▶ Financial inclusion of refugees and host communities in the Somali region of Ethiopia: A PROSPECTS partnership with Shabelle Bank

ILO PROSPECTS Ethiopia & Social Finance

▶ Unlocking refugee economic inclusion through access to Islamic finance for refugees and host communities in the Somali region, Ethiopia

Relevance of the intervention

Ethiopia's Makatet roadmap aims to move refugees and host communities from aid dependence to economic integration and economic inclusion. Financial inclusion is a critical missing link – without access to working capital, safe savings and tailored risk-management tools, refugees cannot seize livelihood opportunities, even when they have skills, markets and a legal space to work. This piece of work is directly contributing to Makatet Pillar two, GRF pledge 3 on inclusion of refugees into national existing systems, and 4 on Private Sector Engagement[1], specifically economic inclusion and expansion of financial services to refugees and host communities.

In the Somali region, refugees and host communities operate in dynamic trade and livestock markets and require flexible, fast working capital. To cope with their financial needs, they tend to rely heavily on informal credit and savings groups, often expensive and insecure. This is because they do not trust conventional banks and have religious concerns over interest-based financial products. **Through its collaboration with the ILO PROSPECTS project in Ethiopia, Shabelle Bank has directly addressed these constraints by starting to develop a suite of fully Shariah-compliant and commercially viable products tailor-made to the needs of refugees, enabling them to step inside Ethiopia's formal banking system for the first time.**

The model

Shabelle Bank is a fully-fledged Sharia-compliant bank, originally founded as a microfinance institution in 2011 and transformed into a bank in 2022. Headquartered in Addis Ababa, it operates over 60 branches nationwide, manages deposits exceeding ETB 2 billion (US $12.7 million), has around ETB 2 billion in outstanding loans, employs more than 700 staff, and serves over one million digital users via Hello Cash and other channels. The ILO–Shabelle collaboration grew out of Shabelle Bank's participation to the ILO's *Making Finance Work for Refugees and Host Communities* training for senior and middle management of financial institutions. The training's objective was to empower them to understand the market potential of serving refugees' market segments, while informing strategic thinking around the development of products adequately meeting their needs sustainably. Following this, Shabelle Bank requested support from the ILO to co-design a product for forcibly displaced people and hosts in the Somali Region. This is how the Aisha product was born.

The Aisha loan is a Murabaha-based, in-kind working capital product tailored primarily to women-led micro and small enterprises among refugees and host communities. The bank purchases assets (livestock, trading stock, inputs), based on a submitted business plan, and sells them at a pre-agreed markup instead of charging interest. The innovations behind this product included the following:

- **The refugees and host communities are prepared ahead of their loan application process** by attending a 3-week onboarding training programme. This includes a business management training, enabling them to put together a solid business plan and teach them about bookkeeping and financial cashflow management, as well as a financial education training,

[1] Final_Ethiopia_2023_GRF_Pledges_06.11.23.pdf

building their capacities in budgeting, saving, debt management and overall financial management.

- **This reduces the risk for Shabelle bank** as these potential clients already understand how to identify their financial needs, put together a business plan, and plan to repay their loans.
- **This also builds trust between Shabelle bank staff and their potential clients** as they get to know each other better during this capacity building process. Shabelle bank staff learns more about the economic activities of refugees and host communities, and the latter debunk some of their misconceptions around formal finance.

- **The Aisha product does not require any collateral from refugees and host clients**. They simply need to form solidarity groups of 3 to 5 people, supporting each other through a group guarantee risk sharing mechanism. This meets the limited liquidity capacity of refugees and host communities
- **Shabelle bank staff followed an internal institutional change to improve their operations, communication and their credit manual and internal procedures**, to accommodate the new refugee and host target segments.
  - **This capacity building enabled them to improve their service delivery, frontline performance** and to raise awareness about their position as the only bank in the region, able to provide financial products to refugees and host communities. Improvements included ensuring branch officers' awareness about the new strategic line and product, knowing which KYC documents were now accepted for refugees, as well as ensuring a representation of the refugee clients' languages at the branch level, among other measures.
  - **This change was largely led by an appointed focal point** who championed this market diversification from inside the bank, securing senior management buy-in, longevity and strategic sustainability. This approach was powerful because the change was pushed from the inside out.
- **The ILO facilitated strong coordination mechanisms between Shabelle Bank, the Refugee and Returnees Services and UNHCR** by promoting the signature of a tripartite MoU between the three structures at various levels, including at the camp, to ensure transparency and manage expectations. This agreement did not include the ILO to promote sustainability even after the end of the PROSPECTS project and was detailed enough to integrate concrete mechanisms and processes to ensure the strongest intervention results.
- **The Aisha product repayment mechanisms included Hello Cash, a digital payment solution, to facilitate mobile money integration, facilitate transactions, especially savings and payments, and boosting the refugees and host communities' digital inclusion** through their feature phones. The objective is to ensure that refugees and host communities do not simply have access to a loan product but **access a full suite of formal financial products geared towards responding to their needs in an integrated way.**

Achievements so far

Since the first disbursements of the pilot Aisha product in April 2025 in the Somali region:

214

clients have accessed Aisha working capital loan

- 100 refugees
- 114 host community members

ETB 12,445,000 (US $79,600)

Total amount of loan disbursed

- Principal: ETB 10,827,150 (US $69,000)
- Mark-up (13%): ETB 1,617,850 (US $10,300)

- **Loan** sizes **range from ETB 50,000 to 75,000 (US $300 to 480), depending on the business plan submitted by clients,** financing working capital needs stemming from income-generating activities including small-scale trading, sheep and goat buying and reselling, as well as smallholder farming.
- **Repayment behaviour** is a strong indicator of resilience and financial viability. Among refugee clients, **only 5% (5 out of 100) missed some regular repayments** — and none of them failed to pay for three consecutive months. Among host community clients, the initial default rate was reported as 11% (12 out of 114), but in reality only one client missed three consecutive months of payments and can be considered non-performing. **And this pilot was useful to highlight this in the eyes of Shabelle Bank's senior management which is now ready to develop and roll out more financial products as part of their line for refugees and host communities.**
- **The Aisha loan product has also boosted refugees and host communities' savings**, thus participating to ensuring their money's safe keeping, contributing to their financial resilience,

and to Shabelle Bank's internal liquidity (and sustainability as a bank!). This highlights **a strong underlying savings culture and business discipline for refugees and host communities**, as well as significant available liquidity that can be mobilised for loans for refugees and host communities.

264
active refugee savers (clients at Kebribeyah refugee camp)

ETB 3,960,000 (US $25,300)
saved in deposits, ranging from ETB 4,000 to 100,000

As the portfolio grows, this could also enable the bank to develop other innovative products bundling savings and loans to unlock higher possible loanable amounts for refugees and host communities, while still complying with the National Bank of Ethiopia's guidelines on moveable collateral for onleading. This savings base could co-finance the scale-up, reducing the long-term need for external concessional funds.

- Even at pilot scale, the Aisha portfolio is **boosting agricultural productivity** by financing inputs, crop production and strengthening livestock trade, which is a core livelihood in Somali region. This stimulates local markets, promotes refugee self-reliance, refugees' market integration as active economic players within agricultural value chains, and **supports social cohesion between refugees and host communities** as the financial products are available to both groups under the same conditions.

Direct contribution to Makatet objectives

- **Formal financial inclusion:** Refugees shift from informal money lenders and ROSCAs to a regulated bank, gaining access to credit histories, savings accounts and digital payments, thus integrating them into the formal financial system. The strong savings mobilization in Kebrebeyah demonstrates early progress towards Makatet's financial inclusion indicators.
- **Enterprise and employment creation:** By financing working capital for micro and small enterprises, the Aisha product directly supports employment creation and business expansion among refugees and hosts. Accordingly, group lending models and cooperative linkages foster collective enterprises and employment beyond individual self-employment.
- **Resilience and reduced aid dependence**: Developing a sharia-compliant financial product that respects religious norms has built trust and reduced reluctance to engage with formal institutions. As businesses grow and diversify their operations and reach new markets thanks to improved access to finance, households rely less on humanitarian transfers and are better able to absorb economic shocks and face climate-related risks.
- **Systems change**: The model is integrated into Shabelle Bank's core business operations, portfolio and MIS, and is not a temporary project initiative. Institutional changes in processes as well as capacity building with bank staff and policy dialogue with government partners and regulators, has supported the institutionalization of the product for refugees and host communities. This sets the grounds for a potential replication by other financial institutions and highlights the potential of this intervention's scale-up.

Expansion plans

The Aisha product was not developed as a stand-alone loan scheme, but as a pilot product part of an inclusive outreach strategy led by Shabelle bank and forming a set of system-level financial solutions bringing refugees into Ethiopia's regulated financial sector.

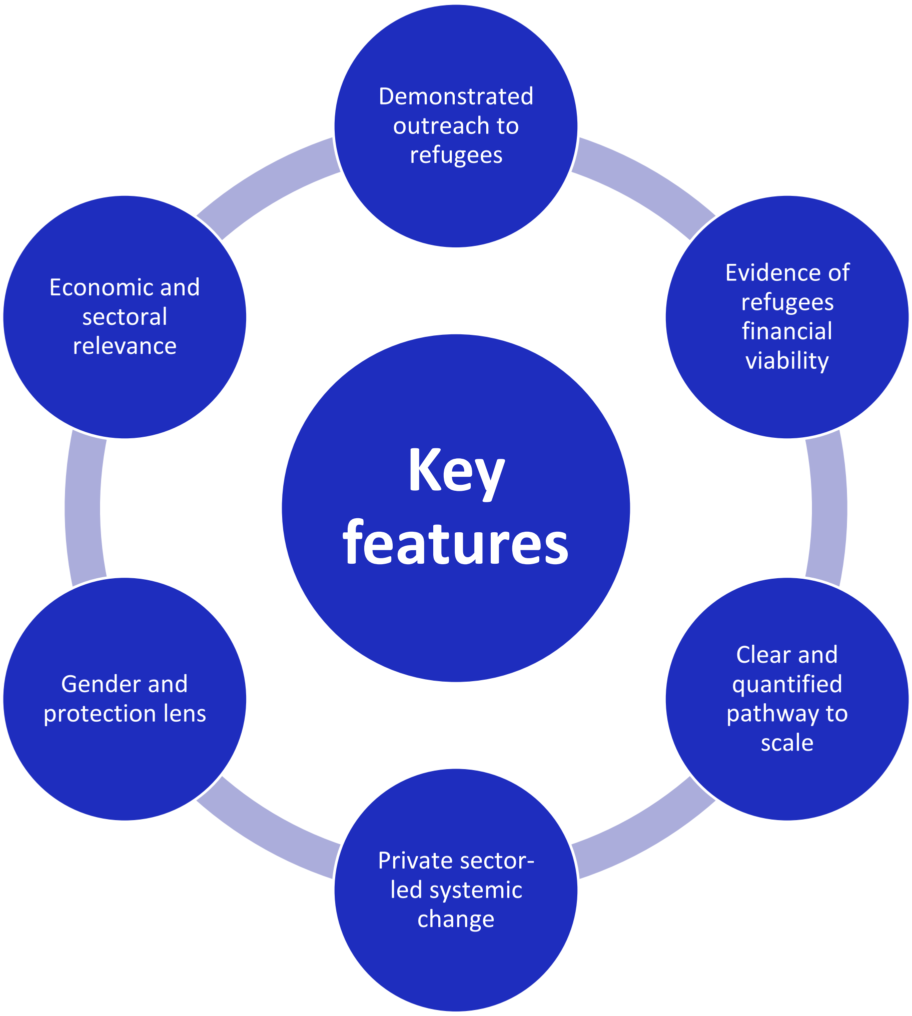
Geographic expansion – Aisha pilot scale-up in other refugee areas of Somali region:

- **Shabelle bank plans to review the product characteristics with a view to responding to the refugees and host communities' feedback and needs.** This includes increasing the loan size maximum amount to ETB 100,000, (US $400) to comply with NBE's regulations on moveable collaterals. The bank then plans to roll out this new iteration in Kebrebeyah, using existing and new branches and agent networks, and largely raising awareness about it through increased marketing and promotion.
- **The bank will also expand the roll out of the Aisha product to Awbare and Shedder in 2026 and to Dolo Ado in 2027.** This is in view of covering the entire region with financial products meeting the needs of refugees and ensuring the stabilization of their positioning as the core banking institution responding to refugees' formal financing needs in Somali region.
- Kebrebeyah alone counts an estimated **15,000-20,000 households**, with around **1,000 households** already expressing interest or fitting the profile for Aisha loan. Given the additional camps across Somali region, the potential market for appropriately designed loans, savings and risk management products for refugees and hosts easily reaches **5,000+ viable micro and small entrepreneurs** over the medium term**. With a projected average size loan of EB 80,000, the outstanding portfolio could be of ETB 400,000 million (USD 2.6 million).** Complementary savings mobilization from refugees and hosts is expected to grow proportionally, potentially reaching **3,000+ savers and ETB 40-50 million in deposits** across targeted camps and towns, strengthening the sustainability of the model.

Product expansion – From the outreach strategy and additional incoming needs from the communities:

Beyond the current working capital Murabaha, Shabelle Bank – with ILO support – is developing a **suite of inclusive, Sharia-compliant products** that will deepen and broaden impact. They include the following:

- **Asset-financing Murabaha**: Financing for productive assets (e.g., Bajaj vehicles, livestock, dairy equipment, irrigation pumps, small machinery, etc.) for both refugees and hosts. This would directly support value chains such as dairy, livestock fattening and small-scale poultry enterprises, which are core to the Somali Region economy and especially to the refugee community.
- **Savings products:** Dedicated savings accounts for refugees and hosts, already piloted, will be scaled, with the objective of linking it systematically to loan products (e.g., compulsory savings, emergency cushions, etc.). This will be promoted through campaigns which will reinforce responsible financial behavior and mobilize local capital.
- **Value chain financing through cooperatives:** Financing structured around cooperatives and producer groups (e.g., dairy cooperatives, input supply groups). These arrangements will bind refugees and hosts into shared economic networks, facilitating access to markets, aggregation and bargaining power.



- **Green and solar asset financing (under consideration):** Exploration of financing solar energy assets to power cooperative activities (e.g., small processing units, milk cooling, water pumping, etc.), aligning with climate resilience and low-carbon growth.
- **Shariah-compliant insurance product (under consideration):** In the medium term, Shabelle Bank is interested in developing Takaful-type products for refugees and hosts to protect against health shocks, crop/livestock loss or business interruption. This would complete the resilience toolbox and further align with Makatet's risk-management and protection objectives.

Taken together, this suite of financial products will link finance, markets and productive sectors (dairy, livestock, poultry and crops) in a coherent way, with refugees and hosts as co-investors in the region's development.

Institution expansion – Other financial institutions replicating the model of Shabelle bank:

- ILO has already started to engage with other financial services providers of other PROSPECTS project areas including Tseday bank in Amhara to identify interest and capacity to follow the refugee market diversification process, which Shabelle bank has followed. This model could also be recommended in Benishangul-Gumuz especially around Assosa.

Voices from the beneficiaries

> We started the business in 2018, and this loan helped us scale up significantly. I even made my monthly payments two months ahead of the due date.

Mustafe Farah and his uncle Khadar Arab, refugees from Somalia and co-owners of a mobile maintenance shop in Kebribeyah. With loans of 75,000 Birr (US $480) each, they expanded their shop, bought electronics accessories, and even paid loan instalments ahead of schedule. Their next goal is to open another branch and grow their savings.

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