



AN EXPLORATION OF DIASPORA INVESTMENTS IN SMALL BUSINESSES IN DADAAB, KENYA



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Executive Summary

Diaspora investment plays a crucial role in the economic growth of Micro, Small, and Medium Enterprises (MSMEs), especially in the diaspora's countries of origin. They are a lifeline for underserved and high-risk refugee entrepreneurs. The interaction between the diaspora and their homeland is essential for sustained engagement and long-term planning for improved livelihoods.

The objectives of this study were to deepen the understanding of diaspora finance flow models to small businesses within Dadaab. This includes gaining insights on diaspora engagement models, establishing the market size of diaspora investments, and mapping financial service products and providers available for diaspora investments to Dadaab. The findings of this study will guide evidence-based decision making on the design and scaling of suitable models, including digital channels, to enhance self-reliance and improve livelihoods.

Key Findings

One dominant diaspora engagement model emerged from the study, where diaspora investments were granted mostly on a philanthropic basis. Seventy-seven percent of the businesses received grants, while 23% received funds as loans, which were repaid without formal agreements. The diaspora members providing financial support were not expecting a return on investment, reflecting the financially vulnerable nature of the recipients. All respondents solely ran and made major decisions about the businesses.

Although recipients mostly took the initiative to request funds (69 percent), motivations to support business set up were diverse and driven by a desire to contribute positively to the economic well-being of family/clan members.

Strong interconnectedness within the family network was evident, diaspora investment funds mostly flowed between families. Reasons for supporting family members to set up businesses were to supplement the aid they received and encourage them to be financially independent. However, once diaspora investments were sent, financial support including regular remittances stopped.

Businesses that did not receive funds from the diaspora to set up a business typically had no relatives in the diaspora. Alternative funding sources included VSLA's (Hagbad/Ayuuto), taking stock on credit, investment from family members locally and the DRC business support program.

The value of the Diaspora Investment received emerged as a key determinant of the type of business that the recipient set up. Most businesses set up were MSMEs, going by the monthly gross profits of between USD 50-700. Diaspora senders mostly sourced funds from their salaries (73.3 percent) or as loans 23.7 percent.

Access to credit remained a major challenge in the community, small scale traders faced barriers typically faced by MSME's and refugees with an added layer of limited sharia'h compliant solutions. As a result, Diaspora investments were considered a more attractive way of accessing funding despite fund limitation challenges faced by most senders.

Diaspora Investment funds were notably sent and received through remittance channels. Funding was provided mostly at the start up stage and not topped up in subsequent growth phases.

Respondent recommendations on how DRC could facilitate stronger diaspora engagement and maximize impact included conducting independent business scoping studies to assess viable business opportunities in the camps, equipping potential business traders and linking them with diaspora investors; collaborating with diaspora investors and organizations supporting refugees to plan seminars and networking events to create more awareness on investment opportunities back home.

Recommendation

A sharia'h compliant diaspora investment payment solution with provisions for investment transfers from group to group or individuals is better suited to new and existing small scale trader financial needs. To ensure solutions directly meet the needs of this segment, a call for innovations challenge can be conducted with licensed Fintechs and other financial service providers offering sharia's compliant solutions for example the Taqwa SACCO.

The recommended engagement model to scale diaspora investments to Dadaab entails providing business preparedness training for potential and current traders, mobilizing diaspora in Somali Communities abroad to contribute funds, match the traders as groups or individuals to funds, provide funds for the business set up and conduct impact evaluations.

The study illustrated the potential for diaspora investments to significantly impact the economic growth of MSMEs, especially in refugee areas with strong diaspora links. These findings will inform the design and scaling of suitable models, including digital channels, to enhance self-reliance and improve livelihoods in refugee areas.

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Part 1: Overview and Context

Diaspora investment can have a significant impact on the economic growth of MSMEs particularly by boosting productive activities in the diaspora's countries of origin. Recent studies show that successful engagement of a diaspora with its homeland is a function of sustained interaction between the two entities without which links are short lived and lacking in futuristic plans such as improved livelihoods.¹

For refugee entrepreneurs who are often underserved and considered high risk, diaspora investments are a lifeline given the attachment of migrants to their home countries. Naujok (2021), outlines comparative advantages of diaspora entrepreneurs as being better informed, with stronger social networks to mitigate risk therefore more effective engagement in investment activities.²

1.1 Objectives

To deepen understanding of the diaspora finance flow models to small business holders within Dadaab and other refugee areas with strong Somali diaspora links.

Specific Objectives

- i. To gain deeper send and receive side insights on the diaspora engagement models supporting small businesses in Dadaab.
- ii. To establish the market size -amounts invested by diaspora over a 3-year period and average personal remittances per household.
- iii. To map financial service products and providers available for diaspora investments to Dadaab and identify gaps, opportunities and requisite action including feasibility of a digital platform.

Findings will guide evidence-based decision making on the design and scaling of suitable models including digital channels to enhance self-reliance and improved livelihoods.

1.2 Methodology

1.2.1 Sampling and Data Collection

Small Businesses (Receivers) –Targeted sampling was done by DRC field staff who visited markets in the Dadaab camp enlisting traders whose businesses were financed or run by someone in the diaspora.

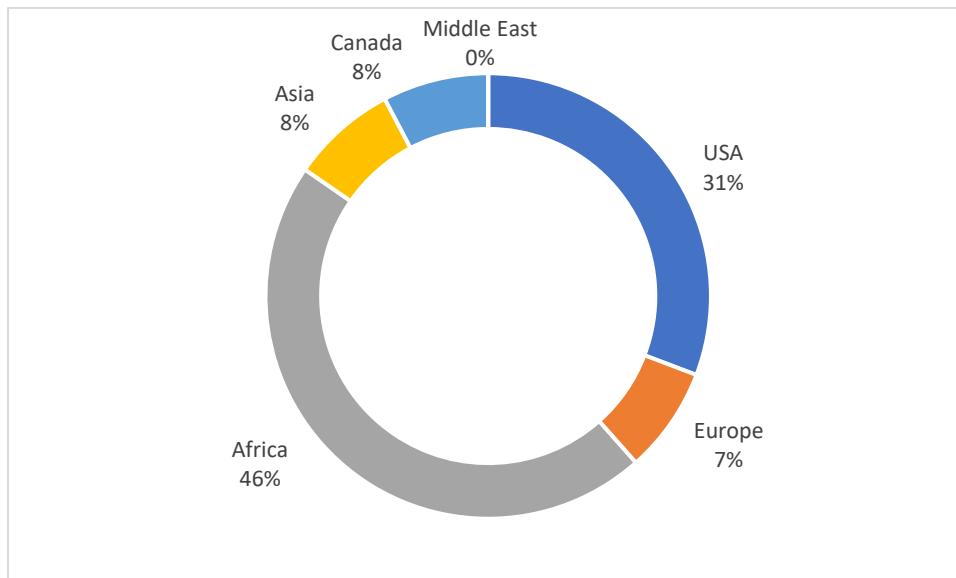
One-to one interviews were then conducted between the 15th-18th August for twenty -three (23) eligible small businesses in Dagahaley, Hagadera and Ifo camps. Four businesses that had not received funds and 3 community leaders.

Financial Service and other providers - 2 FSPs Equity bank and Dahabshil and one Business support organization Inkomoko.

Diaspora members (Senders) investing in small businesses in Dadaab or supporting their families with remittances-Sixteen respondents were interviewed, 80 percent of

respondents had helped set up a business and 20 percent had not, but all respondents were supporting their friends and families back home with remittances. Five were based in Kenya or Somalia.

Figure 1: Location Diaspora Respondents



The data collection phase of the research study took place between August and September 2023 in Dadaab Refugee Camp Kenya for the small business owners, community leaders, Financial Service Providers (FSPs) and the Business Support Organization. Virtual Interviews were also conducted for diaspora participants.

Ninety-four (94 percent) of participants were male, pointing to the low participation by women (6 percent) across both the send and receive sides.

Part 2: Key Study Findings

One dominant diaspora engagement model emerged. This was validated by the small business traders in Dadaab Refugee camp as well as the diaspora respondents.

Diaspora investments were granted purely on a philanthropic basis, Diaspora members were not involved in setting up or running any of the businesses in Dadaab. Seventy-seven (77) percent of the businesses received grants, the remaining 23 percent received these funds as loans, which were repaid without any formal agreements. The diaspora members providing financial support were not expecting a return on investment. This could be attributed to the financially vulnerable nature of the recipients.

All respondents (100 percent) solely run the businesses, including making decisions on the type of business to set up, location, expenditures, reinvestment, growth and expansion. Similarly, there was only 1 sender who indicated a profit share with the receiver.

Although recipients mostly took the initiative to request funds (69 percent), and 64.3 percent from sender responses; motivations to support business set up were diverse and driven by a desire to contribute positively to the economic well-being of their family/clan members. Most diaspora investors have witnessed the challenges faced by their families and friends in accessing credit or loans from banks or other financial institutions. The majority considered regular personal remittances unsustainable, thus opted to offer financial support to enable the establishment of small businesses, that provide opportunities for entrepreneurship and economic self-sufficiency.

“I helped my family back home to set up a business because they needed the help. Without it, they wouldn’t be able to live properly. With the business, they’re able to take care of their basic needs.”

Sender Atlanta Georgia

“They live in dadaab refugee camps and whatsoever they get from the distribution centres is not enough for education and food.

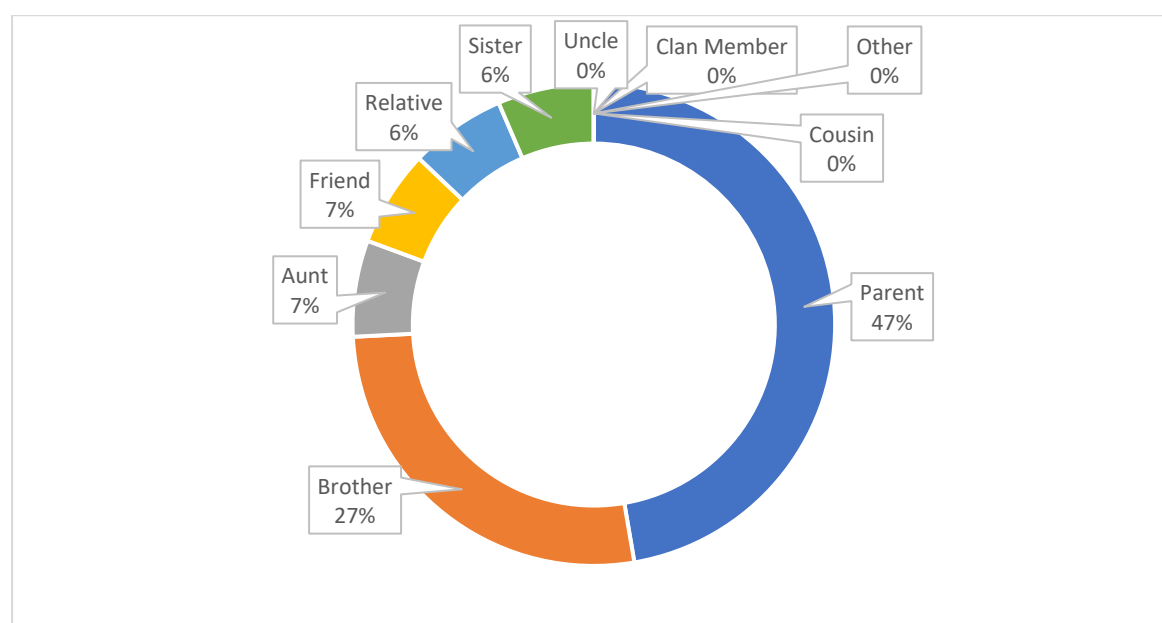
Sender Nakuru Kenya”

Remittances mostly preceded diaspora investments, both stopped upon receiving funds to set up businesses. Close to 70 percent of recipients were previously receiving diaspora remittances ranging between USD 50-150 per month. Upon receiving funds to set up a business, the diaspora member in over 95 percent of

the cases stopped sending remittances and funds for business. Some respondents indicated they had lost contact with the diaspora investor thereafter. Senders' responses differed with over 80 percent indicating they continued to send remittances after providing initial business investment support.

Strong interconnectedness within the family network was evident, diaspora investment funds mostly flowed between families. All 23 businesses interviewed received diaspora investment funds from a family member or friend to set up their businesses. Seventy-four (74) percent of the businesses were set up with the assistance of an immediate family member-sibling, cousin, uncle or aunt. The remaining 36 percent received support from friends, clan members or distant relatives. A similar pattern emerged with the senders, the majority of funds were sent to the custody of parents and siblings.

Figure 2: Relationship with Diaspora Investor- Sender



Anecdotal evidence showed strong inclination towards diaspora investments being sent to immediate family or clan members. When asked if they would invest in a viable business from a non-family or clan member, 56 percent of senders responded they would, and 44 percent would not. However, across all respondents interviewed, there were no indications of this scenario in practice.

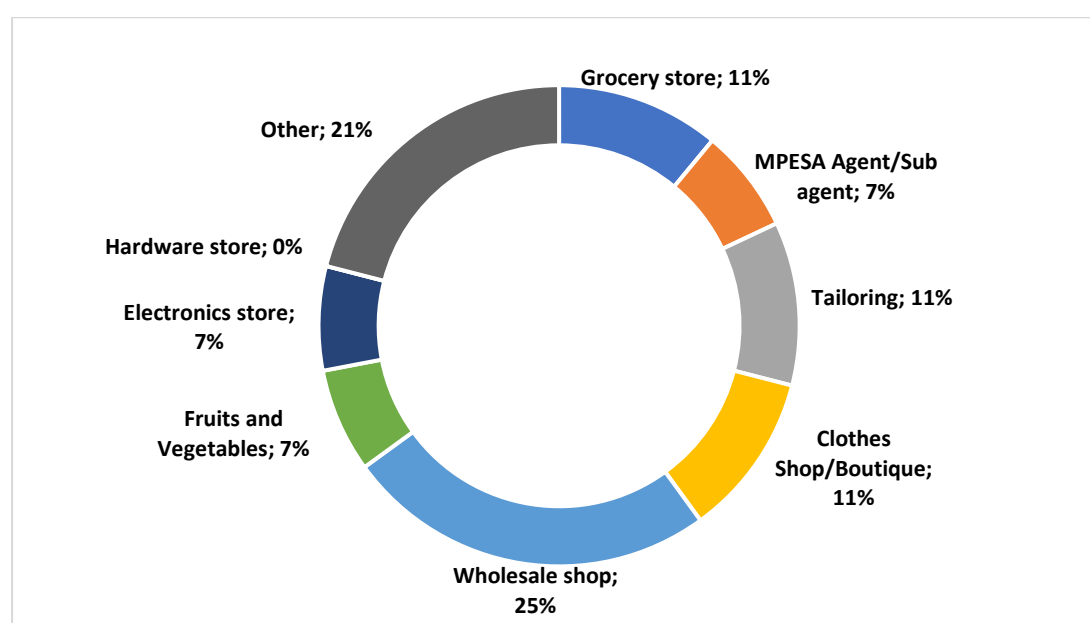
Reasons for supporting family members to set up businesses were to supplement the aid they received and encourage them to be financially independent.

Trust played a significant role in the community, and since the lenders were family members, there was no perceived need to formalize grant or loan arrangements. This indicates a high level of trust and cooperation within the Somali community.

Businesses that did not receive funds from the diaspora to set up a business had a common characteristic. Three of the four traders interviewed did not have relatives in the diaspora. Alternative funding sources included VSLA's, taking stock on credit and repaying after selling, investment from family members locally and the DRC business support program.

Businesses supported mostly qualified as MSMEs based on the number of employees and annual turnover¹. Sixty-one (61) percent were run by an individual with no employees or other assistance. Small businesses in Dadaab span a wide range of sectors mostly wholesale of food items. The selection of the business was entirely made by the recipient and was influenced by potential for growth and profitability, demand, skills and experience of the small business owners and the perceived needs of the Dadaab community.

Figure 3: Types of Businesses.



Senders were less aware of the businesses set up but their responses to the types of business they supported were similar to those of receivers (small business traders).

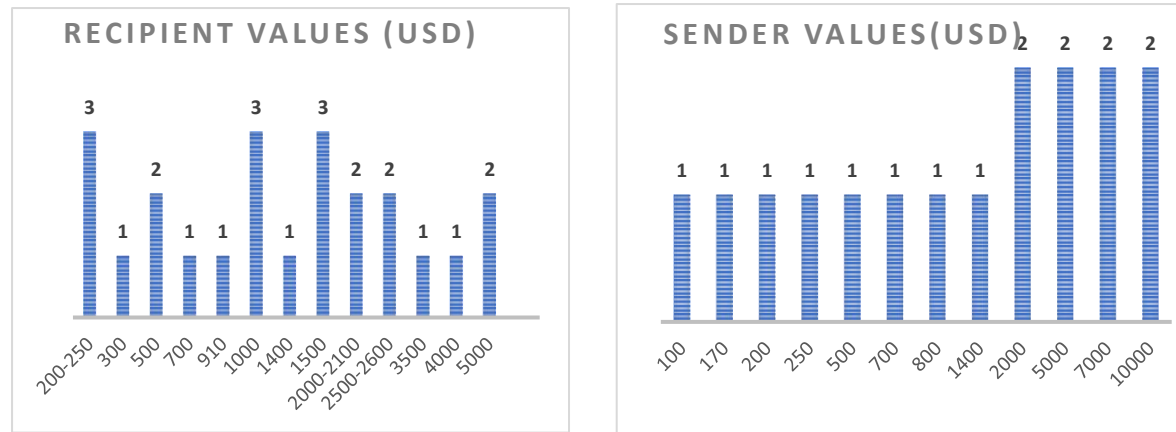
Interactions between senders and receivers were trust based and not formalized, 75 percent of senders trusted that funds would be used for the intended purpose.

The value of the Diaspora Investment received emerged as a key determinant of the type of business that the recipient set up. In most cases, this value was much higher than the average value of monthly remittances they were previously receiving. The lowest diaspora investment amount received was the equivalent of USD 200, with

¹ Micro, Small and Medium enterprises in Kenya are defined as entities employing 1-99 people with an annual turnover of over USD 350, 000.

this amount, the recipient set up a pharmacy while another set up a grocery store. The highest amount received was USD 5000 separately used to set up an electronics shop and a wholesale grain store.

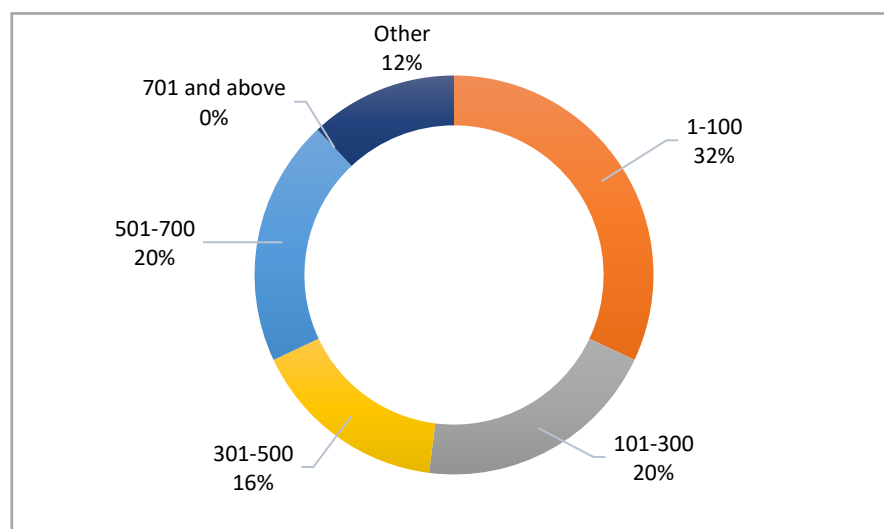
Figure 4: Frequency chart of diaspora investment amounts recipient and sender



Diaspora senders' responses to amounts sent were markedly different and at a much higher scale ranging between USD 100 to USD 10,000. Respondents who did not send funds for the purposes of setting up a business sent lower values (USD 250, USD 170 and USD 1,000) supporting the finding that diaspora investment amounts were much higher than amounts received as regular remittances.

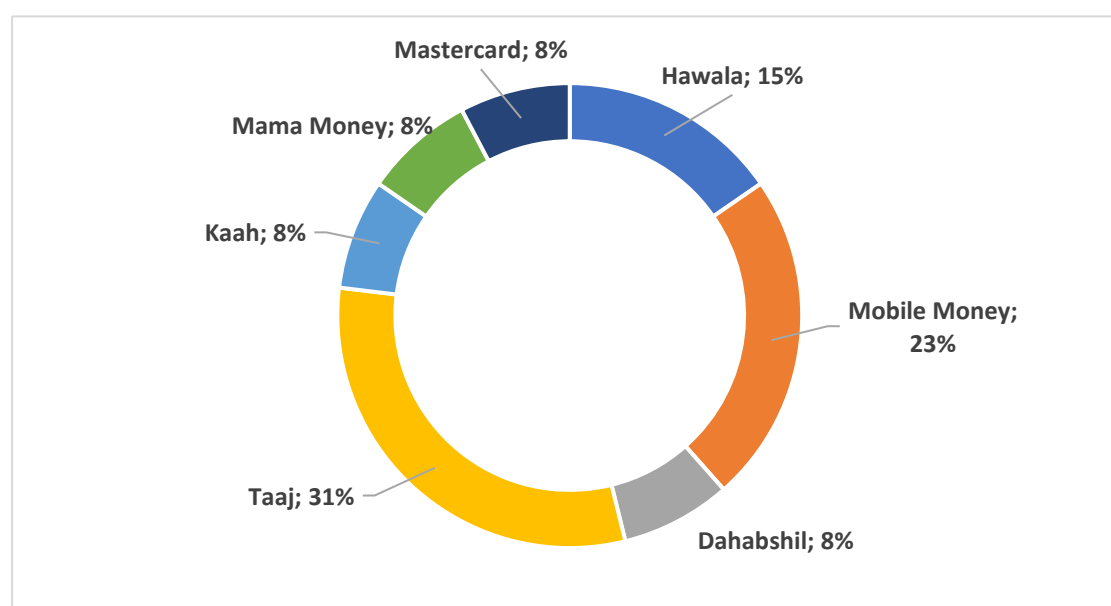
Profit margins for businesses supported ranged from USD 50-700 monthly. To an extent, this amount correlates to the amounts previously received as remittances, a possible indicator that diaspora investments into businesses can eliminate the need to send frequent personal remittances.

Figure 5: Monthly profit earnings



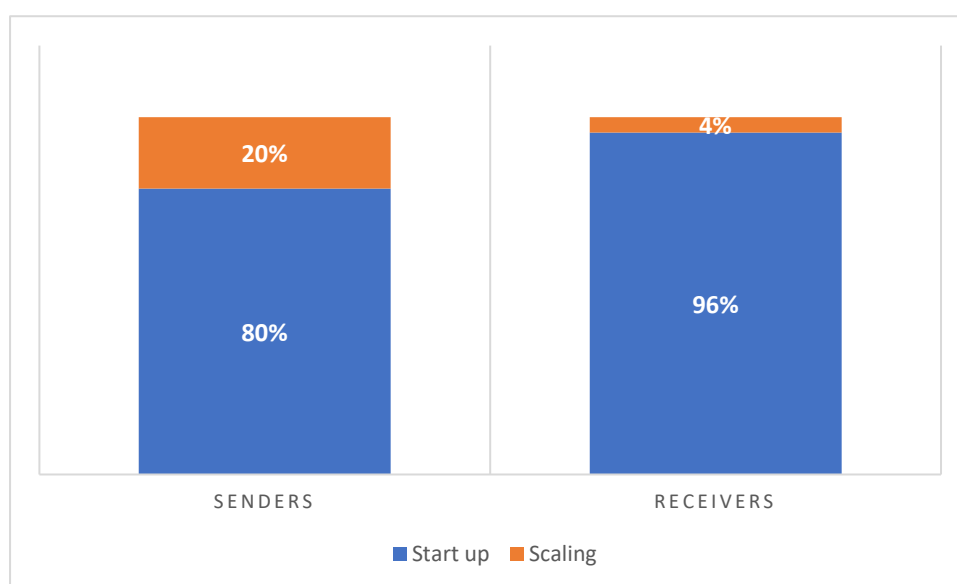
Diaspora Investment funds were notably sent and received through the same remittance channels. Mobile Money and Money Transfer Operators were the most frequently used methods. For receivers, Dahabshil was the most frequently used channel (43.5 percent) closely followed by M-PESA Mobile Money (39.1 percent) while diaspora senders used Mobile Money, Hawala and Money Transfer providers- Dahabshil, Kaah and Mama Money. Choice of channel was based on proximity to sender, cash out convenience for receiver and instant transactions. There were no major challenges experienced while sending or cashing out funds.

Figure 6: Financial Service provider used- Senders.



Funding was provided mostly at the start up stage and not topped up in subsequent growth phases. This was considered a critical period, the funds would get the new business off the ground and help it grow.

Figure 7: Business phase when diaspora investment funds were provided.



Senders mostly sourced funds from their salaries (73.3 percent) or as loans 23.7 percent. Sources of funding such as the Hagdbad² group savings and VSLA's were more prevalent on the receive side.

Access to credit remains a major challenge in the community, small scale traders face barriers typically faced by MSME's and Refugees with an added layer of limited sharia'h compliant solutions. Less than 10 percent of the traders had taken loans from family and friends to supplement the startup capital received from the diaspora. Respondents felt more comfortable seeking assistance from a diaspora member than a formal financial institution. Credit solutions offered by financial institutions such as Equity Bank were considered out of reach for new business owners with low returns, they had significantly high eligibility requirements. Additionally, traders did not consider them fully shar'iah compliant because interest was indirectly levied under a different name. Although as earlier indicated 23 percent of the diaspora investors advanced their support as loans, this did not appear to be a preferred method both amongst the senders and receivers because of the sense of responsibility the diaspora member has over their families back home.

"I helped my family back home to set up a business because they needed the help. Without it, they wouldn't be able to live properly. With the business, they're able to take care of their basic needs."

Diaspora Sender USA

² Hagbad or Ayuuto is an interest-free rotating savings scheme based on mutual trust and mostly used by women

Diaspora investments were considered a more attractive way of accessing funding. They offered a more accessible and culturally compatible option for funding their businesses and served as a safety net in case the business failed. Recipients emphasized that unlike loans from financial institutions, diaspora investors were less likely to demand immediate or any repayment. This flexibility allowed entrepreneurs to focus on growing their businesses without the added pressure of strict repayment terms.

Diaspora investments were considered a useful avenue for economic empowerment and job creation. Recipients highlighted improvements in their financial position, and were able to support their families and, in some cases, create jobs for others. In turn, this contributed to the overall development of the Dadaab community.

At the same time, Diaspora investments in the current form were closely linked to family units and families without diaspora links would therefore not have the same advantage.

A prevalent challenge experienced with diaspora investments was the limited availability of funds. Forty-eight (48) percent of recipients considered the funds received from the diaspora insufficient for their businesses. As a result, they supplemented amounts received either by contributing additional cash or taking stock on credit from wholesalers and paying it back after an agreed period while catering for other costs..

Additionally, the one-off nature of investments and the absence of profit-sharing (even though advantageous to recipients), could limit the long-term sustainability and growth of the businesses, as reinvestment becomes challenging without additional capital.

Senders similarly cited limited funds as the most prevalent challenge when supporting family and friends to set up businesses back home. In some cases, the family size was quite large compared to available funds. Some senders focused on one family member who could stabilize financially and in turn support the rest of the family, however, majority continued to send regular remittances to other family members even after providing financial support to set up a business.

“Getting the capital (was a challenge) because it took me years to save the funds that I sent to start the business with.”

(Sender- Minnesota USA)

Getting the money to start business is a big challenge but I saved last year to start business for my family.

(Sender Mogadishu, Somalia)

Other challenges cited by both senders and receivers included:

- a. Collapse of business due to lack of business skills or other unavoidable factors such as camp closures.

- b. Strict AML/CFT regulations for frequently used payment channels such as Mobile Money therefore low transaction thresholds (presently an average of USD 2500). This necessitates sending more frequent lower value transactions which increases the total cost.

Respondent Recommendations on how DRC could facilitate stronger diaspora engagement and maximize impact were varied. These mostly centered around DRC playing the role of intermediary between diaspora investors (senders) and recipients in the Dadaab community. This could be done specifically by:

- Providing and expanding business training for interested and qualified individuals and groups at the camps targeting start up and scaling businesses.
- Conduct independent business scoping studies to assess viable business opportunities in the camps, equip potential business traders and link them with diaspora investors.
- Supporting existing businesses set up through diaspora investment with funding to scale.
- Collaborate with diaspora investors and organizations supporting refugees to plan seminars and networking events to create more awareness on investment opportunities back home.
- Support existing livelihood initiatives to scale for example Resilience Craft Network- a Refugee lead organization that supports diverse refugee livelihood needs.
- Establish an online diaspora engagement platform to connect diaspora members with entrepreneurs in Dadaab, facilitating financial transactions, mentorship, and knowledge sharing. In addition to serving diaspora members who have already invested in business for their family members, this would create an opportunity for those willing to support the community back home but have not found trusted means to do so.

“She requests that DRC connects diaspora and people in the camp to increase businesses to be started. And she recommends DRC for supporting many businesses in the camp.

Receiver, Hagadera

Connect the business owners to diaspora and investigate the business owners to make sure the businesses are good and to increase the support give training before giving the funds.

Receiver, Ifo Main

Part 3: Conclusions and Recommendations

3.1 Conclusions

The findings denote a dominant diaspora engagement model unique to the Somali community, which is family focused, informal, receiver led and is a graduation from regular remittances. Payment channels used serve the purpose despite the lack of diaspora investment solutions especially for low value funds targeting MSMEs.

While traders (receivers) were confident about their business skills, senders recurrently expressed concern over lack of business skills amongst the current and potential traders. This is demonstrated by the lack of creativity and differentiation in the markets at the 3 camps where competition is stiff and product differentiation low.

Small businesses do not scale due to limited funding characterized by the one-off nature of investments by the diaspora. Senders cite heavy and continuous financial responsibility which constrains available funds.

There is low participation in Diaspora Associations (12.5 percent of senders) and existing associations prioritize humanitarian and community development efforts.

Scaling the current engagement model requires intermediation while leveraging family/clan and socio-cultural dynamics.

Recommendations

A digital payment platform to facilitate financial flows is not a priority as current remittance payment systems suffice. A sharia'h compliant diaspora investment payment solution with provisions for investment transfers from group to group or group to individuals is better suited to new and existing small scale trader financial needs. A Diaspora association would crowd fund and be able to send such funds to a group of traders in Dadaab or individual traders seeking funding to start their businesses. Currently, there are no diaspora investment platforms directly addressing the needs of refugees, for example those that enable funds from a group to a group or group to an individual.

To ensure solutions that directly meet the needs of this segment, a call for innovations challenge can be conducted with licensed fintechs and other financial service providers offering sharia's compliant solutions on both send and receive side for example the [Taqwa SACCO](#).

Deposit and Non deposit taking SACCOs are increasingly expanding their reach to diaspora customers with savings, loan and investment products.

Figure 8: K-Unity Diaspora SACCO offering



K-UNITY
Together we grow

Open your
DIASPORA SAVINGS ACCOUNT
and save at home while working abroad



0707424774 | www.k-unity.co.ke
HQ: K-unity Building, Bleshara Street,
Kiambu
customerfeedback@k-unity.co.ke
@kunitysacco

Remit your deposits

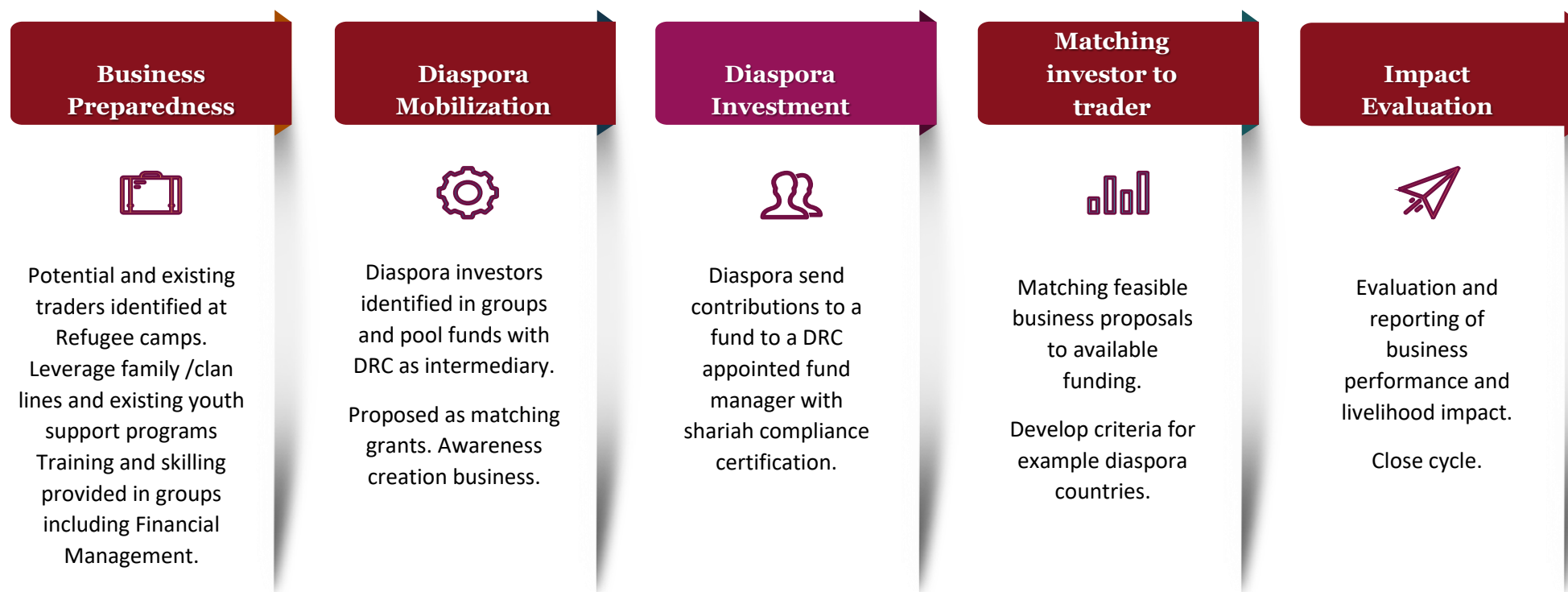
<p>Bank: Equity Bank Account Name: K-Unity Sacco Kiambu Branch Account No: 0640280283694 Bank Code: 08 Branch Code: 064 Swift Code: EQBLKENA</p>	<p>Bank: Family Bank Account Name: K-Unity Sacco Kiambu Branch Account No: 001000036216 Bank Code: 70 Branch Code: 001 Swift Code: FABLKENA</p>
<p>Bank: Co-Operative Bank Account Name: K-Unity Sacco Kiambu Branch Account No: 01120063116108 Bank Code: 11 Branch Code: 21 Swift Code: KCOOKENA</p>	<p>Paybill Number 4082977</p>

Stima SACCO offers app based pesadirect for remittance transfers, savings and credit in partnership with International Money Transfer Operators- Wise, Remitly, Wave, World Remit and Swift. Tower SACCO in Nyandarua county has a diaspora desk that operates 24/7 to facilitate diaspora transactions, savings and loans. The Kenya USA Diaspora SACCO, Grand Granite SACCO and Stoke UK Diaspora SACCO are domiciled in the USA and UK but regulated by the SACCO Societies Regulatory Authority (SASRA) to serve Kenyans in the diaspora.

3.2.1 Proposed diaspora engagement model

The proposed model considers the unique nature of this type of diaspora investments and has the components outlined below:

Figure 9: Proposed Model components



Potential risks and mitigations of the proposed model

- i. Regulation – regulations on crowdfunding vary for each diaspora country and in Kenya were recently gazetted. MSME's are exempted from the requirements on fundraising through investment-based crowd funding platforms. However, it's advisable that DRC partner with a licensed fund manager.
 - ii. Diaspora mobilization - Mobilizing diaspora participants for the study either individually or through diaspora associations was time consuming and response rates were generally low. Future activities are best conducted face-to-face by capitalizing on ongoing events where the Somali diaspora is in high attendance.
 - iii. Crowdfunding limitations-Given the strong family/clan ties identified in the study, crowdfunding for the benefit of a community may take time to be accepted. At the same time, the costs of running a crowdfunding platform including fund management and regulatory expertise as needed may be costly. Prior to implementation, assess existing offerings for benchmarking.
 - iv. Sustained strong business pipeline – Over time, there may be reduced number of feasible businesses to support as the entrepreneurship space in Dadaab as an example is saturated. Identify unique value propositions such as online businesses using readily available social media marketplaces such as Instagram and Facebook.
 - v. Trust building between the implementing partners and diaspora senders and receivers is essential. This can be incorporated into the awareness sessions for the diaspora senders and business preparedness sessions for potential beneficiaries early on.
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ANNEXES

Annex1: Sender Survey Summary

Annex 2: Sender Survey Detailed Transcript