

DIASPORA REMITTANCE MAPPING STUDY ETHIOPIA

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The opinions expressed are the authors of the report and not necessarily Sida's.

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ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
B2B	Business-to-Business
CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
EDTF	Ethiopian Diaspora Trust Fund
ETB	Ethiopian Birr
EUDiF	European Union Diaspora Facility
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIZ	German Society for International Cooperation
ID	Identification
MFI	Microfinance Institution
MSMEs	Micro, Small and Medium Enterprises
NBE	National bank of Ethiopia
ROI	Return-on-investment
UAE	United Arab Emirates
UK	United Kingdom
UNDESA	United Nations Department of Economic and Social Affairs
USA	United States of America
USD	United States Dollar

INTRODUCTION

According to UNDESA (2020), there are formally over 870,000 Ethiopians in the diaspora, who formally remitted approximately USD 2.5 billion in 2020. However, it is unclear what percentage of these remittances are utilised for investments towards MSMEs.

This research was undertaken with the objective of deepening Pangea Trust's knowledge of the Ethiopian diaspora as well as their remittances and investment behaviours and attitudes. Specifically, this project aims to provide a better understanding of how different segments of the diaspora remit and invest, their attitudes towards these transactions, their appetite for risk and, most importantly, what it would take to convince them to increase the percentage of remittances set aside for investments.

The specific objectives of the study are:

- Understand the current remittance practices by Ethiopians in the diaspora, including demographics and investor profiles
- Highlight the segments, including Islamic communities, and factors driving remittance flows and the motivations for people to invest
- Analyse remittance volumes and channels to Ethiopia and the uses of remittances, specifically looking at the percentage of remittances allocated to invest in MSMEs
- Examining who and what drive remittance decisions and establishing how Ethiopians in the diaspora can be encouraged to contribute a greater percentage of their remittances towards investments
- Provide insights for the development sector on how the diaspora can play a larger role in supporting MSMEs in Ethiopia

Primary research was carried out in the form of stakeholder interviews with public and private organizations in Ethiopia, as well as diaspora community leaders in the U.S. and Canada. All interviews were held over teleconferencing calls. A survey was also disseminated among diaspora communities across the US, Canada and Europe. These countries were focused because of the diaspora profiles in those regions, compared to diaspora members in regions such as the Middle East and Eastern and

Southern Africa.

This report, broken down into three chapters and concluding with recommendations, is the result of that primary research, desk-based research and expert analysis of findings. Chapter one introduces the Ethiopian diaspora and MSMEs in Ethiopia, providing a diaspora profile, an analysis of Ethiopia's remittance numbers and concluding with the landscape and challenges faced by MSMEs in Ethiopia. Chapter two looks at investment opportunities and barriers to investing for Ethiopians in the diaspora. The chapter opens with highlighting popular methods of finance mobilization amongst the Ethiopian diaspora, then analyses existing investment structures in Ethiopia, provides a landscaping of Ethiopia's Islamic finance offerings, before finally diving into the barriers to investing in Ethiopia, particularly for the diaspora. Chapter three focuses on the survey findings but also puts those findings in conversation with the stakeholder insights during the primary interviews. The chapter begins by discussing the online survey methodology and an overview of the demographics of participants, and then dives into remittances practices including their uses and channels, then analyses attitudes and obstacles to investing, summarises participant feedback on Islamic finance including their attitudes and practices, before finally looking at current investment practices, wants and opportunities for change. Finally, chapter Four provides robust recommendations that take into consideration the opportunities and realities in Ethiopia and the diaspora. The recommendations are categorized, prioritized and given a difficulty level. The also include background information that provides insight into why the recommendation is needed and some activities to carry out in order to accomplish each recommendation.

During the research process, conflicts broke out in Ethiopia that greatly overshadowed all other efforts and increased the difficulty of completing the project as many government ministries especially were pre-occupied. This report was produced assuming that the conflicts would be resolved, and things would go back to normal. While it would be difficult to launch any new programs in Ethiopia now, particularly targeted at the diaspora who are understandably more concerned about the political situation, it would be a good opportunity to lay the groundwork for future

EXECUTIVE SUMMARY

According to UNDESA (2020), there are formally over 870,000 Ethiopians in the diaspora, who formally remitted approximately USD 2.5 billion in 2020. However, it is unclear what percentage of these remittances are utilised for investments towards MSMEs. This research was undertaken with the objective of deepening Pangea Trust's knowledge of the Ethiopian diaspora as well as their remittances and investment behaviours and attitudes. Primary research was carried out in the form of stakeholder interviews with public and private organizations in Ethiopia, as well as diaspora community leaders in the USA and Canada. An online survey was also disseminated to Ethiopian diaspora communities. This report, broken down into three chapters and concluding with recommendations, is the result of that primary research, desk-based research and expert analysis of findings. During the research process, conflicts broke out in Ethiopia that greatly overshadowed all other efforts and increased the difficulty of completing the project as many government ministries especially were pre-occupied.

01

INTRODUCTION TO ETHIOPIAN DIASPORA AND MSMEs IN ETHIOPIA

In 2019, there were an estimated 871,747 Ethiopians¹ living in the diaspora sending home approximately USD 531 million in remittances, according to the World Bank; however according to the National Bank of Ethiopia the diaspora sent home USD 2.5 billion in 2020. Ethiopia's migrant stock data reveals that the USA, Saudi Arabia, Israel, Sudan, Canada and Kenya make up the top six destinations for Ethiopian emigrants. The Ethiopian diaspora is diverse and unique with people emigrating for various reasons and at different times, although some patterns can be viewed particularly in the two largest destination countries: United States and Saudi Arabia. There are some differences in how Ethiopians in the diaspora organize themselves abroad compared to other African diaspora communities. The Ethiopian diaspora is hard to reach out to in Europe in part because of the varying divisions between Ethiopian groups.

If looking at World Bank numbers, Ethiopia ranks 10th in remittance receivers in Sub-Saharan Africa², but using the NBE's 2020 numbers, Ethiopia is actually the 5th largest receiver, after Senegal, Kenya, Ghana and Nigeria. According to National Bank of Ethiopia 2020 data, USA, UAE, Djibouti, Saudi Arabia and the UK are the top 5 remittance sending countries to Ethiopia, together sending almost USD 1.08 billion, 43 percent of the total amount received. Whether formal or informal, estimated by the World Bank or reported by NBE, remittances are a key part of the Ethiopian economy.

However, while the reported flows into Ethiopia are impressive, it is well known that informal remittances are particularly prevalent. Informal remittances often work through ledger balancing systems in which the money never physically

leaves the send country. While this method may be cheaper and sometimes faster for customers, it's not always safe as there are no repercussions if the informal operator disappears with the customers' money, although this is rare. Large fluctuations in the Birr and the huge informal market are hallmarks of Ethiopia's remittance market and can make it hard to encourage formal channels.

MSMEs³ in Ethiopia face a variety of challenges in the Ethiopian landscape, the most frustrating of which can be accessing finance. There are also cultural and economic reasons that make it hard for local MSMEs to access finance despite the plethora of opportunities available to do so. Unfortunately, knowing where to get the money does not guarantee that an MSME business owner can access loans and credit. In addition to lack of access to finance, MSMEs also face difficulties in access to the market, ease of doing business, the market not being ready for their products or services, and access to information.

MSMEs often do not just need access to finance, but also need support and training around business management and other processes to ensure their business is a success. There are several donor organisations and government agencies involved in supporting MSMEs through grants, training, and even incubators/innovation hub type of programs but hardly any channelling of diaspora investments. WIDU, run by GIZ, has a match-funding scheme for small businesses that they recently kicked off in Ethiopia, but the diaspora "investor" and the MSME owner typically know each other. There is also an Entrepreneurship Fund managed by Enkopa that aims to fundraise seed and Series A funding for start-ups in Ethiopia.

¹UNDESA (2019). International migrant stock by destination and origin.

²World Bank (2021b). Inflows: Annual Remittances Data (updated as of May 2021).

³Please view Annex 4 for detailed information about MSMEs in Ethiopia, their definitions, source of financing, sectors, success rates and more.

02

INVESTMENT OPPORTUNITIES AND BARRIERS FOR ETHIOPIAN IN THE DIASPORA

Fundraising and giving money to Ethiopia is not foreign to diaspora members who are often active in developing their country of origin.

Most opportunities for diaspora investing in Ethiopia reflect and cater to the current interests in the market, namely buying real estate and starting a business. The Ethiopian government and Ethiopian organizations, most especially banks, are genuinely interested in foreign investments, including those of the diaspora. Unlike some other countries of its size however, such as Nigeria and Kenya, Ethiopia does not have a stock market, making buying shares in companies a bit more complicated and something the investor would have to do directly with the business in question. For example, the Ethiopian Investment Commission does most of its work around helping foreigners, diaspora members and even local investors, understand the laws and regulations around starting and operating a business in Ethiopia.

Accessing and investing in shares in a local Ethiopian company is not as straight forward as it would be in other countries, however it does happen. Additionally, not all banks offer portfolio investment products, showing that this type of investment is not yet the norm in Ethiopia, let alone in the diaspora. There are some projects and products in the works to make investing in Ethiopia easier, but also to make it easier for MSMEs and start-ups to access funding. Ethiopia has a small angel investors network of about eight to nine mostly diaspora members that has been running for about seven to eight years and have been able to pool together money for early-stage start-ups in Kenya and Ethiopia.

Islamic finance is known as interest-free banking in Ethiopia and while it is growing, it is not yet pervasive. The National Bank of Ethiopia issued a directive in June 2019 allowing for full-

fledged interest-free banking and many financial institutions have been offering these services since then with even more institutions applying for licenses to offer such products. ZamZam Bank has been attempting to launch operations since 2008 when the proclamation for interest-free banking was first announced⁴, which is why they are often considered a first mover in this space. Hijra Bank is the only other bank in Ethiopia that is fully sharia-complaint meaning they only offer Islamic finance products. Somali Microfinance Institution, a full-fledged Islamic MFI, is a well-known institution in Ethiopia and while they mostly operate in the Somali region, they also have branches around the country. Rays Microfinance Institution, established in 2014, is a full-fledged Islamic MFI offering a range of products and services with the help of technology and strategic partnerships. Besides the offerings of banks and MFIs specifically, individuals investing in MSMEs in Ethiopia is not a prominent topic, particularly using Islamic finance products which are relatively new.

The Ethiopian investment landscape is full of opportunities, but several barriers exist that need to be addressed to improve the diaspora's ability to invest in the country. Some promising developments have been occurring in Ethiopia's financial sector that have opened it up to diaspora investors, but some major regulatory hurdles, specifically around foreign exchange, remain. Many of Ethiopia's parallel market and informal remittances issues stem from the tight controls the government imposes on their currency. The Ethiopian government also has tight controls on what is allowed to be imported and exported to and from Ethiopia. The regulatory barriers to investing in Ethiopia also extend to how one is identified as a diaspora member by the government which does not recognize dual citizenship.

⁴ZamZam Bank (2021). Website.

03

INVESTMENT ATTITUDES AND SURVEY FINDINGS

In addition to stakeholder interviews, an online survey was carried out and shared amongst Ethiopians in the diaspora. The demographics that completed the survey reflect the groups that some research has found to have a higher risk appetite; however, the research on the correlation between risk adversity and demographics can be conflicting or inconclusive. The regions of origin do not reflect Ethiopia's regional population where Oromia and Amhara are the largest in population, but respondents mostly hailed from Addis Ababa or Somali regions. There is no data available on emigration per region, so it is unclear what regions most of Ethiopia's diaspora come from and if this survey reflects those percentages.

Most Ethiopians in the diaspora consider their remittances as separate from investments. Most respondents sent money monthly, and predominantly sent between USD 100 to USD 499. Most respondents also sent money to their parents (27 percent), followed by their siblings (13 percent) and friends (13 percent). Food is the primary use of remittances to Ethiopia with almost 21 percent of respondents saying that remittances go towards feeding their families back in Ethiopia. Most respondents (49 percent) said that the person receiving the money decides what to spend it on and this was consistent across age groups. Respondents reported using a variety of channels to send money to Ethiopia, but the majority stated that they used online money transfer operators (24 percent). The vast majority of respondents (71 percent) said that they do have a diaspora account, but 4 percent did not know what it was.

'Investing' in Ethiopia does not necessarily look like the traditional definition of investing in

businesses or the stock market. Specifically, it does not look like the definition of investing that Pangea is working towards which is putting money towards a stranger's business in hopes of making returns (traditional investing) or sharing in the profits (Islamic investing).

Among Ethiopians in the diaspora who responded to the survey, there is a clear interest in investing, and many are already involved in some form of investing. Most participants felt that investing was an opportunity to build their financial assets (30 percent) or a good use of their money (26 percent). There were no major differences in the perception of investments between gender and age, but some patterns did emerge. Some interesting differences emerged between men and women in their responses to whether or not they invest in Ethiopia, but almost no notable differences in responses between age groups. The responses to the expectations of money invested in family and friends' businesses was quite different between survey respondents and stakeholder discussions. According to stakeholders in country, and diaspora members spoken to, investments towards family and friends' businesses are not seen as part of their regular remittances, although it has aims of eventually replacing it.

Of the respondents who already invest in or own a business in Ethiopia, most of them stated that over 30 percent of the money they send to Ethiopia is used on investments. Of the respondents who don't currently invest in or own a business in Ethiopia, most of them, 32 percent, said that they are simply not interested in investing. Either because of the lack of information or the history of investment practices, for now 'investing' for diaspora Ethiopians falls into three main

categories and investing in stranger's businesses is rare but growing.

Another factor that affects the diaspora's attitude towards investing is that the relationship between the government and the diaspora is not always consistent and there is mistrust for the international community. Ethiopians in the diaspora investing in the Ethiopian economy would likely sit better with both Ethiopians inside and outside the country, but it does affect the perception of those behind the investment platform. Generally, trust is a critical component of any financial program in Ethiopia and across the diaspora, regardless of who is behind the platform.

Ethiopia is 34 percent Muslim and the interest in Islamic investing is a growing topic, particularly since the government recently put in regulations that allows banks to offer Islamic finance products. However, the uptake, particularly when it comes to a specific interest in this type of investment is still slow. Of the 96 survey participants, 60 percent of them reached the questions on Islamic finance and most of them were open to or preferred this type of investment. Those respondents who would not mind investing using Islamic finance, had a slight preference for it, or would only consider that type of investment, were then asked a series of follow-up questions to understand the attitudes of those interested in Islamic finance. Promisingly, the interest in platforms providing Islamic investing opportunities was high, but the need for those platforms to be trustworthy was equally high.

Of the survey respondents, great interest has been shown in investing in MSMEs, and in fact, many respondents are already investing in them. Factors affecting respondents' decisions to invest varied greatly between those already investing and those just interested in investing. For both those interested in investing and those already investing, technology and real estate came

out as the top sectors where respondents wanted to or were investing in. Respondents were socially conscious of their investment practices along the lines of environmental, ethical labour practices and economic contributions to Ethiopia. Unsurprisingly, most women (71 percent) said they would be more enthusiastic about investing in women led business, whereas most men (42 percent) said this would not matter to them. Of those who already invest, most cited getting information (26 percent) about businesses and sectors to invest in as the biggest challenge to investing in Ethiopia. Of those that do invest, almost all (98 percent) said that their gender, religion or other factor did not bring any specific challenges to their ability to invest.

Those who do not yet invest were mostly interested in general education around investing, and a few wanted more detailed information on what to expect and several mentioned the importance of transparency in the business and platform they were investing in. Those who already invest were also interested in gaining more general education but around the Ethiopian market, detailed information on the businesses and Ethiopian investment regulations, as well as having a sense of transparency and ease of use for the investment platform and businesses.

Besides supporting family, real estate is the other popular form of investing for Ethiopians in the diaspora. Starting your own business in Ethiopia as a diaspora member is still growing, but it is more common than investing in a stranger's business. The exception to this is charitable and patriotic donations, and many stakeholders expressed that Ethiopians in the diaspora are more interested in helping than making money. In addition to some mindset shifting that is needed, there are also huge information gaps and structural barriers to overcome.

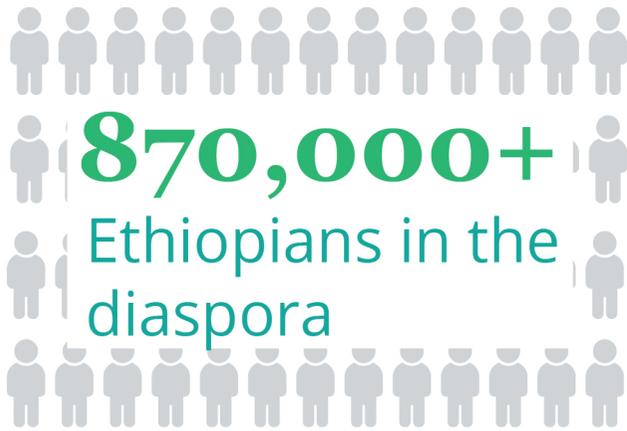
04

RECOMMEN- DATIONS

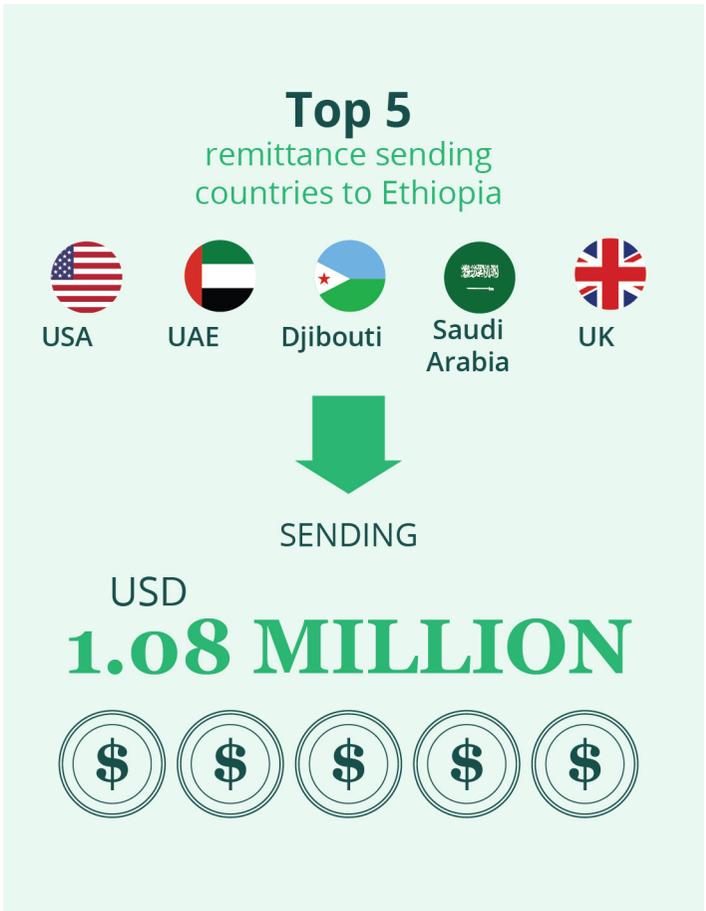
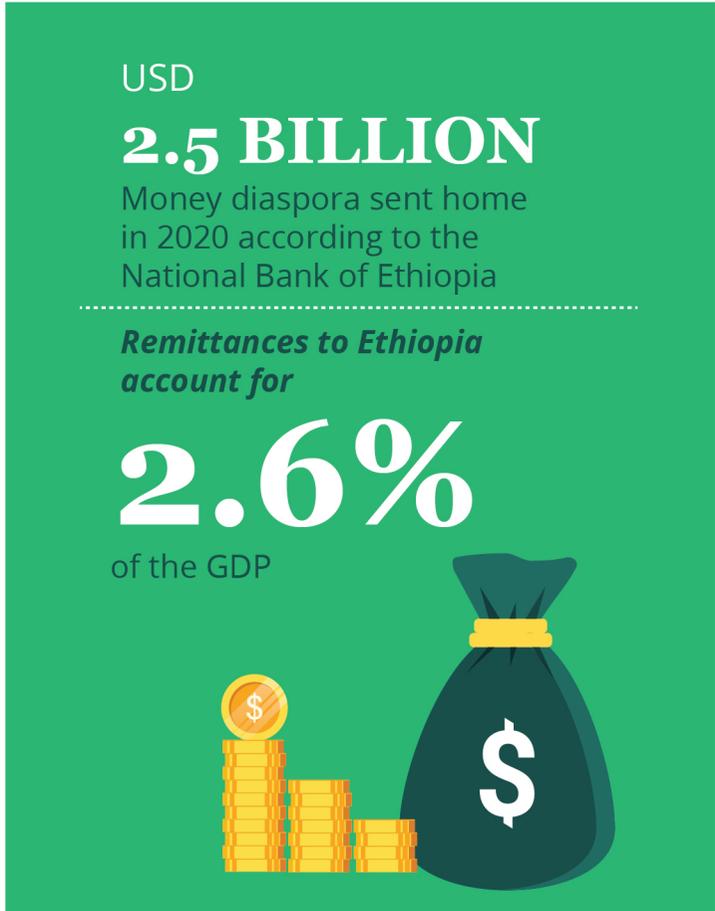
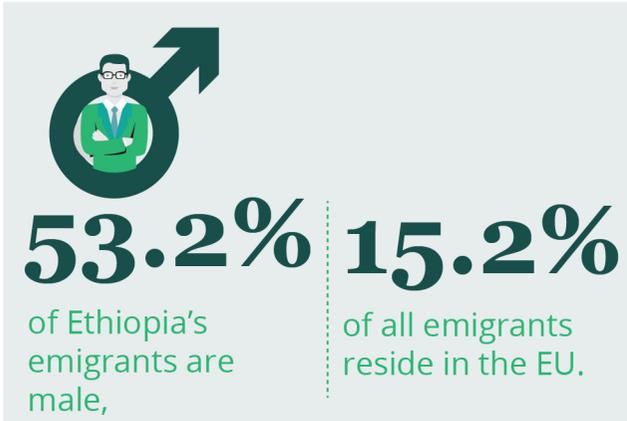
1. Integrate customer segmentation into all aspects of the product development and marketing process.	Marketing	Priority - High	Difficulty - Medium
2. Ensure investment products appeal to the diaspora's interest in creating impact and develop marketing strategies to promote and discuss the development impacts possible through investment	Marketing	Priority - High	Difficulty - Low
3. Provide advocacy and support around improving Ethiopia's regulatory environment to improve ease of investing	Regulation	Priority - Medium	Difficulty - High
4. Develop and properly communicate appropriate measures for paying diaspora investors their dividends and explain the merits of investing through third-party platforms.	Trust/ Regulation	Priority - High	Difficulty - Medium
5. Promote a transparent business strategy and highlight the people behind the platform to ensure its trustworthiness	Trust	Priority - High	Difficulty - Low
6. Ensure the shari'a-compliance of Islamic investment products and engage those already in the space to develop partnerships and synergies	Trust	Priority - High	Difficulty - Medium
7. Utilize suitable accelerator/incubators such as Pangea Trust and other business development initiatives to ensure the success of businesses featured on the investment platform	Literacy / Trust	Priority - Medium	Difficulty - Medium
8. Develop a range of educational tools and resources for the different types of investors to ensure the platform offers more than just investment products but also builds investor confidence.	Literacy	Priority - High	Difficulty - Medium
9. Re-orient language around 'channelling' remittances for investments and instead promote the use of savings and extra funds towards investing through third-party platforms and develop educational activities that promote the desired behavioural change.	Literacy	Priority - Medium	Difficulty - Low

01

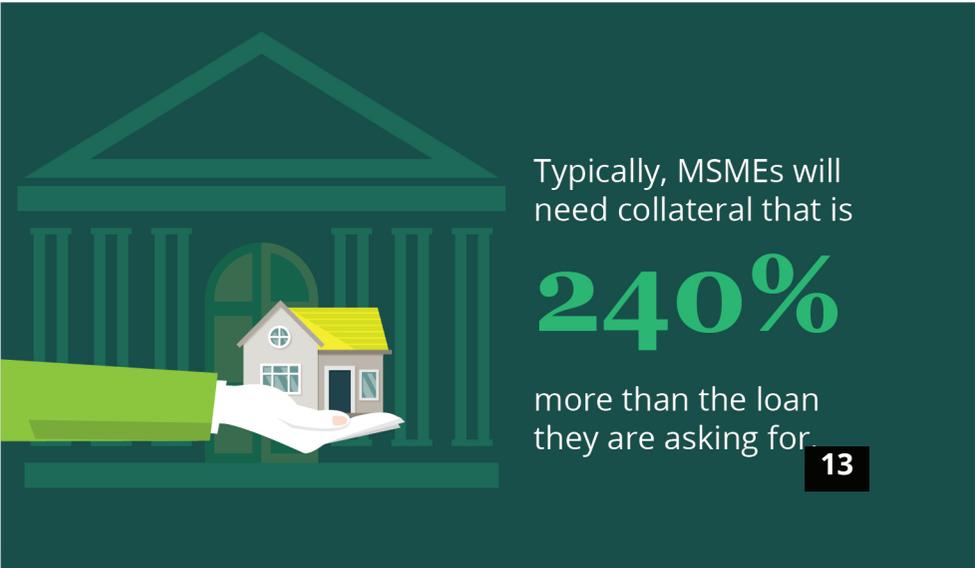
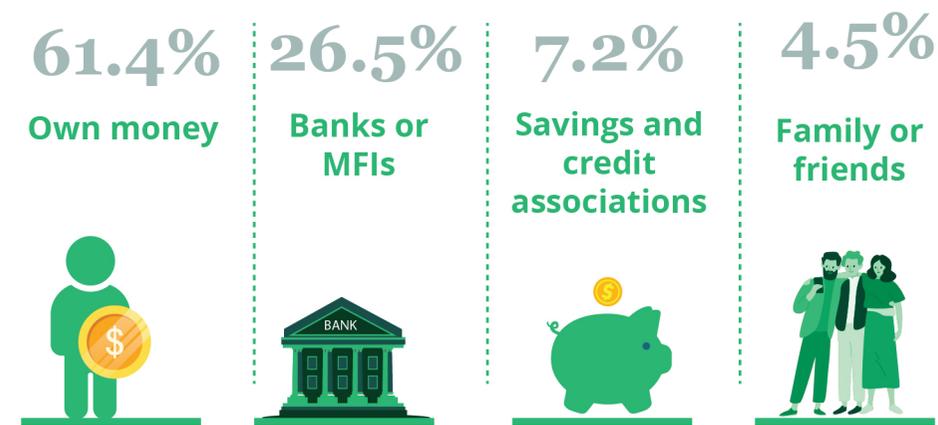
INTRODUCTION TO ETHIOPIAN DIASPORA AND MSMES IN ETHIOPIA



UNDESA (2020)



MSMES FUNDING



1.1 Diaspora Profile

In 2019, there were an estimated 871,747 Ethiopians⁵ living in the diaspora sending home approximately USD 531 million^{6,7} in remittances; however according to the National Bank of Ethiopia the diaspora sent home USD 2.5 billion in 2020. This NBE number only includes SWIFT Transfers, MTO agents and other formal channels, and Ethiopia's global diaspora is estimated to be over two million⁸ to five million⁹ strong, so it is likely that remittance transfers are even higher than this when looking at informal channels.

Ethiopia's migrant stock data reveals that the US, Saudi Arabia, Israel, Sudan, Canada and Kenya make up the top six destinations for Ethiopian emigrants. However, these locations do not reflect the locations of the top remittance sending countries, indicating socio-economic differences in the types of emigrants to each of those countries, the type of employment they find when there, and the remittances channels used. The European Union Global Diaspora Facility (EUDiF) estimates that 53.2 percent of Ethiopia's emigrants are male, and that 15.2 percent of all emigrants reside in the EU.¹⁰

The Ethiopian diaspora is diverse and unique with people emigrating for various reasons and at different times, although some patterns can be viewed particularly in the two largest destination countries: United States and Saudi Arabia. There is a considerable number of undocumented and informal Ethiopian migrants in South Africa and the Middle East. Over the last two decades, labour migration to the Middle East has dramatically increased despite Saudi Arabia's campaigns against irregular migration in 2017¹¹ and the government of Ethiopia's attempts to ban migration there between 2013 and 2018 due to the reports of exploitation and abuse¹². Ethiopia's emigrants have also gone to other countries as refugees, students and professionals. The profile in the U.S. specifically is considered to be a mix of diversity visas, family reunifications and refugees. A 2014 Migration Policy Institute report states that "Ethiopia-born immigrants constitute the United States' second-largest Africa immigrant group after Nigeria."¹³ While Ethiopian diaspora households in the US had similar levels of educational

attainment to the U.S. population, they generally had a lower household income. The diaspora have established numerous, well-funded diaspora organizations including a national Ethiopian Students Association. Many of these associations focus on the development of Ethiopia, social services and integration assistance for newly arrived Ethiopians, as well as welfare services provided by religious communities.

There are some differences in how Ethiopians in the diaspora organize themselves abroad compared to other African diaspora communities.

The process of getting the word out about the WIDU¹⁴ program to Ethiopians in the diaspora has been much slower compared to the other countries where WIDU has launched such as Ghana, Cameroon and Kenya. From speaking to stakeholders, it seems the Ethiopian diaspora has more of a hesitation to engage with international organizations, are less well connected to each other in Europe, and are more inclined towards political mobilization in lieu of investment mobilization. This is in contrast to the Cameroonian diaspora who often meet to discuss business and thus news about WIDU spread quickly throughout the community and was soon oversubscribed. WIDU has had to change their approach when reaching out to Ethiopians in the diaspora by instead going to restaurants, successful African shops owned by Ethiopians and liaising with Ethiopian airlines.

The Ethiopian diaspora is hard to reach out to in Europe in part because of the varying divisions between Ethiopian groups. Like any other African diaspora, Ethiopians are not a monolith and have emigrated for various reasons and at different stages and times. Instead of attempting to speak to the diaspora as one large group, it is more prudent to try and target different segments of the population in varying ways: from students and professionals to refugees and 3rd generation Ethiopians, and even being considerate of the varying religions and ethnic groups present in the diaspora. Ethnic and regional tensions can also contribute to lack of trust between diaspora groups, making it even more essential to target communities in different segments of the populations.

⁵UNDESA (2019). International migrant stock by destination and origin.

⁶World Bank (2021b). Inflows: Annual Remittances Data (updated as of May 2021).

⁷This number often varies significantly from the National Bank Ethiopia's official announcements; however, we have no confirmed number from NBE for 2019.

⁸BBC (2016). Why is the Ethiopian diaspora so influential?

⁹Quartz Africa (2019). Ethiopia's financial reforms hold promise for its diaspora business community.

¹⁰EuDiF (2020). Diaspora engagement mapping: Ethiopia.

¹¹IOM (2017). National Labour Migration Management Assessment: Ethiopia.

¹²ILO (2019). Policy Brief: Key findings and recommendations from survey on labour migration from Ethiopia to Gulf Cooperation Council states and Lebanon.

¹³Migration Policy Institute (2014). The Ethiopian Diaspora in the United States.

¹⁴WIDU is match funding program supported by GIZ. Discussed in more detail section 1.3

¹⁵EuDiF (2020). Diaspora engagement mapping: Ethiopia.

1.2 Remittance Numbers

If looking at World Bank numbers, Ethiopia ranks 10th in remittance receivers in Sub-Saharan Africa¹⁶, but using the NBE's 2020 numbers, Ethiopia is actually the 5th largest receiver, after Senegal, Kenya, Ghana and Nigeria. Historical data from the World Bank shows steady remittance inflows over the last 10 years, making remittances a consistent form of foreign exchange in the country. The primary reason for the discrepancy in the World Bank and NBE remittance volumes is their differing methodologies in arriving at that number. NBE's numbers are based on commercial banks reporting directly to the regulator; whereas, World Bank's numbers are based on estimations of migrant numbers and other statistical models.

According to National Bank of Ethiopia 2020 data, USA, UAE, Djibouti, Saudi Arabia and the UK are the top 5 remittance sending countries to Ethiopia, together sending almost USD 1.08 million, 43 percent of the total amount received. The World Bank's remittances inflows more closely match the migrant stock data with USA, Saudi Arabia, Israel, Sudan, Italy and Canada being the top six remittance send countries. However, this may be more of a reflection of World Bank's estimation models, than a reflection of Ethiopia's remittance inflow realities.

Whether formal or informal, estimated by the World Bank or reported by NBE, remittances are a key part of the Ethiopian economy. At USD 2.5 billion, remittances to Ethiopia account for 2.6 percent of the GDP, although other sources have it at 0.5 percent of GDP¹⁷ when using the World Bank remittance numbers. They are also an important part of contributing to Ethiopia foreign exchange reserves.

While the reported flows into Ethiopia are impressive, it is well known that informal remittances are particularly prevalent. Estimates range from 29 percent to 78 percent of all remittance inflows moving through informal channels.¹⁸ Informal remittances flows are transactions that occur outside of regulated systems. While many are often cash based, some can also flow through the banking system, but are not provided by licensed money transfer operators.

Informal remittances often work through ledger balancing systems in which the money never physically leaves the country. Because it is hard

to send money out Ethiopia through legal channels, the demand for informal channels is high. A business in Ethiopia might use an informal operator to send money to another business based in the UK to pay for services or goods. The money goes from one Birr account to another or is moved in cash. The informal operator would have a pound account or reach out to a business partner with a pound account to transfer from one pound account to another. Later, an Ethiopian migrant in the UK wanting to send money to Ethiopia would utilize the same service since they offer better rates than the formal sector. They would send money from their pound account to another or use cash. In Ethiopia, the same informal operator from earlier would then pay the migrant's family the amount agreed. In this way, informal operators are able to keep money flowing and meet the needs of customers both sending and receiving money.

While this method may be cheaper and sometimes faster for customers, it's not always safe as there are no repercussions if the informal operator disappears with the customers' money, although this is rare. These businesses are often based on trust and people use operators they know or have been recommended by friends and family. However, informal transfers are frustrating for the country's economy because it often means that foreign currency is not entering, and certainly not through proper channels. It also means the money cannot be tracked or properly recorded. The money could also be used for illicit purposes, which is not uncommon in cash-based businesses.

Large fluctuations in the Birr and the huge informal market are hallmarks of the remittance market and can make it hard to encourage formal channels. There was a time when sending formally was seen as patriotic because the informal market was thought to be run by the government trying to access foreign funds, however with the new government, this isn't seen as such an issue. Also, trying to send as much money to your family as possible, trumps any such political consideration. When sending USD 100, USD 200, you might try to be patriotic and send formally. But once you're trying to send USD 500 and other large amounts, you're trying to make sure as much of that money reaches your family as possible, so you use informal channels who offer much better exchange rates.

¹⁶World Bank (2021b). Inflows: Annual Remittances Data (updated as of May 2021).

¹⁷EuDiF (2020). Diaspora engagement mapping: Ethiopia.

¹⁸DMA Global (2021). RemitSCOPE Africa: Ethiopia Country Diagnostic.

1.3 Access to investment financing for MSMEs in Ethiopia

MSMEs¹⁹ in Ethiopia face a variety of challenges in the Ethiopian landscape, the most frustrating of which can be accessing finance. The banking system can be non-inclusive and by its nature, makes it hard for MSMEs to access loans and other forms of finance. This is because MSMEs are 1) paying in local currency and banks have more favourable deals for those paying in foreign currency and 2) typically have no collateral to put up when requesting loans, capital, etc. which makes it difficult for them to access finance. This often leave MSMEs feeling like the diaspora get preferential treatment at the banks compared to local MSMEs who cannot access finance or get loans approved. Loans also typically have high interest rates, even when going to micro-finance institutions that are meant to serve poorer or more rural communities. Additionally, there are long processes for accessing this finance that is a burden to most MSME owners. Many small businesses feel the best way to get access to finance is through informal savings groups.

There are also cultural and economic reasons that make it hard for local MSMEs to access finance despite the plethora of opportunities available to do so. Many business owners are scared to ask for a loan as credit is not socially accepted and loan orientated people are not culturally favoured. There is also an information asymmetry in which people do not necessarily know where to get money. In contrast, when the diaspora are attempting to open a business in Ethiopia, they know when and what to borrow, how to negotiate for the best terms and do not mind knocking on doors to do so. It is also assumed that diaspora members have more collateral and have the guarantee of working and living in a better monetized economy. They are used to working with banks, loans, credit, and other financial products.

Unfortunately, knowing where to get the money does not guarantee that an MSME business owner can access loans and credit. Often preference is given to men when approving loans, as they are seen as responsible for providing for the family and can be more aggressive and confident when

looking for resources. Promisingly, the Ethiopian community is becoming more open to the idea giving loans to women as well, and some banks, such an Enat Bank which is run and led by women, favour women. There are also rumours of corruption when it comes to trying to access loans and collateral in Ethiopia is known for being particularly high. Typically, MSMEs will need collateral that is 240 percent more than the loan they are asking for. Inflation has also been a huge issue. One stakeholder gave the example of how starting a small business a few years ago would probably take about one million Birr, but today it would take approximately five million Birr to start the same business. One financial stakeholder also mentioned that there is no national ID in Ethiopia, so the banks must do KYC manually which usually involves scoping out the services that the MSME claims to offer. Banks also consider MSMEs as riskier. MSMEs in Ethiopia primarily get funding through their own money (61.4 percent), banks or MFIs (26.5 percent), savings and credit associations (7.2 percent) and family or friends (4.5 percent); however, it is unclear if these friends are based in Ethiopia or abroad.²⁰

In addition to lack of access to finance, MSMEs also face difficulties in access to the market, ease of doing business, the market not being ready for their products or services, and access to information. The lack of access to the market in Ethiopia is caused by the decentralized marketplaces, lack of innovative marketing and sales strategies, a closed economy and hardly any B2B collaboration or market linkages. Unclear government regulations and high start-up expenses such as rent, and equipment contribute to the difficulties in doing business in Ethiopia for MSMEs. Often, innovative businesses are founded by academics and professionals, there is a lack of effective digital payment platforms and a lack of trust in technology, making it hard for the average person to launch a digitally savvy and innovative MSME. Finally, access to information hinders a lot of business owners as there is inefficient communication on regulatory changes and regions outside Addis are often uninformed of available opportunities.²¹

¹⁹Please view Annex 4 for detailed information about MSMEs in Ethiopia, their definitions, source of financing, sectors, success rates and more.

²⁰Ibid.

²¹MSME Challenges. Presentation by RnD Group. Provided to DMAG in October 2021

MSMEs often do not just need access to finance, but also need support and training around business management and other processes to ensure their business is a success. Some stakeholders mentioned that many MSMEs often do not even look for investments, partly because they do not know where to look, do not have time to go through that process or simply do not have time or know-how to do so. Most of the MSME grant programs seem to also come with educational benefits for the recipients, underscoring the importance of supporting MSMEs in Ethiopia with more than just money. For example, the Ethiopian Chamber of Commerce, in addition to their grant programs, also provides business development advisement services and a business incubation centre in partnership with GIZ that provides skills and training. Additionally, those who would be interested in investing in MSMEs often find that their business operations processes are opaque, or there might be legal issues with the business. This is difficult in an environment where trust is paramount.

There are several donor organisations and government agencies involved in supporting MSMEs through grants, training, and even incubators/innovation hub type of programs but hardly any channelling of investments. The Chamber of Commerce attempted a loan structure for MSMEs some years back but most struggled to generate profit and were unable to pay it back as they were first time business owners, and the scheme was scrapped.

WIDU, run by GIZ, has a match-funding scheme for small businesses that they recently kicked off in Ethiopia, but the diaspora 'investor' and

the MSME owner typically know each other. Through WIDU, diaspora members, primarily in Germany can give money towards a relative or friend's business and then that money is matched by GIZ. There is no expectation of return on the part of the investor, and the business owner is typically someone they were already supporting and would have supported anyway. WIDU's program also includes consultants and trainers who follow the progress of the grant recipients to ensure the money is being used effectively. These consultants do site visits and train the recipients in finance, entrepreneurship and business management.

There is an Entrepreneurship Fund managed by Enkopa that aims to fundraise seed and Series A funding for start-ups in Ethiopia. Enkopa is an Ethiopian based organisation whose aim is to celebrate and promote Ethiopia Entrepreneurship stories and encourage the development of a thriving entrepreneurship ecosystem in the country and across the continent. They also provides training, accelerator and other support for entrepreneurs in their program. Enkopa's Entrepreneurship Fund plans to use a grant facility as a de-risking mechanism as the risk profile in Africa is often over estimated. The fund also benefits from a partnership with UNDP and the Ethiopian Jobs Creation Commission, where people can access grants of USD 5,000 and are enrolled into an incubation program. Enkopa is also working on a Start-up Act for the Ethiopian ecosystem that is currently being reviewed by the national assembly but a new administration and cabinet in government caused delays.

02

INVESTMENT OPPORTUNITIES & BARRIERS FOR ETHIOPIANS IN THE DIASPORA

2.1 Popular methods of finance mobilisation amongst Ethiopians in the diaspora

Fundraising and giving money to Ethiopia is not foreign to diaspora members who are often active in developing their country of origin. There have been several successful diaspora resource mobilization efforts across the diaspora from private, public and personal groups. Some of the more well-known sources are highlighted below.

Table 1: Popular methods of finance mobilisation for Ethiopians in the diaspora

Name	Type of Finance	Description	Who runs it
Ethiopian Diaspora Trust Fund	Donation	EDTF has raised over USD 8.5 million and has given USD 3 million of that to various charitable projects including medical relief and early childhood care and education for orphans. EDTF has 48 chapters and has attracted over 26,000 donors from 93 countries. ²²	Volunteer organization working closely with the government
Grand Ethiopian Renaissance Dam	Bonds	A government issued and guaranteed bond meant to finance the Dam that the government intends to build on Abay River. There are interest bearing and non-interest-bearing bonds available and the bonds can only be sold to Ethiopian nationals and foreign national of Ethiopian origin. ²³	Development Bank of Ethiopia
Buying shares in a bank or MFI	Portfolio Investment	Recently opened to the diaspora, investing in financial companies has been a common practice in Ethiopia for a while with one bank having over 11,500 shareholders.	The specific bank or MFI
Owning a business	Investment	Many Ethiopians in the diaspora choose to start businesses that they check in on personally when they move back or if they are bi-coastal. Or they entrust the business to a friend, relative or partner to run on their behalf.	Individuals or partners
Building/buying a house	Investment	These can be used for the diaspora to retire in later or for the family to live in or as a property to rent out where the diaspora member or their family will earn a profit from it	Individuals
Remittances	Gift/Obligation	See Chapter 3, Section 3.2	Individuals
Donation Platforms	Donation	Various apps and platforms exist that look to raise funds from the Ethiopian diaspora to support various causes at home.	Independent charities, organizations or groups
Paying for people's education	Donation	Paying for someone education or donating to groups that fund educational opportunities for young Ethiopians came up often as a way to "invest" in the country.	Individuals and groups

²²EDTF (2021). Website.

²³Development Bank of Ethiopia (2021). Bond.

2.2 Existing 'investment' structures in Ethiopia

Most opportunities for diaspora investing in Ethiopia reflect and cater to the current interests in the market, namely buying real estate and starting a business. The traditional definition of investing, in which someone buys shares in a stranger's business and hopes for a return or shared profits, is still relatively new in Ethiopia but there are some examples of it beginning to happen, especially in the financial sector.

The Ethiopian government and Ethiopian organizations, most especially banks, are genuinely interested in foreign investments, including those of the diaspora. Recent regulations have made it easier to save in foreign currency in the country and the percentages that must be converted to Birr have been eased. Certain sectors have also been recently opened to diaspora investors, such as the financial sector. Diaspora members can now open or own shares in banks and MFIs, whereas foreigners cannot. An up-and-coming bank, known as Ye Diaspora Bank, entirely owned by diaspora members, is currently under formation in Ethiopia. Almost every bank offers diaspora accounts, and many banks help diaspora members in buying house or with investment financing in establishing new factories or businesses.

Unlike some other countries of its size, such as Nigeria and Kenya, Ethiopia does not have a stock market, making buying shares in companies a bit more complicated and something the investor would have to do directly with the business in question. A stock market was planned for opening in 2020 but has been delayed due to Covid-19. There has not been much news about the possible stock market in 2021, reflecting the government's other priorities. However, even the establishment of a capital market would likely see the entrance of large companies first, before MSMEs would be able to access it.

The Ethiopian Investment Commission does most of its work around helping foreigners, diaspora members and even local investors, understand the laws and regulations around starting and operating a business in Ethiopia. The Commission does quite a bit of investment promotion by letting potential investors know about the various incentives and tax benefits available, particularly to diaspora investors. They work closely

with the Ethiopian Diaspora Agency to do this. The Investment Commission does do some investor-business matching, but this is not their core function and happens on an ad hoc basis as businesses express interest in helping to find diaspora/foreign investors, or investors who express they are looking for businesses to invest in. Some of this information is available on their website, but it is unclear how often it is updated. Further, each region has its own investment commission so some of the commission's work is redirecting investors to their specific region or interest or origin.

This means that accessing and investing in shares in a local company is not as straight forward as it would be in other countries, however it does happen. For example, Hijra Bank, currently under formation, has 11,500 shareholders. ZamZam Bank, a recently launched Islamic bank, has businesses that it provides capital to, and bank customers can request to invest in a portfolio that would consist of a mix (based on the customer's preferences) of the businesses ZamZam invests in. ZamZam has yet to go to the diaspora but plans to do so soon. Unfortunately, due to a lack of a capitals market, knowing when shares are available for sale in a certain company depends on your network and who you know.

Not all banks offer portfolio investment products, showing that this type of investment is not yet the norm in Ethiopia, let alone in the diaspora. A bank like the Coop Bank of Oromia does not offer portfolio investment products, but they do offer mortgages, co-financing and loans to diaspora members. This reflects the types of investments that are easier to access and that come top of mind when talking about 'investing' with Ethiopians in the diaspora.

There are some projects and products in the works to make investing in Ethiopia easier, but also to make it easier for MSMEs and start-ups to access funding. Some of these projects are ad-hoc and meet to pool their money and invest together, like the angel investors network discussed below. Business partners also find work arounds in which part of the business will be registered in Ethiopia and another part will be registered abroad. Others are more established and have launched across East Africa, like Renew,

an impact investment firm based in Ethiopia. According to stakeholders, impact investment would be particularly popular to Ethiopians in the diaspora as they are already inclined towards donating and making a positive change. Enkopa's Entrepreneurship Fund and Start Act discussed in section 1.3 are also great examples of trying to improve the sector for MSMEs and investors. They recently held The Diaspora Tech Homecoming Event, where investors and start-ups had a chance to network.

Ethiopia has a small angel investors network of about eight to nine mostly diaspora members that has been running for about seven to eight years and have been able to pool together money to for early-stage start-ups in Kenya and Ethiopia. The network brings together investors, most of whom are former diaspora members, who want to have a high impact and give back to Ethiopia. The start-ups they invest in are usually high risk and most are likely to fail; however, some have exceeded expectations and brought 100-to-200-fold returns. Many of these start-ups are looking for about USD 50,000 in seed funding but some can be as low as USD 5,000 or as high as USD 100,000. By pooling their resources, the investors are able to achieve a higher investment level in the company. In addition to seed funding, the network also provides these start-ups with advice and risk minimization.



Ethiopia has a small angel investors network of about eight to nine mostly diaspora members that has been running for about seven to eight years and have been able to pool together money for early-stage start-ups in Kenya and Ethiopia.

2.3 Islamic finance

Islamic finance is known as interest-free banking in Ethiopia and while it is growing, it is not yet pervasive. Ethiopia has a long history with Islam and 34 percent of the country identifies as Muslim, with that percentage varying greatly by region. “Ethiopia has the first Hijra in Islamic history and the oldest Muslim settlement on the continent.”²⁴ In the formal financial system, the regulations for interest-free banking are still new and thus the space is still growing but not the norm. However, it is likely that institutions, both formal and informal, were attempting to be sharia-compliant even before the directive was in place.

The National Bank of Ethiopia issued a directive in June 2019 allowing for full-fledged interest-free banking and many financial institutions have been offering these services since then and even more institutions applying for licenses to offer such products. For example, Zam Zam Bank

has been in the works for almost a decade, but there was no regulation around the type of banking they wanted to do. Because this regulation now exists, they have been able to officially launch and plan to expand their business offerings to Ethiopians in the diaspora soon. Almost all major commercial banks and microfinance institutions now have an Islamic finance window and offer several interest-free banking products. The directive, developed from an 11-year-old proclamation²⁵, came after years of lobbying from different organizations and consumer demand for such products due to the growing Muslim population in Ethiopia. The NBE currently has about 34 applications for MFIs, about three of them are focused on offering interest-free services. Currently, there are two fully fledged Islamic banks: ZamZam and Hijra, and two fully fledged Islamic MFIs. This means that all their products and business practices are sharia-compliant.

Table 2. Full-fledged Islamic Banks and MFIs in Ethiopia

Name	Established	Investment Products offered	Diaspora Products offered	Other products
ZamZam Bank	September 2020	Bai’ Salam Istisna’ Musharakah Murabaha	Planning to begin marketing to the diaspora	Also offer a variety of loan products, and saving and current accounts, including savings account specifically for women and foreign currency accounts.
Hijra Bank	September 2020 ²⁶	Murabaha Mudarabah & Musharekah Wakallah Istisna and Salam financing	Unspecified	Also have Riba-free deposit accounts, and special savings and current accounts
Somali Microfinance	January 2011	Unnamed but credit and loans are available.	Unspecified	Offer mobile and agent banking services through HelloCash
Rays Microfinance	June 2014	Murabaha Salam Ijara	Diaspora accounts through Awash bank	Own an in-house software where customers can process mobile money payments, buy goods, pay bills, etc.

²⁴SidmartinBio (2019). What percentage of Ethiopian population is Muslim?

²⁵Addis Fortune (2019). Central Bank Relaxes Interest-free Banking Rules.

²⁶International Business Magazine (2021). Hijra Bank Ethiopia drives on iMAL Islamic core banking platform.

ZamZam Bank has been attempting to launch operations since 2008 when the proclamation for interest-free banking was first announced²⁷, which is why they are often considered a first mover in this space.

ZamZam was one of the organizations working hard to lobby to government to allow for the operation of full-fledged Islamic institutions and they didn't want to open before that as those were the only types of products they wanted to offer. They have an all-sharia advisory council which includes five Islamic scholars. ZamZam has also acquired a certificate of sharia-compliance and ensure all their products follow suit. Due to how long they have been under formation and all the other precautions they have taken to be sharia-compliant; they have no issues of trust with their customers. They are still working on opening diaspora accounts but wanted to establish themselves in Ethiopia before starting to market to the diaspora, but this is part of their short-term plans. Based on their research of what diaspora members are looking for from Ethiopian banks, they also plan to offer diaspora mortgages, power of attorney to build houses on their behalf, and offering credit for their businesses.

Hijra Bank was able to launch quickly due to their partnership with Path Solutions, the only AAOIFI-certified financial technology firm. Path Solutions is known as a "robust, innovative interest-free banking software," and are present across Africa.²⁸

Somali Microfinance Institution is a well-known MFI in Ethiopia and while they mostly operate in the Somali region, they also have branches around the country. They cater specifically to "low income, productive poor people in the Somali region through increased microfinance products and services to the Informal and Micro, Small & Medium Scale Enterprises (MSME's) in the urban and rural areas."²⁹ They have disbursed over ETB 650 million, USD 13.1 million, to over 30,000 clients, 81 percent of whom are poor women³⁰ According to their website they have an outstanding loan balance of ETB 1.8 billion, USD 36.2 million, distributed to over 41,000 clients, 65 percent of whom are women.

RAYS Microfinance Institution, established in 2014, is a full-fledged Islamic MFI offering a range of products and services with the help of technology and strategic partnerships.

They initially were not able to open in the Somali region due to SMFI's monopoly in the area but have since been able to resume operations there. Operations include 37 branches and sub-branches and over 400 staff. They have a partnership with Awash bank where their customers can cash in/out at Awash's over 166 locations across the country. RAYS has an in-house software that allows customers to make mobile payments, buy good and pay bills. They also offer their Islamic finance products through the platform. Some of these products are charity cases but mostly people subscribe to their Murabaha investment product which currently has ETB 100 million, USD 2 million. Since opening, they have had zero issues with fraud which is quite unusual for financial institution. RAYS does not deal often with Ethiopians in the diaspora, but they do receive donations from them and have also helped diaspora members open diaspora accounts at Awash Bank. They also have a three-way partnership between Awash, Dahabshiil and RAYS to process diaspora remittances through their platform.

Besides the offerings of banks and MFIs specifically, individuals investing in MSMEs in Ethiopia is not a prominent topic, particularly using Islamic finance products which are relatively new. Many MSMEs barely have enough capacity to get their operations off the ground, let alone have time to look for and attract investors. This means that Islamic financing of MSMEs does not really come up, although it might happen informally through Equbs, informal savings groups. Likely, some MSMEs might be taking advantage of hybrid financing structures because MSMEs were in existence before Islamic finance regulation came around. Now specific parts of their business might be financed through Islamic finance while other parts continue operating as usual.

²⁸ International Business Magazine (2021). Hijra Bank Ethiopia drives on iMAL Islamic core banking platform.

²⁹ Somali Microfinance Institution (2021). Website.

³⁰ Ibid.

2.4 Barriers to Investing in Ethiopia

The Ethiopian investment landscape is full of opportunities, but several barriers exist that need to be addressed to improve the diaspora's ability to invest in the country. Many stakeholders point to the need for policy changes that would improve access to the market for investors and ease of doing business in the country. Some stakeholders also pointed to the need for a capital market which the government has announced they are working on but seems to have been stalled since Covid-19 issues. Due to the cumbersome nature of doing business in the country, small activities can end up being a lot of work, for both business owners and those interested in investing in them. However, there is also a need for a mindset shift among investors, both in country and in the diaspora. There needs to be more comfort around loss and a willingness to be okay with high-risk investments.

Some promising developments have been occurring in Ethiopia's financial sector that have opened it up to diaspora investors, but some major regulatory hurdles, specifically around foreign exchange, remain.

Prior to August 2019³¹, Ethiopians in the diaspora could not own equity in financial institutions but are now able to do so and there is even a fully diaspora bank opening soon called Ye Diaspora Bank. However, there is a lot of difficulty when it comes to cashing out or getting one's money back from investments, particularly if the investor wants it in dollar or another foreign currency. This makes it cumbersome to take back to their country if they are not based in Ethiopia. A further issue is accessing foreign currency in Ethiopia to import materials for factories or other businesses. Stakeholders shared stories of diaspora and local businesses that have had to close down, simply because they could not access the foreign currency needed to conduct their business.

Many of Ethiopia's parallel market and informal remittances issues stem from the tight controls the government imposes on their currency.

Money can flow in, but it's very hard for it to flow out. This means informal remittance organizations can offer inflow/outflow services at much more favourable rates than official channels can. This is discouraging for investors who worry about how to access their dividends and makes it hard for business owners who want to import/export through proper channels. To be clear, it is possible to repatriate investment earnings, but one must be officially registered as an investor and the process can be cumbersome, confusing and full of paperwork.

The Ethiopian government also has tight controls on what is allowed to be imported and exported to and from Ethiopia.

This is primarily to protect local industries, encourage manufacturing and ensure foreign currency flows into the country through international trade. Because of these laws, some banks have said that Ethiopians with diaspora accounts use them primarily for personal or business import/export purposes rather than remittances or investing in other people's businesses.

To get around this, Ethiopia developed the Yellow Card – an identification card that can be bought by diaspora members who can prove they are of Ethiopian origin. Government documentation often refers to yellow card holders as “foreign nationals of Ethiopian origin.” In order to access any diaspora services and be treated as a diaspora member of Ethiopia, the person either has to still have their Ethiopian passport (which means they have not gained citizenship in any other country) or they must have registered for an Ethiopian yellow card. Anyone not meeting either of these two criteria will legally be treated as a foreigner when it comes to investments or opening accounts and businesses.

³¹Quartz Africa (2019). Ethiopia's financial reforms hold promise for its diaspora business community.

03

INVESTMENT ATTITUDES AND SURVEY FINDINGS

RECIPIENT OF MONEY SENT



27%
PARENTS



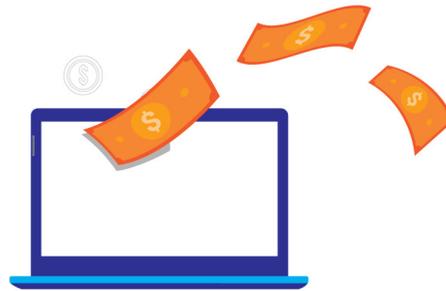
13%
FRIENDS



13%
SIBLINGS



49%
the person receiving the money decides what to spend it on



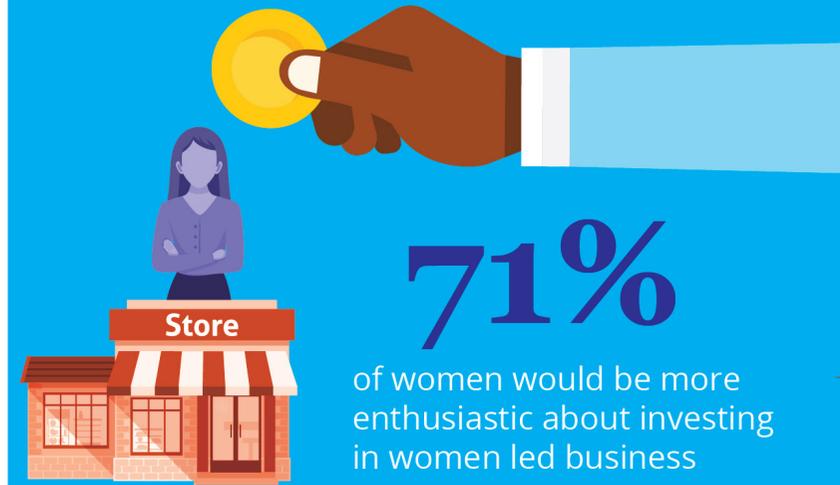
24%

used online money transfer operators



21%

of remittances go towards feeding their families back in Ethiopia



71%

of women would be more enthusiastic about investing in women led business

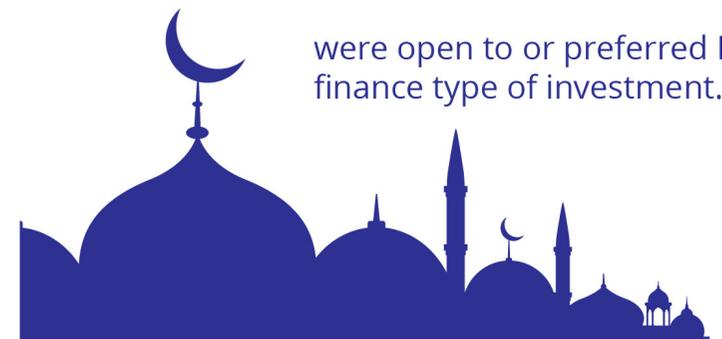


26%

Of those whole already invest cited getting information about businesses and sectors to invest in as the biggest challenge to investing in Ethiopia.

60%

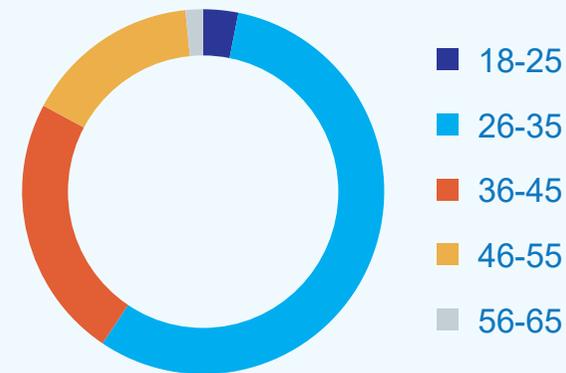
were open to or preferred Islamic finance type of investment.



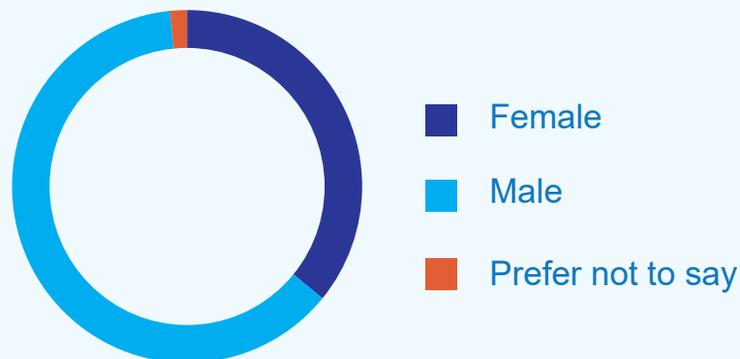
3.1 Survey Methods & Overview of Participant Demographics

In addition to stakeholder interviews, an online survey was carried out and shared amongst Ethiopians in the diaspora. The survey included a series of questions on remittances, and then asked whether the respondent currently invested in Ethiopia. From there, respondents were segmented into two groups to understand their investment practices for the those who invest, and their investment aspirations for those who do not yet invest. The survey then asked questions around Islamic finance, and finally demographic questions. The survey had a total of 96 respondents, some of whom did not reach the final questions of the survey. Of the respondents who completed the survey, most of them were between the ages of 26 to 35 (56 percent), lived in the US (77 percent), male (63 percent), earned between 50,001 to 75,000 USD per year (22 percent), and their families were originally from Addis Ababa (22 percent) or the Somali region (19 percent).

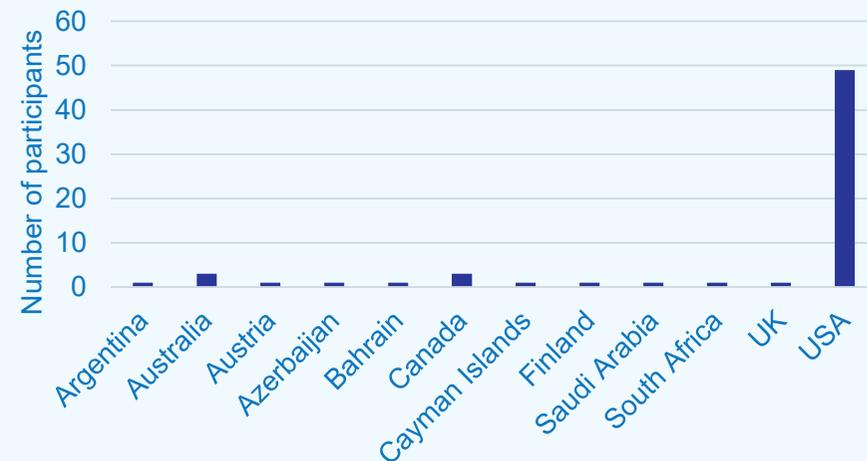
Age of participants



Gender of participants



Host country of participants

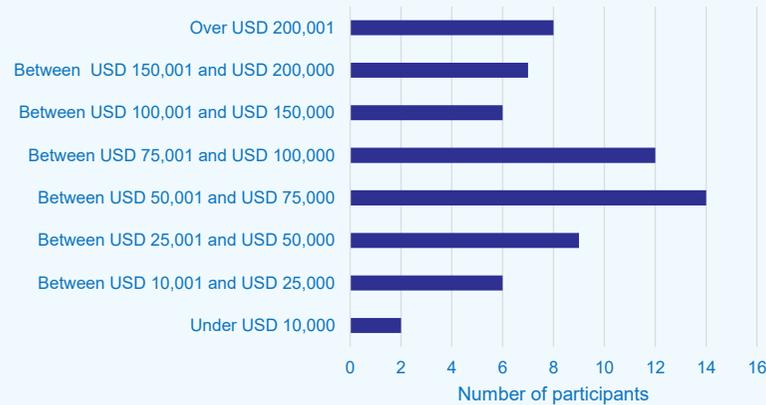


These demographics reflect the groups that some research has found to have a higher risk appetite, however, the research on the correlation between risk adversity and demographics can be conflicting or inconclusive. Generally, research shows that women are more risk adverse than men, but this does not mean women are less knowledgeable or poorer decision makers when it comes to investing.³² High income earners are also more likely to invest in capital market instruments, whereas low-income earners tend to save their money instead.³³ However, low-income earners and businesses may prefer and seek risk, and see it as a form of lottery.³⁴ Age is another factor that supports but does not define risk appetite as different

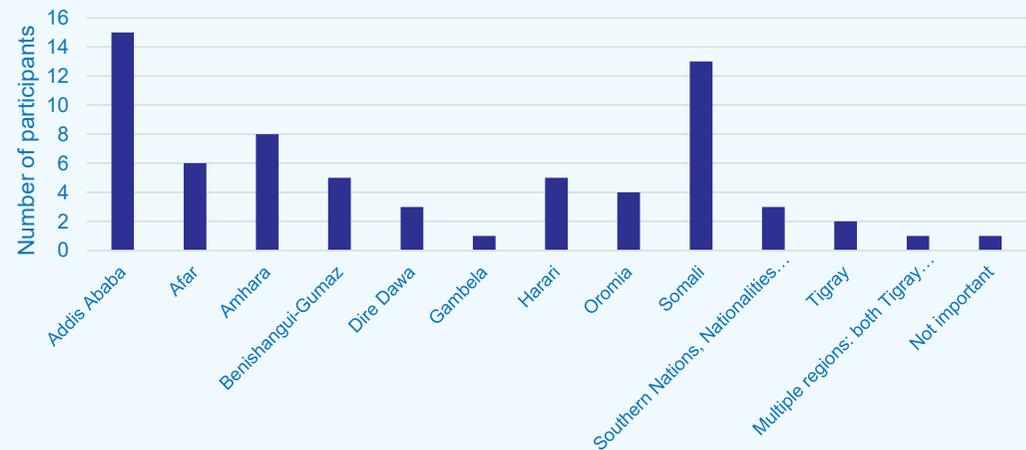
age groups might be interested in different types of investments. Research has found that ages 31 to 40 years-old people tend to have an overconfidence bias, however, other research has found that there is no significant difference in the perception of risks between age groups.³⁵

The regions of origin do not reflect Ethiopia’s regional population where Oromia and Amhara are the largest in population, but respondents mostly hailed from Addis Ababa or Somali regions. There is no data available on emigration per region, so it is unclear what regions most of Ethiopia’s diaspora come from and if this survey reflects those percentages.

Yearly income



Participant region in Ethiopia



³²All Answers Ltd (2018). Effect of Demographics on the Choice of Investments.

³³IUJ Journal of Management (Unknown). Effect of Gender, Age And Income on Investors’ Risk Perception In Investment Decision: a Survey Study.

³⁴All Answers Ltd (2018). Effect of Demographics on the Choice of Investments.

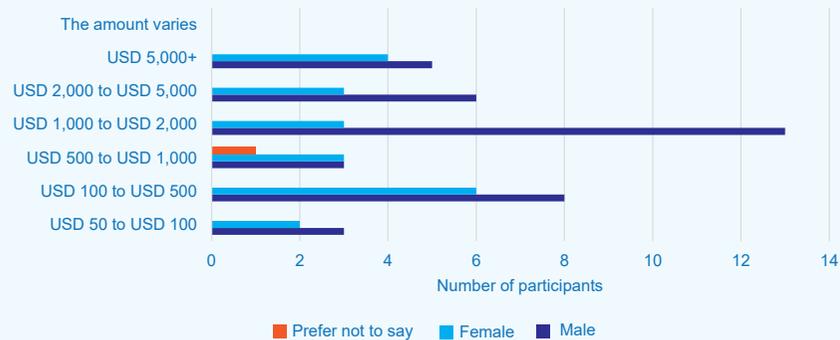
³⁵IUJ Journal of Management (Unknown). Effect of Gender, Age And Income on Investors’ Risk Perception In Investment Decision: a Survey Study

3.2 Remittance practices, including uses and channels

Most Ethiopians in the diaspora consider their remittances as separate from investments. Ethiopians in the diaspora send remittances because their families rely on them for day-to-day expenses. When they first emigrate, the goal is to get themselves established and then as soon as they can, start sending money home. As they earn more, they can then start thinking about how to eventually stop sending money to their family and this would be through ensuring their family has a sustainable source of income. By giving money to help their family start up a business, they hope to eventually stop remitting on a regular basis. This type of family business investment is typically sent in one lump sum, or hand delivered during a visit, as opposed to part of their regular remittance payments. There is no expectation of return here, not even as an interest-free loan. “Your family asking you for money less often is your return.”

Most respondents sent money monthly, and predominantly sent between USD 100 to USD 499. Of the male respondents, most sent between USD 1,000 to USD 2,000 (33 percent), where 26 percent of the female respondents sent between USD 100 to USD 499. However, despite much fewer female respondents, about an even number of men (five men or 13 percent) and women (four women, or 17 percent) sent back over USD 5,000 each time they sent. An almost even number of 26 to 35-year-olds sent either USD 100 to 499 (25 percent) or between USD 1,000 to 2,000 (28 percent) each time they sent money to Ethiopia. Most 36 to 45-year-olds sent between USD 1,000 to USD 2,000 (33 percent). However, when looking at all responses, including those who did not get to the demographic questions, USD 100 to 499 is the norm. This falls in line with global standards of analysing remittance send habits at the level of USD 200 and USD 500 equivalents.

Send amounts by gender (N=92)



Send amount by age

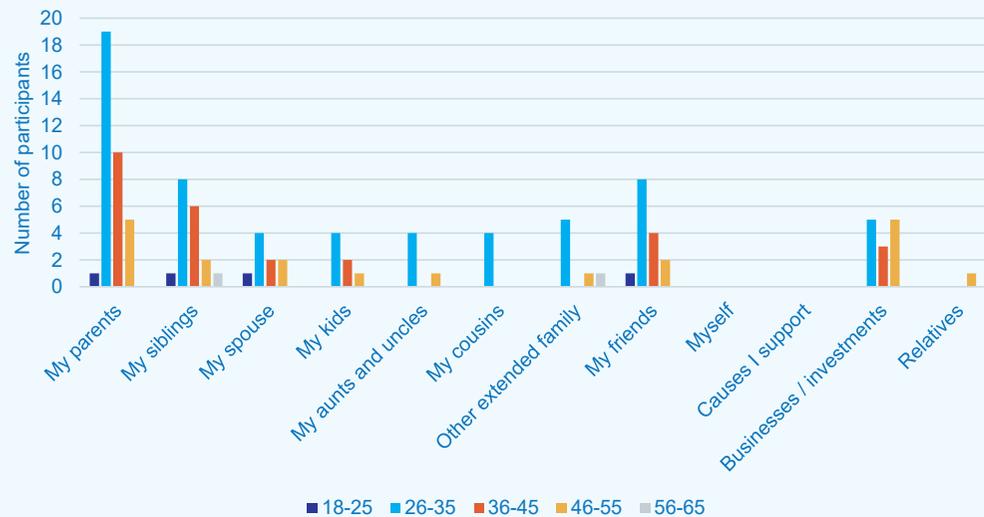


Most respondents sent money to their parents (27 percent), followed by their siblings (13 percent) and friends (13 percent). This is consistent with the fact that most respondents were between the ages of 26 to 45, so they would have parents who are nearing or in retirement age and rely on them. 26 to 35-year-olds sent money to the greatest variety of people, being the only group that sends to cousins and a few people sent to each of the different options shown in the figure below.

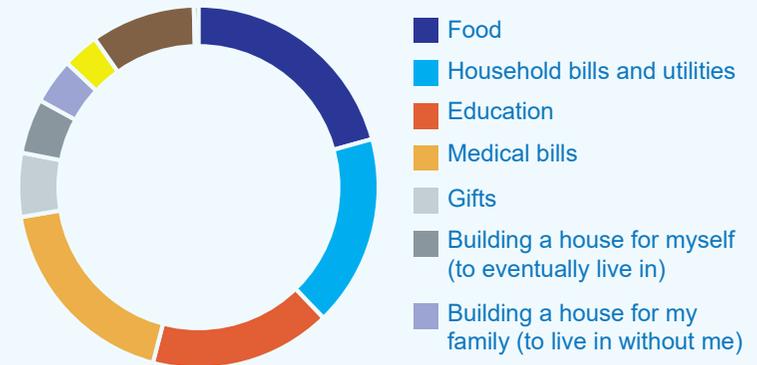
Food is the primary use of remittances to Ethiopia with almost 21 percent of respondents saying that remittances go towards feeding

their families back in Ethiopia. This is closely followed by medical bills at 18 percent, household bills at 17 percent, education at 16 percent. While respondents could choose multiple uses for the remittances sent home, food, medical bills, household bills and education account for 72 percent of all the responses. This means that most remittances are indeed used for consumption. However, over 9 percent of respondents said they use the remittances to support family and friends' businesses. This was the next most popular choice after the aforementioned ones. Less than 1 percent said that remittances were used for investment.

Remittance recipients



Remittance uses



Most respondents (49 percent) said that the person receiving the money decides what to spend it on and this was consistent across age groups.

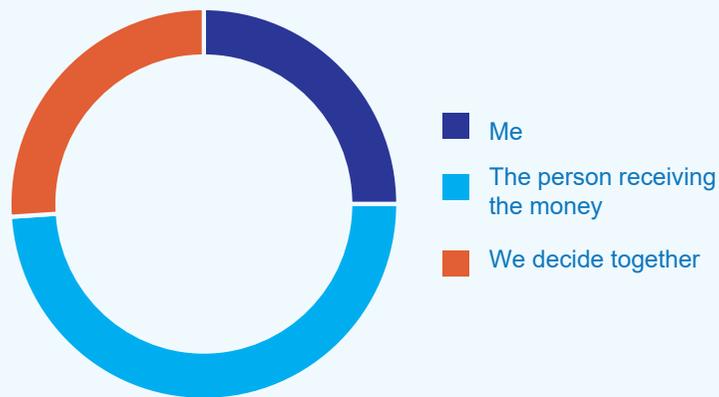
This points to the use of remittances as a decision that rests with Ethiopians in country, as opposed to those in the diaspora. Trying to leverage remittances for investments would likely require that diaspora sending money, also have additional funds to use for investments given that they don't decide what is done with what they already send.

Respondents reported using a variety of channels to send money to Ethiopia, but the majority stated that they used online money transfer operators (24 percent).

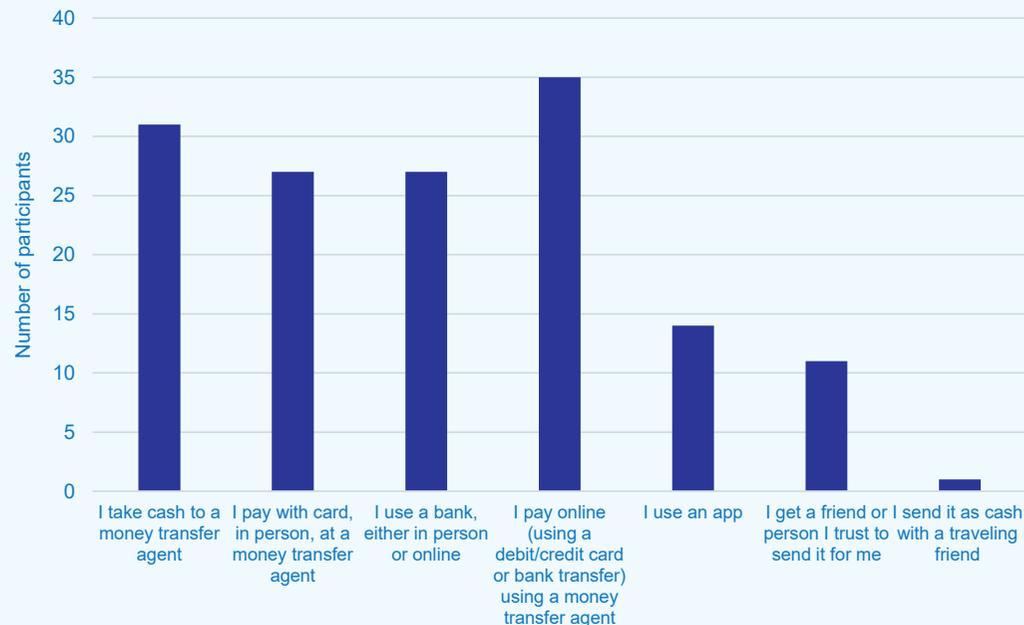
This more likely reflects the type of people who would also be online to take a survey, as opposed to the general Ethiopian diaspora population. However, it is still useful to know for this study, as it would be these tech savvy diaspora members who are already used to sending money online who would be more inclined to an online platform

that helped them invest in Ethiopia. Despite online being the most prevalent method stated, a significant percentage (21 percent) also stated that they take cash to a money transfer agent, showing the prevalence of cash even among respondents who are tech savvy enough to access and complete an online survey. This close split between the use of cash and online services was consistent across age groups. While a variety of money transfer services were noted, Remitly and Paypal were mentioned most often with seven and six respondents respectively. A further three respondents mentioned Western Union and four respondents mentioned Wise. Citibank was mentioned four times, Dashen Bank and Bank of America were mentioned three times each. All other platforms, banks and businesses were only mentioned one or two times.

Who decides what the money is used for?

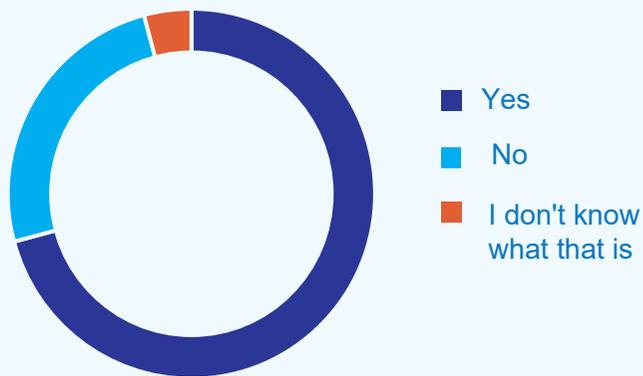


Method of money transfer

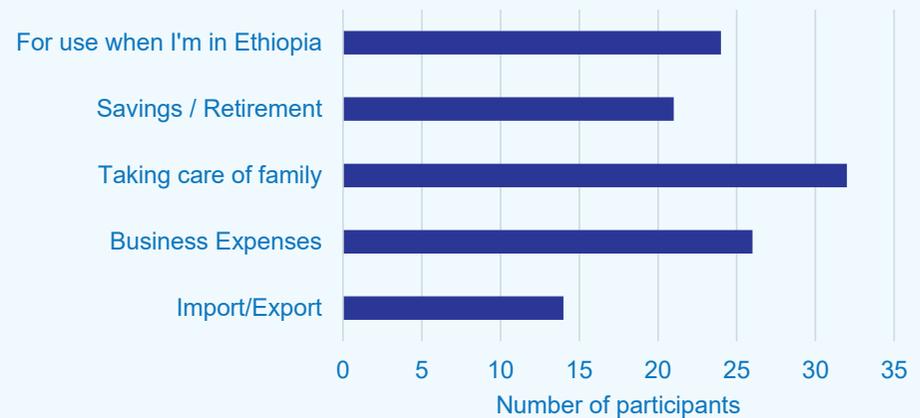


The vast majority of respondents (71 percent) said that they do have a diaspora account, but 4 percent did not know what it was. Of those that knew what it was and have one, most (27 percent) respondents were using it to take care of their family. However, all the other choices for the use of diaspora accounts were also significant, except for import/export which some stakeholder banks shared was the most common use case according to their own data.

Do you have a diaspora account in a bank in Ethiopia?



What do you use your diaspora account for?



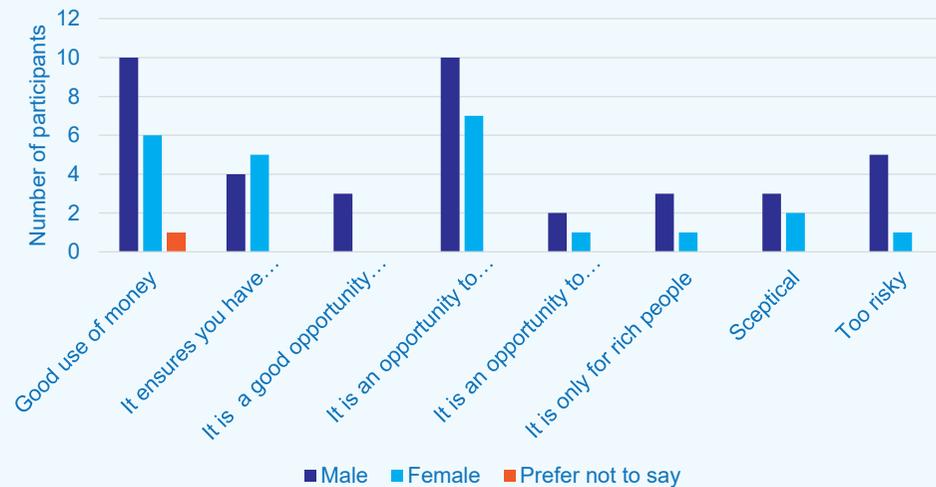
3.3 Attitudes and obstacles to investing

'Investing' in Ethiopia does not necessarily look like the traditional definition of investing in businesses or the stock market. Specifically, it does not look like the definition of investing that Pangea is working towards which is putting money towards a stranger's business in hopes of making returns (traditional investing) or sharing in the profits (Islamic investing).

Most participants felt that investing was an opportunity to build their financial assets (30 percent) or a good use of their money (26 percent). Only a few participants were sceptical about investing, thought it was too risky or only for rich people. Interestingly, only 3 percent of participants felt that investing was a good opportunity to give back to Ethiopia. This differs from discussions with in-country stakeholders and diaspora association leaders who felt that the greater good their investments contributed to was a key motivation for diaspora members.

There were no major differences in the perception of investments between gender and age, but some patterns did emerge. While 13 percent of male respondents felt that invests were too risky, only 4 percent of female respondents felt this way. This is notable as previous research discussed in section 3.1 found that women tend to be more risk adverse. Similarly, 10 percent of male respondents felt that investing ensures their financial security, whereas 22 percent of female respondents felt that way. The only 56 to 65-year-old respondent felt sceptical about investing, giving a hint as to perhaps why mostly younger people responded to the survey on investing. Besides that, there were no other significant differences between age groups to their response on how they generally felt about investing.

Why do you invest? (n=89)

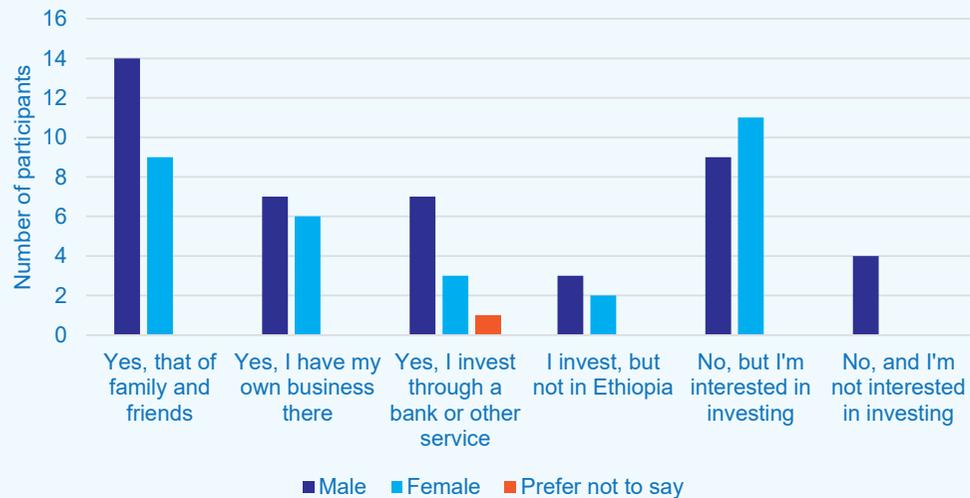


Among Ethiopians in the diaspora who responded to the survey, there is a clear interest in investing, and many are already involved in some form of investing. Over 30 percent of respondents stated that they were already investing in family or friends' businesses and 21 percent also said they had their own business in Ethiopia. In addition, 17 percent also invest through a bank or service which is promising for third party platforms that want to promote investment opportunities to Ethiopians in the diaspora. A small percentage, about 8 percent also stated that they already invest, but not in Ethiopia. Most of them (three out of five) explained that they just have not found a platform or broker that they like or trust. The other two plan to do so but have just not started yet. It would likely be possible to convince this group to also invest in Ethiopia, so long as they were provided with the right information, assurances, and interesting investment opportunities. A further 20 percent of respondents said that they were not currently investing but would be interested in doing so. This is quite promising as this group would just need the right information and opportunity in order to invest. Finally, the smallest percentage of respondents, 5 percent said that they were not currently investing and were not interested in doing so. The small size of this

group reluctant to invest is more likely a reflection on the types of people who chose to take an online survey on remittances and investments, as opposed to a reflection of the entire Ethiopian diaspora.

Some interesting differences emerged between men and women in their responses to whether or not they invest in Ethiopia, but almost no notable differences in responses between age groups. Despite significantly more men than women responding to the survey, almost the same number of men and women, seven and six respectively, said that they already have a business in Ethiopia. This ends up accounting for 16 percent of men and 19 percent of women, which is pretty on par. More women who did not currently invest were still interested in investing than men, where 35 percent of women were in this group conversely, only 20 percent of men felt that way. A respondents who said they were not interested in investing were men. The only notable information when analysing the data by age was that the 56-65 year-old respondents who said they were skeptical of investing, also said they did not currently invest but would be interested in doing so

Do you invest in any businesses back in Ethiopia? N=106



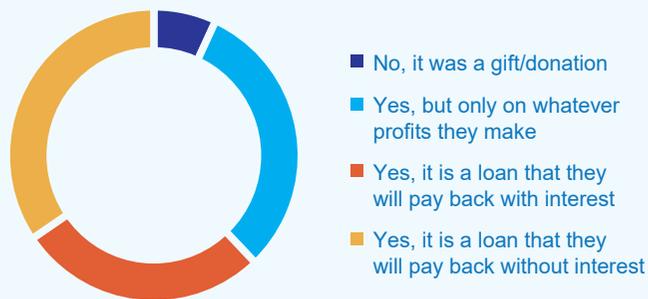
The responses to the expectations of money invested in family and friends' businesses was quite different between survey respondents and stakeholder discussions. Of those who invest in family and friends' businesses, 34 percent of them said it was a loan that was meant to be paid back without interest. Another 28 percent said that the loan was expected to be paid back with interest. 31 percent stated that the loan would only be paid back from whatever profits their family or friend made. Finally, only 7 percent of respondents said that that the money was a gift/donation with no expectations of return. Conversely, in speaking with stakeholders, the idea of investing in family and friends' businesses is typically always seen as a gift or way of giving back. Many even view it as a long-term plan in which if the business is successful, it would reduce the friend or relative's dependency on the person in the diaspora. As one stakeholder said, "Your family asking you for money less often is your return."

According to stakeholders in country, and diaspora members spoken to, investments towards family and friends' businesses are not seen as part of their regular remittances, although it has aims of eventually replacing it. Instead, they usually saved up for and sent these investments as one lump sum. They might also give in-kind investments towards family

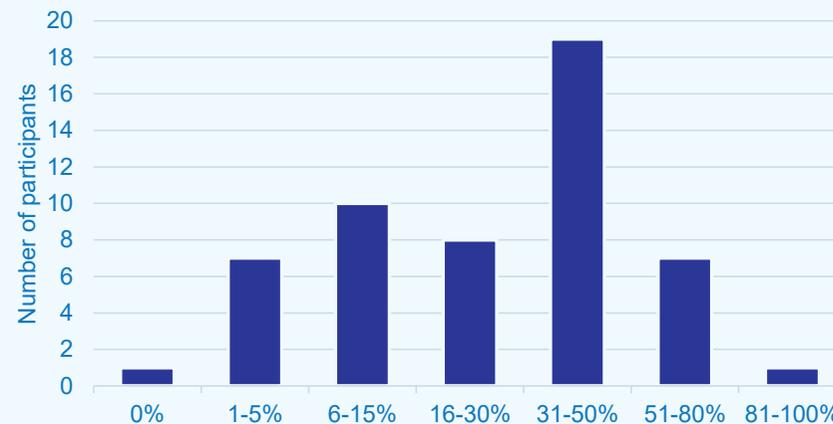
and friends businesses in the form of merchandise to be resold as part of the business or equipment to help the business run. Conversely, only 22 percent of survey respondents stated that their remittances were separate to the money they sent back for investments. The other 78 percent either paid directly into the business account as part of the remittances they send (38 percent) or the person they were remitting to would invest in the business on their behalf (40 percent). Those who send their investments separately from their remittances still use similar means to get the money to Ethiopia, whether bank transfer, PayPal or through family and friends. Only two people mentioned using investment platforms or investors.

Of the respondents who already invest in or own a business in Ethiopia, most of them stated that over 30 percent of the money they send to Ethiopia is used on investments. The biggest group, 36 percent of respondents, were those that spend about 31 to 50 percent of their remittances on investments. The smallest groups were those that either used 0 percent of the money they sent to Ethiopia towards investments or used 81-100 percent as investment. These respondents accounted for 2 percent each. There were no significant variations in age and gender.

When you invest in a friend's or family member's business, do you expect the money to be repaid?



What percentage of the money you send to Ethiopia is spent on investing in businesses?

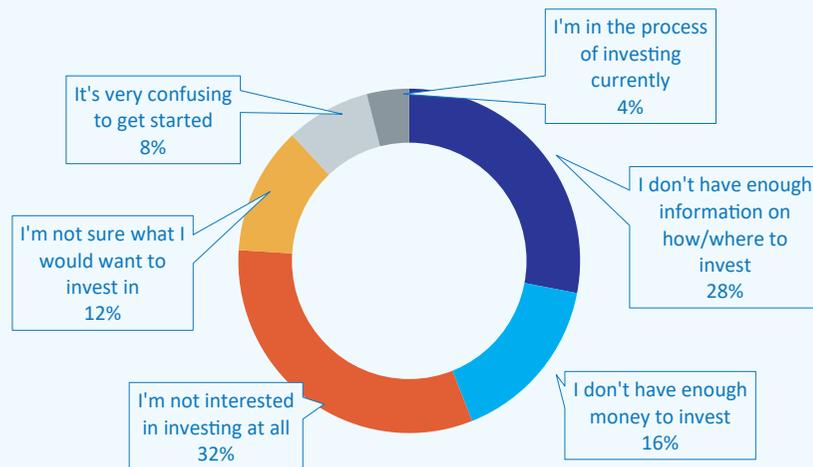


Of the respondents who don't currently invest in or own a business in Ethiopia, most of them, 32 percent, said that they are simply not interested in investing. When asked why they were not interested in investing in Ethiopia, 44 percent said that it seemed too complicated. This is a clear opportunity to provide more information and make the investment process as clear and seamless as possible. The need for information is further confirmed by looking at those who are not currently investing. After those who are simply not interested, the next largest group at 28 percent are those who feel they do not have enough information on how and where to invest. It also appears from speaking to stakeholders in and out Ethiopia, the Ethiopian investment landscape is disjointed, opaque and a bit confusing to the average person. A platform that simplifies the process would likely be a welcome addition to the market.

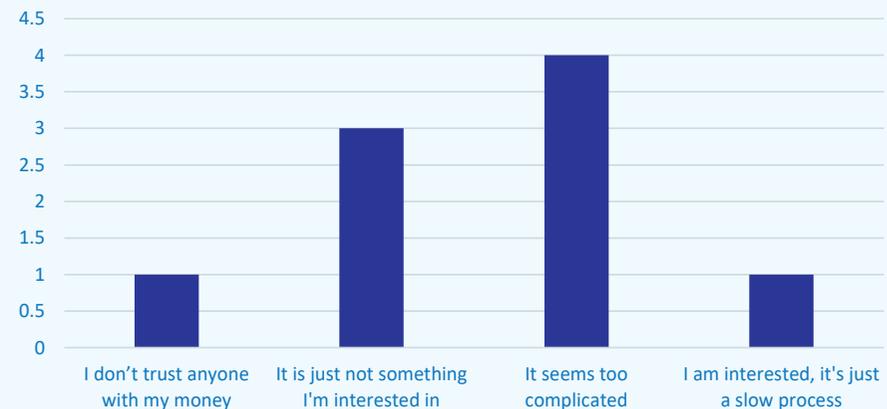
Either because of the lack of information or the history of investment practices, for now 'investing' for diaspora Ethiopians falls into three

main categories and investing in stranger's businesses is rare but growing. The three main investment categories according to stakeholders and survey responses are 1) giving money to family and friends to start their own businesses, 2) investing in real estate, and 3) starting your own business in Ethiopia. One diaspora leader explained it this way: Once their immediate family is okay, then the diaspora feel that they can start thinking about what extended family need. If after the extended family is taken care of (which is rare as many people come from large families), and the person still has extra funds they want to put towards Ethiopia, they would then start thinking of cousin's friends, neighbours, and childhood friends of theirs. The stakeholder explained that they would almost feel guilty giving money towards a business they don't know when someone they do know is also starting a business. This sense of obligation towards family, friends, community and then nation was echoed by other stakeholders inside and outside of Ethiopia.

What is the main thing keeping you from investing in Ethiopia? (N=25)



Why are you not interested in investing in Ethiopia? (N=9)



Another factor that affects the diaspora's attitude towards investing is that the relationship between the government and the diaspora is not always consistent and there is mistrust for the international community. According to both diaspora members and some stakeholders, some diaspora members may be sceptical of programs that have too much government involvement. The diaspora's relationship with the government is complicated and fluctuates depending on the political climate of the country. Ethiopians in the diaspora are known for being patriotic, but that patriotism can also be mobilized against the current government if the government's actions are deemed unfavourable. Further, both in Ethiopia and the diaspora, there is mistrust of the international community's intentions with being involved with Ethiopia. There was some scepticism about opening Ethiopia's financial sector to international stakeholders, although for now, this has largely been seen as positive. However, there is a general conception with Ethiopians in the diaspora who feel that the international community should not have control over Ethiopia's economy.

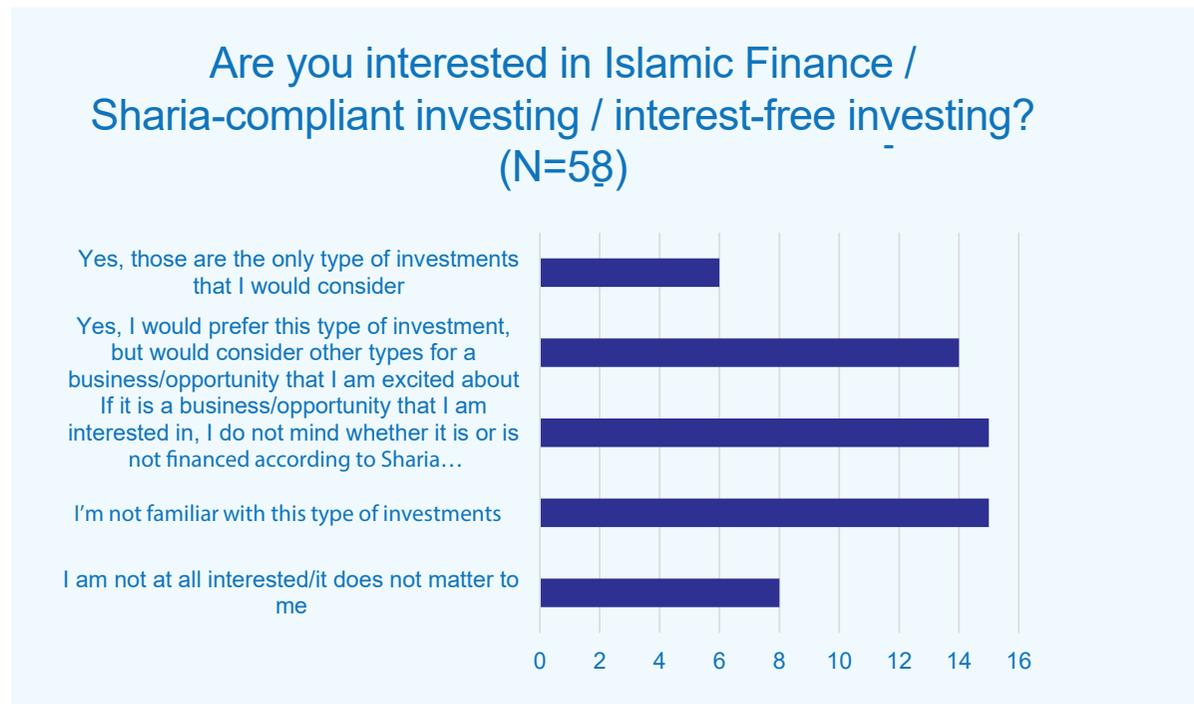
Ethiopians in the diaspora investing in the Ethiopian economy would likely sit better with both Ethiopians inside and outside the country, but it does affect the perception of those behind the investment platform. Ideally, there should be Ethiopians involved with any investment platform for Ethiopia, otherwise it might be regarded as suspicious. In-lieu of that, the platform has to demonstrate a clear commitment to the growth and self-governance of Ethiopians and ensure a high level of transparency and trust.

Generally, trust is a critical component of any financial program in Ethiopia and across the diaspora, regardless of who is behind the platform. This is particularly important for platforms offering investment opportunities. According to stakeholders, there is not the same level of scrutiny for platforms collecting donations, as there is no expectation of return

3.4 Islamic finance – Attitudes and Practices

Ethiopia is 34 percent Muslim and the interest in Islamic investing is a growing topic, particularly since the government recently put in regulations that allows banks to offer Islamic finance products. However, the uptake, particularly when it comes to a specific interest in this type of investment is still slow.

Of the 96 survey participants, 60 percent of them reached the questions on Islamic finance and most of them were open to or preferred this type of investment. Most of this group were either not familiar with this type of investment (26 percent), would not mind it if they were interested in the business or investment opportunity (25 percent), or had a slight preference for this type of investment (24 percent). Only 14 percent said they were not at all interested in this type of investment and even less, 10 percent, said they would only invest in a sharia compliant way.

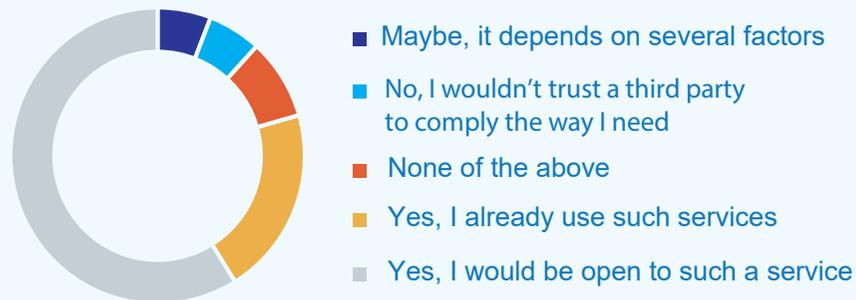


Those respondents who would not mind investing using Islamic finance, had a slight preference for it, or would only consider that type of investment, were then asked a series of follow-up questions to understand the attitudes of those interested in Islamic finance. In total, 53 percent of them said that some of their investments were sharia-compliant while only 6percent of them said none of their investments were this way. Those who said none of their investments were sharia-complaint are likely from the group that would not mind Islamic investing if the right opportunity was offered.



53% of them said that some of their investments were sharia-compliant while only **6%** of them said none of their investments were this way.

Would you be interested in a third party, such as a bank or other financial institution, providing Islamic finance and investing services?



Are you currently investing in any businesses in a Sharia-compliant way?

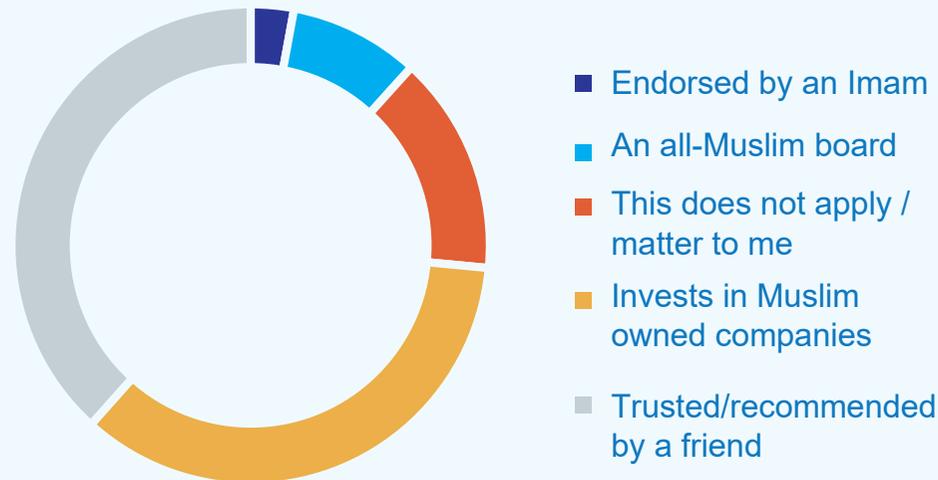


Promisingly, the interest in platforms providing Islamic investing opportunities was high, but the need for those platforms to be trustworthy was equally high. Almost 59 percent of respondents interested in or open to Islamic finance said that they would be open to a third-party service providing Islamic finance investment opportunities, and 21 percent of them already use such services. Only 6 percent said they wouldn't trust such a service and another 6 percent said it would depend on several factors. The platform being trusted or recommended by a friend was the most important factor (38 percent) when considering a third-party platform offering Islamic investing services. This shows that early adopters and word of mouth will be an important marketing strategy for any such business. The second most important factor at 35 percent of the respondents was that the platform invests in Muslim owned companies, showing the important of supporting

fellow Muslims when it comes to Islamic investing. Less important factors included an all-Muslim board (9 percent) and the platform being endorsed by an Imam (3 percent). Only 15 percent of respondent said that none of these factors would matter to them, likely from the group that did not mind Islamic investing.

When asked if there were any other thoughts on Islamic finance, one respondent shared that "The fundamental reason for the development of Islamic finance is the risk sharing mechanism. Low risk, honest and transparent." These sentiments can be emphasized when marketing such investments as it speaks to the communal aspect of the investment and would help build trust.

What is the most important factor affecting /would affect your decision to use a third-party service for investing (Islamic finance way)?



3.5 Current Investment Practices, Wants and Opportunities for Change

Of the survey respondents, great interest has been shown in investing in MSMEs, and in fact, many respondents are already investing in them.

Of those who are interested in investing in Ethiopia, 29 percent of them would invest in medium sized businesses, meaning 20 to 99 employees. A further 23 percent would invest in small businesses (10 to 19 employees) and 6 percent would invest in micro businesses (less than 10 employees). Another 6 percent would invest in informal unregistered businesses. 13 percent would invest in large businesses with over 100 employees and 10 percent would invest in international corporations. Of those who already invest, most invest in large businesses (29 percent), followed by medium sized businesses (22 percent), and then small (18 percent) and micro businesses (16 percent). Few invest in international corporations (8 percent) and informal/unregistered businesses (6 percent).

Factors affecting respondents' decisions to invest varied greatly between those already investing and those just interested investing.

Those already investing marked knowing the founder or manager in their top two factors affecting their decision, while trusting or liking the bank, broker or platform they were using was often ranked 7th. For those who do not yet invest, there were no clear patterns emerging, although trusting the founder/manager was ranked most important most often and trusting/liking the bank, broker or platform was also most often ranked the lowest. This points to the fact that for both those who already invest and those who

want to invest, knowing and trusting the actual business they are investing in is very important while the platform that facilitates it is not as important.

For both those interested in investing and those already investing, technology and real estate came out as the top sectors where respondents wanted to or were investing in.

Most people who had not started investing were interested in investing in real estate (22 percent), followed by those interested in investing in technology (16 percent). An even number were interested in agriculture, education, and health – each at 15 percent. Investing in finance and those who were not sure were 11 percent each. For those already investing, they are doing so in technology (22 percent), education (21 percent) and real estate (17 percent). A good number were also already investing in agriculture (15 percent), finance (14 percent) and health (10 percent). This group were also asked which other sectors they would invest in and most said technology – 23 percent (for those not already investing in technology), with an even spread across the other sectors. These findings are mostly on par with discussions with stakeholders who say that real estate is of high interest to the diaspora and that the technology sector in Ethiopia is growing. While many Ethiopian based investors go into investing in finance, this sector has only recently opened up to the diaspora for investment, which would explain the lower percentage of respondents already investing there and perhaps even the low interest in it from those who do not yet invest.

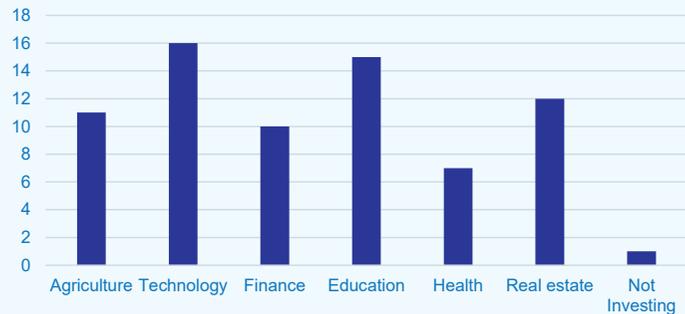
What kinds of business in Ethiopia would you want to invest in?



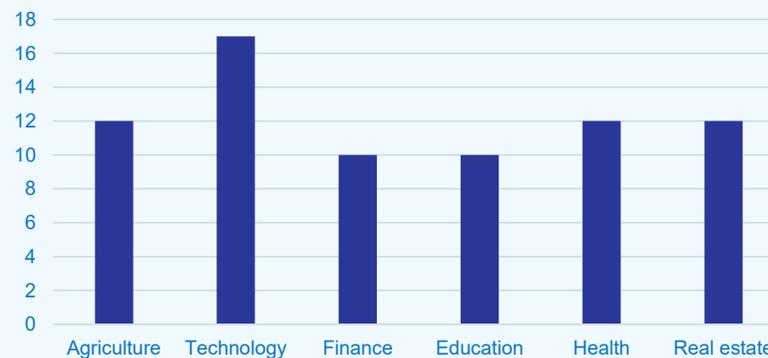
What kinds of businesses in Ethiopia do you currently invest in?



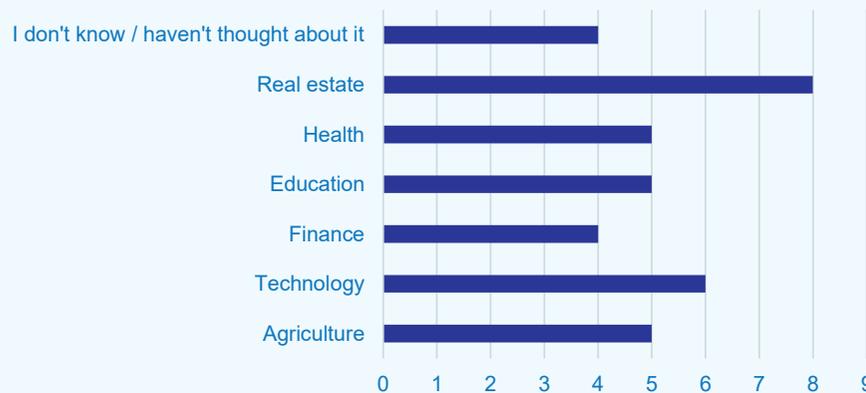
What sectors are you currently investing in, in Ethiopia? (N=40)



What other sectors would you be interested in investing in in Ethiopia? (N=40)



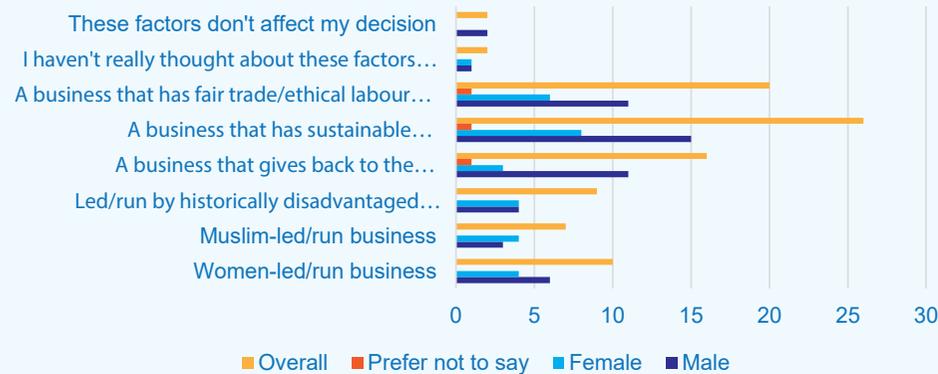
What sectors would you be interested in investing in in Ethiopia? (N=20)



Respondents were socially conscious of their investment practices along the lines of environmental, ethical labour practices and economic contributions to Ethiopia. Of those who already invested, most said a business that was environmentally sustainable would be most likely to affect their business decisions (28 percent), followed by a business that has fair trade and ethical labour practices (23 percent) and a business that gives back to the community and/or creates local jobs (17 percent). There were no significant variations in age and gender. For those interested in investing,

a business that gives back to the community and/or creates local jobs (20 percent) and a business with sustainable environmental practices (20 percent) were rated the highest. This was followed by women-led businesses (17 percent) and a business with fair trade and ethical labour practices (17 percent). Women accounted for 67 percent of those who said women led business were important and 71 percent of those that said a business that gives back to the community or creates local jobs was important. There were no significant variations in age.

Which of the following factors do you look for when choosing a business to invest in in Ethiopia? (N=40)

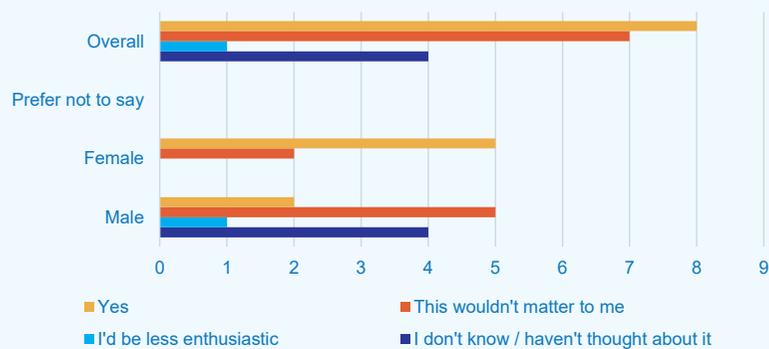


What factors would affect your decision to invest? Please rank in order of importance. (N=18)

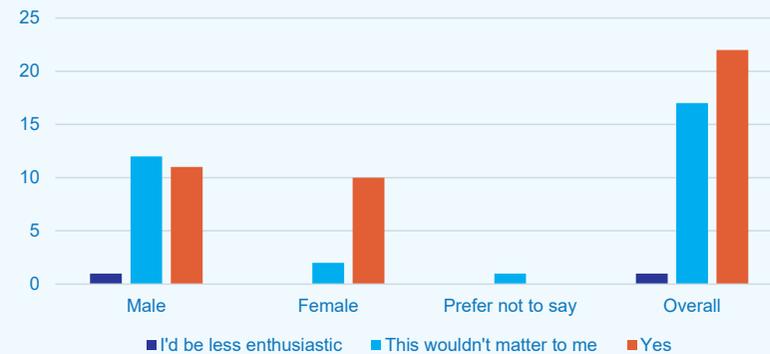


Unsurprisingly, most women (71 percent) said they would be more enthusiastic about investing in women led business, whereas most men (42 percent) said this would not matter to them. For those who already invest, almost all women said they would be more enthusiastic about a women led business (83 percent) and almost half of the men responded the same thing (46 percent).

Would you be more enthusiastic about investing in a women led business? (N=20)

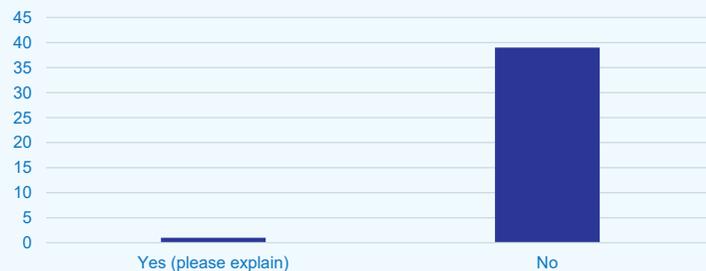


Would you be more enthusiastic about investing in a women led business? (N=40)

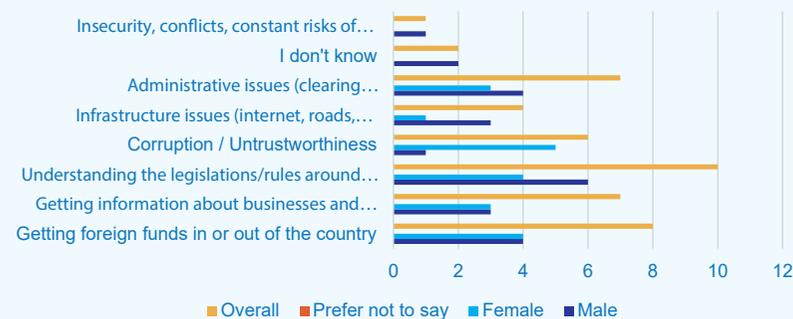


Of those whole already invest, most cited getting information (26 percent) about businesses and sectors to invest in as the biggest challenge to investing in Ethiopia. There were not significant variations in age and gender. Those who do not yet invest, cited understanding the legislations and rules around investing as the biggest challenge (22 percent). Again, there were no significant variation in age and gender.

Do you feel your gender, religion, ethnicity, or any other demographic factor brings about specific challenges or frustrations to your ability to invest in Ethiopia? (N=40)

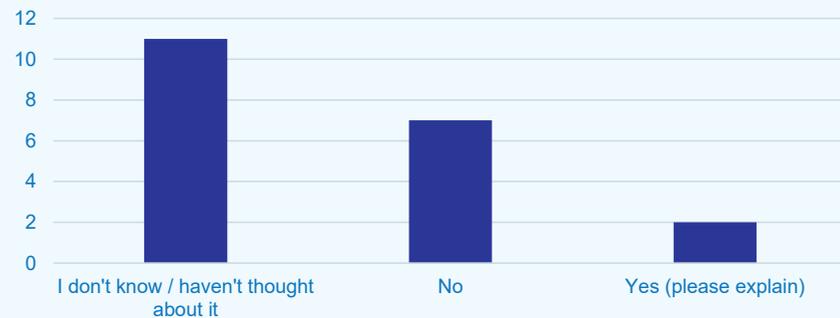


What are some challenges or obstacles to investing in Ethiopia that you feel you would experience? (N=20)



Of those that do invest, almost all (98 percent) said that their gender, religion or other factor did not bring any specific challenge to their ability to invest. Most people who do not invest were not sure if those factors would bring them any challenges (55 percent) and another 35 percent felt it would not.

Do you feel your gender, religion, ethnicity, or any other demographic factor would bring about specific challenges or frustrations to your ability to remit or invest in Ethiopia? (N=20)



Those who do not yet invest were mostly interested in general education around investing, and a few wanted more detailed information on what to expect and several mentioned the importance of transparency in the business and platform they were investing in. Respondents wanted information on where to and how much to invest, how to prevent losses and be successful in investing and gaining a profit in a short time. They wanted education information on investing via blogs, websites, workshops, conferences, and online communities with like-minded investors. One respondent also mentioned more visibility of the entrepreneurial space meaning diaspora investors want more information about the businesses and sectors they are investing in. In addition to the general education, some respondents also wanted detailed information on the legal terms and conditions, the policies and procedures in Ethiopia and even information on how to open their own business there. Respondents also wanted to have information on expected returns. Transparency was another topic that came up often, pointing to the importance of trusting the investment platform and the businesses involved. One respondent mentioned having a reputable information site with ratings, and another wanted “proven examples and outcomes from pilot efforts.” Another wanted to be able to understand the safety of the investment project and another mentioned the need for it to be mature, stable and reliable. Finally, one respondent said that the investment needs to be “something that will promote Ethiopia’s economic development,” indicating the importance of the greater good of these investments, not just for the investors and businesses but also Ethiopia at large.

Those who already invest were also interested in gaining more general education but around the Ethiopian market, detailed information on the businesses and Ethiopian investment regulations, as well as having a sense of transparency and ease of use for the investment platform and businesses. Respondents who wanted general education around investing primarily wanted more local information around the Ethiopian economy, the investment market and the “basic situation of the industry.” This shows that while the general education of non-investors is around investing itself, those who already invest need general education around the Ethiopian market to help increase their confidence in investing. They also mentioned having development news, research data and online education around these topics. For the detailed information they were interested in, they went further than the non-investors in the specifics they needed: “Ethiopia’s FDI policies,” “government planning and policy information,” and “trade and tax policy.” One respondent mentioned the need for information on the future developments of the industry, likely to help them make informed decisions on their investments. One respondent mentioned that a technical forum on investing in

Ethiopia would be helpful. One respondent was just concerned about the profit being proportional to the risk, saying they could accept high risk, if the profit was also high: so, transparency in the expected profit margins and associated risks. Other respondents also spoke of the importance of transparency, having a sense of trust, avoiding fraud and the platform and businesses preferably having a digital presence. Finally, one category touched on by those who already invest that did not come up for those who do not currently invest, is the ease of use of the investment platforms and mechanisms. They spoke of the need for a first-rate service, good financial services and professional planners. One respondent said that they would need the ability for “faster transfer of money to invest when necessary, with low fees and effective ways to avoid circumstances that can lead to fraud.” Finally, one respondent said that the investments should be for the benefit of the people, once again bringing out the importance of the greater good of these investments.

Besides supporting family, real estate is the other popular form of investing for Ethiopians in the diaspora. This can either be as a place for you or your family to live in when you return to Ethiopia, or as a rental property to earn income from. It is also not uncommon for the family to be the one earning the rental income, and this acts as an additional way of taking care of your family without sending remittances regularly. Buying property with the intention of NOT renting it out is also more popular amongst older Ethiopians who feel they will return and retire to Ethiopia in the near future.

Starting your own business in Ethiopia as a diaspora member is still growing, but it is more common than investing in a stranger’s business. There is a growing trend of Ethiopians in the diaspora interested in starting a business in the country and besides real estate it is the other type of ‘investing’ that first comes to mind. This type of investing is more common for people who are bicoastal or plan to return to Ethiopia and run the business from there. It is hard to find people to run the business for you, but this does happen from time to time. Popular sectors, and those encouraged by the government, are manufacturing and IT services.

The exception to this is charitable and patriotic donations, and many stakeholders expressed that Ethiopians in the diaspora are more interested in helping than making money. Ethiopians in the diaspora are more willing to part with their money if they know it is going towards a charitable cause such as education, (‘investing’ in the future by sponsoring Ethiopian students is not uncommon), health, and sanitation. They might not even scrutinize the cause too much since they are not expecting the money back; they just hope it makes a meaningful impact. There would be a need for clearly explaining the business case for investing and working towards shifting mindsets towards the possibilities of investing in other people’s businesses through a third-party platform.

In addition to some mindset shifting that is needed, there are also huge information gaps and structural barriers to overcome. While investing in stranger’s businesses might not be top of mind, there are Ethiopians in the diaspora who are interested (usually 1 or 2 generations removed, therefore not as many remittance obligations but still connected to the country, or in a lucrative career field and therefore well-off) in investing in businesses that would earn them profits. There is a need for educating people around these types of investments since they are not popular or common, the benefits, how it works and other basic information. They might need a lot more detail about what they are investing in, how the money will be used, etc. and hand holding with the process. It needs to be noted that even in places like the US, it is only in the past few years that investing has become more mainstream and accessible to the average American. In addition to this, serious considerations have to be put in place in how/when they would see the ROI or shared profits given that the process of taking money out of Ethiopia can be cumbersome. This is why often those running a business in Ethiopia live there part time or plan to return soon because it is almost impossible to take the money you have earned out of the country. And according to stakeholders, many diaspora members who invest in Ethiopia do not necessarily plan to take the money out and would instead use it while there for other projects or long-term financial planning.

04

OPPORTUNITIES AND RECOMMENDATIONS



Below are nine recommendations that build on the findings discussed in this report. Each recommendation has a primary action or overarching objective, which are the numbered sentences. These recommendations have been grouped into four categories: Marketing, Regulation, Trust and Literacy to signify the type of activity discussed. Each recommendation has been given a priority and difficulty level to aid in understanding the level of importance and effort each one carries. Further, each recommendation includes some background section to explain the context and why the recommendation is important. Sub activities are also elaborated upon that would help in achieving the primary recommendation. Finally, each recommendation includes a list of stakeholders that should be engaged or collaborated with in order to maximize the objectives. These stakeholders are already working in the space or are the gate keepers to the desired outcomes. The exception to this is Recommendations 1, 2 and 5. These do not include other stakeholders as these recommendations are specific to how Pangea approaches the investment platform being developed.

1.

Integrate customer segmentation into all aspects of the product development and marketing process.



Background:

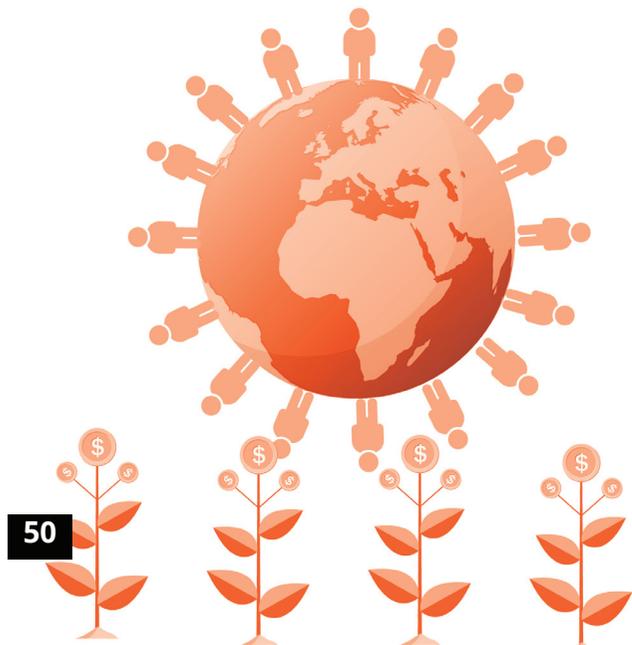
Customer/Diaspora segmentation is key. The types of diaspora members interested in and able to invest through 3rd party platforms are quite specific, but also vary in their demographics and reasons for investing. It will be important to develop and market certain products to specific segments of the population.

Activities

- Develop different marketing strategies, products and processes for:
 1. 2nd and 3rd generation Ethiopians who might not be sending any money to Ethiopia but interested in Ethiopia's growth and looking to impact positively
 2. Professionals and business owners who are already remitting but have also started supporting family and friends businesses
 3. Professional and business owners who might be remitting to Ethiopia but have not yet started investing in any businesses but have the savings or finances to do so
 4. Those not yet in a position to invest – either because their family does not yet have all they need or they themselves are still trying to make ends meet abroad – but would be open to it once their situation changes.
- Analyse customer use data, feedback and general research around Ethiopian diaspora to continually refine product offerings and marketing strategies

2.

Ensure investment products appeal to the diaspora's interest in creating impact and develop marketing strategies to promote and discuss the development impacts possible through investment



Background:

Whilst Ethiopians in the diaspora are familiar with donating and giving back, there is limited experience with investing using third party platforms. Promoting diaspora investment through the broader lens of impact investing and appealing to a sense of nationalism would be an opportunity to change behaviour in the long term.

Activities

- Create opportunities to regularly engage with the diaspora on the topic of impact investing – website, social media, WhatsApp, events
- Develop marketing strategies to raise awareness on impact investment including
 - ◊ Impact investment types: including job creation, sustainable business practice, a social enterprise (education would be needed around this term), or businesses in the education and health sector
 - ◊ Impact investment benefits: including a sense of nationalism in developing Ethiopia (political sensitivity required), seeing impact results on the ground, in the community and investment return
- Identify areas of collaboration with private sector (e.g., corporate social responsibility programmes), public sector and development actors

3.

Provide advocacy and support around improving Ethiopia's regulatory environment to improve ease of investing

REGULATION

PRIORITY -
HIGH

DIFFICULTY-
MEDIUM



Background:

Current regulatory framework for investments in Ethiopia needs to be made more desirable to the diaspora and be combined with a streamlined, barrier free entry process. Great improvements in opening the investment sector to diaspora investors have been made, but more can be done to further ease the process of investing, particularly how diaspora members can access their earnings.

Activities

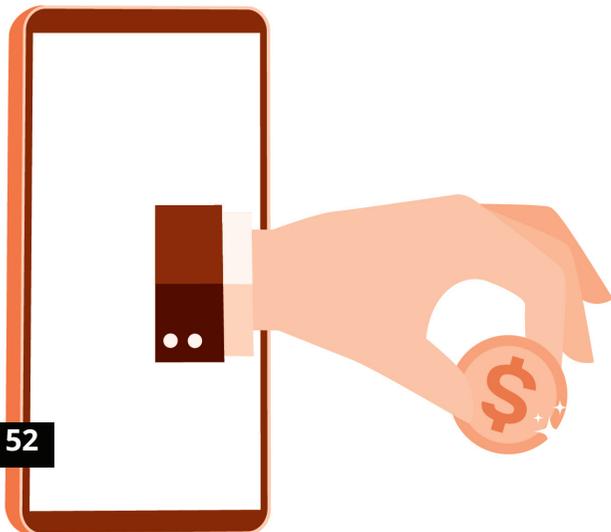
- Advocate for specific diaspora investment frameworks as key for investment mobilisation
- Provide technical assistance support to the Government of Ethiopia on diaspora investment regulation and policy
- Longer term activities should include working with regulators to re-evaluate regulations guiding the process of repatriating investment earnings.

Stakeholders:

- National Bank of Ethiopia
- Ethiopian Investment Commission
- Ministry of Finance and Economic Cooperation
- Ethiopian Diaspora Agency
- Ethiopian Investment Commission, including regional ones

4.

Develop and properly communicate appropriate measures for paying diaspora investors their dividends and explain the merits of investing through third-party platforms



Background:

Currently, investors registered in Ethiopia need to complete a cumbersome process in order repatriate their gains.

Setup of appropriate mechanisms for diaspora investor pay-out is essential.

The diaspora is acutely aware of is the fluctuations in exchange rate, specifically between the dollar and the birr. Sending money through informal channels is appealing because of the significantly favourable exchange rate available there and if trying to send large sums for family and friends' businesses, one would want to ensure they get as much of that in birr as possible.

Activities

- Work with local stakeholders who have experience with diaspora investors to develop appropriate mechanisms for paying diaspora investors
- Be clear and detailed about how and when diaspora investors will see their returns, and how these can be accessed
- Pangea needs to clearly communicate the merits of using their third-party platform over informal channels and explain if there are any processes for mitigating the fluctuation in exchange rate, especially when claiming dividends.
- Any promised or estimated ROIs need to be caveated with the inevitable fluctuations in exchange rate so that people have realistic expectations on what they can hope to make on such investments.

Stakeholders:

- Commercial banks that work with diaspora investors
- Organizations that are financed by diaspora investors or that are used to soliciting diaspora funds such as Renew, an impact investing firm
- Ethiopian Diaspora Agency
- Ethiopian Investment Commission

5.

Promote a transparent business strategy and highlight the people behind the platform to ensure its trustworthiness



Background:

Generally, trust is a critical component of any financial program in Ethiopia and across the diaspora. This is particularly important for platforms offering investment opportunities where people expect an ROI. Diaspora members can be suspicious of projects promoted by foreign entities.

For those interested in Islamic investing, the platform being trusted or recommended by a friend was the most important factor when considering a third-party platform offering Islamic investing services.

Small businesses practices can often be opaque, so the diaspora needs to trust not only the platform but the businesses they are investing in.

Activities

- If possible, there should be Ethiopians involved with any investment platform for Ethiopia and their profile visible on the team's page
- Demonstrate a clear commitment to the growth and self-governance of Ethiopians and ensure a high level of transparency and trust.
- Islamic investing products should be clearly labelled and the verification behind their sharia-compliance clear, particularly if not all products on the platform are interest-free.
- Reward early adopters and develop referral programs that incentivize word of mouth recommendations to the platform
- Feature the stories and impact of the businesses being invested in
- If possible, share their business processes and any other pertinent information to increase confidence in the viability of the business and allay any fears of corruption or shady dealings.

6.

Ensure the shari'a-compliance of Islamic investment products and engage those already in the space to develop partnerships and synergies

TRUST

PRIORITY -
HIGH

DIFFICULTY-
MEDIUM

Background:

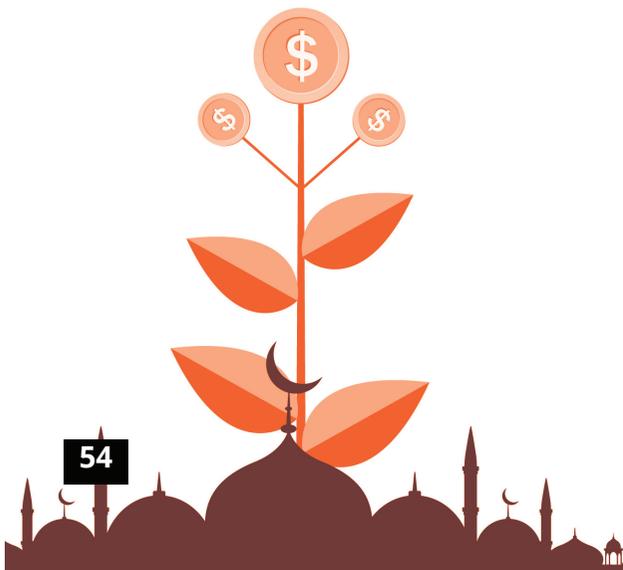
In addition to the investment product being recommended by friends and trusted sources it will also be important to work closely with those already in the Islamic finance space in Ethiopia, particularly since it is still developing. This is important in ensuring that Pangea's Islamic products are fully validated by the proper authorities, as this builds trust among diaspora Islamic investors but also among other players in the market. Given that that sector is relatively new, there are also opportunities to create partnerships and synergies with other players to develop innovative products and opportunities for diaspora investors.

Activities

- Work closely with Shari'a scholars and advisors, particularly those at Islamic banks to ensure investment products are Islamic compliant and follow similar validation processes to what is currently on ground
- Generate interest from established Islamic financial partners and bodies who would be open to collaborations to improve types of Islamic products and opportunities available for the diaspora

Stakeholders:

- ZamZam Bank
- RAYS Microfinance Institution
- Other organisations that are wholly or partly offering Islamic finance products



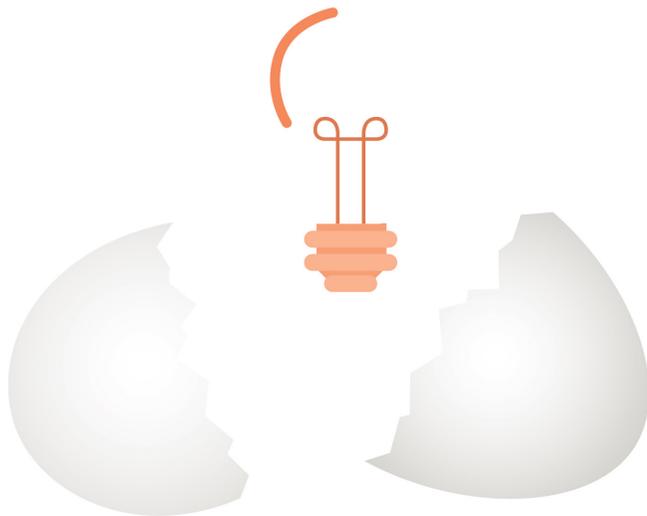
7.

Utilize suitable accelerator/incubators such as Pangea Trust and other business development initiatives to ensure the success of businesses featured on the investment platform

LITERACY/
TRUST

PRIORITY -
MEDIUM

DIFFICULTY-
MEDIUM



Background:

Most programs meant for MSMEs in Ethiopia, whether grants, investments, or accelerator programs, also have training and supporting the entrepreneurs as a key part of their program structure. Knowing that businesses invested in through the platform are also being supported by Pangea's accelerator programs will contribute to investor confidence.

Activities

- Provide capacity building programs and training for businesses featured on the platform
- Clearly communicate the capacity building work and its results to potential investors

Stakeholders:

- Ethiopian Jobs Creation Commission
- Ethiopian Chamber of Commerce
- Enkopa, GIZ and other organizations that support MSME development/

8.

Develop a range of educational tools and resources for the different types of investors to ensure the platform offers more than just investment products but also builds investor confidence.

LITERACY

PRIORITY -
HIGH

DIFFICULTY-
MEDIUM



Background:

Investment platforms need to provide more than just a channel for investment. There is an opportunity to compliment investment engagement with segmented educational tools and resources in order to build investor confidence.

Activities

- Develop educational and added value resources for diaspora investment to be included on investment platform and targeting a range of diaspora and investment types including:
 - ◇ Relevant blogs and articles
 - ◇ Workshops
 - ◇ Online community forums and videos on investing
- Long term – commit to the development of an ecosystem of diaspora investment resources

The types of information that could go on the platform are discussed in Section 3.4.

Stakeholders:

- Ethiopian Diaspora Associations
- Ethiopian diaspora members who already invest
- Other stakeholders in the Ethiopia investment landscape such as WIDU, Enkopa, Addis Angel Investors Network, etc.

9.

Re-orient language around 'channelling' remittances for investments and instead promote the use of savings and extra funds towards investing through third-party platforms and develop educational activities that promote the desired behavioural change

LITERACY

PRIORITY -
MEDIUM

DIFFICULTY-
LOW



Background:

Given that Ethiopia has a poverty rate of 24 percent, meaning that a quarter of the population lives on less than USD 1.90, it is unrealistic to expect remittances to be channelled from consumption to investments. Diaspora members who can invest are investing, by saving up money to help family and friends start and grow businesses. Rather than looking to how remittances can be channelled for investment, stakeholders should consider how to better educate the diaspora on investing more generally

Activities

- Behaviour change that should be sought after is not remittances towards investments, but rather savings and investment funds towards established third party platforms.
- Organize workshops, seminars and other educational programs promoting the use of savings and extra funds towards investing to encourage those in a position to invest to do so

Stakeholders:

- Ethiopian Diaspora Associations
- Ethiopian Diaspora Agency
- Ethiopian Investment Commission (especially the regional ones)



05

ANNEXES

Annex 1 – Definitions

Bai' Salam / Salam – “Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The contract of Salam creates a moral obligation on the Salam seller to deliver the goods. The Salam contract cannot be cancelled once signed.”³⁶

Hijra – “(migration) for the sake of Allaah means moving from the land of shirk to the land of Islam, as the Muslims moved from Makkah – before its people became Muslim – to Madeenah, because it had become the city of Islam after its people had pledged their allegiance (bay'ah) to the Prophet (peace and blessings of Allaah be upon him) and asked him to make hijrah to them. So Hijrah means migratinmg to join other Muslims. Hijrah may also take the form of moving from one land of shirk to another land of shirk where evil is less prevalent and there is less danger to the Muslims, as when some of the Muslims migrated from Makkah, at the command of the Prophet (peace and blessings of Allaah be upon him), to Abyssinia (Ethiopia).”³⁷

Istisna – “Istisna’ is the second kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of istisna’ comes into existence. But it is necessary for the validity of istisna’ that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.

The contract of Istisna’ creates a moral obligation on the manufacturer

to manufacture the goods, but before he starts the work, any one of the parties may cancel the contract after giving a notice to the other.”³⁸

Mudarabah – “a kind of partnership in which a bank gives money to another (Mudarib) for investing in commercial enterprises. The profits generated are distributed on a predetermined ratio while the loss is assumed by the investor in money terms and management in service provided/effort terms.”³⁹

Murabaha – “a contract of sale between a customer and the Bank in which the Bank purchases the goods needed by a customer and sells the goods to the customer on a cost-plus basis. Both the profit (mark-up) and the time of payment (usually in installment) are specified in an initial contract. The Bank is the owner of the goods before it sells it to the customer. The bank may require collateral from the customers to secure the financing.”⁴⁰

Musharakah – “a type of partnership financing between the Bank and the customer(s) in which profits and losses are shared among them according to a pre-determined formula. Profit sharing need not be based on the proportion of shares owned, but liability is limited to the contributions of the shareholders.”⁴¹

Wakallah – “Wakala is an agency contract, where the account holder (principal) appoints Hijra Bank to carry out investment activities claims that wakala “allows a much more efficient recycling of short-term liquidity in the Islamic banking system”. Hijra Bank offer wakala contracts in many different forms, including letter of credit, Islamic monetary certificate, Islamic bonds, term deposit, and Islamic insurance.”⁴²

³⁶Hijra Bank (2021). Website.

³⁷Islam Question & Answer. (2022). What is Hijrah?

³⁸Hijra Bank (2021). Website.

³⁹ZamZam Bank (2021). Website.

⁴⁰Ibid.

⁴¹Ibid.

⁴²Hijra Bank (2021). Website.

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Annex 3 – List of Stakeholders Interviewed

1. WIDU, Diaspora investment matching program by GIZ
2. Ethiopian Community Association - Chicago
3. Ethiopian Diaspora for Peace (organization in Ottawa Canada)
4. ZamZam Bank – Kedir Abas & colleague
5. National Bank of Ethiopia – Mr. Asfaw, in charge of the MFI Directorate
6. Coop Bank of Oromia – Abdi Feleke, Marketing Director & Colleague
7. Ethiopian Investment Commission – Aschalew Tedesse, Head of Investment Promotion Directorate
8. Bernard Laurendeau, Founder of Enkopa
9. Ethiopia Chamber of Commerce – Mr. Getachew, Secretary General
10. Your Ethiopian Professionals – Managing Director and co-founder: Mesfin
11. Ethiopian Diaspora Trust Fund – Vice Chairperson, Mehret Mandefro
12. Urban Jobs Creation and Food Security Agency – Mr. Iyasu
13. Addis Angel Investment Network – Shem Asefaw, co-founder
14. Almaz Negash – Head of the African Diaspora Network
15. RAYS Microfiannces – Chairman and founder

Annex 4 – Interview Responses from the Urban Jobs Creation and Food Security Agency on Ethiopia Diaspora Investments

Iyasu Kebede Abeshaw

Job Title: - Information Management Team Leaders.

Email: - iyasukt.ik@gmail.com

Urban Jobs Creation and Food Security Agency,

Ethiopia:

BSc in Statistics.

Ethiopian Diaspora Investments

1. How does your agency qualify MSMEs? What size, revenue or capital must that have to qualify as micros, small, or medium?

Definition of micro enterprise

a) Under industry sector (manufacturing, construction and mining)

An enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000 (one hundred thousand).

b) Under service sector (retailer, transport, hotel and Tourism, ICT and maintenance service)

It operates with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000 (fifty thousand)

definition of small enterprises

a) Industrial sectors (manufacturing, construction and mining)

It operates with 6-30 persons and/or with a paid up capital of total asset Birr 100,000(one hundred thousand) and not exceeding Birr 1.5 million.

b) Service sector (retailer, transport, hotel and Tourism, ICT and maintenance service)

It operates with 6-30 persons or/and total asset, or a paid up capital is with Birr 50,001 and not exceeding Birr 500,000.

Table1:-The definition of MSE is presented in table

Level of the enterprise	Sector	Human power	Total asset
Micro enterprise	Industry	< 5	< 100000 (\$6000 or E4500)
	Service	< 5	< 50,000 (\$3000 or E2200)
Small enterprise	Industry	6-30	< birr 1.5 million (\$9000 or E70000)
	Service	6-30	< birr 500,000 (\$30000 or E 23000)

When ambiguity is encountered between manpower and total assets as explained above, total asset is taken as primary yardstick.

Note:

- ◇ Micro and Small Enterprise Development Strategy (January, 2011, Addis Ababa, Ethiopia) Is under revision so the above definition may be Changed soon.
- ◇ Federal Urban Jobs Creation and Food Security Agency support and coordinate micro and small enterprises do not fall under the manufacturing sector but Medium and small Manufacturing enterprise support and coordinated by Federal Small and Medium Manufacturing Industry Expansion Authority.

2. How many MSMEs are there in Ethiopia? Could you break it down by sector as well?

Table2a:-Number of MSE Establishment by Years

Years of Establishments	2008E.C (2014/15 G.C)	2009E.C (2015/16 G.C)	2010E.C (2016/17 G.C)	2011E.C E.C (2017/18 G.C)	2012E.C (2018/19 G.C)	2013E.C (2019/20 G.C)	Total
Number of MSE Establishment	190,587	157,768	144,107	110,253	111,547	115,200	829,462
Number of Operaters	1,041,621	902,641	594,560	461,919	476,067	585,119	4,061,927

338,748 Established and operated enterprises until the end of 2012 E.C (2018/19 G.C) data were collected from each region for the Publication of Enterprise Directory. 307,206 of them are Micro, 29,047 of them are Small enterprise and 41,018 of them not specified their size.

Table2b:-Number of MSE Establishment by Sectors.

Sectors	No of MSE
Manufacturing	41,018
Trade	135,459
Services	79,344
Urban Agriculture	46,554
Construction	28,994
not specified	7,379
Total	338,748

3. Approximately how many are created each year?

We can Calculated Approximately from table 2a: - so 138,243.67 MSE created each year.

4. How many close each year? Could you break it down by reason, if possible?

On April 2021, Data Verification Survey was conducted jointly with Ministry of Agriculture, Urban Jobs Creation and Food Security Agency and Job creation commission and the report's release on May 2021. From a total of 2,447 sample enterprises surveyed in urban and rural, in rural 25.43% and in urban 19.11% were closed on average 22.23% enterprises were closed.

5. What is the average amount of capital MSMES need to get started and maintain operations before they start making profit?

On April 2021, Data Verification Survey was conducted jointly with Ministry of Agriculture, Urban Jobs Creation and Food Security Agency and Job creation commission and the report's release on May 2021. The average amount of initial capital the firms is about ETB 58,000 but the amount initial capital raised is different on level and sector of the enterprises.

Source of initial capital	Mean of initial capital (ETB)	No.	%
Banks or MFIs	131,768.31	636	26.5
Family/Friends	30,210.19	108	4.5
Iqub/Edir	14,200	2	0.1
Money lenders	41,127.43	7	0.3
Own	20,797.86	1,477	61.4
Saving and Credit Associations	122,993.61	174	7.2
Total	58,029.52	2,404	100.0

6. Would you be able to break down MSME ownership by women, Muslims, region and any other demographic you think is useful?

On April 2021, Data Verification Survey was conducted jointly with Ministry of Agriculture, Urban Jobs Creation and Food Security Agency and Job creation commission and the report's release on May 2021. the results show as below.

Who leads the enterprise

Who lead the enterprise	No.	%
By graduates	423	17.3
By women	357	14.6
People with disabilities	5	0.2
Returnees	19	0.8
Other	1,643	67.1
Total	2,447	100.0

Numbers of enterprises by region

Year	Region												Total
	Oromia	SNNP	Sidama	Amhara	Tigray	Addis Ababa	Dire Dawa	Harari	Benishan-gul-Gumuz	Gambe-la	Somali	Afar	
2008	42,775	12,549	-	84,890	37,523	8,081	2,124	372	1,045	543	680	5	190,587
2009	49,373	20,474	-	38,692	39,600	5,540	1,938	359	969	426	380	17	157,768
2010	34,886	23,374	-	40,674	31,556	9,564	917	348	568	547	1,600	73	144,107
2011	33,047	10,021	-	32,123	23,256	6,730	1,157	465	821	580	2,053		110,253
2012	30,897	6,967	-	37,234	18,541	13,680	374	304	636	448	2,246	220	111,547
2013	45,989	8,264	7,468	39,699	-	7,667	492	291	429	1,131	3,480	290	115,200
Total	236,967	81,649	7,468	273,312	150,476	51,262	7,002	2,139	4,468	3,675	10,439	605	829,462

Enterprises distribution by Size, Sector and Types

		No.
Enterprise by size	Micro Enterprises	307,206
	Small Enterprises	29,047
	Not Specified	2,379
Micro Enterprises	Manufacturing	36,901
	Trade	124,641
	Service	71,075
	Urban Agriculture	42,062
	Construction	25,856
	Not Specified	6,671
	Manufacturing	3,942
Small Enterprises	Trade	10,240
	Service	7,825
	Urban Agriculture	3,891
	Construction	2,968
	Not Specified	181
Enterprise type	Cooperatives	15,383
	Plc & Partnerships	75,502
	Sole Proprietorship	240,712
	Not Specified	7,100

7. How many MSMEs are financed via investments? How many via loans?

Please Refer Question No. 5

8. Those financed via loans, how many are able to pay back their loans? Those financed with investments, how many are able to provide profit for their investors?

From 2008 to 2013 the amount of loan disbursed by MFI 27,422,627,898 birr were collected, but how many enterprises repaid were not known.

The Amount of Loan Collected from Enterprises 2008-2013 E.C

Region	2008	2009	2010	2011	2012	2013	Total
Oromia	499,142,786	490,500,000	424,918,929	682,804,198	915,179,065	1,214,063,286	4,226,608,264
SNNP	268,925,554	322,500,000	382,647,851	444,354,206	607,943,464	440,623,986	2,466,995,061
Sidama	-	-	-	-	-	107,825,579	107,825,579
Amhara	491,961,977	1,572,950,157	1,008,966,193	477,376,329	631,738,211	1,386,778,569	5,569,771,436
Tigray	1,008,437,862	839,236,029	1,152,363,939	1,265,057,596	1,231,135,599	-	5,496,231,025
Addis Ababa	939,801,364	1,752,400,000	1,846,301,606	1,585,489,241	1,037,705,005	403,625,418	7,565,322,634
Dire Dawa	54,100,000	103,000,000	130,800,000	153,943,938	122,900,000	117,600,000	682,343,938
Harari	11,539,639	25,792,888	24,134,053	16,866,512	7,125,990	16,922,415	102,381,497
Benishangul-Gumuz	2,059,055	2,290,409	2,179,972	5,028,780	5,146,708	4,840,710	21,545,634
Gambela	5,096,870		624,363	2,419,962	4,187,857	1,945,302	14,274,354
Somali	39,000,000		76,500,000	87,876,909	911,031,471	52,299,221	1,166,707,601
Afar				754,597	1,215,278	651,000	2,620,875
Total	3,320,065,107	5,108,669,483	5,049,436,906	4,721,972,268	5,475,308,648	3,747,175,486	27,422,627,898

9. Currently, what are the primary ways that MSMEs access finance in Ethiopia?

source of initial capita

- Self-financing
- Loan from MIF, Bank
- Families

10. Do you know if, and how many, MSMEs are financed via remittances from relatives that live abroad?

Enterprises are established with the support of his/her families but we don't have any information whether it is abroad or not.

We collect data on source of financing with three variables namely self-financing, loan and families but we can't split families financing from abroad and local.

11. What is the success rate of MSMEs? How is that measured?

On April 2021, Data Verification Survey was conducted jointly with Ministry of Agriculture, Urban Jobs Creation and Food Security Agency and Job creation commission and the report's release on May 2021. From a total of 2,447 sample enterprises surveyed 74.57% in rural and 80.89% urban enterprises still alive, on average 77.77% enterprises alive.

12. Any other information that you think would be useful to our research?

Amount of loan disbursed for Enterprise from 2008 to 2013 E.C (In Birr)

Region	2008	2009	2010	2011	2012	2013	Total
Oromia	434,352,920	2,382,058,094	1,005,575,764	582,958,839	1,023,211,924	1,105,074,251	6,533,231,792
SNNP	389,173,860	521,251,607	1,004,947,890	621,542,392	424,890,601	588,064,941	3,549,871,291
Sidama						119,764,317	119,764,317
Amhara	2,515,286,226	2,061,665,115	2,479,050,192	1,318,089,562	1,171,548,077	1,704,504,048	11,250,143,220
Tigray	999,157,934	1,142,203,565	1,497,100,800	2,593,971,226	2,100,000,000		8,332,433,525
Addis Ababa	1,367,189,560	1,859,038,180	1,854,975,210	1,706,902,687	2,508,573,878	1,291,479,526	10,588,159,041
Dire Dawa	84,600,000	160,300,000	143,100,000	115,800,000	123,400,000	120,200,000	747,400,000
Harari	15,243,652	38,516,100	44,594,517	168,927,729	12,267,000	19,685,860	299,234,858
Benishangul-Gumuz	15,535,000	7,783,167	52,345,075	9,591,039	15,350,000	3,256,000	103,860,281
Gambela	6,461,193		21,671,286	30,106,930	20,044,004	2,973,821	81,257,234
Somali	214,097,000	466,505,000	499,838,384	139,351,680	271,424,915	61,156,204	1,652,373,183
Afar	3,320,067	662,550	30,508,526	24,573,129			59,064,272
Total	6,044,417,412	8,639,983,378	8,633,707,644	7,311,815,213	7,670,710,399	5,016,158,968	43,316,793,014

Loan Beneficiary Enterprises and Operators from 2008-2013 E.C

Loan Beneficiary	2008	2009	2010	2011	2012	2013	Total
Loan Beneficiary Operators	370,676	377,745	282,765	190,317	201,460	139,325	1,562,288
Loan Beneficiary Enterprises		98,227	99,192	99,249	91,102	58,918	348,461

Annex 5 – Survey

Online Survey for Ethiopian Diaspora Remittances

1. Do you send remittances to Ethiopia?

By remittances we mean transferring money from person to person (could be to friends, family etc.) or sending gifts or goods.

Yes	No

[If they DO NOT send remittances to Ethiopia, the survey will automatically end].

Remittances Practices

1. How often do you send money to Ethiopia? Please choose one answer.

- a. Weekly
- b. Monthly
- c. Quarterly
- d. Yearly
- e. When I can/as needed

2. Who do you send money to in Ethiopia? Please choose all the answers that apply.

- a. My parents
- b. My siblings
- c. My spouse
- d. My kids

- e. My aunts and uncles
- f. My cousins
- g. Other extended family
- h. My friends
- i. Myself, for future use or other in country expenses.
- j. Causes I support/community projects and organisations
- k. Other

3. How much money do you send each time? Please choose one answer.

- a. USD 50 to USD 100
- b. USD 100 to USD 500
- c. USD 500 to USD 1,000
- d. USD 1000 to USD 2000
- e. USD 2000 to USD 5000
- f. USD 5000+
- g. The amount varies/depends on what the money is for

4. What is the money used for? Please check all that apply

- a. Food
- b. Household bills and utilities
- c. Education
- d. Medical bills
- e. Gifts
- f. Building a house for myself (to eventually live in)

- g. Building a house for my family (to live in without me)
- h. Community projects
- i. Business
- j. Other

5. Who decides what the money is used on? Please choose one answer.

- a. Me
- b. The person receiving the money
- c. We decide together
- d. Depends/changes ___please explain___

6. How do you send the money? Please choose all the answers that apply.

- a. I take cash to a money transfer agent
- b. I pay with card, in person, at a money transfer agent
- c. I use a bank, either in person or online
- d. I pay online (using debit/credit card or bank transfer) through a money transfer agent
- e. I use an app
- f. I get a friend/person I trust to send it for me
- g. Other ___please explain___

7. What is the name of the company/companies you use to send money?

- a. Short answer

8. ADD LOGIC TO THIS QUESTION Do you have a diaspora account in a bank in Ethiopia?

- a. Yes
- b. No
- c. I don't know what that is

9. THIS IS ONLY SEEN BY PEOPLE WHO CLICKS A on QUESTION 9 What do you use your diaspora account for? Check all that apply

- a. Import/Export
- b. Business expenses
- c. Taking care of family
- d. For use when I'm in town
- e. Other ___please explain___

Investments (if you don't invest, a no to Question #9, moves you to next section)

1. Generally, how do you feel about investments? Please choose one answer.

- a. Good use of money
- b. Skeptical
- c. Too risky
- d. It's only for rich people
- e. It's an opportunity to build financial assets
- f. It ensures you have financial security
- g. An opportunity to build financial resilience
- h. A good opportunity to give back to Ethiopia
- i. I don't know anything about it

2. ADD LOGIC TO THIS QUESTION Do you invest in any businesses back in Ethiopia? Please choose all the answers that apply.

- a. Yes, that of family and friends
- b. Yes, I have my own business there
- c. Yes, I invest through a bank or other service
- d. Yes, but not in Ethiopia
- e. No, but I am interested in investing
- f. No, and I am not interested in investing

3. THIS IS ONLY SEEN BY PEOPLE WHO CLICK A in above question When you invest in a friend's or family member's business, do you expect the money to be repaid? Please choose one answer.

- a. Yes, it is a loan that they will pay back without interest
- b. Yes, it is a loan that they will pay back with interest
- c. Yes, but only on whatever profits they make
- d. No, it was a gift/donation
- e. Other ___please explain___

4. ADD LOGIC TO THIS QUESTION Are any of the remittances you send home meant for investing in businesses? Please choose one answer.

- a. Yes, I pay directly to the business account as part of the remittances I send
- b. Yes, the person I remit to, puts part of that money towards the business investments
- c. No, I make investments in Ethiopia separate from the remittances I send, and using different channels
- d. Other ___please explain___

5. THIS IS ONLY SEEN BY PEOPLE WHO CLICK C Above Please explain how you send money to Ethiopia for investment purposes

- a. Paragraph response

6. ADD LOGIC TO THIS QUESTION What percentage of the money you send to Ethiopia is spent on investing in businesses? Please choose one answer.

- a. 81-100%
- b. 51-80%
- c. 31-50%
- d. 16-30%
- e. 6-15%
- f. 1-5%
- g. 0%
- h. Varies ___what are the factors for this variation?___

7. What kinds of businesses in Ethiopia do you currently invest in? Please choose all the answers that apply.

- a. International corporations
- b. Large established/multi-partner businesses (100+ employees)
- c. Medium-sized Registered Enterprises (20 to 99 employees)
- d. Small-sized Registered Businesses (10 to 19 employees)
- e. Micro-sized Registered Businesses (less than 10 employees)
- f. Informal businesses (opening a small, unregistered business)

8. What factors affect your decision to invest? Rank in order of importance.

- a. If I know the founder/manager
- b. If I trust the founder/manager
- c. If the business was recommended by a friend
- d. If the process for investing is clear and convenient
- e. If it looks like a good business deal (potentially high and/or safe returns)
- f. If it is in a sector or doing work I am passionate or knowledgeable about
- g. I trust the bank / broker / platform that I am using

9. What sectors are you currently investing in, in Ethiopia? Please choose all the answers that apply.

- a. Agriculture
- b. Technology
- c. Finance
- d. Education
- e. Medicine
- f. Real Estate
- g. Other ___Please explain___

10. What other sectors would you be interested in investing in, in Ethiopia? Please choose all the answers that apply.

- a. Agriculture
- b. Technology
- c. Finance
- d. Education
- e. Medicine
- f. Real Estate
- g. Other ___Please explain___

11. Which of these do you look for when choosing a business to invest in, in Ethiopia? Please choose all that apply.

- a. Women led/run
- b. Muslim led/run
- c. Led/run by historically disadvantaged communities
- d. Gives back to the community and/or creates local jobs
- e. Sustainable environmental practices
- f. No animal cruelty
- g. Fair trade/ethical labor practices
- h. I haven't really thought about these

12. Would you be more enthusiastic about investing in a women led business?

- a. Yes
- b. This wouldn't matter to me
- c. I'd be less enthusiastic

13. What have been some of the obstacles or challenges to investing in Ethiopia that you have experienced? Please choose all that apply.

- a. Getting foreign funds in or out of the country
- b. Getting information about businesses and sectors to invest in
- c. Understanding the legislations/rules around investing
- d. Corruption / Untrustworthiness
- e. Infrastructure issues (internet, roads, electricity, etc)
- f. Administrative issues (clearing import/export, setting up accounts, registering a business etc)
- g. Other ___please explain___

14. Do you feel your gender, religion, ethnicity or any other factor brings about specific challenges or frustrations to your ability to remit or invest?

- h. Yes ___Please explain___
- i. No

15. What kind of information, products or services would you find useful in helping you invest in Ethiopia?

- a. Paragraph answer

Attitudes towards Investing [ONLY SEEN BY PEOPLE WHO CHOOSE D, E or F in Q2 of Investment Section]

16. ONLY SEEN BY PEOPLE WHO CHOSE D in Q2 of INVESTMENT SECTION Why are you not currently investing in Ethiopia?

- a. I plan to, I just haven't started yet
- b. It's too complicated
- c. I don't trust the system/institutions in Ethiopia
- d. I haven't found a business or sector I'm interested in investing in
- e. I haven't found a platform, bank or broker I like or trust
- f. I don't have enough information about the opportunities for investing there
- g. It just hasn't crossed my mind
- h. Other ___please specify___

17. ONLY SEEN BY PEOPLE WHO CHOSE E+F in Q2 of INVESTMENT SECTION What is keeping you from investing in Ethiopia? Please choose one answer.

- a. I don't have enough money to invest
- b. I don't have enough information on how/where to invest
- c. It just hasn't crossed my mind
- d. I'm not sure what I would want to invest in
- e. I'm not interested in investing at all
- f. It's very confusing to get started
- g. Other __Please specify__

18. THEY ONLY SEE THIS IF THEY CHOSE E ABOVE + MOVE TO Q27 WHEN DONE. Why are you not interested in investing in Ethiopia? Please choose one answer.

- a. I don't trust anyone with my money
- b. It is just not something I'm interested in
- c. I don't trust the systems/institutions in Ethiopia
- d. It seems too complicated
- e. It doesn't seem worth the effort
- f. Other __Please specify__

19. What kinds of businesses in Ethiopia would you want invest in? Please choose all the answers that apply.

- a. International corporations
- b. Large established/multi-partner businesses (100+ employees)
- c. Medium-sized Registered Enterprises (20 to 99 employees)
- d. Small-sized Registered Businesses (10 to 19 employees)
- e. Micro-sized Registered Businesses (less than 10 employees)
- f. Informal businesses (opening a small, unregistered business)
- g. I don't know

20. What factors would affect your decision to invest? Rank in order of importance. [Have an opportunity to put N/A]

- a. If I know the founder/manager
- b. If I trust the founder/manager
- c. If the business was recommended by a friend
- d. If the process for investing is clear and convenient
- e. If it looks like a good business deal (potentially high and/or safe returns)
- f. If it is in a sector or doing work I am passionate or knowledgeable about

21 What sectors are would you be interested in investing in, in Ethiopia? Please choose all the answers that apply.

- a. Agriculture
- b. Technology
- c. Finance
- d. Education
- e. Medicine
- f. Real Estate
- g. I don't know / haven't thought about it
- h. Other ___Please explain___

22. Which of these would you look for when choosing a business to invest in, in Ethiopia? Please choose all that apply.

- a. Women led/run
- b. Muslim led/run
- c. Led/run by historically disadvantaged communities
- d. Gives back to the community and/or creates local jobs
- e. Sustainable environmental practices
- f. No animal cruelty

- g. Fair trade/ethical labor practices
- h. I haven't really thought about these
- i. These factors wouldn't affect my decision

23. Would you be more enthusiastic about investing in a women led business?

- a. Yes
- b. This wouldn't matter to me
- c. I'd be less enthusiastic
- d. I don't know / haven't thought about it

24. Do you feel any of these would be an obstacles or challenges to investing in Ethiopia? Please choose all that apply.

- a. Getting foreign funds in or out of the country
- b. Getting information about businesses and sectors to invest in
- c. Understanding the legislations/rules around investing
- d. Corruption / Untrustworthiness
- e. Infrastructure issues (internet, roads, electricity, etc)
- f. Administrative issues (clearing import/export, setting up accounts, registering a business etc)
- g. I don't know
- h. Other ___please explain___

25. Do you feel your gender, religion, ethnicity or any other factor would bring about specific challenges or frustrations to your ability to remit or invest?

- a. No
- b. I don't know / haven't thought about it
- c. Yes ___Please explain___

26. What kind of information, products or services would you find useful in helping you invest in Ethiopia?

- a. Paragraph answer

27. ONLY SEEN BY PEOPLE WHO COMPLETED QUESTION 18 THEN THEY MOVE TO DEMOGRAPHICS SECTION WHEN DONE What would make you consider investing in Ethiopia

- a. Better policies/regulations
- b. Easier to get money in and out of the country
- c. Reduced civil unrest
- d. Clear guidelines and information about investing
- e. A business or sector I was extremely interested in
- f. A trusted business opportunity with attractive returns
- g. An investment platform I really trusted and liked
- h. Nothing would make invest in Ethiopia
- i. I'm not sure
- j. Other __please specify__

Islamic Finance

1. D+E skip to next section Are you interested in Islamic Finance/Sharia complaint investing/interest-free investing? Please choose one answer.

- a. Yes, those are the only type of investments that I would consider
- b. Yes, I would prefer this type of investment, but would consider other types for a business/opportunity that I am excited about
- c. If it is a business/opportunity that I am interested in, I do not mind if it is financed according to Sharia law/interest-free investing
- d. I'm not familiar with this type of investments
- e. Not at all interested/it doesn't matter to me

2. Are you currently investing in any businesses in a Sharia-complaint way? Please choose one answer.

- a. Yes, all my investments are this way
- b. Yes, some of my investments are this way
- c. No, none of my investments are this way
- d. No, I don't invest in any businesses

3. Would you be interested in a third party, such as a bank or other financial institution, providing Islamic finance and investing services? Please choose one answer.

- a. Yes, I already use such services
- b. Yes, I would be open to such a service
- c. Maybe, it depends on several factors
- d. No, I wouldn't trust a third party to comply the way I need

4. What is the most important factor affecting / would affect your decision to use a third-party service for investing (Islamic finance way)? Please choose one answer.

- a. An all-Muslim board
 - b. Invests in Muslim owned companies
 - c. Trusted/recommended by a friend
 - d. Endorsed by an Imam
 - e. This does not apply / matter to me
 - f. Other ___Please explain___
5. Do you have any other thoughts or experiences you would like to share about investing using Islamic finance/in a sharia-compliant way?

Demographics

1. What country do you live in?

- a. Country drop down menu

2. What city do you live in?

- a. Short Answer

3. How old are you?

- a. 18 to 25
- b. 26 to 35
- c. 36 to 45
- d. 46 to 55
- e. 56 to 65
- f. 66+

4. What gender are you?

- a. Male
- b. Female
- c. Prefer not to say

5. How long have you been living outside of Ethiopia?

- a. I was born abroad
- b. My parents and I were all born abroad
- c. I moved here when I was under 18

- d. 1 to 3 years
- e. 4 to 10 years
- f. 10 to 20 years
- g. 21+ years
- h. I'm only here for my studies, then I'll go back

6. What religion do you identify with?

- a. Christianity
- b. Islam
- c. None
- d. Other
- e. Prefer not to say

7. What is your yearly income?

- a. \$0 to \$10,000
- b. \$10,001 to \$25,000
- c. \$25,001 to \$50,000
- d. \$50,001 to \$75,000
- e. \$75,001 to \$100,000
- f. \$100,001 to \$150,000
- g. \$150,001 to \$200,000
- h. \$200,001+

8. What region of Ethiopia are you and your family from? [Multi-box Option]

- a. Addis Ababa
- b. Afar
- c. Amhara
- d. Benishangui-Gumuz
- e. Dire Dawa
- f. Gambela
- g. Harari
- h. Oromia
- i. Somali
- j. Southern Nations, Nationalities and People
- k. Tigray
- l. I don't know
- m. Other

9. What industry do you work in? Short box answer

Thank you for taking the time to complete this survey! Your responses will be very helpful for our research.

