



## **The Role of Microcredit to Curb Poverty in Somalia**

Somalia, despite many difficult challenges, continues to make important efforts toward restoring its key economic and financial institutions. However, significant hurdles remain ahead to improve socioeconomic conditions and lift millions of our citizens from the extreme poverty and lack of decent income. Approximately, 60 per cent of Somalia's population lives below the poverty line. The nature of poverty in Somalia, as elsewhere, is multi-dimensional and complex. It cuts across sectors, locations, groups and gender, and its forms and causes vary. The lack of economic opportunities is one of the main contributors to the high poverty levels. Poverty is the result of a set of complex and interrelated social and economic forces and is characterized by lack of access to income-generating opportunities and inability to access collective services as basic primary education, affordable health care, electricity and drinking water.

Robust economic growth cannot be achieved without putting in place well focused programmes that increase access of poor and low-income households to financial inclusion, especially access to credit.

Microcredit is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. There is a widespread consensus that poor households need access to the full range of financial services to generate income. In its direct engagement with the poor (low-income households), microcredit represents a way for financial capital to potentially stimulate economic growth in developing/fragile countries, like Somalia.

In 2014 the Kuwait Fund for Arab Economic Development for the management of the Decent Life Fund extended to the Federal Government of Somalia a grant of US \$ 3 million, to be used in strengthening fishing, agriculture and livestock sector, leading to better food security, economic growth and more productive jobs, and making a lasting impact on poverty alleviation.

The Central Bank of Somalia (CBS), in its role to handle financial and banking supervision, and also in its efforts for poverty alleviation, have established, using these \$ 3 million, a loan scheme through the local licensed commercial banks in order to increase lending to local small-scale and micro-enterprises operating in above mentioned sectors. The main objective of the loan program is for improving the economic, and social conditions of program participants, their families and the local community through the provision of microcredit facilities to assist in the creation of income and employment generation opportunities for local small-scale and micro-enterprises. The CBS's crucial function is to clearly specify the strategic objectives and guiding principles for the grant microcredit program.

The commercial banks are fully authorized to take the lead in the implementation of this project by formalizing the methods, procedures and the modalities of the project implementation in accordance with agreement signed by either party and will be reporting to CBS. The facility is expected to be run as flexible revolving fund of 18 months validity with options for repayment, replenishment and changes in the light of unfolding situations of the program.

It is widely recognized that this modest initial effort must be expanded and more resources must be channelled into this sector also in consideration of the multitude of former pastoralists, IDPs and jobless citizens that might be engaged in small productive activities with microcredit playing even a modest but ever expanding role.

The Central Bank of Somalia is determined to pay every possible effort in further enhancing the access of the poor and low income households to financial services. This requires to expand and modernize their operations in order to contribute to rapid economic growth and to improve the living conditions of the most vulnerable. The Bank believes that no inclusive or balanced growth can be achieved without improving financial access.