarantor and if a client defaults, there is first an attempt at collection within the group, then within association, and then with the guarantor. Since its transformation to an Islamic banking model, Kabaa declares a 98% repayment rate.

The MFI plans to set up four branches in rural and urban locations of Hargeisa and Gabiley districts, with a goal to reach 5,000 active borrowers by 2012. In addition, it is exploring the possibility of offering an Islamic savings product. Some of its future goals include having a branch in all regions of Somaliland; being financially sustainable by 2015; being able to offer youth-inclusive financial services; opening a business development / business consulting department; and strengthening its management information system, particularly if and when it pilots a new savings product.

The assessment reveals the following challenges experienced by the MFI:

- (i) Very limited capacity (low capital base, limited staff and systems, only two branches, limited skill base and inadequate products);
- (ii) High unemployment and therefore large numbers of people in self-employment and no other bank for the poor, therefore cannot cope with the demand;
- (iii) Due to lack of regulation and policy framework, vision of transforming into a bank cannot be realized;

- (iv) Unable to upscale to target middle and small scale enterprise that can leverage technology and bigger employment;
- (v) Unable to diversify to other sectors of the economy e.g. fisheries, livestock, dairy that require more funding;

### **BOX 1: CASE STUDIES OF MICRO-FINANCE PROVISION IN SOMALILAND**

This case study has been developed based on the research paper submitted as part of the fulfillment of the bachelor's degree at Hargeisa University. The study determined the role of the Islamic microfinance in poverty alleviation efforts in Somaliland and how this role can be enhanced. It was intended to establish and recommend Islamic microfinance and its principles that could raise poverty reduction and economic development in the country. This was in view of the fact that conventional microfinance that charges the prohibited interest cannot be used by and for the Somaliland population which are 100% Muslims.

The case study is made of two microfinance institutions, where one financially self-sustaining and the other is depending on donor agencies subsidies. This has been chosen because these institutions are the only providers of Islamic microfinance products in Somaliland. The present study has made a modest attempt to analyze the performance of two Islamic financial Institutions namely, Salaam Financial Services and Kaaba Microfinance Institution.

The two institutions have succeeded to establish their operations in Somaliland. Currently, both Salaam Financial Services and K-MFI have branches at Hargeisa, Sahil and Gabiley regions. The size of institutions remain small, though variations exist between the institutions, in terms of the total clients served (40 for Salaam Financial Services and 5,000 for K-MFI), the number of the working staff (34 for Salaam Financial Services and 21 for K-MFI) and intensity of the institutions' penetrations in the areas they operate.

The findings show that in general the two institutions sought outreach to the poor and positive impact on clients' income as their main objectives. Salaam Financial Services target the poor as major parts of their clients (50% - 80%) whereas K-MFI seek the poor as an exclusive target (90% and above). Notwithstanding the crowned objectives of serving the target population, the institutions only partially address the issue of financial exclusion of the poor. Both the institutions had not defined target groups which identify their potential target members. Services were not strictly directed to a well-defined set of clients which have unique selection (eligibility) criteria which differentiate the target and non-target groups. For all intent and purpose, Salaam Financial Services and K-MFI have been less successful in reaching the hard core poor. These are thousands which are often undernourished, are marginalized in society and often unable to get financial supports.

The institutions under study had neither client empowerment facilities such as currently elected client representatives that voice the interest of the clients within and/or beyond the organizations nor social capital programs such as active spiritual development programs which contribute to the uplift and perfection of *mu'amalat* of the clients.

The results found in this study show that the principal Islamic financial modes used by the two institutions in their transactions essentially are the non-profit loss-sharing modes particularly *Murabaha* mode of financing (Salaam Financial Services also provides *Qard Hassan* services for their clients). These modes are in general less risky than the profit loss sharing modes. Salaam Financial Services extend 95% of the loans to individual clients whereas K-MFI estimated it 70% as individual loans. In addition, K-MFI enjoys repayment rate of 98% and 80% of its client are females whereas female clients of Salaam Financial Services constitute just 10% of total clients served.

The findings also show that Salaam Financial Services is financially self-sustaining institution. The sources of its funds are from the deposits of clients who use the institution as a bank, the loan repayments by the active clients who already have access to the financial products of the institution and from the administrative fees charged when

a first-time borrower or repeated client is applying for financial support. However, K-MFI is non-sustaining donor dependent institution and the main sources of its funds are grants and donations from international donor agencies.

In Somaliland the success of microfinance institutions depends upon the recognition of the fact that the household and business finances of most microenterprises are intertwined, and that efforts to restrict their use of funds to specified business purposes are typically futile and counterproductive. Therefore, to best serve the interest of poor borrowers, poverty-oriented microcredit programs should include consumption credit, and programs should evolve in the direction of a more holistic financial services approach where the objective is long-run financial sustainability. The attempt to focus on production credit alone is inevitably unsuccessful.

On the other hand, both the institutions have well established loan disbursement, loan repayment and loan collection schemes. The institutions have provided collateral free finance to their clients to mitigate the risk of defaults and delinquencies. Both Salaam Financial Services and K-MFI have not so far their own *Shari'ah* board but they consult with local religious leaders particularly Sh. Mohamed Sh. Omar Dirir for auditing the operations of the institutions to ensure that the actual practice complies with the Yet, Salaam Financial Services and K-MFI are lagging behind the efficient outreach to the poor entrepreneurs.

Their institutional frameworks are not flexible enough to incorporate and serve financial products to their target clients identified in their mission and objectives. Factors responsible and exacerbating afar for the said failures are lack of strong political support, limited institutional capacity and insufficient financial and human capital resources.

Furthermore, Salaam Financial Services and K-MFI encounter numerous challenges ranging from lack of proper institutional framework, lack of appropriate legal framework, lack of supportive policies and enabling environment, and lack of supervisory framework to insufficient teaching and training of clients and staffs, and absent of research and development of products and *Shari'ah* issues.

What is needed, for the institutions to become successful in their respective operations, is a systematic financial services approach to the issue of poverty alleviation under which, all sections of the society have access to appropriate, low-cost, fair and safe technical products and services from mainstream providers.

**Table 1: Microfinance products offered by Salaam Financial Services and Kaaba Microfinance Institution (K-MFI)**

Name of microfinance institution	Salaam Financial Services	Kaaba Microfinance Institution (K-MFI)
Type of financial institution	Non-Bank Financial Institution	NGO MFI
Description of products and services	<ul style="list-style-type: none"> <li>Account opening and maintenance – deposits and withdrawals</li> <li>Transfers inter-Salaam Financial Services</li> <li>Transfers internationally via corresponding bank</li> <li>Murabaha loans (cost+profit)</li> <li>Mudaraba loans (profit/loss sharing after doing biz on pre-agreed ratio)</li> <li>Kaafi Services – account access through mobile phone – Telesom (no service charge – seems an imbedded service)</li> </ul>	Provides loans and savings services with special emphasis on low-income women <ul style="list-style-type: none"> <li>Micro loans – group based</li> <li>Compulsory savings – cash collateral</li> </ul>



Financial and Nonfinancial Services	<ul style="list-style-type: none"> <li>• Use <i>Murabaha</i>, <i>Mudaraba</i> and <i>Qardul Hassan</i> as instruments of financing their clients.</li> <li>• Though the institution intends to use various <i>Shari'ah</i>-compliant modes like <i>Ijarah</i> and <i>Musharaka</i>, this has not yet been accomplished due to challenges related to the regulatory framework and lack of enforceable laws in the country.</li> <li>• <i>Murabaha</i> mode of financing has the highest share of <i>clients</i> (80%) whereas the clients consuming <i>Qardul Hassan</i> mode of financing have relatively small proportion (15%).</li> </ul>	<ul style="list-style-type: none"> <li>• Use <i>Murabaha</i> (95% of clients)</li> <li>• Other instruments of financing are <i>Musharaka</i> (3%) and <i>Ijarah</i> (2%)</li> <li>• non financial services such as skills training, financial literacy and record keeping trainings, marketing and business management trainings are provided to clients</li> </ul>
Somaliland branch network	<ul style="list-style-type: none"> <li>• Three operating branches in Hargeisa, Berbera and Burao</li> </ul>	<ul style="list-style-type: none"> <li>• K-MFI has now three branches (including the head office) operating three regions in Somaliland namely Hargeisa, Gabiley and Berbera</li> </ul>
Corresponding/parent bank network	<ul style="list-style-type: none"> <li>• Salaam African Bank, Djibouti</li> </ul>	<ul style="list-style-type: none"> <li>• K-MFI has been operating under Doses of Hope Foundation (DoH), a non-governmental development foundation operating in Somaliland since 1998.</li> </ul>
Date of accreditation and incorporation	<ul style="list-style-type: none"> <li>• got accreditation and incorporation from the government of Somaliland on April 12, 2010</li> </ul>	
Staffing	<ul style="list-style-type: none"> <li>• Has 30 employees and 4 loan officers</li> </ul>	Has 18 employees and 3 loan officers
Number of clients	<ul style="list-style-type: none"> <li>• 40 clients consisting of 36(90%) males and 4(10%) females</li> </ul>	<p>K-MFI has served a total number of 5,000 clients, mostly women</p> <ul style="list-style-type: none"> <li>• Started in 1999, the first micro finance project financed by the Rabo Bank Foundation began with 150 women beneficiaries;</li> <li>• By 2007, the microfinance program had reached over 7,000 direct clients, with a further positive socio-economic effect for more than 41,300 indirect beneficiaries – 80% of which are low-income women</li> </ul>
Target group	<ul style="list-style-type: none"> <li>• Small and medium entrepreneurs are the main target beneficiaries (business clients) of Salaam Financial Services. They make 90% of the active clients of Salaam Financial Services.</li> <li>• Salaam also provides financial products to small trade and market vendors which</li> </ul>	<ul style="list-style-type: none"> <li>• The main target groups are low-income and poor entrepreneurs (particularly women) in Somaliland</li> <li>• Most of the beneficiaries of Kaaba Microfinance Institution were small and medium</li> </ul>

	constitute 5% of the clients currently served	<p>entrepreneurs (52%),</p> <ul style="list-style-type: none"> <li>• followed by small trade and market vendors (29%) and</li> <li>• dairy and poultry business (9%).</li> <li>• Low salaried workers, small scale farmers and fishery business constituted to the lowest categories with 5.89%, 4.18% and 1.66% respectively.</li> </ul>
<b>Ownership</b>	<ul style="list-style-type: none"> <li>• Parent company is Telesom</li> </ul>	
<b>Sizes of loans</b>	<ul style="list-style-type: none"> <li>• minimum loan size is US \$500 irrespective for all first- time or repeated borrower.</li> <li>• The average loan sizes for the <i>Murabaha</i> and <i>Qardul Hassan</i> loans are \$45,000 and \$700 respectively.</li> <li>• The maximum loan that clients borrowed was \$300,000. This amount of money was available to both first-time borrowers and repeated clients.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Average loan size for Murabaha</i> mode of financing was \$500</li> <li>• the first time borrowers, their average and lowest loan sizes were \$300 and \$120 respectively.</li> <li>• The institution did not offer loan sizes smaller than \$100 to its clients since that rate is the minimum loan size available to the clients</li> </ul>
<b>Collateral</b>	<ul style="list-style-type: none"> <li>• Clients should produce a guarantor instead of producing physical collateral(s).</li> <li>• Only a shareholder of Telesom Company is eligible for standing as guarantor to the borrower and any other guarantor is not acceptable,</li> </ul>	<ul style="list-style-type: none"> <li>• To mitigate the risk of defaults and delinquencies and as an alternative to collateral approach, each individual has to find a guarantor such as INGO worker, owner of local business etc.</li> <li>• In contrast to that, individual borrowers can bring an elder as a guarantor. Provided the elders are the male heads of the borrowers' extended families or clans who invariably involved in decisions affecting the borrowers all through their lives, for example their marriages.</li> </ul>
<b>Fund Mobilization and Financing</b>	<p>Funds originate from</p> <ul style="list-style-type: none"> <li>• the deposits of clients who use the institution as a bank.</li> <li>• from the loan repayments by the active clients</li> <li>• from the administrative fees charged when a first-time borrower or repeated client is applying for financial support</li> </ul>	<p>The K-MFIs' main sources of funds were grants and donations from international donor agencies. The major fund providers were originally UNHCR, Care international and UNDP. Other funders have included the Danish government and the foundation of the Netherlands Rabo Bank. Recently, Oxfam-Novib and CEBEMO are helping the institution to expand their services and to set up of 2 branches in rural and urban</p>

		locations of Hargeisa and Gabiley regions.
<b>Other products</b>	<ul style="list-style-type: none"> <li>• Has charity-based funds mainly the <i>Zakah</i> that accrue to the institution each year.</li> <li>• These funds are given to the vulnerable and the destitute persons in the community in accordance with the Islamic principles.</li> </ul>	K-MFI also rendered <i>Zakah</i> to needy poor and destitute families in their operating areas.
<b>The basic lending methodology</b>	<ul style="list-style-type: none"> <li>• individual lending schemes (95% of clients)</li> <li>• Group lending schemes (5% of clients)</li> <li>• The institution also insists on that clients should pay 30% worth of the loan on spot immediately after the exchange transaction between the institution and the client.</li> </ul>	<ul style="list-style-type: none"> <li>• individual loans (approximately 70% of borrowers)</li> <li>• loan to <i>hagbad</i>-type groups and groups too poor to save even the small amounts involved in the traditional <i>hagbad</i> (30% of members)</li> <li>• There were 4 active groups each comprising 20 individuals.</li> </ul>
<b>Repayment of the loans</b>	<ul style="list-style-type: none"> <li>• is the responsibility of the respective individual who had an access to the products of Salaam Financial Services.</li> <li>• In the group context, repayment of the financing is not a shared responsibility of the entire group members; hence, they do not share the risk if one defaults.</li> <li>• the repayment modes of the loans are structured at monthly intervals. 95% of the loans are repaid on a monthly basis, followed by 3% of quarterly loan repayments and a small fraction of clients (2%) utilize yearly repayment of the loans.</li> <li>• Deposit of loan payments to institutions' depository bank accounts are the prime method of loan collection in the institution</li> </ul>	<ul style="list-style-type: none"> <li>• Paid in equal monthly installments.</li> <li>• Clients required to make five installments to clear out their debts to the institution.</li> <li>• Loan repayments were collected over the counter to the institutions office. Any client who paid the full borrowed money on time was rebated on simplified loan repeat assistance.</li> </ul>
<b>Barriers faced</b>	<ul style="list-style-type: none"> <li>• Establishing their organizational framework,</li> <li>• Product developments,</li> <li>• capturing their share in the microfinance markets of Somaliland</li> </ul>	<ul style="list-style-type: none"> <li>• lack of enabling policy framework</li> <li>• Inadequate donor funding, and insufficient support from the government</li> <li>• the risk of clients' defaults.</li> <li>• limited support for human and institutional capacity building,</li> <li>• worsening of communication gaps and inadequate awareness of the clients and</li> <li>• the clients misunderstanding the difference between credit and grants.</li> <li>• the increase of loan defaults.</li> </ul>

Source: Survey and Abdiqadir Mohamoud (2012)

### 2.2.3 Microcredit NGOs and Support to Savings Groups

Over the past 15 years, a number of international NGOs and multilateral organizations have set up microcredit programs, particularly targeting low-income women and formerly displaced persons. These organizations include Caritas, CARE, Danish Refugee Council (DRC), UNHCR, CCS, Norwegian Refugee Council (NRC), and IOM. In addition, K-REP – a major MFI in Kenya – also piloted a microfinance program in Somaliland. Based on research with program managers and former staff of these programs, it appears the essentially most of these programs failed because they were structured as conventional microfinance programs that demanded interest from borrowers and were eventually rejected by the community for not following Islamic banking rules. When these programs were first established, they appear to have been relatively successful. The repayment from the women appears to have been sound, but in the past ten years as Somaliland has become generally more religiously conservative, community / religious leaders that learned about the non-Islamic banking structure demanded that the women withdraw from the programs.

Some NGOs tried running microcredit programs by charging no interest. However, without proper sensitization, clients often viewed these loans as hand outs and did not repay – particularly because they were managed by humanitarian organizations that did engage in a variety of hand-out / in-kind activities as well. In addition, without proper screening or proper loan officer training, programs also ran into problems with clients claiming that they had businesses which were non-existent and clients not using loans for any enterprise activity. NGOs also found that some women who had informal market stalls could easily close their shops or move to another part of town without the loan officer being able to track them. As a result, in the past five years, all of these microfinance programs have stopped, and only one NGO (Kabaa) has transformed into an Islamic MFI.

As part of humanitarian interventions, several organizations – including CARE and DRC – moved away from credit-led microfinance to savings-led models that build upon traditional *hagbed* savings groups. In Somaliland, traditional *hagbeds*, have existed for a long time, and continue to be common in both rural and urban areas, where friends, family and neighbors (mostly women) join together for a defined period of time, contribute equal amounts to the savings of the group, and one member immediately is given the entire sum allowing each member access to a larger sum of money than he/she would generate individually. Money from *hagbeds* might go towards basic household needs (school fees, an outstanding debt, etc.), but usually are too small for any member to actually use to start a business. CARE and DRC are both working with *hagbeds* to encourage a modified version of the Village Savings and Loan (VSL) model where the group members save small amounts of money together on a weekly or monthly basis to build up a loan fund and then begin to extend small loans to group members at no interest to conform with Islamic principles.

CARE and DRC's VSL programs are both part of cash for work programs, where community members are paid to design and build a community development project (e.g. toilets, gulleys

for erosion control, berkads, etc.) and upon payment, groups are trained on VSL methodology. Savings group structures vary from weekly to monthly contributions of 1,000 – 5,000 Somaliland Shillings (~\$0.10 - \$0.70), along with possible NGO capital injected into groups to expand initial loan fund availability. Small loans averaging \$100 are often used by women borrows to start micro-enterprises such as small restaurants and tea stalls. CARE recently begun this program starting with 150 groups of 10-15 members each (~ 2,000 beneficiaries); while DRC had trained nearly 300 groups over the past ten years.

### **Box 2: Example of hagbed**

During the study, the assessment team visited a hagbed at one of the Hargeisa market. This hagbed (rotating savings and credit association) is similar to all such operating in market places and target very small/petty market traders. It has a membership of averagely 70 and is run by five officials named: (i) Hinda Abdi Farar – Manager; (ii) Shun Yusuf Ali; (iii) Fatuma Musa Hyat and (iv) Halimo Ahamed Issa.

This kind of hagbed is distinct in its focus on providing a financial service for which the managers charge a service fee.

For one to be a member of this Hagbed, she/he must fulfill the following conditions

- One must have an enterprise in this market place
- Open to both men and women
- One must be a good loan payer – i.e. must not have a record of, or be known to have defaulted on repaying any form of debt
- Each loan/savings cycle is 60 – 70 days depending on number of members
- Each member must make a daily savings contribution of a minimum of one share equivalent to Somaliland Sh. 10,000.
- Savings contribution is in multiples of the one share.
- Rotating credit is given daily per share i.e. a person is two shares gets credit for two days equal to the number of shares being contributed. All amount contributed is given out to one person for one share.

The loan money is mainly invested in business by majority of the members, especially in restocking and building trading capital. A few people use it to purchase household items.

The members use other forms of savings that include; (i) Savings boxes at home or business place; (ii) Buying jewelry or livestock for later resale; (iii) Only a few use Zaad for savings because it is literacy based.

Hagbed members are faced with several misfortunes which include thefts of property, goods and money; sicknesses in the family and community and attendant high medical bills; death and burial of family members and friends; fires at business places and at homes; supporting distraught families and relatives as a result of droughts, fires and other calamities among family members and relatives; and inflation as costs go up and reduce profit margins.

Hagbed members have been able to cope by getting help from market network (including one's hagbed) and family; borrow from fellow traders; sell assets like livestock, jewelry; and Consult among themselves to increase prices.

**Source: Interviews with the Hagbed officials, December 2012.**

#### **2.2.4 Informal value chain finance / buyer-supplier credit**

In a variety of sectors – particularly in retail dominated by informal women micro-enterprises and in rural areas with poorer populations that have less access to Diaspora networks – access to any formal finance is limited. The population relies mostly upon traditional forms of saving and informal sources of credit. Most pastoral peoples have a savings strategy that centers upon the accumulation of livestock during normal and good rainfall years and the purchase of such items as gold and jewellery. Credit most often takes informal forms, such as lending and borrowing between extended family and clan members, and networks of mutual obligations that allow those facing temporary difficulties to be assisted by others. Although wealthier clan members will assist poorer people, reciprocity is a strategy that essentially operates between equals.

Informal, and often clan-based, value chain finance structures exist. In the small scale commercial agriculture sector, heavily focused in the Western region of Somaliland, traders with established links to certain farming regions sometimes provide limited embedded services in the form of inputs with expectations that these farmers will only sell their produce to them.

In these areas, *qaadhaan* community savings schemes are common, as well, where groups of farming families save together to invest in community infrastructure that jointly benefit all of their livelihoods activities – such as an irrigation canal.

Such traditional practices still remain the only way for these farmers to access larger sums of capital.

In retail sectors, such as selling charcoal, vegetables, meat or milk, women micro-entrepreneurs also do not have access to credit. For purchasing, groups of women who know each other and sell near each other in the market will often all go together and buy stock at the beginning of the day from the same (trusted) wholesaler or trader (e.g. a livestock lorry driver). The products will be bought on credit at a price that is agreed upon by the seller and buyer, and the women are expected to repay by the end of the day – with rather low profit margins (e.g. a retailer in Hargeisa can buy a goat for possibly \$60 and expect to sell it in the market that day for \$61, only earning \$1 profit per animal). However, this buyer-supplier credit creates bottlenecks, particularly for smaller firms/traders since the firms advance products to buyers on credit, but then often do not have enough liquidity to repay their own suppliers and are unable to re-stock inventory.

## 2.2.5 Money transfer services

### a) Dahabshill Group of Companies

Dahabshill is a group four comprises – (i) Somtel mobile telephone company (ii); Dahabshiil financial Services (or Dahabshiil Bank International based in Djibouti. Has presence in Hargeisa, Bosasso and Mogadishu); (iii) Dahabshiil General Trading; and (iv) Dahabshiil Remittance company (in the core business of money transfer). Its lead by a group CEO assisted by a CEO for each of the companies.

Dahabshill was created in 1970 and is the largest financial organization not only in Somaliland but throughout all of Somalia. Officially, Dahabshiil is a money transfer organization (*hawaladar*) with the majority of its customers being representatives of the Somali community living abroad (the senders) and Somalis living at home (the recipients).

Dahabshiil offers remittances, checking, savings, and debit cards (e-cash). They are about to launch a mobile money product called E-Dahab. In terms of “credit,” the company provides overdraft services. For businesses that have a good history with Dahabshiil, during which they can show their consistent business activity, Dahabshiil will offer overdrafts of \$100,000-\$300,000 regularly, and even up to \$1 million which requires the signature of the CEO. Using Islamic finance practices, interest is not charged on this overdraft, however a fee is demanded. The allowed overdraft line of credit is based on the business activity and their relationship with Dahabshiil decision makers. Such a service makes credit available to larger enterprises but generally excludes micro, small and medium enterprises.

In 2010, Dahabshiil opened an Islamic bank, registered in Djibouti. While the company waits for the Bank Act to be passed, management is planning to open a Hargeisa branch as a satellite office of the Djibouti bank. There are also plans to open branches in Burao, Bosasso and Mogadishu as well as key locations in East Africa within the next three years.

#### **Other current services or operations include:**

- i. Offers savings facility open to all. No interest earned
- ii. Loans offered based on assessment of applicant and how applicant is known by Dahabshill. Short period loans of up to 12 months. Currently Dahabshiil has about 500 customers with some \$500m in loans. About 70% of portfolio is in goods and the rest mainly in real properties.
- iii. Very low-income people receive money from relatives but these cannot access Dahabshiil loans at the moment. Has branches in 14 countries including East and Central Africa
- iv. Locally, has no interbank payment as there is no clearing house. However can transfer money from one client’s account to his account with another institution.
- v. Offering a debit card service accepted in about 40 trading/business places.
- vi. ATM in planning and currently negotiating with credit card companies. There are no ATMs by any other institution

Dahabshiil has recently started to consider a variety of microfinance products as part of its corporate responsibility and as a way to expand its customer base. One consideration is to manage both group and individual products through its mobile money product E-Dahab, with average size of \$300.

The company's advantages to successfully capitalize on such new product lines include its extensive branch network, capacity for using mobile money, ability to collect people's savings, and brand recognition in the country. Recent research found that potential microfinance customers understood that Dahabshiil is a profit-driven institution and therefore any microfinance product would be based on sound banking principles, rather than some past microcredit donor efforts which have sometimes been seen by communities as grants rather than investments or loans.

**Table 2: Products and Services of Dahabshiil Group of Companies**

INSTITUTION	TYPE	SOMALILAND BRANCH NETWORK	CORRESPONDING/PARENT BANK NETWORK	PRODUCTS AND SERVICES
<b>Dahabshiil Money Transfer Services</b>	Remittance company	All Regions and Districts (220 branches in Somalia. 14 in Somaliland + small units/agencies in villages)	Dahabshiil Bank International – based in Djibouti, Mogadishu, and Bosaso	<ul style="list-style-type: none"> <li>• Money transfer (Hawalla)</li> <li>• Credit</li> <li>• Deposit and withdrawals through personal and group accounts</li> </ul>
<b>Dahabshiil Financial Services</b>	Non-Bank Financial Institution	Hargeisa Branch, but works through the sister remittance company	Dahabshiil Bank International – based in Djibouti, Mogadishu, and Bosaso	<ul style="list-style-type: none"> <li>• Formal money transfer through the banking system</li> <li>• Account opening and maintenance</li> <li>• Letters of credit</li> <li>• Guarantees</li> <li>• Trade finance (goods, real estate, cars to business people and employees of local and international organizations)</li> <li>• Project finance (hospitals, schools, hotels, equipment, infrastructure and livestock)</li> <li>• Government projects finance</li> </ul>
<b>CAC</b>	Remittance company	Hargeisa	Bank of Yemen	<ul style="list-style-type: none"> <li>• Remittance</li> <li>• Personal and Business savings accounts</li> </ul>



Dahabshiil faces a number of issues and challenges, namely:

- Islamic banking accepted but constrained by lack of banking law;
- Lack of insurance services;
- No audit firms and therefore cannot attain international standards;
- Has good relationship with the Central Bank, but the Central Bank needs to keep pace with or be ahead of the growth in the financial and banking sector for example need to provide the two to three local banking institutions with a clearing house facility. Also need to set up and control standards of banking practice among the institutions;
- Constrained by the country's (and Central Bank's) lack of international recognition.

### **2.2.6 Micro-insurance for MSME**

Presently, there are no insurance companies in Somaliland. In most economic sectors, the clan or wealthier family members act as insurers. Thus, a member of a clan can claim compensation without paying regular insurance contributions. Later, he/she has to repay the sum to the insurer (whether this is a group or an individual), although repayment is subject to availability. Mutual insurance exists in Somaliland, although in its primordial form. People form groups and each participant contributes a sum; a member of the group receives compensation when he/she needs it.

The difficulty and expense of purchasing insurance on products being shipped into Somaliland makes it difficult to obtain letters of credit, and reduces the number of vessels/firms that are willing to ship to the Port of Berbera. Much trade is therefore channeled through Djibouti instead. The Partnership could work through the Trade and Industry Association or other associations to facilitate improved access to insurance. An exposure visit for even marginally interested insurance companies might help dispel the negative perception of Somaliland. The project could also explore partnerships with MIGA or other multi-lateral insurance providers. As a possible private sector partner for the project, Omaar International and its affiliated customers could benefit from such support, as they regularly struggle to obtain insurance for shipping products into Somaliland.

## **2.3 LEGAL AND REGULATORY FRAMEWORK**

The financial sector is currently at an early stage of its development, and the government has already introduced some key national policies and incentives for the development of this crucial sector. The government has currently introduced new Financial Legislative Bills covering The Central Bank of Somaliland, Commercial Banks and private financial institutions operating in the country. The new financial bills are currently being debated in the Parliament

The following sections describes the existing legislative framework

### **2.3.1 The Constitution of the Republic of Somaliland**

#### **Article 11: The National Economy**

1. The state shall lay down the national economic policy based on the principles of free enterprise and the joint working of private property, public property, the national wealth and foreign investment so as to realize the growth of productivity, the raising of the standard of living, the creation of jobs, and, in general, the advancement of the economy of the nation
2. In order to ensure that the economic system does not lead to the exclusive enrichment of a group or a small section of the public, and to avoid (both) the creation of economic classes consisting of those who are prosperous and those who are not, and the widening of the economic gulf between the urban and rural communities, the state shall ensure that social benefits and economic opportunities are provided in a just and equitable manner
3. The state shall ensure the security of foreign investment in the country. Such investment shall be regulated by Law

#### **Article 13: Banks**

1. The state shall establish a Central Bank which shall direct the monetary system and the currency of the nation. The opening of commercial and development banks shall be made possible and private banks shall be accorded preferential status.

#### **Article 14: Taxes and Duties**

1. The imposition of taxes and other duties shall be based on the interests and wellbeing of the society. Therefore, no taxes or duties which have not been determined by law shall be collected.
2. The levying, waiver and changes in taxes and other duties shall be determined by law.
3. Usury and commercial practices which are against the interests of the society and unlawful enrichment are prohibited.

### 2.3.2 The Somaliland Central Bank Act

The Somaliland Central Bank Act, which has been amended by the Central Bank, provides the Bank with the supervisory authority to commercial banks, specialized banks and other formal financial institutions operating in the country. The Act empowers the Central Bank to issue regulations for licensing, supervision and reporting systems for banks and other financial institutions. Formally established Microfinance Institutions tending to take savings and deposits from the public shall be subject to the regulations and supervisions of the Central Bank of Somaliland.

### 2.3.3 The Banking and Financial Institutions Bill

The Banking and Financial Institutions Bill once enacted into law shall regulate the commercial banks and formal financial institutions, including the microfinance institutions registered in the country.

Other approved and ongoing laws are presented below.

**Table 3: Approved and Ongoing Private Sector Laws in Somaliland**

Sector	Title of the Law
Finance	<ul style="list-style-type: none"> <li>• Direct Taxation - Law No. 89/96 dated 15/05/96.</li> <li>• Registration Tax – Law No. 83/96 dated 13/03/96</li> <li>• Stamp Tax - Law No. 85/96 dated 15/05/96.</li> <li>• Sales Tax - Law No. 84/96 dated 13/03/96.</li> <li>• Customs Duty - Law No. 91/96 dated 15/05/96.</li> <li>• Road Tax - Law No. 82/96 dated 13/03/96.</li> <li>• Warehouse – Law No. 88/96 dated 15/05/96.</li> <li>• Law on the investigation and suppression of violations of Financial Acts – Law No. 86/96 dated 15/05/96.</li> <li>• Unified Tariffs of Local Governments –Law No. 12 dated April 2000.</li> </ul>
Bank of Somaliland	<ul style="list-style-type: none"> <li>• <b>The Somaliland Central Bank - Law No. 54/2012</b> of 12 April 2012. This law replaces the Constitutive Act of the Bank of Somaliland that was in use prior to the adoption of Law No. 54/2012.</li> <li>• <b>Islamic Banks Law No. 55/2012</b> approved by the President on October 4. 2012. This law is applicable to commercial banks that are doing business in accordance with Islamic Shariah.</li> </ul>
National Planning and Development	<ul style="list-style-type: none"> <li>• Somaliland Non-Governmental Organizations (NGOs) –Law No. 43/2010 dated 02/10/2010. The law was signed by the President on November 2010 (Presidential Decree No. 82/112010). This law is designed to establish a legal framework for NGOs, to ensure their activities are in line with the Government’s development priorities and improve accountability and transparency. Some of the provisions of the law were criticised by some international NGOs. However, the Ministry of Planning has clarified those concerns.</li> </ul>

Commerce	<ul style="list-style-type: none"> <li>• <b>Foreign Investment Law No. 29/2004</b> dated, but came into force on 08/04/2008. The delay was due to some legal disputes. An amendment of the law is in process. Further additions need to be made, particularly Joint Venture between SL Nationals and foreign nationals; and Joint venture between local and non-resident Somalilanders.</li> <li>• <b>Companies Law of Somaliland No. 25/2004</b> dated 09/02/2004. It governs companies limited by shares.</li> <li>• <b>Classification of Trading Business - Law No: 26/2004.</b> The law governs rules against monopoly and classifies levels of trading business.</li> <li>• <b>Privatization Act for Somaliland</b> was approved. The First draft was prepared in June 2002. The Commerce Ministry confirmed that this act was approved which was intended for the government-owned agencies, such electricity, water, etc. However, the act could not be found anywhere in the legal system. Hence, there is a need to re-address the act, keeping in mind its original objective.</li> </ul>
Justice	<ul style="list-style-type: none"> <li>• <b>Law on the Organization of the Judiciary, No 24/2003.</b> Due to the existence of two different amended versions of this law by different stakeholders, a new amendment is now under process.</li> <li>• <b>Juvenile Justice Law No. 36/2007.</b> This Law was one of the Laws that were formulated and approved under the leadership of the Ministry of Justice, which is responsible in its application.</li> <li>• <b>Somaliland Advocates Law No. 30/2004</b> dated 28/01/2004. This law governs the legal profession in the Republic of Somaliland (excluding Notaries which are covered by a separate Law). The Law was signed under Presidential Decree No. 030/062004 dated 24/06/2004. An Amendment of this law is now in the agenda of the House of Representatives.</li> <li>• <b>National Tender Board Act No. 79/1996.</b> It is now time to review the Act in the light of the current situation.</li> <li>• <b>Somaliland Public Notaries Law o. 18/2001.</b> The law governs the work of Public Notaries. Notaries draw up all legal documents including contracts for sale, and various court documents. An amendment of this law is needed to bring it in line with the changing circumstances.</li> </ul>

**Table 4: Law under process**

Sector	Title of the Law
Central Bank	<ul style="list-style-type: none"> <li>• <b>Commercial Banks Law:</b> this law covers those laws pertaining to other commercial banking business, which are done in conventional ways (i.e. without Islamic Shariah restrictions). This law replaces the Banking Credit and Financial Institutions Act.</li> </ul>
National Planning & Development	<ul style="list-style-type: none"> <li>• <b>Statistical Act.</b> The Act is now in the House of Representatives for consideration.</li> </ul>
Commerce	<ul style="list-style-type: none"> <li>• <b>Local Investment Law.</b> The Ministry drafted a law regulating all types of local investment by Somaliland Nationals. The Law is being validated and then will be submitted to the House of Representatives.</li> <li>• <b>Commercial Code.</b> It mainly deals with trade. The law is still in draft form within the Ministry.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>Insurance and Companies and Re-Insurance Law</b> This Bill was drafted by the Ministry of Commerce of Somaliland. The Bill was submitted to the House of Representatives for review but was not yet formally considered by the House of Representatives. The Bill is still in draft form since 2004.</li> </ul>
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**2.3.5 The National Development Plan**

The National Development plan points to the challenges and opportunities in the financial sector. These include a (i) weak central Bank (ii) absence of financial institutions, both commercial & investment banks, insurance co. etc. (iii) inability to use monetary instruments to achieve price stability and economic growth; (iv) failure to use remittance for investment in the productive sector; (v) lack of skilled workforce, (vi) dominance of informal hard-to-tax sector in the economy, (vii) and lack of reliable data for policy making and planning purposes.

There seems to be the conspicuous lack of governance, institutions and rules to facilitate the smooth conduct of economic administration. These are precisely the issues that the NDP for 2012-2016 seeks to address when it lays emphasis on ‘right macroeconomic environment for accelerated development’ by “(i) reforming the Central Bank of Somaliland, (ii) Improving the regulatory framework for commercial banks and other financial institutions, (iii) Improving the exchange rate regime, (iv) Regulating the money exchange and remittance services owing to their importance to the economy and poverty reduction, (v) Enhancing the capacity of the Ministry of Finance, (vi) Transforming the fiscal policy unit into a fully-fledged Macroeconomics office of the Ministry of Finance.

The National Development Plan priorities and strategies for the financial sector development include strengthening the central bank, promoting the formation of commercial banks and other financial institutions by undertaking reforms in the policies, legal and regulatory and institutions.

**2.3.6 National Micro-finance policy and strategies**

The Ministry of Commerce and Industry has developed a National Micro-Finance Policy and Strategy to provide enabling policy and legal framework for the microfinance sector in the country. The Ministry has been mandated to promote, regulate and create enabling business environment for the private sector. It is also mandated to coordinate different interventions in the sector to ensure and facilitate a balanced economic growth in Somaliland. The Ministry has initiated on several pilot undertakings in microfinance related policies and strategies, investment climate, mapping of investment opportunities and pre-feasibility profiling, revising and updating business related laws and regulations.

This national strategy provides an institutional, legal and regulatory framework for the implementation of the National Microfinance Policy in order to build, promote and sustain viable microfinance institutions in the country.

The national microfinance strategy covers provision of financial services to households, small holder traders and farmers, and small micro-enterprises in rural and urban areas. The national strategy concerns a range of microfinance services, including savings, credit, payments, and other microfinance services.

A wide range of institutions will be involved in the provision of microfinance services, including specialized and non-specialized banks, non-bank financial institutions, rural and community based banks, cooperatives and NGOs. Some providers may focus on credit, some on savings, and others on both.

### **2.3.7 National Microfinance policy**

This National Microfinance Policy focuses on the creation of an enabling environment for the growth and development of a suitable microfinance sector, building of sustainable microfinance institutions with the necessary capacity to facilitate microfinance services to the low-income people and their enterprises so as to enhance their income, develop their microenterprises, build their assets gradually, manage their risks better and enjoy an improved quality of life.

The Policy also provide directions and guidelines to Government institutions, donors and micro-finance stakeholders for planning, implementation, monitoring and evaluation of microfinance programs and projects so as to ensure microfinance services for the poor contribute to effective national poverty reduction strategies. The policy recognizes the regulatory and supervisory roles of the Central Bank of Somaliland, which shall put in place a variety of licensed, regulated and supervised financial institutions currently operating in the country, include commercial banks, non-bank financial institutions, community cooperatives, and microfinance institutions. As deposit-taking, these entities are required to meet prudential norms and standards.

The Government recognizes the following Policy Principles to guide institutional, technical and operational framework for the Microfinance sector.

- Pursue market-oriented microfinance institutions and systems that create commercial interest and profit incentives in the provision of micro-finance services. The Government, however, encourages Microfinance Institutions to facilitate financing and development of Small-Micro Enterprises dealing with crop production, livestock, fisheries, minerals, frankincense, myrrh and gum etc. as well as industries and manufactures based on locally available raw products.
- Provide an enabling policy and legislative framework to the Microfinance sector, and therefore, no participation of Government Ministries and/or Public Agencies in the provision of microfinance services in the country.
- Promotes adoption of Islamic-based deposits, credit and risk-sharing procedures by all microfinance institutions dealing with microfinance services in the country. This is in conformity with the Article Constitution of the Republic of Somaliland that Sharia-compliant financing systems shall be adopted. The credit demand by poor households and microenterprises will be met through a variety of innovative Islamic financial

systems provided through private micro-financial institutions. The sharia-complaint credit and guarantee instruments such as Mudaraba, Murabaha, Musharakah and Sales-Purchases shall be adapted by micro-financial institutions in order to ensure social values and norms of the poor people are up-held in the micro-finance sector

- Pricing is one of the most important determinations of the potential of microfinance institutions to become sustainable. Pricing should be set by the microfinance institutions themselves, not by the Government Ministries/agencies, the Central Bank, or Donors. Microfinance institutions are left free to determine price and cost of the microfinance services that they provide, based on existing market conditions, operational costs and business strategies of respective institutions.
- Delinquency control or getting loans repaid forms basic competencies required of any micro-finance institution that deals with micro-finance services. The government insists that micro-finance service providers are required to ensure delinquency control and losses of loans be maintained at a level that does not threaten the viability of the micro-finance sector and MFIs operations in the country. To ensure this, MFIs and other providers should develop and adapt the following operational principles and practices:
- All Microfinance Institutions providing deposits and credit to low-income people in Somaliland should apply best practices, experiences and commonly accepted standards and gradually build institutional, technical and operational capacities to ensure efficient and sustainable microfinance services suitable to the socio-economic needs of low-income people and their micro-enterprises.

The existing legislative framework for the National Microfinance policy is mainly based on Articles: 11, 13 & 14 of the Constitution of the Republic of Somaliland indicated above.

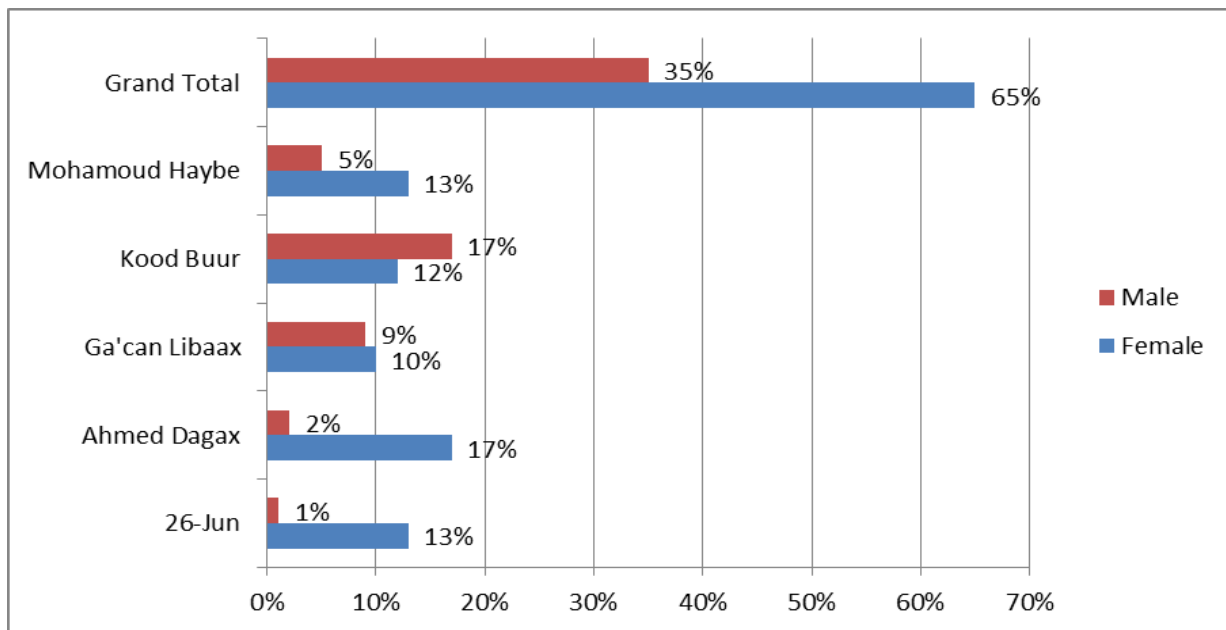
### 3.0 ACCESS TO FINANCIAL SERVICES BY HOUSEHOLDS

#### 3.1 General characteristics of households

##### 3.1.1 Age, gender and marital status

Fineline interviewed 164 households randomly selected from 5 districts of Hargeisa Municipality. The districts and number of respondents are as follows: 26 June (24), Ahmed Dagax (32), Ga'can Libaax (32), Kood Buur (47) and Mohamed Haybe (29). Out of these, 65% were female while 35% consisted of male respondents. Majority of the respondents are married (84%); 15% are single and the rest are divorced or widowed. These households have average of 8 family members (4 female and 4 males). Majority (47%) of household members interviewed fall within age group of 31-40 years, followed by ages of 16-30 years (34%); 41-60 years (17%) and above 60 years (2%).

Figure 2: Gender of family members within households in 5 districts of Hargeisa Municipality

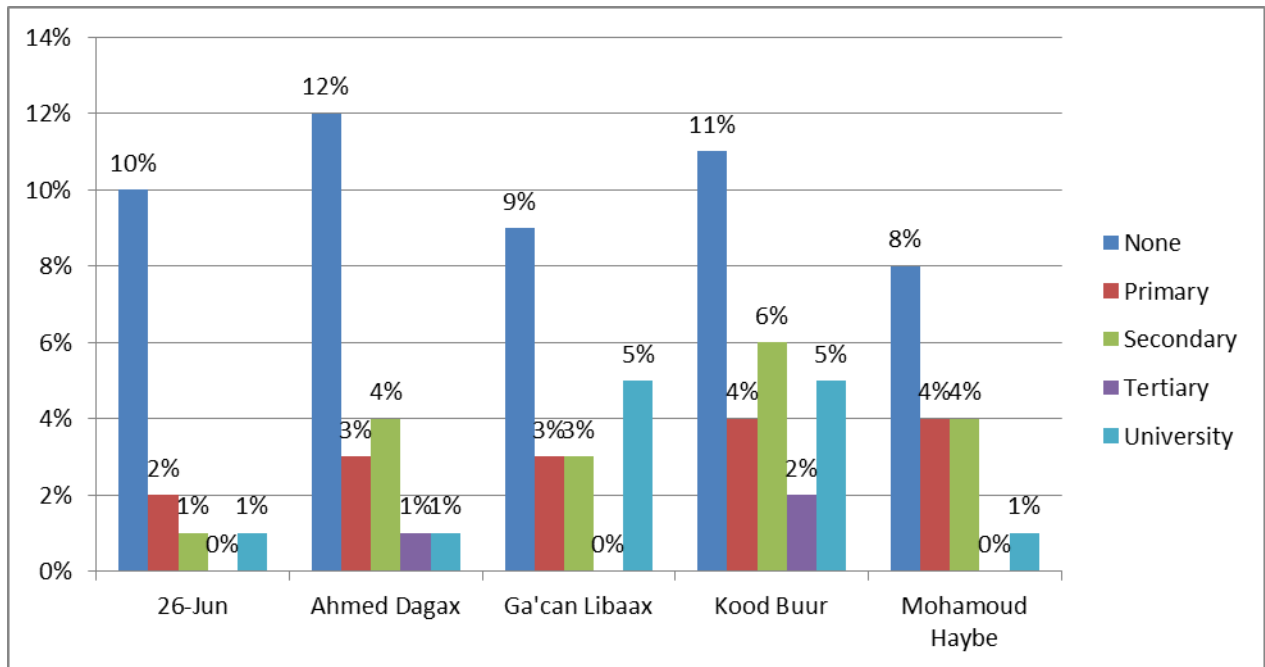


##### 3.1.2 Education level

Majority of the household respondents have no formal education and can neither read nor write. These constitute 49% of the respondents. About 18% have secondary education; 17% have primary level of education; and 15% have tertiary or university level of education.



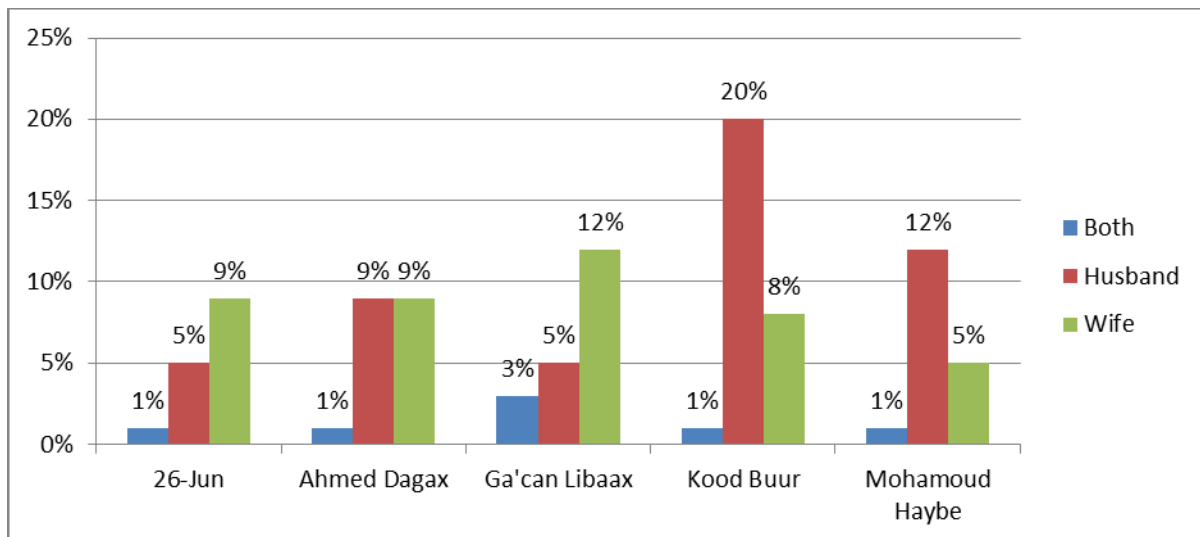
Figure 3: Levels of education of household respondents



### 3.1.3 Decision making at household level

Decision making is almost even at household level, though 51% of households have husbands as sole decision makers while 43% of households had wives as sole decision makers. About 7% of households make decisions jointly.

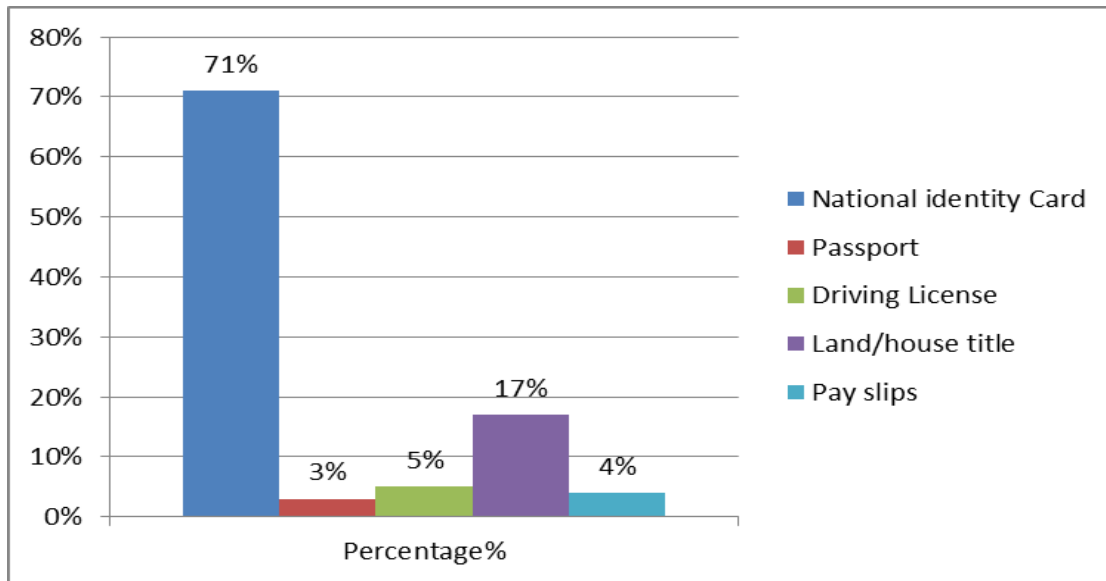
Figure 4: Decision-making at household level



### 3.1.4 Formal identification

Majority of households have national identity cards as a formal identification document as indicated by 71% of households. Other important part of identification held is land title deeds (17%), driving license (5%) and passport (3%) and pay slips (4%). The figure below is a summary of types of formal identification held by respondents.

Figure 5: Formal identification held



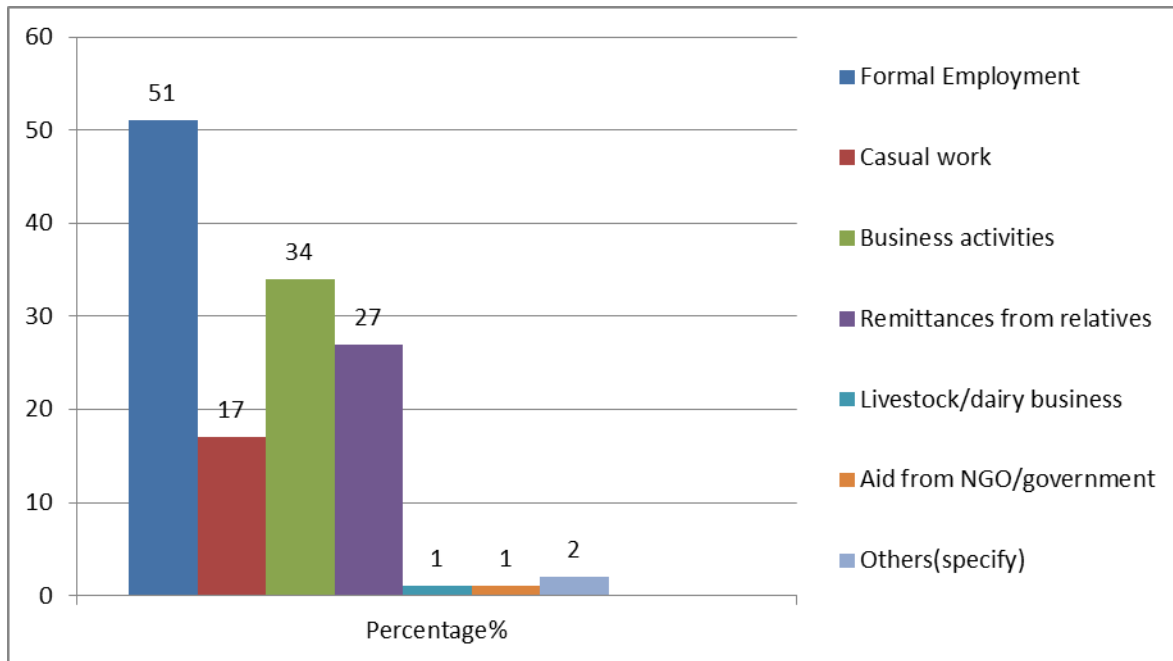
### 3.2 Household income and expenses

Households have an income of US\$ 407 per month from various sources. Notably, formal employment constitute important source of income for 51% of households; Formal employment provides an average income of US\$ 381 per month per household.

Business activities provide income for 34% of households, out of which each household earn an average of US\$ 296. Remittance also constitutes an important source of income for 27% of households. Each household receives an average income of US\$ 264 from remittances.

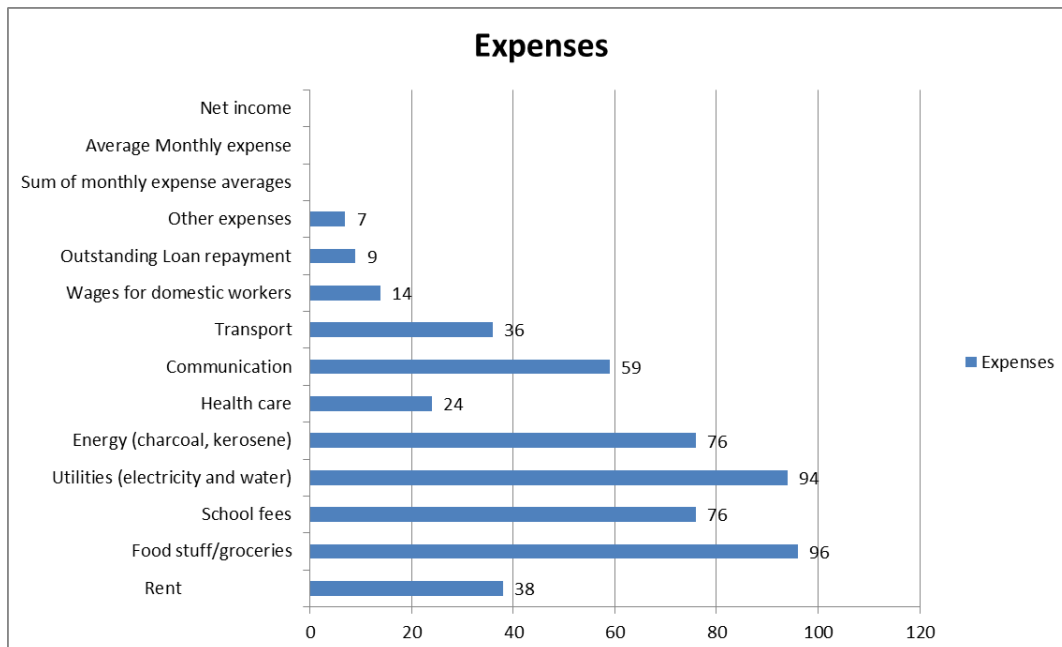
About 17% of households receive an average of US\$ 173 each per month from casual work. About 5% of households receive income from other sources such as livestock/dairy activities, aid from NGOs or government and other sources. The figure below is a summary of various sources of income for households in Hargeisa Municipality.

**Figure 6: Sources of household income**



Households spend an average of US\$ 281 per month on various expense items as shown in the table below. This means that each household has a disposable income of US\$ 140 per month which could be saved or used for other forms of investments.

**Figure 7: Monthly household expenses**



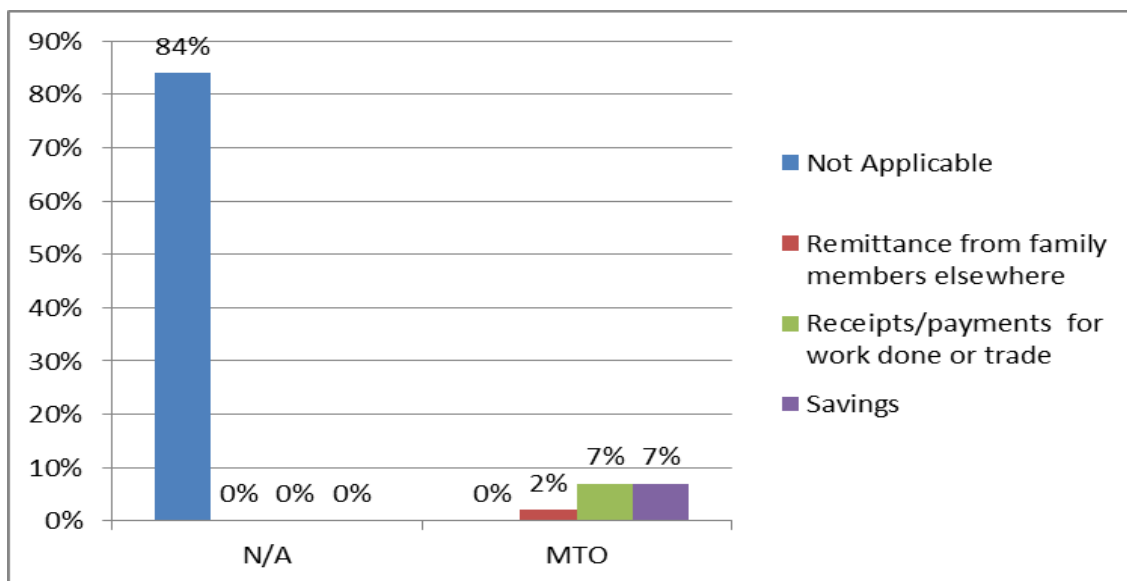
**Table 5: Average monthly household expenditure**

Expense	Mean
Rent	100.48
Food stuff/groceries	126.14
School fees	64.43
Utilities (electricity and water)	30.59
Energy (charcoal, kerosene)	16.32
Health care	28.68
Communication	15.28
Transport	19.08
Wages for domestic workers	28.04
Outstanding Loan repayment	31.40
Other expenses	21.36
Sum of monthly expense averages	481.81
Average Monthly expense	<b>280.82</b>
Net income	<b>139.65</b>

### 3.3 Ownership of accounts in remittance companies

Out of 164 respondents, 16% have formal accounts with the remittance companies. The accounts are mainly used for receiving payments for work done or trade and savings and for remittance from family members elsewhere. However majority (84%) do not have accounts and therefore the question was not applicable to them. The figure below is a summary of ownership of formal accounts with the remittance accounts.

**Figure 8: Ownership of formal account in Remittance Company**



For those without MTO accounts (84%), the major reasons are: don't have enough money (74%); too expensive (8%); interest charged/riba 6%); don't trust institutions (4%); others lack necessary documentations such as ID card etc (4%) and distance factor (2%). There are those who feel that they do not need to own accounts because someone else in the family has an account (2%).

### 3.4 Deposits and withdrawals

Deposits to the accounts are mainly done 1-2 times a month (12%) or 3-5 times (2%), mainly over the counter (9%), mobile phones (4%); cheque (2%) and ATM (1%). This was not applicable to 84% of respondents who don't own accounts.

**Table 6: Number of deposits made to MTO account**

Mode of transaction	1-2 times		3-5 times		D/K		N/A		Total	
	N	%	N	%	N	%	N	%	N	%
ATM		0%	1	1%		0%		0%	1	1%
Cheque	3	2%		0%		0%		0%	3	2%
Mobile Phone	6	4%		0%	1	1%		0%	7	4%
Not Applicable		0%		0%		0%	138	84%	138	84%
Over Counter	11	7%	3	2%	1	1%		0%	15	9%
Grand Total	20	12%	4	2%	2	1%	138	84%	164	100%

On the other hand, withdrawals are made mainly over the counter (9%), mobile phone (4%) cheque (2%) and ATM (1%). These with draws are mainly done 1-2 times a month (8%), 3-5 times (6%), and less than 6 times (1%).

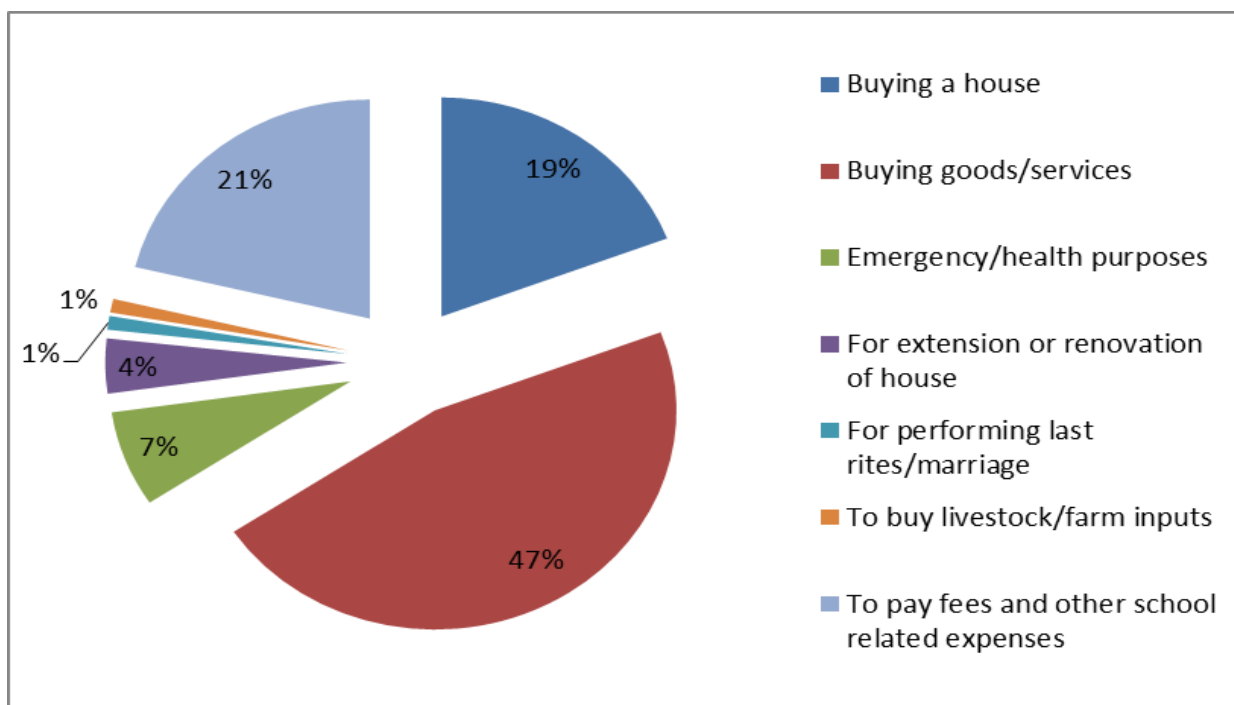
**Table 7: Number of withdrawals made through the MTO account monthly**

Mode of transaction	>=6 times		1-2 times		3-5 times		D/K		N/A		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
ATM		0%		0%	1	1%		0%		0%	1	1%
Cheque		0%	1	1%	2	1%		0%		0%	3	2%
Mobile Phone	1	1%	3	2%	2	1%	1	1%		0%	7	4%
Not Applicable		0%		0%		0%		0%	138	84%	138	84%
Over Counter	1	1%	9	5%	5	3%		0%		0%	15	9%
Grand Total	2	1%	13	8%	10	6%	1	1%	138	84%	164	100%

### 3.5 Savings services

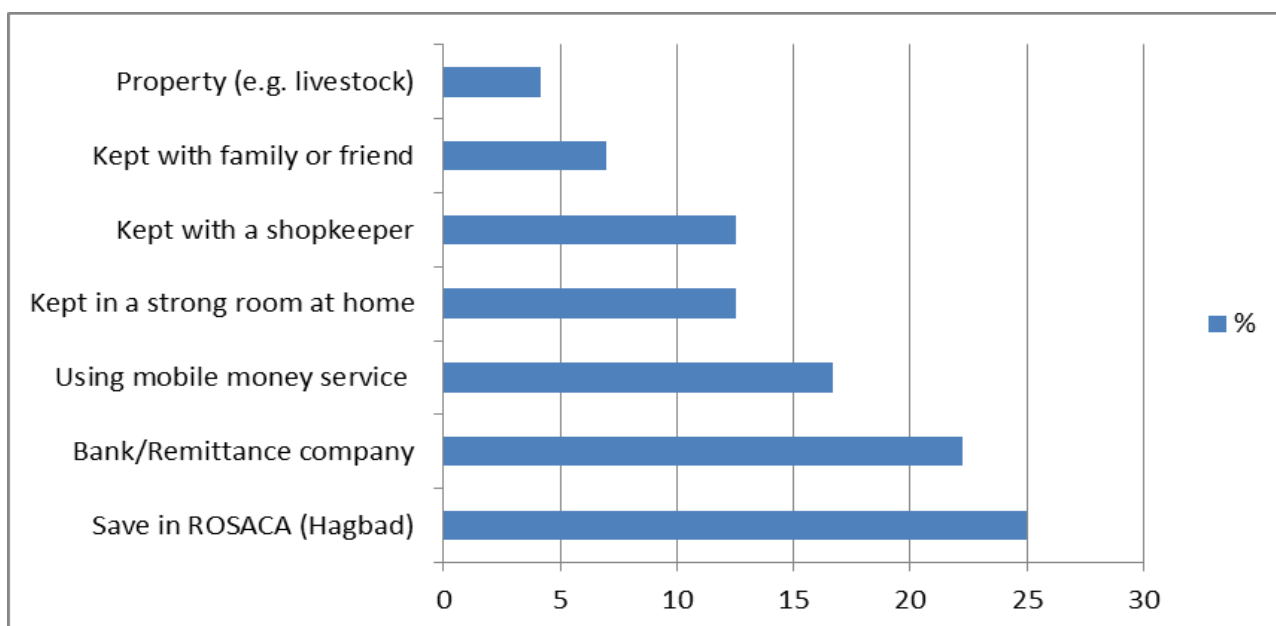
About 44% of the households save money in one form or another. The main reasons for saving are to buy goods and services (46%); pay school fees (21%); buying house (19%); saving for emergency, especially health purposes (7%); for extension or renovation of house (4%) and for performing last rites/marriage (1%); and to buy livestock or farm inputs (1%).

**Figure 9: Main reason for saving**



While 56% do not save part of their income, the 44% who save prefer the following savings mode: About 25% save with ROSCA (hagbed); 22% save with banks or remittance companies; 17% save using the mobile money service. Other forms of savings include keeping in the strong room at home (13%); keeping with the shopkeeper (13%); or keeping with the family or friend (7%) or saving in form of property e.g. livestock (4%).

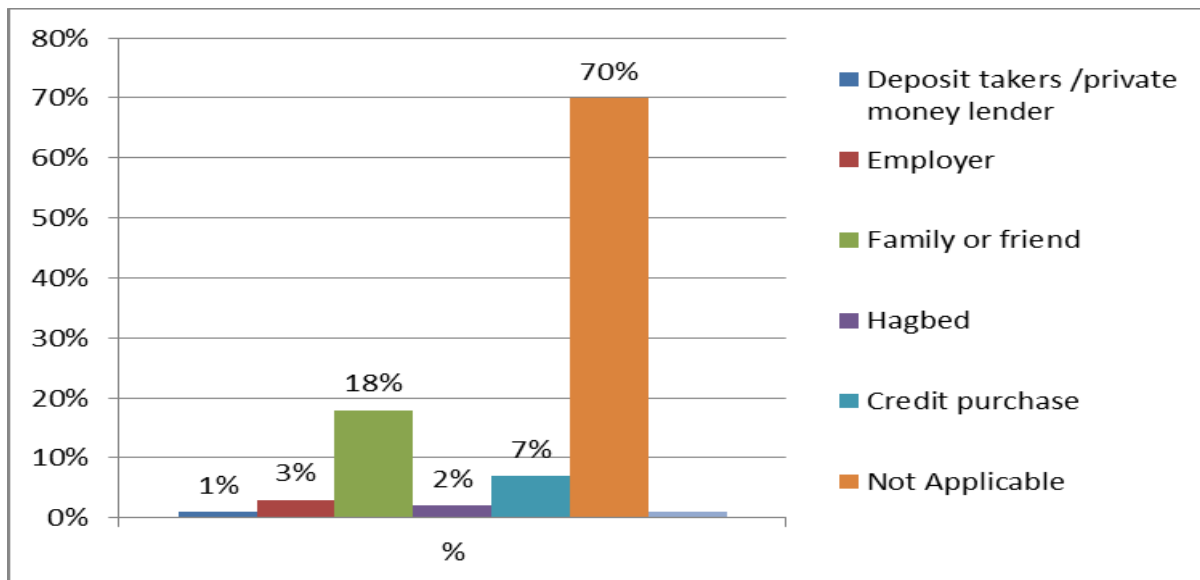
**Figure 10: Saving mode used by households**



### 3.6 Borrowing by households

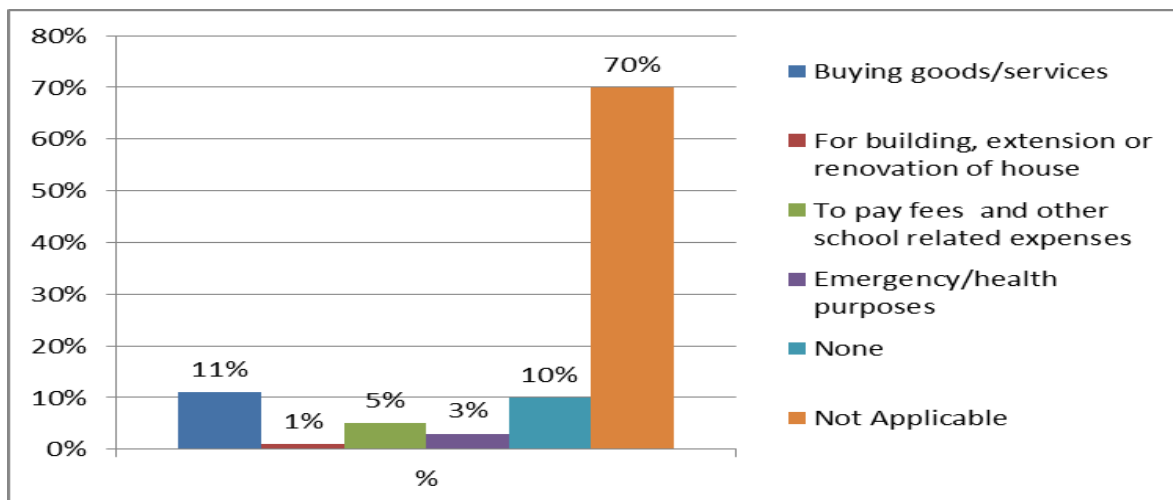
About 30% of households in Hargeisa Municipality have borrowed money for various purposes while 70% have not. About 18% have borrowed from family or friends; 7% purchased goods on credit; 3% borrowed from employers; 2% from *hagbed* while the remaining 2% from remittance company and or deposit takers or private money lenders. The figure below is a summary of borrowing pattern for households.

Figure 11: Source of money borrowed



The main reasons for borrowing has been to buy goods and services (11%); none (10%); to pay school fees and related expenses (5%); emergency and health purposes (3%) and for building, extension or renovation of house (1%).

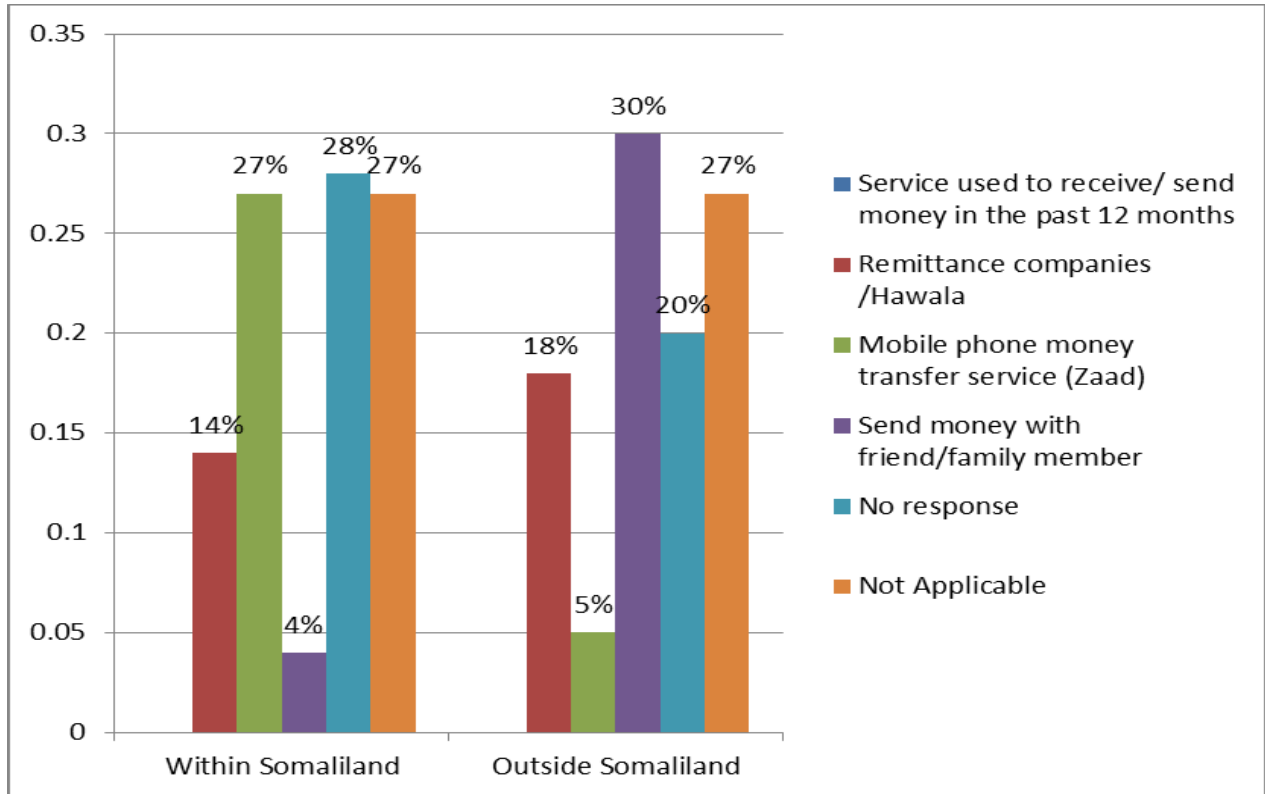
Figure 12: Purpose of borrowing



### 3.6 Sending and receiving money

About 45% confirmed that they send and receive money within Somaliland in the past 12 months. Out of these, 27% have used mobile phone money transfer services (*zaad*), while 14% have used the services of remittance companies or hawala; and 4% have used friends or family members to send money. There was no response from 28% of households while 27% do not send money.

**Figure 13: Services used to receive/ send money within and outside Somaliland in the past 12 months**

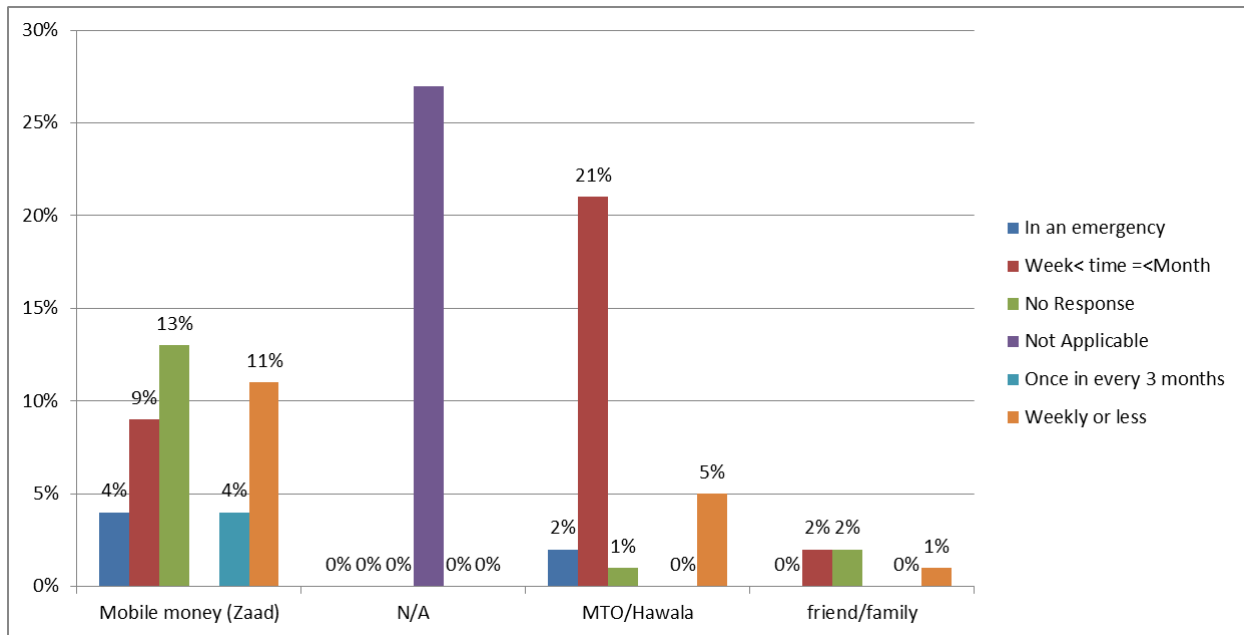


However, while sending or receiving money outside Somaliland in the last 12 months, 18% have used remittance companies and 30% used family members or friends. About 30% have not remitted money outside Somaliland in the last 12 months; while there was no response from 20% of respondents.

About 31% of respondents send or receive money on monthly basis out of which 9% from mobile money; and 21% from hawala and 2% from family/friends. Seventeen (17%) send or receive money on weekly basis or less mainly using mobile money (11%); 5% through hawala and 1% through family/friends. About 5% receive money only in emergency, mostly using mobile money services. Those that receive money once in every 3 months are 4%, mainly using mobile money (*zaad*) services.

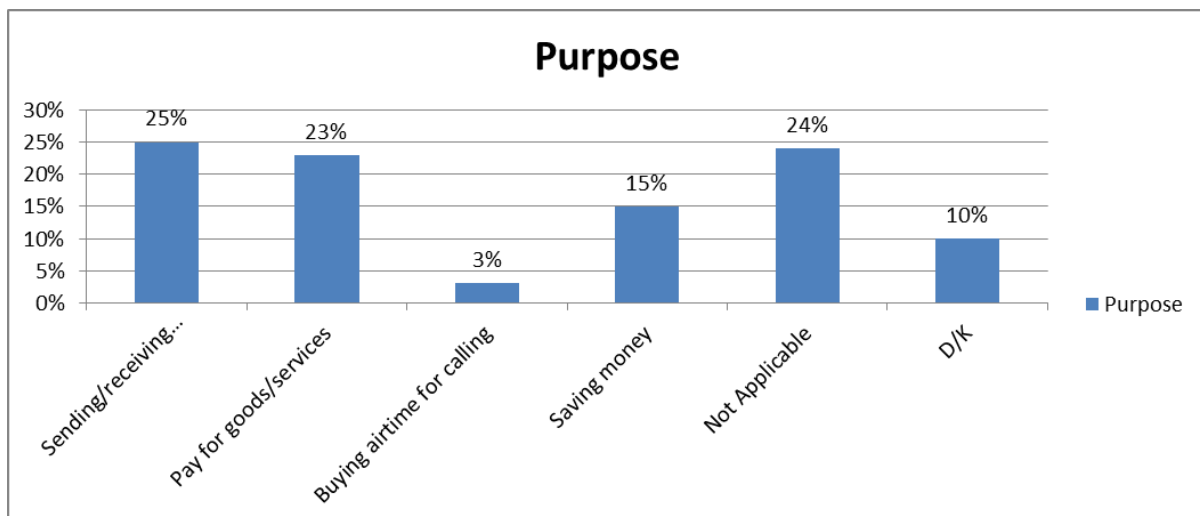


**Figure 14: Frequency of remittance**



About 25% of respondents use mobile money services (zaad) mainly used for sending or receiving money; 23% use it for paying goods and services; 15% for saving money while 3% use it for buying airtime. This was not applicable to 24% of respondents who don't use mobile money transfer services. About 60% of respondents use mobile money transfer services more than 6 times a month, 10% use it 3-5 times while only 4% use it 1-2 times a month.

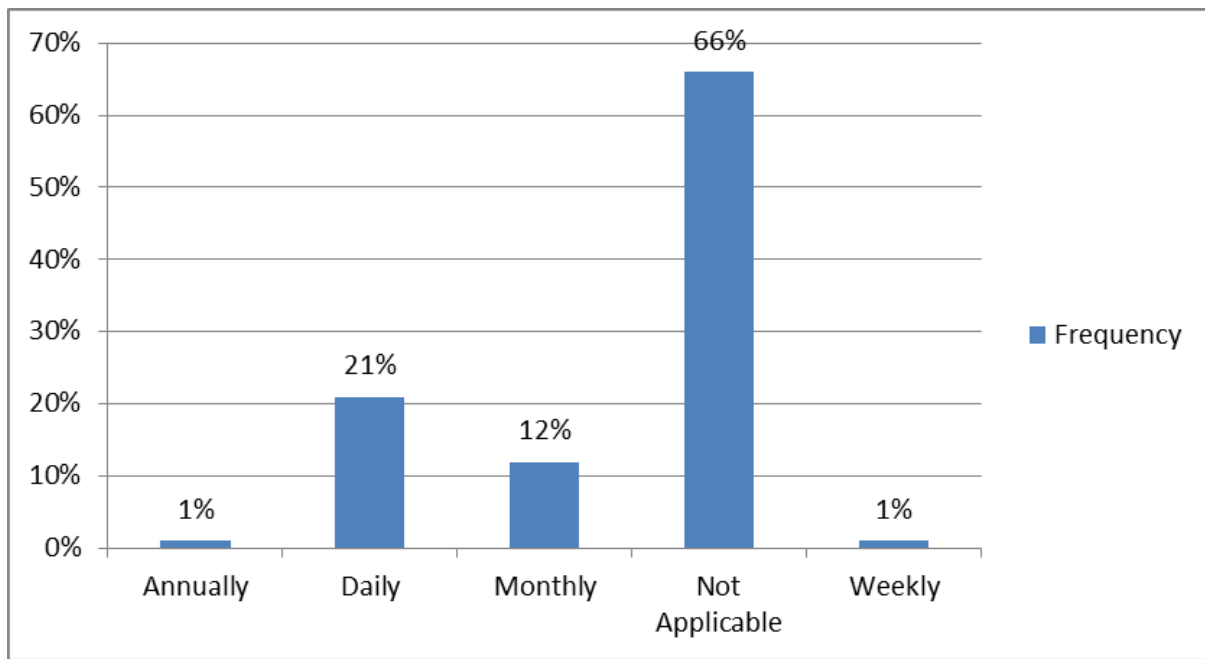
**Figure 15: Use of mobile phone money transfer service (Zaad)**



### 3.7 Use of ROSCA (Hagbed)

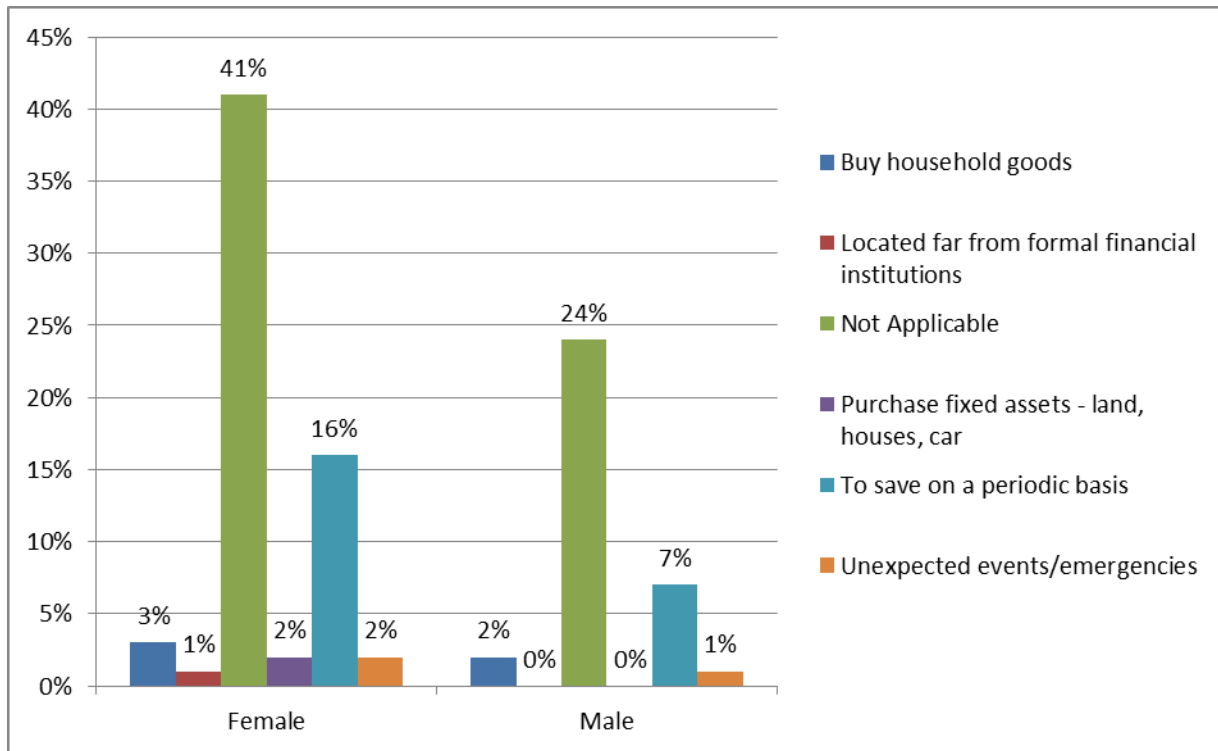
About 44% of households use ROSCA (hagbed), and contribute frequently. Responses from field indicate that 21% contribute on daily basis to the ROSCAs, 12% contribute monthly, while only 1% contribute annually. In terms of gender, more female than male contribute frequently to ROSCAs i.e. at 24% and 11% respectively.

Figure 16: Frequency of contributing to ROSCA (Hagbed)



There are various reasons why households are participating in the ROSCAs. These include: to save on periodic basis (23%); to purchase household goods (5%) for unexpected emergency/events (4%); and 2% to purchase fixed assets (land, houses, and cars) while 1% indicate that formal institutions financial institutions are located too far.

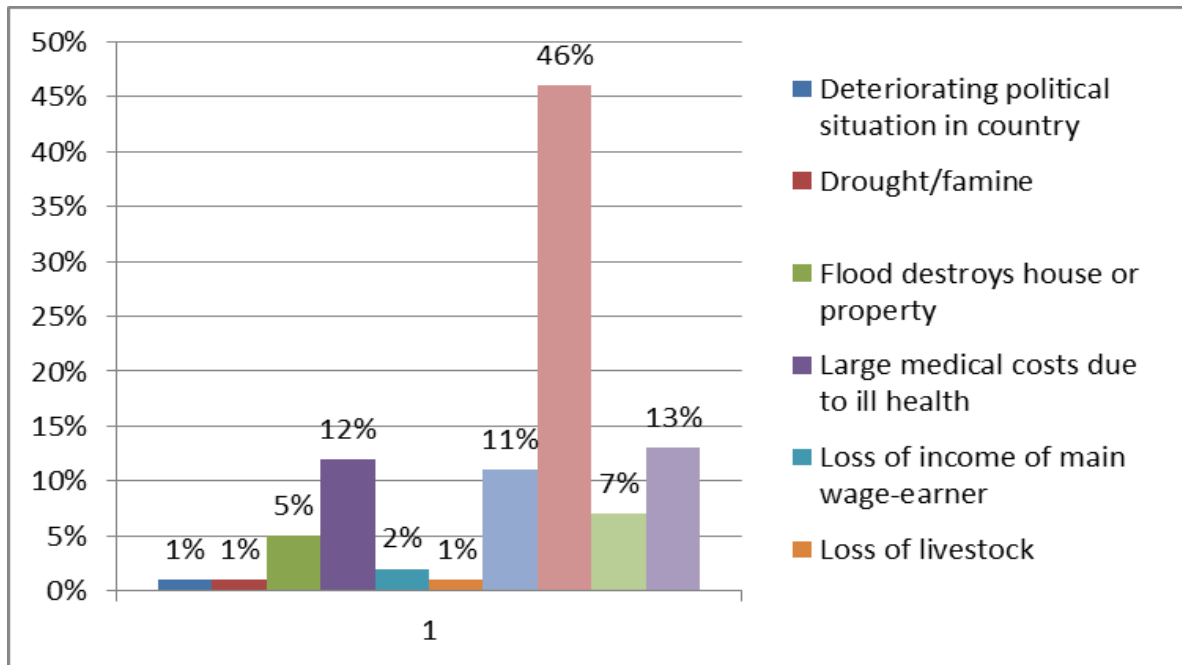
Figure 17: Reason for participating in ROSCA (hagbed)



### 3.8 Misfortunes faced by household members

Households have faced various misfortunes in the last 12 months. The figure below is a summary of the misfortunes that befell the households. However, in order to get out of the situation, 24% received donations from friends or families while 20% used their personal savings. About 9% borrowed money while 1% sold their assets.

Figure 18: Type of misfortunes



## 4.0 ACCESS TO FINANCIAL SERVICES BY BUSINESSES

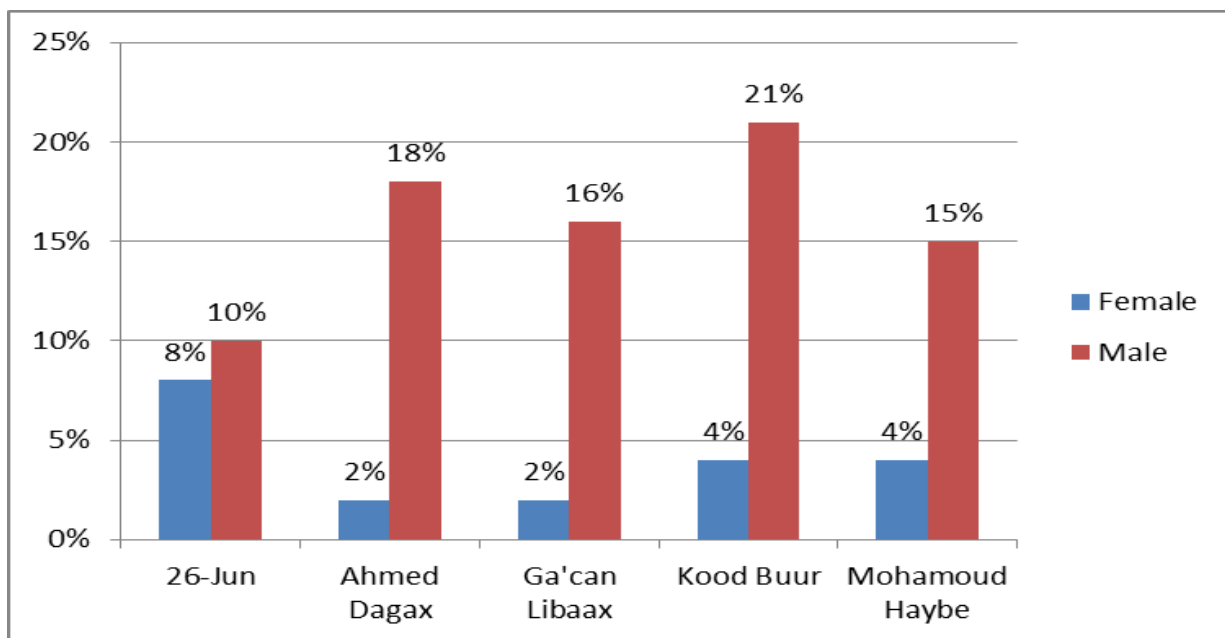
### 4.1 General characteristics of business respondents

#### 4.1.1 Gender, marital status and age

In total, 168 business people were interviewed from 5 districts of Hargeisa Municipality (26 June, Ahmed Dagax, Ga'can Libaax, Kood Buur and Mohamoud Haybe). Unlike households, most of the respondents were male (80%) and 20% female.

In terms of marital status, about 50% of the respondents from the business community are married while the rest are single.

Figure 19: Number of business respondents by gender

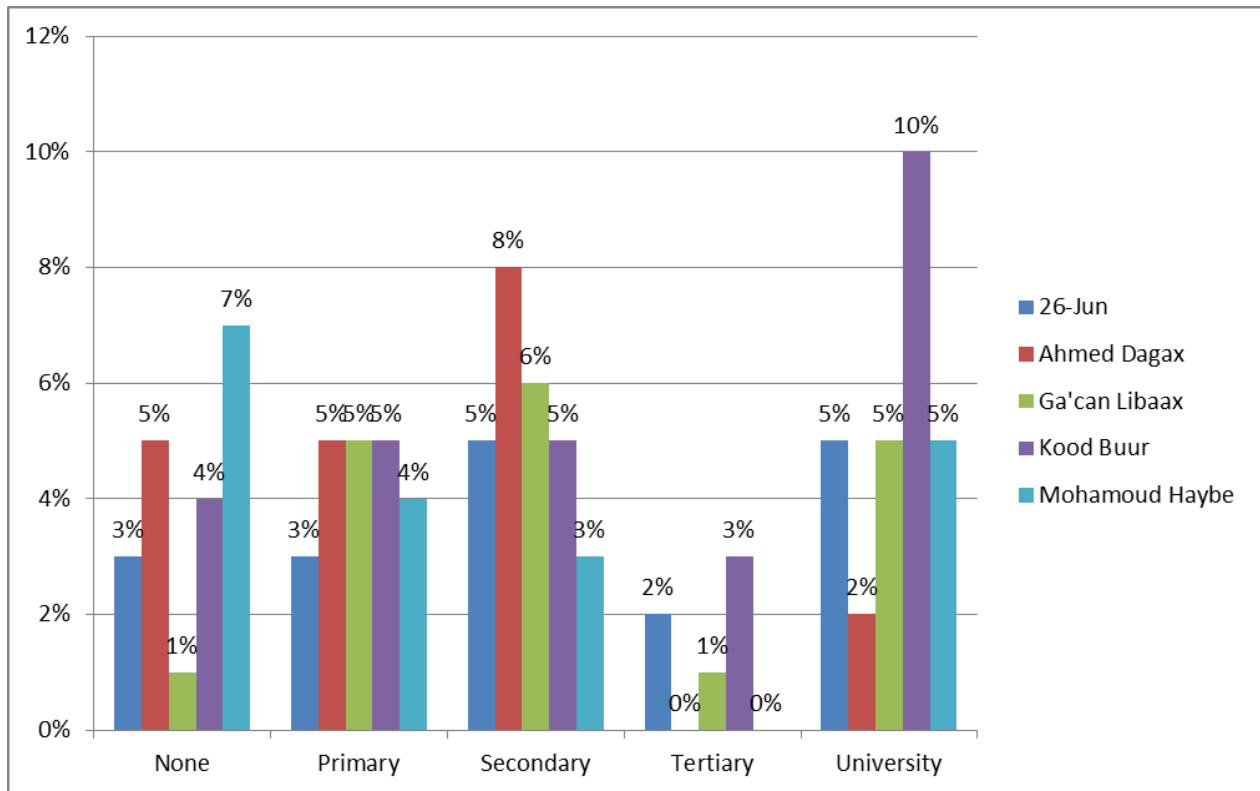


Most of the respondents were aged between 18-30 years as indicated by 57% of the respondents. Those aged between 31-40 years constitute 32%, and the rest were above 40 years.

#### 4.1.2 Education level

Most of the business people interviewed are educated or at various level of education. About 32% have tertiary level of education (including university); 27% have up to secondary level of education; while 21% are educated up to primary level of education. About 20% have no education at all. The figure below is a summary of levels of education for the business respondents.

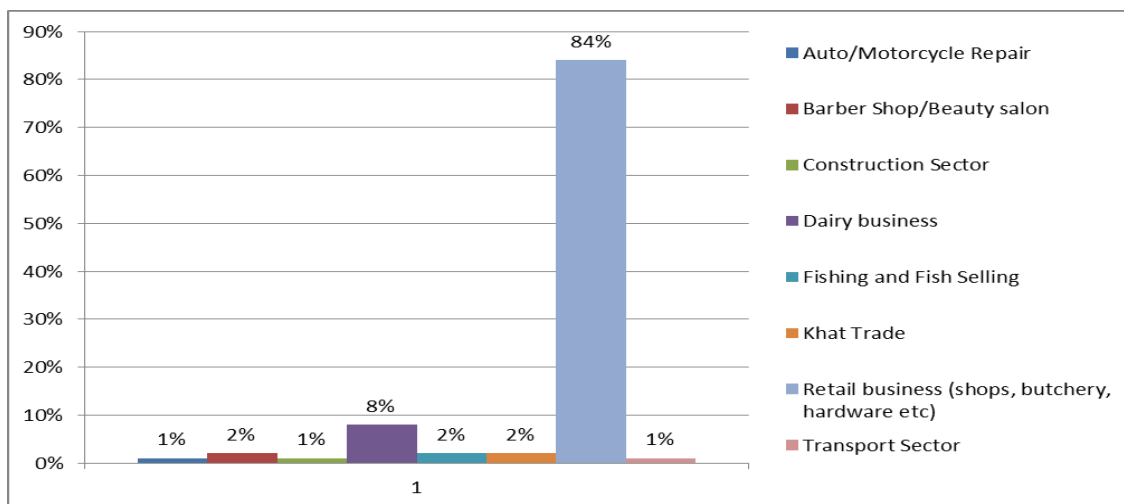
**Figure 20: Highest level of education for business respondents**



#### 4.2 Business activities

Most of the businesses interviewed are general retail businesses such as shops, butchery, hardware etc as indicated by 84% of respondents. Other important businesses include dairy businesses (8%); khat trade (2%); fish business (2%) barber/beauty salons (2%) and automobile/motorcycle repair (1%). These have been summarized in the figure below.

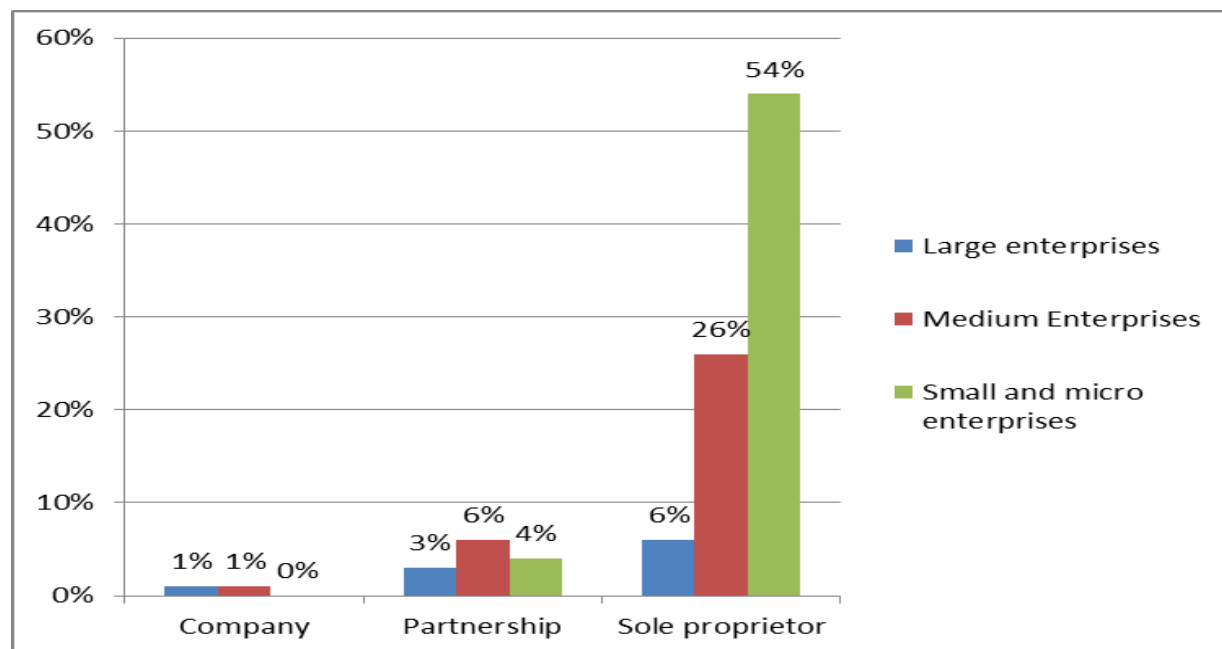
**Figure 21: Type of business activities**



### 4.3 Form of business ownership

About 58% of the business interviewed is small and micro enterprises; 33% are medium enterprises while 10% are large enterprises. These businesses are owned sole proprietor businesses (86%); 13% are partnerships and 1% company owned.

Figure 22: Form of business ownership



### 4.4 Profit and losses

The following table is a summary of the purchases, expenses, sales and profits made by these businesses. On average, all business makes monthly sales of US\$ 10,724 per month. Specifically, large enterprises have monthly sales of over US\$ 62,919 and make profits of US\$ 7,313; medium enterprises have monthly sales of US\$ 11,384 and a profit of about US\$ 3,404. Small and micro enterprises have monthly sales of US\$ 10,724 and make an average monthly profit of US\$ 2,063.

The table below depicts a profit and loss analysis of typical businesses in Hargeisa Municipality.

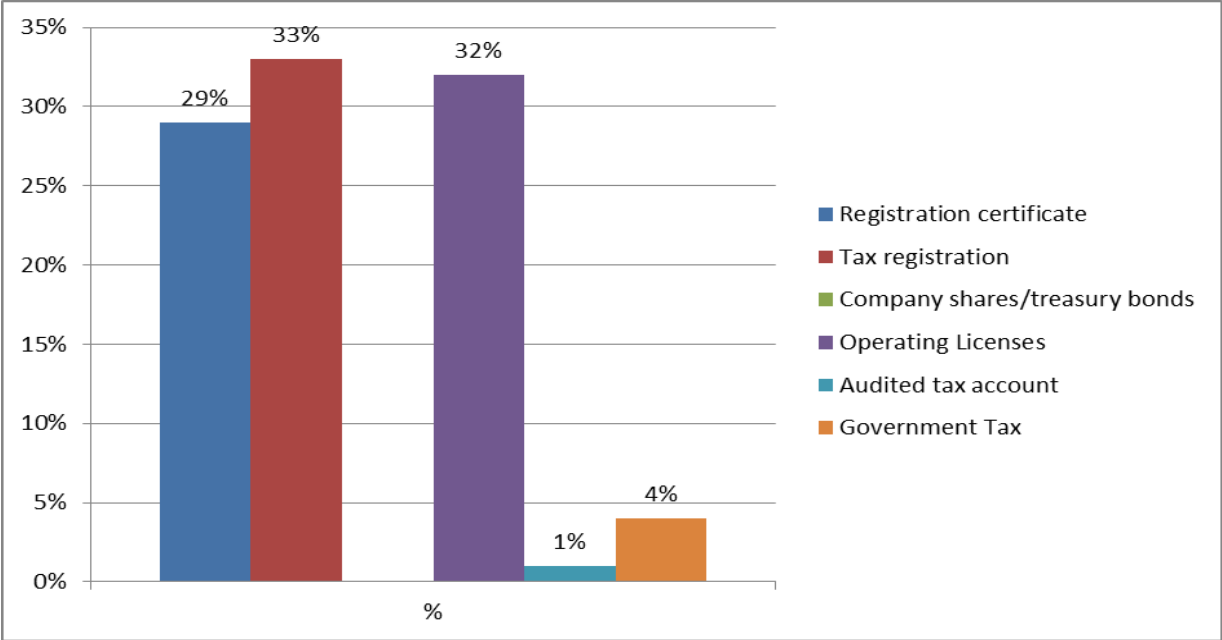
Table 8: Profit and loss analysis of businesses in Hargeisa municipality

Category of business	Business ownership	Purchases	Expenses	Sales	Profit
Large enterprises	Company	30,000.00	700.00	35,000.00	4,300.00
	Partnership	70,200.00	2,605.00	76,140.00	3,335.00
	Sole proprietor	46,000.00	3,496.00	59,100.00	9,604.00
		<b>52,562.50</b>	<b>3,042.81</b>	<b>62,918.75</b>	<b>7,313.44</b>
Medium Enterprises	Company	1,400.00	41.00	1,800.00	359.00

	Partnership	5,875.00	1,218.70	11,600.00	4,506.30
	Sole proprietor	7,491.59	837.98	11,552.50	3,222.93
		<b>7,086.91</b>	<b>892.71</b>	<b>11,383.82</b>	<b>3,404.20</b>
<b>Small &amp; micro enterprises</b>	Partnership	1,133.33	303.00	1,769.33	333.00
	Sole proprietor	1,131.37	163.96	1,739.07	443.74
		<b>1,131.49</b>	<b>172.56</b>	<b>1,740.94</b>	<b>436.89</b>
<b>Grand Total</b>		<b>7,979.38</b>	<b>681.68</b>	<b>10,724.29</b>	<b>2,063.24</b>

Most of the businesses had important documents held in the business name, namely tax registration documents (33%); operating licenses (32%); and certificate of registration (29%). Other documents include government tax (4%); and audited tax account (1%).

**Figure 23: Documents held in business name**

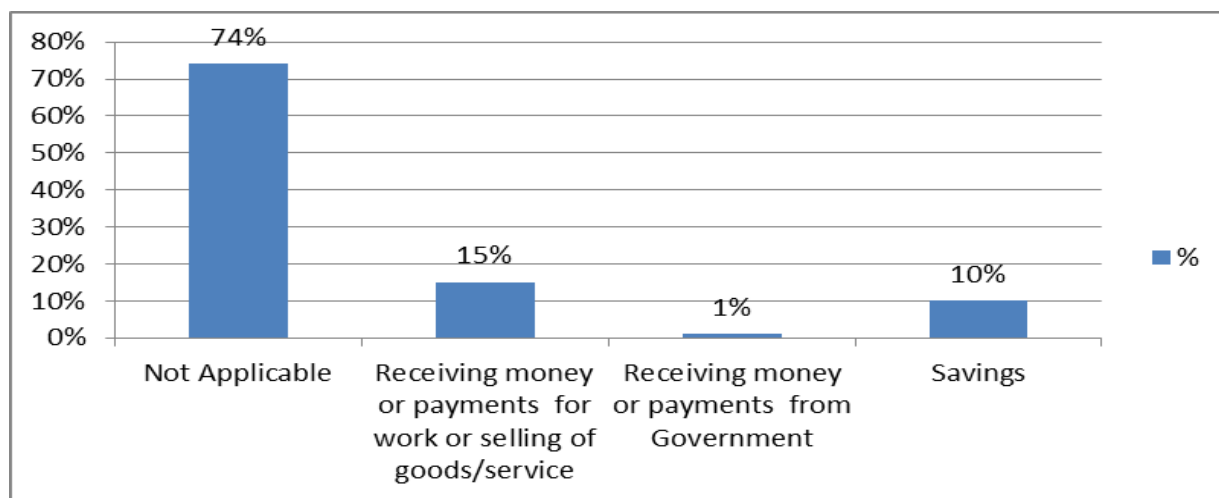


**4.5 Ownership of bank accounts**

Out of the 168 traders interviewed, only 26% use accounts with the formal institutions, while 74% do not. The accounts are mainly for receiving money or payments for work or selling of goods and services (15%). About 10% use it for savings while 1% use accounts for receiving money or payments from the government.



**Figure 24: Use of account with formal financial institutions**



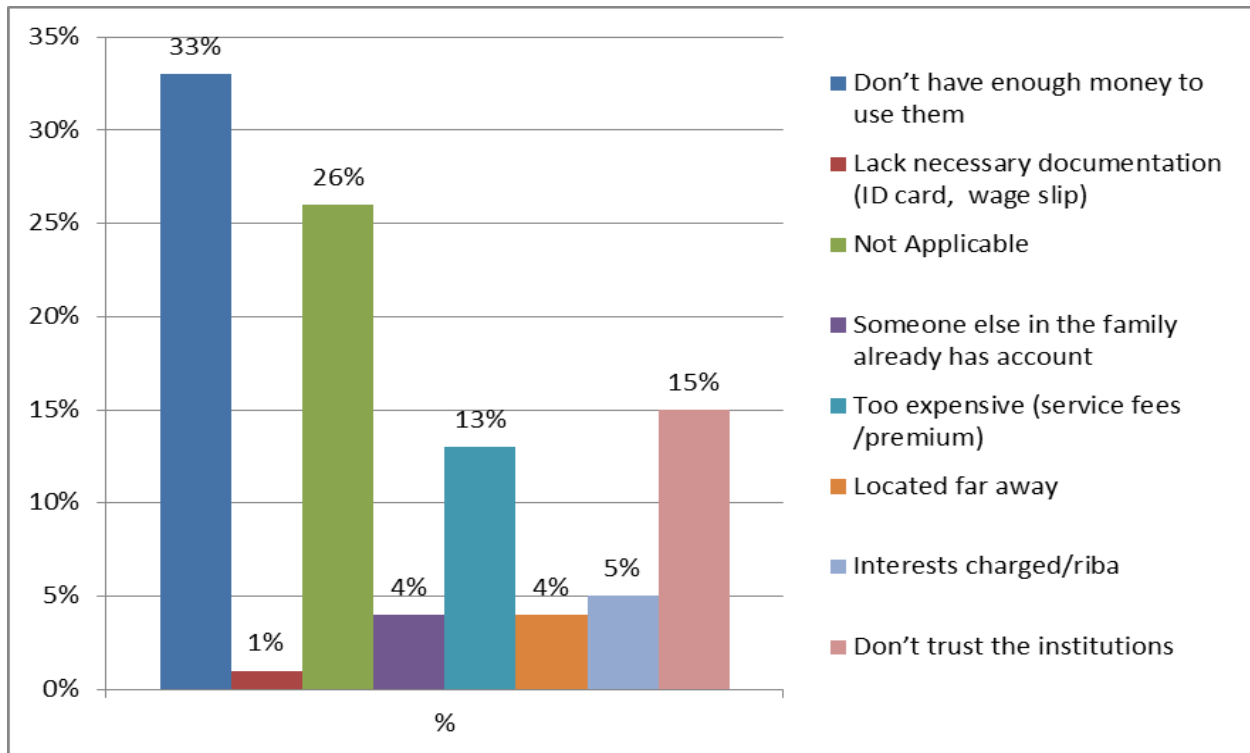
For those who transact through the accounts, most of these transactions are done on daily basis (13%), especially over the counter (6%), mobile phone (4%) or through cheque (2%) and ATM (1%). Transactions are also done on monthly basis as indicated by 9% of the traders, in this case mostly through cheque (5%), over the counter (1%). About 4% of the traders transact with their accounts on weekly basis, while only 1% transact once in 3 months.

**Table 9: The frequency of transaction of accounts by traders**

Transaction frequency	ATM	Cheque	Mobile Phone	N/A	Over Counter	Grand Total
Daily	1%	2%	4%	0%	6%	13%
Monthly	0%	5%	1%	0%	3%	9%
<b>Not Applicable</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>74%</b>	<b>0%</b>	<b>74%</b>
Once in 3 Months	0%	1%	0%	0%	0%	1%
Weekly	0%	0%	1%	0%	2%	4%
<b>Grand Total</b>	<b>1%</b>	<b>8%</b>	<b>5%</b>	<b>74%</b>	<b>11%</b>	<b>100%</b>

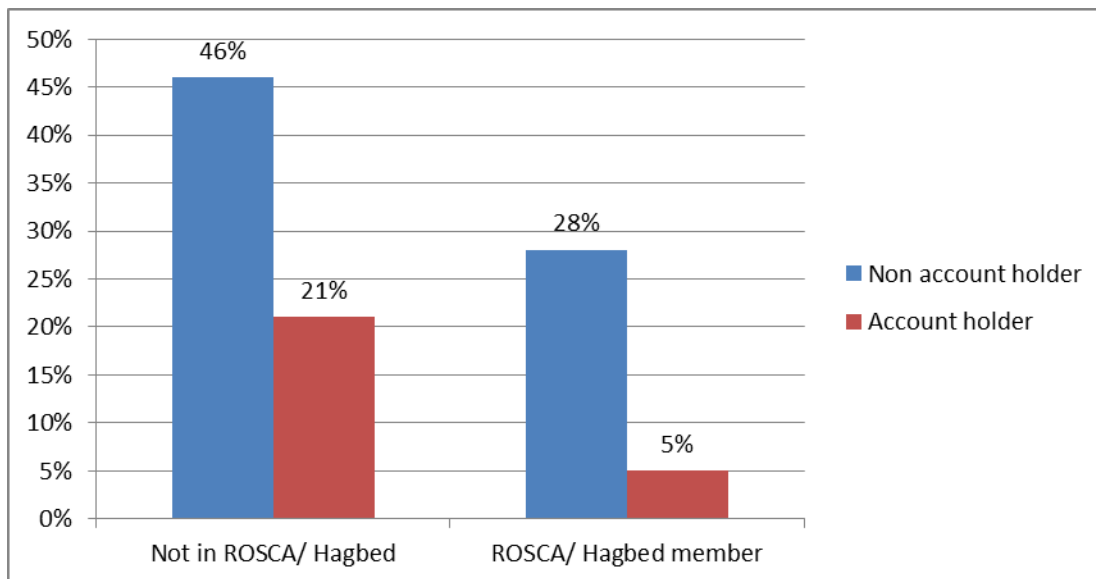
For those who do not operate accounts with the formal financial institutions, various reasons were given. About 33% claim not to have any money; 15% don't trust financial institutions while 13% claim that service fee or premiums are too expensive. Other important reasons include interest charged/riba (5%); financial institutions are located far away (4%); or someone else in the family has an account already (4%). Lack of necessary documentation such as ID card, wage slips etc was a reason for only 1% of the traders interviewed.

**Figure 25: Reasons why traders do not have an account with financial institutions**



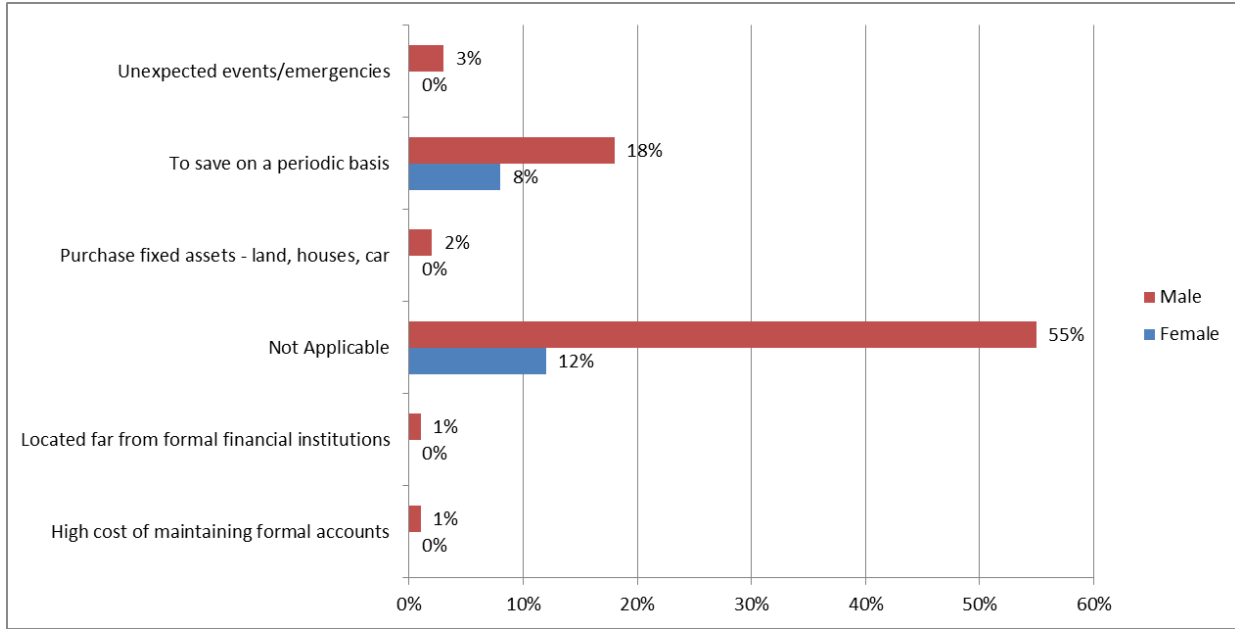
In addition to ownership of accounts, 33% of the traders who have accounts with money transfer companies belong to *Hagbed*, while out of the 74% that do not have accounts, 46% are not in *ROSCA/Hagbed*.

**Figure 26: Membership with Hagbed**



The main reason why traders are in hagged is mainly for them to save on periodic basis (26%); and for the unexpected event or emergencies (3%). Other reasons are attributed to the high cost of maintaining formal accounts (1%) and the fact that formal financial institutions are generally located far away (1%).

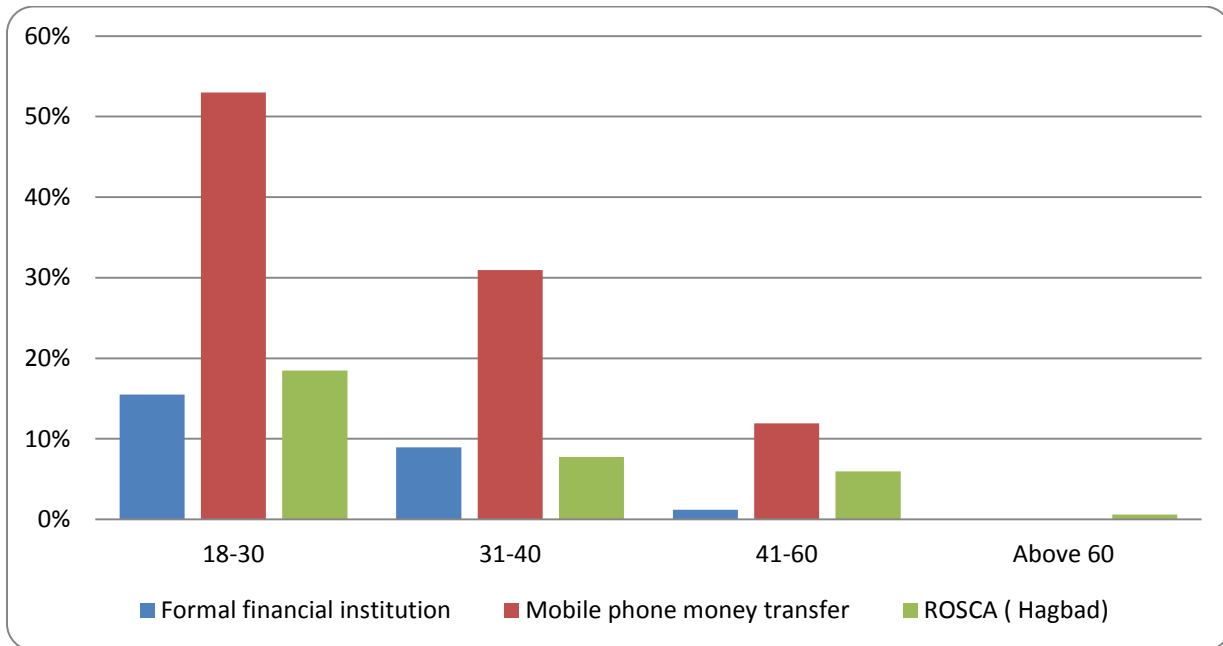
**Figure 27: Reasons for being in Hagbed**



#### 4.6 Mobile money transfer

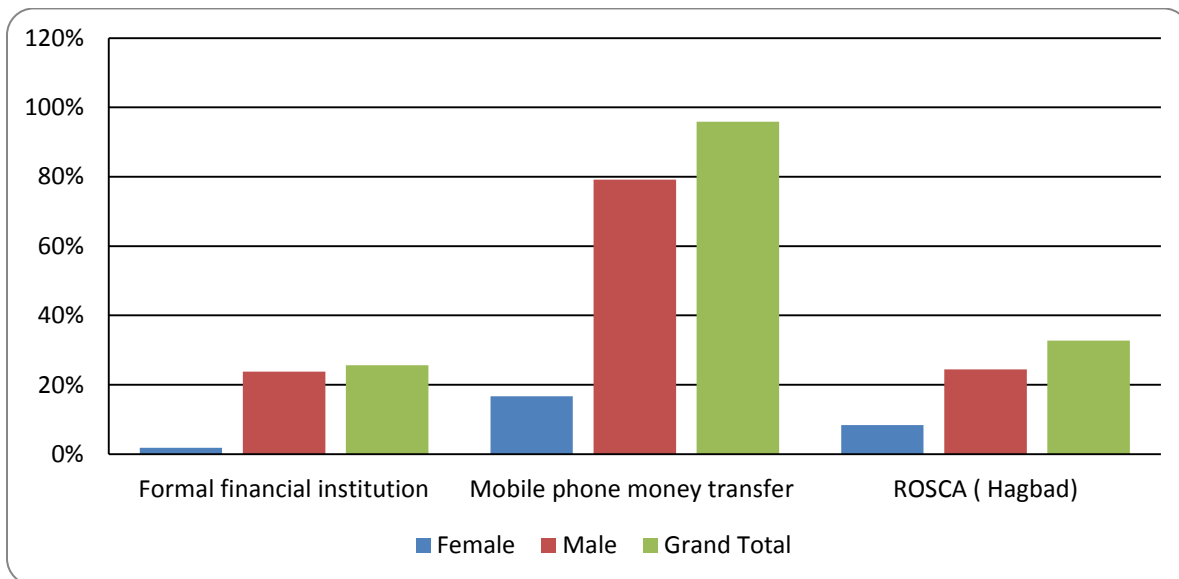
The usage of mobile money transfer is high amongst traders. About 161 (96%) use mobile money services. However, the usage is higher amongst traders aged between 18-30 years (53%) and 31-40 years (31%). The usage amongst age group of 41-60 years is 12%, while the rest are above 60 years.

**Figure 28 : Usage of financial services across age groups**



In terms of gender, more men than women traders have access to financial services. Majority of men (24%) have accounts with the formal money transfer companies as opposed to 2% of women. In mobile phone money transfer, about 79% of the users are men in comparison to women, who are only 17%. About 24% of men use hagbed services compared to 8% of women. There are various factors which affect women in accessing financial services, partly of which are religious or cultural. The figure below depicts access to financial services by gender

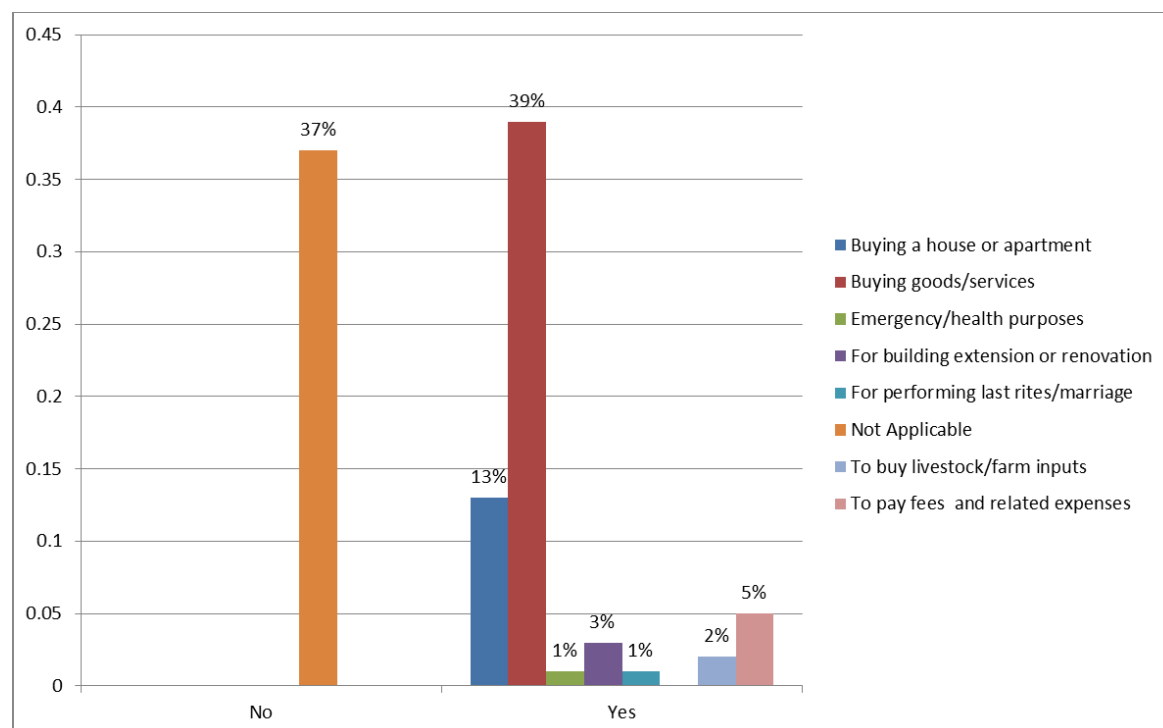
**Figure 29: Usage of financial services across gender**



## 4.7 Savings services

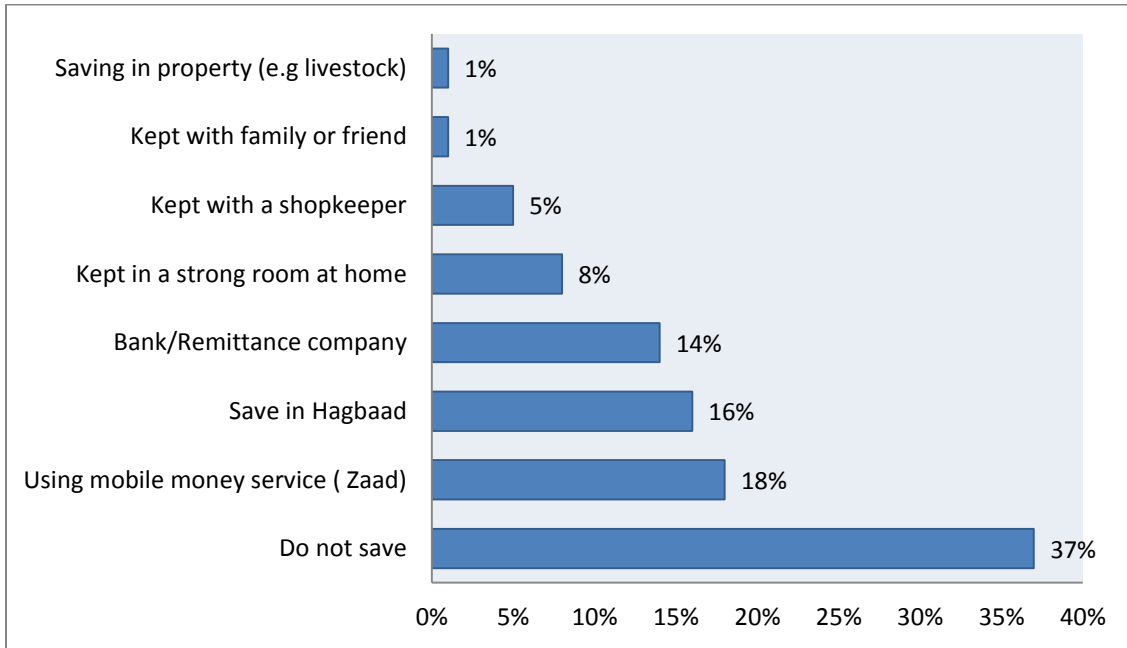
Most of the traders i.e. 63% save their money. The main purpose of saving is for buying goods and services (39%); buying house (13%); to pay school fees and related expenses (5%); for building extensions or renovation (3%); to buy livestock or farm inputs (2%); or for emergency/health purposes (1%) ; and for [performing last rites or marriage (1%). The table below describes the disparate reasons why traders save.

Figure 30: Purpose of savings



Most of the saving is done through mobile money service popularly known as zaad (18%) the hagbed (16%); banks, mainly remittance companies (14%); and keeping in the strong room at home (8%). Others save with shopkeepers (5%); keep with family or friends (1%) and saving in form of livestock or property (1%).

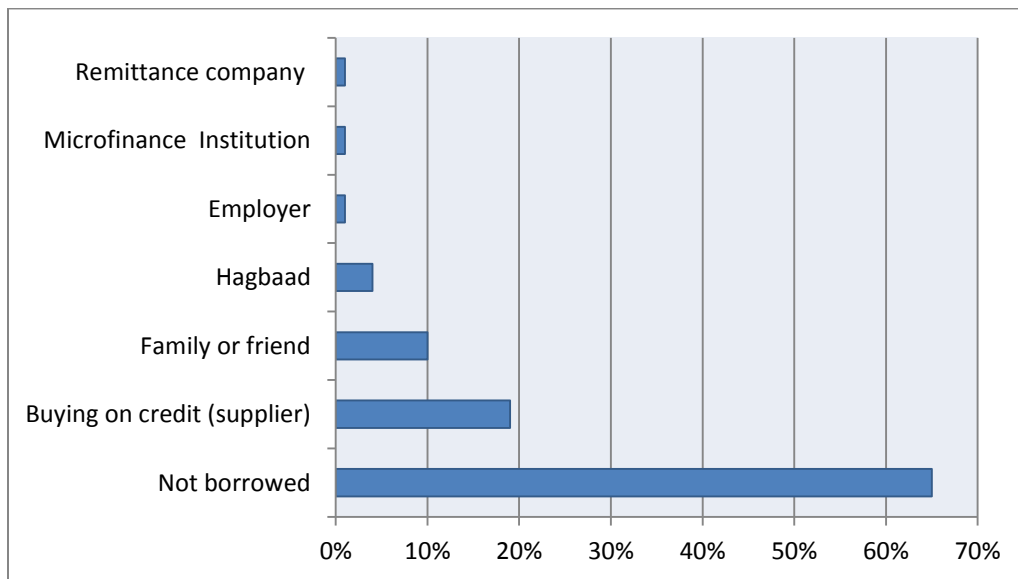
**Figure 31: Mode of saving money by traders in Hargeisa Municipality**



**4.8 Credit services**

Most of the traders in Hargeisa Municipality have not borrowed money in the last 12 months. This constitutes 65% of the total number of traders interviewed. However, for those who have borrowed, about 19% have been buying goods from suppliers on credit; while 10% have borrowed from family or friends. About 4% have borrowed from hagbed while the remaining 3% have borrowed from employers, microfinance institutions or remittance companies.

**Figure 32: Source of credit for traders in Hargeisa Municipality**



The main purpose of borrowing has been to buy goods and services as indicated by 27% of the traders; However, about 3% borrow for emergency or health purposes; 2% borrow for buying house; 2% for building extension or renovation purposes and 1% borrow to pay for school fees and related expenses.

## **5.0 DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Access to banking services**

The restoration of the financial sector, which is essential for progress and development of the economy, remains elusive, and while remittance companies have filled some of the void, there is an urgent need to revive the entire sector. That need aside, the remittance companies have proven to be a vibrant alternative, providing essential money transfer, foreign exchange services and, in some cases, deposit facilities, albeit without any deposit protection scheme in place. These companies are effectively a half-way house to banks, and function efficiently, providing quick and inexpensive services to all parts of Somalia. Their services are available to Somalis living worldwide with agents and franchises based abroad providing ease of local access (KPMG 2004).

There is no reason why the existing Somali remittance companies cannot expand their services to provide commercial banking services in Somaliland and other parts of Somalia, or anywhere else subject to meeting the rules and regulations applicable to the industry. However, for Somaliland to revive its financial sector, one must look at the development of the sector in a holistic and sustainable manner. In the first place, the country currently lacks an environment conducive for the entry of banks; for instance, there are no regulations in place for financial institutions, though in pipeline. While a holistic solution is needed to address this situation, the Somali remittance companies are faced with many other challenges in light of global events.<sup>8</sup>

### **5.2 Savings Services**

The focus of financial sector development for economic growth is often on access to credit. However, it is also crucial that individuals and businesses have safe, accessible savings products. The larger financial service providers such as Dahabshiil offer savings accounts, and the anticipated passage of the Bank Law should bring commercial banking services including savings to Somaliland.

Unfortunately these services may still exclude the poor and the rural population. Recent research by Dahabshiil found that poor traders tend to have the impression that Dahabshiil was only for people with US Dollars – not Somaliland Shillings. While this is not true, it highlights the recognition that the poor may feel excluded. While Dahabshiil is available throughout rural areas, getting to an agent to deposit very small savings might still be too difficult for these marginalized populations. It remains to be seen in the coming years if and to what extent Dahabshiil remittances outlets could serve as bank outlets.

Somalilanders acknowledge that a savings discipline is not a strong aspect of their culture – neither in rural or urban areas. Men tend to save only when a larger lump sum of money has been received, perhaps from the sale of livestock, and they tend to save money in an account

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<sup>8</sup> KPMG (2004). Feasibility Study on Financial services in Somalia. Updated final report presented to UNDP.



with a company such as Dahabshiil. Women may tend to save more frequently and in smaller amounts, but only for shorter periods of time (2-3 months) and for specific purposes (celebrations, large purchases), within *hagbeds*.

Savings products are one of the core financial sector functions that underpin a healthy economy as they build capital for lending. As part of its work in the financial sector, the project could explore opportunities to increase outreach of savings products, particularly to the poor and to rural communities, through mobile technology.

### **5.3 Microfinance services**

There is clear demand for the microfinance sector to be developed further and for scalable Islamic microcredit products to be introduced. There is need to find innovative partnership mechanisms to work with Dahabshiil and/or Salaam on their microfinance offerings; encourage an existing Islamic microfinance organization to enter the Somaliland market; and explore the demand and capacity of offering technical assistance to Kabaa MFI.

A possible partner for such research and technical assistance is the Beder Academy for Islamic Finance, a private non-profit organization based in Hargeisa that provides education, research, training and consulting on issues of Islamic finance. The Beder Academy was founded in 2009 and registered in both Somalia and Somaliland. In particular, as Kabaa plans to open branches outside of Hargeisa in the coming years, the Partnership could explore possible synergies with Kabaa to support targeted value chains such as the demand for microfinance services for green market vendors and other small scale agriculture value chain actors in Borama and pastoralists and other small scale livestock stakeholders in Burao.

In addition, since smaller firms in general face larger constraints to access finance, the Partnership could work with financial services providers to develop a revolving credit product that capitalizes on the expansive participation of the *hagbed* system of group savings. For example, groups of small firms could create an account at Dahabshiil or Salaam with regular deposits that could be accessible to members when needed for working capital – building upon the VSLA-bank linkage models presently being explored by organizations such as CARE in Uganda, Rwanda, and Tanzania.

### **5.4 Insurance Services**

There are prospects for community-based health micro-insurance linked to *hagbed* (ROSCAs). In addition, there is need to work through the Trade and Industry Association or other associations to facilitate improved access to insurance. An exposure visit for even marginally interested insurance companies might help dispel the negative perception of Somalia. The project could also explore partnerships with MIGA or other multi-lateral insurance providers.

## **5.5 Access to working and investment capital**

### **5.5.1 Working Capital**

The Somaliland economy is based on trade rather than production (except for livestock). National networks of importers, wholesalers, and retailers are connected through extensive offering of buyer and supplier credit. In addition to this “value chain finance,” working capital is offered through account overdrafts (Dahabshiil) or short term loans (Dahabshiil and Salaam). While adequate for the economy to function, this type of working capital financing still limits liquidity, flexibility and access, and thereby constrains business growth and profitability.

There is need to explore the possibility of supporting the expansion of Dahabshiil’s account overdraft offerings through targeted technical assistance for a credit scoring system, or for cash flow lending methodologies. In addition, loans offered by Salaam and Dahabshiil are limited in outreach (e.g. Salaam has only done ~30-40 loans), and as these firms attempt to scale up their portfolios, training could be offered in marketing, loan officer training or other areas.

### **5.5.2 Investment Capital**

The lack of commercial banks offering longer term loans for investment creates a challenge for all Somali businesses, as investment for growth and expansion is limited to owners and investors equity. Interestingly, the practice of offering shares to raise capital for investment seems to be more widely used among medium size businesses than in many countries. This appears to be reinforced by the Islamic principles of finance, which require risk sharing rather than lending.

Some lending is being done by Dahabshiil and Salaam, and as their bank branches are established in Hargeisa this should expand. However, this process will probably not meet the need for multi-million dollar investment capital, at least in the near term. The lack of investment capital also impacts public sector investment. Without access to bond markets and with limited investment from traditional sources of developing country capital such as the World Bank, it is difficult to improve infrastructure and other public goods such as cold storage facilities that could contribute to economic growth. Given the broadly perceived political risk of doing business in Somalia, the Somali Diaspora is the most likely source of foreign investment. It has been reported that many Diaspora would like to invest, but need assistance to identify good opportunities.

The extensive remittance networks of Somali Diaspora and the firms serving this market are functioning well, with very broad outreach and at reasonable rates. Opportunities should be explored for leveraging remittances for investment, and for partnering with Diaspora organizations to identify investors, technical assistance, and matching funds.

## **5.6 RECOMMENDATIONS FOR ENSURING FINANCIAL INCLUSION FOR THE POOR**

Full financial inclusion is a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. The study has revealed that financial services are delivered by a few

providers, most of them private. However, they have not been able to reach everyone who can use them, including disabled, poor, and rural populations.

In order to reach financial inclusion, programs and strategies put in place should (i) address full financial product suite; (ii) products provided with quality; (iii) reaching all who can use the services; (iv) in a diverse, competitive marketplace; and (v) to an informed clientele. However, reflecting on each of these pillars draws attention to the gaps that exist on both the quantity side (excluded population) and the quality side (existing clients with poor services). Given the ubiquity of informal and semi-formal services, few people have zero financial services, but many use services that are risky, inconvenient, costly, and at times harmful.

Messages about quality came through clearly in the analysis suggesting that the pursuit of financial inclusion must include a strong focus not only on numbers reached, but also on the range of services provided, the extent to which they respond to client needs, and clients' ability to make good use of the services through their own financial capabilities.

The pillars of financial inclusion noted above also draw attention to the fact that the structure of the marketplace, and who provides, will have an enormous effect on how well people are served.

Survey respondents support an effective legal and regulatory framework that creates an orderly marketplace, particularly one that protects clients and creates space for smaller, specialized institutions that serve the poor.

Therefore, to achieve financial inclusion in Somaliland, efforts are required through intervening in the following areas:

- i. Financial education and literacy
- ii. Product range, informed by understanding client needs
- iii. Technology-enhanced delivery channels
- iv. Client protection
- v. Institutional capacity building
- vi. A sound regulatory framework

### **5.6.1 Financial education and literacy**

Given the low levels of literacy amongst respondents, and the fact that most of them not being exposed to a range of financial products, it can be argued that the financial literacy is quite low in Somaliland. Therefore, financial service providers must provide financial education to their clients by implementing finance literacy programmes; and the international community must support such programmes.

Financial education is one of the best ways to empower the working poor to take control over their financial lives, which has a ripple effect to all areas of their lives. Respondents view financial literacy as an enabling factor that unlocks other key dimensions of financial inclusion

e.g. financial education is very important for expanding the range of products, and so that the use of the products is well understood. It is important to raise the consciousness of the people regarding good management of money, including savings, credit, and income management;

### **5.6.2 Product range, informed by understanding client needs**

Current products on the market are quite few and not known by many people. The population is also demanding sharia compliant financial products though a few providers have responded to that need and developing products that are acceptable to the people. However, most financial service providers have very limited understanding of their clients. The rural population does not demand financial products and services because they don't know about them.

### **5.6.3 Technology-enhanced delivery channels**

The use of mobile money services and other modern delivery channels are gaining ground in Somaliland, e.g. zaad services etc. Reflecting on the survey results where there are an increasing number of users amongst households and business people to send and receive money, and savings. Such new transaction channels provide unprecedented power to reach more people and research has already demonstrated the capacity of mobile banking to reach more previously unbanked and low-income people in a shorter period of time. The new channels offer dramatic increases in outreach by solving the critical bottlenecks of costs, both fixed and variable.

However, achieving full financial inclusion will require strategic partnerships among distributors, product providers, and technology providers in Somaliland. There is the need for telecommunication and financial services providers to synchronise their software's to promote use of such services. On the other hand, the absence of such arrangements or difficulty in setting them up is a noteworthy bottleneck, with lack of network cooperation. Development partners may support such ventures.

### **5.6.4 Client protection and confidence building in local financial institutions**

Most respondent lacks faith and trust in the formal financial institutions in Somaliland. Survey responses and many heartfelt comments reveal the industry struggling to identify the implications of the recent crises in microfinance in Somaliland, such as crumbling of pyramid scheme and depositors losing money due to the collapse of the banking institutions.

However, there is an opportunity to address such obstacles such as creating strong, client-protection centered institutions and programs; developing a culture within a country or organization of embracing and honouring client protection principles is the way to create a more inclusive financial world, and promoting self-regulation amongst providers.

### **5.6.5 Institutional capacity building**

The perennial need to strengthen institutions that provide services to low-income people is of concern in Somaliland. Comments from respondents alluded to three particular areas of institutional weakness where capacity building is needed: governance, expanding to new

products and client groups, and managing risk. Respondents commented on the technical skills needed within institutions to expand the product offering and reach new client groups.

Institutions also need help to keep up with the evolving industry. New client groups and new products require expanded capability to manage information. A significant obstacle to financial inclusion is appropriate financial reporting systems for financial institutions to combat fraud, and incorporate market and impact research linked to clients, as well as track the history of multiple products at different times in the client's life. Development partners may consider building the capacity of various institutions.

#### **5.6.6 Legal and regulatory framework in the finance sector**

Some gaps have been identified in the development and enforcement of policies, legal, regulatory and institutional reforms for the finance sector. As reported elsewhere in the report, there is inadequate regulatory framework for the finance sector; inadequate client protection; weak legal infrastructure and the regulation that lags technology and immediate financial regulatory priorities being on setting up offices and institutions.

- The study recognizes that efforts have been made to formulate the necessary regulations and policies; however, they remain just that: operationalization of these instruments has been a challenge this is partly due to limited resources, capacity constraints, political etc.
- The policies are also piecemeal in nature and not anchored of a whole financial sector system. Therefore ILO would consider supporting development and operationalization of a whole financial sector framework for the country. For example, establishing policies; building legal and regulatory framework; building other financial infrastructure; developing key institutions; and developing/upgrading skills.
- The country's own institutional capacity for statistical information generation for policy is limited. Lack of information is very much reflected in inadequacies in policy formulation. One is not sure if even the available limited information is validated for its reliability and authenticity.
- ILO may support the government and private sector players in designing client protection laws; improve regulation and supervision of financial institutions; and development of prudential regulation and supervision (in general), and self-regulation.
- New emerging technologies like mobile phone and banking services is taking up root in Somaliland and gaining public trust amongst population. However, there challenge in developing policies and laws that keep up with technology pace. This opens an opportunity for finance service providers in developing self-policing practices for this industry in the absence of government interventions. ILO should support development of regulations that promote access to financial services through technology advancement.
- Village savings and loan associations (Hagbeds) and the related phenomenon of self-help groups have featured importantly in this survey, probably because they are methods embraced strongly by their devotees but which are largely ignored by the

proponents of regulated microfinance. ILO would consider supporting them in order to continue meeting financial needs of the poor people.

### 5.6.7 Capacity building of Central Bank

As a key institution for regulatory oversight of the banking sector, a central bank will need to be supported by development partners, especially World Bank. All the organizational and operational aspects related to building the capacity of Central Bank will need to be addressed. Such as

- Support in developing and operationalizing the strategic plan
- Development of the human resources i.e. develops personnel policies, pay and grading structures, job descriptions etc.
- Design and implementation of a new accounting and management information system within the central bank; preparation of financial statements in accordance with international standards; and, utilization of 'best practice' accounting procedures for preparing the first year's.
- Development of an internal audit function for the central bank; modern banking audit programs and procedures; and design of a training program and delivery of training of new audit staff in risk-based auditing and international standards on auditing.
- *Training and development*- A detailed staff skills inventory and training needs analysis should be undertaken with the aim of assessing the best options available for building relevant skills (for example, banking operations, risk management, management skills, financial management, international banking); and following from above, technical advice on developing an effective training function to serve the financial sector, taking into account evolving needs of bankers, money transfer companies and associated financing needs/activities throughout the country.
- *Policy issues and implementation*- In addition to the supervisory role, the central bank is tasked with monetary policy and currency issues. Specific areas for assistance here will include: technical advice on design and issue of currency; experts to assist with formulation of monetary policy (for example, based on controlling inflation rate), including introduction of monetary policy instruments and policy implementation, as the need for various options (for example, open market operations) becomes clear; and Development of a research function within the bank with capacity for statistical collection and analysis of data, particularly with reference to balance of payments.
- *Information technology and communications*- Expert assistance will be needed to assess the needs of technology and information systems, and thereafter develop an IT strategy for the bank.
- *Organise exchange visits to other countries with functioning central bank*

## 6.0 LIST OF REFERENCES

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## 7.0 APPENDICES

### 7.1 QUESTIONNAIRES ADMINISTERED

# SOMALILAND FINANCIAL INCLUSION SURVEY HOUSEHOLD QUESTIONNAIRE

#### SECTION A: GENERAL INFORMATION

NO.	QUESTIONS	ANSWER CATEGORIES	
A.01	Date of interview	...../12/2012	
A.02	Name of District	<input type="checkbox"/> 26 June <input type="checkbox"/> Ga'can Libaax <input type="checkbox"/> Kood Buur	<input type="checkbox"/> Ahmed Dagax <input type="checkbox"/> Mohamoud Haybe
A.03	Name of Location		<b>Location code:</b>
A.04	Name of respondent		<b>Tel:</b>
A.05	Gender	<input type="checkbox"/> Male <input type="checkbox"/> Female	
A.06	Marital Status	<input type="checkbox"/> Married <input type="checkbox"/> Single <input type="checkbox"/> Widowed <input type="checkbox"/> Divorced	
A.07	Age of the Respondent (yrs)	<input type="checkbox"/> 18 - 30 <input type="checkbox"/> 31 – 40 <input type="checkbox"/> 41 – 60 <input type="checkbox"/> Above 60	
A.08	Level of education of respondent	<input type="checkbox"/> Primary <input type="checkbox"/> Secondary <input type="checkbox"/> Tertiary <input type="checkbox"/> University <input type="checkbox"/> None	
A.09	Number of members within HH?	Number <input type="checkbox"/>	<b>Female</b> <input type="checkbox"/> <b>Male</b> <input type="checkbox"/>
A.10	Number of HH members per age	<input type="checkbox"/> Below 5 <input type="checkbox"/> 6-17 <input type="checkbox"/> 18 - 30 <input type="checkbox"/> 31 – 40 <input type="checkbox"/> > 40	
A.11	Sole decision maker in household	<input type="checkbox"/> Wife <input type="checkbox"/> Husband <input type="checkbox"/> Both	
A.12	Education level of decision maker	<input type="checkbox"/> Primary <input type="checkbox"/> Secondary <input type="checkbox"/> Tertiary <input type="checkbox"/> University <input type="checkbox"/> None	

#### SECTION B: HOUSEHOLD INCOME AND EXPENSES

B.01 Sources of income	Amount \$	Frequency of receipt			
Formal Employment		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Casual work		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Business activities		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Fishing		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Remittances from relatives		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Livestock/dairy business		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Aid from NGO/government		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Pension		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Others(specify)		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
<b>TOTAL</b>					
B.02 Expenses	Amount \$	Frequency of spending			
Rent		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Food stuff/groceries		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
School fees		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Utilities (electricity and water)		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Energy (charcoal, kerosene)		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Health care		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Mobile phone communication		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually
Transport		<input type="checkbox"/> Daily	<input type="checkbox"/> Weekly	<input type="checkbox"/> Monthly	<input type="checkbox"/> Annually



Wages for domestic workers		<input type="checkbox"/> Daily <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Annually
Outstanding Loan repayment		<input type="checkbox"/> Daily <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Annually
Others		<input type="checkbox"/> Daily <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Annually
<b>TOTAL</b>		

**SECTION C: FORMAL FINANCIAL SERVICES**

<b>C.01</b>	Which of the following documents do you have in your name?	<input type="checkbox"/> National identity Card <input type="checkbox"/> Passport <input type="checkbox"/> Driving license <input type="checkbox"/> Land/house ownership documents <input type="checkbox"/> Pay slips <input type="checkbox"/> Company shares/treasury bonds <input type="checkbox"/> Others (specify)						
<b>C.02</b>	Do you have an account with formal financial institution?	<input type="checkbox"/> YES <input type="checkbox"/> NO <i>(if not go to C07)</i>						
<b>C.03</b>	If yes, with which of these institutions do you hold the account?	<b>INSTITUTION</b>			<b>Specify accordingly</b>			
		<input type="checkbox"/> Remittance company e.g. Dahabshil, Salama						
		<input type="checkbox"/> Microfinance Institution(MFI) e.g Kaaba						
<b>C.04</b>	For what purpose do you use your account? (tick as appropriate)	<b>Purpose</b>						
		<input type="checkbox"/> Receiving money or payments for work or selling of goods/service						
		<input type="checkbox"/> Receiving money or payments from Government						
<b>C.05</b>	No. of monthly transactions made through the A/C	<b>Transaction</b>		<b>1-2 times</b>	<b>3-5 times</b>	<b>&gt;=6 times</b>	<b>D/K</b>	
		Deposits		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
		Withdrawals		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	How do you usually deposit/ withdraw cash from account(s) above?	<b>Transaction</b>		<b>Mobile phone</b>	<b>Over counter</b>	<b>cheque</b>	<b>ATM</b>	<b>Other(specify)</b>
		Deposit		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
<b>C.06</b>	Have you used the following for making bill payments or buying goods from your account(s) in the past 12 months?	<b>Mode</b>		<b>Yes</b>	<b>No</b>	<b>No response</b>		
		Cheques		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
		Electronic payments		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		
<b>C.07</b>	If NOT having an account , why don't you have with any of the financial institutions above	<b>Reason</b>						
		<input type="checkbox"/> They are too far						
		<input type="checkbox"/> They are too expensive (service fees /premium)						
		<input type="checkbox"/> Lack necessary documentation (ID card, wage slip)						
		<input type="checkbox"/> You do not trust the institutions						
		<input type="checkbox"/> They charge interest/riba						
		<input type="checkbox"/> I do not have enough money to use them						
<input type="checkbox"/> Because of religios reasons								
		<input type="checkbox"/> Someone else in the family already has account						
		<input type="checkbox"/> Other(specify)						

**SECTION D: SAVINGS AND BORROWING SERVICES**

<b>D.01</b>	Do you set aside some part of your income? YES <input type="checkbox"/> [ ] [ ] NO <i>(if NO go to D.04)</i>		
<b>D.02</b>	If Yes, for what purpose?	<input type="checkbox"/> Buying a house or apartment	
		<input type="checkbox"/> Buying goods/services	
		<input type="checkbox"/> For building extension or renovation of house	
		<input type="checkbox"/> To pay fees and other school related expenses	
		<input type="checkbox"/> To buy livestock/farm inputs	
		<input type="checkbox"/> Emergency/health purposes	
		<input type="checkbox"/> For performing last rites/marriage	
		<input type="checkbox"/> Others (specify)	
<b>D.03</b>	Where did you keep the money for the said purpose?	<b>Facility</b>	<b>Specify</b>
		<input type="checkbox"/> Bank/Remittance company	
		<input type="checkbox"/> Microfinance Institution	
		<input type="checkbox"/> Kept with family or friend	
		<input type="checkbox"/> Using mobile money service e.g Zaad	
		<input type="checkbox"/> Save in Hagbed	
		<input type="checkbox"/> Kept with a shopkeeper	
		<input type="checkbox"/> Kept in a strong room at home	
		<input type="checkbox"/> Saving in property (e.g livestock, jewellery)	
<input type="checkbox"/> Others (specify)			
<b>D.04</b>	Have you borrowed any money in the last 12 months? YES <input type="checkbox"/> [ ] [ ] NO <i>(if NO go to section E)</i>		
<b>D.04b</b>	If YES, where did you borrow from?	<b>Source</b>	<b>Specify</b>
		<input type="checkbox"/> Bank/MTO	
		<input type="checkbox"/> microfinance institution	
		<input type="checkbox"/> Installment credit or buying on credit (supplier)	
		<input type="checkbox"/> Family or friend	
		<input type="checkbox"/> Hagbed	
		<input type="checkbox"/> Employer	
		<input type="checkbox"/> Deposit takers /private money lender	
<input type="checkbox"/> Others (specify)			
<b>D.05</b>	For what purpose was the money borrowed?	<input type="checkbox"/> Buying a house or a plot	
		<input type="checkbox"/> Buying goods/services	
		<input type="checkbox"/> For building, extension or renovation of house	
		<input type="checkbox"/> To pay fees and other school related expenses	
		<input type="checkbox"/> Emergency/health purposes	
		<input type="checkbox"/> For performing last rites/marriage	
		<input type="checkbox"/> Others specify	
<b>D.06</b>	How much did you pay back for the loan provided?	<input type="checkbox"/> Repaid back the same amount	
		<input type="checkbox"/> Repaid with a cost above the loan(service charge)	

**SECTION E: MONEY TRANSFER SERVICES**

<b>E.01</b>	Have you sent or received any money from friends or relatives using any medium for the last 12 months? <b>YES</b> <input type="checkbox"/> <b>NO</b> <input type="checkbox"/> <i>(if NO go to E.07)</i>				
<b>E.02</b>	Which of these services have you used to receive/ send money to someone living within Somaliland in the past 12 months?	<input type="checkbox"/> Remittance companies /Hawala e.g. Dahabshil			
		<input type="checkbox"/> Mobile phone money transfer service e.g. Zaad			
		<input type="checkbox"/> Send money with friend/family member			
		<input type="checkbox"/> Others (specify)			
<b>E.03</b>	Which of these services have you used to receive/ send money to someone living outside of Somaliland in the past 12 months?	<input type="checkbox"/> Mobile phone money transfer service e.g. Zaad			
		<input type="checkbox"/> Remittance companies /Hawala e.g. Dahabshil			
		<input type="checkbox"/> Send money with friend/family member			
		<input type="checkbox"/> Never remitted outside Somaliland			
<b>E.04</b>	How long does it usually take to send or receive money using the mode identified?				
	<input type="checkbox"/> 1 ] Immediately that is within 1 day	<input type="checkbox"/> Mobile phone money transfer service e.g. Zaad			
	<input type="checkbox"/> 2 ] 2-7 days	<input type="checkbox"/> Remittance companies /Hawala e.g. Dahabshil			
	<input type="checkbox"/> 3 ] 8-14 days	<input type="checkbox"/> Send money with friend/family member			
	<input type="checkbox"/> 4 ] More than 2 weeks	<input type="checkbox"/> Never send outside Somaliland			
	<input type="checkbox"/> 5 ] Don't know	<input type="checkbox"/> Others (specify)			
<b>E.05</b>	How frequently do you remit/receive money inland and from overseas?	<input type="checkbox"/> Weekly or less			
		<input type="checkbox"/> Monthly or less but more than once a week			
		<input type="checkbox"/> Once in every 3 months			
		<input type="checkbox"/> In an emergency			
<b>E.06</b>	When you receive money what do you usually use it for?	<input type="checkbox"/> Home consumption (food, clothing, bills etc),			
		<input type="checkbox"/> Child care, Education, Travel, Farming etc			
		<input type="checkbox"/> Business (start up, expansion, working capital)			
		<input type="checkbox"/> Building works (construction, renovation)			
		<input type="checkbox"/> In an emergency			
		<input type="checkbox"/> Ceremony (wedding, birthdays, funerals etc)			
<b>E.07</b>	Do you use the Zaad mobile phone money transfer service? <input type="checkbox"/> YES <input type="checkbox"/> NO <i>(if NO go to F)</i>				
<b>E.08</b>	For what purpose (s) do you use your mobile phone money transfer service (Tick as appropriate)	<input type="checkbox"/> Sending/receiving money			
		<input type="checkbox"/> Pay for goods/services			
		<input type="checkbox"/> Saving money			
		<input type="checkbox"/> Buying airtime for calling			
<b>E.09</b>	How many transactions do you make through mobile service monthly?	<b>1-2 times</b>	<b>3-5 times</b>	<b>&gt;=6 times</b>	<b>No response</b>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SECTION F: ROSCAS/ASCA (Hagbad)**

<b>F.01</b>	Do you belong to any <i>Hagbad</i> ?	YES <input type="checkbox"/> [ ] <input type="checkbox"/> NO (if NO go to Section G)
<b>F.02</b>	If yes, how many Hagbad are you participating in?	1 <input type="checkbox"/> [ ] 2 <input type="checkbox"/> [ ] 3 <input type="checkbox"/> [ ] More than 3 <input type="checkbox"/> [ ]
<b>F.03</b>	What is the frequency of your contribution?	<input type="checkbox"/> [ ] Daily
		<input type="checkbox"/> [ ] Weekly
		<input type="checkbox"/> [ ] Monthly
		<input type="checkbox"/> [ ] Annually
<b>F.04</b>	Compared with a year ago, would you say you are paying the same, more or less in all the Hagbed?	<input type="checkbox"/> [ ] More
		<input type="checkbox"/> [ ] Less
		<input type="checkbox"/> [ ] Same
		<input type="checkbox"/> [ ] Irregular
<b>F.05</b>	For what reason are you paying more/less into your Hagbed?	<input type="checkbox"/> [ ] Concerned about medical illness of yourself/family members
		<input type="checkbox"/> [ ] Decreased due to additional people in family
		<input type="checkbox"/> [ ] Business reasons
		<input type="checkbox"/> [ ] Family reasons like marriage, education
		<input type="checkbox"/> [ ] Increased income
<b>F.06</b>	For what reasons do you participate in a Hagbed?	<input type="checkbox"/> [ ] Decreased income
		<input type="checkbox"/> [ ] To save on a periodic basis
		<input type="checkbox"/> [ ] Located far from formal financial institutions
		<input type="checkbox"/> [ ] High cost of maintaining formal accounts
		<input type="checkbox"/> [ ] Buy household goods
		<input type="checkbox"/> [ ] Purchase fixed assets - land, houses, car
		<input type="checkbox"/> [ ] Provides an opportunity for socializing
		<input type="checkbox"/> [ ] Raise money needed for weddings
<input type="checkbox"/> [ ] Unexpected events/emergencies		

**SECTION G: INSURANCE**

<b>G.01</b>	What kind of misfortunes have you faced in your daily life in the last 12 months? (tick as appropriate)	<input type="checkbox"/> [ ] Flood destroys house or property
		<input type="checkbox"/> [ ] Theft, fire or loss of house/property/business
		<input type="checkbox"/> [ ] Theft, fire or loss of car/vehicle
		<input type="checkbox"/> [ ] Drought/famine
		<input type="checkbox"/> [ ] Loss of income of main wage-earner as a result of death
		<input type="checkbox"/> [ ] Loss of livestock
		<input type="checkbox"/> [ ] Loss of savings
		<input type="checkbox"/> [ ] Bad or deteriorating political situation in country
		<input type="checkbox"/> [ ] Insecurity - concern for your personal safety
		<input type="checkbox"/> [ ] Large medical costs due to family member's ill health
<b>G.02</b>	How did you get yourself out of these misfortunes?	<input type="checkbox"/> [ ] Others (specify)
		<input type="checkbox"/> [ ] Use up your savings
		<input type="checkbox"/> [ ] Sell your assets e.g. car, business, household goods, livestock
		<input type="checkbox"/> [ ] Borrow money
		<input type="checkbox"/> [ ] Depend on charity mosque, Red Crescent
<b>G.03</b>	If you had an opportunity to pay a little money to a company that could protect you against these misfortunes, would you be willing to take advantage of the service? <input type="checkbox"/> [ ] YES <input type="checkbox"/> [ ] NO	<input type="checkbox"/> [ ] Received donations from friends/family members
		<input type="checkbox"/> [ ] Others (specify)
<b>G.04</b>	If No in question G.03 above what are the	<input type="checkbox"/> [ ] I have no money to pay for it

	reasons for not willing to take it?	<input type="checkbox"/> I fear to be cheated by such a company
		<input type="checkbox"/> It is against my religion
		<input type="checkbox"/> I do not know much about insurance
		<input type="checkbox"/> Any other (specify)

**Enumerator Name.....Tel.....**

**Supervisor Name .....**

## SOMALILAND FINANCIAL INCLUSION SURVEY TRADER QUESTIONNAIRE

### SECTION A: GENERAL INFORMATION

NO.	QUESTIONS	ANSWER CATEGORIES
A.01	Date of interview	...../12/2012
A.02	Name of District	<input type="checkbox"/> 26 June <input type="checkbox"/> Ahmed Dagax <input type="checkbox"/> Ga'can Libaax <input type="checkbox"/> Mohamoud Haybe <input type="checkbox"/> Kood Buur
<b>b</b>	<b>Location</b>	<b>Location code:</b>
A.03	Name of respondent	<b>Tel:</b>
A.04	Gender	<input type="checkbox"/> Male <input type="checkbox"/> Female
A.05	Marital Status	<input type="checkbox"/> Married <input type="checkbox"/> Single <input type="checkbox"/> Widowed <input type="checkbox"/> Divorced
A.06	Age of the Respondent (yrs)	<input type="checkbox"/> 18 - 30 <input type="checkbox"/> 31 – 40 <input type="checkbox"/> 41 – 60 <input type="checkbox"/> Above 60
A.07	Level of education of respondent	<input type="checkbox"/> Primary <input type="checkbox"/> Secondary <input type="checkbox"/> Tertiary <input type="checkbox"/> University <input type="checkbox"/> None

### SECTION B: BUSINESS INFORMATION

B.01	Name of the enterprise																	
B.02	Year of establishment?	Year: _____																
B.03	Location of business																	
B.04	Category of business	<input type="checkbox"/> Small and micro enterprises <input type="checkbox"/> Medium Enterprises <input type="checkbox"/> Large enterprises																
B.05	Form of business ownership	<input type="checkbox"/> Sole proprietor <input type="checkbox"/> Partnership <input type="checkbox"/> Company																
B.06	Approximate the cost of purchases and sales of your business in an average month?	<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;"><i>Purchases (\$)</i></th> <th style="width: 50%;"><i>Sales (\$)</i></th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> </tr> </tbody> </table>	<i>Purchases (\$)</i>	<i>Sales (\$)</i>														
<i>Purchases (\$)</i>	<i>Sales (\$)</i>																	
B.07	Approximate the cost of your business expenses in an average month?	<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 50%;"><b>Expense</b></th> <th style="width: 50%;"><b>Amount</b></th> </tr> </thead> <tbody> <tr> <td>Transport (only for business)</td> <td>(\$)</td> </tr> <tr> <td>Communication (only for business)</td> <td>(\$)</td> </tr> <tr> <td>Hired Labor/Wages</td> <td>(\$)</td> </tr> <tr> <td>Rental</td> <td>(\$)</td> </tr> <tr> <td>Maintenance/Repairs</td> <td>(\$)</td> </tr> <tr> <td>Other (specify)</td> <td>(\$)</td> </tr> <tr> <td>Total Expenses</td> <td>(\$)</td> </tr> </tbody> </table>	<b>Expense</b>	<b>Amount</b>	Transport (only for business)	(\$)	Communication (only for business)	(\$)	Hired Labor/Wages	(\$)	Rental	(\$)	Maintenance/Repairs	(\$)	Other (specify)	(\$)	Total Expenses	(\$)
<b>Expense</b>	<b>Amount</b>																	
Transport (only for business)	(\$)																	
Communication (only for business)	(\$)																	
Hired Labor/Wages	(\$)																	
Rental	(\$)																	
Maintenance/Repairs	(\$)																	
Other (specify)	(\$)																	
Total Expenses	(\$)																	
B.08	Which of the following documents do you have in your company name?	<input type="checkbox"/> Registration certificate <input type="checkbox"/> Operating Licenses, if any <input type="checkbox"/> Tax registration <input type="checkbox"/> Audited tax account <input type="checkbox"/> Company shares/treasury bonds <input type="checkbox"/> Others (specify)																
B.09	Which of these activities are you engaged in?	<input type="checkbox"/> Dairy business <input type="checkbox"/> Crop farming <input type="checkbox"/> Charcoal Sector <input type="checkbox"/> Livestock & poultry business <input type="checkbox"/> Khat Trade <input type="checkbox"/> Water Sector <input type="checkbox"/> Retail business (shops, butchery, hardware etc) <input type="checkbox"/> Fishing and fish selling <input type="checkbox"/> Construction Sector <input type="checkbox"/> Remittances <input type="checkbox"/> Auto/Motorcycle Repair <input type="checkbox"/> Transport Sector <input type="checkbox"/> Barber Shop/Beauty Salon <input type="checkbox"/> Fruits & Vegetables business <input type="checkbox"/> Other (specify)																

**SECTION C: FORMAL FINANCIAL SERVICES**

<b>C.01</b>	Do you have an account with a formal financial institution? <input type="checkbox"/> YES <input type="checkbox"/> NO <i>(if not go to C06)</i>				
<b>C.02</b>	If yes, with which of these institutions do you hold the account?	<b>INSTITUTION</b>		<b>Specify accordingly</b>	
		<input type="checkbox"/> Remittance company e.g.Dahabshil			
		<input type="checkbox"/> Microfinance Institution(MFI) e.g Kaaba			
<b>C.03</b>	For what purpose do you use your account? (tick as appropriate)	<b>Purpose</b>			
		<input type="checkbox"/> Receiving money or payments for work or selling of goods/service			
		<input type="checkbox"/> Receiving money or payments from Government			
		<input type="checkbox"/> Receive money from family members elsewhere			
		<input type="checkbox"/> Savings			
		<input type="checkbox"/> Send money to family members living elsewhere			
<b>C.04</b>	How frequently do you transact with this account? <input type="checkbox"/> Daily <input type="checkbox"/> Weekly <input type="checkbox"/> Monthly <input type="checkbox"/> Once in 3 months				
	How do you usually deposit/ withdraw cash from account(s) above?	<b>Deposit</b> <input type="checkbox"/> Mobile phone <input type="checkbox"/> Over counter <input type="checkbox"/> cheque			
<b>C.05</b>	How have you used you're A/C to make payments or purchases in the past year?	<b>Withdraw</b> <input type="checkbox"/> Mobile phone <input type="checkbox"/> Over counter <input type="checkbox"/> cheque			
		Cheques	<b>Yes</b> <input type="checkbox"/>	<b>No</b> <input type="checkbox"/>	<b>Refused</b> <input type="checkbox"/>
		Electronic payments	<b>Yes</b> <input type="checkbox"/>	<b>No</b> <input type="checkbox"/>	<b>Refused</b> <input type="checkbox"/>
		Mobile phone transfer	<b>Yes</b> <input type="checkbox"/>	<b>No</b> <input type="checkbox"/>	<b>Refused</b> <input type="checkbox"/>
<b>C.06</b>	If NO in C.01, why don't you have an account with any of the financial institutions above	<input type="checkbox"/> They are too far			
		<input type="checkbox"/> They are too expensive (service fees /premium)			
		<input type="checkbox"/> Lack necessary documentation (ID card, wage slip)			
		<input type="checkbox"/> I do not trust the institutions			
		<input type="checkbox"/> They charge interest/riba			
		<input type="checkbox"/> Because of religious reasons			
		<input type="checkbox"/> Someone else in the family already has account			
		<input type="checkbox"/> I do not have enough money to use them			
<input type="checkbox"/> Other (specify)					

**SECTION D: ROSCAS/ASCA (Hagbad)**

<b>D.01</b>	Do you belong to any <i>Hagbad</i> ? <b>YES</b> <input type="checkbox"/> <input type="checkbox"/> <b>NO</b> <i>(if NO go to Section E)</i>		
<b>D.02</b>	For what reasons do you participate in a Hagbed?	<input type="checkbox"/> To save on a periodic basis	
		<input type="checkbox"/> Located far from formal financial institutions	
		<input type="checkbox"/> High cost of maintaining formal accounts	
		<input type="checkbox"/> Purchase fixed assets - land, houses, car	
		<input type="checkbox"/> Provides an opportunity for socializing	
		<input type="checkbox"/> Raise money needed for weddings	
		<input type="checkbox"/> Unexpected events/emergencies	
<input type="checkbox"/> Others (specify)			

**SECTION E: SAVINGS AND BORROWING**

<b>E.01</b>	Do you set aside some part of your income? YES <input type="checkbox"/> [ ] [ ] NO <b>(if NO go to E.04)</b>		
<b>E.02</b>	If Yes, for what purpose?	<input type="checkbox"/> [ ] Buying a house or apartment	
		<input type="checkbox"/> [ ] Buying goods/services	
		<input type="checkbox"/> [ ] For building extension or renovation of house	
		<input type="checkbox"/> [ ] To pay fees and other school related expenses	
		<input type="checkbox"/> [ ] To buy livestock/farm inputs	
		<input type="checkbox"/> [ ] Emergency/health purposes	
		<input type="checkbox"/> [ ] For performing last rites/marriage	
		<input type="checkbox"/> [ ] Others (specify)	
<b>E.03</b>	Where did you keep the money for the said purpose?	<b>Facility</b>	<b>Specify</b>
		<input type="checkbox"/> [ ] Bank/Remittance company	
		<input type="checkbox"/> [ ] Microfinance Institution	
		<input type="checkbox"/> [ ] Kept with family or friend	
		<input type="checkbox"/> [ ] Using mobile money service e.g Zaad	
		<input type="checkbox"/> [ ] Save in Hagbed	
		<input type="checkbox"/> [ ] Kept with a shopkeeper	
		<input type="checkbox"/> [ ] Kept in a strong room at home	
		<input type="checkbox"/> [ ] Saving in property (e.g livestock, jewellery)	
<input type="checkbox"/> [ ] Others (specify)			
<b>E.04</b>	Have you borrowed any money in the last 12 months? YES <input type="checkbox"/> [ ] [ ] NO <b>(if NO go to section F)</b>		
<b>E.04b</b>	If YES, where did you borrow from?	<b>Source</b>	<b>Specify</b>
		<input type="checkbox"/> [ ] Remittance company e.g Salama, Amal	
		<input type="checkbox"/> [ ] microfinance institution	
		<input type="checkbox"/> [ ] Buying on credit (supplier)	
		<input type="checkbox"/> [ ] Family or friend	
		<input type="checkbox"/> [ ] Hagbed	
		<input type="checkbox"/> [ ] Employer	
		<input type="checkbox"/> [ ] Deposit takers /private money lender	
<input type="checkbox"/> [ ] Others specify			
<b>E.05</b>	For what purpose was the money borrowed?	<input type="checkbox"/> [ ] Buying a house or apartment	
		<input type="checkbox"/> [ ] Buying goods/services	
		<input type="checkbox"/> [ ] For building extension or renovation of house	
		<input type="checkbox"/> [ ] To pay fees and other school related expenses	
		<input type="checkbox"/> [ ] Emergency/health purposes	
		<input type="checkbox"/> [ ] For performing last rites/marriage	
		<input type="checkbox"/> [ ] Others specify	
<b>E.06</b>	How much did you pay back for the loan provided?	<input type="checkbox"/> [ ] Repaid back the same amount	
		<input type="checkbox"/> [ ] Repaid with a cost above the loan(service charge)	



**SECTION F: MONEY TRANSFER SERVICES**

<b>F.01</b>	Do you send/receive money from friends or relatives using any medium? <b>YES</b> [ ] <b>NO</b> [ ] <i>(if NO go to F.07)</i>	
<b>F.02</b>	Which of these services have you used to receive/send money to someone living within Somaliland in the past 12 months?	[ ] Bank branch using own/someone's account
		[ ] Remittance companies /Hawala e.g. Dahabshil
		[ ] Mobile phone money transfer service e.g. Zaad
		[ ] Send money with friend/family member
		[ ] Others (specify)
<b>F.03</b>	Which of these services have you used to receive/send money to someone living outside of Somaliland in the past 12 months?	[ ] Bank branch using own/someone's account
		[ ] Remittance companies /Hawala e.g. Dahabshil
		[ ] Send money with friend/family member
		[ ] Never send outside Somaliland
		[ ] Others (specify)
<b>F.04</b>	How long does it usually take to send or receive money using the mode identified? <i>(use the options on the left side)</i>	[ 1 ] Immediately that is within 1 day
		[ 2 ] 2-7 days
		[ 3 ] 8-14 days
		[ 4 ] More than 2 weeks
		[ 5 ] Don't know
		[ ] Others (specify)
<b>F.05</b>	How frequently do you remit/receive money inland and from overseas?	[ ] Weekly or less
		[ ] Monthly or less but more than once a week
		[ ] Once in every 3 months
		[ ] In an emergency
<b>F.06</b>	When you receive money what do you usually use it for?	[ ] Home consumption (food, clothing, bills etc),
		[ ] Child care, Education, Travel, Farming etc
		[ ] Business (start up, expansion, working capital)
		[ ] Building works (construction, renovation)
		[ ] In an emergency
		[ ] Ceremony (wedding, birthdays, funerals etc)
[ ] Others (specify)		
<b>F.07</b>	Do you use the <b>Zaad</b> mobile phone money transfer service [ ] YES [ ] NO <i>(if NO go to section G)</i>	
<b>F.08</b>	For what purpose (s) do you use your mobile phone money transfer service (Tick as appropriate)	[ ] Sending/receiving money
		[ ] Pay for goods/services
		[ ] Saving money
		[ ] Buying airtime for calling
		[ ] Others (specify)

**SECTION G: INSURANCE**

<b>G.01</b>	What kind of misfortunes have you faced in your daily life in the last 12 months? (tick as appropriate)	<input type="checkbox"/> Flood destroys house or property
		<input type="checkbox"/> Theft, fire or loss of house/property/business
		<input type="checkbox"/> Theft, fire or loss of car/vehicle
		<input type="checkbox"/> Drought/famine
		<input type="checkbox"/> Loss of income of main wage-earner as a result of death
		<input type="checkbox"/> Loss of livestock
		<input type="checkbox"/> Loss of savings
		<input type="checkbox"/> Bad or deteriorating political situation in country
		<input type="checkbox"/> Insecurity - concern for your personal safety
		<input type="checkbox"/> Large medical costs due to family member's ill health
<input type="checkbox"/> Others (specify)		
<b>G.02</b>	How did you get yourself out of these misfortunes?	<input type="checkbox"/> Use up your savings
		<input type="checkbox"/> Sell your assets e.g. car, business, household goods, livestock
		<input type="checkbox"/> Borrow money
		<input type="checkbox"/> Depend on charity mosque, Red Crescent
		<input type="checkbox"/> Received donations from friends/family members
		<input type="checkbox"/> Others (specify)
<b>G.03</b>	If you had an opportunity to pay a little money to a company that could protect you against these misfortunes, would you be willing to take advantage of the service? <input type="checkbox"/> YES <input type="checkbox"/> NO	
	If No in question G.03 above what are the reasons for not willing to take it?	<input type="checkbox"/> I have no money to pay for it
		<input type="checkbox"/> I fear to be cheated by such a company
		<input type="checkbox"/> It is against my religion
		<input type="checkbox"/> I do not know much about insurance
		<input type="checkbox"/> Any other (specify)

**Enumerator Name.....Tel:.....**

**Supervisor Name .....**

## 8.2 List of Financial Service Providers visited

- Director General of the Ministry of Finance -
- Director of Central Bank
- Dahabshiil International Islamic bank - Remittance
- Salaam African Islamic bank - Non-Bank FI
- BCI-MR: Branch of Banque Nationale de Paris - 1q
- Yemani Bank – CAC Remittance
- Telesom: provide mobile money called ZAAD.
- UNCDF
- IFAD
- UNDP
- Somaliland Business Fund
- Omar International Company - Supplier credit for commodity wholesalers
- Deero Company - Supplier credit for livestock traders
- World Remittance- Hargeisa Branch – Remittance, supply credit for chat
- Kaah Remittance - Remittance
- Olympic Remittance - Remittance
- DRC INGO – group credit to women from world bank grants
- Kaaba LNGO/MFI - MFI
- Money Changers and transferors - itinerant deposit takers also give credit
- Formal and informal financial cooperatives

## 7.3 List of people interviewed

	<b>Name</b>	<b>Position</b>	<b>Institution</b>
1.	Abdilahi Hassan Aden	Director General	Central Bank of Somaliland
2.	Dr. Mohamed Suleiman Elmi	Director of Planning and Statistics	Ministry of Planning
3.	Ibrahim Ismail Elmi	Secretary General	Somaliland Chamber of Commerce, Industry and Agriculture
4.	Abdirashid Ahamed Guled	Director General	Ministry of Planning
5.	Abdulkadir Hussein Said	Corporate Clients Services Manager	Dahabshil Group of Companies
6.	Daudi Abshil Hussein	Legal and Compliance Manager	Dahbshil Group of Companies
7.	Fadumo Alin	Chairperson	Doses of Hope/Kaba MFI
8.	Ali A. Al-Saqqaf	Branch Manager	CAC Financial Services

9.	Khalid Mohamed Yassin	International Relations	Salaam Financial Services
10.	Mohamed Ibrahim H. Musa	Operations Manager	Salaam Financial Services
11.	Hinda Abdi Farar	Hagbat Manager	Market place
12.	Shun Yusuf Ali	Hgbat official	Market place
13.	Fatuma Musa Hayat	Hagbat official	Market place
14.	Halimo Ahmed Issa	Hagbat official	Market place
15.	Amran Ali	Founder, Chairperson	National Association of Women Business Owners (NAWABO)
16.	Fatuma Abdillahi	Leader	Somaliland Women Graduate Association (SOWGA)
17.	Ibdel Omar	Member	Somaliland Women Graduate Association (SOWGA)
18.	Sofia Osman	ILO, Hargeisa	ILO, Hargeisa