



# Creating a Roadmap for Refugee Lens Investing in Ethiopia

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# Executive Summary

## Introduction

The findings and recommendations presented in this report will inform the Refugee Investment Network (RIN) and the broader Refugee Lens Investing (RLI) community on the unique barriers and opportunities present in Ethiopia for refugees and internally displaced people (IDPs). Research has shown that displaced populations bring many positive benefits to their host communities, but such shifts in population dynamics are not always well-received. The investment analysis aims to highlight the social, economic, and policy nuances in Ethiopia, some of which inhibit integrated livelihood development for both host and refugee communities. Additionally, it outlines the unique opportunities to deploy RLI and support refugee-related economy building in the country.

## Background

For centuries, Ethiopia has been at the crossroads of migration, trade, and resettlement. UNHCR estimates indicate that, as of March 31, 2022, Ethiopia had more than 4.51M internally displaced people (IDP).<sup>1</sup> The number continues to rise, but many regions are difficult to access, due to political and social unrest, making it hard to obtain more recent data. UNHCR also reports over 143,000 Ethiopians registered as refugees and asylum seekers in neighboring countries. Additionally, there are 844,589 registered refugees in the country<sup>2</sup>: Ethiopia hosts large cohorts of refugees from Somalia, South Sudan, and Eritrea, a smaller group from Sudan, and others originating from at least 26 other countries.<sup>3,4</sup>

With an economy that was largely closed-off from the rest of the world until recently, foreign investors continue to face numerous complications when investing in Ethiopia. As Ethiopia has now embarked on the journey to liberalize most of its state-directed economy and allow the private sector to play a key role in the country's economic development, there is positive momentum that may ease some of these barriers.

Recent legislation has introduced some incentives for foreign investors and the government has identified eight priority sectors that benefit from additional incentives for foreign investment: manufacturing; pharmaceutical; agro-processing; textiles; leather; tourism; ICT; mining and energy. Investments that fall into these priority sectors should benefit from favorable federal and regional government incentives. Shifting demographics are leading companies to look beyond the primary economic hub, Addis Ababa, to capitalize on underserved markets and increase labor pools, often found in regional cities where IDP and refugees are being placed.

## RLI Ecosystem in Refugee-Hosting Regions: Positive Developments and Persisting Challenges

### *Positive Developments:*

1. **Refugee Policy Implementation:** On November 2, 2022, the Ethiopian federal government and Tigrayan leadership signed a peace accord, bringing an anticipated halt to two years of conflict.<sup>5</sup> This presents an opportunity for the government to re-engage with the Refugee Proclamation and Comprehensive Refugee Response Framework (CRRF).<sup>6</sup>
2. **Legal and Regulatory Developments:** In recent years, the Ethiopian government has put forward several new initiatives to ease the burdens on foreign investors and SMEs seeking capital, including incentivizing investments in regional urban and semi-urban areas.

<sup>1</sup> UNHCR, "East and Horn of Africa and the Great Lakes: Ethiopia refugees, asylum-seekers and IDPs dashboard." UNHCR. March 2022.

<sup>2</sup> *Ibid.*

<sup>3</sup> UNHCR, "Operational Data Portal: Refugee Situations - Ethiopia." Updated April 30, 2022.

<sup>4</sup> Nigusie, Alemu Asfaw and Freddie Carver, "The Comprehensive Refugee Response Framework: Progress in Ethiopia." ODI. 2019.

<sup>5</sup> Crisis Group. <https://www.crisisgroup.org/africa/horn-africa/ethiopia/turning-pretoria-deal-lasting-peace-ethiopia>

<sup>6</sup> UNHCR. <https://www.unhcr.org/comprehensive-refugee-response-framework-crrf.html>

3. Access to Finance: The National Bank of Ethiopia is working with the United Nations Development Programme (UNDP) to develop loan schemes for revenue-based financing.
4. Maturing Private Sector: Major sectors in Ethiopia are being opened to the private sector and foreign investors. This, most notably, includes telecommunications and banking.
5. Practical Business and Operations Challenges: The government is prioritizing local production, which is likely to alleviate some of the challenges caused by the current import reliance.<sup>7</sup>

*Persisting Challenges:*

1. Refugee Policy Implementation: The Refugee Proclamation of 2019 has not been fully implemented.
2. Regulatory Hurdles: With regional governments and a centralized federal parliamentary republic, foreign investors seeking to enter are subject to two sets of requirements.
3. Nature of Regional Markets: Taxation issues, as well as a lack of viable financial institutions deter the formalization of businesses. A shortage of business development service providers also hinders companies from accessing critical support in their *early* and *growth* phases.
4. Access to Finance: Formal financial pathways require identification, documentation, and collateral. Many individuals and small to medium enterprises (SMEs) struggle across the country, particularly in rural areas, to provide all required components to receive loans or investments. This issue is exacerbated for displaced populations.
5. Relatively Young Private Sector: Before 1991, Ethiopia was a socialist country, and subsequent regimes kept many major industries under government control. As such, it will likely take time for business owners to feel comfortable with foreign partnerships.
6. Socioeconomic and Cultural Challenges for Host Communities: Different socio-cultural and religious backgrounds of displaced populations can create tension in their host communities.
7. Limited Awareness and Lack of Coordination Among Implementing Actors: RLI is an emerging investment term in Ethiopia. IGOs and NGOs also report a general lack of coordination among livelihood programs.
8. Practical Business and Operations Challenges: Inconsistent quality of input materials, inadequate infrastructure, and import dependence significantly hamper business growth in regional cities, thereby creating a cadre of underperforming companies.

## RLI Opportunities

### Geographic Focus

The report outlines four key city centers in Ethiopia as the proposed initial focus for refugee economic engagement: Addis Ababa, Adama, Debre Birhan, and Jijiga. These cities are selected due to their economic growth prospects, substantial refugee populations, and stability. The goal of this strategic approach would be to replicate initial successes and best practices established in these four cities in other regions in Ethiopia with high numbers of refugees and limited economic activity. Raising local awareness of RLI would thus be achieved through effective “quick-win” strategies that highlight the value of the movement to the government, economic development, and the well-being of citizens.

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<sup>7</sup> GOE. <https://faolex.fao.org/docs/pdf/eth211967.pdf>

## Industries and Business Models

Building on the Government of Ethiopia's priority sectors as part of its Homegrown Economic Reform Plan, the top three industries for RLI engagement in Ethiopia currently are: 1) Agriculture/Agro-Processing, 2) Textile Manufacturing, and 3) Energy. Assessing the most promising business models for RLI within these sectors, three models stand out above the rest: Agro-Processing; Direct Sales; and, PayGo.

## Recommendations

Building on RIN's four-part theory of change, this report recommends:

1. Mobilize Investment Capital: Considering the current socio-political environment in the country, the near-term approach could focus on local deal-making, with an eye on future investment opportunities for foreign engagement.
2. Build the Field of RLI: The RLI community could develop a wide range of partnerships to mobilize multiple avenues of refugee support.
3. Change the Narrative: RLI success stories are necessary to start building public confidence and to change opinions about the value refugee businesses can provide to communities.
4. Foster Pro-Refugee Policy Change: While policy change is unlikely to come quickly for Ethiopia, the country has already set the precedence for inclusive refugee policy through the CRRF and the 2019 Refugee Proclamation. Building on the first three pillars could drive policy advancements.

## Assessment methods and goals

The Refugee Investment Network ([RIN](#)) is the first impact investing collaborative dedicated to creating long-term solutions to global forced migration. RIN is a specialized investment intermediary that facilitates the movement of capital from commitment to active investment by sourcing, structuring, and supporting the financing of projects and companies that benefit refugees and host communities. RIN aims to bridge the gap between the untapped investment potential of refugee entrepreneurs and refugee and host-supporting businesses with capital markets to spur economic growth, create jobs, and increase social and economic cohesion.

RIN's work has demonstrated that intentionally investing in refugees and hosting communities – what RIN calls “refugee lens investing” or RLI – generates returns that extend far beyond the typical social and economic benefits for investees and investors. RLI is the practice of intentionally investing in companies that are improving forcibly displaced peoples’ lives by supporting:

**R1: Refugee-owned businesses** with at least 51% ownership or with at least 1 refugee playing a key operational role;

**R2: Refugee-led enterprises** having at least 1 refugee in senior management or with refugee representation on the board;

**R3: Refugee-supporting ventures** that intentionally provide goods, services or employ refugees;

**R4: Refugee-supporting, Host-weighted activities** that intentionally provide goods, services or employ host community members;

**R5: Refugee lending facilities** that provide debt or alternative financing to R1 - R4 enterprises;

**R6: Refugee funds** that provide equity to R1 - R4 enterprises.

### Refugee investment taxonomy

Refugee-Owned	
Refugee-Led	
Refugee-Supporting	
Refugee-Supporting, Host-Weighted	
Lending Facilities	
Refugee Funds	

Developed by RIN and its members, this framework provides investors with a “lens” to assess and qualify prospective and historical deals as *refugee investments*. Furthermore, [RIN defines the term “refugee” broadly](#), inclusive of those forcibly displaced across borders, and internally displaced by violence, persecution, climate change, natural disaster, and the communities they live in.

Despite the viability of investing in enterprises intentionally employing, or sourcing from refugees, investors – including in countries with well-developed impact investing ecosystems like the UK – are generally not aware of both the impact and returns potential of these opportunities. This assessment thus creates an evidence base with concrete examples of investment opportunities for interested capital partners from across the investment spectrum.

Ultimately, this work will support the efforts of interested stakeholders in the development of initiatives and investment strategies for refugee economic engagement in Ethiopia. Critical to this is understanding the complexities of doing business in Ethiopia, particularly as a foreign investor. This includes an analysis of the regulatory, market and cultural environments, resulting in an outline of the barriers and opportunities for supporting economic development in the country.

In order to develop this assessment and roadmap, RIN contracted Renew Capital, an Ethiopia-based impact investing and advisory firm, which utilized the following approach:

1. **Reviewed existing and reputable literature, research and data:** Financial, investment and entrepreneurial landscape analyses have been published about Ethiopia's refugee environment and the broader economy by international and local stakeholders including but not limited to the International Labour Organization (ILO), Mercy Corps, and the University of Oxford's Refugee Studies Centre. Renew Capital reviewed more than 100 reports, presentations and articles on Ethiopia's political and socioeconomic ecosystem which contributed to the analysis in this report. A list of the reviewed literature can be found in Annex II.
2. **Conducted stakeholder interviews:** Renew Capital held 45 interviews with international and local non-governmental organizations, government offices (including the Ethiopian Investment Commission, and Ministry of Labor and Skills), regional Chambers of Commerce and numerous businesses engaged with refugees.
3. **Conducted site visits:** Renew Capital carried out three site visits to assess their unique refugee situations: 1) The urban refugee experience in Addis Ababa, 2) The camp refugee experience in Jijiga and 3), The IDP experience in Debre Birhan. Interviews were conducted with city government officials, camp coordinators, technical assistance and development consultancy agents and refugees.
4. **Leveraged Renew Capital's experience and perspective, where appropriate:** Renew Capital team members also contributed to the report, leveraging the firm's experience as an active investor and private sector consultancy that has been investing in the market for more than ten years.
5. **Developed the report:** Renew Capital synthesized the information from desk research, interviews, site visits and team meetings into this final report.

## Overview of Refugee and Internally Displaced People Demographics in Ethiopia

### Background

Ethiopia has been at the crossroads of migration, trade, and resettlement for centuries. In many ways, refugees and immigrants are seen as part of the national fabric. Girmachew Adugna, Program Manager at Friedrich-Ebert-Stiftung Flight and Migration Competence Center, in Addis Ababa, observes:

*Ethiopia has a longstanding tradition of hospitality to forced migrants, dating back to the 7<sup>th</sup> century when the Abyssinian king, Negash, provided sanctuary to Muslim converts facing persecution in Mecca. It is now one of the largest refugee-hosting nations in the world, and the third largest in Africa. Still, at times there have been rivalries between Ethiopian natives and new arrivals, including in the Gambella region, which has a large population of refugees from South Sudan. Nearly all the registered refugees and asylum seekers in Ethiopia originate from neighboring states including South Sudan (48 percent), Somalia (27 percent), Eritrea (19 percent), and Sudan (6 percent).<sup>8</sup>*

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<sup>8</sup> Adugna, Girmachew, "Once Primarily an Origin for Refugees, Ethiopia Experiences Evolving Migration Patterns." Migration Policy Institute. 2021.

The first major influx of refugees into Ethiopia in the past half-century began in 1983, due to escalating conflict in South Sudan between the Sudanese regime and the Sudan People's Liberation Army (SPLA). By 1991, the number of refugees having crossed the border from South Sudan reached over 400,000.<sup>9</sup>

Drought, famine, and conflict also led to both the emigration of Ethiopians to neighboring countries, and the migration of Somali and Eritrean refugees into Ethiopia during this period.<sup>10</sup> The second surge in Ethiopia's refugee population between 2010 and 2016 was again triggered by conflict in Sudan.

*In mid-December 2013, thousands of South Sudanese were uprooted from their country when President Salva Kiir accused his ousted deputy, Riek Machar, of planning a coup. The fighting in the world's youngest nation soon took a tribal dimension between the Dinka ethnic group of President Kiir and Mr. Machar's Nuer ethnic group, triggering a cycle of retaliatory massacres across the country.<sup>11</sup>*

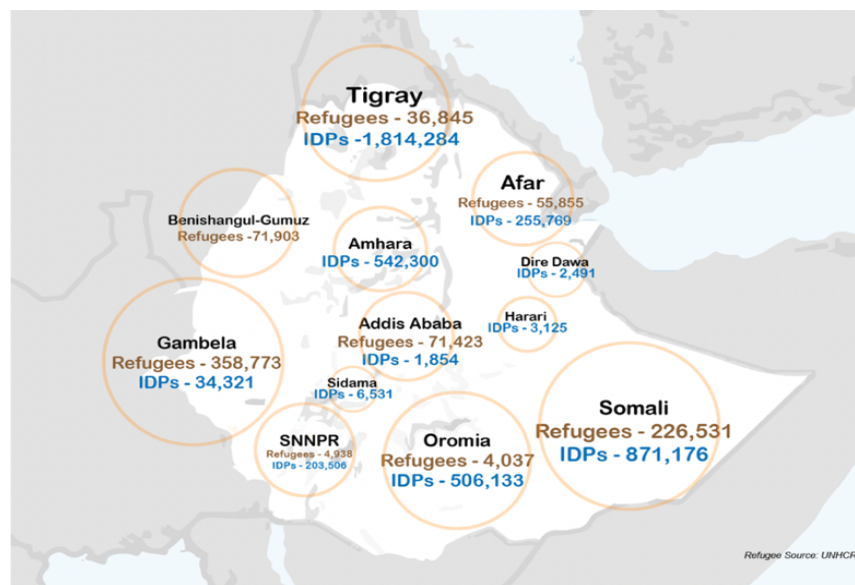


Figure 1: Refugee and IDP Population in Ethiopia<sup>12</sup>

In a matter of five years, from 2009 to 2014, the number of refugee camps grew from eight to 26, two of which are now closed due to the conflict in the northern Tigray region.<sup>13</sup> These closures have once again sent predominantly Eritrean refugees into flux, seeking shelter in temporary settlements in the Amhara and Afar regions, or Addis Ababa for those with greater means.

<sup>9</sup> Ofcansky, Thomas P. and LaVerle Berry, eds, "Ethiopia: A Country Study." Washington: GPO for the Library of Congress. 1991.

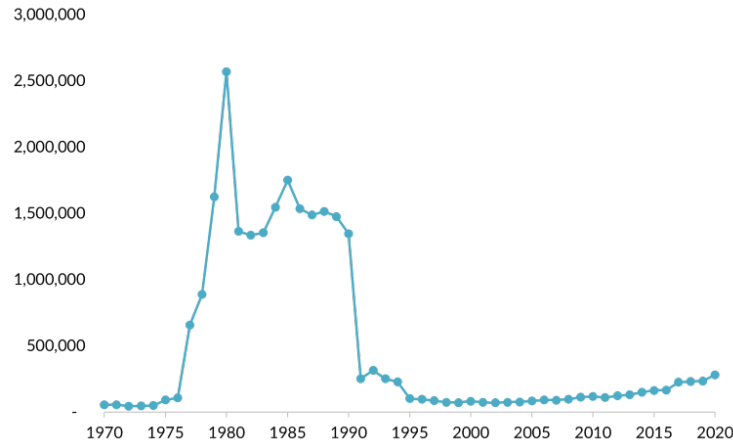
<sup>10</sup> University of Oxford. "Refugee Economies Programme Activities and Impact 2016-2021." Refugee Studies Centre, Oxford Department of International Development, University of Oxford. 2021.

<sup>11</sup> Momodu, Sulaiman, "Refugees turn to Ethiopia for safety and asylum: Country now hosts the largest number of refugees in Africa." UN: Africa Renewal. 2015.

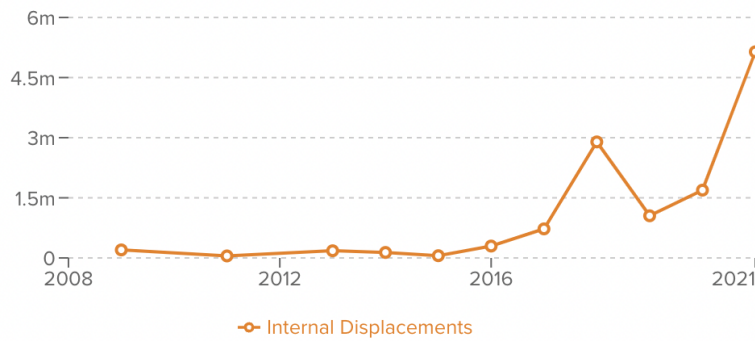
<sup>12</sup> Note: Data refer to the number of refugees under the protection of the UN High Commissioner for Refugees (UNHCR), asylum seekers, and others of concern to UNHCR as of the end of the year. Source: UNHCR, "Refugee Data Finder." Accessed from Migration Policy Institute. <https://www.unhcr.org/refugee-statistics/download/?url=OVJ1We>

<sup>13</sup> Adugna. 2021





Figures 2,3: Refugee (above) and IDP (below) population in Ethiopia over time<sup>14</sup>



UNHCR estimates indicate that, as of March 31, 2022, Ethiopia had more than 4.51M internally displaced people, a number which continues to rise.<sup>15</sup> However, collecting accurate data across a large country, particularly in areas affected by ongoing civil unrest and limited logistics infrastructure, remains challenging. The UNHCR also reports more than 140,000 Ethiopians registered as refugees and asylum seekers in neighboring countries, and 844,589 registered refugees in the country.<sup>16</sup> Ethiopia hosts three significant groups of refugees from Somalia, South Sudan, and Eritrea, as well as a smaller group from Sudan, and individuals from over 25 other countries.<sup>17, 18</sup>

Refugee Country of Origin		Population
South Sudan	46.8%	388,737
Somalia	27.2%	225,877
Eritrea	19.1%	158,548
Sudan	5.6%	46,616

*Refugees in Ethiopia by country of origin*

<sup>14</sup> Internal Displacement Monitoring Centre (IDMC), Country Profile: Ethiopia. IDMC. 2022. <https://www.internal-displacement.org/countries/ethiopia>  
<sup>15</sup> UNHCR, "East and Horn of Africa and the Great Lakes: Ethiopia refugees, asylum-seekers and IDPs dashboard." UNHCR. March 2022.  
<sup>16</sup> *Ibid.*  
<sup>17</sup> UNHCR, "Operational Data Portal: Refugee Situations - Ethiopia." Updated April 30, 2022.  
<sup>18</sup> Nigusie, Alemu Asfaw and Freddie Carver, "The Comprehensive Refugee Response Framework: Progress in Ethiopia." ODI. 2019.

USAID's "Ethiopia Performance Monitoring and Evaluation Service, Phase 1 Synopsis Report" indicates that IDP settlements and refugee camps are often located near urban centers scattered throughout all eleven regions of the country.<sup>19</sup> As the country's population continues to grow, rural-to-urban migration has also been on the rise, putting additional pressure on city infrastructure.<sup>20</sup>

Aduguna observes that "many refugees living in Ethiopia have expressed interest in onward movement, towards Israel or Europe, for example."<sup>21</sup>

*For Eritreans, the factors affecting their departure from Ethiopian refugee camps are complex and can include safety, familial responsibilities, general satisfaction with life in Ethiopia, as well as the existence of connections abroad that could support them on the journey to a third country. General hopelessness, access to work and educational opportunities, a so-called culture of migration, and accessibility of traffickers can also play a role.*<sup>22</sup>

### Demographic and Regional Attitudes

Wider factors shaping distinct narratives include different regions' historical experiences of refugee-hosting and its impacts, characteristics of refugee populations being hosted (such as length of stay and skills profiles), as well as local politics and relationships between regional authorities and Ethiopia's federal government.

- Older Ethiopians and those with lower levels of education appear most positive.
- Perceptions of immigration are markedly positive in the Somali region, compared to Oromia and Amhara.
- In Gambella, narratives relating to (predominantly Nuer) South Sudanese refugees are strongly shaped by historical tensions between Anuak and Nuer communities, including contested claims to land and political power.
- In the Somali region, distinctions between refugees and hosts are blurred due to mobility and cultural ties between ethnic Somalis. Instead, perceptions of difference tend to be formed along clan lines and between ethnic Somalis and outsiders.
- In the Afar region, local communities have emphasized cultural ties with ethnically Afar refugees from Eritrea, viewed as a valuable and preferred labor resource.

As observed by Hargrave and others in the "Market Systems Analysis for Refugee Livelihoods in Jijiga, Ethiopia," this transient component of refugee mentality in Ethiopia can complicate local integration. While Ethiopians are generally welcoming, attitudes vary widely across regions and local demographics. For example, Ethiopians who are already struggling to sustain their livelihoods in an underdeveloped employment market, remain hesitant to welcome refugees into the formal employment pool.<sup>23</sup> Crime and heightened conflict are also concerns raised by locals when asked about refugee presence in their communities.<sup>24</sup>

Hargrave points out that refugees are engaged in local economies "as customers, informal business partners, employees and [they] provide an infusion of cash into the economy both through remittances and humanitarian operations; however, they are still far from achieving economic inclusion."<sup>25</sup> The humanitarian operations have attracted business development and subsequent employment through the support services and infrastructure they require.<sup>26</sup>

<sup>19</sup> USAID, "Ethiopia Performance Monitoring and Evaluation Service, "Phase 1 Synopsis Report" Secondary Cities Assessment." 2020.

<sup>20</sup> Roberts, Brian H., "Managing Systems of Secondary Cities Policy Responses in International Development." Cities Alliance. 2014.

<sup>21</sup> Aduguna.2021.

<sup>22</sup> Aduguna, 2021.

<sup>23</sup> Hargrave, Karen, "Public Narratives and Attitudes Towards Refugees and Other Migrants - Ethiopia Country Profile." ODI. 2021.

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*

### Jijiga: A Case Study<sup>27</sup>

Yusuf and Khalif report that an estimated 50% of refugees have an alternative income to the monthly WFP assistance, with an average monthly income of refugee households estimated at 875 Birr per month (\$32).

In the surrounding Jijiga area, the refugee camp markets are dominated by the trade and services sector – most being shops, kiosks, tea stands and hawkers; as well as tailoring, barbering and laundry (hand-washing clothes) services. Many refugees also resorted to traditional keeping and trading of small ruminants – an estimated two ruminants per household – as an additional, informal means to earn income. *\*This is a high-potential value chain that could significantly improve livelihoods if formalized and cultivated.*

In general, local markets are small and capital-starved. Actors are unable to expand or specialize, resulting in small enterprises selling similar wares and competing for small demand by both refugee and host communities. Informal labor markets within the refugee markets and in host communities are limited, an issue exacerbated by high poverty levels even among the host population.

Additional constraints the authors highlighted include restrictions on movement, lack of access to capital and financing, competition from other traders operating similar businesses, high transaction costs (transport and restriction on movements), lack of refugee markets and business spaces within the camps, lack of education and inadequacy of business skills.

As such, Yusuf and Khalif report that “these communities require push-pull interventions aimed at developing the skills and capacities of the target group to engage with the market, as well as interventions that focus on developing market systems in such a way as to expand and diversify market opportunities available to both target groups.”

## Policy and Non-Policy Implications for RLI in Ethiopia

### Refugee Policy Landscape

Even prior to the large influx of refugees in the late 1900s, Ethiopia was already a signatory to applicable international conventions and has always held an open-door policy:<sup>28</sup>

- The 1951 Geneva Convention on the Status of Refugees<sup>29</sup>
- The 1967 New York Protocol relating to the Status of Refugees<sup>30</sup>
- The 1969 OAU Convention Governing the Specific Aspects of the Refugee Problem in Africa<sup>31</sup>

It was not until more recently, though, in response to the Global Compact on Refugees, that the country started taking proactive steps at the federal level. Built upon these international agreements, Ethiopia enacted the Refugee Proclamation in 2004 to further enhance its commitment to refugees.<sup>32</sup>

In 2016, Ethiopia co-hosted the Leaders’ Summit on Refugees in New York, during which the Government of Ethiopia made nine pledges:<sup>33</sup>

<sup>27</sup> Yusuf, Mohammad and Jamal Khalif, “Market Systems Analysis for Refugee Livelihoods in Jijiga, Ethiopia.” ILO. 2018. (Content extracted from report text)

<sup>28</sup> UNHCR, Ethiopia. Global Compact on Refugees Digital Platform. 2022.

<sup>29</sup> UNHCR. <https://www.unhcr.org/en-us/1951-refugee-convention.html>

<sup>30</sup> UN. [https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg\\_no=V-5&chapter=5](https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=V-5&chapter=5)

<sup>31</sup> UNHCR. <https://www.unhcr.org/en-us/about-us/background/45dc1a682/oa-convention-governing-specific-aspects-refugee-problems-africa-adopted.html>

<sup>32</sup> *Ibid.*

<sup>33</sup> UNHCR, “Briefing Note: CRRF Ethiopia.” 2018.

1. To expand the “out-of-camp” policy to benefit 10% of the current total refugee population.
2. To provide work permits to refugees and those with permanent residence IDs.
3. To provide work permits to refugees in the areas permitted for foreign workers.
4. To increase enrolment of refugee children in preschool, primary, secondary, and tertiary education, without discrimination and within available resources.
5. To make 10,000 hectares of irrigable land available, to enable 20,000 refugees and host community households (100,000 people) to grow crops.
6. To allow local integration for refugees who have lived in Ethiopia for over 20 years.
7. To work with industrial partners to build industrial parks to employ up to 100,000 individuals, with 30% of the jobs reserved for refugees.
8. To expand and enhance basic and essential social services for refugees.
9. To provide other benefits, such as the issuance of birth certificates to refugee children born in Ethiopia, and the possibility of opening bank accounts and obtaining driving licenses.

Following this, Ethiopia was selected as one of the 15 pilot countries for the Comprehensive Refugee Response Framework (CRRF<sup>34</sup>), “a global shared commitment to improving the lives of refugees and host communities in a coordinated way.”<sup>35</sup>

*Its objectives are easing pressure on host countries, improving refugee self-reliance, expanding access to resettlement in third countries, and creating conditions in countries of origin for voluntary return. Seven of these pilot countries are in Africa.*<sup>36</sup>

Building on the nine pledges and the CRRF commitment, Ethiopia revised its 2004 Refugee Proclamation, adopting a new refugee law (Proclamation No. 1110/2019).<sup>37</sup> The United Nations (UN) commended Ethiopia for the new proclamation, calling it “one of the most progressive refugee policies in Africa.”<sup>38</sup>

Additional legislation to support these endeavors includes:

- Directive to Determine Conditions for Movement and Residence of Refugees Outside of Camps, Directive No. 01/2019<sup>39</sup>
- Directive to Determine the Procedure for Refugees’ Right to Work, Directive No. 02/2019<sup>40</sup>

<sup>34</sup> UNHCR. <https://www.unhcr.org/comprehensive-refugee-response-framework-crrf.html>

<sup>35</sup> Adugna. 2021

<sup>36</sup> *Ibid.*

<sup>37</sup> ILO. <https://www.ilo.org/dyn/nattlex/docs/ELECTRONIC/109317/135566/F-1190510897/ETH109317.pdf>

<sup>38</sup> UN News, “UN agency chief calls Ethiopia’s revised refugee law ‘one of most progressive’ in Africa.” United Nations. 2019.

<sup>39</sup> <https://www.refworld.org/docid/609f1b924.html>

<sup>40</sup> <https://www.refworld.org/docid/60a503084.html>

The 2019 National Comprehensive Refugee Response Strategy (NCRRS) outlined key programmatic measures to implement the CRRF and achieve the objectives of the proclamation, including:<sup>41</sup>

- Expansion of access to education at primary, secondary, and tertiary levels by integrating refugees into the national educational system (including adult literacy and Technical Vocational Education and Training (TVET).
- The local integration of 13,000 refugees who have lived in Ethiopia for more than 20 years.
- Expansion of access to different forms of energy; protection of the environment.
- Improving food and nutrition security by encouraging the use of cash instead of in-kind support.
- Expansion of WASH programs.

*The ratification of this convention underscores the Government's concern and attention to the large number of people who are displaced, whether as a result of conflict or changing climatic conditions. UNHCR welcomes the opportunity to support the Government in implementing the tenets of the convention and honoring its commitments, including through the development of a national action plan for IDPs.*

*- UNHCR's Representative in Ethiopia, Ann Encontre.*

However, the NCRRS remains a draft, lacking secondary legislation and regulations for implementation. Without the necessary directives from the Refugee and Returnee Services (RRS), many federal bodies cannot carry out the measures.<sup>42</sup>

The federal parliamentary republic structure in Ethiopia, with a federal government and regional governments, adds complexity to implementation. Without secondary legislation and directives, clarity on implementation actions remains limited.<sup>43</sup>

Ethiopia ratified the African Union Convention for the Protection and Assistance of Internally Displaced Persons (Kampala Convention) in February 2020 to support IDP, even before the recent conflict in Tigray:

*The Kampala Convention is the world's first and only regional legally binding instrument for the protection and assistance of IDP, who often face heightened risks of sexual and other violence during their displacement, while they struggle to access their basic rights.*<sup>44</sup>

Additional challenges to successful implementation include the remoteness of refugee communities and the broader nascency of an underdeveloped private sector.<sup>45</sup> As a result, numerous studies report that refugees have seen minimal meaningful impact from these new regulations and directives. Below is a table of refugee rights and the status of those rights in Ethiopia; Annex I also includes a brief overview of these legal statuses.

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*A key barrier to refugees' self-reliance in Ethiopia is the legal framework that leaves them reliant on informal systems and networks, and, potentially open to exploitation. While the new refugee law was passed, lack of clarity over its interpretation remains a challenge.*<sup>46</sup>

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<sup>41</sup> Nigusie, Alemu Asfaw and Freddie Carver, "The Comprehensive Refugee Response Framework: Progress in Ethiopia." ODI. 2019

<sup>42</sup> Hargrave. 2021 and interviews with government officials.

<sup>43</sup> Interviews with Ministry of Labor and Skills, Trade, Immigration Services and Ethiopian Investment Commission. March-May 2022.

<sup>44</sup> UNHCR, "UNHCR welcomes Ethiopia's ratification of Kampala Convention." UNHCR. 2020.

<sup>45</sup> Hargrave. 2021.

<sup>46</sup> Nigusie and Carver. 2019.

RIGHTS	STATUS
Right to Stay in Ethiopia	Granted
Regular Residency Outside of Camp	Granted with access barriers
Right to Education	Granted
Right to Movement	Granted with access barriers
Right to ID	Granted
Right to Property	Granted with access barriers
Customs Duty-Free Privilege	Granted with access barriers
Right to Justice	Granted
Right to Financial Service	Granted with access barriers
Fiscal Charges	Granted
Right to Work	Granted with access barriers
Right to Start Business	Granted with access barriers
Right to Association	Granted
Industries Prioritized for Refugee Inclusion	Agriculture, Industry, Handicrafts, Commerce
National Law or Policy for Inclusion of Displaced People	N/A ( <i>*Signatory to the Kampala Convention</i> )

## Barriers to RLI

### Investment Regulations

The Ethiopian government is structured in a federal parliamentary republic framework, in which the regional state governments hold certain autonomous power from that of the central federal government. The powers of the federal and state governments are defined by the country's constitution. As a result, there are several cascading effects on doing business outside of Addis Ababa and Dire Dawa.

For investors, any refugee projects outside of Addis Ababa and Dire Dawa will be subject to oversight by both the federal and regional governments. The lack of coordination between the two governments and their regulatory bodies can pose significant challenges for foreign investors, leading to incongruent policy implementation and oversight.<sup>47</sup>

<sup>47</sup> Dire Dawa is the only city other than Addis Ababa that is solely under the jurisdiction of the federal government, alleviating some of these complications.

Per the constitution, any foreign investor-related matter falls under the jurisdiction of the federal government, and regional state governments can only accommodate domestic investors. This is a major deterrent for businesses outside of Addis Ababa to seek foreign investment, as doing so would open the businesses to the scrutiny and oversight of not only the regional government but the federal government as well. As refugees are foreigners, business ownership is not an option in Ethiopia. There are examples of partnerships between refugees and host citizens forming joint ventures. However, the formally documented owner will always be Ethiopian.<sup>48</sup>

Despite the efforts of the Ethiopian Investment Commission (EIC) to simplify the business registration process through a “one-stop shop” service which could facilitate entrepreneurship at the regional level, this service has not yet been implemented.<sup>49</sup> Businesses outside of Addis Ababa still face a cumbersome process of visiting different government offices to register their company, including, but not limited to, visits to the regional trade bureau, the revenues office, and the documents authentication office.

For foreign investors, investing in land also comes with additional compliance issues. If a business aims to acquire new land with foreign investment support, it must go through two approval processes: obtaining an investment permit from the federal government and then requesting land allocation from the regional government. This lengthy two-step process can limit both business demand for foreign investment and foreign investor interest in land-related investments.

Contract enforcement can also be a challenge for foreign investors in Ethiopia, as disputes are often resolved through local customary practices that rarely favor foreign investors. There is an overall lack of out-of-court settlement options outside of Addis Ababa, and the country's federal and regional law can result in differing treatments for foreign investors in different jurisdictions.

### **FX Shortage, Minimum Capital Requirements and Tax Laws**

While the investment landscape has improved, doing business in Ethiopia remains difficult. In addition to the country's placement on the World Bank's *Ease of Doing Business* ranking (159 out of 190), the foreign exchange shortage inhibits import capacity, while export performance is limited by commodity offerings, an overvalued exchange rate and illicit trade.<sup>50</sup>

*The acute foreign exchange shortage (the Ethiopian birr is not a freely convertible currency) and the absence of capital markets are choking private sector growth. Companies often face long lead times importing goods and dispatching exports due to logistical bottlenecks, corruption, high land-transportation costs, and bureaucratic delays. Ethiopia is not a signatory of major intellectual property rights treaties.*<sup>51</sup>

Furthermore, inconsistent quality of input materials, inadequate infrastructure and import dependence significantly hampers business growth, thereby creating a cadre of underperforming companies that are typically viewed as unattractive to investors.<sup>52</sup>

Minimum capital requirements (i.e., \$200K for a 100% foreign investment; \$150K for a joint venture with local investors) and restrictions on foreign debt for local businesses can be prohibitive both for foreign investors as well as for the businesses seeking their capital.<sup>53</sup> Only foreign investors and local manufacturing businesses are allowed to access foreign loans; other

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<sup>48</sup> DAI SHARPE works with a number of SMEs in Gambella and Dollo Ado that have managed to develop such arrangements. However, it is precarious as the refugee partner has little recourse if the partnership sours.

<sup>49</sup> Investment Regulation No. 474/2020. [http://admin.theiguides.org/Media/Documents/Investment-Regulation-No.-4742020\\_09-08-2020\\_0001-2.pdf](http://admin.theiguides.org/Media/Documents/Investment-Regulation-No.-4742020_09-08-2020_0001-2.pdf); interviews with active investors.

<sup>50</sup> U.S. State Department. 2021. <https://www.state.gov/reports/2021-investment-climate-statements/ethiopia/#:~:text=Ethiopia%20has%20a%20limited%20and,to%20growth%20in%20the%20country.>

<sup>51</sup> *Ibid.*

<sup>52</sup> Betts, Alexander and Raphael Bradenbrink, “Building economies in refugee-hosting regions Lessons from Dollo Ado.” Refugee Studies Centre, Oxford Department of International Development. 2021.

<sup>53</sup> Investment Proclamation No. 1180/2020. [http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180\\_2020-Copy.pdf](http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180_2020-Copy.pdf)

businesses are not permitted. This means that a foreign investor can only make equity investments in local companies.

Other regulatory concerns for investors include tax laws, the legal structure for investment firms (which may be more complicated than in other countries), and potential issues remitting funds due to foreign exchange shortages.<sup>54</sup> While the current socio-economic environment continues to pose complications for foreign investors, the recent peace agreement and government discussions to continue opening up the private sector give reason for investors to reignite their interest in the country.

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*Substantial improvement in the business sentiment is only likely once political stability is restored and Ethiopia's growth returns to healthier levels, which we expect in early 2023.*<sup>55</sup>

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## **Refugee Access to Finance**

While the Refugee Proclamation of 2019 has provisions for financial access, its desired impacts are limited due to the lack of infrastructure and supporting legislation. Moreover, formal financial pathways for refugees require identification, documentation and collateral. Many individuals and SMEs in Ethiopia struggle to produce the requisite components to receive loans or investments. This challenge is even more acute for IDP and refugee populations attempting to develop businesses or even to manage their livelihoods.

Most financial institutions are unaware of refugees' right to access finance, or are wary of engaging refugees as clients, as refugees can provide little financial history information and typically have no collateral for loans. And, while the newly issued Movable Security Rights law is an attempt to ease these barriers by enabling banks to use movable assets and property as secured collateral, full implementation of this law will take time. Furthermore, in the case of IDP and refugees, this new law may not adequately support their needs as they often arrive in host cities with no assets, moveable or otherwise.

From stakeholder interviews, it was evident that institutions that could potentially serve refugee clients often have concerns about the reliability of a refugee client or do not have adequate awareness or training to engage with customers lacking traditional documentation, credit history or collateral.

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<sup>54</sup> It is estimated that a foreign investor wanting to repatriate the returns on its investment in the form of dividends or proceeds from sale of shares will need to wait in queue at a commercial bank for six to nine months.

<sup>55</sup> Willock, Robert, "Ethiopia: What to look out for in 2022." Economist Intelligence: Corporate Network. 2022.



In Benishangul-Gumuz, for example, natural disasters such as drought are exacerbating repayment issues as individuals lose livestock and other collateral. As a result, local financial institutions have stopped serving even local Ethiopian customers and cater only to civil servants, leaving local businesses to self-finance.<sup>56</sup>

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*Opening a bank account, accessing a loan or other financial activities require Federal identification, collateral and a number of other requisites depending on the product a customer is seeking. Refugees rarely have one of these qualifications, let alone all of them. While the Refugee Proclamation provides the right to access finance, there have been no provisions or direction for banks to waive some of these requirements, nor creative alternatives to genuinely give refugees and IDPs access to finance. We have found some creative solutions that still fall within the law to open small bank accounts for these populations or encourage them to join cooperatives that have a better chance of collectively accessing bank credit, but these are a rarity in the banking world. We need more direction and awareness-raising from the government.*

*– Local MFI*

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The numerous restrictions surrounding foreign investment, including minimum required capital and the inability to offer debt products under a certain amount, prohibit foreign actors from providing alternative finance options. As a result, there are only a limited number of institutional investors currently operating in the country, and they are largely concentrated in Addis Ababa. And while Microfinance Institutions (MFIs) such as Vision Fund<sup>57</sup>, RAYS<sup>58</sup> and Somali Microfinance Institution<sup>59</sup>, among others, have established a presence in regional small- and medium-sized cities to alleviate some of these strains, reports indicate these services remain inadequate.

There is also a perception that refugees are not credit-worthy and that their potential transience makes them high-risk clients.<sup>60</sup> In some areas, however, hosts and refugees form cooperatives, easing the barriers to finance. This is in part possible thanks to the government's encouragement to form cooperatives as a job creation and economic development strategy.<sup>61</sup> Cooperatives are given preferential treatment under this initiative, so they can be an attractive alternative to traditional business formation.<sup>62</sup>

As with most aspects of Ethiopia's economy, the lack of institutional finance options has led to informal financing mechanisms dominating the market. For example, in Adama and Debre Birhan, most SMEs receive start-up capital loans from credit associations or friends and family. In Jijiga, cooperatives and family money are major sources of start-up capital for both informal and formal businesses.

There are also cultural and religious limitations that refugees and investors must keep in mind. For example, in the Muslim community, very few financial institutions have Sharia-approved loan mechanisms, particularly outside of the Somali region. As such, Muslim IDP located in Adama

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<sup>56</sup> Interview with IFC, March 2022.

<sup>57</sup> <https://www.visionfund.org/>

<sup>58</sup> <https://www.facebook.com/RaysMFI/>

<sup>59</sup> <https://www.somalimfi.com/>

<sup>60</sup> Yussuf, Mohamed Muhumed and Jamal Khalif, "Market Systems Analysis For Refugee Livelihood in Jijiga - Ethiopia." 2018.

<sup>61</sup> ILO, "Integrated Enterprise, Cooperative And Financial Services Assessment On Refugees And Host Communities." 2021.

<sup>62</sup> Interview with IFC, March 2022.

largely rely on Iddirs and Equb as lending and risk-sharing mechanisms. These examples highlight the importance of strong social networks to support business development and ease barriers to accessing finance. Refugees are unlikely to have these networks, particularly in the first few years of their arrival, highlighting the heightened challenges of refugee business development, even in the informal sector.

## Enablers of RLI

### Positive Developments

After two years of violent conflict, the Government of Ethiopia and the leadership in Tigray signed a peace accord on November 2, 2022.<sup>63</sup> It is hoped that the commitment to the peace process by both sides will bring stability to the region. In the weeks following the peace accord signing, “more than 90 thousand quintals of wheat and nutritious food were distributed to more than 450,000 people, according to the National Disaster Risk Management Commission (NDRMC). The national relief body further said over 60 heavy vehicles loaded with humanitarian supplies arrived at various destinations in the regions, bringing much needed aid to starved and war-torn communities.<sup>64</sup> While the needs are significantly greater, and rebuilding the region’s infrastructure will be a long and arduous process, these developments, if continued, should curb the rapidly growing numbers of IDP across the nation, and eventually lead to resettlement.

From an investment perspective, the government has continued its efforts to liberalize the economy and incentivize private sector development. Earlier in 2022, government introduced Regulation No. 517/2022<sup>65</sup>, the Special Incentive Plan, which provides a 30% tax deduction for three years if an investment is made in an underdeveloped region. This is in addition to several other incentives including corporate income tax exemptions, import exemptions and export incentives. This is a beneficial development for the RLI community, as it would apply to investments in the hinterlands that host most of the refugee populations.

This development builds on the amended Investment Proclamation No. 1180/2020<sup>66</sup>, which introduced a new investment administration organ called the Federal Government and Regional State Administrations Investment Council to oversee coordination among jurisdictions. The Council intends to ease the process of acquiring land and other administrative challenges facing foreign investors in regional cities. This is expected to make investing outside of primary economic hubs, including those regional refugee-hosting communities, more attractive for foreign investors.

In 2019, the government introduced the Movable Security Rights Proclamation (No. 1147/2019)<sup>67</sup>, which allows financial institutions to hold movable properties as collateral and provide finance. The inclusion of farm products like crops, wood products and livestock improves access to finance in regional cities. If adequately implemented at a regional level, this could help more individuals, including IDP and refugees, access loans. It would be particularly beneficial to refugee populations that do not have other requisite collateral, but will continue to exclude many IDP and refugees that arrive in Ethiopia with little to no possessions, hence do not have movable collateral to offer.

Another hopeful development is a draft proclamation that would ease regulations for foreign investment in early- and late-stage startups. This includes resolving issues that foreign investors currently face in relation to debt investment and minimum capital requirements. Furthermore, it aims to incentivize angel investors by providing new tax breaks.<sup>68</sup> This could help ease the barriers foreign investors face in pursuing investments in secondary and tertiary cities, and could open opportunities to build foreign-investable businesses out of local incubators. While refugee-

<sup>63</sup> Crisis Group. <https://www.crisisgroup.org/africa/horn-africa/ethiopia/turning-pretoria-deal-lasting-peace-ethiopia>

<sup>64</sup> CGTN. <https://news.cgtn.com/news/2022-11-28/Ethiopia-s-Tigray-receives-first-round-aid-after-peace-accord-1fjSZ9XQvm/index.html>

<sup>65</sup> GOE. <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/4003/ethiopia-adopts-new-investment-incentives>

<sup>66</sup> GOE. [http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180\\_2020-Copy.pdf](http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180_2020-Copy.pdf)

<sup>67</sup> NBE. <https://nbebank.com/wp-content/uploads/pdf/proclamation/movable-property-security-right.pdf>

<sup>68</sup> ICTET. [https://ictet.org/wp-content/uploads/2020/08/Laws\\_ETH\\_Start-ups-English-2020-08-02.pdf](https://ictet.org/wp-content/uploads/2020/08/Laws_ETH_Start-ups-English-2020-08-02.pdf)

led businesses are unlikely to benefit from this in the short-term due to capital investment minimums, a larger pool of startups able to receive both financial and technical support from the international community will contribute to a more robust SME ecosystem that could attract foreign investment and, in turn, be crafted into refugee-supporting businesses.

Preliminary conversations have also been held among the government, development and investment communities operating in Addis Ababa to provide new financial products such as collateral-free lending or revenue-based financing.

*In a bid to bridge the huge MSME credit demand-supply gap in Ethiopia, the National Bank of Ethiopia (NBE) and the UNDP have lately devised a new loan scheme. The two have signed a letter of intent to establish an Innovative Finance Lab (IFL), which is aimed at mobilizing funds and providing them to MSMEs in Ethiopia.<sup>69</sup>*

If this scheme comes to fruition and is properly implemented with local banks, there is great potential for relieving the burden of small businesses in rural, refugee-hosting communities.

Finally, the government is working to liberalize the banking sector and financial digital services industry, which should improve foreign currency flows, contributing to an increase in foreign direct investment (FDI).

## **Refugee Regulation**

The draft National Comprehensive Refugee Response Strategy (NCRRS), meant to build upon the Comprehensive Refugee Response Framework commitment, has proven difficult to enact since it was announced following the Refugee Proclamation of 2019. Interviews with multiple government stakeholders and legal experts revealed that a current limitation is the lack of secondary legislation and directives from the Refugee and Returnee Services Administration (RRS) that provides fellow ministries guidance and legal structure to implement any of the refugee-related activities detailed in the proclamation. This causes frustration for both government officials and refugees.

For example, a representative of the Ministry of Labor and Skills (MoLS) indicated that a handful of refugees have come to them seeking work permits, but they were turned away because the Ministry does not have instructions from RRS on how to engage these individuals. While it is not impossible for a refugee to obtain a work permit, the requirements to begin the process include provision of all the mandatory identification documents as well as sponsorship from an employer. The lengthy process that follows requires legal support and is not cheap. Employers are generally not eager to obtain a work permit for foreigners, unless the skills they can provide are highly valued. Even for highly-skilled refugees, the complicated nature of this process often excludes them from the formal workforce.

The Ministry of Trade and Regional Integration (MoTRI) is often visited by Eritrean refugees in Addis Ababa seeking business licenses. They leave frustrated when they are told that the MoTRI only deals with domestic-owned businesses. Refugees are expected to go through the channels of a traditional foreign direct investor and engage with the Ethiopian Investment Commission. This brings its own challenges, as under the current law, a refugee is treated as a foreign investor and thus must follow the stringent requirements and limitations a formalized investment firm would face. This includes a minimum investment threshold of \$200K, which is almost guaranteed to be a non-starter for a refugee.

While the Refugee Proclamation of 2019 is applauded by the international community, these examples highlight the shortcomings in implementing the well-intended law. If there is to be

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<sup>69</sup> The Reporter. <https://www.thereporterethiopia.com/27289/>

meaningful refugee inclusion in Ethiopia's socio-economic systems, enactment of existing legislation and development of secondary legislation will be imperative.

However, as one stakeholder pointed out:

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*There is a danger in waiting for the regulatory environment to progress. It is difficult to credibly draw that line into the future – everything in Ethiopia is dynamic and can change day-to-day. You think you're making progress, then everything comes to a halt or is reversed.*

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As such, implementing partners that have been operating in the country for years advise that to develop an RLI ecosystem, *“the better strategy is often to push as far as you can go, build partnerships and then make a compelling case for the regulatory environment to catch up.”*

The partnership component in this recommendation is paramount, particularly for new or unfamiliar activities, such as RLI. A champion within government is critical to its implementation and success; without a strong government partner, it will be extremely difficult to make significant progress. In more liberalized economies, humanitarian, consulting, investment, and other implementing partners enjoy a more independent operating capacity within their relevant sector, private or otherwise. As has been discussed throughout this report, and despite positive signs of the economy opening, this is not yet the case in Ethiopia.

Caution towards the private sector is also still present in the country. As one investor indicated, *“in most parts of the world, investment and government are paradoxical, but here in Ethiopia, they are synonymous.”* Under the current regime, and moving forward into Ethiopia's bright future, there is hope this will continue to decouple. In the meantime, government relationships should continue to be prioritized.

A compounding challenge is that despite its heavy involvement in the private sector, many government actors do not know how to fully engage and empower the private sector regarding public sector issues:

Recently a poultry company called EthioChicken approached the National Disaster Risk Management Commission (NDRMC) to propose a business partnership that would support the massive IDP population throughout the country. Recognizing that they had lost customers due to displacement, EthioChicken sought to create a market-based solution to support IDP rehabilitation in hopes of getting them back as customers. Unfortunately, EthioChicken's idea did not materialize, as the concept of a profit-making humanitarian project was very new to the NDRMC.

When DAI first approached RRS to gain permission to enter the camps and pilot their refugee SME engagement project, DAI was unclear whether it was legally possible for a private company to engage refugees. Their paperwork had only two checkboxes: humanitarian NGO or UNHCR. After some time and research into the regulations, RRS concluded that a private company could in fact interact with refugees. But this still did not pave the way for DAI to access refugee communities. It took two years (out of their five-year implementation timeline) for DAI to gain the requisite permission to enter the camps and start working with refugee entrepreneurs and customers. To date, each time one of their agents or partner company representatives wants to enter a camp, they must first send identity documents to RRS and receive permission slips.<sup>70</sup>

These examples, again, speak to the opportunity for additional, modernized legislation that accounts for the growing fields of blended finance, public-private partnerships, and multi-sectoral

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<sup>70</sup> Interview with DAI.

initiatives. RRS, specifically, could explore the development of a framework for facilitating private sector engagement with refugee communities.

### **Assessing a Key Actor: Refugee and Returnee Services (RRS)**

Stakeholder interviews highlighted the importance of developing a strong relationship with RRS prior to formal refugee engagement. Relationship building and trust are particularly important to conducting business or humanitarian activities in Ethiopia. Furthermore, gaining an audience and coming to a mutually agreeable project implementation plan will take time and a humble attitude. The agency enjoys an elevated level of autonomy within the government and has a long history of operating through a national security lens rather than a humanitarian one.<sup>71</sup>

While the draft National Comprehensive Refugee Response Strategy (NCRRS) includes the creation of a steering committee chaired by the Office of the Prime Minister (PMO), this has yet to come to fruition. Discussions around the draft NCRRS include decentralization of the RRS mandate, shifting management and oversight of refugee populations to local governments. Although this could relieve the pressure on a single central operating body, it is not clear whether local governments could handle this responsibility, at this time, without significant reallocation of resources and training on the roll-out and implementation of the NCRRS.

Ethiopia's commitment to the peace process presents a good opportunity for the NCRRS to be fully rolled out. Considering RRS' centralized control of refugee-related matters, finding creative avenues to build positive rapport with them is indispensable to an RLI strategy.

In an ideal scenario, RLI implementers would have a healthy partnership with the RRS, combined with a strong advocate in the PMO to push through initiatives and legislation. This scenario, however, requires a commitment to the long game. It is important for actors entering the space to recognize that trust-building and creating partnerships with relevant stakeholders takes significant time and patience.

Government agents, and in particular RRS, prefer to see proof of concept rather than foreign grand ideas. RLI practitioners would be wise to partner with implementers already operating in Ethiopia to build or expand upon pilots and programs that benefit both refugees and the host community, or more simply put – that drive the economic development of the nation. This type of evidence for a proposed new strategy or expanded program will carry more weight with the government than a lofty idea that has worked elsewhere, with the assumption 'therefore it is sure to work here.

Additionally, there has been a shift in government dynamics over the past decade. Whereas previous regimes wielded ultimate power and were able to dictate the laws to regional authorities, today's political environment is significantly more disaggregated. Power is more dispersed between the federal and regional governments. Thus, RLI implementers should ensure that they are also prioritizing regional government partnerships and should consider local government priorities and regional dynamics when developing their investment agenda.

### **Refugee Supporting Agents: Limitations and Opportunities**

In the process of developing an illustrative RLI for this project, it became clear that the refugee lens is not a modality with which business operators are familiar. As such, refugee engagement is not an explicit component of a business' strategy.

The main priority of businesses in Ethiopia is hiring qualified employees, addressing supply chain issues, and making a profit. When companies are hiring an individual, their status as a refugee, IDP or registered citizen is significantly less important than their capacity to get the job done. As

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<sup>71</sup> In 2021, RRS was established as an autonomous federal government body. Definition of Powers and Duties of the Executive Organs Proclamation 1263/2021. <https://www.lawethiopia.com/index.php/volume-3/6747-proclamation-no-1263-2021-definition-of-powers-and-duties-of-the-executive-organs-proclamation>

such, many employers likely hire refugees and IDP without giving much thought to their status. This is particularly relevant in the case of day laborers, where there is often less scrutiny of paperwork.

The key to developing the refugee-supporting economy in Ethiopia will be raising awareness, technical assistance and presenting a strong business case. It is likely that businesses will be open to technical assistance that results in hiring refugees and working with refugee-led businesses in the supply chain if they understand both the legal ramifications and the business case for doing so.

NGOs, IGOs and government officials in Ethiopia are also largely unaware of RLI terminology. This awareness-raising may be one of the largest hurdles to implementing an RLI strategy in Ethiopia.

The IGOs and NGOs interviewed that are already operating in the context of refugee-related economies (i.e., USAID, World Bank, IFC, Mercy Corps, Danish Refugee Council, DAI) reported a lack of donor coordination and coordination between donors and the government. As a result, redundancies and the inefficient use of resources often limits collective action to help create an enabling environment for refugee's access to finance.

Many projects also operate on short timelines (around five years) that are insufficient to successfully implement programs.<sup>72</sup> Greater coordination could promote project hand-off so that promising initiatives do not die when the implementing agent leaves the country. Mercy Corps Market Systems Development<sup>73</sup> and DAI's Strengthening Host and Refugees Populations in Ethiopia (SHARPE<sup>74</sup>) programs are two strong examples of market-based intervention and private-sector engagement in regional and periphery cities. Both reported that, despite considerable developments in the informal market and small-scale enterprise level, the programs are struggling to convince larger-scale enterprises of the business case for entering underdeveloped markets such as those around periphery areas where refugees and IDP reside.<sup>75</sup>

## RLI Landscape in Ethiopia

### Ethiopia's Business Environment

Ethiopia's estimated population of 117.9 million (2021) is the second largest in Africa, after Nigeria, and the 12<sup>th</sup> largest in the world.<sup>76</sup> It is also one of the youngest and fastest growing populations. Deloitte's 2019 publication, "Invest in Ethiopia: Structural reforms set to unlock East Africa's largest economy," reports:

*Over the 2008-18 period, Ethiopia has recorded an average real GDP growth rate of 9.9%, which makes it the fastest growing economy in SSA. This broad-based high growth rate has been supported by structural reforms that have been introduced through industrial sector development. The implementation of these structural reforms has been boosted by government investment programs as part of its Growth and Transformation Plan (GTP II).<sup>77</sup>*

Once an economy predominantly driven by agriculture, the government has positioned Ethiopia to be a destination for labor-intensive manufacturing sectors, in part as a job-creation strategy. Manufacturing's contribution to GDP doubled from 13% in 2010 to 26% in 2020, and it is estimated to reach 47% by 2025.<sup>78</sup> The service sector also remains hugely important and, in the informal sector, provides millions of jobs, including for refugees.

<sup>72</sup> DAI SHARPE Interview. April 8, 2022.

<sup>73</sup> Mercy Corps. <https://www.mercycorps.org/research-resources/market-systems-development-ethiopia>

<sup>74</sup> DAI. <https://www.dai.com/our-work/projects/ethiopia-strengthening-host-and-refugee-populations-sharpe>

<sup>75</sup> Mercy Corps and DAI SHARPE Interviews. April, 8 2022.

<sup>76</sup> United Nations, "World Population Prospects: Ethiopia Population 1950-2022." Macrotrends. 2022.

<sup>77</sup> Deloitte, "Invest in Ethiopia: Structural reforms set to unlock East Africa's largest economy." Deloitte. 2019.

<sup>78</sup> *Ibid.*



The country has recently faced a setback in this scheme, though, when the U.S. suspended Ethiopia's AGOA (African Growth and Opportunity Act) status, effective January 1, 2022, due to Ethiopia's civil war. This was coupled with increasing prices of import materials and distorted trade due to the coronavirus pandemic.<sup>79</sup> Without duty-free access to the U.S. market for certain goods and services manufactured in Ethiopia, such as textiles, the government is seeking alternative markets, one of which is the African Continental Free Trade Area (AfCFTA).<sup>80</sup> Ethiopia is also part of the Common Market for Eastern and Southern Africa (COMESA<sup>81</sup>), comprising 21 African States and 586 million people.

The study by Deloitte notes that Ethiopia has stringent customs and administrative procedures. Other challenges include high logistics costs and limited access to credit and foreign exchange. These are especially burdensome to small and medium-sized enterprises (SMEs).<sup>82</sup>

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*Ethiopia's real GDP growth in 2021, at an estimated 2%, was the lowest in 17 years, reflecting the impact of the drawn-out conflict and the economic fallout from the coronavirus pandemic.*<sup>83</sup>

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The country is facing numerous other blows to its economy, including the pandemic, local and international violent conflicts, locusts, and drought. The IMF projects Ethiopia's 2022 GDP growth at 3.8%, a 5% drop from the 2008-2018 period.<sup>84</sup> The U.S. State Department's "2021 Investment Climate Statements: Ethiopia" suggests that "the timeline for a recovery is uncertain."<sup>85</sup>

Despite its uncertain economic outlook, Ethiopia captures the second largest amount of FDI in Africa, reaching \$3.9B in the 2020-2021 fiscal year, with China as the main contributor of funding.<sup>86</sup> In 2019, Deloitte suggested this would continue to rise based on reforms proposed by the Prime Minister, including:

*Plans to loosen the state's dominance in key sectors, in efforts to attract investor interest and boost growth. This has included plans to [privatize] four state-owned enterprises: Ethiopian Airlines, Ethiotelcom, Ethiopian Electric Power Corporation, and Ethiopian Shipping & Logistics Services Enterprises. These sectors can be expected to boost foreign investments in the medium term.*<sup>87</sup>

Safaricom became the first international actor to enter the telecom market in 2022. It is uncertain when the other industries will in fact open to competition or where these initiatives will go in the coming years. The country has also advanced the creation of special economic zones (SEZs) through the development of both government and private-led industrial parks, the latter being largely Chinese investment projects.<sup>88</sup>

Ethiopia started generating electricity for the first time from one of the 13 turbines in its Grand Ethiopian Renaissance Dam (GERD) hydroelectric project in February 2022. Once completed, it is estimated to more than double Ethiopia's electricity with its total generating capacity of 5.2 GW.<sup>89</sup>

## **Economic Inclusion of Refugees**

While these are mostly positive developments for the Ethiopian economy, they are not without their risks and challenges for the inclusion of refugees. Graham and Miller, in their report "From

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<sup>79</sup> AGOA, "Country Info: Ethiopia." AGAO.info. 2022.

<sup>80</sup> ACE Advisors, "Ethiopia's AGOA-EXIT: looking beyond the headlines." Fortune. 2022. <https://au.int/en/cfta>

<sup>81</sup> Comesa. <https://www.comesa.int/>

<sup>82</sup> Deloitte. 2019.

<sup>83</sup> Willock, Robert, "Ethiopia: What to look out for in 2022." Economist Intelligence: Corporate Network. 2022.

<sup>84</sup> IMF, "The Federal Democratic Republic of Ethiopia." IMF. 2022.

<sup>85</sup> U.S. State Department, "2021 Investment Climate Statements: Ethiopia." U.S. State Department. 2021.

<sup>86</sup> Ethiopia Monitor, "Ethiopia Attracts \$3.9 Billion FDI In 2020/21 Fiscal Year." Ethiopian Monitor. 2021.

<sup>87</sup> Deloitte. 2019.

<sup>88</sup> Deloitte. 2019.

<sup>89</sup> Ashebir, Dingeto, "Ethiopia hydropower development and Nile basin hydro politics," 2022.

Displacement to Development: How Ethiopia Can Create Shared Growth by Facilitating Economic Inclusion for Refugees,” remark that despite progressive CRRF legislation, “Ethiopian law dictates that most refugees, with relatively few exceptions, must live in the designated camps throughout the country, and very few refugees have been granted the right to work.”<sup>90</sup>

Nigusee outlines the limitations of refugees’ rights to work, indicating that under the ‘most favorable treatment accorded to foreign nationals,’ refugees are required to navigate “a relatively complex bureaucratic process with government offices at multiple levels, [which is] a considerable hurdle for refugees who may have limited education or may have lost the bulk of their personal records.”<sup>91</sup>

*The only exceptions to this are ‘rural and urban projects jointly designed by the Ethiopian government and the international community to benefit refugees and Ethiopian nationals, including in environmental protection, industry and small and micro enterprises’, where refugees will have the same rights and entitlements (‘equal treatment’) as Ethiopian nationals. This clause theoretically creates the space for the Jobs Compact and similar internationally supported projects.*<sup>92</sup>

The exception, however, is tied strictly to the creation of one host member job for every refugee job. While the Jobs Compact committed to providing 30,000 jobs for refugees, as of 2021 only 2,000 have been provided and the international development community is facing challenges even accessing the data about who received the issued permits.<sup>93</sup>

Without freedom of movement and access to work permits, refugees are relegated to operating in the informal economy with limited market access beyond the camp periphery. Graham and Miller report that “the limited pathways to obtaining work permits [prohibit] most refugees’ [...] access to formal labor markets” as such they “face potential harassment, exploitation, and criminal charges working in the informal market.”<sup>94</sup>

Where job opportunities do exist, Yusuk and Khalif highlight that often the skill sets of the refugees do not match the needs of employers. TVET-type programming was either inefficient or not adequately connected with “access to labor market information, placement, or job-search support.”<sup>95</sup>

Other challenges Graham and Miller point to include: 1) “Unclear regulations [which] inhibit refugees’ access to financial services, and the few refugees who live outside camps have trouble accessing government services” and 2) that while “most refugees worked in agriculture or pastoralism prior to being displaced, few have access to land,” due to restrictive local government policies.<sup>96</sup>

Formal financial pathways also require identification, documentation, and collateral. Many individuals and SMEs struggle across the country, and notably within rural areas, to provide all requisite components to receive loans or investments. This issue is exacerbated for displaced populations who have often left behind or lost everything. MFIs help fill this gap but are still reportedly unable to provide the financing needs for many of the most vulnerable.<sup>97</sup>

Yusuf and Khalif and Takukder et al. build further on this list, noting that:

*In the camp, a number of factors hindered refugee businesses, including restrictions on movement and lack of access to capital, lack of refugee markets*

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<sup>90</sup> Graham, Jimmy and Sarah Miller, “From Displacement to Development: How Ethiopia Can Create Shared Growth by Facilitating Economic Inclusion for Refugees.” Center for Global Development & Refugees International. 2021.

<sup>91</sup> Nigusee. 2021.

<sup>92</sup> *Ibid.*

<sup>93</sup> Graham and Miller. 2021 and interviews

<sup>94</sup> *Ibid.*

<sup>95</sup> Talukder et al. 2021.

<sup>96</sup> *Ibid.*

<sup>97</sup> UNHCR, “Ethiopia GRF Pledge Progress Report 2021.” UNHCR. 2021.



*and business spaces within the camps, and inadequacy of business skills. Furthermore, with the encampment policy, locally produced goods could not be marketed. Even though the number of businesses in the refugee camps continues to rise, the market potential will limit growth unless new growth sectors emerge, or the potential of existing sectors is unlocked.*<sup>98</sup>

For those refugee businesses that do survive, Talukder et al. echo Yusuf and Khalif's findings that:

*There was strong resilience among refugee business owners considering the context in which they operated. Other factors enhancing livelihood opportunities were the existence of social capital and networks, collective efforts within the camps such as group savings and lending, and the existence of some skill sets acquired formally or informally. It was also noted that the cash transfer programming implemented in the camps was fueling spending and some investments, and improved household well-being.*<sup>99</sup>

Despite not having access to the formal market, a ReDSS local integration study reports that refugees are nonetheless engaged in the economy and “interact with host communities through incentive work for local NGOs and UN agencies, the sale of rations on local markets, engagement in small business activities supported by livelihoods programming, informal trade and economic exchange with host communities, or work through informal agreements with local employers.”<sup>100</sup>

The level of integration and economic engagement differs significantly across regions, both from a cultural perspective as well as a political and legal lens. Yusuf and Khalif's “Market Systems Analysis for Refugee Livelihoods in Jigjiga, Ethiopia” for ILO highlights that despite the constrained business environment around Somali's three refugee camps,

*Many refugees continue to pursue economic activities, particularly in small ruminants' trade and informal business activities in other trade and services. Generally, the markets are well-integrated with local host communities, who engage in similar business activities and who constitute key consumers and suppliers to the camps' markets.*<sup>101</sup>

Within the urban context of Addis Ababa, Talukder et al., World Bank and UNICEF, and UNHCR also observe a higher level of integration into the informal economy than in rural settings, and that refugees even contribute to job creation and development of local and international markets as informal business owners, partners, and customers.<sup>102,103,104</sup> One consideration for this higher level of integration is that there is generally more economic opportunity and market demand. Another is that refugees with “out-of-camp” status no longer have any entitlement to humanitarian assistance. Many rely on remittances from family abroad and use their savvy to engage in the local informal economy to supplement these livelihood funds.<sup>105</sup>

### **Ethiopia's Investment Climate**

Despite the challenges Ethiopia has faced in the past four years, the U.S. State Department reports that, “the government has made progress on its ambitious economic reform agenda. In the last year alone, the Ethiopian government revised its sixty-year-old commercial code, enacted a new investment regulation, began steps to sell two telecom spectrum licenses to foreign

<sup>98</sup> Talukder, Md Noorunnabi, Abdullah Al Mahmud Shohag, et al., “Economic opportunities for refugees: Lessons from five host countries.” Population Council. 2021.  
<sup>99</sup> *Ibid.*

<sup>100</sup> Regional Durable Solutions Secretariat (ReDSS), “Local Integration Focus - Refugees in Ethiopia: Gaps and Opportunities for Refugees Who Have Lived in Ethiopia for 20 Years or More.” Danish Refugee Council. 2018.

<sup>101</sup> Yusuf, Mohammad and Jamal Khalif, “Market Systems Analysis for Refugee Livelihoods in Jigjiga, Ethiopia.” ILO. 2018.

<sup>102</sup> *Ibid.*

<sup>103</sup> Vemuru, Varalakshmi, Aditya Sarkar, and Andrea Fitri Woodhouse, “Impact of Refugees on Hosting Communities in Ethiopia- A SOCIAL ANALYSIS 2020. World Bank Group. 2020.

<sup>104</sup> Betts, Leon Fryszler, Alexander, Naohiko Omata and Olivier Sterck, “Refugee Economies in Addis Ababa: Towards Sustainable Opportunities for Urban Communities?” Refugee Studies Centre, Oxford Department of International Development, University of Oxford. 2019.

<sup>105</sup> UNHCR, “Ethiopia Country Refugee Response Plan Updated for 2020 - 2021.” UNHCR. 2021.

operators, and developed a financial sector liberalization roadmap.”<sup>106</sup> Furthermore, “low-cost labor, a national airline with well over 100 passenger connections, and growing consumer markets are key elements attracting foreign investment.”<sup>107</sup>

Foreign direct investment (FDI) has fluctuated over the years but, as of 2020, it only represented 2.2% of Ethiopia’s GDP.<sup>108</sup> Unlike neighboring countries that witness a diversity of investment instruments, 72% of FDI reported was equity, in part due to government regulations.<sup>109</sup> Currently, the largest contributors of FDI are China, Saudi Arabia and Turkey.<sup>110</sup>

One of the persisting challenges investors continue to face is that among some business owners, there is a hesitance to go into business with foreigners. Unlike its neighboring countries who have embraced greater participation of the private sector (foreign and domestic), Ethiopia’s economy has remained fairly closed off to external actors. Prior to 1991, Ethiopia was a socialist country, and the ruling party kept many of the major industries under government control. This is changing, but it will likely take time for many Ethiopian business owners to feel comfortable with foreign partnerships and contracts. This is particularly acute in regional cities, where foreign investment would open a business up to scrutiny and regulations at the federal level.

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<sup>106</sup> U.S. State Department, “2021 Investment Climate Statements: Ethiopia.” U.S. State Department. 2021.

<sup>107</sup> *Ibid.*

<sup>108</sup> World Bank, “Foreign direct investment, net inflows (% of GDP) - Ethiopia.” World Bank. 2022.

<sup>109</sup> GIIN, “The Landscape for Impact Investing in East Africa.” Global Impact Investment Network. 2015.

<sup>110</sup> U.S. State Department. 2021.

## Socioeconomic and Cultural Challenges for Communities and Investors

Socio-cultural and religious background variance among refugees and their host communities can create tension, heightened by the strain each community faces regarding scarce resources, infrastructure, and job opportunities. This can deter host communities from welcoming refugees and IDP into their formal economies.

The protracted nature of forcibly displaced populations further complicates integration. It is not always clear how long people will stay, whether they want to settle permanently or plan to move elsewhere. This can decrease engagement with host communities and increase the potential for conflict.

In his 2020 report, “Refugee and Host Communities in Ethiopia”, Freddie Carver details the complicated and constantly shifting dynamics surrounding the interactions among these populations, noting “if these issues of ethnicity, identity, and social structure are not understood in a highly granular fashion, and such analyses are not updated regularly to track changes over time, there is a risk of creating new vulnerabilities, or enabling exploitative relationships.”<sup>111</sup>

In places, such as Adama, where this divergence is evident, IDP tend to operate in the informal sector as a livelihood-sustaining mechanism. They face push-back from the local workforce and challenges in securing land rights for business operations from the local government. In Jijiga, and Somali more broadly, the similar cultural backgrounds and shared languages have allowed for more seamless integration within the community.<sup>112</sup>

Concentrated attention to refugee communities by the development and aid community can heighten these tensions. Host communities often feel neglected and worse off than refugee populations that are receiving significant support from the international community. Engaging the host community and prioritizing their wellbeing in livelihood and economic development programs, is crucial to promote cohesion and integration.<sup>113</sup>

While the RLI framework is important for understanding the investment opportunities, interviews with local actors in refugee and IDP hosting communities revealed that the terminology can be off-putting. Particularly now, with the exponential growth of IDP in Ethiopia, the researchers faced significant push-back when discussing refugee challenges, even after an IDP and host community inclusive definition was provided. Ethiopians may find it difficult to discuss displaced populations from other countries when they see their own country(wo)men suffering at such magnitudes.

Finally, language barriers may cause significant challenges for foreign investors, as many businesses operating in regional cities may only speak the local language and/or dialect. As such, nuances in contract negotiations can get lost in translation, even with a strong translator. Dispute settlements are more likely to occur in the local language, leaving the foreign investor at the mercy of the regional courts.<sup>114</sup>

The government’s 2019 “Homegrown Economic Reform Plan” aims to attract foreign direct investment through its significant macro, structural, and sectoral reforms that should support the expansion of Ethiopia’s underdeveloped private sector. But there are still several sectors foreign investors are prohibited from investing in, or which require joint investment with either the

<sup>111</sup> Carver, Freddie, “Refugee and Host Communities in Ethiopia.” UNICEF. 2020.

[https://cdn.odi.org/media/documents/Refugee\\_and\\_host\\_communities\\_in\\_Ethiopia\\_20182019\\_integrated\\_national\\_study.pdf](https://cdn.odi.org/media/documents/Refugee_and_host_communities_in_Ethiopia_20182019_integrated_national_study.pdf)

<sup>112</sup> Interviews with local government, humanitarian actors and SMEs.

<sup>113</sup> Vemuru, Varalakshmi, Aditya Sarkar, and Andrea Fitri Woodhouse, “Impact of Refugees on Hosting Communities in Ethiopia - A Social Analysis 2020. World Bank Group. 2020.

<sup>114</sup> Interviews with investors and humanitarian actors.

government or domestic partners, including trade and the banking sector.<sup>115</sup> In early 2022, the government announced that it would be opening the latter to foreign investors, which will hopefully alleviate some of the challenges foreign investors face.

While the investment landscape has improved in recent years due to government reforms previously described, there remain a few unique considerations for foreign engagement in the country. The following list is not exhaustive, but it provides a high-level overview of some key considerations for foreign investment in Ethiopia in general. The Ethiopia Investment Commission's online portal is a good resource to read for related information.<sup>116</sup>

### **General Considerations for Investing in Ethiopia**

With a nascent private sector and a unique approach to foreign engagement compared to neighboring countries, Ethiopia presents several unique components foreign investors should be aware of as they consider entering the country.

Two of the main considerations are the sector restrictions and minimum capital requirements. Investment Regulation No. 474/2020<sup>117</sup> outlines the various investment engagements that a) require a joint investment with the government, b) require a joint investment with domestic investors, or c) are restricted to domestic investors only. Some of the major restrictions for foreign investors revolve around trade activities and the banking sector, although recent policy developments may result in a shift to foreign banking engagement in the near future. Below, the report outlines priority sectors that investors will find more favorable investing<sup>118</sup> around. The second limitation investors will experience when seeking to invest in SMEs in Ethiopia is the minimum capital requirement. Under Investment Proclamation No. 1180/2020, foreign investors interested in<sup>119</sup> industries must invest a minimum of \$200K if making a 100% foreign investment. If they seek a joint venture with a local partner, this amount is lowered to a minimum \$150K, which is still a much larger amount than many RLI eligible businesses are capable of absorbing. One caveat is the exception to these minimums for foreign investors interested in reinvesting their profits or dividends generated from an existing investment in Ethiopia into another enterprise.

Furthermore, foreign investors must be prepared to make equity investments in local companies. The local company may receive a local bank loan, but their debt-to-equity ratio may not exceed 60/40. A shortage of foreign currency (or "forex"), caused by a severe trade imbalance and government-controlled currency, makes it challenging for foreign investors to repatriate returns. This keeps investors hesitant to commit to Ethiopia in the near term. While it is permitted under the Investment Proclamation, it is estimated that a foreign investor wanting to repatriate the returns on its investment in the form of dividends or proceeds from sale of shares, will need to wait in queue at a commercial bank for six to nine months.

Remaining challenges often revolve around missing regulatory clarity. For example, there is currently no legal structure for the registration and operation of an investment firm. If a local investment firm wishes to launch with capital from local and/or foreign investors, the government has no form of license or business entity for them to operate under. Practically, this means that investment funds must be organized offshore. The adoption of the Capital Markets Proclamation No. 1248-2021<sup>120</sup> is expected to resolve issues related to this.

Recent legislation has introduced various incentives for foreign investors, several of which directly affect investing in regional cities. The government has identified eight priority sectors for which there are additional incentives for foreign investment. These include manufacturing;

<sup>115</sup> Investment Regulation No. 474/2020. [http://admin.theiguides.org/Media/Documents/Investment-Regulation-No.-4742020\\_09-08-2020\\_0001-2.pdf](http://admin.theiguides.org/Media/Documents/Investment-Regulation-No.-4742020_09-08-2020_0001-2.pdf)

<sup>116</sup> <https://www.invest-ethiopia.com/>

<sup>117</sup> Investment Regulation No. 474/2020. [http://admin.theiguides.org/Media/Documents/Investment-Regulation-No.-4742020\\_09-08-2020\\_0001-2.pdf](http://admin.theiguides.org/Media/Documents/Investment-Regulation-No.-4742020_09-08-2020_0001-2.pdf)

<sup>118</sup> See *Positive Developments* section. The Council of Ministries recently approved draft legislation to open the banking sector to foreign banks. This legislation is not yet enacted, so at present, the sector remains closed.

<sup>119</sup> GOE. Investment Proclamation No. 1180/2020. [http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180\\_2020-Copy.pdf](http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180_2020-Copy.pdf)

<sup>120</sup> <https://www.lawethiopia.com/index.php/legislation/federal-legislation/banking-and-monetary-system/capital-market>

pharmaceutical; agro-processing; textiles; leather; tourism; ICT; mining and energy.<sup>121</sup> As such, investments that fall into these priority sectors should benefit from favorable federal and regional government incentives. Unfortunately, getting the approvals for these incentives may not be straightforward.<sup>122</sup>

While a significant amount of industry and foreign investment is concentrated in and around Addis Ababa, shifting demographics are leading industries to look beyond the primary economic hub to develop their businesses and capitalize on underserved markets and increasing labor pools, often found in regional cities where IDP and refugees are relocating.

### **The Continued Effects of COVID-19 on the Ethiopian Economy**

Harris et al. conducted a literature review in 2021 concerning COVID-19's impact on Ethiopia. "The Impact of COVID-19 in Ethiopia: Policy Brief" reviewed seven internationally reputable sources and identified the following key themes:<sup>123</sup>

- The recovery in employment rates following the national State of Emergency in 2020 has included an increase in more informal, less reliable jobs.
- There are differences in the urban and rural experiences of the pandemic, and between those with different socioeconomic backgrounds.
- Interrupted education and school dropouts have resulted in wider educational inequality, with significant gaps across both income levels and gender, and limited access to and support for distance education, especially in rural areas.
- There is worsening mental health and psychosocial well-being due to increased levels of anxiety about vulnerability to COVID-19, job losses, and reduced income; uncertainty around educational and economic futures; social isolation from peers and relatives; economic stress; and household tensions.
- There is increased stress on girls and women, who face greater domestic and childcare burdens, and are particularly at risk of worsening mental health when education is interrupted.
- There is an increased risk of child marriage, particularly in rural areas and during traditional wedding seasons.

Oxford Policy Management's Building Resilience in Ethiopia Survey assessed vulnerable populations, including refugees and IDP in Addis Ababa and nine regional cities. The report revealed that the impact of COVID-19 was uneven among demographic groups and disproportionately affected poor and vulnerable groups, with "differential impacts related to structural inequalities, such as gender and ability," and for "IDP and refugees, and people living with no social safety nets."<sup>124</sup>

*In addition to the problems associated with low income, the increased price of food items was mentioned as the primary factor that is exacerbating food insecurity among the urban poor in this round, despite the fact that income for some respondents has returned to almost the same level as in the pre-pandemic period. By contrast, daily wage earners, people with jobs in the informal sector, vendors, petty merchants, laborers, and women are found to be the most impacted due to loss of jobs and reduced income, and due to the disproportionate childcare burden for women.*<sup>125</sup>

<sup>121</sup> EIC. <https://www.investethiopia.gov.et/index.php/covid-19/useful-information/111-uncategorised/faq/general-faq/769-priority-sectors.html>

<sup>122</sup> Interviews with active investors in Addis Ababa.

<sup>123</sup> Harris, Donna, Sarah Baird, Kath Ford, Kalle Hirvonen, Nicola Jones, Munir Kassa, Christian Meyer, Alula Pankhurst, Christina Wieser, and Tassew Woldehanna, "The Impact of COVID-19 in Ethiopia: Policy Brief." Oxford Policy Management (OPM). 2021.

<sup>124</sup> Harris et al. 2021.

<sup>125</sup> *Ibid.*

Compounding the burdens of the pandemic, “security issues originating from political turmoil and conflicts in some parts of the country (mainly in Tigray, Amhara, Afar, parts of Oromia and Wollega regions) have had a severe impact on economic activity, resulting in a rise in food prices.”<sup>126</sup>

Contrary to the findings in the World Bank’s Phone Survey Assessment, Harris et al. found that a significant number of IDP and refugees reported a “reduction in the quantity of food they consumed, compared to small business owners” and were “still reporting the need to skip meals and cut back on food to cope with their situation.”<sup>127</sup>

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*Respondents from Semera and Logia (in Afar region, which is most affected by the conflict) widely mentioned a severe shortage of water due to the disruption of the municipal water supply which has resulted from an absence of electric power used to operate water pumps and distribute water to residents. In addition, respondents from the same areas were also faced with a negative effect of the conflict on their income, and on household food security. The increased difficulty in terms of access to water, sanitation, and hygiene (WASH) services appears to be related to an inability to pay for services, and to disrupted supply chains as a result of reduced transportation.*<sup>128</sup>

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While some reports indicated that the impact of the pandemic is lessening and life is starting to return to normal, it is unclear how long it will take the economy to recover and for the livelihoods of the most vulnerable to improve. Local and international conflicts continue to drive food prices up, further straining already scarce resources. The situation will continue to need monitoring and evaluation to ensure interventions and solutions are appropriate and durable.

### **COVID-19 impact on livelihoods of refugees and internally displaced persons<sup>129</sup>**

Rounds 6 and 7 of the World Bank surveys also incorporated a sample of Eritrean and Somali refugees in Addis Ababa. The surveys found that household incomes of refugees were hit hard by the pandemic, with 27% of refugee respondents reporting that their income fell or totally disappeared. The survey also found that aid and support towards refugee households was maintained throughout the pandemic, with a third of respondents reporting receiving more assistance since the onset of the pandemic.

By nature of their refugee status, refugee households tend to receive assistance from government, international organizations, and NGOs. The HFPS data shows that assistance received by refugee households significantly increased by 41 percentage points for free food, 26 percentage points for food or cash for work, and 35 percentage points for direct cash transfer, in the month preceding the second round of data collection relative to the same reference period in the first round. Not surprisingly, Eritrean and Somali refugees, nearly all of whom live in camps, received more assistance during the COVID-19 pandemic than out-of-camp-based refugees in Addis Ababa. Out-of-camp refugees, those in Addis Ababa, do not receive food assistance or cash-based assistance as refugees in camp-based settings do.

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<sup>126</sup> *Ibid.*

<sup>127</sup> Harris, Donna, Biniyam Tadesse, Israel Mitiku, Mekdes Demissie, Alula Teklu, Girmay Medhin, and Frehiwot Belachew. “The effect of COVID-19 and government response measures on poor and vulnerable groups in urban areas in Ethiopia: Round 6” OPM: Building Resilience in Ethiopia. 2021.

<sup>128</sup> *Ibid.*

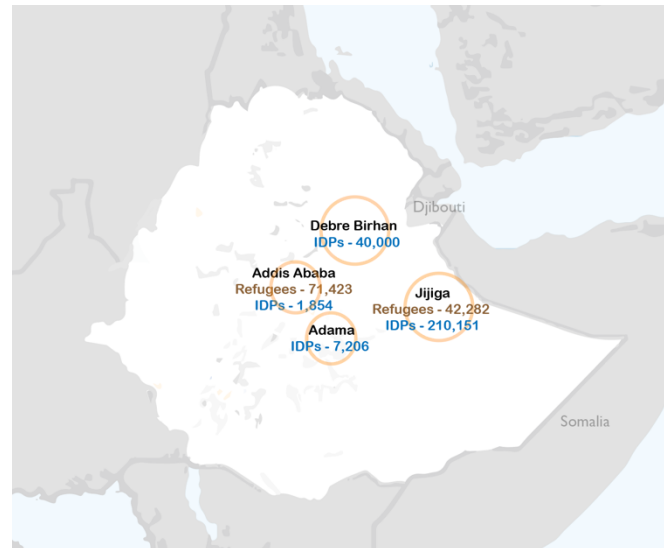
<sup>129</sup> Harris, Donna, Sarah Baird, Kath Ford, Kalle Hirvonen, Nicola Jones, Munir Kassa, Christian Meyer, Alula Pankhurst, Christina Wieser, and Tassew Woldehanna. “The Impact of COVID-19 in Ethiopia: Policy Brief.” Oxford Policy Management (OPM). 2021. <https://www.opml.co.uk/files/Publications/a2422-building-resilience-ethiopia/policy-brief-04-11-21-final.pdf?noredirect=1>

## The Path for Increased RLI in Ethiopia

Refugees tend to be housed in the periphery of many societies, often near the borders they fled across for refuge. Ethiopia is no exception. Most refugee populations are located in rural areas with minimal access to secondary markets, let alone primary. A nuance to the Ethiopian refugee demographic spread is the large number of IDP (over four million individuals). While many still do reside in rural, underserved market areas, it is much more difficult to pinpoint the concentrations of forcibly displaced individuals throughout the country to consider high-impact areas for market-based solutions.

### Geographic Focus

From an investor perspective, the aftermath of the northern violent conflict and unrest in other regions does narrow the plausible regions for deploying market-based solutions to alleviate the suffering of those that have lost everything, and of the host communities whose already limited resources they now share. In the near term, RLI is likely to experience the greatest traction and success in Ethiopia's capital city of Addis Ababa and its surrounding areas, including cities such as Adama to the South in Oromia and Debre Birhan to the north in Amhara and the Somali region, in particular in the vicinity of Jijiga.



Both Adama and Debre Birhan have experienced rapid growth in the past decade and recently experienced a high influx of IDP. Under the Homegrown Economic Reform Plan, they have been expanding their industrial zones and building industrial parks. Both have quality road access to the trade hub that is Addis Ababa and are prioritizing the development of manufacturing, agriculture, and agro-processing – all sectors open to foreign investors and ripe for further refugee engagement. Fieldwork revealed that local governments in both cities expressed enthusiasm for developing more comprehensive inclusion strategies for displaced populations that have arrived in the past year. Notably, Adama has been lauded for its past progressive IDP welcome and inclusion program.

In 2018, Adama experienced a rapid influx of 1,300 IDP households fleeing conflict in the southern Somali region. The government rapidly deployed a localized response, developing a resettlement lottery, mobilizing the community and private sector resources, from food support to building 2,000 homes, a school and other necessary infrastructure. Numerous businesses in the private sector, including manufacturing factories stepped up to offer a workforce integration program that unfortunately failed due to lack of adequate training on integration, as well as ill-fitting jobs for the IDP skills.<sup>130</sup> However, since then the Adama City Administration created Migration Service Desks to help IDP and undocumented rural-urban migrants integrate and find jobs. As of 2021, *“a total of 681 service seekers, most of them women, have been matched with jobs in Adama city and the neighboring Industrial Park, where demand for workers remains high.”*<sup>131</sup> This is a strong example of how ground research and partnership building are crucial to building successful RLI

<sup>130</sup> Amdework, Efreem and Florence Lozet, “Ethiopia: Promoting IDPs Inclusion in Adama City.” Cities and Migration Programme, Cities Alliance. 2021.

<sup>131</sup> *Ibid.*

initiatives in the country. This type of information is not going to be readily available on the internet and will require an on-the-ground presence and local partnerships to discern and share.

In Debre Birhan, conversations with Semien (North) Shewa district government officials revealed that they are actively seeking innovative solutions to support the settlement and integration of the over 40,000 IDP in the surrounding area. The Enterprise and Jobs Creation Department is actively working in the Northern woredas of the district to support the rehabilitation of IDP that were displaced to Debre Birhan in 2021 due to the conflict with the Tigray People's Liberation Front (TPLF). Resources are limited, but the government hopes to be able to provide psychological support, in addition to mobilizing materials and working capital to rehabilitate businesses and start new economic activities in the area. The IDP currently residing in the area, largely fleeing conflict in the southern state of Oromia, feel at a loss. Many do not have proper identification documents, left behind or lost, which means they cannot join the local workforce unless the regional government receives directives from the federal government. They are unlikely to ever be able to return home, leaving them in flux until the federal and regional governments can develop a resettlement plan in North Shewa.

North Shewa's Women, Children, and Social Affairs Office is seeking intermediary solutions to integrate IDP into the programs under women and children's activities. They are currently assessing the viability of developing a dairy farming project to organize women into modern dairy farmers in 32 districts around North Shewa, with which they would like to find avenues to plug IDP women into the value chain. The office is eager to work with outside partners to further research and implement these types of projects. If an RLI partner expressed interest in exploring these opportunities, their office would contribute its expertise to study and recommend program activities.<sup>132</sup>

Jijiga, the capital of the Somali region, has experienced rapid growth and development in the past five years thanks to regional stabilization, diaspora investment, shifting federal government policies and a cultural openness to technology adaptation that is not seen elsewhere in the country. Major industries poised for growth in this region include agriculture and agro-processing, e-commerce, construction, and light manufacturing.

Additionally, unlike other parts of the country, Somali enjoys a much greater level of integration and harmony among refugee and host communities due to their shared language, culture, and livelihood preferences. Cross-border and inter-community trading dates back centuries. Community members report that it is often difficult to differentiate between host and community members on the street. Somali also is home to Ethiopia's oldest refugee camp, Kebribeyah, where generations have now lived for over 30 years. While formerly one of the most dangerous regions in the country, it is now considered one of the safest. After decades of conflict, government and rebel groups came to an informal peace agreement that has been playing out over the past decade, each side realizing that each would be better off if they were not constantly at war.<sup>133</sup>

In Jijiga, business development support providers are growing in number, recognizing the untapped potential of entrepreneurs in the region. For example, RiseUP is focused on training and supporting refugee entrepreneurs to start small enterprises. Companies like EthioChicken, HelloSolar, and FiberMart have also tapped into the refugee communities in the region, expanding their customer reach. Some of DAI's refugee business pilot programs have also proven more successful in this region than elsewhere.

## Industries and Business Models

A review of the Ethiopian Investment Commission's national registry of businesses identified the largest number of businesses by sector in each region. The following chart provides an overview

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<sup>132</sup> Contact information for these actors can be provided upon request.

<sup>133</sup> This is not to say that no conflict exists, and random violence does not occur, but to point to the vastly improved environment compared to historical international reporting.



of these findings alongside the refugee context of each region. It is important to note that not all sectors identified are open to foreign investors, specifically electronic and livestock trade would require a local or diaspora investment. These two sectors remain relevant due to their prominence in Somali and the large amount of diaspora investment in the region. It is also important to caveat that the quantity of businesses in an industry does not always equate to strong returns or viable investment opportunities. Rather, this chart is meant to highlight how business leaders in each region are thinking, to allow consideration for whether some sectors (e.g., construction) are already over-saturated and present a high-level landscape of the current markets of each region.

	IDP Pop.	Refugee Pop.	Ag / Food	Construction	Furniture	Metals and Minerals	Textiles	Electronics trade	Livestock trade
Tigray Region	1,814,284	36,845	X	X		X			
Somali Region*	871,176	226,531	X					X	X
Amhara Region	542,300		X	X	X				
Oromia Region*	506,133	4,037	X	X		X			
Gambela Region	34,321	358,773	X				X		
Afar Region	255,769	55,855		X			X		
SNNPR	203,506	4,938	X	X					
Benishangul-Gumuz		71,903			X				
Addis Ababa (city)*	1,854	71,423	X	X	X				
Sidama	6,531		X						
Harari	3,125		X						X
Dire Dawa (city)	2,491		X	X	X				

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Recognizing the various regulatory restrictions foreign investors face in Ethiopia, RLI implementers can further narrow their focus based on industries and business models. As discussed in the regulatory and government analysis, working within the government's framework is paramount to any organization's success in Ethiopia. Currently, the government has seven priority sectors that RLI implementers would be wise to consider: agro-processing, textiles, leather, tourism, pharmaceutical, ICT, mining, and energy.<sup>135</sup> The analysis of the current investment environment in Ethiopia recommends that, from the government's priority sectors, committed and patient RLI implementers focus on agriculture/agro-processing, textiles, and energy.

Within these industries, there are three priority business models that show potential for RLI in Ethiopia today:

<sup>134</sup> Ethiopian Investment Commission. National Business Registry. (Not available online for public consumption).

<sup>135</sup> Ethiopian Chamber of Commerce and Sectoral Association, "Investment Guide." ECCSA. 2022.

## 1. Agro-Processing

Both an industry and a business model, agro-processing employs a large number of individuals, matches the professional experience and backgrounds of many refugees and addresses food security challenges in the country. The government is very keen to decrease its reliance on imports, in particular food, making this the top industry and business model for RLI.

Considering the legal structures that currently limit formal employment for refugees quite significantly, industries that heavily rely on informal employment present a strong RLI case. Noting that informal employment comes with significant risk and human rights concerns, RLI practitioners must take heightened precautions to work with conscientious businesses and have a strong monitoring and evaluation process in place.

As potential R3/R4 business partners, the RLI community could focus on priority products within the agro-processing sector, such as coffee, oil seeds including the sesame value chain (roasted and tahini manufacturing); pulses, fruit processing (fruit pastes, fruit juices and oils), packaged fresh produce (export and domestic), and for diaspora investors, livestock. Jijiga Export Slaughterhouse (JESH) is an example of an agro-processing company with experience working with displaced populations.

Jijiga Export Slaughter House (JESH)	
Business Model	<ul style="list-style-type: none"> <li>R3/4 – Employs vulnerable women, IDP returnees, supplied refugee rations,</li> <li>B2C – direct sales, agro-processing</li> <li>Livestock processing and export, camel milk, agriculture.</li> </ul>
RLI Logic	<ul style="list-style-type: none"> <li>Prioritizes hiring and support of vulnerable populations</li> <li>High demand locally and abroad for product</li> <li>Diversifying business model and product offerings</li> <li>Addresses key food security and livelihoods concerns</li> <li>Diaspora shareholders</li> <li>State of the art facility</li> <li>Previous support from and engagement with USAID</li> <li>Seeking staged investment for operational diversification, solar irrigation, and cattle slaughter line equipment</li> <li>Open to foreign partnership, seeking technical and management expertise</li> </ul>

## 2. Direct Sales

Direct sales agent models that utilize low-cost labor for door-to-door sales could create new channels that bypass high-cost middlemen in Ethiopia (i.e., Mercato). Agent models can increase rural penetration for basic consumer goods and pharmaceuticals. The business model is versatile across industries.

A commission-based sales agent model can provide more employer flexibility to support refugee agents without necessitating formal employment registration and paperwork. As potential R3/R4 business partners, companies currently engaging refugees through direct sales include Tulip Addis Water Filters, HelloSolar and EthioChicken.

Tulip Addis Water Filters	
Business Model	<ul style="list-style-type: none"> <li>R3/4 – Employs refugees</li> <li>B2C – direct sales, agent model</li> <li>Manufacturing and sale of household water filtration units</li> </ul>
RLI Logic	<ul style="list-style-type: none"> <li>Refugee-returnee ownership</li> <li>Prioritizes training and hiring refugees, even informally.</li> <li>Experience working with international suppliers.</li> <li>Building local manufacturing facility (Debre Birhan); will source and produce 99% locally.</li> <li>High demand, addresses huge social need.</li> <li>Support of regional and federal government.</li> <li>Agent-model allows for incentivized income generation for individuals nation-wide</li> <li>Also has farm which aims to expand livestock capacity building locally in Amhara.</li> <li>Seeking investment to diversify product offering, expand operations and capacity, and secure local raw materials.</li> <li>Open to foreign partnership with the right expertise.</li> </ul>

### 3. PayGo

PayGo increases access to high-cost goods and services that might otherwise be unattainable for refugee communities by allowing a customer to pay small amounts in installments over several months, until they have successfully paid in full for the unit.

As the telecom and banking industries open to foreign actors, Ethiopia will see an increase in adoption of mobile money and online payment platforms that will ease doing business with remote customers who will no longer be required to travel great distances to

access their bank account or send money to creditors. As potential R3/R4 business partners, PayGo companies in Ethiopia are new, and fairly unknown, but HelloSolar and FiberMart are two examples of companies providing this payment method and actively engaged with refugee customers.

Further details on the example companies can be found on RIN's investment portal.<sup>136</sup>

While there are very few businesses to date in Ethiopia that match the RLI framework, the analysis shows that those that exist share a few common traits:<sup>137</sup>

- They have carefully analyzed their ecosystem and environment to identify market gaps and demand for a certain product.
- They identify innovative solutions and address market gaps by thinking also what kind of input products they could produce that are relevant for companies further up the value chain.
- Businesses that are nurtured and supported, especially in the infant stage of the business establishment process, tend to be more viable. Specifically, the first month after registration of a business is crucial and if there's no support through coaching and mentoring early on, accessing the market is hard and businesses fail.
  - This speaks to the value of and need for bolstering the business development support ecosystem in Ethiopia, to ensure these resources are accessible and effective in supporting entrepreneurs.

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#### *Changing the Narrative:*

*When DAI first approached HelloSolar and proposed targeting refugees as customers, management was skeptical. Confident in the opportunity, DAI offered to de-risk HelloSolar's investment. Over the past three years, HelloSolar piloted selling their units to refugees and found them to be more reliable customers in making repayments than their previous customer base. Since the pilot, HelloSolar has shifted its sales and marketing strategy to heavily focus on these communities. Success stories such as this are integral to the RLI goal of changing the narrative from refugees being seen as a burden, to being seen as an opportunity, as customers, employees, business owners and the strong*

	FiberMart
Business Model	<ul style="list-style-type: none"> <li>• R3/4 – Refugee customers; provides for refugee livelihoods</li> <li>• B2C – PAYGO sales of solar powered kiosks for customers to run their own businesses</li> </ul>
RLI Logic	<ul style="list-style-type: none"> <li>• Prioritizes refugee customers</li> <li>• Provides livelihood opportunity to refugees to start their own businesses</li> <li>• Provides refugees with clean affordable power</li> <li>• High demand for clean energy and small business opportunities in refugee and IDP hosting areas</li> <li>• Working with Somali regional government and local businesses</li> <li>• Seeking investment to increase manufacturing, building and distribution capacity</li> <li>• Open to foreign partnership with the right expertise</li> </ul>

<sup>136</sup> Refugee Investment Network. <https://refugeeinvestments.org/opportunities/>

<sup>137</sup> An illustrative pipeline has been provided separately to the client.

*community contributors they are. It also speaks to the importance of blended finance and de-risking models that the development and investment community can engage in to further the RLI agenda.*

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## Diaspora Engagement

Diaspora engagement, whether through remittances, transfer of knowledge, investment, or political advocacy, plays an enormous role in Ethiopia's political, business and investment environment.<sup>138,139,140</sup>

The diaspora community has used its power to influence Ethiopian politics over the decades. For example, during the rising tensions prior to PM Abiy Ahmed's appointment, formal remittances decreased significantly, signaling to the government that changes needed to be made.<sup>141</sup> Zerihun notes, however, that this does not mean an overall decrease in remittances to the country, but rather an emphasis on remitting through informal channels, which continue to dominate the space regardless of the political environment. Historically, formal channels have also been avoided due to the prevalence of embezzlement, taxation, and corrupt policies of previous administrations.<sup>142</sup>

Zerihun notes that "sub-Saharan Africa lags woefully behind other regions in efforts at effectively harnessing the benefits of remittance inflows while minimizing negative externalities associated therewith" and that "remittances can serve as a 'big-push' towards economic growth and long-term development of Ethiopia," if fostered and encouraged through increasingly supportive policies and affordable, reliable channels.<sup>143</sup>

While the 2013 Diaspora Policy enacted numerous beneficial reforms for the diaspora, Andargachew observes that many in the diaspora community did not see the changes as enough to really support their engagement in the country.<sup>144</sup>

One of Prime Minister Abiy Ahmed's initiatives to further engage the diaspora community came through the provisions of the 2019 Banking Business Amended Proclamation No. 1159/2019.<sup>145</sup> The bill "permits the Ethiopian diasporas, who have taken up nationalities in other countries, to invest, buy shares, and set up lending businesses in the country's state-dominated financial sector."<sup>146</sup> According to Zerihun, in 2020 there were efforts underway to open two diaspora banks with an aggregate capital of \$400M dollars.<sup>147</sup>

Recognizing the immense potential of diaspora investment to both alleviate foreign currency constraints and support development, as observed by Andargachew, Investment Proclamation No.1180/2020<sup>148</sup> re-defined domestic investors "to include those foreign nationals considered by relevant law of Ethiopia as domestic investors," thus eliminating any foreign investment restrictions for diaspora.<sup>149</sup>

In an effort to mobilize new diaspora investment, the government hosted a week-long Diaspora Investment Forum and Exhibition in January 2022 "to promote investment potentials in Ethiopia for the diasporas who came to their country by accepting the Great Ethiopian Homecoming Challenge."<sup>150</sup> The first five months of fiscal year 2022 saw more than \$1.64B enter the country through formal remittance channels.<sup>151</sup> In the Ethiopian calendar year (September 2020 - 2021)

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<sup>138</sup> Andargachew, Ephrem, "Ethiopia: Diaspora Contributing Tremendously In The Financial Sector." Ethiopian Herald. 2021.

<sup>139</sup> Tola, Selemone Benti, "The Role Of The Ethiopian Diaspora In The United States In Shaping Investment, Democratization And Remittance." Addis Ababa University School Of Graduate Studies. 2020.

<sup>140</sup> Berhanu, Kassahun, "The Political Economy of Diaspora Remittances in the Ethiopian Somali Region." Danish Institute for International Studies. 2019.

<sup>141</sup> Zerihun, Mulatu F., "Remittances and Economic Growth." African Human Mobility Review - Volume 6. 2020.

<sup>142</sup> *Ibid.*

<sup>143</sup> *Ibid.*

<sup>144</sup> Andargachew. 2021.

<sup>145</sup> NBE. <https://nbebank.com/wp-content/uploads/pdf/directives/bankingbusiness/banking-business-proclamation-1159-2019.pdf>

<sup>146</sup> Zerihun. 2020.

<sup>147</sup> *Ibid.*

<sup>148</sup> Investment Proclamation No. 1180/2020. [http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180\\_2020-Copy.pdf](http://admin.theiguides.org/Media/Documents/Investment-Proclamation-No.-1180_2020-Copy.pdf)

<sup>149</sup> Mesganaw, Mahlet, "Major Diaspora Favorable Ethiopian Laws." Dagnachew Tesfaye & Mahlet Mesganaw Lawyers. 2022.

<sup>150</sup> Ethiopian Monitor, "Ethiopians In Diaspora Urged To Step Up Investment In Ethiopia." Ethiopia Monitor. 2022.

<sup>151</sup> Ethiopian Monitor. 2022.

83 diaspora-owned investment projects were operationalized, with a total capital of 3.9B Birr, creating 13,000 jobs.

Andargachew outlines the remittances in the first half of 2021 as follows:

- 192.1M Birr for the construction of the Grand Ethiopian Renaissance Dam (GERD).
- 30M+ Birr for the Dine for the Nation campaign.
- 282.8M Birr for COVID-19.
- 600M Birr for Ethiopian Defense Forces and to support rehabilitation efforts in Tigray State.
- 103M Birr for voluntary services.
- \$1.1B+ for general remittance.

Andargachew views these funds as one of the ways the diaspora has been supporting Ethiopian autonomy and decreasing reliance on foreign intervention.<sup>152</sup>

### Total Current Diaspora Investments by Sector Ethiopia (2022)<sup>153</sup>

Investment Sector	Number of Investments	Percentage
Manufacturing	1874	40.20%
Real Estate	941	20.20%
Agriculture	525	11.30%
Hotel and Tourism	413	8.90%
Construction	393	8.40%
Service sectors	263	5.60%
Trade	95	2.00%
Mining	7	0.20%
Other sectors	147	2.70%
<b>Total</b>	<b>4,658</b>	<b>100%</b>

Despite the significant improvements to the landscape, most remittances continue to enter the country informally. Berhanu observes that money enters through three predominant mechanisms: 1) Hand transfer, during visits; 2) Import-export businesses; and 3) Hawala.<sup>154,155</sup>

Cooper and Esser's 2018 analysis "Exploring Barriers to Remittances in sub-Saharan Africa Series: Remittances in Ethiopia" reports that the National Bank of Ethiopia (NBE) estimated remittances for the 2016-2017 financial year at \$4.4B, with informal inflows reaching as much as 78% of capital received in certain corridors.<sup>156</sup> They specify that the formalization of remittance

<sup>152</sup> Andargachew. 2021.

<sup>153</sup> Data provided by the Ethiopian Diaspora Agency (not available publicly)

<sup>154</sup> Hawala is an exchange system that does not require the transport of money across borders, rather through a network of agents, the sender hands over the remitted money to the foreign agent who instructs his/her local contact to pay the recipient the equivalent amount in local currency. Berhanu. 2019.

<sup>155</sup> Berhanu, Kassahun, "The Political Economy of Diaspora Remittances in the Ethiopian Somali Region." Danish Institute for International Studies. 2019.

<sup>156</sup> Cooper, Barry and Antonia Esser, "Exploring barriers to remittances in sub-Saharan Africa series: Remittances in Ethiopia" Cenfri. 2018.

flow into the country is inhibited by the numerous regulatory, market-, infrastructure- and consumer-related challenges, including an overall lack of trust in formal systems, technological inadequacies and a closed financial sector.

There are also localized challenges reported that disincentivize diaspora investment. In the Somali region, for example, clan-based discrimination at the banking, permitting and policy levels, poor infrastructure and inconsistent implementation of regulations impede proliferation of diaspora investment.<sup>157</sup> These challenges notwithstanding, Somali has the most active diaspora investment scene and these capital infusions have played a significant role in spurring a revival of the economy through job creation and provision of goods and services. This development has contributed to improving stability to the region.<sup>158</sup> Significant investments have come from the intra-regional diaspora as well, who are largely engaged in the livestock trade.

In Addis Ababa, the predominant refugee population are Eritreans who have been granted permission to move there under the 2010 Out-of-Camp Policy. This policy, however, requires individuals to provide proof of livelihood-sustaining funds in order to be eligible, as they lose all humanitarian support upon leaving the camps. As such, those that are eligible usually have support from family abroad that can send remittances to cover expenses.<sup>159</sup> As the new refugee proclamation has opened this opportunity to all refugees, there will likely be more diverse refugee populations in urban areas relying on similar support systems.

Remittances play a significant role in poverty alleviation and can be major factor in economic reform and development. There is currently insufficient literature on diaspora investment and how these structures can be improved to ensure successful implementation of projects. This is a topic that deserves future research and analysis.

## Recommendations: Pathways and Opportunities for RLI in Ethiopia

Building upon RIN's Four Pillars of Action, the consultant has developed the following recommendations based on literature review, stakeholder engagement, site visits, policy analysis and in-country experiences for RIN's Phase II efforts in East Africa.

1. **Mobilize Investment Capital:** Considering the country's current socio-political environment and the fact that foreign-direct investment (FDI) legislation requires a ticket minimum of \$200K, the near-term approach could focus on local deal-making, with an eye on creating a larger pool of FDI-viable investments in the future. The RLI community should also look to institutions and actors that already have a presence in the country and are well versed with the investment and private sector environment.
  - a. Local and diaspora actors: As local investors and business leaders do not face the same restrictions, and may have capital at risk of devaluation, the RLI community could advise these private sector actors on smart investment opportunities that also have an RLI angle. There is also significant interest in the diaspora community for supporting economic growth rebuilding in their communities in the aftermath of the civil war. The RLI community could also engage these actors and provide similar advisory services. Local and diaspora investment in RLI businesses can help grow these businesses to a stage when they are better equipped to absorb a large foreign investment.
    - i. HelloSolar is a good example of a local company diversifying to engage refugee customers in their PayGo household solar unit offerings. This

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<sup>157</sup> Berhanu, Kassahun, "The Political Economy of Diaspora Remittances in the Ethiopian Somali Region." Danish Institute for International Studies. 2019.

<sup>158</sup> *Ibid.*

<sup>159</sup> *Ibid.*

initiative was supported by DAI, which initially provided a blended finance guarantee to de-risk the pilot program.

- ii. The Jijiga Export Slaughterhouse is a good example of a diaspora-led investment project, which prioritizes employing marginalized women and is interested in making more targeted efforts to employ IDP and refugee women in the area.
  - iii. International partners that have been operating in the complex Ethiopian business environment are well positioned to support RLI initiatives. For example:
    - IKEA Foundation, which is already committed to refugee-supporting enterprises, could deploy capital to a local rug and basket weaving company that could quickly employ 2,000 to 5,000 employees through an RLI scheme.
    - DAI has partnered with a number of successful enterprises, including HelloSolar and EthioChicken. Their track record of establishing RLI businesses makes them a strong partner for the broader RLI community.
    - TENT Partnership for Refugees has also recently reignited its interest in engaging refugee-supporting businesses by integrating them into their partner's value-chain, predominately to US and European markets. An RLI strategy could be to identify opportunities in Ethiopia that feed into these value-chains and utilize their networks to mobilize capital and technical assistance to build local suppliers into refugee-supporting businesses.
    - Larger investors, like Acumen, which has a vested interest in Ethiopia's RLI landscape, may not always have the bandwidth to source, diligence and manage local investments that consider the rapidly changing regulatory and investment landscape of the country. As part of their strategy to expand RLI in the country, they could consider partnering with local fund managers, such as Renew Capital, to originate and manage the RLI Ethiopia portfolio.
  - b. Diversification: The country's need for capital largely outweighs the supply. Despite the current limitations to RLI, foreign investors should not shy away from the country, but rather diversify risk across multiple deals by taking a portfolio approach with the intent of building refugee-supporting companies. In emerging markets, such as Ethiopia, impact investors should expect some losses, but these deals provide valuable lessons learned to enhance future strategies and lead to stronger portfolios. Furthermore, blended finance presents new and innovative ways to de-risk deals, including first-loss capital, loan guarantees, and more.
2. Build the Field of RLI: To build a vibrant ecosystem in Ethiopia, the RLI community could develop partnerships to mobilize diverse channels of refugee support.
- a. Partnerships: RLI implementers can work with the private sector and development community on market-driven approaches and blended finance partnerships.
    - i. Development partners such as DAI, IFC, GIZ and Mercy Corps are currently engaged in micro-enterprise development with refugee communities in Ethiopia. RLI implementers could consider working with



them to grow these enterprises based on FDI interest to contribute to a pipeline of investable companies over the next seven to ten years.

- ii. Building on refugee enterprise development, the RLI community could capitalize on the blended finance ecosystem by leveraging public-private partnerships composed of refugee and finance expertise (e.g., DAI, IFC, Mercy Corps working with USAID, GIZ and GAC). These initiatives will open new investment opportunities for the RLI community by allowing private equity investors to provide both capital and technical assistance to refugee-related businesses to “de-risk” potential investments.
  - For example, USAID is eager to partner with these types of projects in the agriculture, agro-processing and logistics sectors in the Oromia, Amhara, and Somali regions.
  - GAC is eager to contribute to the country’s entrepreneurial ecosystem through training and investment programs, such as the newly launched Accelerated Women’s Business Growth project in partnership with Renew Capital. This initiative will leverage SME management consulting and investment expertise to drive gender-smart business growth and attract FDI.
    - a. As the gender-lens investing theme has risen in popularity in the past five years, RLI could be the next lens to draw attention from the investment and development community.
    - b. Access to local finance: Through expertise and advocacy, the RLI community can support local fintech and financial institutions offering refugee-friendly products, thus expanding access to finance, and supporting business development of RLI businesses for future FDI. For example, Belcash, RAYS MFI and Shebelle Bank have each created innovative finance options for refugees and IDP lacking formal identification.
    - c. Supporting capacity and reach: RLI advocates should consider working with existing private institutions, local incubators, accelerators and BDS providers to enhance their capacity and reach. For example, the Africa Entrepreneur Collective and RiseUP are two programs already actively engaged in refugee entrepreneur support that could be supported. Furthermore, the RLI community is not always equipped with the requisite skills and knowledge to succeed in an unfamiliar market. As such, local BDS providers could play a critical role in supporting the success of these refugee-owned and -led businesses. These institutions can provide critical skills development support as well as employment matching services for refugee employees and employers, which is a model currently being piloted by the Danish Refugee Council’s apprenticeship program.
3. Change the Narrative: RLI success stories are necessary to build public confidence in the value they can provide to communities.
  - a. Current: While currently limited in Ethiopia, existing refugee-supporting businesses can support this pillar with the right investment and technical support partners.
  - b. New: New investments with partners active in Ethiopia can also highlight the opportunities for supporting a business in transitioning to a refugee-inclusive model and the economic benefits this offers.
4. Foster Pro-Refugee Policy Change: While policy change in Ethiopia may take time, the government has already set the precedent for inclusive refugee policy through their



engagement with the CRRF and the Refugee Proclamation of 2019. Still, opportunity for further progress remains.

- a. Identification: Advocating for a more uniform and streamlined national identification issuance system at the regional level that could help quickly solve employment challenges faced by many IDP.
- b. Diaspora: The diaspora community is also ripe for engagement and already plays a role in shaping local politics. Mobilizing their advocacy for refugee- and IDP-friendly legislation and implementation could diminish push-back toward foreign RLI advocacy. The second stage of RLI research for Ethiopia could include further analysis and engagement with the diaspora community.

## Conclusion

**Ethiopia will continue to welcome refugees, as it has done throughout its history.** Despite the global pandemic, local and international violent conflict, an underdeveloped private sector, rural infrastructure inadequacies, and inhibitory-regulations, there is great potential for the continued growth of RLI in Ethiopia.

**Ethiopia's policy landscape is relatively pro-refugee, although implementation continues to lag.** The country is lauded for having some of the most progressive refugee-supporting regulations on the continent. In practice, though, implementation of the Refugee Proclamation of 2019 and accompanying Comprehensive Refugee Response Framework remains limited due to the factors outlined above and the lack of regulatory infrastructure to support these bold ambitions. Implementation would help refugees actualize numerous rights including that of movement, financial access, employment and more. For a nation-wide reform policy to work, the federal government needs to closely follow up on the execution and enforcement of the reforms by the respective regional governments.

**Although Ethiopia's Government continues to encourage FDI, the regulatory environment for investment remains challenging.** Despite efforts by the Ethiopian Investment Commission to simplify business registration and streamline investment processes, potential investors still face restrictions and barriers to private sector engagement that could deter RLI actors from entering the market. Minimum capital requirements, and the recent acute shortage of foreign exchange compound these problems, as do overlapping regulations by federal and sub-national authorities. The omnipresent role of government in both regulating and promoting business makes Ethiopia a unique investment destination, and one that rewards a focus on strong local partnerships. Nonetheless, a growing number of refugee-economy vested partners with on-the-ground experience can be leveraged to grow Ethiopia's RLI ecosystem.

**The November 2022 Ethiopia-Tigray Peace agreement provides a window of opportunity for RLI actors.** As the country begins to stabilize in the aftermath of the civil war, the government may be able to focus on implementing legislation such as the Refugee Proclamation and accompanying CRRF, as well as broader economic reform. In this context, there are several pathways to improve the enabling environment for RLI that investors can pursue, which include:

- A geographic focus on cities that have experienced rapid growth despite recent conflict, play host to large populations of forcibly displaced people, and have governments who are open to inclusive investment. These include Addis Ababa and its surrounding areas, including Adama in Oromia and Debre Birhan in Amhara, as well as Jijiga, the capital of Somali region.
- A sectoral focus on agriculture/agro-processing, textiles and energy. These fall within the Government of Ethiopia's seven priority sectors for international investment, are among

the sectors demonstrating the greatest business growth, and offer the most opportunities for refugee engagement.

- Seeking out business models that have already demonstrated traction within the RLI space in Ethiopia, including Agro-Processing, Direct Sales, and PayGo.
- Further engagement with diaspora communities, which are often heavily financially and politically engaged and face fewer investment restrictions than foreigners. With billions of dollars annually remitted to the country, there is an opportunity to engage this community and leverage their investments and political influence to improve the RLI landscape in Ethiopia.

**Ethiopia's nascent private sector, young workforce, and the large number of refugee and IDP inhabitants make it a ripe place for RLI engagement**, though the RLI community should be patient and take a 'long-game' approach to building the ecosystem in the country. Policy advancements and government support, coupled with a willing and eager international investment community, has the potential to create a rich environment for RLI. To take advantage of this opportunity this report recommends that donors, NGOs, Investors, and other actors seeking to promote RLI take the following steps:

- Mobilize Investment Capital: focus on local deal-making, with an eye on creating a larger pool of FDI-viable investments in the future. Work with existing RLI businesses and engaged diaspora. Take a portfolio approach to diversify and de-risk, using blended finance, first-loss capital and loan guarantees where appropriate.
- Build the Field of RLI: Develop partnerships bridging the private sector, the NGO community and the Government, using public-private partnerships where possible. Support local fintech and financial institutions to create more refugee friendly products. Build capacity of local incubators, accelerators and providers of business development services.
- Change the Narrative: RLI success stories are necessary to build public confidence in the value they can provide to communities.
- Foster Pro-Refugee Policy Change: The government has already set the precedent for inclusive refugee policy through their engagement with the CRRF and the Refugee Proclamation of 2019. However, advocating for better implementation, of existing policies and mobilizing the political influence of the diaspora community both show great promise.

## Annex I: Refugee Rights in Ethiopia

RIGHTS	STATUS	OVERVIEW
Right to Stay in Ethiopia	Granted	A person who has applied for refugee status is allowed to stay in Ethiopia until his/her status is determined.
Regular Residency Outside of Camp	Granted with access barriers	<p>Upon the fulfillment of any of the below conditions, a refugee who has lived in a camp for a month (30 days) or longer can be granted permits for regular out of camp residency, valid for three consecutive years and subject to renewal:</p> <ul style="list-style-type: none"> <li>• If he/she can prove that he/she can cover the costs of living outside of the camp;</li> <li>• If he/she can produce a sponsor who can cover his/her cost of living regularly outside of camps;</li> <li>• If he/she receives a work permit that allows him/her to work legally in accordance with applicable laws.</li> </ul>
Right to Education	Granted	<p><b>Standard – National Treatment</b></p> <p>Refugees and asylum seekers are granted the same right as Ethiopians in terms of access to pre-primary and primary education.</p> <p><b>Standard – Most Favored Nation Treatment</b></p> <p>Access to secondary education, higher education, technical and vocational education and training, and adult and non-formal education is granted within the available resources and subject to the education policy of the country.</p>

<p><b>Right to Movement</b></p>	<p>Granted with access barriers</p>	<p><b>Standard – Subject to Laws Applicable to Foreign Nationals</b></p> <p>Refugees and asylum seekers have the right to liberty of movement and freedom to choose their residence within the national territory and the freedom to leave the country at any time.</p> <p>The government is required to facilitate enabling conditions for refugees and asylum seekers to use their right of movement.</p> <p><b>Refugees having regular residence permits</b> - have full right to movement.</p> <p><b>Refugees living in refugee camps</b> - have a right to temporary movement outside of refugee camps, upon issuance of a pass permit.</p>
<p><b>Right to ID</b></p>	<p>Granted</p>	<p><b>Identity Paper</b> - Refugees and asylum seekers have the right to get issued with identity papers attesting to their identity.</p> <p><b>Travel Document</b> - Refugees and asylum seekers have the right to a travel document for the purpose of travel outside Ethiopia.</p> <p><b>Driver’s License</b> - Refugees and asylum seekers are entitled to acquire an Ethiopian driver’s qualification license using their refugee ID. Similarly, a refugee or asylum seeker who has a valid foreign or international driving license can get an equivalent driver’s qualification certification license in Ethiopia.</p>
<p><b>Right to Property</b></p>	<p>Granted with access barriers</p>	<p><b>Standard – Most Favored Nation Treatment</b></p> <p>Refugees and asylum seekers are entitled to acquire movable and immovable property, to lease and other contracts relating to the property at the same level as the most favorable treatment accorded to a foreign national.</p> <p><b>Standard – National Treatment</b></p> <p>Refugees and asylum seekers have the same right as an Ethiopian as regards to intellectual property rights (including patent, copyright and neighboring rights, trademarks, industrial design, and other similar rights).</p>

<p><b>Customs Duty-Free Privilege</b></p>	<p>Granted with access barriers</p>	<p><b>Standard – Duty free right</b></p> <p>Subject to the laws of the country in relation to restricted or prohibited imports, refugees and asylum seekers in Ethiopia are allowed to bring their assets and property to Ethiopia free of tariff at the time of their first admission.</p> <p>Similarly, refugees and asylum seekers, when leaving Ethiopia, are allowed to take their assets or property they brought to Ethiopia or have acquired in Ethiopia to their home country or third country.</p>
<p><b>Right to Justice</b></p>	<p>Granted</p>	<p><b>Standard – National Treatment</b></p> <p>Refugees and asylum-seekers have a similar right as an Ethiopian in terms of bringing any justiciable matter to a court and obtaining a decision or judgment. Similarly, they can have legal counseling or assistance provided in accordance with the appropriate laws of Ethiopia.</p>
<p><b>Right to Financial Service</b></p>	<p>Granted with access barriers</p>	<p>Refugees and asylum seekers are entitled to open a personal bank account, deposit, transfer or withdraw money and obtain other banking services using their status identification documents.</p>
<p><b>Fiscal Charges</b></p>	<p>Granted</p>	<p><b>Standard – National Treatment</b></p> <p>Refugees and asylum seekers will not be subjected to imposition of any duty, charge or tax at a higher rate than imposed on Ethiopian nationals.</p>

<p><b>Right to Work</b></p>	<p>Granted with access barriers</p>	<p><b>Standard – Most Favored Nation Treatment</b></p> <p>Refugees and asylum seekers are granted the right to engage in wage earning employment in the same circumstances as the most favorable treatment accorded to foreign nationals.</p> <p><b>Standard – National Treatment</b></p> <p>Refugees and asylum seekers have the right to equal treatment as an Ethiopian national in relation to rural and urban projects jointly designed by the government and the international community to benefit refugees and Ethiopian nationals.</p> <p>National treatment shall apply to a refugee or an asylum seeker who is married to an Ethiopian national or has one or more child in possession of an Ethiopian nationality.</p> <p><b>Exception:</b></p> <p>No refugee or asylum seeker is allowed to be employed in National Defense, Security, Foreign Affairs, or other similar political establishments.</p>
<p><b>Right to Start Business</b></p>	<p>Granted with access barriers</p>	<p>Refugees and asylum seekers can be self-employed, individually or in a group, in areas open for foreign nationals and upon obtaining the necessary licenses.</p> <p>Refugee or asylum seekers, who are married to an Ethiopian national or have one or more children having Ethiopian nationality, can be self-employed in joint projects of the government and the international community or fields of business limited to Ethiopian nationals.</p>
<p><b>Right to Association</b></p>	<p>Granted</p>	<p><b>Standard – Most Favored Nation Treatment</b></p> <p>Refugees and asylum seekers are granted the right to have a non-political and non-profit association and trade unions in the same circumstance as the most favorable treatment accorded to a foreign national.</p>

<b>Industries Prioritized for Refugee Inclusion</b>	Granted	Agriculture Industry SME Handicrafts Commerce
<b>National Law or Policy for Inclusion of Displaced People</b>	N/A	Signatory to the Kampala Convention



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