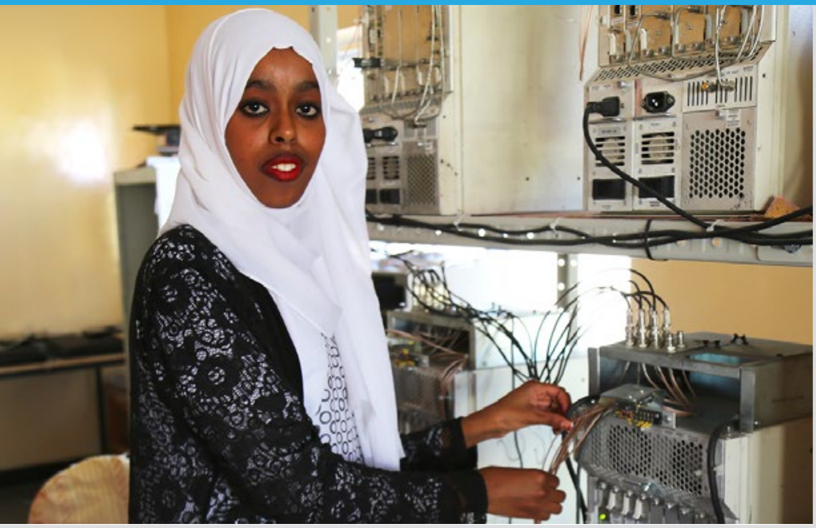
SOMALI DIASPORA INVESTMENT SURVEY

Typologies, Drivers, & Recommendations

DISCUSSION BRIEF

Based on a research report by:

Jay B. Benson, Lindsay L. Heger, Lee C. Sorensen, Alexandria E. Wise



RESEARCH SUMMARY

Since the outbreak of civil war in 1991, the Somali region has been affected by decades of political and economic instability. This nearly continuous state of conflict has seriously curtailed economic growth. Despite these hurdles, the region has seen increased governance capacity in recent years, and if gains in stability are preserved, it has the potential to emerge from this period of economic turmoil. In order to catalyze growth and improve the well-being of the Somali people, outside investment in the Somali private sector is critical.

Diaspora communities around the world have played an important role in the recoveries of their home countries after periods of political instability, armed conflict, and economic turmoil. That said, little is known about the specific contributions migrants abroad make to their countries of origin in a variety of ways, including remittances, investment, human capital, trade facilitation, and philanthropy. In this vein, the Somali diaspora sent an estimated US$1.3 billion to family and friends in Somaliland, Puntland, and South-Central Somalia in 2014, an amount twice the size of official development aid, five times the size of annual humanitarian aid, and equal to 24% of the region's GDP,[1] making it one of the most remittance dependent economies in the world.[2]

While remittances are vital for short-term poverty alleviation and assist with limited development, they are not primarily directed at catalyzing long-term economic growth. In parallel to these flows sent back home, the diaspora also "saves" capital abroad, which is—and could further be—invested in their home communities if the right opportunities and conditions were advantageous. It is this long-term opportunity and its maximization that are the most challenging, but that could create a long-term positive impact back home.

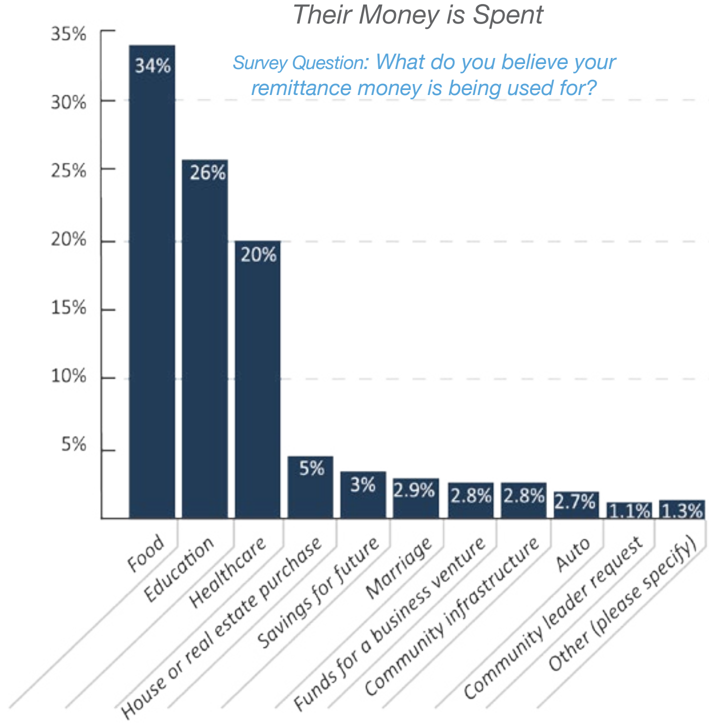
SHURAAKO
CONNECT • INVEST • JOBS

IFAD
Investing in rural people

Years of instability and underdeveloped financial institutions have left the Somali region with an acute lack of investment capital, as well as limited opportunities for business expansion and scaled small and medium-sized enterprise (SME) business growth. The Somali diaspora represents a large pool of potential investment capital that could be leveraged for long-term and scaled development in the Somali region.

In order to better understand the nature of and motivations behind the Somali diaspora's financial contributions to the region, the International Fund for Agricultural Development (IFAD)commissioned Shuraako (a project of the One Earth Future Foundation) to conduct the Somali Diaspora Investment Survey (SDIS) under IFAD's Diaspora Investment in Agriculture Programme in Somalia.[a] The SDIS gathered information about the preferences and behaviors of the Somali diaspora toward existing channels and opportunities for Somali-based investments, and provided policy recommendations for how to better facilitate crucial investment. This was done through an online survey of Somali diaspora members which collected a total of 923 responses.

FIGURE 1: *How Remitters Believe Their Money is Spent*



KEY FINDINGS

Understanding the Somali Diaspora

Respondents came from 33 countries and ranged in age from 16 to 77 with an average age was 39. The majority of the respondents were male (87%) and married (74.9%) with children (72.9%). Respondents represented a wide array of professions but did demonstrate a certain degree of concentration in the related sectors of Business/ Consulting and Entrepreneurship. Additionally, nearly one-third of respondents reported owning a business in their country of residence. A large majority of respondents, 69%, reported renting their homes, while 15% owned their homes outright and 9% owned their homes with a mortgage or loan.

Participants at the 2015 Somali Investment Forum

The survey respondents represent a Somali diaspora which maintains close ties in the Somali region. The vast majority indicated that they were born in or currently had family in the Somali region; 89.5% and 90% respectively. In addition to these personal ties, respondents reported a significant degree of financial connection to their country of origin, with 56.5% owning a home and 31.4% owning a business in the Somali region. These ongoing financial connections to the Somali region suggest a desire to remain connected, return home under the right conditions, and perhaps a willingness to invest in additional Somali business opportunities.

Somali Remittances and Their Uses

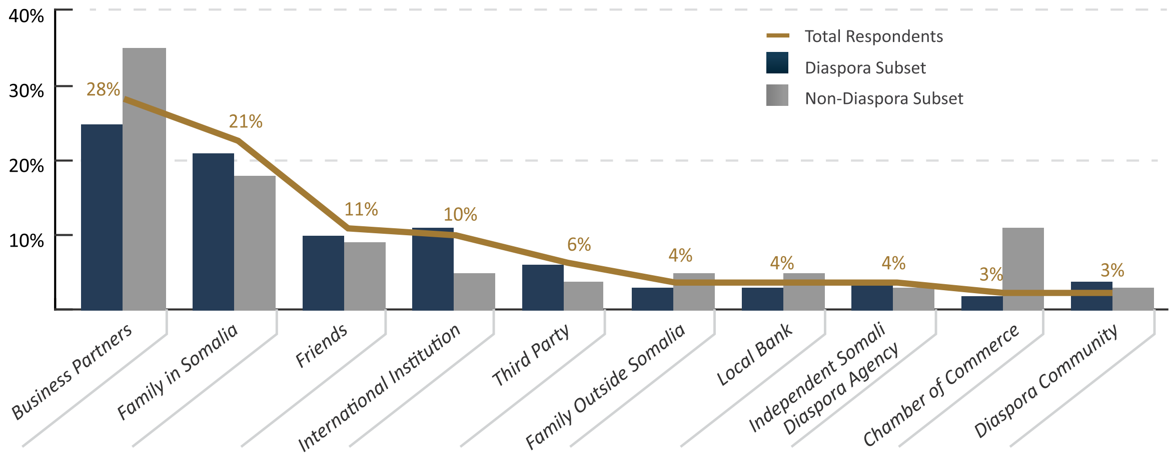
In addition to the personal ownership of homes and businesses, as mentioned, the majority of respondents reported ongoing financial engagement with their home country through remittances and investment. The survey asked a series of questions on respondents' remittance behavior; of those who answered these questions, 80.7% indicated that they regularly remit funds to family and friends. The average monthly remittance of survey respondents is US$422.90, which was slightly skewed by a small number of high-amount remitters, and the median monthly remittance is US$300.

Figure 1 indicates that remitted funds are being used for basic household needs, rather than as long-term financial investments or sources of savings.

a This initiative launched by IFAD and the US Department of State seeks to leverage migrant workers' investment in agriculture and rural areas to foster food security, resilience and economic growth in fragile countries.

FIGURE 2: *Who Somali Diaspora Trust for Investment Recommendations*

Survey Question: You would like to invest $25,000 into a Somali industry you are not familiar with. Who are you most likely to trust for investment recommendations?

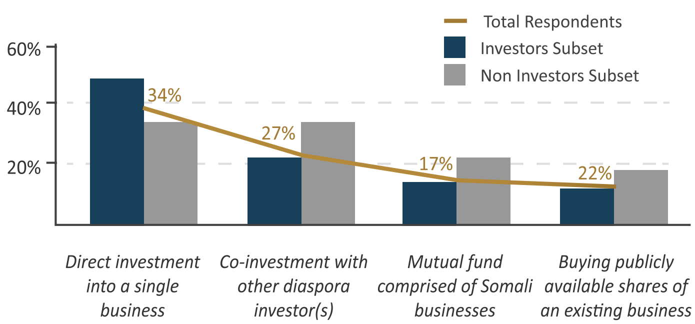


Investment and Investors in Depth

While the large majority of respondents indicate sending regular remits for day-to-day needs, a portion also reported making long-term financial investments in these communities. Only 33% of respondents reported having made financial investments in the Somali region in the past three years. Conversely, 59.3% of respondents who provided information said that they considered themselves to be active investors, indicating that of diaspora surveyed, many invest outside of the Somali region. The survey asked a series of descriptive questions regarding the size, frequency, sector, origination, and structure (formal or informal) of respondents' investments in the Somali region. In focus group conversations, participants indicated that the size of investment varied significantly, with an upper limit of around US$100,000, but a majority of investments were reportedly between US$5,000 and US$50,000. Focus group participants and survey respondents indicated trust was a significant factor in investment decisions. Figure 2 further demonstrates the importance of trust in sources of investment recommendations.

FIGURE 3: *Most Attractive Investment Options for Somali Investors*

Survey Question: You have decided to invest $25,000 in a Somali opportunity. What do you consider the most attractive option?



Survey respondents indicated that diaspora investment spans a variety of sectors. Agriculture and real estate were the most common sectors of current investments, followed by education and fishing. When asked to identify sectors perceived as most profitable, focus group participants identified industries including oil and gas, logistics, solar energy, livestock, leather, healthcare, and security. They also indicated that waves of Somali professionals returning from the diaspora may make particular sectors increasingly attractive by supplying the human capital needed for growth.

Berbera Hospital, Somaliland

Survey and focus group participants reported various investment structures. Overall, they required placing funds into a "Sharia Compliant" investment product; however, these instruments varied from joint ventures to public offerings, equity, and debt. Figure 3 describes the investment form preferences of investors, non-investors, and the total respondent population highlighting the fact that non-investors are more likely to invest in mutual funds or with other investors rather than self-described active investors.

Motivations for Investment into the Somali Regions

Individual diaspora investors report being driven by a combination of financial and social motivations. When asked about the single most important factor in their investment decisions, a combined 61% of respondents selected financial performance and capital protection over social benefit. Specifically, 32% indicated minimizing risk as being most important, and 29% indicated maximizing return. However, the single greatest response was maximizing social benefit, at 39%.

When asked in greater detail what specific factors were important to their decision to invest, respondents again specified preferences for elements indicating financial gain and maximized social impact. Figure 4 indicates the importance of capital enhancement/protection factors.

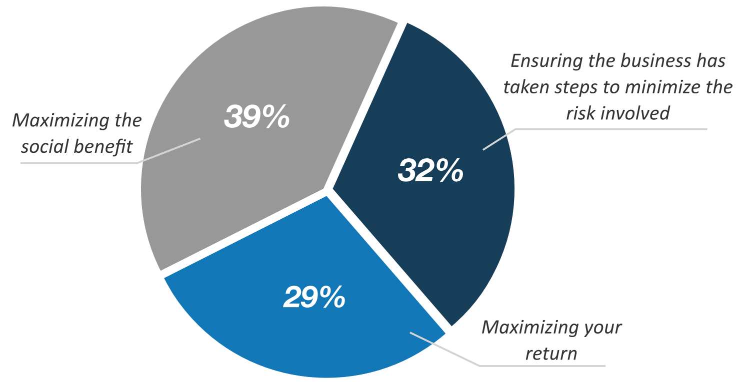
Despite the emphasis placed on financial gain, social good is also a significant motivation. When asked questions which did not force the respondent to choose between financial gain and social good, social motivations appeared much stronger. For example, 85% of respondents reported investing in Somali opportunities in order to create jobs for the local community. On a more personal level, 58% of respondents described "family needs" as either important or very important to their investment decisions. This indicates that while Somali diaspora investors are not purely philanthropic in their decision-making, investment opportunities that combine both reasonable returns and social impact have the potential to be very successful.

In addition to these financial and social motivations, focus groups and survey results indicate that a third factor, the desire to eventually return permanently to their home

Somali currency exchange

FIGURE 4: *Most Important Factors for Investing in Somali Businesses*

Survey Question: You are interested in directly investing in a Somali business. What factor is most important to you?



country, is a significant motivation for investment. This is an especially important finding given the current context of fragility and out-migration in several countries in the broader region. When asked specifically whether they invest in order to return permanently, 73% of respondents answered affirmatively and only 5% said no. Focus group participants consistently noted two specific logics underpinning their desire to invest as an avenue to facilitate a return home. First and most common was to invest in real estate in order to have a home prepared for their return. Second, many sought investment to ease a future financial and/or social transition home by establishing income streams or to elevate social standing and an image of success. As the political, security, and economic stability of the Somali region improves, this desire to return home will likely play an increasing role as a motivating factor for diaspora investment.

Overcoming Obstacles and Reducing Risk

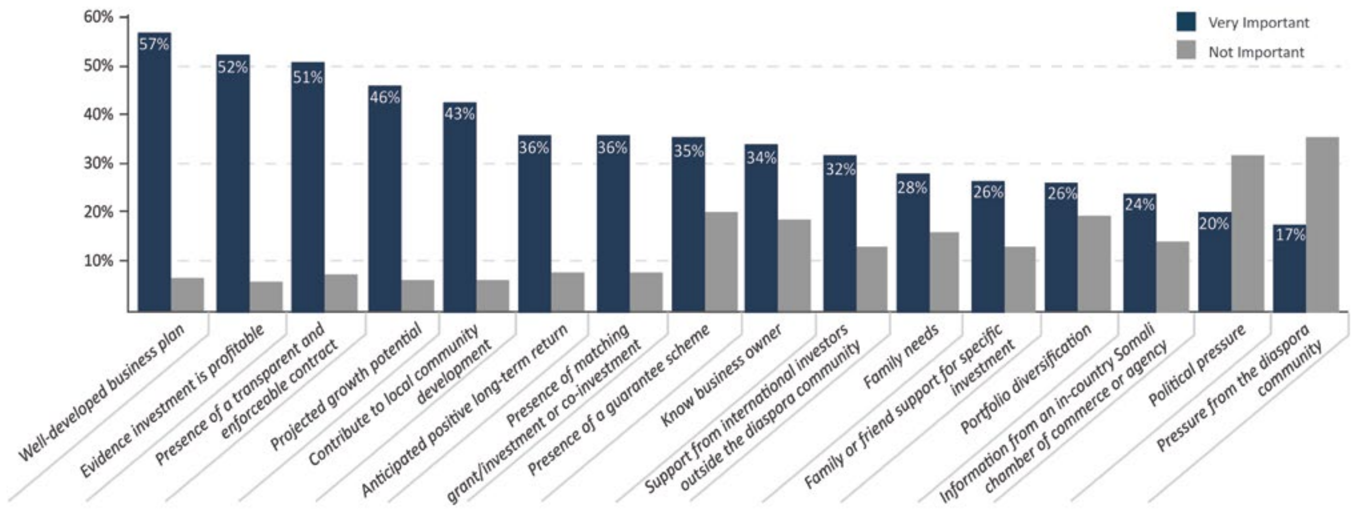
Having analyzed the underlying motivations for diaspora investment in the Somali region, it is important to consider the risk tolerance of Somali diaspora investors, what obstacles these potential investors face, and what risk mitigation strategies are best-suited for overcoming such hurdles to investment.

Respondents expressed varied levels of risk tolerance as indicated in Figure 5.

As expected, self-described active investors were slightly more likely than the general survey population to characterize themselves as either risk tolerant (22%) or risk acceptant (4%).

FIGURE 5: *Factors Influencing Somali-Based Investment Decisions*

Survey Question: Please indicate how much the following factors matter or would potentially matter to your decision to invest in a Somalia-based opportunity.



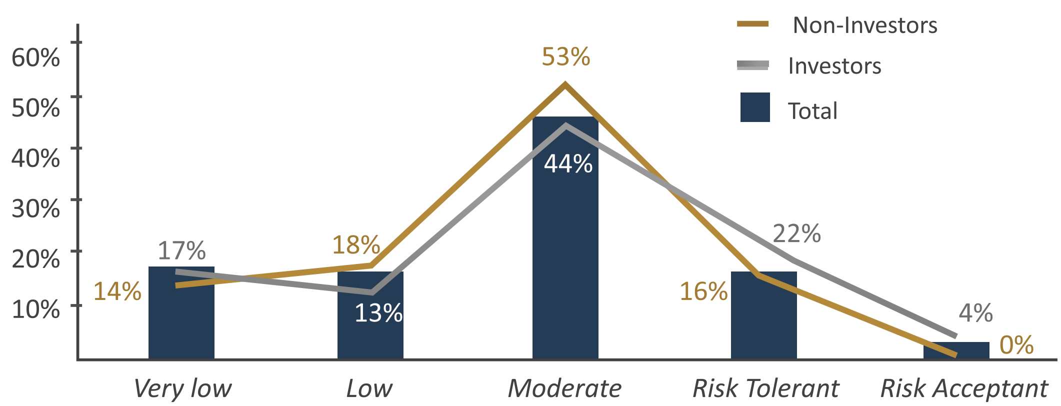
The survey also asked individuals to rank a number of obstacles according to how seriously they hindered investment. More than 60% of respondents indicated that five factors were each either very much an obstacle or had actually blocked their attempts to invest. Those factors include political instability, lack of security, inability to enforce a contract, corruption, and an inadequate banking system. Each of these factors illustrates a need for stronger governance and is not within the control of the investor. Unsurprisingly, these data suggest that improving the effectiveness of the political structure would greatly contribute to increased investment.

Regarding investment terms, survey participants were asked to evaluate three broad vehicles for reducing investment risk: matching grants from an international institution, credit guarantees from an international or local financial institution, and co-investment with members of their diaspora community. The results are represented in Figure 6. Respondents felt positive about all of these risk mitigation strategies, with a majority of respondents feeling that each option would reduce investment risk. While a matching grant ranked highest of any single vehicle, the number of respondents who felt loan guarantees from an international institution or a Somali bank would reduce risk is only marginally lower and may therefore be a more beneficial strategy for international institutions, given the higher cost-benefit ratio.

Having analyzed the motivations, preferences, and challenges for Somali diaspora investors, we make nine recommendations for facilitating future investment.

FIGURE 6: *Financial Risk Tolerance*

Survey Question: How would you describe your financial risk tolerance?



Shopkeeper in Gabiley

RECOMMENDATIONS

1. Strengthen the Capacity of Local Actors to Provide Demand-Driven Business Development Services

The presence of a well-developed business plan is the single most important consideration for would-be diaspora investors. Many Somali businesses operate through traditional methods, which for practical purposes of finance are informal. For example, they do not necessarily maintain formal records, and often lack developed systems for accounting, market research, skills training, and product evaluation. Stronger business development services offerings would greatly assist these largely informal businesses as they refine their services and products and organize their information in order to seek formal funding.

2. Supporting Development of Effective Chambers of Commerce and Business Associations

The majority of diaspora investors currently rely on personal contacts as their primary source of investment information. However, in order to encourage broader and deeper investment, formal institutions need to be developed as a source of information for those lacking the personal contacts to obtain reliable investment information. In well-developed economies, umbrella business associations emerge to organize, represent, and address the demand-driven needs of the business community. Most common among these umbrella organizations are national and local chambers of commerce and sector-specific business associations. Effective chambers of commerce engage in advocacy on behalf of business, promote anti-corruption mechanisms and ethics, and act as interlocutors with policymakers. Well-governed business associations provide sector-specific expertise with targeted advocacy and expert training, and offer central resources on behalf of their subscriber base (such as data collection, market research, legal advice, human resources, and benefits packages). Improved organization plus outreach to the diaspora community by both chambers of commerce and sector-specific business associations would help build the diaspora's confidence in these local institutions and increase their role as sources of reliable investment information.

3. Encouraging Formal Data Collection and Commissioning Relevant Market Research in Partnership with Local Chambers and Ministries

Local chambers of commerce and relevant government ministries in the Somali region often lack the staff and resources to produce high-quality investment-related reports. Conversely, donor organizations frequently produce economic growth reports, surveys, and market studies which are valuable for local stakeholders and potential diaspora investors, but they are rarely leveraged to the extent possible. This represents a missed opportunity for collaboration,. Donor organizations would gain more nuanced local insight into the larger trends they are reporting on while local actors would learn best practices for producing high-quality investment information, all while building diaspora trust in these local actors and facilitating investment.

4. Encouraging Information-Sharing through Diaspora Investor Networks and Encouraging Diaspora Investor "Meet-ups" that are Built Around Investors' Profiles

Diaspora networks around the world serve as a valuable platform for information-sharing between diaspora members and a variety of actors in their home countries. Diaspora investor "meet-ups" could serve as valuable networks for disseminating investment information and connecting interested diaspora investors with investment opportunities back home. Championing such investor meet-ups will help disseminate reliable investment information, facilitate co-investment opportunities, encourage diaspora members

Investors and entrepreneurs in Somaliland

Downtown Hargeisa

interested in investing to become more active investors, and serve as a platform for developing new funds and investment products tailored to meet the preferences of the diaspora's most active investors.

5. Partnering with Somali Financial Institutions to Champion Savings-to-Investment Campaigns

Developing partnerships to promote remit-to-savings and savings-to-investment campaigns can both encourage market-based lending and overcome diaspora investors' concerns about Somali financial Institutions (SFIs). Savings-to-investment schemes could play a unique role in identifying and leveraging a portion of the remittances already being sent to the Somali regions. This model could both encourage local savings and increase local capital reserves committed to microcredit. In such a scheme, savings balances could be pooled with those of other similar investors and used by the SFI, co-invested with its own capital or even matched by an external donor or other capital source, and issued as a revolving fund. Such a revolving fund could be designed with consideration of impact and returns, thereby expanding SFIs' existing enterprise portfolios and achieving impact goals. Donors could also participate in such schemes and stimulate their uptake by offering an amount matching the remitter's deposit by way of a credit guarantee, thereby increasing the beneficiary credit limit.

6. Supporting Credit Products that Leverage Locked-up Real Estate Value (Hybrid Mortgage Products)

Real estate is one of the most common diaspora investments in the Somali region. Unfortunately, because real estate purchases are often all-cash deals, Somali real estate investments lock up significant capital reserves. Real estate assets represent a large captive collateral base that, if legitimized through formal mortgage instruments, could be leveraged to borrow against and the proceeds used to support investment opportunities. One of the primary hurdles for mortgage products in the Somali region is the insecurity of title and land rights. Taking steps to secure land tenure in the Somali region would allow for greater access to mortgage products which could be used to leverage real estate assets for investment.

7. Providing Tangible Assurances to Diaspora Investors, Such as Credit Guarantee Schemes

Credit Guarantee Schemes (CGSs) have the potential to significantly increase diaspora investment in the Somali region. CGSs provide guarantees on loans to borrowers by covering a share of the default risk of the loan. In case of borrower default, the lender recovers the value of the guarantee. In the absence of formal credit information-sharing among commercial banks, and with small and medium enterprises that may not have the necessary collateral to back a loan, CGSs offer a valuable alternative. As a tool for local development, CGSs have multiple benefits. They ensure capital is held and managed locally, they are proven to have a catalytic effect in mobilizing outside funds, and they are an excellent tool for facilitating investment flows into high-risk markets that otherwise struggle with acquiring investment capital.

8. Developing Mutual Funds that Offer Varied Risk Profiles, Target Key Sectors, and Produce a Double Bottom Line (Profit and Impact)

In analyzing responses from active investors within the Somali diaspora, three key characteristics appear crucial in designing investment products: the interest in co-investment mechanisms, a variety of risk tolerance levels, and a desire for investments to have social impact as well as financial returns. Mutual funds and bonds may be ideal vehicles for addressing these factors. Bonds would be a

Remittance transfer at Dahabshiil transfer company

lower-risk co-investment option that could engage local municipalities in improving gateway sectors (e.g., schools, clinics, water, mosques, and/or community centers), and investors could reap both social and financial returns. Mutual funds could achieve a similar objective, and may be geared toward the more risk-tolerant investor, as well as those with greater investable wealth. Either vehicle could allow donors to provide catalytic financing (in the manner of matching funds, guarantees, etc.) to further spread or bolster the vehicle's social and financial impact.

9. *Promoting Community Development Finance, Including Community Infrastructure Bonds and Risk Insurance*

Survey respondents expressed a strong desire for their investments in their home country to provide social good to the community as well as financial returns. Pooled diaspora investment in community infrastructure (both hard and soft) would serve to satisfy these dual motivations. However, opportunities for such diaspora co-investment in community projects are few and far between. Community infrastructure bonds coupled with political risk insurance would provide an attractive option for Somali diaspora investors. Similar "diaspora bond" programs have proven themselves to be a valuable tool for raising stable, inexpensive capital in less-developed, post-conflict countries, and expanding their availability to the Somali diaspora would meet the needs of both investors and local communities.

NOTES

1 World Bank, "Somalia Economic Update," p. ix.

2 World Bank "Personal remittances, received (percent of GDP) Available at: http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?order=wbapi_data_value_2014+wbapi_data_value+wbapi_data_value-last&sort=desc

The Somali Diaspora Investment Survey and report were funded by IFAD and Shuraako, and conducted by Shuraako.

SHURAAKO
CONNECT ‣ INVEST ‣ JOBS
www.shuraako.org

IFAD
Investing in rural people
www.ifad.org

Shuraako is a program of the One Earth Future Foundation.

one earth FUTURE
www.oneearthfuture.org

This Discussion Brief was released on April 21, 2016. The full report is expected to be released June 2016. See www.shuraako.org.

Citation: http://dx.doi.org/10.18289/OEF.2016.003

All photos are by Jean-Pierre Larroque, One Earth Future Foundation. Cover photos depict Somali entrepreneurs and clients of Shuraako.