

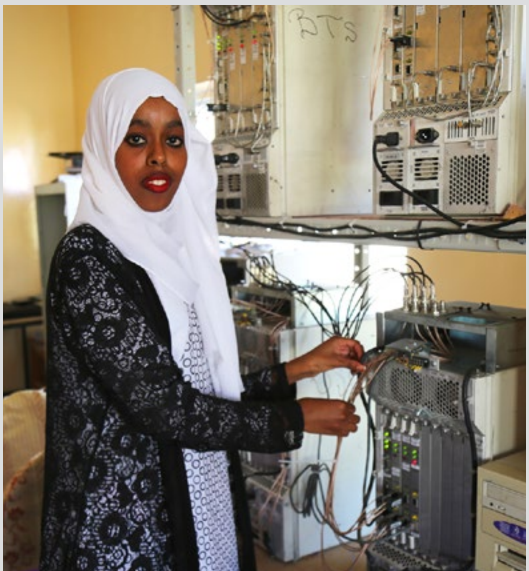
SOMALI DIASPORA INVESTMENT SURVEY REPORT

Typologies, Drivers, & Recommendations

A research report by:

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

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Shuraako is a program of the One Earth Future Foundation

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All photos in this report, unless otherwise noted, are by Jean-Pierre Larroque, One Earth Future Foundation

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We'd like to extend a special thank you to the following individuals who have helped us through conversation and contributions to this report.

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Lars Benson is Senior Program Officer for Africa at the Center for International Private Enterprise (CIPE). He works with local partners on public policy advocacy, anti-corruption efforts, governance, and creating favorable business environments for entrepreneurs. CIPE is affiliated with the US Chamber of Commerce and the National Endowment for Democracy. CIPE has worked in more than 100 countries supporting private sector initiatives to develop market economies and strengthen democratic development.

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David Bledsoe leads Landesa's corporate engagement initiative, which supports clients in making socially responsible investments in land and land-focused supply chains. He has supported businesses in this regard in Africa, Asia, and Latin America. He has also served as Landesa's Africa Program Director and has designed and managed programs funded by USAID, DFID, the World Bank, and many foundations. He has extensive experience working with corporations, governments, and communities on land policies and laws, land-related investments, women's access and secure rights to land, land dispute identification and resolution, and more.

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Nana Boakye-Adjei is Associate Director at Developing Markets Associates (DMA). She has key expertise in private sector development, with a specific focus on remittances, payments systems, and financial inclusion. More recently she has led DMA's work with diaspora communities, specifically in relation to diaspora investment, designing programs for both donor organizations and the private sector.

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Leon Isaacs is recognized as a global authority in the remittances and money transfer industry and as a seasoned business leader. He has been Managing Director of the International Association of Money Transfer Networks, an international trade association. He has also spoken at, and chaired, numerous international conferences on remittances, including at the World Bank, the UN, and the G8. Prior to establishing DMA, he was intrinsically involved with two successful start-up money transfer businesses: MoneyGram International and Coinstar Money Transfer.

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Leigh Moran is Senior Officer on the strategy team at Calvert Foundation, an impact investing nonprofit that enables people to invest for social good. She focuses on the design and implementation of investment initiatives based on key social impact areas. Moran is currently leading Calvert Foundation's work to engage diaspora communities to invest in the economic development of their countries of heritage.

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Liesl Riddle is Associate Professor of International Business and International Affairs at George Washington University and Associate Dean for Graduate Programs at The George Washington University School of Business. Having examined diaspora investment and entrepreneurship for more than 20 years, Dr. Riddle has conducted research among 16 different diaspora communities, and has also spearheaded the university's Diaspora Capital Investment Project, and was aa founding member and director of their Diaspora Research Program.

Erin Satterlee, Forcier Consulting

Erin Satterlee is Partner at Forcier Consulting, a multinational research and consulting firm. Mr. Satterlee founded Forcier Consulting, Somalia, and has led the firm's local team comprised of 50+ full-time staff, of which more than 40 are Somali, on more than 85 in-region projects and research initiatives. Prior to joining Forcier, Mr. Satterlee worked with the Belgian Development Agency and led the creation of more than 300 micro-credit associations throughout western Uganda on behalf of the Bill & Melinda Gates Foundation. Mr. Satterlee is the ESOMAR Worldwide Market Research Representative for Somalia and a member of the American Evaluation Association.

Justin Sykes, Innovest Advisory

Justin Sykes is Founder and Managing Director of Innovest Advisory, which is a boutique advisory service linking socially-minded investors with impact investment opportunities.

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Said Abdirahman	*Abdirahman Ali*	*Weli Hassan*
Ahmed Adan	*Abdirachid Fidow*	*Khader Ismail Mohamed*

The One Earth Future Foundation and Shuraako take no position on the division of Somali territories, nor advocate for any outcome in the definitions of territorial boundaries or citizenship. Our choice of wording in this document reflects an attempt to give equal voice to all people of the region. To the extent possible, regions will be referred to individually, to include "South Central Somalia," "Somaliland," and "Puntland" as well as all individual regions. Where we must be more inclusive, this report will refer to "the Somali region" as a whole or "Somali regions" to refer to the separate regions. This should not be construed to include any part of other countries in the region. Many international organizations do not collect or analyze data that reflect the multifarious Somali political designations or preferences and thus data will first refer to the above designations and secondarily to the unit of analysis included in the cited works which might include the term "Somalia" etc. to refer to the entire region, as for example, when referring to population statistics provided by the United Nations.The images used in this document will similarly avoid contested designations of territory.

ORGANIZATIONS

International Fund for Agricultural Development

The International Fund for Agricultural Development (IFAD) co-funded the Somali Diaspora Investment Survey (SDIS) along with Shuraako. IFAD is a specialized agency of the United Nations and an international financial institution. Its goal is to enable poor rural people to improve their food and nutrition security, increase their incomes, and strengthen their resilience. IFAD's multilateral orientation provides a strong global platform for discussing rural policy issues and increasing awareness of why investment in agriculture and rural development is critical to reducing poverty and improving global food security. The SDIS was financed through the "Enhancing Food Security in the Horn of Africa through the Diaspora Investment in Agriculture Programme" implemented in Somalia and financed by IFAD's Near East, North Africa and Europe (NEN) division. The project is implemented under the framework of the Diaspora Investment in Agriculture (DIA) initiative launched in 2011 by IFAD in collaboration with the U.S. Department of State. The DIA aims at leveraging the contributions of migrant workers and encourage their engagement in sustainable economic development through investment in agriculture, particularly in rural areas. DIA is managed by IFAD's Financing Facility for Remittances (FFR), that has been working since 2006 with the goal of increasing the development impact of remittances and diaspora investments towards enabling poor rural households to advance on the road to financial independence.

Shuraako and the One Earth Future Foundation

Shuraako is a nonprofit implementation project of the One Earth Future Foundation (OEF). Shuraako brokers economically beneficial relationships that connect micro, small, and medium-sized enterprises (MSMEs) with investors to catalyze job creation. This in turn contributes to a more resilient and peaceful Somalia. Shuraako achieves this by identifying and recommending eligible Somali businesses to impact investors and charitable funds, and by servicing approved financing. Shuraako seeks to foster a thriving business sector by addressing the financial gap in Somalia and brokering productive partnerships that encourage economic development.

OEF is a nonprofit, nongovernmental organization that was founded in 2007. OEF is an operating foundation with a vision of developing effective multistakeholder systems of governance to achieve a world beyond war. Research & Development (along with Oceans Beyond Piracy, Secure Fisheries, and Shuraako) is a program of OEF.

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EXECUTIVE SUMMARY

As the Somali regions continue their emergence from decades of civil war and political contestation, investment is expanding, banks are opening their doors, and Somali exports are increasingly finding markets throughout the Middle East and East Africa. Those most anxious to embrace the growing Somali private sector, as well as expand Somali product exports to foreign markets, are the members of the Somali diaspora spread around the world. Through remittances and small investments, these individuals provide a critical lifeline for individuals in the Somali regions, as well as for businesses. As the political climate stabilizes, many diaspora members are contemplating how and when to make investments. In an effort to facilitate positive growth, the international community is seeking insight into the Somali investment climate, investor interests, and potential mechanisms for encouraging diaspora investment.

Given the overall lack of data offering guidance on the subject, 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). The SDIS gathered information about the preferences and behaviors of Somalis and the Somali diaspora toward existing channels and opportunities for Somali-based investments. Hundreds of Somali diaspora and current residents were queried about their opinions, observations, and habits regarding remittances and investment in the Somali regions.

This report summarizes these findings in eight major sections:

1. Research Goals and Methodology

Eleven focus groups with members of the Somali diaspora were conducted in eight cities on three continents. These focus group discussions aided a better understanding of the nature of diaspora remittances and investments in the Somali regions. These discussions were supplemented by in-depth interviews. Finally, an online survey identified current trends in remittance and investment behaviors, as well as the motivations for investment and the obstacles to increased financial engagement in the Somali regions.

2. Diasporas In Perspective

Diaspora communities around the globe contribute to the socioeconomic development of their home countries through remittances, investment, human capital transfer, trade facilitation, and philanthropy. While the Somali diaspora has played a role in mitigating the worst of the humanitarian disasters through remittances, this is a short-term solution. Increased diaspora investment will be necessary if their financial transfers are to be effectively leveraged for sustainable, long-term economic development in the Somali regions.

3. Research Participant Profile

Among the 923 survey participants, respondents ranged in age from 16 to 77 and represented 33 countries, with occupations falling into 17 different sectors from education to transportation.

4. Financial Engagement in the Somali Regions

The financial engagement of the Somali diaspora in their country of origin primarily takes two forms, remittances and investments.

a. *Remitters*: Individuals who send remittances are, on average, slightly wealthier than the non-remitter population. Remitters who took the survey sent an average of US$422.90 per month to family and friends in the Somali regions. Senders indicated that these funds were used overwhelmingly for basic, reoccurring needs such as food, education, and health care.

b. *Investors*: Nearly 60% of respondents reported being active investors and 33% have recently invested in the Somali regions. Active investors responded from 12 countries across Africa, Europe, and North America, the highest concentration of which (78%) came from only four main areas: the Somali regions, the UK, Canada, and the US (in descending order).

5. Describing Investments and Investors

Focus group participants and online survey respondents openly shared their experiences with Somali investments:

a. *Size:* Typical diaspora-funded investments are between US$5,000 and US$100,000, with the majority being between US$5,000 and US$50,000.

b. *Frequency:* Frequency is based on available opportunities. Nearly 1/3 of respondents indicated having made investments in the Somali regions in the past three years.

c. *Sector Distribution:* Investments are distributed across 22 sectors, with the greatest concentration in agriculture, real estate, and education (in descending order).

d. *Origination:* Diaspora members are most likely to trust business partners and local family members to originate and recommend investment opportunities. Friends and international institutions came in as the third and fourth most important sources of investment opportunities, but their influence on origination was less than half the level of the first two. The diaspora community, local chambers of commerce, and other agencies play a significantly smaller role in investment origination.

e. *Forms of Investment:* Many expressed a preference for direct investment into a single business, although this is more significant among active investors. In comparison, those who did not identify as active investors were more likely than those who did to prefer co-investments with other diaspora members and mutual funds as forms of investment, due to their greater risk aversion or relatively weaker wealth position.

6. Motivations for Diaspora Investment

While multiple motivations were found to influence investment decisions, certain trends exist. Three in particular re-emerged throughout the survey: financial return, social good, and the potential for a future return to the Somali regions. The most consistent across all criteria was the motivation to protect and grow capital, though sizeable numbers of respondents also noted social good as being a motivating influence. To ensure capital protection and growth, investors seek three primary assurances: well-developed business plans, profitability, and high growth potential. When asked, 85% of respondents claimed they placed capital with the goal (both express and in addition to profitability) to create jobs. They also indicated placing investments that pursue future financial security or housing for their own potential return to the Somali regions.

7. Investment Obstacle Risk Mitigation Strategies

a. *Risk Aversion:* 46% of respondents identified themselves as having a “moderate” level of risk tolerance, 34% described their risk tolerance as “low” or “very low,” and only 19% identified as “risk tolerant” or “risk acceptant.” Active investors were moderately more likely to describe themselves as more risk tolerant than the total respondent population.

b. *Obstacles to Investment:* The top five most frequently cited obstacles to investing are political instability, security concerns, lack of rule of law, corruption, and an inadequate banking system. The top five obstacles are less about the actual number or quality of investment opportunities or logistics than the systemic institutional obstacles reflecting the current state of governance in the region.

8. Recommendations

The final section of this report outlines nine recommendations based on analysis of the SDIS data. Each recommendation includes analytical justifications and actionable suggestions, and targets between one and five distinct actors based on where the data indicate unitary action or multi-stakeholder cooperation is best suited. The recommendations target the Somali business community (including chambers of commerce, business associations, and the private sector); Somali financial institutions (SFIs); diaspora members; the global community (including governments, multilateral organizations, development actors, and NGOs); and international financial institutions. Suggested courses of action seek to develop financial and business infrastructure, improve the quality of Somali market information, connect diaspora investors around the world, develop diaspora-specific investment products, and leverage locked-up real estate value through hybrid mortgage products.

I. INTRODUCTION: BACKGROUND & RESEARCH GOALS

As the Somali regions continue their nearly quarter-century-long struggle for recovery from political collapse in the early 1990s, catalyzing investment to enable economic growth is a goal shared by stakeholders both inside and outside the area. Investment in local communities can spur entrepreneurship, job creation, and the development of much-needed infrastructure. The resulting increase in individual savings and development of capital could generate positive incentives to formalize the banking sector and attract additional international capital. Moreover, economic development goes hand-in-hand with a lower risk of terrorism and civil conflict. Undoubtedly, economic development is a first-order priority for the governments, multilateral organizations, and nonprofits that seek ways to assist the Somali regions in their ongoing recovery.

Investment is a key component in any business ecosystem, which is especially true in an ecosystem like the one in the Somali regions, dominated by micro-sized enterprises in need of capital to grow and achieve economies of scale. An increasing number of foreign governments, companies, and investors are watching the Somali regions for private-sector development, scaled business growth, and investment opportunities. While there are a number of potential investors, the Somali diaspora remains the most committed and involved of these actors. These communities actively remit to family and friends, and have been a lifeline for many in the Somali regions. The World Bank estimates that US$1.3 billion[1] flowed into Somalia from the worldwide diaspora in 2014, equal to 24% of GDP. In addition to remittances, which are largely spent on monthly household expenses, diaspora funds contribute significantly to private sector investment. Given their resources and close ties to family and friends, diaspora members often provide capital for micro-startups. Many other diaspora seek pathways home; a healthy investment climate and stable economic outlook would provide assurances for those wishing to return.


Small business owner in Hargeisa

These important flows of diaspora funds to the Somali economy continue despite many challenges. The security, economic, and political problems of the Somali regions have taken a heavy toll on the effectiveness of regulatory institutions. As a consequence, money transfer channels are largely informal, and thus subject to associated problems such as corruption, the potential financing of terrorism, and money laundering. Somalis, both diaspora and non-diaspora, along with the international community, require transparent and reliable investment channels capable of overcoming these problems and reaching growing businesses in need of capital.

To gain insight into the elements required to develop Somali-based investment mechanisms, the International Fund for Agricultural Development (IFAD), through its Financial Facility for Remittances, commissioned Shuraako (a project of the One Earth Future Foundation) to conduct the Somali Diaspora Investment Survey (SDIS). The SDIS collected data between March and August 2015 using three methodologies: focus groups conducted around the world, in-depth interviews with key Somali diaspora members, and an online survey with over 900 respondents. All methods gathered information about the preferences and behaviors of Somalis and the Somali diaspora toward existing investment channels and opportunities in the Somali regions. Specifically, the SDIS and this report provide insight into the following:

- The role diasporas across the globe play in the development of their countries of origin. *The report explores the roles of remittances, investment, human capital, trade facilitation, and philanthropy. It also discusses the need to transition from reliance on remittances to increased private sector investment for long-term development in the Somali context.*

- Basic demographics of the survey population. *This provides insights into the comparative wealth, sectors of employment, intensity of ties to the Somali regions, and other characteristics of the Somali diaspora across 33 countries.*

- Investor and remittance-sender profiles. *The profiles include demographic characteristics (including those of active diaspora investors), investment preferences, and remittance behavior, as well as characteristics of those who would like to invest but have not done so yet, and include the reasons or modalities that may support or deter their investing.*

- A typology description of preferred channels for investment. *The typology includes channels such as family and friends, business partners, and international institutions used for identifying attractive investment opportunities. The description addresses how diaspora investors identify investment opportunities in the Somali regions and how best to expand such options while at the same time ensuring the level of trust and security required by the different types of investors.*

- A typology description of preferred investment instruments. *The typology identifies different types of financial products and risk mitigation instruments that suit the needs and requirements of various investor types. The typology examines potential and/or current investors' reactions to existing financial products (such as recently created venture funds), whether they would use them, and if not, why not.*

- A discussion of the varying motivations behind diaspora investment in the Somali regions. *Most diaspora investors express a variety of social and financial motivations, but also a desire to minimize risk, secure profit, and, often, establish a foundation for a future return to the Somali regions.*

- A typology description of the obstacles to investment. *The typology includes a list of those most frequently cited obstacles and an assessment of obstacles' impacts on investment decisions, as well as potential solutions for overcoming obstacles at the individual and institutional levels, including favorably structured investment terms, professionalization of the banking sector, and development of business associations.*

- Operational recommendations for mobilizing active Somali diaspora investors. *These specific recommendations address the ways in which a variety of actors can develop financial and business infrastructure, improve the quality of Somali market information, connect diaspora investors around the world, and develop investment products which match the specific preferences of diaspora investors.*

II. RESEARCH GOALS AND METHODOLOGY

The SDIS methodology was based on a best practice mixed-methods approach employing focus groups, individual interviews, and an online survey. The first two methods were instrumental in identifying specific mechanisms and processes underlying remittance and investment behavior, while the third (online survey) allowed for trend identification and verification with a larger sample.

a. Focus Groups

The primary aim of the focus groups was to better understand the quantity and frequency of diaspora-sent money (investments and remittances) to the Somali regions, related obstacles, and diaspora familiarity with and use of investment channels (both formal and informal). The focus groups also discussed the appropriateness and cultural interpretations of particular survey questions to better assist researchers in designing the subsequent online survey.

During the sessions, participants were asked to complete a brief 15 to 20-minute written survey consisting of demographic, remittance, and investment questions. After each survey, focus group participants discussed the questions and topics outlined. Basic demographic characteristics of all focus group participants are listed in Figure 1.

In total, 11 focus groups were conducted in 8 cities around the world: Denver (USA), Djibouti City (Djibouti), Hargeisa x 2 (Somaliland), London x 2 (UK), Minneapolis x 2 (USA), Nairobi (Kenya), San Diego (USA), and Stockholm (Sweden). (In Hargeisa, London, and Minneapolis, two focus groups each were conducted due to the significant size of the Somali diaspora communities and their interest in participating in the survey.) The Somaliland focus groups brought together a combination of diaspora who had returned to start or invest in businesses, as well as local business owners who sought diaspora investment. Focus groups were led by two researchers, and each session lasted one and a half to two hours. The primary researcher facilitated each conversation and the other researcher took notes and supported session facilitation. All focus groups were conducted in private rooms, and participation was confidential. Each focus group consisted of between 3 and 17 participants for a total of 85 participants across all sessions. Focus group participation was generated in two ways. First, Shuraako directly solicited participants from within their own extensive network. Second, key community leaders generated an invitation list based on a Shuraako-provided description of various participant qualities that would comprise a well-balanced focus group. Researchers continually strived to reach less-represented categories, including women and youth, and sought both active and non-active investor involvement. These efforts were to ensure a more robust discussion regarding opportunities for and obstacles to investment.

FIGURE 1: Focus Group Demographics Summary

CATEGORY	SUMMARY STATISTIC
Men	80%
Women	20%
Average age	39.8
Ages 18-35	28%
Born in the Somali regions	78%
Finished university	64%
Employed	86%
Married	66%
N=85	

b. Interviews with Key Actors

In most cities, focus group facilitators conducted personal interviews with key actors from the Somali diaspora community that lasted between one and two hours. As with the focus groups, organizers attempted to solicit participation from a spectrum of individuals. Interview questions asked about personal experiences with remittances and experiences with the business community in both their country of residence and in the Somali regions. Additionally, interviewees were asked about specific Somali investment experiences. The interviews offered facilitators an opportunity to delve into nuanced questions, therefore gaining greater insight into questions posed to the focus groups.

c. Online Survey

The online survey (administered in English using the online tool SurveyMonkey) was launched after the focus groups and individual interviews. The online survey was released July 21, 2015, and data collection for this report ceased August 12, 2015 (a total of 22 days). The survey was sent directly to 816 Shuraako-known diaspora contacts, including focus group and interview participants who expressed willingness to also be contacted with the survey. Two email reminders were sent to this group over the open survey period and a final reminder was sent two days prior to the survey close. The survey was also distributed through Shuraako and One Earth Future's Facebook, LinkedIn, and Twitter accounts. Reposts to these outlets occurred frequently throughout the open survey window. Shuraako purchased two Google Ads to promote the survey. Finally, the survey was promoted on Somali media that are read widely within the diaspora community, including *Hiiraan Online* (the largest Somali news aggregator), and *Somaliland Press*, *SomTribune*, and *Somaliland Sun*.

All survey participants were informed about the goals and confidentiality of the survey. The survey was administered using a click-through framework where respondents were given a status bar after completing questions in order to track progress. Questions were administered using skip logic where appropriate.[a] The average survey completion time was 15 to 20 minutes. Where investment terminology (e.g., matching grant) was necessary in order to ask specific questions, definitions were provided. Emailed participants (from the known Shuraako contact list) were provided with contact information for Shuraako and Dr. Lindsay Heger (lead researcher and OEF staff member) in the event they had questions.

In total, 923 survey responses were collected during the survey window.[b] Section IV explores the trends and lessons from these data collection efforts; before that, the research is contextualized in the framework of diaspora perspectives on remittance and investment behavior. In doing so, present findings and research from other similar studies that help to cast this project in perspective are also presented.

III. DIASPORAS IN PERSPECTIVE

There are several ways in which diaspora communities contribute to the growth and development of their countries of origin. In this section both general lessons, as many diaspora groups have been studied together (e.g., African diasporas in America), and the limited literature focusing specifically on the Somali diaspora are reviewed. The literature shows that diaspora groups contribute through five major channels: investment, remittances, human capital, trade facilitation, and philanthropy. While all of these are important, increasing net investment and the number of investment channels hold the most potential for Somali development.

a. Diaspora Contributions to Development

Much of the research on diaspora activity focuses on diaspora groups as a whole, analyzing individuals across different groups for aggregate trends. One of the primary ways in which diaspora communities contribute to the development of their home countries is through investment, often via foreign direct investment (FDI), portfolio investment, or country-of-origin bank deposits. Empirical evidence has shown that the presence of diaspora populations significantly increases both the volume of portfolio investment[c] and FDI from the country of residence to the country of origin; this effect is higher than that on portfolio investment.[2] The increased investment in countries of origin generated by diaspora populations provides much-needed investment capital in states whose economic, political, or security situations would often otherwise limit their ability to attract foreign investment.

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a For instance, if a respondent indicated he or she had children, they were asked how many. If the respondent indicated having no children, no related follow-up questions were asked.

b Although outreach and advertising efforts stopped on August 12, 2015, the survey remains online and available. Today over 1,000 individuals have taken the survey.

c "Portfolio investment is defined as cross-border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets," as defined by the IMF's Coordinated Portfolio Investment Survey (CPIS).

Another major source of diaspora contributions is remittances. Global remittances have grown to a massive scale. Worldwide remittances in 2014 were estimated at US$583 billion, an amount twice that of global official development aid.[3] In 2013, 75% of global remittances, representing US$404 billion, flowed into developing economies.[4] And, despite a slowing in the growth of remittance volume in 2015, total remittances to developing economies were estimated to reach US$435 billion by year end.[5]

The primary benefit of remittances for the countries they flow into is poverty alleviation. Remittances are primarily used to finance the basic needs of the individuals and families who receive them. The funds typically go toward food, housing, health care, education, and other basic, recurring expenses, keeping many families without the income to provide for these basic needs out of poverty. Empirical research has shown that a 10% increase in per capita remittances leads to a 3.5% reduction in the share of the population living in poverty.[6]


A money exchanger in Mogadishu; photo by AMISOM: Flickr

In addition to this poverty alleviation function, remittance flows have secondary effects on social and economic development indicators in the recipient country. Because remittances are often used to access health care and education which would not otherwise be possible, remittance flows improve the average health and education levels of the population, improving human capital and boosting economic productivity. The increased consumption made possible by remittance inflows can also serve to stimulate growth in retail and service sectors, which then provide for basic needs for others. Furthermore, remittance flows have the added benefit of being counter-cyclical. Remittances are more stable than other forms of financial inflows during downturns in the domestic economy,[7] and actually increase in times of social-political instability or natural disaster.[8] The counter-cyclical nature of remittances mean they serve as an important lifeline for many developing economies during their most difficult times.

However, remittances can also have some negative side effects at both the micro- and macroeconomic levels. Remittances may increase social inequality between those with and without the resources to send family members abroad. In states where remittances are large in proportion to the economy as a whole, remittance may also serve to artificially spur inflation. Empirical analysis of both cross-national studies of developing economies[9] and case studies of remittance-dependent economies[10, 11] have demonstrated that large remittance inflows cause a significant long-term increase in inflation. Finally, remittances may foster dependence at both an individual and a state level. Individuals who receive remittances may not seek employment at the same rate as the population as a whole. Studies across individual countries with significant remittance inflows,[12, 13] as well as a regional Latin American World Bank study,[14] have demonstrated significantly lower levels of labor force participation among remittance recipients compared to the general population. Studies have shown that this negative correlation is also present in the Somali context, where the labor force participation rate of remittance recipients is half that of the general population.[15] This may be due to a variety of reasons, including that remittance receivers are more likely to be female (63% of remittance receivers globally are women)[16] and therefore may face difficulties in finding employment in a challenging job market, or may not have planned to enter the labor force regardless of receipt of remittances. At the state level, countries lacking a social welfare system may entice a private family response—of sending remittances—effectively creating a temporary welfare safety net. This tendency may manifest itself at the state level as well; states in which large portions of the population receive remittances may not devote the same resources to providing social services as they otherwise would.[17]

Overall, remittances have a role as an informal social safety net, and their positive contributions may outweigh their negative side effects, particularly in the world's poorest nations. However, they are only a stopgap measure against extreme poverty. In order to achieve self-sustaining growth, a country must move beyond a dependence on remittances and engage their diaspora community in ways which produce longer-term development benefits.

Diaspora members also make a variety of valuable non-financial contributions to the development of their countries of origin. Diaspora communities are often made up of highly educated professionals who can serve as an invaluable pool of human capital with experience in a variety of fields. A 2010 survey of entrepreneurs from the African diaspora in the US found that 92% of respondents had a secondary education and 32% held a post-graduate degree.[18] More anecdotally, there are more Nigerian and Ghanaian doctors in the US than there are in their respective countries of origin.[19] The educational and professional experience of diasporas can be harnessed to advance development in their countries of origin in the areas of agriculture, finance, health care, government, and many more. Many countries with significant diaspora populations have tapped into this resource, utilizing the skills of returned diaspora for development in both the private and public sectors.

Diaspora populations also play an important role in trade facilitation. Diasporas enable increased trade between their countries of residence and origin by serving as a pool of market knowledge for business communities in both countries. Diaspora members are unique sources of information on the language, culture, business, and regulatory environment in both their countries of residence and origin, thus serving as a bridge between the respective business communities. In addition, the consumption preferences of diaspora communities create a demand for the products from their home countries and introduce consumers in their adopted homes to these products, creating new markets for them.[20] There have been several empirical studies which have demonstrated this correlation.[21] This trade facilitation function is valuable as a mechanism for expanding the export potential of industries in countries of origin into the domestic markets of countries of residence. Since many developing states have relatively limited levels of domestic consumption, this improved export potential helps raise the growth ceiling for exporting firms.

Finally, diasporas play an important role in their countries of origin through philanthropy and community development. Many individuals make trips back to their countries of origin to volunteer. These trips are particularly valuable when volunteers have professional skills which may be lacking in local communities. For example, several medical associations and communities from around the world began a program which coordinates sending medical professionals from the Ethiopian diaspora to help combat HIV/AIDS in their home country.[22] Beyond individual volunteerism, because many members of diaspora communities often come from the same area within their country of origin, they frequently organize and pool funds in order to provide public goods and services to their particular hometown or region. Prominent examples of these hometown development associations are found in the Mexican diaspora population in the US, and the Bangladeshi, Ghanaian, and Nigerian communities in the UK.[23]

Participants at the Somali Investment Forum

b. The Somali Regions, Diaspora, and Development

After years of turmoil, the Somali regions are in particularly desperate need of diaspora contributions toward rebuilding. With an economy and system of government which is reemerging but very fragile due to continued conflict and political instability, as well as a large diaspora[d] estimated to number over a million[24] which has maintained close ties to their home, the Somali regions have both a massive need and potential for diaspora participation in development. Gains in security and stability in recent years have opened the door, and diaspora contributions are likely vital for the Somali regions to consolidate their respective economic and political gains.

At present, the primary means by which the expansive Somali diaspora contribute to development is through remittances, and the Somali regions are heavily dependent on them. It is estimated that US$1.3 billion flowed into the Somali regions from the worldwide diaspora in 2014, an amount twice the size of official development aid and five times the size of annual humanitarian aid, and equal to 24% of GDP.[25]

d Countries with large Somali diaspora populations include: Canada, Denmark, Kenya, Yemen, the Netherlands, Norway, Saudi Arabia, South Africa, Sweden, the United Arab Emirates, the United Kingdom and the United States.

As discussed, from a development standpoint remittances are primarily a tool for short-term poverty alleviation. The estimated GDP per capita of Somalia in 2013 was US$435, the fifth lowest in the world.[26] It is estimated that up to 40% of Somalia's population relies on these immediate remittances in order to meet basic needs.[27] In a part of the world like the Somali regions, where the immediate development task is simply meeting the very basic needs of much of the population, the poverty alleviation effects of remittance flows cannot be discounted.

However, remittances are not a sustainable strategy for long-term development. As discussed, remittances can have negative side effects. In particular, for a certain portion of the remittance-receiving population, dependence on remittances as a sole source of income seems to have become a problem. If a significant portion of the population comes to rely on remittances rather than contributing to the productivity of the domestic economy, remittances have the potential to serve as a drag on long-term development.

Furthermore, events in the last year have demonstrated the fragility of the entire transfer system that facilitates these remittance flows. Concerns over the potential for money laundering and inadvertently funding Al-Shabaab have led regulators to place the financial institutions involved in money transfers to the Somali regions under increased scrutiny. Finding it increasingly difficult and less cost-effective to meet these regulations, many of the financial institutions that had played a key role in the Somali transfer system ceased Somali-related operations. Perhaps one of the most well-known recent examples of this was the decision of Merchants Bank, which had facilitated an estimated 60–80% of wire transfers to the Somali regions from the US, or an estimated US$129–$172 million annually,[e] to terminate the accounts of firms providing wire transfer services to the region.[28] This and other similar closures around the world may significantly slow the flow of remittances into the Somali regions. It may be that many members of the diaspora have been forced to use less-formal, less-regulated means of transferring money to family and friends in the Somali regions, raising the cost of sending remittances and increasing the odds that money actually does fall into the wrong hands. If tighter regulations do significantly stem the flow of money transfers, given the level of dependence on remittances, this could trigger a crisis in an already fragile humanitarian situation.

Box 1: Remittances and Dollarization

One of the interesting but under-studied side effects of the Somali regions' large remittance inflows has been the effective dollarization of the Somali economy. The weakness of the shilling and the fact that nearly all remittance inflows are denominated in US dollars has led to a situation in which the economy is effectively dollarized for significant transactions. Somali shillings are reportedly used primarily for transactions less than one US dollar. (World Bank, 2015)

This effective dollarization of the Somali economy has some important ramifications for the country's monetary policy. In the short term, the Somali regions benefit from the monetary stability linked to dollarization at a time in which the Central Bank of Somalia (CBS) is developing the capacity to effectively manage a domestic currency. In the long term, dollarization will need to be addressed if the CBS seeks to gain control of monetary policy. However, given the current lack of capacity for monetary regulation and the myriad development challenges that require urgent government attention and resources, dollarization could be a beneficial stopgap monetary arrangement which provides much-needed monetary stability and allows the CBS to build capacity before attempting to assert full control over monetary policy.

c. Investment is Key

Diaspora investment may be the key to sustainable growth in the Somali regions. There is huge potential for increased investment from the global diaspora; diaspora communities have both the means and motivation to invest in their home countries. A 2010 World Bank study estimated that the global diaspora from developing countries have aggregate savings of around US$400 billion.[29] This is a huge stock of capital that could be effectively leveraged to accelerate development. In addition, diaspora populations have a unique set of motivations which often make them willing to make investments in environments deemed too risky by other foreign investors; motivations which often include a desire for financial return, a desire to assist in the development of their home country, and a desire to lay the groundwork for a future return.

e This estimate is based on a net total wire transfer to Somalia from the US of US$215 million annually. Ryan Tracy, "Bank to Close Accounts Related to Somalia," The Wall Street Journal, February 4, 2015.

The Somali diaspora has the potential to be such a source of growth-catalyzing investment in their home country; the global Somali diaspora held an estimated US$1.8 billion in savings in 2010.[30] An increase in the investment of this accumulated wealth in the Somali regions would have a variety of lasting positive impacts on development that remittances do not provide, and be particularly valuable there because of the lack of capital and need for employment.


Berbera Hospital, Somaliland

The Somali regions are in significant need of investment capital. In 2014, net investment in Somalia was equivalent to only 8% of GDP.[31] Decades of poor economic performance and a lack of a well-developed, formalized banking sector have contributed to low levels of domestic capital formation, and as a consequence, acquiring business financing via formal channels is difficult and meets only a fraction of the demand. This lack of domestic investment capital is compounded by low levels of foreign investment. Somalia's continued insecurity and political instability have severely limited its ability to attract foreign investment.

In particular, diaspora investment could play a key role in business creation and the scaling-up of existing small and medium-sized enterprises.[32] This business creation and growth is important to all economies in general, but it is particularly important in many developing economies because such business growth generates employment opportunities. The need for employment is particularly stark in a country like Somalia, where an estimated 67% of 14–29-year-olds are unemployed.[33] In addition to the beneficial macroeconomic effects of business creation and growth, the resulting increase in employment has the beneficial secondary effect for a conflict-affected place like Somalia of reducing the pool of disenchanted young men from which illegal armed groups recruit.

TAYO Uniforms at the Somali Investment Forum trade show

Business growth and the accompanying employment generation are critical because they serve as catalysts for sustainable, long-term economic growth and development by addressing the root causes of underdevelopment throughout the economy, rather than simply providing for the immediate needs of a portion of the population. The remittances of the Somali diaspora have been crucial to ensuring that the basic needs of much of the population of the Somali regions are met. However, increased diaspora investment is key to catalyzing self-sustaining economic growth.

FIGURE 2: *Survey Responses by Country*

COUNTRY	TOTAL RESPONSES	PERCENTAGE OF TOTAL
United States of America	200	23%
Somalia[f]	187	21.5%
United Kingdom	121	13.9%
Canada	105	12.1%
Sweden	42	4.8%
Netherlands	37	4.2%
Kenya	35	4%
Denmark	35	4%
Norway	14	1.6%
Finland	11	1.3%
United Arab Emirates	9	1%
South Africa	9	1%
Australia	9	1%
Djibouti	7	0.8%
Saudi Arabia	5	0.6%
Italy	4	0.5%
China[g]	4	0.5%
Ethiopia	4	0.5%
Switzerland	4	0.5%
Other	52	6%

IIV. RESPONDENT POPULATION AT A GLANCE

The demographic breakdown of survey participants is arranged in three parts. The first part describes typical demographic characteristics (e.g., age, marital status, employment, etc.) for all survey respondents. In addition to standard demographics, survey participants were asked for information about their connections to the Somali regions. The second part describes these connections, which are familial, geographic, and financial. The last part addresses how the survey identified the diaspora, a subset of the survey population, and several of this group's unique characteristics.

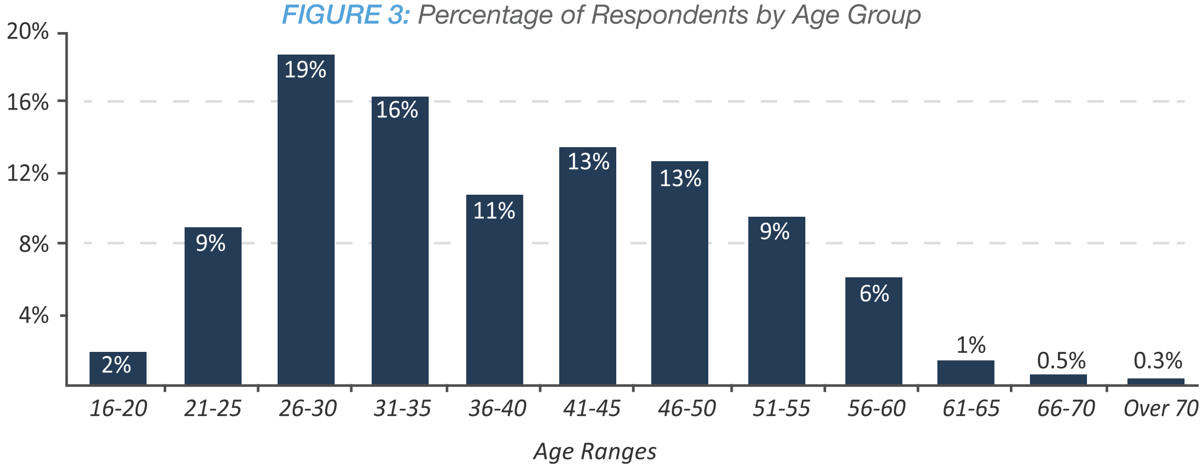
a. Standard Demographics

Individuals from 33 countries took the survey, reflecting the wide global distribution of the Somali diaspora. The total percentages from countries representing at least 0.05% of responses are listed in Figure 2; for a complete list of all countries, see Appendix A.

Men made up the majority of survey participants; just over 87%. Participant ages ranged from 16 to 77 with the average age of 39, standard deviation of 11.41 (Figure 3). Most participants indicated that they were married (74.9%) with children (72.9%); for those who had children, the average number was 4.7.

Somalis are by and large Muslim. Initial pilots of the survey and focus group interviews overwhelmingly indicated this was also true of the Somali diaspora. Survey

FIGURE 3: *Percentage of Respondents by Age Group*



f In Figure 2, 9 of the 187 respondents specified that they were from Somaliland via the "Other" option for this question, rather than choosing the Somalia option. Respondents who specified they were from Somaliland were categorized as being from Somalia.

g Of the four respondents aligned to China, two self-identified as currently residing in China and two self-identified as residing in Hong Kong, but were classified as China for the purposes of this categorization.

participants were asked how frequently they attended religious services. Answers indicated a high degree of religious service attendance compared to western countries. Almost 60% of survey respondents attended religious services daily or weekly. A similar statistic typical for western countries is around 20%. This suggests that for the Somali diaspora, religious communities play a significant role in their lives, including, perhaps, serving as a central location for community gathering and information sharing. Although not verified by this data, it may be that religious venues as central community gathering spaces are also places for the exchange of investment and other financial information.

Turning to employment, 86.2% of respondents indicated they were employed. Figure 5 shows the distribution of occupations across various sectors. Respondents represented a wide array of professions, with over 20 sectors being chosen by 20 or more respondents. Despite this variety, there is a certain degree of concentration in the related sectors of Business/Consulting and Entrepreneurship, representing a combined 38.3% of responses. Additionally, nearly one-third of respondents indicated owning a business in their country of residence (not shown in figure).

Assessing the income and wealth of survey participants is difficult given the global sample. To best approximate an individual's wealth, the survey asked a series of questions related to an individual's personal and financial assets. Specifically, the survey asked whether individuals owned or possessed a house, cellular phone, bank account, and savings account,[h] and whether they were employed. All affirmative answers (indicating ownership) were assigned a 1, and then aggregated into a wealth index ranging from 0 to 5 for each respondent. The index is unweighted. Standard measurements (i.e., average, median, and standard deviation) are detailed in Figure 6. As a total population, ownership of a cell phone, possession of a bank account, and employment are nearly universal. Thus, much of the variation is derived from home ownership and savings account possession.

It is also possible to compare wealth levels across populations from different countries. Figure 7 compares the average wealth index of individuals from the five most frequently represented countries in this survey: the US,

h Indicative of amassed wealth and/or risk mitigation for financially challenging times.

i The "Other" category represented a wide variety of professions, but it is worth noting that within this category a significant number of respondents (7) identified themselves as working in the Information Technology and/or Software sector.

FIGURE 4: *Religious Service Attendance*

ATTENDANCE FREQUENCY	No. OF RESPONSES	% OF RESPONSES
Daily	230	37.4 %
Weekly	134	21.8 %
Bi-monthly	17	2.8 %
Monthly	22	3.6 %
Every few months	22	3.6 %
For holidays or special occasions only	52	8.5 %
Less than once per year	21	3.4 %
Would rather not answer	40	6.5 %
Not Applicable	77	12.5 %

FIGURE 5: *Occupation*

FIELD/INDUSTRY	No. OF RESPONSES	% OF RESPONSES
Business/Consulting	128	23.0%
Entrepreneurship	85	15.3%
Education	70	12.6%
Finance	67	12.0%
Engineering	59	10.6%
Transportation	59	10.6%
Agriculture/Farming	58	10.4%
Social Enterprise/NGO	58	10.4%
Medicine	55	9.9%
Government	51	9.2%
Other[i]	50	9.0%
Marketing and Sales	38	6.8%
Construction	37	6.6%
Fishing	32	5.7%
Energy	26	4.7%
Hospitality/Restaurant/Hotel	22	3.9%
Retail	22	3.9%
Law	20	3.6%
Livestock	19	3.4%
Clerical/Administrative	17	3.1%
Tourism	9	1.6%

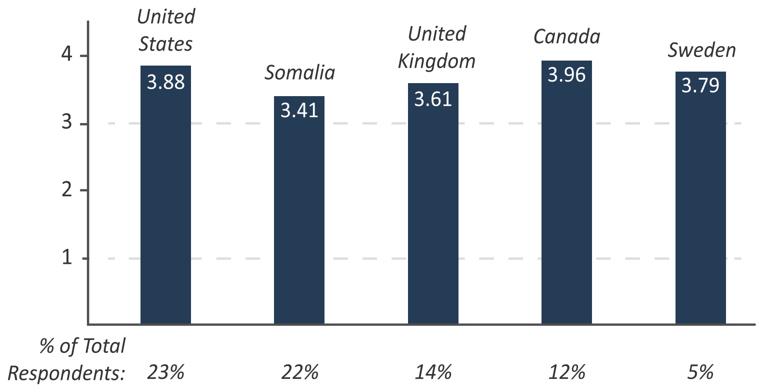
FIGURE 6: *Component Parts of the Wealth Index*

COMPONENT	No. OF RESPONSES	PERCENT
Home owner	146	23.7%
Cellular phone owner	487	94.4%
Possess bank account	471	90.9%
Possess savings account	346	67.6%
Employed	582	86.2%
WEALTH INDEX (MIN:0, MAX:5)		
Average	3.65	
Median	4	
Standard Deviation	1.81	

Somalia[j], the UK, Canada, and Sweden. For these populations the average score falls between 3 and 4 on the wealth index. Figure 7 displays these from most frequently represented on the left to less-represented on the right.

Home ownership is a particularly telling component of the wealth index. Not many people own their homes; instead, the majority of survey participants, nearly 70%, rent their homes (see Figure 8). A much smaller percentage own their homes outright (14.9%), and an even smaller percentage own their homes with a mortgage or loan. In the most frequently represented diaspora countries, rates of home ownership vary. In the US, Somalia, and the UK, approximately 25% of respondents indicated owning (outright or with a mortgage) the home they lived in. In Sweden, only about 10% of individuals reported owning their homes. Canadian residents, however, reported much higher rates of home ownership, with nearly 35% of individuals indicating they owned their homes.

FIGURE 7: *Wealth Index of the 5 Countries with the Most Frequent Respondents*



b. Connections to the Somali Regions

The vast majority of Somalis left Somalia in 1991, the year which marked the beginning of a political collapse that threw the area into disarray for decades. Many of these individuals fled to neighboring Ethiopia, Kenya, and Djibouti and then moved outside of Africa. The average respondent reported living outside of the Somali regions for 20 years, suggesting that participants represent well-established diaspora communities, something that possibly strongly correlates with the financial stability necessary to remit and invest in the Somali regions. Yet while survey participants reflected a diverse group of Somalis living around the world, 89.5% of participants indicated they were born in Somalia. Nearly 90% indicated having

FIGURE 8: *House Ownership*

OWNERSHIP STATUS	TOTAL RESPONSES	% OF TOTAL
Own outright	92	14.9 %
Own with mortgage or loan	54	8.8 %
Rent	425	68.9 %
Live rent free	35	5.7 %
Other	11	1.8 %

j Please see Appendix B for further details on how the Somali regions were classified.

Box 2: Why Do So Few Diaspora Own Homes?

Slightly less than one-quarter of the Somali diaspora indicated that they owned (outright or with a mortgage) the homes in which they currently live. Compared to the general populations in many countries where the diaspora live, this is approximately half the typical overall rate of home ownership. Why? The focus group discussions indicated that this was not necessarily a matter of insufficient ability to meet a mortgage payment or make a down payment. Rather, access to Islamic financial products and, specifically, Islamic-compliant mortgages within some countries where diaspora currently reside simply doesn't exist; in others the options are highly restricted.

FIGURE 9: *Percentage of Respondents Owning a Home in Somalia*

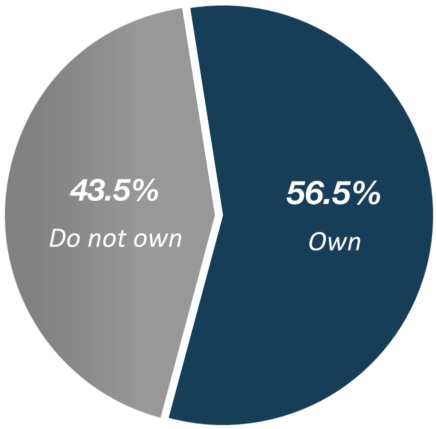
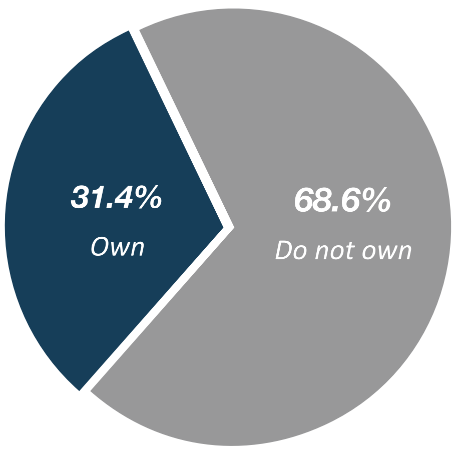


FIGURE 10: *Percentage of Respondents Owning a Business in Somalia*



family currently living in the Somali regions. Participants themselves came from all regions: 50.8% from South Central Somalia, 21.8% from Somaliland, 12.1% from Puntland, and 15.2% selected the "Other" response (see Appendix B for a complete list of "Other" responses).[k]

Outside of family, one of the most significant financial connections to the Somali regions for the diaspora is home ownership. This particular asset, however, may have mixed benefits. It can allow diaspora to support their Somali regions-based family by providing them with immediate housing while also providing the diaspora owners with a house if and when they should move back. Additionally, Somali home ownership allows diaspora to participate in what has become a dynamic real estate market; however, it can prove to be a significant sunk cost given the relative unavailability of traditional loans or mortgages. A slight majority of survey respondents, 56.5%, said yes in response to the question "Do you own a home in Somalia?" More than double the percentage of individuals report owning a home in Somalia than report owning one where they currently live. This indicates strong financial ties between the diaspora and the Somali regions that might better facilitate movement and communication between global diaspora communities and Somali communities.

Business ownership is another indication of financial ties to the homeland, one that might be crucial in providing a source of income for Somali-based family and a lifeline for any future returnee; 31.4% of respondents indicated owning or partially owning a business in the Somali regions. Like home ownership, business ownership suggests strong ties to the Somali regions and financial interest (and exposure) in Somali markets. Stronger financial connections to the Somali regions suggests an increased desire to go home and may correlate with an increased willingness to invest in different Somali financial opportunities (though the later would need to be tested).

c. *Identifying the Somali Diaspora*

Where applicable, the analysis was limited to only those respondents who are members of the diaspora. Survey participants were identified as members of the diaspora using affirmative answers to the question "Are you currently or have you ever been a member of the Somali diaspora?" Approximately 70% of respondents identified as diaspora members.

k Respondents could select "Other" and then write in their desired answer. The regions those participants specified are presented in Appendix B.

FIGURE 11: *Remitter and Investor Profile Comparison*

CHARACTERISTIC	REMITTER (n=389)	INVESTOR (n=83)	SURVEY POPULATION
Average Age	40.0	43.6	39.0
% Employed	90%	93%	86%
% Male	87%	89%	87%
% Homeowner	24%	27%	24%
% With Savings Account	70%	71%	68%
Wealth Index	3.76	3.77	3.65

About 12% of the diaspora respondents were female. Nearly 90% of diaspora respondents have family living in the Somali regions, and the vast majority (also 90%) is employed. Interestingly, 35% of those who identified as diaspora indicated that they currently reside in the Somali regions. It is likely that these are individuals who have moved back after time spent living abroad as part of the diaspora population, or who live in the Somali regions part-time (an extrapolation based on the "have you ever been a member of the Somali diaspora" portion of the survey question). Of those individuals who identified as "not diaspora," 65% live in the Somali regions (likely native and have not lived elsewhere). Only 8% of diaspora members indicated that they were not born in the Somali regions. It is likely that these are second generation individuals born to parents who were from the Somali regions and moved to another country but who still strongly identify as Somali and have close ties to their Somali family and friends.

V. FINANCIAL ENGAGEMENT IN THE SOMALI REGIONS

Diaspora respondents indicated a high level of continued financial engagement in the Somali regions through both remittances and investment. Having described the literature on diaspora members as remitters and investors, as well as sources of human capital, philanthropy, and trade facilitation, this section will focus on methods that involve diaspora as direct financial contributors. Although the focus is on diaspora investment, the data include information on remittance behavior in an effort to better understand the extent to which remittances differ from investments. Analysis finds that the key differences lie in the intended target and in the motivations behind each type of funding. Remittances serve as a lifeline source of funding intended to cover basic household expenditures which are frequent and predictable. As a general characterization, remittances are relatively small sums of money sent monthly between family members. On the other hand, investments into the Somali regions are intended as bedrock or foundational sources of funding for projects with longer time horizons (e.g., businesses, real estate) and with some expected positive net return. These transactions often involve parties outside of families in any number of roles, including as brokers, partners, or deal servicers.

Remittances and investments are compared and contrasted first through the demographic profiles of both remitters and investors, then as evidence about the relative impact and target of remittance and investments is examined. Survey respondents self-identified as remitters, investors, or both. A given respondent was identified as a remitter when they answered the following question affirmatively: "Do you regularly send money back to Somalia to help family and friends?" Investors were identified by having answered yes to the following question: "Do you consider yourself an active investor?" These distinctions are used to identify remitters and investors throughout the remainder of the report.[I] Remittances, generally speaking, are funds sent from a country of residence to one's country of origin. Typically, the expectation is that remittances won't be repaid or returned, though each individual's assumptions, expectations, and terms of remittance are determined by and between the recipient and remitter. Investments—in this context—are typically sent from one's country of residence to one's country of origin with an expectation of financial return or compensation. As with remittances, investment terms, assumptions, and/or expectations are determined by and between the recipient and investor.

I Note that when a comparison is made between these subsample populations, all blank answers are disregarded because there is no way of knowing whether leaving a question blank indicates an affirmative or negative response.

In comparing remitters and investors, the data indicate that investors may have a *slight* economic advantage compared to remitters. Investors are employed at a higher percentage and are more likely to own a home. They are also slightly older and more likely to be male. In general, however, both remitters and investors are slightly better off than the general population. The average wealth index (see previous section for explanation) among those who report remitting is 3.76, which is slightly higher than that of the average for the entire survey population (3.65). The average active investor is also slightly wealthier than the total population (3.77 wealth index score versus 3.65 for the total population). These higher scores are not unexpected; remitting and investing likely require resources and relative financial stability.

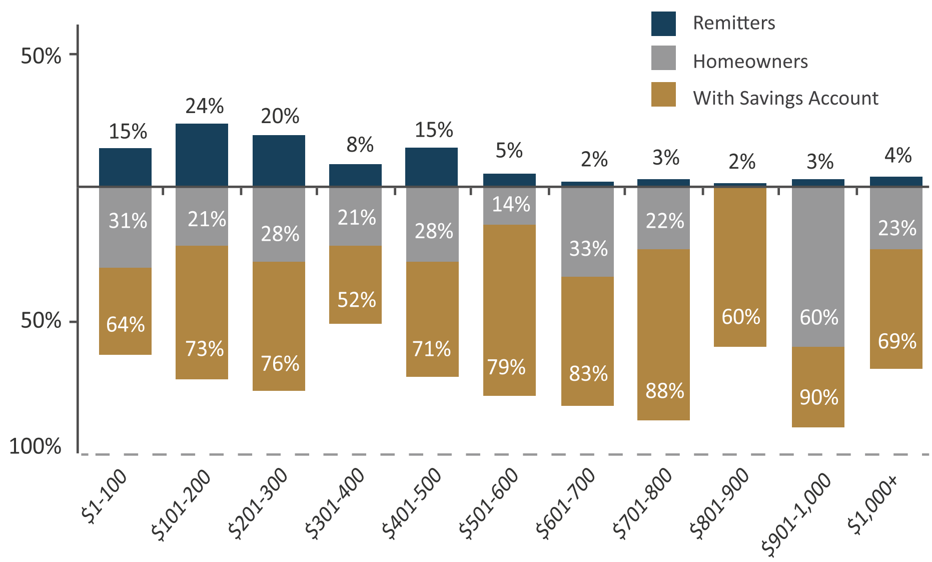
Both remitters and investors report living outside of the Somali regions for significant periods of time. Remitters identify as having lived outside the Somali regions for approximately 21 years, while investors report slightly more than 18 years living outside. Non-remitters report having lived outside the area for only 15 years. The average non-investor has lived abroad for nearly 22 years. Thus, investors report living abroad for fewer years than non-investors, suggesting that more recent connections to the Somali regions are more likely to facilitate investment transactions.

Interestingly, among the non-remitting respondent population, there is a higher portion of investors compared to remitters (67% versus 58%). Though this is not a sizeable difference, it may indicate a slight preference on the part of investors to have only one financial outlay from themselves to the Somali regions.

a. Remittance Behavior in Focus

The survey asked a series of questions on respondents' remittance behaviors. Of those who answered these questions, a large majority, 80.7% indicated they regularly send remittances to the Somali regions. The average monthly remittance of our respondents is US$422.90, which is slightly skewed by a small number of high-amount remitters, and the median monthly remittance is US$300.[m] Figure 12 shows the distribution of remittances , as well as corresponding components of the wealth index (home and savings account ownership) across different remittance levels. The graph demonstrates that lower monthly remit amounts are generally and loosely correlated with indicators of lower wealth while higher remit amounts are loosely correlated with indicators of greater wealth (i.e., rates of homeownership and use of savings accounts). While there are certainly exceptions to this correlation, the general trend seems clear.

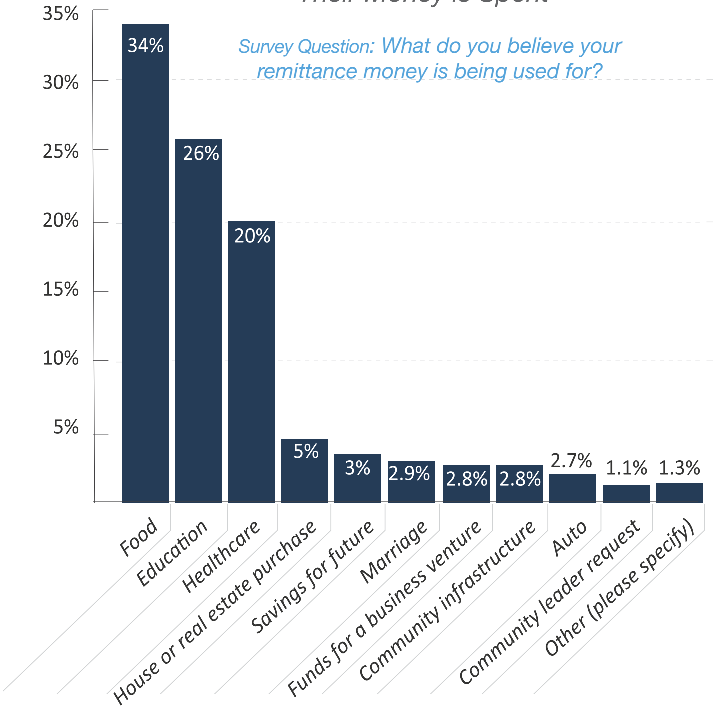
FIGURE 12: Monthly Remittance Categories and Corresponding Savings Account Ownership and Home Ownership



m These figures reflect remittances only and are drawn from answers to the following question: "On average, how much money do you send to family/friends in Somalia per month?" Respondents were asked to use USD estimates.

> ***Every individual family is different. If you have a good brother, he'll spend it the right way. Each family is different. Majority of family members just trust the money is being spent well—we don't actually ask them how they are spending the money.***
>
> **Focus Group Participant, Minneapolis, USA**

FIGURE 13: How Remitters Believe Their Money is Spent



> ***I send money to women. I'll send money to my sister. After six years she said she's building a house. Saved money that I sent to her every month. She saved up $2,000 and bought land. Now that land is worth $8,000. Because she saved her money and made a responsible investment, I'm helping her with building a house on that land. Women are the backbone of Somalia.***
>
> **Focus Group Participant, Denver, USA**

Since the Somali diaspora is reportedly remitting a substantial sum to the Somali regions (US$1.3 billion annually), the survey inquired about how remittance funds are being spent and if any are currently being invested, or whether money was perhaps being remitted in lieu of investment. One concern was that remittance funds might actually be being used as investment capital which, if true, suggests the conceptual difference between remittances and investments is unclear. Thus, the survey queried participants on their perception of the use of remittance dollars by recipients. Figure 13 displays how remitters perceive their funds are being used (note: respondents were able to select more than one answer). Three categories—food, education, and health care—dominate the responses. This suggests the majority of remitters believe they are financially supporting the basic needs of recipients, rather than making long-term financial investments or generating savings for future use.

However, some evidence indicates some remittances may not be used for their intended purpose or that remitters do not have a clear understanding of how funds are actually spent. This was discussed within the focus groups, and participants described three relevant points related to fund verification. First, accounting for remittance spending is largely informal or nonexistent. This is especially the case for funds remitted between family members, where the social bonds are sufficient to establish trust between sender and recipient.

Second, when remitters are concerned about the use of funds, senders use family or other local connections to verify spending. Third, participants strongly indicated a preference to send money to women, as they are perceived to be more trustworthy and better stewards of family funds.

b. Investment Behavior in Focus

Although many participants indicated they remit money to friends and family in the Somali regions, fewer identified as investors. In fact, of the individuals who provided data on whether they had invested in the Somali regions during the past three years, only 33% identified as being a past investor. However, 59.3% of respondents who provided information on investment activity indicated they considered themselves to be active investors. This suggests that a portion of active investors have investments in places other than the Somali regions. This makes sense given that investment decisions, unlike remittances, can be targeted in many different ways. Somali diaspora could, for example, invest in financial markets in their country of residence. Similarly, diaspora investors can utilize a number of different investment products, which this data suggests is occurring. Outside of the Somali regions, respondents indicated investing most frequently in businesses, stocks, real estate, mutual funds, and direct investment into businesses in the diaspora community. This demonstrates a comfort level with and knowledge of a range of investment vehicles, and stands in stark contrast to remittances targets, which are not flexible.

FIGURE 14: *Investor Representation by Country*

COUNTRY	INVESTOR REPRESENTATION AMONG POPULATION	% of INVESTOR POPULATION	% of SURVEY POPULATION
United States	Underrepresented	10.8%	23.0%
Sweden	Proportional	6.0%	4.8%
Kenya	Proportional	3.6%	4.0%
Denmark	Proportional	6.0%	4.0%
United Kingdom	Overrepresented	22.9%	13.9%
Canada	Overrepresented	18.1%	12.1%

Box 3: Why are U.S. Diaspora Underrepresented?

There are several possible explanations for the underrepresentation of US investors. United States banking laws require a declaration of the purpose of the funds being sent, particularly when funds exceed a certain dollar threshold. If the explanation is deemed insufficient, the transaction is flagged as suspicious (and in some cases is prevented). For this reason, US investors may simply send fewer funds. Alternatively, the US could be seen as a "destination" country; a place where one goes to permanently relocate if they have no intention of returning to the Somali regions. Finally, it could be an issue with the survey distribution, if the survey did not accurately capture and reflect the average diaspora experience of those residing in America.

Of the respondents who answered the question on Somali business ownership, a nontrivial portion of respondents (31.4%) identified themselves as owners of a Somali business. This is not surprising given the proliferation of small and micro-sized enterprises throughout the Somali regions (probably due to low barriers to entry) and the fact that a large number of diaspora members (73%) invest because of a desire to return to the Somali regions in the future (see Section XII c). While the proportion of active investors in a given Somali diaspora community is largely similar, there are a few exceptions in which diaspora investors are over- or underrepresented. Countries where investors are overrepresented may indicate target populations for future diaspora-focused investment mechanisms, or our sample size may not accurately reflect the greater Somali diaspora population. Investors from the United States are underrepresented in proportion to the diaspora population, while the United Kingdom and Canada appear to have higher concentrations of active investors (see Figure 14).

Unlike with remittances, investors expressed deep concern over the processes in place to monitor and track the status of Somali investments. This is discussed below in the context of obstacles to investment, but noted here as an important difference between remittance funds and investment capital. Investors seem much more concerned about having processes in place to ensure good business practices and a return on their money. They are also much more likely to view third parties (e.g., international institutions, professional accountants, or auditors) as the most capable entities involved in these processes. These behaviors stand in stark contrast to the concerns of remitters, whose spending seems more obligatory, frequent, and informally assessed.

c. Remittances, Investments, and Somali Growth

One point of uncertainty for individuals and institutions working to increase the economic prosperity of the Somali regions vis-à-vis the diaspora population is whether remittance funds can be or are being substituted for investment (or vice versa). For instance, if remittance funds are being spent in substantively different ways than investments, then one would need to better understand each as a unique financial inflow in order to reach specific programmatic goals. If, on the other hand, remittances and investments are being used to bolster the same activities, the programmatic approach to increasing Somali growth should be less contingent on the specific financial input.

In order to provide more clarity on whether remittance funds are being used for investment, the SDIS explored individuals' perceptions of remittances as investments. Discussions from the focus groups indicated two broad categories of investment types: financial (for profit) and social (for the betterment of family and/or community). Survey responses indicated that only 34% of individuals believe their remittances are financial investments, while 68% believe remittances are social investments. This leads to the conclusion that remittances are indeed being used for investment purposes; however, perceptions about use across specific categories traditionally associated with investments (e.g., savings, infrastructure, and business) tell a very different story. Only 2.8% of responses suggested that funds were being used for business ventures and 2.7% indicated use for community infrastructure. Additionally, when asked how much the senders believe remittance funds are being saved for future use, only 3.31% of responses indicated remittances are being saved.

"*When they receive education they will get a capacity to work and become self-sufficient and even help others. The return is they will not be a burden in the future and even help their family.*

Focus Group Participant, Hargeisa, Somaliland"

Remittances are clearly an important part of daily life in the Somali regions. The data describe a situation in which remittances are supporting basic monthly necessities, and the dominant perception held by remittance senders is that these funds are contributing to social good. A small portion of remittances are being used for single events, such as weddings and vehicle purchases (the sixth and ninth most common options, respectively). Perceptions are that a small number of remittances are going to in-country savings, which implies few reserves are being built, and probably even fewer funds are being leveraged for business growth. Thus, remittances are likely maintaining living standards, with a portion being used for long-term betterment (via education, etc.). To the extent that remittances are affiliated with a return, some focus group participants indicated that the return was realized only after remittances were successful at setting up individual family members to better support the family.

Throughout the focus group sessions, there was evidence that a handful of remittance senders are interested in shifting from remittances to investment. These individuals noted the long-term financial gains that would be realized from changing their spending from a small monthly amount with an indefinite timespan to a larger, one-time amount. Also important was the promise of creating long-term self-sufficiency for family members in the Somali regions to be able to manage their own prospects and those of other family members nearby. However, this was not the dominant orientation among focus group participants. This is probably because most remittance senders likely lack the capital to make the sort of one-time investment that would be necessary for a business venture to take root.

From a more macro perspective, the Somali private sector will need substantially more capital for long-term economic growth. Net remittance funds would not be capable of providing this sort of infusion. Investments, however, provide more promise. Somalia's most prominent export—livestock—provides an informative example. The World Bank Group's "Transition in Risks" report (2015) notes that after a nine-year ban on the import of Somali livestock, recent sizeable investments have enabled the sector to become more competitive. Similar transitions are possible for other Somali sectors, but the capital required will likely mean catalyzing large sums to overcome the sizeable structural barriers to participation in international markets. Remittances will most likely not be sufficient to overcome these barriers because remittances are not expected to grow. Of the 11 focus groups, participants reported sending whatever they could, some nearly to the point of hardship, and gave no evidence that they expected their future remittances to increase. On the contrary, more individuals talked about moving home, and the younger generations seemed less inclined to send money to distant relatives. Thus, investment will be an increasingly vital resource as the Somali regions move toward sustainable economic growth.

Somali currency exchange

VI. DESCRIBING INVESTMENTS AND INVESTORS

In the last section, the data was drawn on in order to characterize the diaspora generally and investors specifically. Those individuals who self-identified as being active investors are slightly better off than the general population, older, more likely to have been born in the Somali regions, and more likely to report owning a business there. In this section the investments these individuals are making and the process of investing in Somali opportunities are examined.

a. Investment Size, Frequency, and Sectors

When focus groups were asked to indicate the size of their average investment, amounts varied significantly. The lowest amount referenced was US$5,000, and the highest was US$100,000. The most consistent investment amounts were between US$5,000 and US$50,000. Amounts larger than US$50,000 were associated with more sophisticated and experienced investors exploring larger businesses, as well as with having trustworthy local partners to engage with over the course of the transaction. The sizes of typical investments are probably driven by each business' capital needs for growth combined with the additional constraint of each individual investor's available capital.

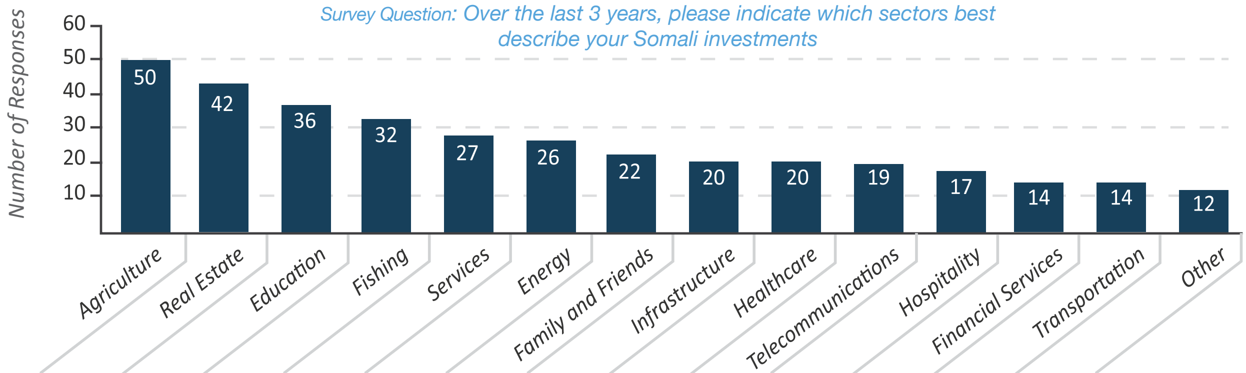
Focus group participants also indicated that across all levels of investment, interpersonal trust, more than the presence of formal agreements, is vital. While some significant investments do likely benefit from leveraging financial and political institutions in formal contracts, many diaspora members said that high levels of trust between family and close friends were adequate for sizeable investments. This form of trust is necessary and seems far more important than trust in those in-country financial institutions and ministries that provide enabling infrastructure for investing (e.g., central bank, financial ministry). Some interviewees suggested that trust in these institutions isn't uniform and, therefore, is unlikely to significantly influence the investment.

Interviewees also noted that investment frequency is driven by opportunism rather than obligation. Unlike remittances, which members of the diaspora described as being frequent and monthly, investments are much less predictable and are tied to assessments of profitability and myriad idiosyncratic factors (e.g., an individual's desire to return home or a family member's recent acquisition of a new business opportunity). This difference is borne out in the survey data as well. Nearly one-third of survey respondents indicated that they had made investments in the Somali regions during the last three years, while close to 81% of individuals identified as having sent remittances regularly to Somali family and/or friends. This large difference is consistent with an opportunistic view of investments and an obligatory (i.e., frequent and routine) view of remittances.

In the survey, individuals were asked to indicate what sectors best describe their Somali investments over the last three years.[n] The data show investments in agriculture and real estate are most common, followed by education and fishing. Specialty goods or services such as health care, hospitality, and transportation (see Figure 15) were less commonly targeted by investors. A

FIGURE 15: *Most Common Sectors for Somali Investments*

Survey Question: Over the last 3 years, please indicate which sectors best describe your Somali investments



n Note this question asked specifically about investments and not remittances. Thus, it is assumed that individual responses indicate sectoral preferences that are tied to investments and not funds sent to families as part of a remittance obligation.

Osman Farm, Somaliland

possible explanation for this trend is the specific knowledge required to gain comfort with that sector.

Focus group participants were asked which Somali sectors were generally considered (among the diaspora) to be lucrative for investment. Several of these discussions identified specific industries not listed above. In Djibouti these included gasoline, logistics, private-sector solar renewable energy, and leather. London respondents discussed livestock, consumable imports, and khat. One of the Minneapolis groups identified security-related investments as particularly vital, especially for those considering a move back to the Somali regions. Finally, individuals in Hargeisa discussed the specific appeal of health care, citing a growing inflow of medical professionals from the diaspora returning to the Somali regions. Waves of professionals returning may indeed make particular sectors increasingly attractive for outside investors, but also perhaps for Somalis who benefit from the financial returns on investment and from the growth of a professional class.

Box 4: Mandeeq Slaughterhouse

As an example, the Mandeeq Slaughterhouse, the largest such facility in Hargeisa, was revived by a returnee Somali diaspora member who invested his own personal funds as well as his expertise (30+ years of business experience), education, and business abilities in the success of the venture. Since 2005, the slaughterhouse has received significant investment, including from outside sources, has been well-managed, and earned high accolades from the UN's Food and Agriculture Organization (FAO). In 2012 the FAO conducted a site visit and concluded that the facility is in compliance with EU hygiene standards (as demonstrated by microbiological laboratory results and the low level of bacterial contamination of the meat produced). Mandeeq Slaughterhouse is a prime example of how Somalis can invest foreign funds and commit highly skilled human capital to add significant value toward the economic development and sustainability of the Somali regions.

Livestock is one of the most important and potentially highest-yielding sectors in the Somali economy. In 2014, the FAO determined that five million head of livestock had been exported, the highest figure in the last 20 years. Estimates place the value of the livestock exported at US$360 million, constituting 40% of GDP and reaffirming livestock's prominent position in the Somali economy.[34] Countries that import Somali livestock include Saudi Arabia (receiving 65% of exports), U.A.E., Oman, Kuwait, Qatar, Bahrain, and Yemen.[35] Although these are historically strong results, exports represent only 8–13% of the total livestock production in Somalia (estimated at 40 million head).[36] The livestock sector represents a significant opportunity for Somalis, including for diaspora investors.

b. Investment Origination

For non-Somalis, lack of access to reliable information about the investment climate as well as originating investment opportunities are very difficult barriers to overcome. Investment origination remains largely informal, as previously mentioned; sourcing of deals and partnerships occurs through preexisting business partnerships or family members. Whereas in a more developed economy, brokerage services use market analysis and support services to facilitate transactions, in the Somali context these services are rare and are not seen as reliable. When describing investment originations, focus group participants noted this lack of formal institutions that would facilitate information exchange but were eager to say there are ways to find deals. Parties to a transaction rely on personal connections, as business transactions are typically with individuals they trust. One individual described these informalities as such:

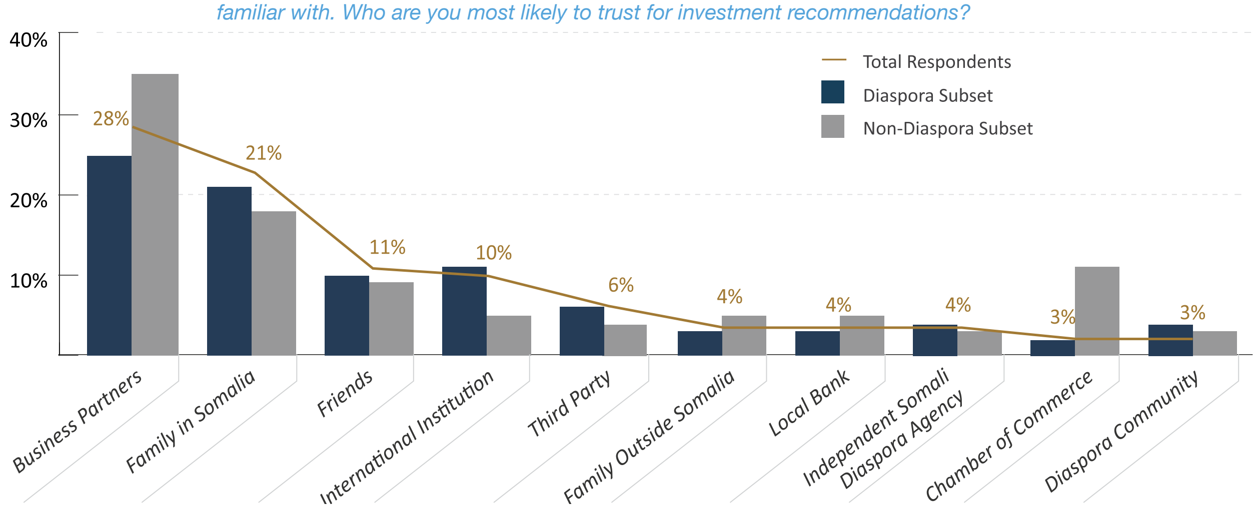
In a hypothetical investment scenario, survey respondents were asked what sources of information individuals trust for investment recommendations. Answers are below in Figure 16 in descending preferential order, divided into three subsamples: diaspora (blue), non-diaspora (gray), and the total population (gold line). Of the total population of respondents, approximately 50% identified business partners and family inside the Somali regions as the most prominent sources of information. Beyond these two main sources, friends and international institutions were also mentioned as significant sources of information. Beyond that, the remaining six options (third parties to the diaspora community) rank insignificantly as sources for investment recommendations.

> ***Somalis talk amongst themselves; there is a lot of communication [by] word of mouth...The communication is coming between diaspora here and Somalis there. There is not a formal organization that is moving these investments. There are still a lot of divisions amongst the Somalis so they aren't communicating en masse; mostly [communicating] amongst their little groups according to whatever dividing lines.***
>
> **Focus Group Participant, San Diego, USA**

When compared, diaspora and non-diaspora populations are primarily similar in their trust rankings, with three exceptions. First, diaspora members are more likely to engage an international institution. Individual interviews and focus group discussions suggest diaspora would benefit from greater exposure to international institutions offering such services. Overall, however, diaspora members view international institutions as trustworthy, non-biased bodies likely to have performed a degree of due diligence when surfacing opportunities. Second, non-diaspora members are much more likely to seek recommendations from local business partners. It seems logical that those already in business together glean investment analysis and information from already known and trusted business partners, and it supports an elite capture argument whereby the same individuals are consistently involved in the process. Finally, non-diaspora respondents are much more likely to trust the local chambers of commerce for investment recommendations. In the Somali context, while local chamber activities are rather limited, chambers of commerce are still sought-after as a key source of support for business growth, and often engage in advocacy with local ministries and policymakers (though much of this advocacy remains informal).

FIGURE 16: *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?



There are several possible reasons chambers hold such sway with local Somalis. They have reliable and better lists of "registered" businesses, meaning those that have followed local regulatory requirements for licensure as put forth by government, in a sector other than the relevant ministry's, and they have better information on business trends, are more effective than the ministers, and have specific divisions to address sector-specific issues. For diaspora members, the perception may be very different, especially if they compare their resident country's chambers of commerce to those in the Somali regions. Despite the informational advantage Somali chambers have over other Somali institutions, they are in their infancy relative to the effectiveness and the array of programs and services offered by chambers in many diaspora countries.

A number of options are not listed in Figure 16 because less than 2% of respondents specified them as likely sources for investment recommendations. These include brokers, clan elders, the internet, social media, Somali government ministerial offices, Somali government-affiliated diaspora agencies, and TV/radio/newspapers.[o] Three implications about these specific categories are worth noting. First, this suggests that clan elders play a reduced role when it comes to finding and vetting investment opportunities, despite their reported role in enforcing contracts and providing the social basis for trust between parties (see section below on risk mitigation). Second, Somali media do not appear to be a resource when it comes to sourcing information for potential investments. Finally, in spite of their intent, Somali governmental agencies, including government diaspora agencies, do not play a significant role as information providers and are not seen as reliable or trustworthy in spite of their efforts or mandate to solicit diaspora investment.

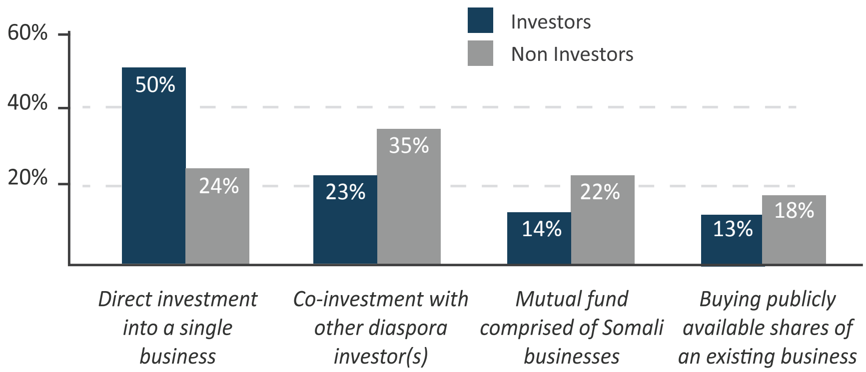
c. Forms of Investment

Survey and focus group participants reported varied forms of investment. Overall, investors required placing their funds into a "Sharia Compliant" investment product; however, these investments could vary to include equity, joint venture, public offerings, and debt. For instance, a number of local companies are known to issue public offerings for equity shares; others form small private equity/venture capital consortiums consisting of diaspora and local Somali businesspeople/investors to pursue co-investments; and high-net-worth individual diaspora members are known to infuse larger amounts into direct investments seeking higher returns. Focus group participants also noted that a significant number of investments are made directly into locally-owned businesses in the Somali diaspora community. When asked about potentially attractive investments (Figure 17), respondents who did not identify as active investors were nearly as likely to opt for direct investment into a single business as into a mutual fund (comprised of Somali businesses), although they preferred co-investment with other diaspora. In contrast, active investors indicated they were much more likely to directly invest in a single business than total respondents were: 50% versus 34%, respectively.[p] This may be due to the higher risk tolerance (see Figure 27 in section VIII a) of active investors that corresponds with the higher risk (and potential higher return potential) of direct investments.

Second to direct investment, investors (23%) and total respondents (27%) reported co-investment schemes with other diaspora investors as being an attractive option. Not only do respondents view diaspora co-investment schemes favorably, they are aware of such opportunities. A total of 45% of all respondents affirmed familiarity with co-investment schemes (see Figure 19).

FIGURE 17*: *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?



Both mutual funds and publicly available shares were less appealing, though not trivial. Slightly more than 10% of investors and 20% of non-investors preferred these options.

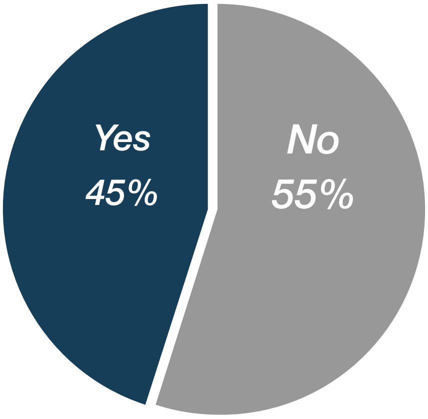
o Among these categories and in descending order of importance, brokers, clan elders, TV/radio/newspapers, internet, and social media were sought-after sources of information. No respondents indicated seeking information from Somali government ministerial offices or Somali government-affiliated diaspora agencies.

p See Appendix C for a similar graph analyzing diaspora and non-diaspora differences for Question 59.

**This figure has been revised from an earlier version, as of 7/11/16.*

FIGURE 18: *Awareness of Co-Investment Opportunities*

Survey Question: Are you aware of any investment opportunities to combine your money with others from your diaspora community in order to make a larger investment in Somalia?



There are likely many factors that influence individuals' perceptions of attractive investment opportunities. Three are examined as being potentially relevant. First, an individual's status as a member of the diaspora likely indicates a degree of distance from investment opportunities. Insofar as diaspora members have a harder time finding information about opportunities and/or being assured about a particular investment's integrity, they may have markedly different preferences than non-diaspora members. Another influential factor may be whether an individual owns a business in the Somali regions. Business owners are expectedly much more comfortable with direct investment given their ownership status. The possibility that remittance senders may have a unique set of preferences on investment types was also considered. Those sending remittances may have closer connections with individuals in the Somali regions, which could facilitate access to information and increase confidence in direct investments. Finally, age may play a role in determining investment behavior. To asses these factors, the sample was split based on these criteria, and investment type preferences are shown in Figure 19 below.

Diaspora member and remittance sender preferences are very nearly identical. Moreover, for diaspora members and remitters, co-investment opportunities (with other diaspora members) are preferred over direct investment. Although not consistent with the total population, this is nonetheless unsurprising. Again, diaspora members and remitters are most likely to have greater interaction with fellow diaspora members and be more aware of and comfortable with co-investment schemes. Interestingly, individuals who do not send remittances express a preference for buying publicly available shares over either co-investment or mutual funds. Business owners' preferences are in line with expectations; they are more comfortable with direct investment than non-owners are. For younger individuals, co-investments, mutual funds and public shares received a similar percentage of interest. Older individuals, however, expressed much less enthusiasm for mutual funds than any other investment type.

While other types of investment exist, the categories discussed here likely capture a large portion of the options available to potential Somali investors. Across the board, the survey results suggest that the most favorable forms of investment are direct investment and co-investment with other members of the diaspora. It is important to note, however, that these conclusions are tentative; mechanisms to capture the *actual* form of investments flowing into the Somali regions are lacking. Most investments are probably direct investments, and what the data may be capturing is the set of preferences over an ideal form of investment.

FIGURE 19: *Percent of Investment Type Preference by Various Factors*

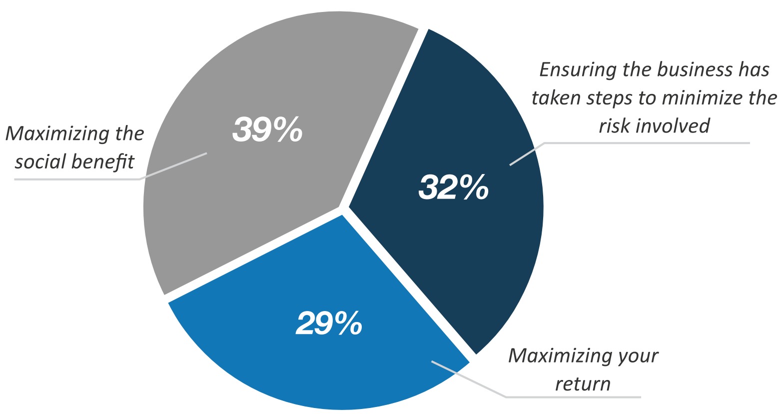
	DIASPORA	NON-DIASPORA	OWN SOMALI BUSINESS	NON-OWNER	REMITTANCE SENDER	NON-SENDER	39 AND BELOW	40 AND ABOVE
DIRECT INVESTMENT	29%	47%	42%	30%	29%	45%	34%	33%
CO-INVESTMENT	31%	20%	28%	27%	31%	16%	25%	30%
MUTUAL FUND	15%	16%	13%	19%	18%	16%	21%	12%
BUY PUBLIC SHARES	25%	17%	16%	24%	22%	23%	20%	25%

VII. MOTIVATIONS FOR INVESTMENT INTO THE SOMALI REGIONS

Individual investors are primarily driven by the promise of an investment's profit potential and ability to hedge on the inherent risk, as well as their unique value addition or experience within the sector they invest in. Another major driver is the need to address the largely poor conditions faced by many friends and family in the Somali regions, such as high levels of unemployment and poor access to services.

FIGURE 20: *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?

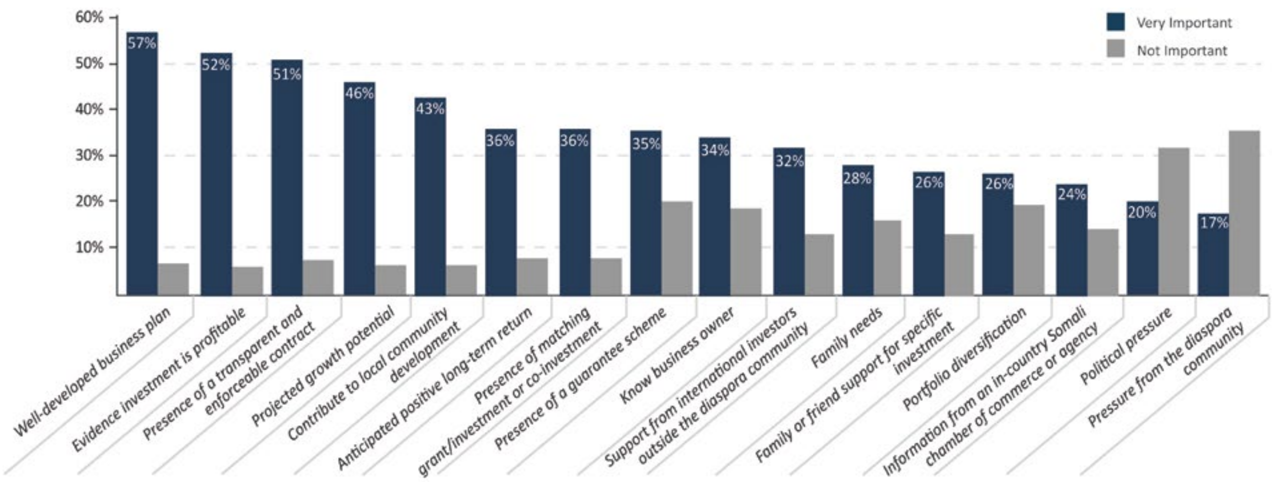


Focus group and individual survey respondents cited both financial and social motivations for investing. One individual described the desire to make investments in the Somali regions as being "For profit with a social angle to it. But most often it's with multiple motives in mind," (Focus Group Participant, London, UK). Figure 20 illustrates these sentiments, which also came through in the survey. Twenty-nine percent of respondents said they are primarily focused on return, and 32% on minimizing risk. Together these two primary "capital enhancement/protection" motives combine for 61% of the primary motivation. That said, the single greatest response, at 39%, indicates being motivated by addressing social good.

To further break down the multiple motivations, Figure 21 illustrates what particular factors matter when making the decision to invest in a Somali opportunity. More than 75% of respondents believe five reasons are either important or very important, and notably, the top four factors are "capital enhancement/protection"-related. These four factors are a well-developed business plan, evidence of profitability, presence of a transparent and enforceable contract, and projected growth potential. The fifth factor, contribution to the development of the local community, is related to social good.

FIGURE 21: *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 Somali-based opportunity.



On the opposite end of the continuum, a number of factors were ranked as less important, and/or there was a significant amount of disagreement regarding their importance. These include pressure from the diaspora community, political pressure, and information from a local chamber of commerce.[q] While social good matters, what seems more important are those factors common to investment decisions in more-developed economies: strong business plans, upside potential, and institutional integrity that provides support for business. Some factors that might seem reasonable in the Somali diaspora context, such as diaspora community or political pressure, appear to play a less significant role in decision-making than traditional investment rationale.

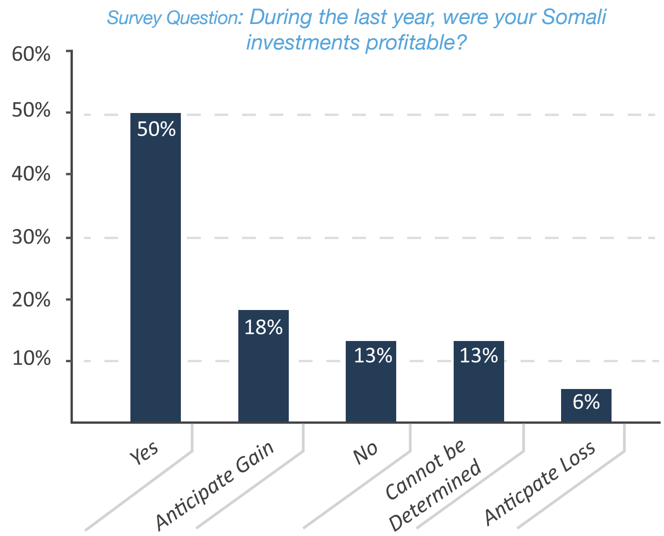
While profit motives appear most influential, three broad categories discussed in the focus groups and also statistically supported for investing will be explored: profit, social impact—both community and family, and diaspora migration back to country of origin.

a. Profit Potential

As a leading indicator, profit and/or the promise of profit is a strong motivator for investment. From Figure 21, it is commonly perceived as very important and second only to a well-developed business plan (a factor with obvious correlation to profit potential).

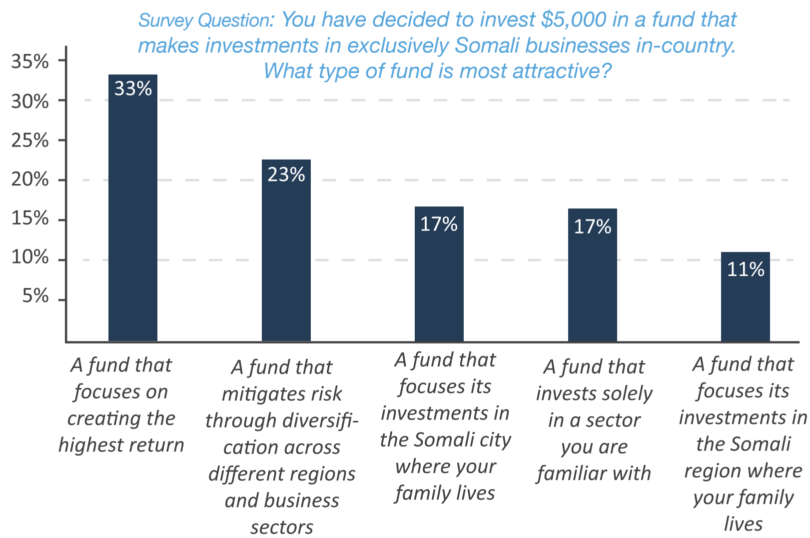
In response to a question about whether the respondent's investments had earned profits in the prior operating year, nearly half indicated a profitable return (Figure 22). Another 20% indicated that they anticipated a positive return, and only about 20% of individuals indicated a loss. Although the profitability of specific investments is impossible to verify, this trend does suggest that profit is motivating for those investing in Somali businesses, and is achievable.

FIGURE 22: *Profitability of Somali Investments*



In a related question, survey respondents were asked what type of fund is most attractive when making a relatively small (US$5,000) investment. Figure 23 illustrates that the most commonly selected funds focused on the highest return for investors, though a significant number of respondents also indicated that a fund which focuses on investment in the city or region where their family lives (second and third bars combined) would be most attractive.

FIGURE 23: *Most Attractive Fund Type to Somali Investors*



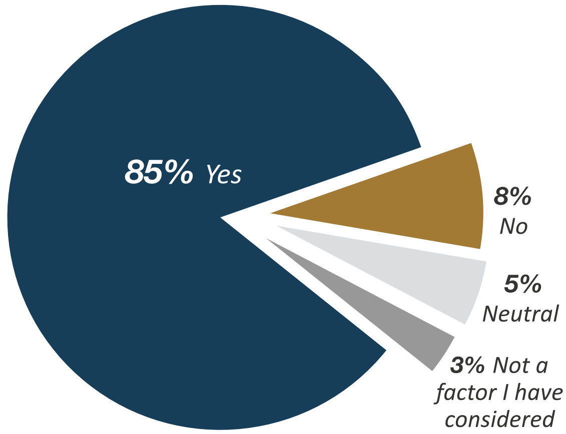
q In Question 43, regarding factors influencing respondents' investment decisions, respondents were allowed to indicate that they were not familiar with a particular factor. Though all of the factors were familiar to a large majority of respondents, four are noticeably the least familiar. These include political pressure, portfolio diversification, presence of a guarantee scheme, and presence of a matching grant, matching investment, or co-investment scheme. The relative lack of familiarity may have reduced the relative importance of these factors in survey results.

b. Social Investment

In interviews and during focus groups individuals described investments in a second and distinct way; as a method to assist community development where connected by family, clan, or regional affiliation. Participants described intimate knowledge of suffering and loss due to the turmoil of the last few decades in these communities. They identified several specific investment types contributing to social investment. Most prominent was education; specifically tuition support for school attendance, building of schools to offer new degrees, or community support to develop other educational options such as youth centers and/or technical training programs. After education, livestock, infrastructure spending, security, and start-ups were commonly referenced as contributing to social investment as well as a financial return. Given the dependence of the Somali regions on the livestock trade, the recapitalization of herds devastated by drought was described as a "community" project as well as an individual investment, given the industry's effect on general welfare and the larger economy.

FIGURE 24: *Investments Intended to Create Local Jobs*

Survey Question: Do you invest in Somali opportunities to create jobs for the local community?



Focus group and survey results show that one specific aim of these "social investments" is to increase employment. Focus groups participants said that is especially important for motivating investments into communities where they as individuals have close connections. Survey results echo these sentiments; 85% of respondents indicated having invested in a Somali business in order to generate jobs for a local community.

FIGURE 25: *Investor Motivation for Employment Generation, by Age*

Survey Question: Do you invest in Somali opportunities to create jobs for the local community?

RESPONSE	MEAN AGE
Yes	41.1
No	33.4
Neutral	41.7
Not a Factor	40.8

Anecdotes from focus group participants largely confirm this observation. One individual talked about making a sizeable investment specifically to generate jobs for individuals in his extended family and as a way to shift away from monthly remittance expenditures (see quote below).

Less frequently mentioned in the discussions was the idea of investing specifically to better one's family, independent of the desire to move home or improve the larger community. One method for helping families is through the creation and support of small businesses and/or land purchases intended to directly benefit specific family members.

Although there were fewer anecdotes in focus groups about the desire to invest for the sake of a family, survey data on this as a primary motivator reveals family obligations may be important. Nearly 58% of individuals described family needs as being either a very important or important motivation for investment. Thus, while not as motivating as profit, family need and social investment remain important factors for many investors.

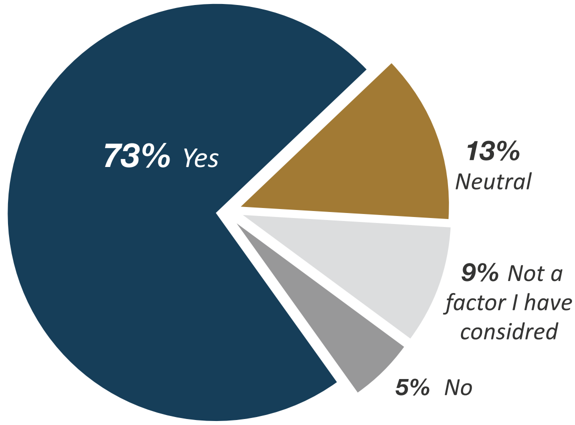
> ***A friend invested in a water company in Somalia, $50k to $60k. He didn't want to get back his money. He wanted to create job opportunities for his family. Now 12 members of his family work there; there is a full staff of 50. Their income has doubled. He told me after three to four years he will get his money back. His intention/motivation was to get family members employed. It was a family-owned business. He doesn't send money back now. When family members call and ask for funds, he sends them to the utilities to get a job. His dad runs the utilities, sends people who need money there to get a job. People are tired of sending money—either you create a job opportunity, or you send money.***
>
> **Focus Group Participant, Minneapolis, USA**

c. Returning Diaspora

Consistent in the conversations with Somali diaspora from all parts of the world was that individuals frequently mentioned a clear desire to return home. Numerous interviewees and focus group participants indicated that returning home was the single most important motivating factor for investments into the Somali regions. The survey revealed similar findings. When asked whether they invest in the Somali regions in order to return permanently one day, approximately 73% of respondents answered affirmatively.

FIGURE 26: *Investments Motivated by Future Interest in Returning Home*

Survey Question: *Do you invest in Somalia because you would like to return there permanently one day?*



Among respondents who identified as active investors, the percentage is even higher at 76%. This percentage drops to 56% for individuals indicating they are partial or inactive investors. While less important to the partial investors, the findings support the idea that the desire to move home is a strong motivator to actively invest.

Somali diaspora members repeatedly noted two specific logics underpinning how they choose their investments when considering how one facilitates a move back home. The most frequent relates to housing and real estate ownership. Several focus group participants discussed their desires to build and have ready a home for their future return to the Somali regions. Consequently, this group of individuals described real estate as one of the most lucrative sectors for investment.

The second most frequent was the desire to ease their social and financial transition back home. For some, this meant investing in the community where they wanted to live in order to gain social status, give back, and be received upon return as having succeeded and given back. For others, investments in specific ventures were focused on income-stream generation to assure their return was supplemented, once back, with local, sustainable cash flow.

Also of note, the conversations throughout were also punctuated with descriptions indicating that the security and political situations in many (though not all) Somali areas are perceived as becoming more stable. Therefore, as development continues and political conflict abates, the desire to move home will probably play an increasingly significant role in motivating investments.

“

There is significant investment in housing. Many diaspora want a second home in their homeland so they have a location to go back to. They put a lot of money into the home then pay someone to watch the home.

Focus Group Participant, San Diego, USA

”

VIII. PERCEIVED OBSTACLES AND RISK MITIGATION STRATEGIES

There are a number of obstacles to investment in the Somali regions. Some are obvious; lack of a well-developed banking sector, for instance, is one significant reason for investor reluctance. Others, however, are less obvious but may still be contributing to a dearth of diaspora investment. For example, the political and security instability in the regions could strongly discourage would-be investors who worry that their returns will be affected or, worse, that their investments will be destroyed. This section begins by examining risk. In general, one's risk tolerance will shape investment decisions, and this survey's data is used to examine the risk tolerance of (potential) Somali investors. Next, investment obstacles that may be contributing to perceptions of risk and/or an investor's ability to place investments inside the Somali regions are discussed, along with evidence from the survey that indicates diaspora preferences on strategies to overcome particular investment obstacles, including institutional mitigation strategies that focus on solutions spearheaded by or targeted at institutional structural reforms.

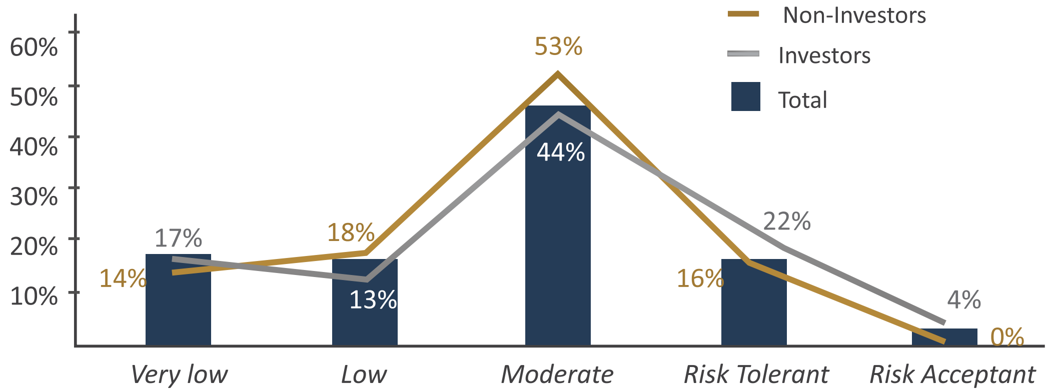
a. *Perceptions of Risk and Risk Tolerance*

Perceptions of risk are essential in shaping the quantity and quality of investment, particularly when examining an investor's comfort level placing capital. In a place like the Somali regions where there are numerous structural and institutional barriers for potential investors, perceptions of risk likely influence a great deal of potential investment opportunities. Focus group participants identified two general sources of risk for Somali investments, both of which were corroborated by the survey. First is the inherent risk in the Somali-specific business operating environment. Second is risk tied to trusting entrepreneurs and business owners. It can be assumed that these and many other more specific obstacles correlate with lower levels of risk tolerance and fewer investments. Thus, understanding perceptions of risk and those obstacles contributing to these perceptions is fundamental to increasing Somali investment.

The data in Figure 27 show the risk-tolerance distributions among investors and non-investors. While risk tolerance differences between active investors and non-investors are not pronounced, unsurprisingly, survey respondents who consider themselves active investors are moderately more likely to also self-identify as either risk-tolerant or risk-acceptant.[r] Despite this slight difference, trends about general risk acceptance are remarkably common across different subpopulations. For investors and non-investors alike, the modal individual identifies as a moderate risk-taker (i.e., somebody who takes risks when they believe it is justified).

FIGURE 27: *Financial Risk Tolerance*

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



Undoubtedly, diaspora investments into the Somali regions do carry some risk, and it is very likely that the lack of a regulatory environment there increases these risks beyond what they would be for a similar asset in many diaspora members' countries of residence. In other words, it is likely that those diaspora members who invest in the Somali regions may be more risk tolerant than average. Perceptions of risk tolerance can vary widely and may correlate with market trends, asset class, and a

r A more precise definition of these individuals is as either seeking solely risky investments or believing that higher-risk investments are important parts of investment portfolios.

host of characteristics attributable to any given individual. To gauge the traction of these characteristics, Figure 28 shows the demographic characteristics of individuals at various stages of risk tolerance. According to this breakdown, risk tolerance tends to be correlated with youth, employment, being male, and having a past history of investing in the Somali regions. Correlations between marriage, remittances, and owning a home in the Somali regions are spurious at best, although additional rigorous data collection might uncover trends unseen here. The fact that past investments correlate positively with risk tolerance suggests that the assumption about the riskiness of Somali opportunities is correct, although this alone cannot determine the extent to which Somali investments are riskier than investments in other places. However, it does stand to reason that the conflict and instability of the last several decades in the regions likely contributed greatly to perceptions of investment risk, and as the trend toward stability continues, it will become an increasingly attractive opportunity for investors.

FIGURE 28: Demographic Characteristics of Individuals Across the Risk Tolerance Spectrum

	MEAN AGE	% EMPLOYED	% MARRIED	% OWN SOMALI HOME	% MALE	% REMITTANCE SENDERS	% PAST SOMALI INVESTOR
VERY LOW	39	84%	66%	62%	87%	77%	33%
LOW	39	79%	83%	58%	83%	80%	32%
MODERATE	41	93%	80%	57%	87%	82%	41%
RISK TOLERANT	37	92%	62%	54%	94%	78%	46%
RISK ACCEPTANT	36	90%	66%	60%	100%	60%	40%

b. Obstacles to Somali Investments

A number of factors contribute to the riskiness of a particular investment. This survey asked individuals to rank a number of obstacles according to their seriousness as a hindrance to investment. Figure 29 shows the average of all response options, with the perceived seriousness of obstacles arranged from "blocked my ability to invest" to "not an obstacle". (See Appendix E for detailed responses).

Neither bureaucracy in the countries where diaspora live (a 47% differential) nor not knowing anyone in the Somali regions (a 64% differential between "Not an obstacle" and "Has hindered or even blocked my ability to invest") proved to be significant obstacles. The next five factors are similar in weight and also not major obstacles: Somali bureaucracy, concerns surrounding funding illicit groups, inadequate money channels, cost of transfer fees, and lack of confidence in the money transfer process.

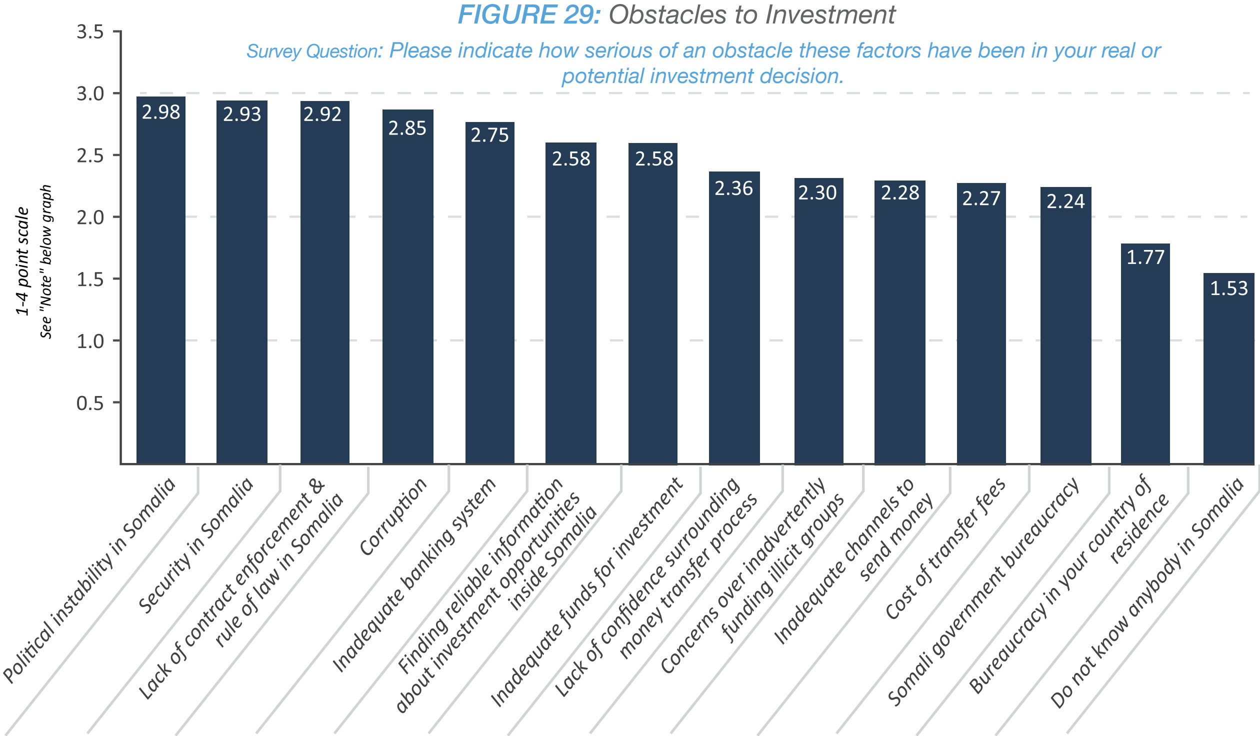
However, more than 60% of respondents indicated that five factors were either very much an obstacle or had actually blocked investment. Those factors include political instability, lack of security, inability to enforce a contract, corruption, and an inadequate banking system. Foremost, political instability is a systemic factor that likely correlates heavily with many other obstacles. Political instability reduces the quality and accessibility of dispute settlement processes and central banking authority, negatively affects consumer confidence, and at its worst can arbitrarily terminate a business' operations. Thus, despite reports of increased levels of security and stability, political instability continues to be a very real and immediate concern for investment.

Security, inability to enforce a contract/rule of law, corruption, and an inadequate banking system all point back to governance. Unsurprisingly, these data suggest that improving the effectiveness of the political structure would greatly contribute to increased investment in the Somali regions.

In a departure from the top five obstacles, which are factors largely out of the control of an individual investor, the sixth-highest-ranked obstacle is one that investors can control: "Finding reliable information about investment opportunities outside Somalia." Coordination efforts to aggregate market research and share it via globally accessible platforms would be beneficial to diaspora investors in that it would accelerate their ability to commit to additional steps before committing to an investment. Accounts from the focus groups largely confirm these areas as encompassing the most dominant concerns.

FIGURE 29: *Obstacles to Investment*

Survey Question: Please indicate how serious of an obstacle these factors have been in your real or potential investment decision.



Note: Respondents were provided with four options per strategy. Each strategy option was given a scale or weight: "Has hindered or even blocked my ability to invest" a 4, "Very much an obstacle" a 3, "Somewhat of an obstacle" a 2, and "Not an obstacle" a 1. Therefore an average score of 4 would mean all respondents chose "Has hindered my ability to invest" for that option and an average of 1 would mean all respondents chose "Not an obstacle."

The question then becomes how to facilitate diaspora investment. What can diaspora members, home country governments, and financial institutions do to overcome these obstacles and ensure that the Somali regions can harness the investment potential of the diaspora population? The recommendations section provides suggestions for a variety of actors on how best to facilitate increased diaspora investment in the Somali region.

c. Overcoming Obstacles and Reducing Risk

The data allow the drawing of a number of conclusions about the perceived and real risk in the Somali business environment. There appear to be three broad categories of obstacles reported by diaspora members. First, there is a shortage (both in quality and quantity) of consultation services for business development, evaluations, audits, and enhanced accounting procedures. Second, there are poor protections by government for business and intellectual property due to weak contract enforcement. Finally, while improving, the relative security from violence of many types remains volatile. The wide variety of obstacles necessitates a range of strategies to overcome them. This section presents information on three discrete strategies: investment terms, professionalization of the banking sector, and development of strong business associations.

i. Investment Terms

To evaluate risk countermeasures and mitigation strategies, survey participants were asked to evaluate risk reduction strategies related to particular investment terms.

Survey participants were asked to evaluate three broad forms of reducing investment risk: matching grants from an international institution, guarantee from an international or local financial institution, and co-investment with members of their diaspora community. Average scoring indicates that the single best risk reducer is a matching grant from an international

Box 5: Aggregate and Disseminate Somali Investment Information

"It is clear from the report that potential investors into the Somali regions have many obstacles to overcome, with the lack of access to reliable information on potential investments and the overall investment climate being particularly challenging. The investors expressed a strong need for data and for insight into the overall investment environment. Experience has shown that such information carries more weight if it is provided by international organisations that are perceived to be impartial and independent in nature.

Our organisation has undertaken a number of relevant activities including the UK-Somaliland Trade and Investment Forum which was held in London in October 2014, which clearly demonstrated that potential investors are hungry for as much relevant information as they can find. In the absence of any publicly available data people rely on word-of-mouth recommendations and their own due diligence. Whilst they will always do this it has been clearly shown in other post-conflict and developing countries that the sharing of publicly available information in a common location is a major tool in helping to build overall investor confidence.

We fully support the establishment of a centralized information clearing house but would counsel that such an endeavour will require a thorough plan and budgetary support to make sure that there is sufficient quality content available. As the report clearly identifies there is a dearth of information on the Somali regions and what exists is often biased and fragmented. Therefore, appropriate processes will need to be established in order for this recommendation to add real value to all users. However, on a positive note, there are many examples of where this has been successfully achieved.

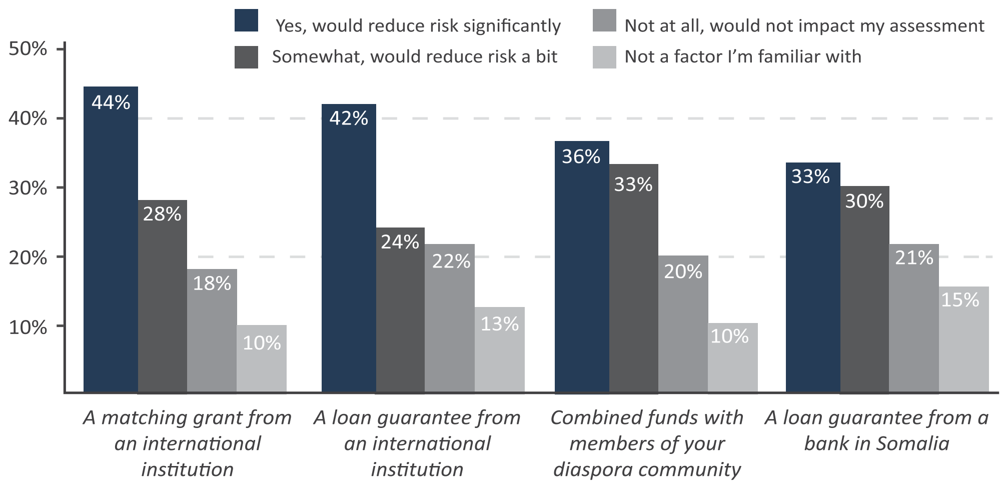
Once established, effective awareness campaigns will need to be undertaken to ensure that the facility is used. This will encourage the ongoing provision of relevant information."

Nana Boakye-Adjei & Leon Isaacs, Developing Markets Associates

institution. While a matching grant does not directly reduce risk, it does hedge against risk insofar as it bolsters the investee's business with additional capital and essentially acts as the "first dollar loss," particularly vital when a business is in the startup phase and needs to sustain that initial period of operation. Respondents possibly gave greater weight to the "international institution" because of perceptions that these are relatively more objective and perform greater due diligence. While it is reasonable that investors have incentives to prefer matching grants, they also view loan guarantees only slightly less favorably. Therefore, loan guarantees may be a more advantageous strategy for international actors, given their greater sustainability and superior benefits to local financial systems.

FIGURE 30: *Preferred Strategies for Reducing Investment Risk*

Survey Question: The following are ways to reduce investment risk. When considering Somali-based investment, how well do you believe these strategies work?



Box 6: Dispute Adjudication through Clan Structure

Throughout the focus groups, the importance of clan structure was largely dismissed when it came to picking investments. However, participants did indicate that clan structures can be leveraged to reduce risk and increase confidence when engaged in dispute adjudication processes. Given that a majority of investments are informal in nature, satisfactory dispute adjudication is key to enticing investors into the Somali regions and providing the assurance to stay. While the ability to enforce a contract is addressed through the legal system, in practice a speedy and fair dispute resolution through the courts is not likely. Focus group participants indicated that more effective forms of resolving disputes are through hybrid Sharia courts or traditional hierarchies such as the clan elder structures.

> ***[For example, I] gave [US]$50k to open a business. There was no legal western contract. Contract was with clan and elders. The clan is the key—they guarantee the contract. Co-signer with collateral. Clan is the collateral—they'll sell your sheep, goats; they will ensure you get paid. The clan's name is at stake—they must pay the debt.***
>
> **Focus Group Participant, Denver, USA**

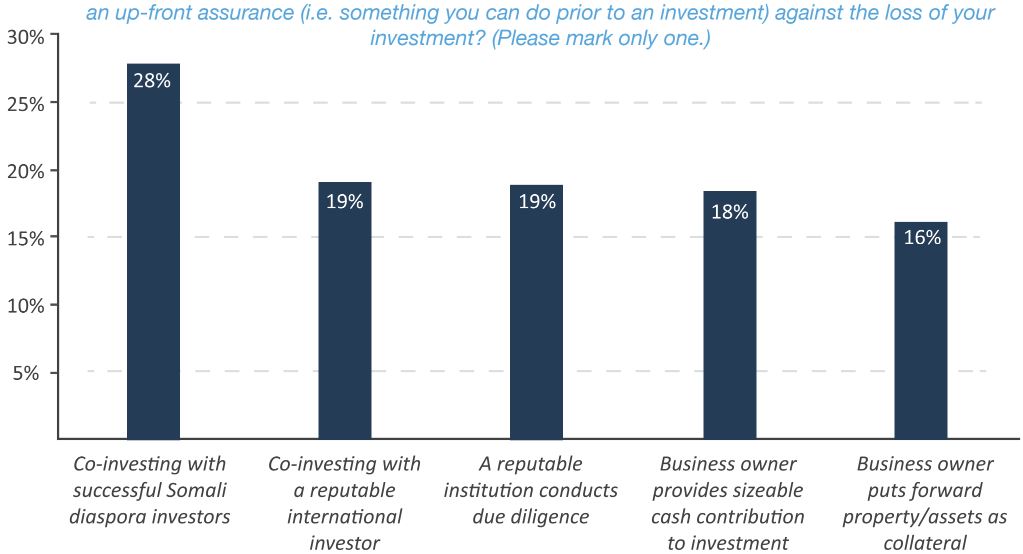
One prominent finding is that while investors are slightly more positive about matching grants than loan guarantees (44% and 42%, respectively), more investors are unfamiliar with guarantees relative to matching grants (13% and 10%, respectively). This indicates that these two risk mitigation strategies are on par with each other. In the recommendations section, there is a discussion about using guarantees for pooled funds in order to access the diaspora population more effectively.

As either a guarantor or a matching grant provider, a majority believed that international institutions would facilitate risk reduction.

One specific problem investors face is the inability to obtain some form of up-front assurance to establish confidence in a local business prior to placing capital. Investors engage a number of methods during the due-diligence process; the underlying objective is to gain enough critical exposure to establish trust, by far the most significant underlying component contributing to investor confidence. Strategies discussed include engaging in up-front due diligence, conducting market research, requiring an owner's cash contribution, or an investee pledging collateral.

FIGURE 31: *Preferred Up-Front Assurance for Investments*

Survey Question: You are exploring different investment opportunities. What do you most prefer as an up-front assurance (i.e. something you can do prior to an investment) against the loss of your investment? (Please mark only one.)



> *Trust—if they are not family—how is that trust created?*
>
> **Focus Group Participant, Minneapolis, USA**

Institutions that might provide oversight (such as financial auditors) or conduct objective and professional due diligence (such as banks or investment brokers) are perceived to be nonexistent or to provide weak services. The perceived or real lack of these services obligates diaspora investors to put in significant effort to seek reliable information prior to a deal. One focus group participant reported calling 20 people to vet a business; another reported a lengthy investigation of a business' competitors in the same geographic region; others indicated that they feel they simply can't invest because they lack the personal connections required to build the necessary trust.

When it comes to establishing trust in deal execution, survey respondents preferred co-investing with successful Somali diaspora members (Figure 31). Beyond that, the remaining four strategies were seen as nearly equal (only a three-point difference among them): co-investing with an international investor, an institution conducts due diligence, the business owner provides a cash contribution, and the business owner pledges collateral. This finding reinforces one expectation about common investment strategies—a strong track record of success is an indication of future performance—and confirms earlier indications that informal networks may indeed be playing a significant role in the set-up and execution of investment deals. As such, Somali diaspora investors may have learned how to critically break down and evaluate a deal, perform due diligence, structure favorable investment terms, reduce risk, and generate financial returns within the Somali context.

Focus group participants suggested other methods of developing their own and other investors' confidence. These include sending friends and/or family to conduct local due diligence, and contacting local business owners for their market insights, their interpretation of local events, and access to their local networks.

Box 7: Professionalization of the Banking Sector

A professional banking sector is key to a growing economy. The banking sector in the Somali regions remains largely underdeveloped; however, there have been a number of recent and significant changes that seem to indicate growing professionalization. Professionalization of the financial sector can be dissected into four collectively critical dimensions using the Chartered Institute of Public Finance & Accounting (CIPFA) Financial Management Model: leadership, people, processes, and stakeholders.

The Somali regions have seen improvements in all four sectors, yet there is still progress to be made. Leadership is essential to effect long-lasting reform. Leadership can come from key government officials or from a single or collective private-sector voice. People—the second dimension—are key to reform; ensuring a cadre of educated and trained accountants, auditors, and other financial service providers is an essential step. In 2007, Lesotho (population 2 million) committed to improving the education and training of financial service-sector workers by setting a goal of training 500 students. Within three years they had enrolled or trained 350 students and were on track to meet their goal. While the Somali regions have had a number of training and education facilities arise, there is significant room to both increase the number of trained financial service providers and improve the quality of financial training by setting a curriculum standard. Processes, as defined by the CIPFA, involve a strong private-sector accountancy body. The existence of a local professional accountancy organization provides a source of ready, qualified individuals. Tanzania launched the National Board for Accountants and Auditors, which provides a clearinghouse of standards and curriculum development. A board such as this in-country would provide a source of qualified individuals, an avenue for providing and disseminating training, and a platform to engage a collective professional body. The fourth and final dimension is stakeholders, such as donors and governments, who should acknowledge and support the local efforts toward privatization.

Supporting the creation and development of the Somali Banking Association as well as an accountant/auditor association will provide a platform for public-private sector engagement, reinforce and clarify the demand for qualified, trained workers, and contribute to quality standards for a curriculum for training such staff.

IX. RECOMMENDATIONS

After more than two decades of civil unrest, the Somali regions have reached a turning point in terms of positive political and security developments. Similarly, the international community appears more committed to sustained Somali development than ever. With increased optimism, Somali leaders and a resilient private sector are calling on the international community to change their approach and encourage donor strategies that decrease emphasis on aid and promote an environment enabling greater investment. This is an exciting time for stakeholders to consider how to best help the Somali private sector effectively receive much-needed foreign investment. As the research has shown, the Somali diaspora who have remained committed to their families and friends over periods of instability hold a great deal of potential as foreign investors. As perhaps the most significant group of contributors to the Somali regions, diaspora stand ready to engage, and would greatly benefit from reliable financial products that bring capital into the market for use in the Somali business ecosystem.

Yet for investment to scale, changes are necessary. Local actors must improve systems that provide the assurances, policies, and protections necessary to enable international investment. Local financial institutions, the central bank, the international community, and international financial institutions must come together to devise schemes that incentivize market-based solutions and encourage higher standards of quality if Somali businesses are to compete with imports and embrace export.

Following are nine recommendations to leverage cooperation between major stakeholders, which are categorized in five ways: 1) the Somali business community, including the private sector, chambers of commerce, and business associations; 2) Somali policymakers and the central bank; 3) Somali financial institutions (SFIs); 4) members of the Somali diaspora; 5) the international community, including governments, bi-lateral and multilateral organizations, development organizations, and NGOs; and 6) international financial institutions (IFIs). Each of the stakeholders brings to the table their own set of unique skills and resources, and in order to achieve the common objectives, multi-stakeholder cooperation and coordination over the long run are critical.

Collectively, the stakeholders should:

1. *Strengthen the capacity of local actors to provide demand-driven business development services*

2. *Support the development of effective chambers of commerce and business associations*

3. *Encourage formal data collection and commission relevant market research in partnership with local chambers and ministries*

4. *Encourage information-sharing through diaspora investor networks and encourage diaspora investor "meet-ups" that are built around investors' profiles*

5. *Partner with SFIs to champion "savings-to-investment" campaigns*

6. *Support credit products that leverage locked-up real estate value (hybrid mortgage products)*

7. *Provide tangible assurances to diaspora investors (such as credit guarantee schemes)*

8. *Develop mutual funds that offer varied risk profiles, target key sectors, and produce a double bottom line (profit and impact)*

9. *Promote community development finance, including community infrastructure bonds and risk insurance*

1. Strengthen the capacity of local actors to provide demand-driven business development services

When it comes to direct investment, the data suggest that a well-developed and convincing business plan is the single most important factor for would-be investors (see Figure 21). Investors also want evidence that the business is profitable, offers reliable growth projections, and that contractual agreements are enforceable. Essentially, the data indicate that a business must pass a test of due diligence which requires a degree of "formal" review to assess the business' ability to perform on-plan. A large number of businesses in the Somali context use traditional methods which do not necessarily maintain formal records or systems and therefore present to banks as informal, lacking developed systems to address such formal needs as accounting, market research, skills training, and product evaluation. In general, Somali businesses need development.

While historically traditional businesses have received some funding, their options for finance are limited. For a business to attract formal investment it needs to present itself in a formal way to a potential investor. Because informal Somali businesses are diverse (spanning sectors as well as formality levels), there is a need for specialists who must be equally diverse and able to adapt traditional, or informal, approaches to meet formal investment requirements in order to meet their collective demands. These specialists and their knowledge, collectively understood as "business development services" (BDS), provide information, knowledge, skills, and advice to address business needs. It is necessary to develop a wide array of BDS services in the Somali regions whereby a range of specialists address a variety of specialized needs.


Shopkeeper in Gabiley

Providers of BDS include a long list of players such as accountants, consultants, banks and financial institutions, associations, universities and colleges, national and local governments, business networks, customers, and even family and friends. Given the variety of BDS services, providers should be identified, organized into networks, encouraged to adopt standards and certifications, and should embrace common tools.

Opportunities exist to partner with existing BDS improvement products such as the International Finance Corporation's (IFC) Business Edge Training[s] and SME Toolkit.[t] IFC's Business Edge training and certification product provides systematic training for businesses and "trains the trainer" on core business skills. Those who successfully complete the training receive a certificate. Businesses and trainers learn about marketing, human resources, financial management and accounting, general management and operations, personal productivity, governance, and tourism and hotel management. Business Edge is typically deployed in partnership with local consulting firms or financial institutions in order to encourage sustainability. If embraced, businesses and SFIs using certified BDS providers with enhanced skills, such as Business Edge, would conduct better, more reliable, and consistent due diligence, thereby addressing a significant concern of diaspora investors.

Support should encourage the development of high-quality BDS networks in order to promote ongoing peer-to-peer growth and to scale-train the trainer models. This network should enhance capacity of SFIs to access and/or offer BDS and pre-investment due diligence. These services inherently target local businesses (small, medium, and large) that are at a stage for growth and seek investment.

s www.businessedgeworld.com
t http://www.smetoolkit.org/smetoolkit/en

Actionable Recommendations:

Somali Business Community:

- *Chambers and business associations should promote a registry of BDS providers by category and work with the international community, SFIs, and universities to establish certifications and standards and regular quality assessment for the various BDS providers.*

Policymakers:

- *Should work closely with the business community to strengthen existing (and where needed, advance new) trade and investment laws. Policymakers should take into consideration traditional business practices as well as the needs of formal investment when enhancing the relevant laws.*

Somali Financial Institutions:

- *Generate incentive structures that encourage sector-wide commitments to BDS standards, such as loan pricing incentives or capital to cover BDS costs when application is successful.*
- *Work cooperatively among themselves to promote BDS standards and common systems in order to establish information-sharing frameworks (i.e., future credit bureau, ratings systems, co-investment schemes).*

Diaspora Members:

- *Diaspora, having acquired various BDS skills abroad, should seek to engage their expertise through offering training, consultancy, and advisory to the Somali business community.*

International Community and IFIs:

- *Map, network, and provide funding support to develop the capacity of Somali-specific BDS service providers and use curriculum models that promote international standards and offer a certification once complete.*
- *Provide an SME Toolkit as a public, free-share item to encourage consistency and standards when producing financial statements, business plans, and projections.*
- *Design investment products for businesses and investors that require quality due diligence, reinforce use of certified BDS providers, and meet quality standards.*

2. Supporting development of effective chambers of commerce and business associations

A strategy for overcoming investment obstacles is the development of business associations. According to the Center for International Private Enterprise (CIPE) report "Assessing the Development of Business Associations in Transitional and Post-Conflict Countries," business associations can be particularly helpful in facilitating an economy's transition from a post-conflict state.


Investors and entrepreneurs in Somaliland

Since large companies are uncommon in post-conflict economies, the primary generator of dues-related revenue for business associations is absent. Therefore, associations are forced to improvise and provide the business community with an array of other revenue-generating services. The Afghanistan Chamber of Commerce and Industries (ACCI), for example, provides its members and other businesses with technical assistance and conference room and equipment rental services.[37] Also, unlike more-developed economies, which are characterized by formal businesses with large, specialized staffs, post-conflict societies are dominated by informal businesses. Associations are then particularly useful because of their ability to incorporate and assist informal businesses (essentially providing a coordination mechanism in an environment where alternatives are absent). As an example, the Union Nationale des Commercants et Industriels du Senegal (UNACOIS), the largest business and trade association in Senegal, consists of 70%

informal businesses.[38] Through the UNACOIS, the informal economy is provided with a channel to voice concerns and is provided with recommendations to engage in and transition more easily to the formal economy. The third common challenge in post-conflict societies is that businesses are operating in an aid-dependent economy. While aid may be needed and can be beneficial, it also limits the development of the private sector economy. Business associations, through their collective voice, can express to the government or to the aid community their concerns about the direct or indirect consequences of aid. Finally, post-conflict societies typically have weak or absent legal, social, and educational structures. Business associations have the opportunity to voice their collective concerns regarding these structures and assist in the creation of new laws and initiatives that foster private-sector growth.

Respondents to this survey pointed out that in general, beyond family members living in-country, they are unsure whom they can trust to gather local business intelligence. In business dealings, respondents indicate that interpersonal trust between parties to a business deal is often just as, if not more, important than formal intelligence. This may be true for an informal and small private sector; however, to scale businesses and create incentives for broader and deeper investments, more recognizable and central institutions must exist as information resources for outsiders. Chambers of commerce and business associations can effectively be developed to meet this need, as they do in many other places around the world.

Box 8: Chamber of Commerce or Business Association Functionality & Role in Development

“The essential function of the chamber of commerce or business association is to help business do business. This requires a certain level of sophistication and understanding of the members of the local business community who will become potential customers, members, allies, and partners of the business membership organizations. In return, the business associations play an important role in working with governments to create an enabling environment that helps support economic growth, investment, and job creation. It is never the government that creates jobs, but the private sector. The business associations link the private sector, government, and even civil society together and serve as both facilitator and interlocutor with the other parties to support the development of local businesses.

As outlined, the business association also has an important role to play in attracting foreign and diaspora investors to different parts of the Somali regions, and can link investors with potential local businesses as well as serve as an ambassador to identify investment opportunities. Outside of the Somali regions, many business associations offer certification programs and other training programs to improve the quality of products and services offered by businesses and make these businesses competitive in the global marketplace but also attractive to investors. This report outlines a series of recommendations that, if followed, can create an environment that will attract greater investment but also ensure that the existing businesses can find the types of business development services that will make their businesses more competitive and profitable.”

Lars Benson, Center for International Private Enterprise

Data from the survey suggest that, unfortunately, diaspora are unclear about the value added by Somali chambers. Focus group participants often reported that they didn’t even know there were functioning chambers of commerce. Participants who were aware of the chambers reported feeling the information or data that the chambers provide is either not reliable or is insufficient to motivate them to invest. This lack of confidence in local chambers does not have to remain. Improvements may be a function of chambers first organizing themselves and presenting the information they do have in a more effective manner. Next, an outreach effort to better inform diaspora and the international community more generally about the activities of local chambers needs to occur. Both of these steps would go a long way toward supporting the professionalization of chambers that are able to provide outside investors with relevant 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 engage in advocacy on behalf of business, promote anti-corruption and ethics, and act as an interlocutor 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). Businesses that organize with a unified voice (identifying common needs and recommending solutions) are much more effective and influential. Private-sector business associations can identify gaps in the regulatory framework, and then lobby government to improve and enforce laws.

Providing targeted support for existing chambers and business associations as well as encouragement and marketing to diaspora and other stakeholders to establish new and strengthen existing Somali business associations would go a long way toward providing the necessary linkages between diaspora and the private sector. While effective business associations are demand-driven and locally owned and managed, they may benefit significantly from using international best practices on how to identify and set strategic priorities. A well-run business association could provide policymakers with critical on-the-ground information that informs policy frameworks and offers the political heft to move legislation forward. Associations could champion quality standards, provide sector-relevant data for research, lobby on behalf of their industry, and work with donors to enhance their respective products or services.

Actionable Recommendations:

Somali Business Community:

- *Private sector businesses should join and be active in their local chambers of commerce.*
- *Provide real-time input and feedback to chamber leadership on the needs of the business community.*
- *Contribute member-driven analytical data to chambers with a plan to inform and propose public policy that is sensitive to economic impact and supports a national business agenda.*
- *Commit to and engage in the public-private dialogue emphasizing an inclusive process for building a policy environment that encourages sustainable development.*
- *Members and association leadership should jointly identify how they can promote sector-relevant quality standards, increase effective advocacy, and jointly develop campaigns to promote an ethical and hospitable business climate for all members.*

Diaspora Members:

- *Should engage with local chambers and associations in order to promote networking, contribute relevant expertise, and request consumer information.*
- *Can champion relevant "mentorships" between developed resources within the diaspora member's country of residence and local chamber or associations.*

International Community:

- *Identify, map, and network existing business associations.*
- *Partner with chambers of commerce to raise standards and expectations of what an effective business association provides.*
- *Make use of the existing networks to aggregate and disseminate information promoting the relevance of the network.*
- *Mobilize partnerships and/or mentorships between similar business associations from around the world for knowledge-sharing and potential advisory roles for Somali business associations. Knowledge transfer, experience, and advice should focus on effective operating structures and guidance for proper governance, including separation of duties and establishing strategic objectives.*
- *Assist in developing measurement and evaluation frameworks for chambers and business associations to establish an ongoing "feedback loop" that supports sustainable member and demand-driven services.*
- *Based on association requests, the international community should provide capacity-building resources for chambers and associations, such as expert training.*

3. Encourage formal data collection and commission relevant market research in partnership with local chambers and ministries

Local chambers of commerce and government ministries—such as commerce, trade, or investment—are tasked with attracting foreign investment; however, they are under-resourced in both quality and quantity of professional staff. One outcome of this capacity gap is an inability to produce well-informed and persuasive investment-related reports. Concurrently, to achieve development objectives, donors produce scores of economic growth reports, surveys, and market studies conducted by highly skilled expert (and often foreign) consultants—yet these reports aren't leveraged to the extent possible. This is a missed opportunity to collaborate. Once donor reports are produced, the information is often directed to the donor and shared with the local partner, but to make the best use of this information for a broader audience, it must be analyzed, organized, repackaged, and redirected to the investment community.

Throughout the SDIS, respondents unsurprisingly reported that they consider Somali investments to be risky for a variety of reasons. Focus group participants shared that one of their frustrations was finding reliable local information to accurately evaluate markets and thereby mitigate risk. Having experienced decades of turmoil, the perception of the Somali regions is often one of risk, even though within this vibrant culture many opportunities with only marginal business risk do exist. But whether risks are perceived or real, lack of reliable information perpetuates uncertainty and leads to fear of investing at all. The survey concluded that diaspora are not confident that Somali institutions such as chambers of commerce are able to provide the information they need. The level of trust would increase if these institutions were equipped with relevant research prepared through collaboration with capable experts—many of whom are very qualified Somalis, both local and diaspora—whose core competency is producing quality reports.

While examples are limited, diaspora referenced two efforts in particular as having quality information: the Somaliland Ministry of Trade and Investment website, including "The Somaliland Investment Guide" (supported by USAID), and the World Bank's report "Doing Business in Hargeisa 2013." In addition to the deeper research, effective networking is also seen as highly valuable. In early 2015, Shuraako hosted the Somali Investment Forum (SIF), which was a two-and-a-half-day conference that convened approximately 350 Somali businesses, investors, donors, and other stakeholders to explore multiple aspects of investment in the Somali context. Feedback following the SIF confirmed that participants considered some of the most valuable resources to be the straightforward Entrepreneur Profile Directory[u] and Attendee Contact List. The effort of aggregating profiles and contact data was credited by attendees as being a very useful tool that brought about a variety of successful collaborations, including investments.

Youth Entrepreneurship Workshop, Somali Investment Forum

INGOs and IFIs are rich with expertise and have proven systems for conducting and disseminating market research. One relevant example often accessed by diaspora and foreign investors is the RemittancesGateway[v] portal supported by IFAD and other donor partners. This particular resource claims, "The RemittancesGateway portal is a one-stop shop providing the latest news, events, publications, information and statistical data from a broad range of institutions, partners and stakeholders on the subject of remittances, migration and development. The Gateway is a fully interactive website that targets industry, private and public sectors, civil society actors and the development community. Besides sharing information, the portal is a virtual forum for discussion among remittance experts and stakeholders, and an institutionally neutral platform for continuous dialogue." If such an approach could be adapted to the Somali context, the one-stop approach to aggregating and disseminating market research would be extremely valuable to would-be investors and analysts.

u Entrepreneur Directory can be found here: www.shuraako.org/somali-investment-forum/publications

v www.remittancesgateway.org

Box 9: Necessity of a Market Research Industry for a Thriving Investment Ecosystem

"Relevant, timely, accurate, and contextual data is essential in establishing confidence and promoting investment throughout Puntland, Somaliland, and South Central Somalia. Therefore, continued promotion of local investment must be accompanied by the development of the local research industry, so that there remains a base from which to serve the evolving needs of investors well into the future.

Fortunately, there already exists an emerging local research industry that can be further leveraged to address the information and analysis demands of investors. In addition, local chambers of commerce and relevant ministries and institutions are all well-placed to serve as the critical platform from which to promote the Somali regions and serve as the central repository for investment information.

As the Somali Diaspora Investment Survey Report has suggested, focus should be centered on further developing the research industry already in place, balancing the need for short-term international expertise with the continued development of the local research capacity needed to further professionalize the local industry. This entails working with those institutions and firms that prioritize true long-term national capacity development and not just short-term project implementation needs."

Erin Satterlee, Forcier Consulting

Actionable Recommendations:

Somali Business Community:

- *Stakeholders in the Somali business community should commit to organizing and sharing relevant data through formal systems of their chambers and associations.*

Somali Policymakers:

- *Relevant ministries should collaborate with the chambers and associations to orchestrate proper information-sharing and formalize simple and direct data collection efforts.*

Somali Financial Institutions:

- *Should provide funding for local market research and data collection businesses.*

Diaspora Members:

- *Returning diaspora with relevant professional experience in market research, data collection, interpretation, and report writing should network with the local chambers and associations to identify employment, consulting, or new business opportunities.*
- *Visiting diaspora with relevant professional experience should network with the local chambers and associations to offer limited consulting services to the local stakeholders on best practices from their country of residence.*
- *Diaspora members could provide candid feedback and constructive advice on the research materials offered in the market to improve the quality and accuracy.*

International Community:

- *Promote collaboration between qualified market research firms and local stakeholder institutions such as relevant ministries, chambers, and associations, to facilitate both stakeholder engagement in the research itself and local understanding of the outputs of the research.*
- *Provide donor support to hire or train experts to embed in local government offices or chambers of commerce to generate data and research, or commission expert market research studies to be released in collaboration with the partner Somali institution.*

- *Provide funding and technical assistance to establish a centralized information clearinghouse portal and develop a virtual information hub on market data, sector studies, investment guides, and other relevant reports. Information could be offered on a moderated "Wiki-share" platform with a call for stakeholders to contribute. Sustainability could be addressed by integrating this platform into relevant local ministries and/or chambers of commerce with commitments from local stakeholders to maintain the platform.*

IFIs:

- *IFIs which currently produce market research and collect economic data should commit to first sharing relevant studies, documents, and reports with the information clearinghouse, and second contribute relevant economic data to the consortium.*
- *IFIs could commit to providing access to consultancy which supports information hub maintenance, data collection, project/report complementarity, best practices, and lessons learned.*

4. Encourage information-sharing through diaspora investor networks and encouraging diaspora investor "meet-ups" that are built around investors' profiles

To champion diaspora investors around the world, stakeholders must understand and target the investors with investment products that better match investor needs. Somali investors, especially those from the diaspora, are a unique type of investor. Recall, for example, there is a good chance investors are also remitters. This alone could significantly alter their willingness to invest in certain products if they feel their remittances are already actively engaged in particular areas. It is crucial that investment products reflect the investor profile (as compared to the Somali diaspora population). That profile includes:

- Older (40 years of age or more)
- Remits greater average monthly funds (US$400 or more)
- Slightly wealthier (measured by home ownership and/or being a savings account holder)
- Living outside of the Somali regions for longer (20 years or longer)
- Having an investing history (in stocks, mutual funds, real estate, or direct business investment)

The survey identified further categorizations by investment preference. In particular, two subcategories emerged:

- *Single Business/Higher-Risk Investment*: Higher-risk investors typically seek direct investment into a single business. Focus groups revealed that active investor profiles typically have more funds to invest (greater than US$50,000) and aren't seeking others for co-investment. This group is likely more knowledgeable about investing and local market dynamics, but when seeking opportunities, requires more precise investment information.
- *Multiple Business/Spread Risk Investment*: Low-risk investors seek co-investment and/or mutual fund vehicles. Low-risk profiles typically have fewer funds to invest (less than US$50,000) and require greater investment information and assistance (for example, due diligence support).

Focus group respondents also indicated that the majority of diaspora are aware, to some degree or another, of co-investment opportunities from within their diaspora community. They also believe co-investment is a strong strategy for reducing risk, and that among the greatest up-front assurances for an investment is co-investing with a successful Somali diaspora investor.

While these beliefs don't necessarily confirm the viability of an individual investment, they do suggest where reliable information would be most welcome and put to good use. Supporting the development of Somali diaspora investor networks or meet ups around the world is a way to encourage diaspora investors—both active and interested—to network and share information. Diaspora organizations already exist around the world, with some diaspora groups already discussing development back home and investments. Promotion of investment meet ups or similar themes would create a global network and serve to organize the demand for market data, investment information, and investment opportunities. Due to the theme of the meet-up itself, membership would attract those more receptive to market research or other investment literacy materials, as opposed to targeting the entire diaspora community. Investing meet ups, or circles, could encourage the sideline investors to consider opportunities and become active investors as they begin to understand and evaluate risk and reward. Once a network of

Box 10: Championing Diaspora Investment Meet-Ups around the World

"Trust—or more accurately, distrust—is a common concern among many diaspora members. Historic circumstances and personal experiences of migration often disrupt trust-bound social bonds at the individual, group, and national levels. While many diaspora want to invest in their country of origin, they often worry about whom they can trust to take capital and convert it into impactful investment at home.

That is why the recommendation to champion diaspora meet-ups around the world is an elegant, powerful, and critical solution: it builds on preexisting diaspora-determined trust networks. Diaspora organizations are voluntary associations that create and reinforce a collective, trust-bound identity as a group through their meetings and activities. Quelling diaspora members' concerns about investment often can begin when the conversation is initiated among a group of individuals that they already know and trust and have worked with in the past.

From a practical standpoint, actors in the private sector and the broader development community often struggle with the question, "When I want to call the diaspora, who do I call?" Partnering with diaspora organizations increases efficiencies in diaspora-targeting. Diaspora organizational leadership and other key opinion leaders within diaspora organizations can become natural allies—within their respective diaspora organizations and within the broader diaspora community—to diffuse ideas related to financial literacy and investments, spreading the word and convincing the skeptical.

One of the many reasons diaspora invest in their country of origin is because they believe by doing so they may gain social status back home and in their diaspora community. By creating investment meet-ups, bringing those groups together, and showcasing the work at diaspora and development events, potential social status gains associated with investment are enhanced and better recognized within the diaspora community."

Liesl Riddle, George Washington University - IDEA

meet ups has been established, it could serve as a platform when developing new funds or investment products geared to the Somali marketplace. Local chambers of commerce and associations could host "investor tours" from visiting investor groups, and local businesses could utilize this value-added service provided by their association.

Actionable Recommendations:

Somali Business Community:

- *Promote collaboration between the Somali business community and qualified market research firms to verify information and produce high-quality reports to meet market demands.*
- *Stakeholders in the Somali business community should commit to gathering and sharing relevant local market data with diaspora investment meet ups and networks.*

Somali Financial Institutions:

- *Should participate in organizing and hosting "investor tours" and offer investment products that complement or facilitate greater foreign investment.*
- *Should fund the development of private-sector players through virtual platforms which would host and highlight Somali investments.*

Diaspora Members:

- *Form investor meet-up chapters in respective communities to evaluate opportunities, network, access information, and organize investment strategies.*
- *Network meet-ups with counterpart Somali organizations such as chambers, associations, and ministries to organize investor tours and receive information on markets and investment opportunities.*

International Community:

- *Map existing diaspora associations which have interest in forming investor meet-ups or networks and aggregate and disseminate information on investor meet-up structure and governance.*
- *Provide organized resource materials on governance frameworks, educational tools, tool kits, etc. (see examples such as www.betterinvesting.org or http://www.ic.or.th/en/).*

5. Partner with SFIs to champion Savings-to-Investment campaigns

Sustainable investment funds rely on local institutions that have incentives and developed systems to select merit-worthy opportunities and then nurture deals that deploy and revolve capital. To both encourage market-based lending and overcome diaspora investors' concerns about SFIs, developing partnerships with SFIs to promote remit-to-savings and savings-to-investment campaigns could go a long way toward establishing this critical connection between stakeholders. Diaspora members often express concerns with local SFIs, but they are not always aware of all local SFI programs or credit offerings. This was shared in the focus groups when SFIs and banking products were mentioned.

If this apprehension around SFIs is overcome, 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. While remitters are not always investors, their remittances could be leveraged into investment. This model could encourage local savings and increase local capital reserves committed to microcredit.

The frequency and amount of remittances are relatively well-known by the SFIs, particularly the money service businesses (MSBs, or *hawalas*) which already manage the remittance flow for the majority of Somalia diaspora. SFIs should therefore consider how to best offer savings and investment products to the diaspora and develop campaigns that reach the most likely participants.

Remitter at Dahabshiil transfer company

This model is already offered informally by some of the MSBs through the provision of enterprise-focused micro-credit, whereby regular remitters are encouraged to set aside a portion of their monthly remittance, or commit to providing an additional remittance payment, which is then used as collateral against a loan. This is most often used through coordination with in-country family members who cannot mobilize the collateral or guarantees that most financial institutions require.

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 portfolio and achieving impact goals. SFIs must have the capacity to use savings balances effectively, invest them in the market, and generate (and protect) reasonable returns in order to make the investment attractive to the investor/remitter in the first place.

For small-scale remitters (US$101–$400 per month) the ability to use their funds as collateral to enable a relative or designated party to access credit from a SFI may be sufficiently attractive in and of itself, and a return on the funds deposited may not be required. Larger-scale remitters (US$400–$1,000 per month) may expect a return on their deposits as well as the ability to use the savings as security for larger loans.

Donors could 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. Local SFIs know a remitter's monthly history, and that combined with a savings deposit in their local institution and a match from a donor guarantor would induce SFIs to extend larger amounts of credit to local businesses. This could target the US$5,000–$50,000 credit limit range, which focus group participants reported is a common investment amount range for a local business.

Box 11: Somali Financial Institutions

“*To both encourage market-based lending in the Somali regions and overcome investor concerns with the Somali financial sector, Somali financial institutions (SFIs) should be encouraged to develop savings-to-investment schemes with diaspora remitters. This model seeks to use remittances to leverage increased investment in the Somali economy. The frequency and amount of remittances are known to the SFIs, particularly the money service businesses (MSBs), which already manage the remittance flow for the majority of Somali diaspora.*

MSBs are already informally using this model in the provision of enterprise-focused microcredit, whereby they encourage regular remitters to set aside a portion of their monthly remittance or commit to providing an additional remittance payment which is then used as collateral against a loan. This is most often used by locally based family members of the remitter who cannot mobilize the collateral that most SFIs require. Building on and formalizing this model would enable these savings balances to be pooled with those of other similar remitters and used by the SFIs, co-invested with their own capital, as a revolving fund to invest in and expand their existing enterprise portfolio. SFIs must have the capacity to manage savings balances effectively, invest them in the market, and generate (and protect) reasonable enough returns to make the investment attractive to the investor remitters.

Development financial institutions (DFIs) could participate in such a scheme and stimulate uptake by offering a match to the remitter’s deposit via a credit guarantee. Local SFIs know the remitter’s monthly history, and that combined with a savings deposit and match from a DFI guarantor would induce SFIs to extend larger amounts of credit to local businesses.

This model would encourage local savings, and increase local capital reserves committed to micro- and small enterprise financing, stimulating greater local economic development and job creation.”

Justin Sykes, Innovest Advisory

In an environment where credit registries and bureaus are not yet functional but are admittedly desired, promotion of such schemes serves to motivate local institutions to evaluate credit risk and share information to establish a credit bureau. Where they might previously have declined to lend to a local business, the combined rating would allow the SFI to reduce risk and develop a credit history with the local borrower. This would also provide for a more market-friendly approach, as local SFIs are then extending credit after evaluating and accounting for the risk.

Actionable Recommendations:

Somali Business Community:

- *Support, through chambers and associations, the development of proper regulatory and legal framework to provide protections and encourage consumer and business savings with SFIs.*
- *Collaborate with SFIs to develop relevant credit registries and bureaus whereby one can establish a credit history and lending institutions can share knowledge to arrive at credit ratings for consumers.*

Somali Policymakers and Central Bank:

- *Solicit and incorporate feedback from financial institutions and relevant associations to develop the proper regulatory and legal framework that provides investor protections and enables SFIs to manage and invest savings portfolios.*

Somali Financial Institutions:

- *Promote savings accounts targeted specifically to remitter types that include financial incentives for remitters to save and opportunities for local businesses to access credit. Couple the savings instruments with lending/credit schemes backed by IFIs or other guarantor providers.*
- *Support the development and dissemination of financial literacy materials for local Somali savers and potential loan recipients to enhance their financial knowledge and capacity.*

Diaspora Members:

- *Support MSBs that offer savings instruments that can be leveraged as either collateral for local loans or those providing a reasonable return on the deposit.*
- *Encourage the uptake of financial capability materials by local recipients of remittances as well as small businesses, and encourage recipients to adhere to a plan of regular savings and/or responsible use of credit.*

International Community and IFIs:

- *Offer portfolio guarantee schemes with partner SFIs based on preset participation criteria. Guarantees would support leveraging the savings deposit and remittance history as collateral and/or guarantee to support the credit. The loan portfolio could encourage credit extension within the range of US$5,000–$50,000, which is not excessive, but is high-impact to the right business, and corresponds to the investment amounts diaspora report as being common in-country.*

6. Support credit products that leverage locked-up real estate value (hybrid mortgage products)

One of the most common investments identified through the SDIS is local real estate. Real estate purchases throughout the Somali regions are most often done as all-cash transactions rather than being financed. The purchasing of real estate by diaspora may be motivated by numerous factors, such as a future desire to return, providing housing for local family members, or as purely a profitable investment. Unfortunately, Somali real estate investments lock up significant capital reserves due to the lack of long-term mortgage products available (which forces consumers to transact in all cash or nearly all cash for real estate transactions). Without the benefit of formal sales benchmarking available through public real estate sales reports, sale prices are set informally and subject to large fluctuations. On top of that, while local policymakers have made attempts, with the support of the international community, to scale systems for land title registry, some formal registration does occur but systems are unclear and underutilized, leaving buyers open to potential title disputes. Without the assurance of clear title, lenders are not willing to give long-term loans, and in the Somali context, where short-term thinking has been reinforced by instability, real estate assets collectively represent a large captive collateral base that, if legitimized, could be leveraged to borrow against and the proceeds used for local investment opportunities.

Box 12: Secure Land Rights Contribution towards Sustainable Development

“It is well documented that secure land rights, along with a viable and enforced land governance framework and a functioning land market, can increase access to credit by way of a pledge of land collateral. Mortgages can be an effective credit tool provided that the related land market and judicial systems are sufficiently developed to permit foreclosure and sale of the collateral. We have seen that without the ability to foreclose and sell the collateral, secure land rights in themselves can be insufficient to make borrowing more common. As World Bank lead economist Klaus Deininger succinctly wrote, “Land policies are of fundamental importance to sustainable growth, good governance, and the well-being of, and the economic opportunities open to, both rural and urban dwellers - particularly the poor.”

This transformation—from land insecurity or landlessness to secure rights to land—has boosted agricultural productivity in the developing world, improved health and nutrition, and increased school enrollment in rural villages across the globe, putting new livelihood-sustaining land wealth in the hands of the rural poor.”

David Bledsoe, Landesa

Downtown Hargeisa

Because the real estate market suffers from these problems, the positive externalities inherent to secure property rights cannot be realized. In the early 1990s, economists such as Peruvian Hernando de Soto Polar began discussing the significance of developing country land rights as an instrument for achieving both economic development and poverty reduction. Individuals who lack legal ownership of their property are challenged in obtaining credit (since their real estate is deemed too risky to be accepted as collateral), and are challenged once again when expanding their business or seeking a buyer. Without property rights it is difficult for enterprises to seek legal remedies to business conflict in courts (since they lack legal ownership), and it is challenging for the government to collect taxes that contribute to public welfare. Existing empirical research has validated the basic premise that land rights can positively affect local credit and investment. A project in Thailand, for example, awarded land titles in a region where there was significant demand for credit that had historically only been satisfied through informal channels. The result was increased land values, investment, and access to credit.[39] A large number of subsequent studies indicated that greater security in land tenure can double investment and boost land values by between 30% and 80%.[40]

"Property rights" is an encompassing term which includes secure tenure, formal title, title registry systems, and legal remedies for property disputes (e.g., laws, courts, arbitration, etc.). Collectively these enable property to be used as collateral for investment, since collateral is only as good as the foundation from which the property right was derived. Research has shown that secure tenure expands access to credit and investment, increases land productivity (as owners have security in their land to invest, increasing its productivity), and reduces conflict (as others will be less likely to engage in conflict if there are formal mechanisms and frameworks surrounding property rights).[41]

Actionable Recommendations:

Somali Business Community:

- *Chambers and business associations such as real estate associations and banking associations should encourage the development of a regulatory framework and legal structure that provides clear title to real estate and allows financial institutions to rely on the ability to enforce foreclosure on collateral when necessary.*

Somali Policymakers:

- *Should pursue a clear and transparent land registry system that is accessible to the public and should engage in a public awareness campaign.*
- *Policymakers, along with the Somali business community, should support and commit to the advancement of a regulatory framework that assures property rights and clear property title as well as enforcement of title transfer when collateral is called to satisfy an unpaid debt.*

Somali Financial Institutions:

- *Create longer-term mortgage products for real estate that are properly titled and registered.*
- *Adopt internal policies and procedures on how to review, verify, and value proposed real estate collateral, then formally register their liens with the relevant regulatory authority.*
- *Collectively, SFIs should encourage lawmakers to address property registration and property rights laws so that real estate holdings are legally (and with confidence) used as collateral.*

Diaspora Members:

- *Diaspora members who hold or wish to invest in real estate should support local organizations that promote strong property rights and promote improvement of local laws governing land and title.*

International Community:

- *Provide donor support to assist regulators and SFIs in developing the legal framework to issue and register clean titles, and promote fair property rights legislation.*
- *Provide technical assistance as requested by local regulators and other stakeholders.*

IFIs:

- *Provide risk-adjusted credit guarantees and begin backing portfolio lending on property.*
- *Provide best practices and guidance to regulators and SFIs on methods of valuation and collateral discount values as the use of real estate as collateral goes through the transformation from a held asset without leverage to a pledged asset to unlock cash and invest in the local economy.*

7. Provide tangible assurances to diaspora investors, such as credit guarantee schemes

Given the significant gap between diaspora members' appetite to invest and known investment opportunities, as well as the relative lack of confidence in SFIs and the lack of local protections for investors, fund design is critical to providing investor assurances. Although a common approach throughout much of the developing world, credit guarantee schemes (CGSs) have not been used in the Somali context, primarily due to the real and perceived risk that has fraught the region. However, given Somali advances in security and increased economic activity, the appetite to invest is much stronger and credit guarantees would now provide a significant positive impact in encouraging diaspora investment.

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. Such guarantees are usually provided for a fee covered by a borrower or lender or perhaps both. In the absence of formal credit information sharing among commercial banks, and with SMEs that may not have the necessary collateral to back a loan, CGSs offer a valuable alternative.

Another form of a private CGS is akin to the principles of micro-finance, whereby borrowing circles guarantee each other's obligations. This basic approach can be scaled to include industry associations, where members jointly provide guarantees on the loans taken by the individual members. Where donors are particularly interested in supporting specific beneficiaries, whether they be women, or youth, or particular sectors, a supranational CGS from a donor or international financial institution can prove extremely effective and much less costly than a matching grant scheme.

CGSs are catalytic in nature, and especially promising in the Somali context given that SDIS findings indicate a matching grant is only slightly more favorable than a loan guarantee from an international institution. If the same amount of funding is dedicated to CGSs, with proper protections to guard against losses, the funds can be leveraged multiple times as they guarantee revolving loans. The potential impact is many times greater than that of a matching grant.

As a tool for local development, CGSs have multiple benefits. They ensure capital is held and managed locally, which can serve to strengthen an SFI's capacity. They are proven catalytic instruments when mobilizing outside funds (whether from private companies, banks, individual investors, NGOs, or investment funds). They have a range of potential uses, such as backstopping financing for large-scale projects (e.g., infrastructure or utilities development), lengthening the maturities of loans to small enterprises, or enabling SFIs to enter new markets (such as mortgage or new sector lending). In a broad sense, CGSs are well-suited to facilitating investment flows into developing markets and into higher-risk sectors.

CGSs have been effectively deployed in multiple development contexts with very impressive results. Consider the results

Somali businessmen

accomplished by the USAID Development Credit Authority (DCA). In their 2014 Impact Brief, DCA said they have catalyzed US$3.7 billion of private capital for businesses since starting the effort in 1999. And effectively run, CGSs can be very low-cost for what they leverage. Through late 2013, USAID had paid out only US$10.8 million in claims across the entire portfolio while collecting the same amount in bank fees.

In one specific case in 2013, a partnership with US-based institutional investors placed US$100 million into India's clean energy sector. This investment is expected to create 300–400 additional megawatts of sustainable energy capacity. Applied in the Somali context, this sort of model could be tremendously beneficial. It is estimated that through *all* Somali areas, installed electrical generation capacity is around 83.4 megawatts. Given this estimation, the same increase of 300–400 megawatts for Somalis would mean an increase of *360% to 480%* in terms of energy generation. That CGSs would have great impact is indisputable, but they are not a product that can simply spring up overnight, and they require a proper enabling environment to succeed. If SFIs are able to demonstrate standards that satisfy eligibility requirements, the message to diaspora investors would be a strong one, signaling local institutions are ready to receive and deploy capital with confidence.

Actionable Recommendations:

Somali Business Community:

- *Should promote responsible use of credit and encourage financial capability training for borrowers.*

Somali Policymakers:

- *Should work to ensure an enabling environment and regulatory framework to encourage acceptance and responsible use of CGSs.*
- *Should promote a regulatory framework which facilitates CGSs, takes into account the local context, and is well-defined, with adequate risk management practices.*

Somali Financial Institutions:

- *Adopt the Financial Action Task Force on Money Laundering's International Standards and demonstrate compliance with the internationally recognized Wolfsberg Principles on Anti-Money Laundering, which set global industry standards that private banks have adopted.*
- *Demonstrate the adoption and implementation of Know Your Customer (KYC) policies, which are processes to verify clients' identities. Implemented KYC policies assist in combating corruption, identity theft, financial fraud, money laundering, and terrorist financing.*
- *Establish and commit to a Code of Banking Practice, which would be the banking industry's customer charter on best banking practice standards.*
- *Work cooperatively with other commercial banks, support a Banking Association to establish a credit bureau, and establish industry standards which serve as an interface for compliance with upcoming CGSs.*

Diaspora Members:

- *Demonstrate interest in investing in CGSs and encourage the development of CGSs that incentivize and facilitate diaspora investment into local businesses.*
- *Share support for developing CGSs with host-country policymakers and encourage them to consider pledging funds for CGSs as an alternative for sustainable development, and demonstrate the existence of organized groups of diaspora willing to invest given the assurances of a CGS.*

International Community:

- *Encourage donor aid to pledge funds that support CGSs.*
- *Provide consultation and experience to develop CGSs for the Somali context.*
- *Fund a pilot project to engage qualified expert design and test CGS framework.*
- *Pledge funding to underwrite initial CGS frameworks and encourage matching fund support.*

IFIs:

- *Share the framework for CGSs that already exist in other contexts.*
- *Commit to supporting development of new CGSs that are designed for the Somali context.*

8. *Develop mutual funds that offer varied risk profiles, target key sectors, and produce a double bottom line (profit and impact)*

The dramatic rise of impact investing over the last decade has brought new capital into emerging markets, but has also driven the expansion of investment vehicles, enhanced entrepreneur support services (accounting, marketing, mentoring, etc.), raised the entrepreneur profile, and promoted a new type of for-profit—the social enterprise. Today the impact investing market is estimated to be in the range of US$400 billion to US$1 trillion worldwide.[42] This movement has paralleled another significant trend in global money flows—the proliferation of global remittances. Increased annual remittance flow to developing countries of an estimated US$440 billion globally[43] has intersected with the growth of impact investing to yield unique opportunities for diaspora investors.

In analyzing this survey's data on diaspora investors, three key investment factors surfaced: 1) interest in and demand for co-investment mechanisms, 2) varied risk profiles, and 3) the value of social returns is nearly as much as financial ones. First, there is interest and demand among Somali diaspora investors for co-investment mechanisms. This report provides evidence that a sizeable number of diaspora investors, and those who are considering investing, prefer co-investment mechanisms. At a broader level, diaspora clearly expressed interest in vehicles that permitted multiple investors in one deal; 71% showed preferences for mutual funds, public equities, and co-investment schemes. Second, respondents have varied financial risk tolerance levels. Risk tolerance levels had roughly similar response rates among "very low," "low," and "risk tolerant" (the largest number of respondents reported "moderate" tolerance and the smallest number reported being "risk acceptant"). Third, respondents reported seeking social returns as being a close second to financial returns when evaluating an investment opportunity. Thus, despite a varied risk profile, diaspora investors prefer investing with others and are nearly as frequently motivated by social as financial returns.

Furthermore, this data proves that diaspora investors will invest in a wide array of sectors, as they reported investments in 22 different sectors. An investment vehicle that encourages and channels diaspora investment into "gateway sectors"—those that, if invested in, provide a beneficial multiplier effect to society at large—is well-suited to offering both financial and social return. As an example, investment in a hospital not only expands the number of potential patients served, and the quality and sophistication of those services, it also strengthens a community against disease and illness, ensuring more individuals are healthy, economically productive members of society.

Mutual funds or bonds may be ideal vehicles to address these factors. Bonds would be a 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-economic 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.

Organizations such as Homestrings[w] and Calvert Foundation[x] have already begun addressing these three key investment factors through their respective product solutions. Homestrings developed an online investment platform that facilitates diaspora investments into projects, funds, and bonds that are selected for their prospective socioeconomic impact and investment profitability. To date, Homestrings has mobilized US$25 million of diaspora funds into key sectors while offering varied-risk vehicles. Likewise, since 1995, more than 15,000 Calvert Foundation investors have invested more than US $1 billion through the foundation's Community Investment Note (CIN) product. The CIN is a fixed-income product that supports a diversified global portfolio of nonprofits, micro-finance institutions, social enterprises, and loan funds that benefit underserved communities and generate measurable social returns.

w www.homestrings.com
x www.calvertfoundation.org

Actionable Recommendations:

Somali Business Community:

- *Evaluate investment products already available from investment groups in other markets, and identify local investments that could likewise be packaged and attractive to diaspora investors.*

Somali Policymakers:

- *Policymakers, in conjunction with the SFIs, should commit to the advancement of enhanced security laws that would meet the needs of international investors.*

Somali Financial Institutions:

- *Establish mutual funds or bonds to support investment into gateway sectors.*
- *Provide transparent reporting mechanisms on investment management and performance.*

Diaspora Members:

- *Evaluate both the social and financial returns (the double bottom line) of mutual funds and/or bonds which can support local communities.*

International Community and IFIs:

- *Provide technical assistance and support to local SFIs to design and implement diaspora-inclusive investment products (mutual funds or bonds) with these characteristics. Support may include structuring and issuing the investment and identification of ideal sectors, and may even go so far as to support administering the fund or bond based on the needs and abilities of the local community and diaspora investors.*
- *Provide financial support to facilitate the launch of mutual funds or bonds to support the local community. Financial support may be provided in the form of guarantees, investment matching, or offsetting the administrative burden of administering such investments.*

9. Promote community development finance including community infrastructure bonds and risk insurance

When societies emerge from prolonged periods of conflict, they experience the bitter paradox of needing infrastructure-dependent services (e.g., transportation, electricity, water, education) while lacking public revenues for reconstruction and governmental capacity to direct the rebuilding effort. Private-sector actors often step in to help fill the void, but limited resources focused on quick returns are not sufficient to address the long-term capital-intensive spending on things like utility grids, ports, and roads.

Infrastructure can be broken into two subcategories: “hard” and “soft.” Hard infrastructure typically refers to roads, ports, railways, and airports. These are often large, capital-intensive projects tackled by scaled, structured finance which may require commitments from development financial institutions (DFIs) in the post-conflict context. In the Somali context, however, community-level projects (such as rehabilitation of canals or construction of light bridges) are still hard infrastructure, deliver significant impact, and are not necessarily excessive in cost. Soft infrastructure refers to sectors such as health and education. Construction of hospitals or education facilities could necessitate scaled finance, yet villages benefit greatly from simple clinic or school construction, which is feasible with diaspora-pooled capital. Rural villages also benefit greatly from development investment in wells, canals for irrigation, and other infrastructure that render agricultural and livestock projects more effective.

As previously mentioned, the SDIS concluded that diaspora consider social returns to be nearly as important as financial returns. They spoke about wanting to create jobs and support the payment of education fees for family and the disadvantaged, but they also shared stories of sending funds to local elders to rebuild schools, refurbish canals, and drill wells. Not only do they provide for the immediate welfare of their loved ones, they also, on an ad hoc basis, already provide capital for community reinvestment. When asked during the focus groups about their interest in formally pooling funds to invest in a targeted community development project with an express financial, social, or blended financial/social return, they responded they would strongly consider doing so if a formal instrument existed.


HECO solar generation site in Burao

On the other side, concerns about community finance include the fact that security still isn't completely assured in the Somali regions and destruction of projects funded by diaspora could feasibly occur. Likewise, political instability is a legitimate threat to investment. But schemes to mitigate risk for private investors in infrastructure in conflict-affected countries are not new. The Multilateral Investment Guarantee Agency (MIGA) of the World Bank specializes in providing its member countries with political risk insurance for private investors. Political risk insurance is particularly important for infrastructure projects that involve commercial finance as guarantees against 1) transfer restriction and inconvertibility: losses the investor incurs as a result of inability to convert local currency into foreign exchange and/or transfer foreign exchange out of the host country; 2) expropriation: losses arising from host government actions that reduce or eliminate ownership over, or rights to, the insured investment; 3) war and civil disturbance: physical damage to assets or disappearance of the investment project as well as prolonged business interruptions due to war and civil disturbance in a country; and 4) breach of contract: losses resulting from a breach by the government of its obligations with an investor.[44]

At present, Somalia is not a MIGA member and therefore infrastructure projects cannot benefit from MIGA protection itself. Conceptually, however, schemes with some of the same characteristics could be pursued by donors and could serve to encourage diaspora investors. Donors already subsidize many community infrastructure projects throughout the Somali regions and therefore routinely donate the cost of project subsidies without the possibility of a return or sharing the cost. They could feasibly offer combinations of guarantees, insurance, and matching contributions to attract diaspora funds. Institutional assurances to diaspora investors would be a mutually beneficial proposition.

Recall that diaspora expressed interest in pooling funds: 71% showed a preference for mutual funds, public equities, and co-investment. If pooled funds were combined with de-risking schemes, such as guarantees, the prospect of directing diaspora finance to community projects becomes more attractive.

Finally, diaspora bonds have long been used as a vehicle to raise stable and relatively inexpensive capital. A diaspora bond can work well in less-developed or unstable countries that may have difficulty in raising sufficient capital from traditional sources to pay for large-scale community projects. Such bonds are marketed to diaspora members and offer a strong funding alternative to governments facing such hurdles.[45]

According to the African Development Bank, "Diaspora bonds are typically used to finance large-scale infrastructure development projects in the private sector and are generally used by a country to implement its development strategy. Moreover proceeds of diaspora bonds could be earmarked to projects with appeal to the diaspora, such as infrastructure projects, housing and social amenities."[46]

Actionable Recommendations:

Somali Business Community and Policymakers:

- *Identify community development projects that could be offered as discrete, formalized bond issues.*
- *Pass relevant laws that provide the legal assurances to support the issue of such instruments.*

Somali Financial Institutions:

- *Demonstrate institutional capability to support in-country management of such instruments with open and transparent adherence to international standards of investment management.*

Diaspora Members:

- *Pool capital to invest in community development projects and bond issues that address infrastructure needs.*
- *Declare interest in such instruments to host-country development aid organizations.*

International Community & IFIs:

- *Provide technical assistance to create innovative bond or other relevant investment vehicles that facilitate diaspora investment in community development or infrastructure projects.*
- *Issue guarantees to underwrite the issue of diaspora bonds targeting infrastructure development projects.*

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APPENDIX A

Survey Responses for All Countries

COUNTRY	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES
United States of America	200	23.0%
Somalia[a]	187	21.5%
United Kingdom	121	13.9%
Canada	105	12.1%
Sweden	42	4.8%
Netherlands	37	4.2%
Kenya	35	4.0%
Denmark	35	4.0%
Norway	14	1.6%
Finland	11	1.3%
United Arab Emirates	9	1.0%
South Africa	9	1.0%
Australia	9	1.0%
Djibouti	7	0.8%
Saudi Arabia	5	0.6%
Italy	4	0.5%
China[b]	4	0.5%
Ethiopia	4	0.5%
Switzerland	4	0.5%
Belgium	3	0.3%
New Zealand	3	0.3%
Germany	2	0.2%
Ireland	2	0.2%
Turkey	2	0.2%
Uganda	2	0.2%
Congo (DRC or ROC unspecified by respondent)	1	0.1%
France	1	0.1%
Jordan	1	0.1%
Kuwait	1	0.1%
Poland	1	0.1%
Qatar	1	0.1%
Sudan	1	0.1%
Thailand	1	0.1%

a Of these 187 respondents, 9 specified they were from Somaliland, but for purposes of categorization they've been grouped under Somalia.
b Two of the four respondents who specified they were from Hong Kong were classified as from China for the purposes of categorization.

APPENDIX B

Region of Origin of Survey Respondents

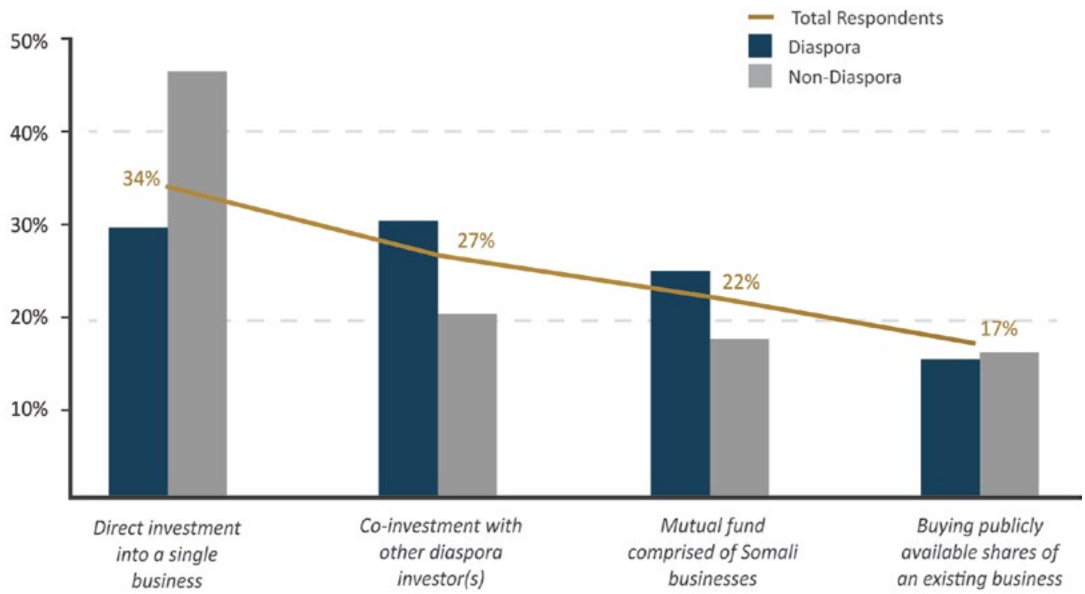
The following table shows the responses of those who answered “Other” when asked where are they from. The survey provided four options to respondents: South Central, Somaliland, Puntland, or Other. If Other was selected, respondents were asked to type in where they are from, thus these are self-identified. All responses were entered as text; where spelling variations occurred we used our best judgment to properly categorize intended responses.

REGION	No. OF RESPONSES	% OF RESPONSES
Mogadishu	36	4.9%
Banadir	7	0.9%
Kismayo	7	0.9%
Galmudug	6	0.8%
Hiiraan	6	0.8%
Jubbaland	6	0.8%
Khaatumo	6	0.8%

APPENDIX C

Diaspora vs. Non-Diaspora Investment Opportunity Comparison

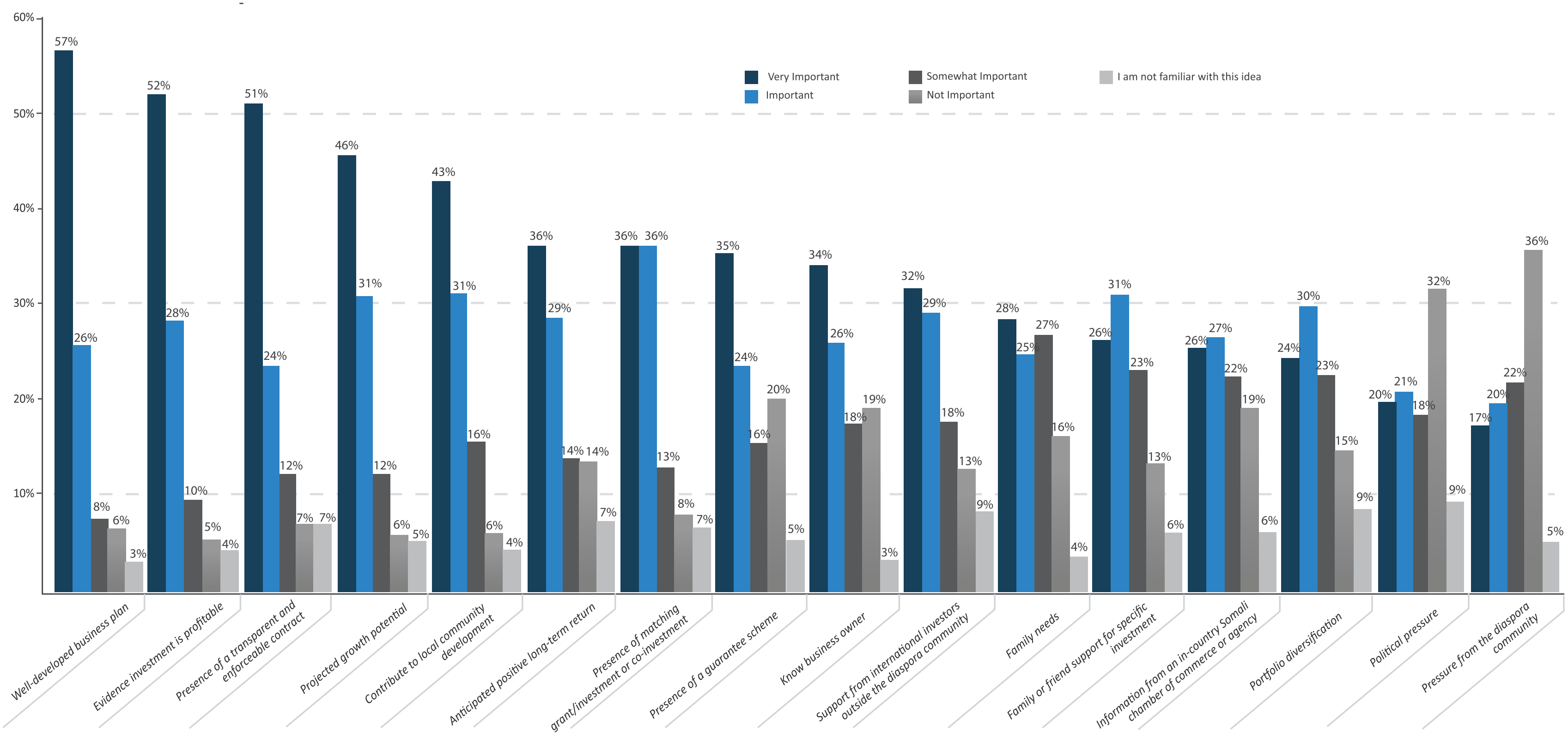
Survey Question: You have decided to invest $25,000 in a Somali opportunity. What do you consider the most attractive option?



APPENDIX D

Complete Detail of Figure 21: Factors Influencing Investment Decisions

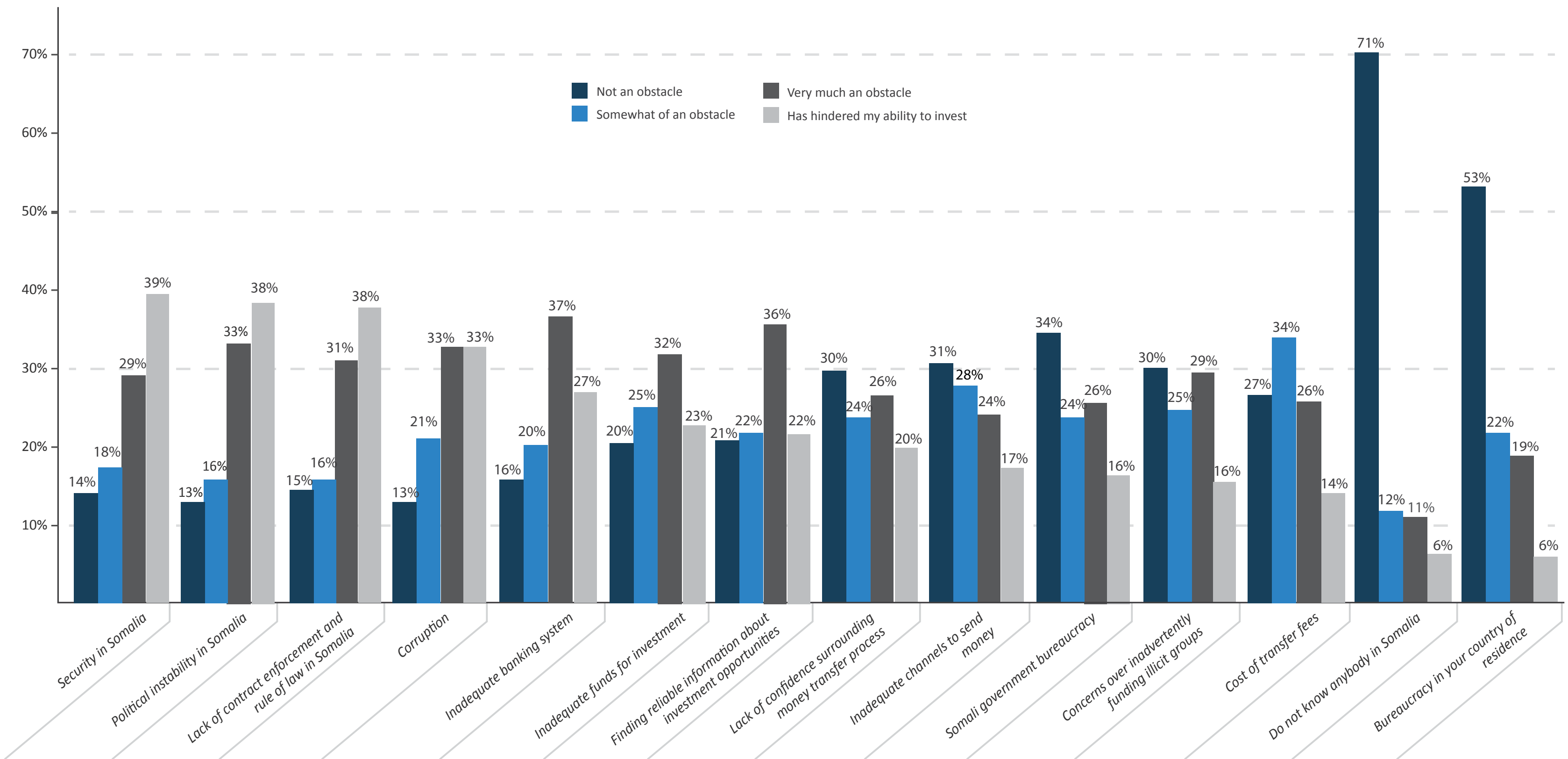
Survey Question: Please indicate how much the following factors matter or would potentially matter to your decision to invest in a Somali-based opportunity?



APPENDIX E

Complete Detail of Figure 29: Degree of Obstacles Preventing Investment Decisions

Survey Question: Please indicate how serious of an obstacle these factors have been in your real or potential investment decisions?



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