UNCHR-SPTF Webinar Series on Financial Inclusion of Refugees
Session 6: ARC and KIMS Project to Support Livelihoods of Refugee Returnees in Somalia
(19 December 2017)

In 2017, the Social Performance Task Force (SPTF) collaborated with the United Nations High Commissioner for Refugees (UNHCR) to offer a six-part webinar series on the financial inclusion of refugees.

Speakers:
1. Justin Sykes, Managing Director of Innovest Advisory and Board Member of KIMS Microfinance
2. Abdinur Abdirahman Abdi, Area Manager, Jubaland, American Refugee Committee (ARC)

Country context:
Somalia is a very poor country. Currently, almost five million Somalis are in need of humanitarian support, including 1.1 million internally displaced persons (IDPs). In the last three years, over 100,000 Somali refugees have returned to Somalia, most coming from Kenya, some from Yemen, and much smaller numbers returning from several other countries. The majority of returned refugees have been outside of Somalia for more than two decades. Approximately 70% of returned refugees are being resettled in Kismayo, a city in southern Somalia in an area known as Jubaland. It is expected that another 45,000 refugees will be returning to Somalia in 2018.

The effort to reintegrate refugees faces many challenges:
- Risk that they exacerbate existing resource-related conflicts
- Lack of capacity and resources among refugees to build and sustain a livelihood upon their return
- Difficulty in reintegrating with the local community because many were not from Kismayo originally, while even those from Kismayo were gone so long that they no longer have friends and family there
- Al-Shabaab, an Islamist militant group that has been named a terrorist group by the United States, controls rural areas of the country
- Few livelihood opportunities exist, particularly for single mothers and youth
- Strong need for social and psychosocial support of refugees

Given the challenges, any development project needs to focus on rebuilding communities, which includes both returnees and the host community, and to create jobs.

Project overview:
The project is called the Refugee Returnees Reintegration Project and is managed by ARC. It is a two-year project, implemented from 2016-17. KIMS oversees the microfinance component. The target population is refugee returnees and other vulnerable populations, with a focus on women and youth. The program has four main areas of activity: 1) technical and vocational training that lasts six months. Examples of vocational skills taught are automotive mechanics, horticulture, tailoring, and information and communication technology, while technical training focuses on literacy, numeracy, and savings and asset management; 2) microfinance services, for which

beneficiaries become eligible once they receive training; 3) Cash for Work program that provides short-term (3-4 month) employment, and 4) Construction of permanent houses and associated public utilities (e.g., school, water supply). In addition to these activities, ARC also encourages returned refugees to start village savings and loan groups.

The microfinance component of the projects relies on the almost $600,000 in funding provided by UNHCR as a revolving loan fund, to be disbursed in the year June 2016 - June 2017. ARC and UNHCR jointly identified potential loan clients, and then KIMS did its own due diligence before making final selections of beneficiaries and disbursing funds. KIMS lends to returned refugees, IDPs, and vulnerable persons in the host community. Given repayment of loans, KIMS has been able to make loans past June 2017. As of year-end 2017, about 1000 beneficiaries have received financing. KIMS funds start-up projects, as well as the growth of existing enterprises, via a group loan methodology. KIMS also provides SME loans to fishery cooperatives in Kismayo. It has funded 14 fishery cooperatives so far, and they have used the loans to finance activities all along the fishery value chain, including boat building, fish processing, distribution, and net making. The KIMS loan products are *sharia* compliant. With the *murahaba* loan, KIMS purchases an asset (e.g., a machine) from a third party wholesaler and re-sells the asset to a client with an administrative mark-up. The client pays for the asset in installments, and ownership of the asset does not transfer to the client until (s)he sends the final installment. The *injara* product is a lease. In each case, the client does not receive cash - just the asset.

The repayment rate has been strong: 98% repayment rate across the whole portfolio, and a 95% repayment rate by returned refugees. Many beneficiaries have qualified for follow-up financing.

Results:
Independent evaluation of the project found direct and indirect positive effects. One important direct effect was increased jobs; the 14 fishery cooperatives have collectively hired 350 new cooperative members, all graduates of the fishery value chain training program run by ARC. Other direct effects were decreased dependence on aid and a stimulus effect on the local economy, as businesses financed by this project used the services of other local businesses. Indirect positive effects were better nutrition in the household, more families sending kids to school, increased women's empowerment in household decision-making, and social cohesion due to a relatively smooth reintegration of returned refugees into the host community.

Lessons learned and challenges:

- Returned refugees and IDPs are viable microfinance clients. They repay their loans and also use microsavings accounts. (NB: KIMS offers microsavings accounts to returned refugees and IDPs and these have been a success; people want a safe place to save.)
- Demand for capital is strong among returned refugees and IDPs. The amount of funds that KIMS has available for lending is much too small to meet demand.
- KIMS' target clients require a broader range of financial services than KIMS offers, notably, consumer loans, larger working-capital loans, and insurance. Currently, KIMS is considering offering consumer loans for two types of expenditure: a) home improvement, as many returned refugees are living in very poor conditions, exacerbated by the fact that many returnees did not originally live in Kismayo, so never had a home there, b) off-grid

solar products, to help refugees move away from expensive and dirty energy sources like paraffin, diesel, and kerosene.

- Some refugee returnees are so poor that microfinance loans are not the most appropriate intervention at their point in life. A village savings in loan model would likely work better for them. There are indigenous community self-help groups in Somalia, and work could be done to professionalize those groups and eventually link them to microfinance.
- If KIMS is able to secure more funding for lending, it will also need to increase the visibility of the program among all potential beneficiaries.

Questions and Answers:

- Q: *Given all the challenges that returned refugees face, how can refugees reserve loan funds for business investment instead of putting them toward immediate consumption needs?* A: Sharia-compliant loan products solve this problem. The clients receive an asset, not cash, so it is difficult for the client to use the asset for anything other than the intended purpose. Prior to the relationship between ARC and KIMS, ARC was giving grants to graduates of its training programs for businesses, and it saw that over 60% of the grant funding was used for other needs instead of for business.
- Q: *Do we know what Al-Shabaab's position is on returnees? Does Al-Shabaab have issues with aid agencies?* A: There are certain areas in Somalia that are not safe, but in the regions where ARC is working, conditions have been safe. There are checkpoints that people must pass through if they travel, but returned refugees have not encountered problems. Also, there have not been attacks on any of the aid agencies.
- Q: *Is there an obstacle to participation in your program created by a fear of losing aid support if someone does join a livelihoods project?* A: This can be an obstacle. UNHCR's overall mandate for the country is to encourage a transition to self-reliance. A lot of the livelihoods projects started on a grant basis. The grants were sufficient to allow refugees to start small business activities. But, after the grant, they were supported with training and a connection to KIMS to move toward self-reliance. Also, recognizing that not everyone is fit to start and run a business, an element of the program is the SME lending to cooperatives, which then hire more workers, so they can give jobs to refugees.
- Q: *Returned refugees have specific characteristics (e.g., lack of integration, no regional roots) that could hinder their economic opportunities compared with local low-income Somali people. Did you encounter that and, if yes, how did your program address the issue?* A: The market analysis work that ARC did to understand who were the under-served sectors in the local economy, and also what unmet needs existed in the local economy, was critical. ARC then provided training and skills that would allow program beneficiaries to offer a previously un-met service in the local economy (e.g., carpentry, plumbing). This created a clear benefit to the host community. ARC also worked with larger businesses, like the cooperatives, to understand what their needs were, both in access to finance and in finding qualified workers, to help them to expand and to provide a valuable pool of new employees.
- Q: *Is KIMS going to take on more of the financial literacy training from ARC if the project scales and continues?* A: Yes, over the course of the project, work has been done to impart the financial literacy training knowledge to the credit officers of KIMS, so they are building their ability to provide financial literacy advice to clients. There are also

plans within KIMS to build out a more formal non-financial services offering as part of its community service.

- Q: *What is your advice to create a complementary relationship between a humanitarian agency and a microfinance organization, to avoid sending mixed signals or working toward different priorities?* A: Think about the win-win of a livelihoods program. Humanitarian organizations that implement livelihoods programs often have time-bound constraints and have a focus on outputs in terms of number of beneficiaries receiving training and grants. The beneficiaries of a humanitarian livelihoods program are prime candidates to be picked up by a microfinance institution in the longer term. The microfinance institution is happy to have new clients that have received the training and support provided by the aid program. And donors to humanitarian agencies are happy to see the aid recipients become clients of financial institutions, where they can have long-term relationships and ongoing access to finance.