

Feasibility of Setting Up a Personal Credit Institution in Somalia

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ABSTRACT

The common perceive about Somalia is usually that the poorest country around the world, and no economic activity can take place here. However, its situation provides a nice prerequisite for personal credit institution. This paper analyzes the potentials and underlying challenges of this idea, like high unemployment rate and unequal social positions for different groups which are advantageous for creating these institutions; while there are other development obstacles as well, for example, the restrictions of Islamism that institutions cannot charge interest, and undeveloped credit system which lead a big issue that credit company cannot measure their repaying ability. In order to seek for solution of these problems above, in this work, the SWOT and PEST models are used to analyze the advantages and disadvantages, finally yield the strategies and draw conclusion that setting up a personal credit institution in Somalia is feasible. This sort of data, analyses and research results can not only help worldwide investors find new direction with new opportunities, but also encourage the local entrepreneurs to explore and develop a whole new market which is more likely to be successful.

Keywords: *Social Context, Marketing Strategy, Advertising, Corporation, Target Client Group*

1. INTRODUCTION

There is always a misconception that the financial institution is meaningless in poor countries, like Somalia. Resulted from their low GDP, and high inflation rates, most of people regard these countries as somewhere without the financial activity in that assets of people here cannot even afford their basic life expense.

On the other hand, this situation provides a good condition for credit company. In fact, micro-loans were highly demanded in those places as there was a large group of young people who couldn't get a paid job and still need to sustain their family. Especially for Somalia, one of the poorest countries in the world, its currency value is very low and unemployment rate is very high. The personal credit company mainly work on evaluating clients' credit, providing micro-loans proportionally to dividends received and enabling individuals or start-ups with minimum assets to borrow money. It can greatly fit the needs of Somalia. Lin Giralt (2021, July). *The credit loan program can apply to people in BOP*. In my point of view, the personal credit institution is quite suitable to set in Somalia.

1.1. Background Information of Somalia

There is some other information about Somalia: over 70% of Somalis lived by raising livestock, so that their economy mainly based on pastoralism profits—about over 60 % GDP. [1] Because of a large area of rangeland and special climate in Somalia, it has the most camels in the world (in terms of numbers and quantity of production). There are about 43% of the camels of the live-stock population of Africa are found in Somalia, most raised in northern areas. Accordingly, the camel is pretty important for Somalis, for example, 60% of the milk consumed and 32.5% of the total meat production in Somalia is from camels—consumption and production of their meat are the most in the Arab region. Somalia also exports a lot of camels every year. [2] In addition, Mobile phone users in Somalia account for 51% of total population (2018). [3]



figure 1: Somalis’ camel breeding

1.2. General Challenges

First and foremost, the powerful and clever strategies for marketing is needed. Affected by poverty, most Somalis are less educated. That is to say, some people here do not have the sense of borrowing the credit loans even they lack money, because they have no idea about the these. Marketing seems to be pretty essential at this time. Good marketing strategies can help people to get to know and be interested in the function of credit loans as well as the brand of company quickly, and the most important, to accept it and have intention to apply businesses.

One of the most essential key resource for the credit institution is the money. As soon as the capital chains break down, the whole institution will need to face the crisis of bankrupt immediately. This issue is not rare in poor countries due to the unstable nation economic situation. Social poverty will strongly inhibit the development of credit institutions, which gain profit mainly depend on the turnover of capital, and we cannot imagine if there is a Somalia institution just rely on the capital supply from only one or two banks, how its future will be—undoubtedly, its lifetime would not be too long.

2. STRATEGIC ANALYSIS

2.1. External environment opportunities and weakness

2.1.1. Opportunity

There are only few competitors in Somali market. The Somali market of personal credit loan is not mature and developed, which means that the new credit institutions in present are possible to be the leader of the market and more likely to success for accumulate many loyal clients early. In addition, there are more and more organizations and institutions around the world start to pay attention to Somalia, for its poor economy and low living level. Like IMF and some charity organizations from developed country, sometimes there are even helps

in field of credit loans. Swedish Ambassador to Somalia, Andreas von Uexküll. (n.d.) This program (One Earth Future, a non-governmental organization) provides tools for Somali financial institutions to expand their lending procedures and opens up new, viable markets.[4]

2.1.2. Threat

For Somali low education level, many people here still do not familiar with or cannot accept the personal credit loans. They would not come up with borrow credit loans ever even though they need money hurriedly in certain time period and can pay back the money in the future by working. And most of the time they are Vulnerable to credit risk. For instance, civil conflicts can destroy their living place and income source, such as farm land, in anytime.

2.2. PESTLE Model analysis

2.2.1. Political/Legal

The political situation here is unstable, like the civil conflicts, a large number of refugees, and weak government and its changing right of control, affect the economy environment. Another big issue is that any Somali credit institution must offer micro-finance services under the laws of Islamism, which states that we could not charge interests. As a result, different from traditional credit institutions, they can only share profits of clients.[5]

2.2.2. Economy

Although its GDP is pretty low, about 300 dollars per capital (2019), it just keeps b remain stable.[6] And for several years it keeps growing slightly, from 2014 to 2018. Therefore, we can see development potential in Somali.



figure 2: Somali refugees

2.2.3. Sociocultural

Dominant religion of Somalia is Islam; means some companies here may need to care about the special customs of religion and respect them, especially for the business culture like prayer sessions need to be

concerned in agenda. Their religion also means most people are very have good characters and morals and we can trust them most of the time. [7]



figure 3: Islam in Somalia

2.2.4. Technology

Thanks for the popularity of cell phones in recent years (from 2016 to 2020, mobile phone penetration in Somalia is about 50%), [3] Somali credit institutions can advertise their business and provide services over cell phones, which is easier and more efficiency.

3. SOME OTHER FEATURE SOMALI CREDIT INSTITUTIONS CAN DEVELOP

3.1. Customized service

Besides the basic service of normal credit loan companies, like offering loans, the company in Somalia can expand the businesses to fit the country and citizens here. In Somalia, many people are displaced refugees, and hard for institutions to determine what amount of money of loan they can afford. Daily lives and cultures significantly different between areas to areas in Somalia as the various levels of poverty, governance, and safety. So that the customized financial service is needed because of their diverse life experiences. Researching individual financial history, writing credit individual analysis, and then issuing loan services and management of payments, finally getting the money for loan. What need to be mentioned is the customized financial guidance, many people do not know how to spend their money properly.

4. BUSINESS STRATEGIES

4.1. Having partnership with Cell Phone Company

In order to archive the objective of marketing, the innovative ways of advertising business are needed. Many people in Somalia have cell phones. Considering this advantage, the credit institution can collaborate with cell phone companies because they are able to provide specific function for our loan business in cell phone, such as the hotlines of the institution or app, and offer

them loans in relatively low interest rate in rewards. This is a kind of way of building the influence of the institution. According to the local feature in Somalia, credit companies can take advantage of it and expand the clients who can afford the cell phone means that they are more likely to repay the loans.

4.2. Cooperate with many other banks

One of our biggest challenges is the strong dependence of money. In place like Somalia this challenge even more severe for its unstable political situation like the Somali civil war. As a result, credit institutions here need to make efforts to reduce the reliance of money supply from one source, in other words, to decline the bargain power of the supplier. One way to achieve this goal is to cooperate with several strong national or international banks with reliable financial source. Consequently, in case that one of the financial lines connected with a bank break off or one certain bank affected by political issues, we can still continue our business by the leeway.



figure 4: Somali Islamic bank

4.3. Various advertising and service platform

It is all known that the information transmission here is not so convenient and advanced. Although some people in Somalia have smart phone which can connect to Internet, there is still a group of people with little income and below the standard living level need to be concerned. Besides post some advertisements and advisory service of the institution over the Internet, other ways which are able to permeate daily life can be used, like distributing flyers and newspapers, sticking posters, and assigning employees to set Reference Desk (people around here can consult the stuffs here about more information of credit loan businesses) in somewhere with crowds such as wet market. Therefore, the business and company brand will be known in some certain areas.

4.4. Credit Calculating System

There is an important issue for Somali credit loan companies that because lacking of developed credit system, they are not easy to ensure whether their clients

are able to repay the loans or not. Lin Giralt (2021, July). *When you cannot measure the repaying ability of someone, all you have to do is to create some new way to ensure money return, like co-signing.*

For example, give loans to a group of 3 people, the funds are given for one year to each and rotated through 3 years to them. If first one fail to repay the loan at the appointed time, then the second one cannot get the credit loans at this time, vice versa. They should repay on time otherwise rest of the people within group will dissatisfied with this one, and effectively avoid some default situation.

4.5. Target client groups

Local credit institutions can focus the particular groups of clients, the female and farmers. Like many other Arab States, Somali female’s position is pretty low. There are many restrictions for them, not to mention if there is a woman who want to start her own business. Raising enough fundamental fund must be an obstruction for them, and it is almost impossible for them to borrow money from national banks due to the strict guarantee requirements and stress from social bias. Private Personal credit institution seems to be a pretty good alternative for them. No complex requirement and they can feel free to apply for loans here. So the institution can specifically advertise around the female, encourage them to start some small business by them own and have better life.



figure 5: Somali women

From information above, we’ve already known that the main income resource of Somalia is come from pastoralism. The livestock market has already matured in Somalia and new companies of other fields can take advantage of the developed market. For credit loan companies, they can regard the pastoralism as a target market, because mature market means more stable and reliable capital source, is less likely to default the loans, additionally, more clients. By determined the target groups, the range of propaganda can be narrowed, like for pastoralism, we can put the focus on the northern areas, then we can advertise more specifically—such as the wet markets in north—and cut the unnecessary expense.



figure 6: Somali livestock trading

5. CONCLUSION

The result drew from this text is definitely that there are many potentials and advantageous condition for running personal credit institutions in Somalia. The blocks are inevitable, but there are a lot of suggestions and solutions showed in the paper which can help investors or entrepreneurs to make better decisions. For those investors, they are able to find the brand-new direction which nearly no one involve before, that is to say, there are lots of big development opportunities. Besides that, local entrepreneurs of personal credit institutions can rely on applying the information and accepting suggestions presented above to attain the final success.

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