REFUGEE **INVESTMENT** NETWORK

RLI Market Analysis & Strategy for Secondary Cities in Ethiopia and Uganda

Executive Summary

Our research identifies key challenges and associated opportunities specific to investing in refugee lens companies in Adama and Jigjiga, Ethiopia, and Arua, Uganda, with the objective of offering guidance to investors, companies, donors, and refugee-focused NGOs seeking to support or invest in these enterprises. Our analysis results in a set of recommendations for bolstering refugee-lens investing (RLI) efforts in these secondary cities.

As of 2022, Uganda is the largest refugee hosting country in Africa, and the third largest in the world with 1,595,405 refugees.[1] Similarly, Ethiopia had more than 4.2M internally displaced people (IDP) as of 2021, a number that continues to grow rapidly.[2] The continued growth of forced displacement is accompanied by a concentration of effort and global attention in Uganda and Ethiopia's capital cities and refugee/IDP camps, often overlooking the opportunities represented by displaced populations based in secondary cities.

In Uganda and Ethiopia, RLI faces challenges that are endemic to conditions and market characteristics of secondary cities, including socio-economic, legal, financial, and operational barriers. In forcibly displaced communities, the diversity in **socio-cultural** and religious backgrounds as well as **language** barriers between refugees and their host communities can complicate conditions for refugee livelihoods, especially with competition for scarce resources and jobs. This can deter host communities from welcoming IDPs and refugees into secondary cities' formal economies, or into business partnerships, while posing challenges for foreign investors trying to enter these markets.

Barriers in legal and regulatory infrastructure pose additional challenges to unlocking RLI in secondary cities. Due to the often significant differences between federal and sub-national investment regulations and enforcement as well as other weak contract negotiation mechanisms and difficulties in long-term land-lease-related investments, the market conditions do not always favor international investors.

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[1] "UNHCR Comprehensive Refugee Response Portal." https://data2.unhcr.org/en/country/uga

[2] IOM's Displacement Tracking Matrix (DTM), "National Displacement Report Round 10." September 2021

Prevalence of **informal market activities** and **shortfall of business development services** are two key characteristics of secondary cities highlighted in this report. Secondary cities tend to be characterized by **low levels of manufacturing** and **higher levels of informal employment**, meaning that investing in RLI in secondary cities must take into account that they are likely to be in businesses that engage heavily with the informal economy or that hire informally. Business Development Services (BDS), a crucial vehicle to promote the increased formalization and effectiveness of small firms by helping startups grow into investment-ready enterprises, are largely nascent in secondary cities. On one hand, there are significant constraints in the supply of quality BDS, however, there is also a **lack of demand** for such services. Even in places where BDS are offered there is often a gap in awareness around the presence of BDS providers in secondary cities, as well as their purpose and value. While there have been some developments with regard to BDS offerings for companies serving refugees in secondary cities in recent years, the spectrum of support offered remains unable to fully address business' needs or create an investment-ready pipeline of opportunities.

For many refugee lens companies, **access to finance** is the single biggest hurdle to growth since formal financial pathways require identification, documentation, and collateral, with access to these particularly difficult for refugees in secondary cities. In the process of identifying RLI companies, our research found that a majority of SMEs in secondary cities receive startup capital loans from cooperatives, credit associations, or from friends and family instead of formal financial institutions. There are, however, a growing number of financial institutions in Uganda offering microfinance loan products in refugee-hosting areas, increasing the use of financial services in refugee-hosting communities over the past few years.

With **limited awareness of RLI** among implementing actors, this analysis found that business operators in secondary cities were particularly unfamiliar with the investing framework. This lack of awareness leads to lost opportunities for investment and partnerships. Specifically, our research revealed that intentional engagement with refugees is usually not a component of company business strategies in either Uganda or Ethiopia. Instead, companies prioritize hiring qualified candidates, addressing supply chain issues, and generating revenue, often without consideration of employees' status as refugees, IDP or registered citizens. For this reason, many companies do not recognize that they are refugee-lens companies even when they meet the standards.

Additionally, there are **practical business, operational, and market challenges** associated with the secondary cities. Businesses based primarily in secondary cities are particularly vulnerable to challenges such as: : inconsistent quality of agricultural inputs like seeds, expensive prices of local inputs that exceed prices of the imported equivalent, and plastics produced locally often do not meet necessary quality standards, particularly when it comes to food-grade packaging. Although these problems are concerning, they also point towards a set of opportunities and demand for investors to focus on productive infrastructure investments that would facilitate the dependable provision of higher-quality agricultural and manufacturing inputs to businesses based outside of the city capitals.

Beyond the identification of both market and policy barriers to refugee livelihoods and RLI, this report also includes a set of recommendations to suggest ways to overcome the roadblocks to refugee lens investing. To supplement the fragmented nature of the RLI ecosystem, this report highlights how efforts to develop a **RLI collaborative** could liaise between actors and create more effective ways to engage in RLI. **BDS development** as well as **value-chain enhancements** in strong existing industries are areas for which strengthening efforts would significantly benefit local businesses as well as investors. Another recommendation is to **partner with MFIs** and support their **de-risking endeavors** by providing first-loss capital—allowing them to make loans more accessible to SMEs by lowering the initial collateral demands. Lastly, RLI investors should identify **high-potential investment opportunities** that can quickly showcase impact and commitment to the RLI framework, helping to **build momentum and credibility** with the target secondary cities and make it easier to implement future projects and investments.

Reach out to RIN at info@refugeeinvestments.org to further engage with our research and inquire about conducting similar research in other regions or collaborating to implement these recommendations.