

# DIASPORA REMITTANCE MAPPING STUDY SOMALIA

JUNE 2021 – JANUARY 2022

**CONSULTANT:**

**FUNDED BY:**



**A report submitted to Pangea Trust:**

**By DMA Global**

**Primary Authors:**

**Francine Dove – Regional Manager, Africa**

**Omolayo Nkem Ojo – Research Manager**

**Disclaimer:**

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

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## ACKNOWLEDGEMENTS

This report was made possible, thanks to the support of the Swedish International Development Agency (Sida) through Pangea Trust. Anne Lawi, with the support of Olive Wanjiru, provided guidance and support in the development of this report. The entire Pangea team was supportive and contributed in different ways to this research. Thank you to Osman Awil for his support identifying and liaising with in-country stakeholders to organise meetings. A thank you also to Rahma Hersi and Fiona K. for their insights and expertise into Islamic finance

The DMA Global team, led by Leon Isaacs and Francine Dove, implemented the research and development of the report. Omolayo Nkem Ojo support throughout the stakeholder interviews and report writing process was also extremely appreciated. The development of the online survey was made possible with the support of Kimberley Watson. The authors also gratefully acknowledge the copyediting provided by Robyn Kingston.

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# EXECUTIVE SUMMARY

According to UNDESA (2019), there are over 2 million Somali diaspora, who formally remitted approximately USD 1.6 billion in 2020. However, it is unclear what percentage of these remittances are utilised for investments towards micro-, small- and medium-sized enterprises (MSMEs). This research was undertaken with the objective of deepening Pangea Trust's knowledge of the Somali 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 organisations in Somalia, as well as diaspora community leaders in the UK. This report, which is broken down into four chapters and concluding with recommendations, is the result of primary research, desk-based research and expert analysis of findings.

## 1: Somalia's Geopolitical Context

The Federal Republic of Somalia is a developing country of 15.8 million predominantly Sunni Muslims, located in the horn of Africa. Clan affiliation is the main indicator of identity for the Somali people. Currently, Somalia is the second poorest country in the world, measured by GDP per capita. Much of the population has been impacted by the devastating effects of natural threats and hazards, in patterns that are regular and predicted to continue. Extended periods of unrest including civil war, mass population displacement and a lack of central government have led to Somalia's current fragile and conflict-affected state (FCAS) status.

In Somalia, formal finance is synonymous with Islamic finance. The Central Bank of Somalia's development of financial legislative and regulatory frameworks over the last decade, reflects efforts to strengthen the sector. Despite the milestones achieved, the prevailing characteristic of Somalia's financial sector is high risk. The World Bank Multi Partner Fund (MPF) provides essential donor support in the continued development of Somalia and its financial sector. Somalia's largely dollarised, 'cash-lite' economy is dominated by mobile money. Digital payment access has been further enhanced with the launch of the National Payment System (NPS) in August 2021. To leverage Somalia's developing infrastructure, there is a need for new products to diversify what is currently offered by financial institutions. Whilst the CBS are committed to continue the establishment of robust systems and processes to govern the financial sector, unsurprisingly, challenges remain.

## 2. Somali Diaspora Investment Environment

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The definition of “Somali diaspora” can be fluid in different contexts but includes people from all Somali regions. Somalia has a long history of being engaged in internal and international labour migration, and displacement due to conflict that continues today. The diaspora are well known for being organised and coordinated, and regularly engage with the Somali government.

In 2020, Somalia received USD1.6 billion in inbound remittance flows to individuals, accounting for 35 percent of the country's GDP. Quantifying these flows remains a challenge, despite the level of attention on the market. Remittances are considered the “mother” of the Somali financial sector, as they were the only financial service available during the civil war, dominated by money transfer businesses. The COVID-19 pandemic and ongoing de-risking challenges have accelerated the Somali remittance market's shift towards digital transactions. Ongoing financial sector reforms will provide a critical foundation for restoring Somalia's correspondent banking relationships over the medium term.

The focus on remittances for development is increasing, leading to an over-simplified view that channelling remittance funds for consumption is ‘less productive’. There are clear distinctions between diaspora investment and remittances, and each should be considered on their own terms. It is difficult to understand the level of remittances used for investments, as remittance channels are often the only viable way to send money to Somalia. Diaspora savings have potential as an accessible source of diaspora capital.

There is a lack of finance options available for MSMEs start-ups and entrepreneurs in Somalia. Several non-governmental organisations (NGOs) and international organisations are involved in providing a variety of funding for MSMEs, start-ups, and entrepreneurs in Somalia; however, most of them appear to be grants with a few exceptions. The Somalia Guarantee Credit Scheme (SGCS) is unique in its approach to providing access to capital to SME applicants with capacity for repayment but lack sufficient collateral. Regulation is being developed to make it easier for start-ups and entrepreneurs to access funding.

## 3: Diaspora Investments Definition, Best Practice and Somalia Opportunities

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Increasingly, governments are recognising the power of their diaspora and the role the diaspora plays in their home country's economic development, beyond humanitarian aid and remittances. Diaspora investment is the main channel of interest that governments are interested in. As a subset of foreign investment, diaspora investment can be divided into two categories: diaspora direct investment (DDI) and Diaspora portfolio investment (DPI). Due to its emerging nature, there are few examples of successful diaspora investment initiatives globally. Diaspora investment approaches and strategies from other countries in the region, and globally, may not translate to Somalia's nuanced environment.

Somalia's investment legislation is reflective of efforts to encourage foreign investment into the country, though there is no specific provision for the diaspora. The National Investment Promotion Strategy illustrates the government's coordinated roadmap towards transforming Somalia's investment image and will be targeting the diaspora with an outreach programme. Further initiatives to foster the flow of investments into Somalia are being supported by the IFC. At present, there are several local and international organisations that are involved in efforts that blur the line between humanitarian and investment activities. These activities aim to build resilience and fund projects and support livelihoods and wellbeing of communities. A recent EU

mapping of private sector investment into Somalia showed that more than two thirds of European companies operating in Somalia are linked to the Somali Diaspora.

The established history of extensive Somali diaspora support in development and relief activities are indicative of diaspora interest to invest. Diaspora support and collective organisation are also centred around clan affiliations and networks which have significant links to clan members in the diaspora. In addition to the ad hoc and personal investment projects driven by the Somali diaspora, several international organisations also facilitate financing to, or through, diaspora organisations, towards initiatives in Somalia. Investment events have been held in efforts to raise awareness of diaspora investment and encourage the flow of funds into Somalia.

## 4: Investment Attitudes and Survey Findings

An online survey was developed and disseminated amongst the Somali diaspora globally, in parallel to stakeholder interviews held for this study. The survey ran from Friday 26th November 2021 to Thursday 27th January 2022. Despite heavy and extended promotion through several channels and networks, and a paid incentive, the survey only had seven respondents out of a target of one hundred Somali diaspora to complete the survey. Though not representative of the Somali diaspora as whole, the high level findings can be used as indicative guidance into future diaspora engagement. This experience has highlighted challenges of surveying the diaspora as a whole and the fatigue they might feel from being a hot topic for the last few years. When it comes to engagement and research, there are challenges that are specific to the Somali diaspora.

- Somalis do not discuss financial information widely.
- The fear of Al-Shabaab in the Somali community is very real.
- Somali diaspora may feel limited added value of survey participation.
- Trust is the key missing element for engagement with the Somali diaspora.

Whilst the survey sample is small, some of the behaviours arisen are consistent with what is known of the Somali diaspora remittance and investment behaviours and habits.

- The Somali diaspora are mindful of where and how they share their personal information.
- Remittances sent by the Somali diaspora are mainly used for daily consumption.
- There is interest in investing in Somalia from the diaspora.
- The cultural attributes that Somali diaspora display when investing align with the tenants of impact investing.

Though not representative of the Somali diaspora as whole, the high level results can be used as input into future diaspora engagement. This has been considered in the study recommendations.

## Chapter 5: Recommendations

Due to the complexity and the development required in the Somali investment market, recommendations have been divided into those which Sida can drive and those for Pangea Trust.

## Recommendations for Sida

### 1. Continue to support the creation of a clear and robust environment for investment in Somalia

Enabling Environment

Priority – High

Difficulty – High

#### Background:

Somalia's financial sector needs to develop further to decrease its high-risk profile and for it to be seen as a viable market by the international community. Somalia will continue to need development support in order to achieve this.

#### Activities:

Continue to support the development of Somalia's financial sector through framework pillar aligned with economic growth.

Provide technical assistance toward the development of a Diaspora Investment Policy

### 2. Support the development of a website for investment information and available opportunities from organisations like Pangea Trust

Education

Priority – Medium

Difficulty – Medium

#### Background:

As Somali investment sector continues to develop and lack of trust still remains, a clear, golden source of information on investments would allow transparency and openness for the Somali diaspora

#### Activities

Support an international organisation or NGO to:

- Design and create a "one stop shop" online portal that explains all about investments in Somalia, showcases opportunities available to them and allows for capture of diaspora data, including investment preferences.
- Develop visual content (videos, dynamic projections, etc) around businesses and investments to showcase their features and returns

# Recommendations for Pangea Trust

<b>3. Create opportunities to build trust with Somali diaspora to open channels of dialogue around investments</b>	Trust
	Priority – High
	Difficulty – High
<p><b>Background:</b></p> <p>The Somali diaspora are reluctant to engage due to culture, fear and a lack of value add when it comes to investments.</p> <p>Big steps are needed in order create opportunities for discussion and build trust.</p>	<p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>Engage with clan leaders and influencers to help open channels to the diaspora</li> <li>Engage with diaspora organisations to create opportunities to network and invite diaspora to future Pangea Trust events and participate in research</li> </ul> <p>Engage with organisations in Somalia who have diaspora funding support to understand their lessons learned of communicating with the Somali diaspora</p>

<b>4. Develop a communication strategy to discuss investment with the Somali diaspora</b>	Engagement
	Priority – High
	Difficulty – Low
<p><b>Background:</b></p> <p>Once trust has started to build, and the next step is to start dialogue with the Somali diaspora about investments.</p> <p>Activities could be time intensive, and the timeline could be long, but the payoff is essential.</p>	<p><b>Activities:</b></p> <ul style="list-style-type: none"> <li>Explore different approaches for different segmentations of the diaspora and envelop a plan to target – e.g. recent migrants, 2nd or 3rd generation, professionals, business owners</li> <li>Explore engagement via different channels             <ul style="list-style-type: none"> <li>One-on-one interviews and focus groups</li> <li>Smaller numbers, with more in-depth discussion</li> </ul> </li> <li>•Meeting set up by Clan leaders and influencers</li> </ul>

## 5. Create and build a relationship with The Central Bank of Somalia

Engagement

Priority – Medium

Difficulty – Medium

### Background:

Learnings from activities with the diaspora are essential for product development and innovation in the market.

Sharing findings and knowledge will help to build goodwill and seek advice as a new entrant in the market.

### Activities

- Share Diaspora Remittance Mapping Study
- Share any further findings that are outputs from Recommendation 1 or from further research

## 6. Explore the potential of Somali diaspora savings for investments as a source of capital for investments.

Research

Priority – High

Difficulty – High

### Background:

The view that remittances sent for consumption are less productive is an over-simplified view and the development community has differing opinions on this.

African diaspora savings are estimated at more than USD 30 billion. Somali diaspora savings could be a source of sustainable funding.

This can only happen once dialogue has started with the diaspora and a relationship has been developed.

### Activities

- Research with the Somali diaspora to understand savings potential
- Organise workshops, seminars and other educational programmes promoting the use of savings and extra funds towards investing to encourage investment from those in a position to do so.

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## Abbreviations

AML/CFT	Anti-money laundering and countering the financing of terrorism
CBS	Central Bank of Somalia
DDI	Diaspora direct investment
DiPS	Diaspora Project Support
DPI	Diaspora portfolio investment
FCAS	Fragile and conflict-affected state
FGS	Federal Government of Somalia
GDP	Gross domestic product
IDPs	Internally displaced persons
MFIs	Microfinance institutions
MSMEs	Micro-, small- and medium-sized enterprises
MTOs	Money transfer operators
NGOs	Non-governmental organisations
NPS	National Payment System
UNDESA	United Nations Department of Economic and Social Affairs
USD	United States Dollar

# INTRODUCTION

According to UNDESA (2019), there are over 2 million Somali diaspora, who formally remitted approximately USD 1.6 billion in 2020. However, it is unclear what percentage of these remittances are utilised for investments towards micro-, small- and medium-sized enterprises (MSMEs).

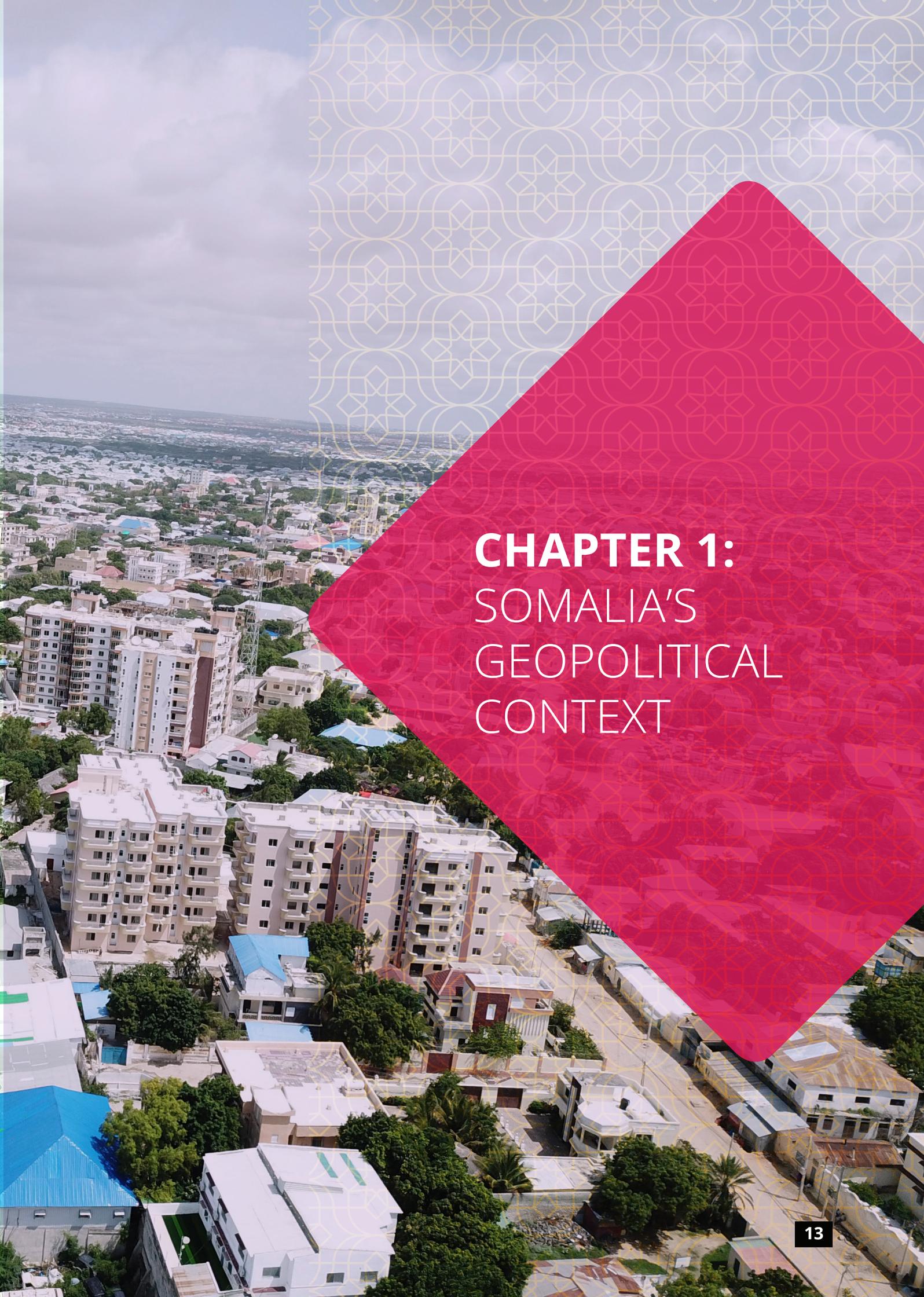
This research was undertaken with the objective of deepening Pangea Trust's knowledge of the Somali diaspora as well as their remittances and investment behaviours and attitudes. This project aims to provide a better understanding of how different segments of the diaspora remit and invest; their attitudes 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 to:

- Understand the current remittance practices by Somalis 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 Somalia 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 Somalis 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 Somalia.

Primary research was carried out in the form of stakeholder interviews with public and private organisations in Somalia, as well as diaspora community leaders in the UK. All interviews were held over teleconferencing calls. A survey was also disseminated among the global Somali diaspora community.

This report, broken down into four chapters and concluding with recommendations, is the result of that primary research, desk-based research and expert analysis of findings. Chapter one introduces Somalia's geopolitical situation, providing the context with which we look at Somalia's remittance and investment market. Chapter two looks at diaspora flows from Somalia and remittances flows to Somalia, the use of remittances for investment and current access to finance. Chapter three focuses on the definition and examples of diaspora investment, Somalia's current investment environment and existing avenues for diaspora investment. Chapter four focuses on the survey findings beginning by discussing the online survey methodology and obstacles faced, then summarises respondent profiles, before finally looking at remittance and investment behaviours and habits. Finally, chapter five provides recommendations for Sida and Pangea Trust, taking into consideration the realities and opportunities in Somalia and with 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.



# CHAPTER 1: SOMALIA'S GEOPOLITICAL CONTEXT

# THE FEDERAL REPUBLIC OF SOMALIA

Population

**15.8  
MILLION**

**2ND**

**poorest country  
in the world,**

**GDP**

**USD 4.9  
BILLION**

**GDP PER  
CAPITA**

**USD 314**



The Federal Republic of Somalia is a developing country of 15.8 million largely clan-based Sunni Muslims, located in the horn of Africa. Somalia borders Djibouti, Ethiopia and Kenya and has the longest coastline in Africa. The Somali population can be largely divided into pastoralists with large urban hubs in northern and central Somalia and agro-pastoralist and riverine agricultural livelihood groups in southern Somalia.<sup>2</sup>

Clan affiliation is the main indicator of identity for the Somali people. In part given that Islam is the dominant religion, 'clan identity [is viewed as] the cornerstone<sup>3</sup> of both formal and informal societal, political and interpersonal relations meaning that socio-economic challenges are shaped and resolved through clan solidarity, organisation and protection. A 'clan-based governance structure' has emerged in Somalia since 1991, with clan authority mapped out onto specific geographical areas and 'clan institutions overrid[ing] all other institutions'<sup>4</sup>

Somalia is currently the second poorest country in the world. Somalia is a low-income country with a GDP of USD 4.9 billion and a GDP per capita of USD 314,<sup>5</sup> reflecting low levels of economic activity and income. Regionally inter-connected through trade, clan and politics, Somalia is a key player in the East African pastoral system between Kenya and Ethiopia as well as the Middle East, the region's major trade partner. Livestock (camels, cattle, sheep, and goats) amount to 30 percent of all exports and is Somalia's core economic market. Kenya and the Middle East are major export markets.<sup>6</sup>

Much of the Somali population has been impacted by the devastating effects of natural threats and hazards, in patterns that are regular and predicted to continue. In 2021, 2.6 million people in Somalia faced water shortages due to severe drought conditions, leading to 113,000 people being displaced.<sup>7</sup> Flooding in Somalia affected 1.6 million people in 2020, of whom 840,000 were displaced and 35 killed. In 2020, desert locust infestation reached the highest levels that Somalia has seen in 25 years.<sup>8</sup> Somalia is also vulnerable to cyclones, epidemics, and climate related disease. Somalia's reliance on the pastoral system under these conditions exposes the economy to heavy losses, one of the contributors to the country's reliance on aid and remittances.

Extended periods of unrest including civil war, mass population displacement and a lack of central government have led to Somalia's current fragile and conflict-affected state (FCAS) status. Somalia has been embroiled in a protracted civil war since 1988, when dissatisfaction with the Said Burre-

<sup>2</sup>World Bank (2017). Remittances and Vulnerability in Somalia.

<sup>3</sup>Owinow and Reuben (2021). Re-Assessing the Conflict Resolution in South Central Somalia: A Hybrid Approach.

<sup>4</sup>Beyene (2018). The Security Sector Reform Paradox in Somalia.

<sup>5</sup>World Bank (2020). GDP per capita (current USD).

<sup>6</sup>World Bank (2017). Remittances and Vulnerability in Somalia.

<sup>7</sup>Somalia Wash Cluster (2021). Drought and Water Crisis.

<sup>8</sup>Reliefweb (2020). Q&A: The impact of desert locusts in the Horn and Eastern Africa.

<sup>9</sup>ODI (2018). The challenge of informality: counter-terrorism, bank de-risking and financial access for humanitarian organisations in Somalia.

<sup>10</sup>Reliefweb (2020). Humanitarian needs overview.

<sup>11</sup>ODI (2018). The challenge of informality: counter-terrorism, bank de-risking and financial access for humanitarian organisations in Somalia.

<sup>12</sup>Council on Foreign Relations (2021). Al-Shabaab.

<sup>13</sup>Congressional Research Service (2020). Al Shabaab.

led government regime led to uprising from nationalist groups. The clan-based nationalists overthrew the government in 1991, leading to decades of political, economic and social instability and, following this, Somalia did not have a central authority until 2012.<sup>9</sup> There are currently more than 2.6 million internally displaced persons (IDPs) in Somalia<sup>10</sup> and human rights violations and a historic lack of accountability or formal redress mechanisms through the judicial system has created a general feeling of fear and insecurity amongst the population.<sup>11</sup> This challenging security situation and concurrent economic and humanitarian challenges has been compounded by famine, crop failures and drought. Al-Shabaab, the Islamic insurgent group primarily based in southern Somalia, is currently considered to be the principal security risk in Somalia<sup>12</sup> and has retained a level of control over sizeable parts of the country, particularly rural areas, since losing Mogadishu and other territory in 2012.<sup>13</sup> Currently the Federal Government of Somalia (FGS), assisted by African Union peace keeping troops, are in conflict with Al-Shabaab in southern Somalia. The journey to a fully functioning government is still underway and the situation has evolved in disparate ways across different parts of the country. Somalia is presently split into three main areas: South-Central Somalia to the south, Puntland in the north-east and Somaliland in the north-west.

#### South-Central Somalia

- ◊ The Federal Government of Somalia (FGS) is internationally recognised
- ◊ Four federal member states Galmudug, Hirshabelle, Jubaland, and Southwest.
  - \* Each state has its own constitution and political agenda
  - \* At times the four states behave like independent states

#### Puntland

- ◊ Federal member state
- ◊ Self-declared autonomous region since 1998
- ◊ Has its own state bank

#### The Republic of Somaliland

- ◊ Self-declared independent republic since 1991
- ◊ Not recognised by the international community
- ◊ Has its own central bank

<sup>14</sup>Central Bank of Somalia (2012). The Central Bank of Somalia Act Law

<sup>15</sup>Islamic banking, also referred to as Islamic finance or shariah-compliant finance, refers to financial activities that adhere to shariah (Islamic law). Two fundamental principles of Islamic banking are the sharing of profit and loss, and the prohibition of the collection and payment of interest by lenders and investors. Source: Investopedia (2022).

<sup>16</sup>Central Bank of Somalia (2012). Financial Institutions Act Law

<sup>17</sup>Central Bank of Somalia (2014). The Financial Institutions (Money Transfer Business Licensing) Regulations

<sup>18</sup>Central Bank of Somalia (2016). Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Act

<sup>19</sup>Central Bank of Somalia (2019). Mobile Money Regulations

<sup>20</sup>DMA Global stakeholder interview (2022)

## NATURAL THREATS AND HAZARDS

### WATER SHORTAGES

In 2021

**2.6 MILLION PEOPLE**

Affected

**113,000 PEOPLE**

displaced



### FLOODING

**1.6 MILLION PEOPLE**

Affected

**840,000 PEOPLE**

displaced



# 1.1. The financial sector in Somalia

**In Somalia, formal finance is synonymous with Islamic finance.** Re-established in 2011, the Central Bank of Somalia (CBS) is the monetary authority of all regions in Somalia, in charge of licensing, regulation and supervision of the financial sector. The CBS Act, 2012 sets out compliance with Islamic banking practices as central to all CBS activities.<sup>14</sup> Whilst stakeholders have suggested that the term Islamic finance<sup>15</sup> can be free to interpretation by different actors in the ecosystem, the CBS is clear that all Somali banks are sharia compliant.

The development of financial legislative and regulatory frameworks reflects CBS efforts to strengthen the sector. Over the last decade, several laws, regulation, and acts have been developed and approved by parliament including:

1. Financial Institutions Act, 2012:<sup>16</sup> mandates CBS oversight over domestic financial institutions including banks, remittance service providers and mobile money operators.
2. Financial Institutions (Money Transfer Business Licensing) Regulations, 2014:<sup>17</sup> sets out licensing and supervision requirements of remittance service providers.
3. Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Act, 2016:<sup>18</sup> outlines the framework to identify and manage AML/CFT risk and Customer Due Diligence (CDD) requirements.
4. Mobile Money Regulation, 2019:<sup>19</sup> the licensing and supervision regime for mobile money providers
5. Islamic Financial Reporting and Accounting Guidelines, 2020:<sup>20</sup> defines the data obligation for banks to the central bank

In 2021, the CBS drafted four new pieces of legislation – the Revised Financial Institution Act, Insurance Bill, and National Payment System Bill<sup>21</sup> – which are currently going through the consultation process. The fourth, the Targeted Financial Sanction Bill, is currently with Parliament for approval.

**Despite the milestones achieved by the CBS, the prevailing characteristic of Somalia's financial sector is high risk.** Scrutiny of Somalia's risk profile increased significantly after 9/11, enhanced anti-money laundering and countering the financing of terrorism (AML/CFT) measures that make transacting extremely difficult. Whilst these regulations have important intentions, Somali citizens are left with the unintended consequences. Since the start of the civil war, remittance transactions have remained the primary channel to get money into Somalia.

**The World Bank Multi Partner Fund (MPF) provides essential donor support in the continued development of Somalia and its financial sector.** The MPF is a pooled fund mechanism established in Somalia in 2013. The fund is governed under the Somalia Development Reconstruction Facility (SDRF) framework in close collaboration with the government and the ten donor organisations that fund the initiative.<sup>22</sup> As of June 30, 2021, donors had committed a total of USD 524.4 million to the MPF, of which USD 517.1 million had already been paid in. The main objectives of the MPF are to build institutions to deliver services and to restore economic resilience and opportunities, and it is a vital tool in the development of Somalia. The MPF has made considerable progress in the last 8 years but it faces many challenges (not least the current political situation in the country) and will take multiple years to achieve its goals. Its success would contribute greatly to creating a viable financial environment which would enable a more conducive environment for investment

<sup>21</sup>The NPS enables interoperability amongst 13 commercial banks, connecting them to a clearing and settlement system, and enabling real-time money transfer processing. Interoperable capabilities extend to debit and credit cards, ATMs, and mobile money operators.

<sup>22</sup>The ten MPF donors are The European Union, United Kingdom, Germany, Sweden, Norway, Denmark, Switzerland, Finland, United States, Italy, and the World Bank State and Peacebuilding Fund.

<sup>23</sup>World Bank (2017). A game changer—the prospects and pitfalls of mobile money in Somalia

<sup>24</sup>Making Finance Work for Africa (2017). Mobile Money in Somalia: Household Survey and Market Analysis

and an efficiently functioning remittances market. One element of particular interest within the MPF is the Financial Sector Initiative (FSI) which aims to unlock international investment and correspondent banking relationships (CBRs) in Somalia by improving the integrity of the financial sector and ensuring that high standards of corporate governance, risk management, and compliance safeguarding against terrorist financing and illicit financial flows are met by participants (in both the public and private sectors). Progress is being made and it is expected that this operation would be effective during the coming.

The MPF is focused on multiple areas which are closely linked. Two, among many, that are of particular interest are:

- ◇ The Effective, Accountable Government portfolio of the MPF which financed eight active projects (including health, education, combatting the impact of the locust crisis, governance).
- ◇ The Enabling Economic Growth portfolio (including increasing economic resilience as a basis for long-run poverty reduction and inclusive growth). The Somalia Capacity Advancement, Livelihoods and Entrepreneurship, through Digital Uplift Project (SCALED-UP) is a relevant area that is part of this portfolio.

**Somalia's largely dollarised, 'cash-lite' economy is dominated by mobile money.** The last official Somali shilling banknote was printed and put into circulation before 1991. Since then, the US dollar has become the de facto currency for transactions. Mobile money penetration is high, with 73 percent of the Somali population regularly using a mobile money wallet<sup>23</sup> and 63 percent of mobile money users keep their funds in their wallet rather than cashing out.<sup>24</sup> There has been progress in implementation of the regulation framework: market leader Hormuud Telecom became the first licensed mobile money operator in January 2021.

**Digital payment access has been further enhanced with the launch of the National Payment System (NPS) in August 2021.**<sup>25</sup> Connecting 13 banks,<sup>26</sup> this improvement in financial infrastructure will facilitate more efficient transactions for consumers and promote financial inclusion, whilst also providing the CBS with the ability to better oversee payments and compliance. The expectation is the NPS will have a positive impact on economic activity, management of monetary aggregates, transaction costs, and development of new financial products which can become important sources of fee income for financial institutions, bringing Somalia one step closer to international financial system standards.<sup>27</sup>

**There is a need for new products to diversify what is currently offered by financial institutions in Somalia.** Financial institutions tend to offer a narrow range of products along their segmentation lines. Commercial banks are typically located in urban areas, offering large business and real estate loans or credit products geared towards trade financing. Potential new product areas that could be explored by banks include insurance, pension, extended credit facilities and investments. Microfinance institutions (MFIs) target individuals and small businesses who do not have access to conventional banking or related services. Specific regulation to support MFIs does not yet exist in Somalia. Some banks are positioning to meet the microfinance demand once the facilitating regulation is in place.<sup>28</sup>

**Whilst the CBS are committed to continue the establishment of robust systems and processes to govern the financial sector, unsurprisingly, challenges remain.** It will take time for Somalia's immature financial sector to attain the necessary compliance and reputational currency. It is understood that it is difficult for the financial regulator in a decentralised country to enforce regulation in the market, but it is imperative that the CBS continues to find ways to build capacity and resources for Somalia to be seen as viable in the international market. It is within this context that this study explores the Somali diaspora and their remittances and investment behaviours and attitudes.

<sup>25</sup>Supported by the International Monetary Fund (IMF) and the World Bank.

<sup>26</sup>African Business (2021). Somalia points the way to first cashless society

<sup>27</sup>World Bank (2018). Central Bank of Somalia and Somali Financial Institutions Take Crucial Steps to Modernize Banking Sector.

<sup>28</sup>Concern Worldwide (2020). Mapping of Financial Services for SHGs and Barriers for Women to Access Microfinance Services in Somalia.



## **CHAPTER 2:** SOMALI DIASPORA INVESTMENT ENVIRONMENT

## 2.1 Migration and remittance numbers

The definition of Somali diaspora can be fluid in different contexts. Typically, the Somali diaspora are people from across Somalia, including Somaliland, Puntland, and South-Central zones. Ethnic Somalis from neighbouring countries and minority groups such as the Bantu can also be included due to historical, cultural, civil society and social connections. This report will focus on Somali diaspora that fall under the former definition.<sup>29</sup>

Somalia has a long history of internal and international labour migration and displacement due to the ongoing conflict. Waves of departures greatly increased due to the civil war that created nearly one million refugees from the late 1980s to the early 1990s. In 2019, UNDESA estimated that there were over 2 million Somalis residing outside of Somali. This does not account for irregular migrants and 2nd and 3rd generation Somalis living abroad, thus the actual number could be a lot higher. By the end of 2020, Somalis made up the largest number of refugees in the world, at 671,482. Ethiopia and Kenya host the largest numbers of Somali refugees at 42 percent and 33 percent respectively, followed by Yemen (17 percent) and Uganda (8 percent).<sup>30</sup> The top host destinations for Somali diaspora are neighbouring countries Ethiopia (23 percent), Kenya (22 percent) and Yemen (14 percent), followed by the UK (8 percent).<sup>31</sup> There are also a considerable number of Somali diaspora in the USA and Europe.

Somalia is well known for its organised and coordinated diaspora, who regularly engage with the Somali government. Many diaspora members have returned home to help to provide technical skills, advice, and leadership in addition to their financial support to help rebuild Somalia after the war.<sup>32</sup> A number of Somali diasporans serve in key positions in the current government, including the Prime Minister, the President, and the Minister of Foreign Affairs (who used to work for a money transfer company). The Somali diaspora also actively support Somalia through several channels: humanitarian support; knowledge sharing; fundraising; in-kind support; and remittances, as well as making efforts to promote education, healthcare, public infrastructure, and private enterprise.<sup>33</sup>

<sup>29</sup>UNDP (2011). Cash and Compassion: The Role of The Somali Diaspora in Relief, Development And Peace-Building.

<sup>30</sup>UNHCR (2021). Operational Data Portal, Refugee Situations

<sup>31</sup>UNDESA (2019). International migrant stock by destination and origin.

<sup>32</sup>African Union (2021). Diaspora Engagement Self-Assessment Tool Report DESAT II

<sup>33</sup>The Guardian (2012). What role for the diaspora in Somalia's future?

<sup>34</sup>World Bank (2021). Investing in Health to Anchor Growth

<sup>35</sup>World Bank (2020). Personal remittances received (% of GDP)

<sup>36</sup>Ministry of Finance Somalia (2021). Somalia Financial Governance Report

<sup>37</sup>UNCTAD (2021). World Investment Report

<sup>38</sup>World Bank (2020). Exports of goods and services (current USD)

<sup>39</sup>A corridor is a combination of two countries, where the money is sent from and where the money is received

Somalis in diaspora in 2019,

**2 MILLION**

UNDESA

REMITTED APPROX.



**USD 1.6 BILLION**

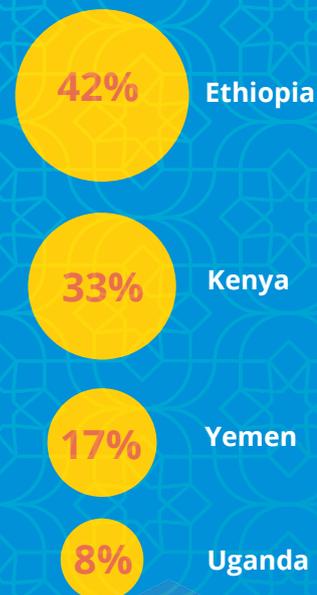
in 2020

By the end of 2020, Somalis made up the largest number of refugees in the world, at

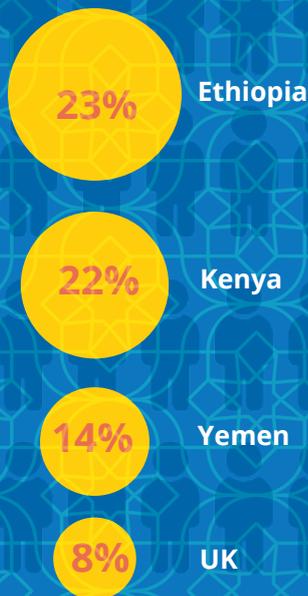
**671,482**



### TOP SOMALI REFUGEES HOST



## Top Somali diaspora host destinations



# USD 1.6 BILLION

inbound remittance flows to individuals in 2020



accounting for  
**35%**  
of the country's GDP.



Remittance inflows are more than three times the amount of Foreign Direct Investment (USD 464 million)<sup>37</sup> received and twice the amount made on exports (USD 825 million)<sup>38</sup> in the same period.

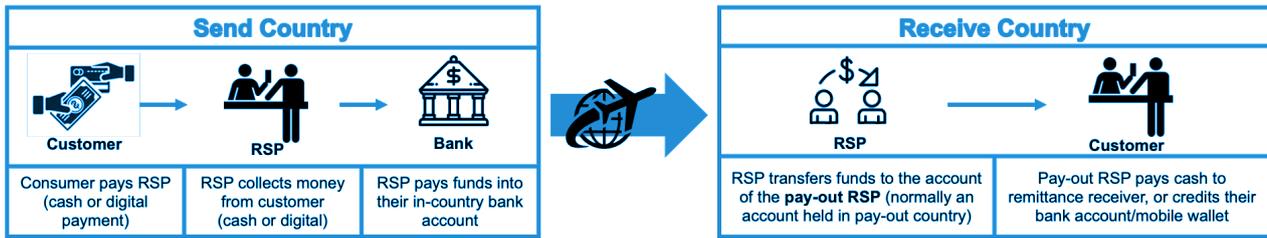
In 2020, Somalia received USD1.6 billion<sup>34</sup> in inbound remittance flows to individuals, accounting for 35 percent of the country's GDP.<sup>35</sup> Flows to the estimated 40 percent of Somali households that rely on them, have shown 40 percent growth year-on-year into 2021.<sup>36</sup> Remittance inflows are more than three times the amount of Foreign Direct Investment (USD 464 million)<sup>37</sup> received and twice the amount made on exports (USD 825 million)<sup>38</sup> in the same period. This is despite the challenges in the remittances felt globally due to the COVID-19 pandemic and Somalia's risk status.

**Quantifying Somalia's inbound remittance flows remains a challenge, despite the level of attention on the market.** The CBS does not regularly release remittance data to the public; and although overall inflow volumes are noted in the CBS' annual reports (when available), these flows are not disaggregated by corridor<sup>39</sup>. Current remittance data does not indicate the top sending countries to Somalia, but it is expected that remittance inflows strongly correspond with the top host countries for the diaspora.

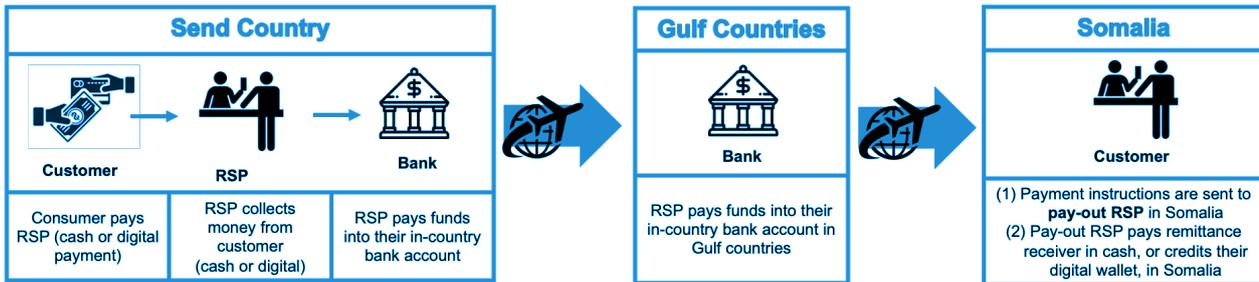
Remittances are considered the "mother" of the Somali financial sector, as they were the only financial service available during the civil war. Dominated by money transfer businesses, the previously unregulated sector was brought under a regulatory framework in 2014. Dahabshiil is the biggest player in the market and is estimated to hold 40-60 percent of the market.<sup>40</sup> Taaj has the largest market share amongst app-based money transfer operators and offers traditional remittance services through partnerships. Whilst there are entrepreneurs who would like to establish digital remittance services for Somalia the barriers to entry are extremely high compared to other countries due to a lack of robust financial framework in the country and derisking in particular.

**The COVID-19 pandemic and ongoing de-risking<sup>41</sup> challenges have accelerated the Somali remittance market's shift towards digital transactions.** Somali money transfer businesses are unable to access banking services required to operate in Western countries. Instead, money transfer operators open accounts in the UAE and Gulf states for transaction settlement or fly in cash to Somalia when correspondent banking relationships do not exist. Figure 1 shows a comparison between a typical flow of settlement funds for remittances outside of Somalia and the flow of settlement funds when sending remittances to Somalia.

### Typical flow of settlement funds for remittances outside Somalia



### Typical flow of settlement funds for remittances to Somalia



This liquidity work-around collapsed during the pandemic when travel was restricted globally, meaning cash could not be readily supplied, and comes at a high cost to the business. This is in addition to the high operating costs of doing business in Somalia, leaving new potential entrants unable to enter the market. Unfortunately the outlook is not encouraging in this area, even if/when the COVID pandemic becomes more manageable. Some of the existing Somali MTOs have already recommenced their operations using the work-around method as described above. This does work but is not sustainable in the long-term, due to the costs and risks of using cash.

Ongoing financial sector reforms will provide a critical foundation for restoring Somalia's correspondent banking relationships over the medium to long term. Lack of access to correspondent banking services is a major and necessary issue that Somalia is unable to resolve on its own. Support is required from international partners for the situation to be adequately addressed.<sup>42</sup> In the medium to long-term, it is hoped that robust solutions that will bring comfort to international banks in respects of the perceived risks of banking financial institutions from Somalia. Potentially, new technology can play a major role in addressing the issue. For example, blockchain driven identification tools can help address anti-money laundering concerns. Existing work being undertaken through areas such as the MPF are aiming to address this but progress is slow. In conjunction with the Government of Somalia national institutions, especially around finance, KYC and compliance frameworks need to be built and supported in Somalia. The international community will need to be prepared to play an ongoing role which may require the use of guarantees or Safe Harbor approaches (although this is an area that the international community has so far not been willing to provide).

<sup>40</sup>Rift Valley Institute (2014). Challenges for the Somali money transfer sector

<sup>41</sup>De-risking is the practice of financial institutions, largely banks, terminating or restricting business relationships with remittance companies as they consider the category to be too risky. Source: DMA Global (2022)

<sup>42</sup>Ministry of Finance Somalia (2021). Somalia Financial Governance Report

## 2.2 Remittances for investments

Focus on remittances for development is increasing, leading to an over-simplified view that channelling remittances funds for consumption is 'less productive'.<sup>43</sup> The view is severely limiting as ensuring that your family have enough funds to sustain themselves, in a considerably hostile environment, could be seen as the most productive investment from a different perspective. Somalia's remittance flows are most important for the bottom 40 percent of the population, funding 54 percent of total consumption.<sup>44</sup> Remittances are also commonly sent to be 'invested' in a child's education; an educated child is the investment return.

There are clear distinctions between diaspora investment and remittances, and each should be considered on their own terms. Remittances are typically sent by migrants; the definition of diaspora encompasses a much wider community. A personal connection is not essential for a diaspora investment which can be received by businesses, government organisations or NGOs. Remittances are, by nature, a one-way person-to-person transfer, diaspora investment is a two-way exchange, with a return on investment.<sup>45</sup>

It is difficult to understand the level of remittances used for investments, as remittance channels are often the only viable way to send money to Somalia. Stakeholders are surprised that research continues to suggest that remittances are mainly used for consumption, as the level of investment being made available is not evident, diaspora or otherwise. Remittance transactions tend to be the easiest and most efficient way to receive money in Somalia, for any type of business. The CBS confirmed that no detailed information on the percentage of remittances used for investment exists.

Diaspora savings have potential as an accessible source of diaspora capital. African diaspora savings are estimated to be over USD 30 billion annually in their countries of destination. As interest rates in the West have been low for the past decade, targeting Somali diaspora savings could allow remittances to flow as they are needed and create a source of funds to channel into investments in Somalia. The required evolution of the financial sector discussed in Section 1.1 is needed to facilitate developments in this area.

## 2.3 Access to finance

There is a lack of finance options available for MSMEs start-ups and entrepreneurs in Somalia. As mentioned in Section 1.1, banks are focused on trade and real estate finance and weak regulation around microfinance means that a limited number of financial institutions are able to offer solutions to businesses. The lack of available access to credit is a major motivation for diaspora support. This is further discussed from the diaspora's perspective in Section 3.4.

Several NGOs and international organisations are involved in providing a variety of funding for MSMEs, start-ups and entrepreneurs in Somalia; however, most of them appear to be grants with a few exceptions. Below is a sample of the types of donor agencies, NGOs and other institutions involved in providing financing for MSMEs, start-ups and entrepreneurs in Somalia. Almost all of them also offer some form of capacity building and networking opportunities. Many of them also focus on a specific sector, type of business owner, or a specific town or region. It is not clear if business owners are expected to pay back the funder for most of the financing opportunities, even if their activities are described in investment terms, such as seed funding. In this way, many of these financing opportunities likely operate similar to grants, with the exception of GARGAARA, which whilst donor funded is explicitly described as a loan.

<sup>43</sup>European Union (2021). Diaspora Finance for Development

<sup>44</sup>World Bank (2021). Investing in Health to Anchor Growth

<sup>45</sup>European Union (2021). Diaspora Finance for Development

Table 1: Sample of initiatives supporting Financing for MSMEs, starts-ups, and entrepreneurs in Somalia

Name	What it is	Activities	Date Active	Type of Financing
<b>Shuraako</b> <sup>46</sup>	<ul style="list-style-type: none"> <li>◊ Somalia-focused fund operated by the One Earth Future (OEF) private foundation through the Nordic Horn of Africa Opportunities Fund (worth USD 24 million)</li> </ul> <p>Works in conflict-affected and underserved SME markets in Somalia</p>	<ul style="list-style-type: none"> <li>◊ Connect entrepreneurs who will add value to the local economy with impact capital</li> <li>◊ Delivering the Work in Progress! targeted business development programme for 12 SMEs with strong potential for employing women and youth in Somaliland</li> <li>◊ Convene forums, conferences and working groups to bring investors and entrepreneurs together</li> </ul>	2018 onwards	Fund through impact capital
<b>Tarmiye Fund</b> <sup>47</sup>	<p>Somali-based crowdfunding platform run by HarHub and the Shaqodoon Organization</p> <p>Supporting existing and pioneering start-ups to grow and raise capital through crowdfunding. A range of projects across the agriculture, health and service industries are featured</p>	<ul style="list-style-type: none"> <li>◊ Alongside the crowdfunding platform, entrepreneurs can access financing from the Tarmiye Fund and partner banks matched funds</li> <li>◊ Entrepreneurship networking events are also organised</li> <li>◊ Payments are facilitated through local mobile money services including Dahab Mobile Money Transfer and Zaad Mobile</li> </ul>	2019 onwards	Crowd-funding and matched funds

<sup>46</sup>Shuraako (2022). Website

<sup>47</sup>Tarmiye (2022). Website

<p><b>UPSHIFT Innovative Livelihoods</b><sup>48</sup></p>	<p>UNICEF micro-financing scheme with various implementing partners</p> <p>Social innovation and entrepreneurship programme for marginalised and disadvantaged youth</p>	<ul style="list-style-type: none"> <li>◇ Programme combines social innovation workshops, with mentorship and seed funding grants for business start-ups</li> <li>◇ Active in Somaliland, Puntland and Somalia</li> </ul>	<p>2019 onwards</p>	<p>Seed funding and grants</p>
<p><b>Enterprise Development Unit (EDU) Somalia Network</b><sup>49</sup></p>	<p>UNIDO</p>	<ul style="list-style-type: none"> <li>◇ Access to finance is provided through a credit facility targeting SMEs in partnership with IBS Bank</li> </ul>	<p>2019 onwards</p>	
<p><b>SOYDAVO Innovation Hub</b><sup>50</sup></p>	<p>Local NGO partnered with the EU, FAO and NRC, among others</p> <p>Provides technology-based and social entrepreneurship skills to young people in Burao, Somaliland</p>	<ul style="list-style-type: none"> <li>◇ Provides seed funding to innovative start-up ventures in Somaliland alongside skills and entrepreneurship training</li> </ul>	<p>2020 onwards</p>	<p>Seed funding</p>
<p><b>GARGAARA</b><sup>51</sup></p>	<p>Donor funded financial institution that facilitates MSMEs' access to finance</p> <p>Neglected productive sectors that often struggle to access mainstream finance (agriculture, livestock, fisheries and renewable energy)</p>	<ul style="list-style-type: none"> <li>◇ On-lends funds to eligible potential financial institutions who have decision-making autonomy over granting loans to enterprises on a commercial basis</li> <li>◇ Particularly focused on facilitating access to finance for women and youth business entrepreneurs</li> <li>◇ Finance is available through large, small and micro loan windows</li> </ul>	<p>2020 onwards</p>	<p>Loans</p>

<sup>48</sup>NAGAAD (2022). Website

<sup>49</sup>DOT. S Coop (2022). Website

<sup>50</sup>SOYDAVO (2022). Website

The Somalia Guarantee Credit Scheme (SGCS) is unique in its approach to providing access to capital to SME applicants with capacity for repayment but who lack sufficient collateral. Implemented in 2018, the SCGS is the first credit guarantee of its kind in the Somali region. Sida and implementation partner OEF, through the Shuraako program, work with and through four major Somlai banks. Murabaha<sup>52</sup> investments are available to individuals, particularly youth and women, high risk productive sectors like fishing and agriculture, and SMEs, that traditionally would not meet credit assessment criteria. The investment risk is shared between Sida, 70%, and the bank partner, 30%. The scheme has been successful in administering one hundred and forty four loans across eleven sectors, and the three main areas of Somalia, at a total value of USD 5.7 million. The average loan size is approximately USD 40,000 and the scheme has a loan default ratio of just 0.03%.

Regulation is being developed to make it is easier for start-ups and entrepreneurs to access funding. Money transfer operators (MTOs) in the market estimate that over 80 percent of the start-up capital for small businesses in Somalia is sent by the diaspora.<sup>53</sup> The Ministry of Commerce & Industry is working towards channelling those funds directly with a Start-up Act. The Act will facilitate the connection to foreign investment, diaspora and others and create an enabling environment for business development.

<sup>51</sup>Garagaara (2022). Website

<sup>53</sup>Humanitarian Policy Group (2018). The Challenge of Informality



# 80%

of the start-up capital for small businesses in Somalia is sent by the diaspora.





**CHAPTER 3:**  
DIASPORA  
INVESTMENTS  
DEFINITION,  
BEST PRACTICE  
AND SOMALIA  
OPPORTUNITIES

## 3.1 Background on diaspora investments

Increasingly, governments are recognising the power of their diaspora and the role the diaspora plays in their home country's economic development, beyond humanitarian aid and remittances. As governments look at new ways to mobilise the diaspora, diaspora investment is commonly the main channel of interest. However, detailed insights into diaspora investments remains limited and definitions are important.

As a subset of foreign investment, diaspora investment can be divided into two categories: diaspora direct investment (DDI) and diaspora portfolio investment (DPI). DDI is external finance which is directly invested in a business when the investor has origins or heritage in the country of investment and DPI is investment in the country of origin of the diaspora in which the investor holds a small proportion of the equity and does not directly influence the activities of the beneficiary enterprise<sup>54</sup>

## 3.2 Best practices in diaspora investment programmes

Due to its emerging nature, there are few examples of successful diaspora investment initiatives globally. The Indian and Israeli diaspora bonds are often used as examples of success; however, both were raised in exceptional circumstances that are unique to the country and are not relevant for Somalia. In Africa, Nigeria achieved "success" with an oversubscribed diaspora bond issuance in 2017. The bond was marketed through foreign banks and through a database from diaspora organisations but, due to lack of transparency, it is difficult to estimate how much of the investment funding received was from the diaspora and how much investment was institutionally led.<sup>55</sup>

Diaspora investment approaches and strategies from other countries in the region, and globally, may not translate to the nuances of the Somali context. Somalia's FCAS status and high-risk profile puts the country in a unique position. There are no examples of diaspora investment from similar FCAS countries for a comparative analysis.

## 3.3 Somalia's investment policies and practices

**Somalia's investment legislation is reflective of efforts to encourage foreign investment into the country.** In 2015, the Foreign Investment Law<sup>56</sup> was passed on the promotion and protection of foreign investments. The law gives provision for incentives to foreign investors including tax advantages and guarantees against expropriations. Priority sectors for investment are agriculture, livestock, fishing, mineral resources, and industrial activities. Under the law, there is no specific provision for the diaspora.

**The National Investment Promotion Strategy<sup>57</sup> illustrates the government's coordinated roadmap towards transforming Somalia's investment image.** The five-year strategic plan was launched in 2020 to improve Somalia's investment climate and image outlines plans for creating a favourable environment for accelerating both foreign and domestic investment. Regarding the diaspora, a comprehensive outreach program will be launched to attract and harnesses the knowledge, experience, and capital of the Somali diaspora community to attract both inward and foreign investment. The government plans to

<sup>54</sup>European Union (2021). Diaspora Finance for Development

<sup>55</sup>Making Finance Work for Africa (2020). Diaspora Investment in Africa: Myth or Reality?

<sup>56</sup>US State Department (2022). 2020 Investment Climate Statements: Somalia.

<sup>57</sup>SOMINVEST (2020). National Investment Promotion Strategy (NIPS)

channel funds through a social impact investment platform and to link innovation hubs on a federal and state level as risk measure against business failure. The planned expansion of Islamic finance and the creation of social and development impact bonds would also create other vehicles for the diaspora to invest. The strategy also speaks of the potential of remittances for investments, which as discussed in Section 2.2 is an over-simplified view and does not consider the distinction between remittances and investment.

**Further initiatives to foster the flow of investment into Somalia are being supported by the IFC.** In 2020, Somalia and the IFC launched a landmark partnership to stimulate local and foreign investment. The partnership will provide a roadmap for the development of Somalia’s private sector with the ultimate aim to improve public services, create jobs and boost the economy. Agreements signed under the partnership focus on IFC advisory support for 1. legal reforms to encourage private investments in the energy, ICT and industrial infrastructure sectors in Somalia and 2. strengthening Somalia’s business regulatory environment and fostering trade transparency.

**Several local and international organisations are involved in efforts that blur the line between humanitarian and investment activities.** Particularly because of Somalia’s FCAS status, many initiatives aim to build resilience, fund projects and support livelihoods and even the well-being of communities. Much of the financing available goes towards community projects and NGOs, but some is also provided to private sector actors and businesses that would be considered social enterprises. Below are a sample of such initiatives which often have their focus around building self-reliance in Somali communities and supporting the work of community projects. Two of the projects do not necessarily give out money directly but instead facilitate access to it, further emphasising the initiatives’ focus on supporting self-reliance.

Table 2: Sample of international support for business and community projects

Name	What it is	Activities	Date Active	Type of Financing
<b>Growth, Enterprise, Employment and Livelihoods (GEEL)<sup>58</sup></b>	<p>USAID Somalia programme providing technical advice and investment facilitation</p> <p>Working with private sector businesses to create growth in strategic industries (including agriculture and energy) and build community resilience, particularly amongst women and youth</p>	<ul style="list-style-type: none"> <li>◇ Brought together private sector actors and government institutions to attract capital investment for businesses creation and expansion</li> <li>◇ Created over 24,600 full- and part-time jobs; leveraged USD 33.5 million in private capital investments<sup>59</sup></li> </ul>	2016-2021	Investment and seed capital

<sup>58</sup>USAID (2020). Somalia: Growth, Enterprise, Employment & Livelihoods (GEEL)

<sup>59</sup>USAID (2021). Somalia: Growth, Enterprise, Employment & Livelihoods 2016 - 2021

<b>Self Help Group (SHG) Approach<sup>60</sup></b>	<p>Run by local NGOs (e.g. the NAFIS Network) with support from Kindernothilfe<sup>61</sup></p> <p>Supporting community organisations/ NGOs undertake capacity building with SHGs, rather than provide direct financial support</p>	<ul style="list-style-type: none"> <li>◇ Bottom-up approach designed to achieve social, economic and political empowerment<sup>62</sup></li> <li>◇ Groups are formed of 15-20 members and feed into Cluster Level Associations</li> <li>◇ Over 23,000 members across the Somali regions with USD 12 million in savings capital</li> </ul>	2013 onward	None
<b>SOKAAB<sup>63</sup></b>	<p>Somali-based crowdfunding platform funded by the Danish Refugee Council and Somali Stability Fund</p> <p>Supporting viable projects that uplift communities across the Somali regions</p>	<ul style="list-style-type: none"> <li>◇ Community fundraising for organisations and individuals</li> <li>◇ Implements the matched funding DIALOGUE scheme in the Gedo region to match community financial contributions to community- and district-level projects</li> </ul>	2018 onward	Matched funding
<b>Somali Response Innovation Lab (SomRIL)<sup>64</sup></b>	<p>Hosted under the Somalia Resilience Programme (SomReP), an inter-agency partnership run by a consortium of seven NGOs</p> <p>Social entrepreneurs and innovative non-profits working on humanitarian and development interventions</p>	<ul style="list-style-type: none"> <li>◇ Facilitate investment to enable piloting, development and market entry</li> <li>◇ Connects actors to external capacity-building resources and expertise</li> <li>◇ “Match-making service” connecting entrepreneurs with a network of subject matter experts</li> </ul>	2018 onward	Facilitates Investment

<sup>60</sup>OXFAM (2021). Women Business’ Access to Finance in Somaliland

<sup>61</sup>Kindernothilfe (2022). Website

<sup>62</sup>NAFIS NETWORK (2022). Website

<sup>63</sup>SOKAAB (2019). Website

<sup>64</sup>Response Innovation Lab (2022). Website

More than two thirds of European companies operating in Somalia are linked to the Somali Diaspora. The EU conducted a mapping of private sector investment into Somalia in 2021.<sup>65</sup> The mapping identified that thirty five out of fifty European companies surveyed have Somali diaspora connections. Total annual investment is currently USD 12.5 million and future investment value is forecasted at USD 71 million between 2021 and 2025. Ninety percent of of companies are either micro (sixty three percent) or small (twenty seven percent) in size. Companies identified insufficient public-private dialogue and unclear trade and investment regulation and policy as the main barriers of entry to the market.

## 3.4 Existing avenues for diaspora investments in Somalia

— The established history of extensive Somali diaspora support in development and relief activities are indicative of diaspora interest to invest. Despite the lack of formal investment channels, the Somali diaspora organise themselves to form informal community-focused investment collectives. This support is self-organised, regular and stable, and can be significant. Examples of projects completed by investment funds from these groups includes roads, factories, fisheries and schools. Due to the difficulty transacting from abroad discussed in Chapter 1, borne from Somalia's high risk AML/CFT profile and subsequent extended KYC for customers, a representative or small group from the collective is nominated to personally visit Somalia to invest the funds. These behaviours create an opportunity to channel funds into third-party investments.

Diaspora support and collective organisation are also centred around clan affiliations and networks which have significant links to clan members in the diaspora.<sup>66</sup> The qaraan clan-based money collection system extends paying-in obligations to diaspora clan members, and inbound remittances sent by the diaspora clan members for these purposes are managed by the aqil chief elder.<sup>67</sup> The centrality of clans to societal organisation in Somalia can create significant internal pressure for funds to only be directed to projects located in a clan's geographic region.<sup>68</sup>

In addition to the ad hoc, personal and clan-based investment projects driven by the Somali diaspora, several international organisations also facilitate financing to, or through, diaspora organisations towards initiatives in Somalia. While some of these financing options are investments, or seed capital, others operate more as grants and donations, emphasising the variety of ways that the diaspora support community building activities in Somalia. Some initiatives, such as Bulshokaab and Finn-Partnership, do not specify that the money comes exclusively from the Somali diaspora, but rather have partnerships with specific countries or the ability to aggregate funding from abroad. Almost all the projects provide some form of capacity building in the form of workshops, trainings, coaching, and matchmaking with technical advisors. The Somalia Diaspora Programme, run by ForumCiv until the end of 2021, is particularly exemplary for its use of both financial and social capacity building from the diaspora to Somalia. The DiPS project is also interesting in that it provides grants to diaspora organisations in Denmark who can then, in turn, carry out a variety of activities in Somalia.

Table 3: Sample of diaspora involved projects, initiatives and investments

Name	What it is	Activities	Date Active	Type of Financing
<b>Bulshokaab<sup>69</sup></b>	<p>Somali-based crowdfunding platform.</p> <p>Run by Somalia Resilience Program (SomReP), a consortium of seven international NGOs - World Vision, Oxfam, Danish Refugee Council, Cooperazione Internazionale, CARE, Adventist Development and Relief Agency and Action Contre la Faim, and the Shaqodoon Organization. Funded by the EU and Sida.</p> <p>Community-driven projects covering areas such as food, education, water, and human rights</p>	<ul style="list-style-type: none"> <li>◇ Offer a start-up workshop and advice about running a successful fundraising campaign</li> <li>◇ Provide matched funding when project targets are reached through partnership organisations</li> <li>◇ Donations can be remitted from outside Somalia using mobile money and various MTOs such as Dahabshiil, Juba Express Money Transfer and Bakaal Express</li> </ul>	Ongoing	Crowd-funded donations and matched funding
<b>Finn-partnership</b>	<p>Business partnership programme financed by the Ministry for Foreign Affairs of Finland and managed by Finnfund<sup>70</sup></p> <p>Promotes business activities and partnerships between Finland and Somalia to create sustainable development through long-term business collaboration</p>	<ul style="list-style-type: none"> <li>◇ Provides business partnership support through funding, matchmaking and technical advisory services</li> <li>◇ Featured Somali companies are active in the agriculture, construction, education and technology industries</li> </ul>	2018 onwards	Grant

<sup>66</sup>DEMAC (2021). Diaspora Organizations and their Humanitarian Response in Somalia.

<sup>67</sup>Rift Valley Institute (2017). Remittances and Vulnerability in Somalia: Assessing sources, uses and delivery.

<sup>68</sup>UNDP (2011). Cash and Compassion: The Role of The Somali Diaspora in Relief, Development And Peace-Building.

<p><b>Diaspora Project Support (DiPS), Danish Refugee Council</b></p>	<p>A funding mechanism for Somali diaspora organisations in Denmark</p> <p>Provides financial and technical support to diaspora-led projects implemented in Somalia</p>	<ul style="list-style-type: none"> <li>◇ Provides capacity-building training and coaching to organisations that successfully apply for funding</li> </ul>	<p>2011 onwards</p>	<p>Grant for diaspora orgs</p>
<p><b>Somali Agrifood Fund<sup>71</sup></b></p>	<p>Seed capital matching investment fund. A partnership between IFAD, Shuraako and the BiD Network</p> <p>Driving diaspora investments into Somali agricultural and rural businesses</p>	<ul style="list-style-type: none"> <li>◇ Leverages initial seed capital to generate wider financing through private investment from the diaspora or other investors. The funding model is:</li> <li>◇ 20% owner's contribution;</li> <li>◇ 40% diaspora or local investment;</li> <li>◇ 20% diaspora;</li> <li>◇ 20% IFAD AgriFood seed capital</li> </ul>	<p>2014 – TBD (the fund is now closed)</p>	<p>Seed capital and investment</p>
<p><b>Somali Diaspora Programme, ForumCiv<sup>72</sup></b></p>	<p>Swedish NGO funded by Sida working with Swedish-Somali diaspora associations</p> <p>Driving diaspora financial and social remittances into civil society projects on democracy, human rights, gender equality and sustainability</p>	<ul style="list-style-type: none"> <li>◇ Directed funds from diaspora organisations to support over 300 projects in local civil society organisations across Somalia, with a particular focus on improving marginalised groups' (including women and youth) in decision-making roles in the community</li> <li>◇ Also sought to utilise social remittances from the diaspora for capacity building and advocacy</li> </ul>	<p>2012-2021</p>	

<sup>69</sup>BULSHO KAAB (2022). Website

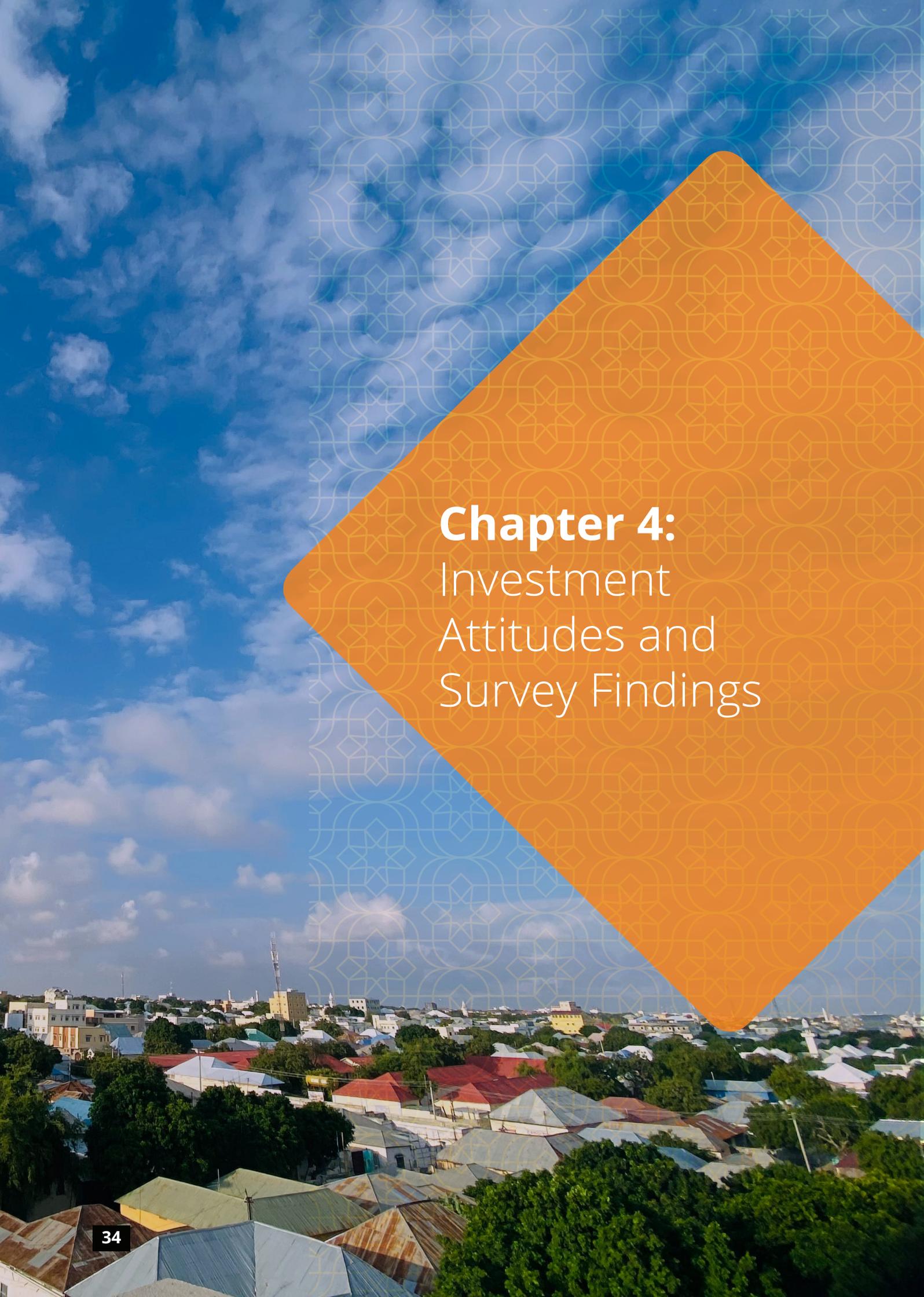
<sup>70</sup>Finnpartnership (2022). Website

<sup>71</sup>Shuraako (2022). Website

<sup>72</sup>ForumCiv (2022). Website

Investment events have been held in an effort to raise awareness of diaspora investment and encourage the flow of funds into Somalia. Since 2015, several events have been held in Somalia and abroad to facilitate discourse about investment and showcase the investment potential of Somalia. Events have included the Somali Investment Forum 2015, the Global Somali Diaspora Conference (2016) and the Somaliland Investment Forum 2017. Events aim to encourage networking, discourse about challenges and available opportunities, both current and future.





## **Chapter 4:** Investment Attitudes and Survey Findings

## 4.1 Survey methods and obstacles

An online survey was developed and disseminated among the Somali diaspora globally, in parallel to stakeholder interviews. The survey, see annex 4, included a series of questions on remittances, and then asked whether the respondent currently invested in Somalia. From there, respondents were segmented into two groups to understand their investment practices for those who invest, and their investment aspirations, if any, for those who do not yet invest. The survey then asked questions around Islamic finance, and finally demographic questions. The survey was live between Friday 26th November 2021 and Thursday 27th January 2022.

Despite heavy and extended promotion through several channels and networks, and a paid incentive, only a very limited number of the Somali diaspora completed the survey. The first question in the survey, was answered by seventeen initial respondents. By question two, this number had decreased to ten respondents. In total, only seven members of the Somali diaspora completed the survey from start to finish. Though not representative of the Somali diaspora as whole, the high level findings can be used as indicative guidance into future diaspora engagement.

This experience with the online survey has highlighted certain challenges in surveying the diaspora. As diaspora support continues to be a hot topic globally, the diaspora are continuously being tapped for information on their engagement and investment habits and preferences, which could lead to survey fatigue. On top of this, due to COVID-19 there have also been a multitude of surveys on the effects of the pandemic on remittances. As a country that is highly reliant on remittances, Somali diaspora may have felt the increased need to speak with researchers.

When it comes to engagement and research, there are challenges that are specific to the Somali diaspora. Through stakeholder interviews and desk-based research, patterns of behaviour amongst the Somali community when surveying them were identified:

- 1. Somalis do not discuss financial information widely.** Culturally, financial topics are considered taboo or confidential for many reasons. Typically, personal discussions on topics like finances are not typically undertaken outside their clan or close family. There is a lot of suspicion towards them as Somalis from the war, increasing after 9/11. This has also made Somalis suspicious of others.
- 2. The fear of Al-Shabaab in the Somali community is very real.** The threat of Al-Shabaab has been constant for the past 15 years. Somalis fear where their personal data is stored and whether it is at risk of being shared and the consequences of this. The influence of Al-Shabaab is far reaching, and diaspora may have family still in Somalia who they feel could be at risk for the act of completing a survey, or any opinions shared doing this process.
- 3. Somali diaspora may feel limited added value of survey participation.** The Somali diaspora are aware of the known barriers when sending money to Somalia outside of remittance channels, and the known lack of formal investment opportunities in Somalia. To the diaspora, completing a survey regarding investment may feel redundant.
- 4. Trust is the key missing element for engagement with the Somali diaspora.** Somalis have a small circle of trust: their clan and their immediate family. Strategies to extend that trust need to be developed to have clear and open dialogue with the diaspora. Once that trust is gained (and the amount of time it takes to build trust should not be underestimated), discussions around financial topics can be approached sensitively.

## 4.2 Survey respondent profiles

A snapshot overview of the profiles of the seven respondents that completed the survey will be presented for insight. A summary of respondents' demographics can be found in annex 2.

### 4.2.1 SURVEY RESPONDENT ONE

One is a Somali American Muslim woman, who left South Central Somalia over a decade ago. She is between 26 and 35 years old, works in the healthcare industry and earns a modest salary living in Boston. One remits monthly to her siblings in South Central Somalia. The remittance funds of between USD 100 and USD 500 are put towards food, the household and medical bills, a decision made by the receivers. Dahabshiil is her preferred money transfer operator, and she sends money either in cash at an agent or through the Dahabshiil app. She is unaware of the concept of a diaspora bank account.

One's knowledge of investing is low and whilst she is interested in participating, a lack of funds to invest is a barrier to entry, though One does not feel that gender, religion, ethnicity, or any other demographic factor would create specific challenges or frustrations to her ability to remit to, or invest in, Somalia. If One was able to invest, she would be interested in micro and small businesses. The main factors that would affect her decision would be personal familiarity with the business founder or manager; the business operating in a sector she is passionate and/or knowledgeable about; and if the investment appeared to offer a 'good business deal' i.e. potentially high or safe returns on the investment. One is interested in investing in education and medicine and would be interested in investing in women- and Muslim-led businesses, particularly women-led, as well as businesses with sustainable environmental practices.

The primary factors that One feels are a barrier to investing in Somalia are: (1) getting foreign funds in or out of the country; (2) understanding the legislations/rules around investing; and (3) corruption or untrustworthiness.

In terms of investment channels or mechanisms, One is interested in Islamic Finance / Sharia-compliant investing / interest-free investing and potentially interested in a third party, such as a bank or other financial institution, providing Islamic finance and investing services, though this would depend on an endorsement by an Imam.

## 4.2.2 SURVEY RESPONDENT **TWO**

Two's beneficiaries are his parents, who receive USD 100-500 monthly to put towards food, household expenses, education and medical bills. The intended purpose of the remittance funds is a jointly made decision. Two uses a variety of channels to send his remittances: cash at an agent, online via debit or credit card, or through an app. His favoured money transfer operators are Dahabshiil and Taaj. Two migrated from Puntland over 21 years ago and currently resides in Leicester, UK. He is a practising Muslim and works in the Information Technology industry, receiving a moderate salary. Two is between the ages of 46-55 years old.

Two was the only respondent who was not interested in investing at all. His opinion is that investments are "too risky" but also admitted that he lacked information on investment opportunities in Somalia. Despite this, if Two were to invest in Somalia, he would be interested in small businesses and his decision would be affected by his personal familiarity with the business founder or manager; his trust of the business founder or manager; and if the investment appeared to offer a 'good business deal' i.e. potentially high or safe returns on the investment. His main sectoral interests are energy, medicine and real estate and he would be enthusiastic about investing in women-led businesses whilst also looking for Muslim-led businesses and those that give back to the community or create local jobs. Two feels that (1) getting foreign funds in/out of Somalia; (2) understanding the legislations or rules around investing; and (3) corruption or untrustworthiness are the main challenges to investing in Somalia.

## 4.2.3 SURVEY RESPONDENT **THREE**

Three is 36-45 years old and lives in Stockholm, Sweden. He was born in the diaspora, as were his parents, and identifies as a practising Muslim. His family originate from the South-Central Somalia region, and he currently works in the Technology space. He earns a below average salary of less than USD 10,000. Three sends USD 100-500 cash home monthly using a Dahabshiil or Taaj agent. Beneficiaries are extended family members who channel the funds into food, bills (household and medical), education, business and building a house for Three's family to live in without him. Though Three sends money home to Somalia for business purposes but does not consider himself an investor. Further, Three is the only respondent with a diaspora account and uses this account for import and export and business expenses.

Three considers investments as instruments that ensure that you have financial security. He is not currently investing in Somalia but is interested in doing so. If Three were to invest, he would be attracted to investments across a range of business sizes, from international corporations to micro-sized or informal businesses. If Three were to invest in Somalia his decision would be affected by his personal familiarity with the business founder or manager; his trust of the business founder or manager; his presumption that the investment would be a good business deal.

Three is interested in a range of sectors: energy, tech, finance, education, medicine and real estate but would look to invest in

businesses that are women-led, Muslim-led or give back to the community. Three does not mind whether the business he would potentially invest in is or is not financed according to Sharia law/ interest-free investing.

Three perceives there to be a variety of factors that are a challenge to investing in Somalia: getting foreign funds in or out of the country; understanding the legislations/rules around investing; corruption or untrustworthiness; infrastructure issues (internet, roads, electricity etc.); and administrative issues (clearing import/export, setting up accounts, registering a business etc.). Three does not sense that gender, religion, ethnicity, or any other demographic factor would bring about specific challenges or frustrations to his ability to remit to or invest in Somalia.

## 4.2.4 SURVEY RESPONDENT FOUR

Four is a young Muslim female who migrated from South Central Somalia in her youth. She currently lives in Stockholm, where she works in civil society and earns an above average salary for the city. Four remits back to Somalia on a yearly basis as an opportunity to give back to the country rather than as an obligation. The amount of money that she remits is between USD 100 and USD 500. Four is aware of what the funds sent are used for. Remittances received go towards food, medical and education expenses, but it is up to the receiver to decide the allocation towards each expense. In line for her reasons for remitting, Four feels that investing is a good opportunity to give back to Somalia.

Four's motivations around deciding to invest in a business are whether the sector or business is doing work that she is passionate or knowledgeable about; if the process for investing is clear and convenient; and if the business was recommended by a friend. Sectors of interest are Agriculture, Education, and Medicine, and Four would be particularly interested in investing in women-led businesses, sustainable environmental practices, gives back to the community/ creates local job. Four feels that corruption or untrustworthiness and administrative issues (clearing import/export, setting up accounts, registering a business etc.) are a challenge or obstacle to investing in Somalia. Islamic Finance / Sharia-compliant investing / interest-free investing is not of interest to Four.

Four chose not to share her email address, even though it was a requirement to collect the survey incentive offered.

<sup>73</sup>Hawala is an informal method of transferring money without any physical money actually moving. It is described as a "money transfer without money movement." Another definition is simply "trust." Source: Investopedia (2021)

## 4.2.5 SURVEY RESPONDENT FIVE

Five is an older male currently residing in the Midwest, USA, employed in the Technology sector where he earns a six-figure income. He left South Central Somalia over 21 years ago and preferred not to share his religious status. He sends his cash remittances monthly, visiting a Dahabshiil or Taaj money transfer agent is his preferred and only remittance channel option. The money Five sends to Somalia is for his siblings, extended family and community projects and organisations that he supports. The average amount that he remits is between USD 100 and USD 500 and this is put towards food, household and medical bill, school fees, a family home building project and business.

The only respondent who currently invests in Somalia, Five is sceptical about investments in general. Five considers his investments separately from the remittances that he sends every month. He invests in an informal agriculture business, that provides a high investment return. The business is owned by a person he knows and has a high level of trust in. To invest, he uses "hawala", <sup>73</sup> an informal channel different to the channel he uses to remittances. The cost of this informal channel fluctuates depending on the exchange offered.

Five has broad investment sector interests spanning agriculture (current informal investment sector), energy and tech. When choosing an investment, Five is most interested in a good business deal, one that has potentially high and/or safe returns on investment. Knowledge and trust in the business founder are also important requirements when he is making an investment decision. Five is interested in investing in businesses that have a local community impact and create local jobs as well as having sustainable environmental practices and fair trade and ethical labour practices.

Challenges and issues that Five has faced while investing in Somalia include corruption and untrustworthiness; infrastructure issues (including internet, roads, electricity), lawlessness and lack of functioning institutions.

## 4.2.6 SURVEY RESPONDENT SIX

The remittances that Six sends are to support community projects and organisations. The frequency and amount of money he sends varies as it is based on present needs of the projects and organisation, and what Six can allocate towards those needs. Uses of funds include medical and community bills, decisions on these uses are either made by the receiver or a co-decision between sender and receiver. Whilst a debit/credit card is always involved in the transaction, the channel that Six uses vary between going to an agent, transacting online or through an app. Six typically sends money by the money transfer operator Baikal. Six is a male, third generation Somali diaspora, whose family are originally from Somaliland. He currently lives in London, is between 36-45 years old working within the trade industry, earning a moderate salary of USD 25,001-50,000.

Investments are an opportunity to build financial assets for Six. He is not currently investing and he cites lack of information on how and where as his main obstacle. If Six were to invest, he would be attracted to investments across a range of business sizes, from international corporations to micro-sized businesses; he is not interested in investing in informal, unregistered businesses. The main factors behind potential investments for Six would be trust

in the founder or manager; the potential for a good business deal; and if the business was working in a sector that he was passionate or knowledgeable about.

Six is interested in investing in business across the agricultural, tech, finance, education, medicine, low-cost construction sectors. He is interested in business that give back to the community or create local jobs and have fair trade/ethical labour practices. Six feels the following factors are a challenge or obstacle to investing in Somalia: getting information about businesses and sectors to invest in; infrastructure issues (internet, roads, electricity etc.); and insecurity. Six does not feel that his gender, religion, ethnicity, or any other demographic factor would bring about specific challenges or frustrations to his ability to remit to, or invest in, Somalia.

Islamic Finance, Sharia-compliant investing or interest-free investing is Six's investment type preference, but he would consider other types of investment for a business/opportunity that he was excited about. He would be open to a third party, such as a bank or other financial institution, providing Islamic finance and investing services. Certifications would be most important when considering using a third-party service for investing (Islamic finance way) and Six feels that investing using Islamic finance / in a sharia-compliant way should equally emphasise financial and social returns.

## 4.2.7 SURVEY RESPONDENT SEVEN

Using the Paysii app, Seven remits monthly to his siblings. The USD 50-100 remittances he sends is used for food only, a joint decision made with the receivers. Living in Canada, Seven works in the mechanical engineering industry, taking home a salary between USD 25,001 and USD 50,000. He moved to the diaspora before he was eighteen years old, from Somaliland and preferred not to share his religious affiliations.

Whilst Seven shared his opinion that investing "is only for rich people", he is still interested in learning more about investing though is unaware of where he would start. Seven is primarily interested in investing if an investment looks like a good business deal (potentially high and/or safe returns on my investments); is in a sector or doing work that he is passionate and/or knowledgeable about; and if he trusts the business founder or manager.

Seven is interested in investment in the agriculture sector and businesses that give back to the community or create local jobs. Islamic Finance / Sharia-compliant investing / interest-free investing are the only type considered by Seven. He would be open to a third party, such as a bank or other financial institution, providing Islamic finance and investing services.

## 4.3 Remittance and investment behaviors and habits

Whilst the survey sample is small, some of the behaviours arisen are consistent with what is known of the Somali diaspora remittance and investment behaviours and habits.

The Somali diaspora are mindful of where and how they share their personal information. Trust is only given to clan and family members in the first instance. This trust must be developed in order for the diaspora to share their wants and for targeted products, services and platforms to be created for them. The National Investment Promotion Strategy<sup>74</sup> outlines some plans to address this.

Remittances sent by the Somali diaspora are mainly used for daily consumption. Six out of seven respondents said that a portion of the remittances sent are used for food or household consumption. Whilst investment is happening, household consumption is the main use for remittances sent from the diaspora. Household consumption can also be considered a “productive” investment.

There is interest in investing in Somalia from the diaspora. All respondents showed an interest in investing. Even the respondent who said they were not interested in investing, this was due to lack of information and then went on to share his investment preferences if he did invest. The interest in investing is there, but transparency, an enabling environment and channels to push funds through are needed.

The cultural attributes that Somali diaspora display when investing align with the tenets of impact investing.<sup>75</sup> Somali diaspora investors often have a dual perspective of their investments: personal enterprise and the potential contribution to Somalia’s development. Five’s principal investment goal is a high return, but the local community impact and job creation, sustainable environmental practices, and whether a business has fair trade and ethical labour practices are also considered. These indicators of social and environmental return are an important part of the Somali diaspora’s personal obligation to their community and country.<sup>76</sup> The National Investment Strategy outlines plans to focus on impact investing in the future.

<sup>74</sup>SOMINVEST (2020). National Investment Promotion Strategy (NIPS).

<sup>75</sup> Impact investing is an investment strategy that aims to generate specific beneficial social or environmental effects in addition to financial gains. Source: Investopedia (2021)

<sup>76</sup> UNDP (2011). Cash and Compassion: The Role of The Somali Diaspora in Relief, Development And Peace-Building.

# Chapter 5: Recommendations

Due to the complexity and the development required in the Somali investment market, recommendations have been divided into those which Sida can drive and those for Pangea Trust. Sida's recommendation focus on an enabling environment and education and promotion and those for Pangea Trust focus on trust, engagement, and research.

## 5.1 Recommendations for Sida

01

Continue to support the creation of a clear and robust environment for investment in Somalia

Enabling Environment

Priority - High

Difficulty - High

### Background:

Somalia's financial sector needs to develop further to decrease its high-risk profile and for it to be seen as a viable market by the international community. Somalia will continue to need development support in order to achieve this.

#### Activities:

Continue to support the development of Somalia's financial sector through framework pillar aligned with economic growth.

Provide technical assistance toward the development of a Diaspora Investment Policy

02

Support the development of a website for investment information and available opportunities from organisations like Pangea Trust

Education

Priority - Medium

Difficulty - Medium

### Background:

As Somali investment sector continues to develop and lack of trust still remains, a clear, golden source of information on investments would allow transparency and openness for the Somali diaspora

#### Activities

Support an international organisation or NGO to:

- ◇ Design and create a "one stop shop" online portal that explains all about investments in Somalia, showcases opportunities available to them and allows for capture of diaspora data, including investment preferences.
- ◇ Develop visual content (videos, dynamic projections, etc) around businesses and investments to showcase their features and returns

## 5.2 Recommendations for Pangea Trust

03

Create opportunities to build trust with Somali diaspora to open channels of dialogue around investments

Trust

Priority - High

Difficulty - High

### Background:

The Somali diaspora are reluctant to engage due to culture, fear and a lack of value add when it comes to investments.

Big steps are needed in order create opportunities for discussion and build trust.

#### Activities:

- ◇ Engage with clan leaders and influencers to help open channels to the diaspora
- ◇ Engage with diaspora organisations to create opportunities to network and invite diaspora to future Pangea Trust events and participate in research

Engage with organisations in Somalia who have diaspora funding support to understand their lessons learned of communicating with the Somali diaspora

04

Develop a communication strategy to discuss investment with the Somali diaspora

Engagement

Priority - High

Difficulty - Low

### Background:

Once trust has started to build, and the next step is to start dialogue with the Somali diaspora about investments.

Activities could be time intensive, and the timeline could be long but the payoff is essential.

#### Activities:

- ◇ Explore different approaches for different segmentations of the diaspora and envelop a plan to target - e.g. recent migrants, 2nd or 3rd generation, professionals, business owners
- ◇ Explore engagement via different channels

# 05

## Create and build a relationship with The Central Bank of Somalia

Engagement

Priority -  
Medium

Difficulty -  
Medium

### Background:

Learnings from activities with the diaspora are essential for product development and innovation in the market.

Sharing findings and knowledge will help to build goodwill and seek advice as a new entrant in the market.

#### Activities

- ◇ Share Diaspora Remittance Mapping Study
- ◇ Share any further findings that are outputs from Recommendation 1 or from further research

# 06

## Explore the potential of Somali diaspora savings for investments as a source of capital for investments.

Research

Priority -  
High

Difficulty -  
High

### Background:

The view that remittances sent for consumption are less productive is an over-simplified view and the development community has differing opinions on this.

African diaspora savings are estimated at more than USD 30 billion. Somali diaspora savings could be a source of sustainable funding.

This can only happen once dialogue has started with the diaspora and a relationship has been developed.

#### Activities

- ◇ Research with the Somali diaspora to understand savings potential
- ◇ Organise workshops, seminars and other educational programmes promoting the use of savings and extra funds towards investing to encourage investment from those in a position to do so.



# Annex

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## Annex 2: List of Stakeholders Interviewed

1. Embassy of Sweden in Nairobi, Somalia Development Cooperation Section – Paula Kermfors, First Secretary/Senior Programme Manager, Private Sector Development & Financial Inclusion
2. Central Bank of Somalia – Jibril Mohammed, Director of Licensing and Supervision
3. Ministry of Commerce and Industry – Ibrahim Isse Abdulle, Director of SMEs, and Corporates
4. Dahabshiil Transfer Services – Mohammed Hersi, General Manager
5. Queen Mary’s University – Dr Laura Hammond, Policy Lead on Connecting During COVID-19 Study
6. Global Somali Diaspora – Jawaahir Dahir, Director
7. Independent Somalia Expert (Previously worked with Shuraako, IFAD, World Bank and others) – Lee Sorenson
8. Somalia Stakeholder and Expert – Osman Awil
9. Somalia Islamic Finance Experts – Rahma Hersi and Fiona (Farha) Kirubi

## Annex 3: Survey Respondent Demographics Summary

	Age	Gender	Host Country	Length of time in Host Country	Industry	Yearly Income	Region in Somalia	Religion
Respondent 1	26-35	Female	USA	11 to 20 years	Healthcare	Between USD 25,001 and USD 50,000	South Central Somalia	Islam
Respondent 2	26-35	Female	Sweden	Moved abroad when under 18	Civil Society	Between USD 25,001 and USD 50,000	South Central Somalia	Islam
Respondent 3	46-55	Male	UK	21+ years	Information Technology	Between USD 25,001 and USD 50,000	Puntland	Islam
Respondent 4	46-55	Male	USA	21+ years	Information Technology	Between USD 100,001 and USD 150,000	South Central Somalia	Prefer not to say
Respondent 5	36-45	Male	Sweden	My parents and I were born abroad	Information Technology	Under USD 10,000	South Central Somalia	Islam
Respondent 6	36-45	Male	UK	My parents and I were born abroad	Trade	Between USD 25,001 and USD 50,000	Somaliland	Islam
Respondent 7	26-35	Male	Canada	Moved abroad when under 18	Mechanical Engineering	Between USD 25,001 and USD 50,000	Somaliland	Prefer not to say

# Annex 4: Survey

## Online Survey for Somalian Diaspora Remittances

1. Do you send remittances to Somalia?

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 Somalia, the survey will automatically end].**

### Remittances Practices

2. How often do you send money to Somalia? Please choose one answer.

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

3. Who do you send money to in Somalia? 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

4. 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

5. 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
6. 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\_\_\_
7. 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\_\_\_
8. What is the name of the company/companies you use to send money?
- a. Short answer
9. **ADD LOGIC TO THIS QUESTION** Do you have a diaspora account in a bank in Somalia?
- a. Yes
  - b. No
  - c. I don't know what that is
10. **THIS IS ONLY SEEN BY PEOPLE WHO CLICKS A on QUESTION 9** What do you use your diaspora account for? Check all that apply

#### Investments

11. Generally, how do you feel about investments? Please choose one answer.
- a. Good use of money
  - b. Sceptical
  - 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 Somalia
  - i. I don't know anything about it

12. **ADD LOGIC TO THIS QUESTION** Do you invest in any businesses back in Somalia? 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 Somalia
- e. No, but I am interested in investing
- f. No, and I am not interested in investing

13. **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\_\_\_

14. **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 Somalia separate from the remittances I send, and using different channels
- d. Other \_\_\_please explain\_\_\_

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

- a. Paragraph response

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

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

17. What kinds of businesses in Somalia 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)

18. What factors affect your decision to invest? Rank in order of importance.
- If I know the founder/manager
  - If I trust the founder/manager
  - If the business was recommended by a friend
  - If the process for investing is clear and convenient
  - If it looks like a good business deal (potentially high and/or safe returns)
  - If it is in a sector or doing work, I am passionate or knowledgeable about
  - I trust the bank / broker / platform that I am using
19. What sectors are you currently investing in, in Somalia? Please choose all the answers that apply.
- Agriculture
  - Energy
  - Technology
  - Finance
  - Education
  - Medicine
  - Real Estate
  - Other \_\_\_Please explain\_\_\_
20. What other sectors would you be interested in investing in, in Somalia? Please choose all the answers that apply.
- Agriculture
  - Energy
  - Technology
  - Finance
  - Education
  - Medicine
  - Real Estate
  - Other \_\_\_Please explain\_\_\_
21. Which of these do you look for when choosing a business to invest in, in Somalia? Please choose all that apply.
- Women led/run
  - Muslim led/run
  - Led/run by historically disadvantaged communities
  - Gives back to the community and/or creates local jobs
  - Sustainable environmental practices
  - No animal cruelty
  - Fair trade/ethical labour practices
  - I haven't really thought about these
22. Would you be more enthusiastic about investing in a women led business?
- Yes
  - This wouldn't matter to me
  - I'd be less enthusiastic

23. What have been some of the obstacles or challenges to investing in Somalia 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\_\_

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

- a. Yes \_\_Please explain\_\_
- b. No

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

- a. Paragraph answer

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

26. [ONLY SEEN BY PEOPLE WHO CHOSE D in Q2 of INVESTMENT SECTION](#) Why are you not currently investing in Somalia?

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

27. [ONLY SEEN BY PEOPLE WHO CHOSE E+F in Q2 of INVESTMENT SECTION](#) What is keeping you from investing in Somalia? 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\_\_

28. [THEY ONLY SEE THIS IF THEY CHOSE E ABOVE + MOVE TO Q28 WHEN DONE.](#) Why are you not interested in investing in Somalia? 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 Somalia
- d. It seems too complicated

- e. It doesn't seem worth the effort
- f. Other \_\_\_Please specify\_\_\_

29. What kinds of businesses in Somalia 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

30. 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

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

- a. Agriculture
- b. Energy
- c. Technology
- d. Finance
- e. Education
- f. Medicine
- g. Real Estate
- h. I don't know / haven't thought about it
- i. Other \_\_\_Please explain\_\_\_

32. Which of these would you look for when choosing a business to invest in, in Somalia? 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 labour practices
- h. I haven't really thought about these
- i. These factors wouldn't affect my decision

33. 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

34. Do you feel any of these would be an obstacles or challenges to investing in Somalia? 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\_\_

35. 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\_\_

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

- a. Paragraph answer

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

- 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 Somalia
- 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 compliant 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 Somalia?
  - 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 Somalia are you and your family from? [Multi-box Option]

- a. South Central Somalia
- b. Somaliland
- c. Puntland
- d. Other (please specify)

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

