PRIVATE SECTOR FOR REFUGEES (PS4R) PLATFORM

Policy & Research Paper

# REFUGEE-RELATED INVESTMENT: MYTH OR REALTY?

PS4R
PRIVATE SECTOR FOR REFUGEES

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Cover image: High rises and hotel buildings in Punta Pacifica, Panama City, Panama. Photo: Gerardo Pesantez / World Bank.

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# Executive Summary

**As of 2022, an estimated 108.4 million people were forcibly displaced worldwide, of which 35.3 million are refugees, 62.5 million are internally displaced persons (IDPs), and 5.4 million are asylum seekers.**[1] Unfortunately, a confluence of increasing global conflict and instability, natural resource scarcity, and climate shocks indicate an increasing and accelerating trend in the coming decades. The World Bank estimates that by 2050, up to 216 million people could become internally displaced, while, according to the UN, climate migrants may reach one billion. The prognosis for forced displacement in the coming decades ranges from daunting to dire.

**While humanitarian aid can be an effective model for addressing forced displacement challenges in the short-term, sustainable, and long-term solutions to refugees' economic inclusion are sorely needed.** Utilizing refugee-related investment — a specific subset of impact investing that takes a commercial, profit-driven approach to investing in companies that have a refugee focus — the international community and private actors can leverage the current financial system and ongoing socio-economic development efforts to improve the lives, livelihoods, and well-being of refugees and their host communities through the much-need provision of formal work opportunities, goods, and services.

**Attention to refugee-related investment has been emerging in recent years**. Despite a lack of purely commercial players who invest in accordance with profit-oriented principles, those who are actively and intentionally investing in the refugee space seem to have at least some degree of concessionality in their approach. At the same time, a wide spectrum of stakeholders using a wide range of organizational models is exploring different investment strategies to support migrants and refugees. Taking initiatives to innovate and take risks, firms are employing modalities that mix concessional and hard financing to varying degrees to try to prove models that are both effective and can be scaled up to address future challenges. In this context, some players are making headway establishing funds with innovative structures, risk management techniques, and monitoring and evaluation systems, while others are patiently building out the pipeline of refugee firms so that they can be viable for venture capital (VC) investment in the medium-term.

**However, the refugee-related investment space still faces a myriad of challenges and obstacles**. While roadblocks abound, this paper highlights four broad challenges in particular: (i) a lack of deep or developed pipelines makes investment unclear; (ii) a few commercial investors are actively building investment products supporting refugees, accompanied by a nascent business case surrounding refugees; (iii) a lack of investor-level data, fund data-sharing, and best practices that are part of a healthy investment ecosystem; (iv) political and regulatory hurdles, as well as massive idiosyncratic differences between hosting contexts.

**In comparison to several years ago, the field is showing hopeful progress that could be increased by development support for refugee-related investors.** As some initial grant-reliant refugee-related investment models are moving away from pure concessionally towards pure profit-driven principles, the international community can help provide tailwind by improving the dynamism in the ecosystem through support programs such as accelerators and mentorship initiatives to help refugee-led and refugee-serving companies in their early stages, as well as research initiatives to help in filling lingering data gaps. When willingness is aligned on both sides, deft and mutually respectful partnerships between commercial players and development actors can be a relatively low-cost initial engagement with potential to build longer-term investment product-development partnerships. In this respect, increased grants and concessional financing are needed to prove effective models in the refugee investment space, and then to crowd-in increasingly commercial financing, moving models away from concessionally and closer to commerciality.

**Despite a myriad of obstacles and challenges, refugee-related investments have much opportunity for growth and can be of great mutual benefit to both refugees and local communities.** The business case for investing in refugee-related companies or projects is gradually becoming visible in several world regions and contexts, from East Africa to Europe. At the same time, the appetite for this kind of investment is seen in its diverse applications.[2] Like other trends in international development, refugee-related investment will take time, while challenges and obstacles abound. This paper takes stock of the current state of the space, highlights notable challenges being faced and offers some recommendations to guide future efforts in evolving the field of refugee-related investing.

## Principles for refugee-related investment: the PS4R Charter of Good Practice

The Private Sector for Refugees (PS4R) Platform is a World Bank project aiming to provide economic opportunities for refugees and host communities through stronger private sector engagement. PS4R promotes knowledge sharing and collaboration on the ground through innovative projects that promote refugees-private sector collaboration. The project also manages a global partnership that brings together businesses, investors, philanthropic, development, and humanitarian actors to facilitate the role of business in providing practical solutions to empower refugees to be positive contributors to host economies.

## Box 1. What is the private sector-refugees link?

The private sector-refugees link bridges refugee-oriented development work with commercially driven business operations. When engaging with each other in a sustainable way, private sector actors and refugees can create jobs for refugees and host communities, provide new kinds of services or enlarge the scope of existing services, innovate throughout supply chains and products, invest in underserved areas or in local companies, develop the human capital of vulnerable populations, and fuel creation of new businesses, products, and services for the benefit of all communities.

Learn more at www.worldbank.org/ps4r

**To guide businesses on their engagement with refugees, PS4R and its global partners drafted a Charter of Good Practice on the Role of the Private Sector in Economic Integration of Refugees**. The charter outlines 20 principles showing how the private sector can engage with refugees in a mutually beneficial way. The Charter is organized around four themes:

- **i.** refugee entrepreneurship,
- **ii.** refugee-related investment,
- **iii.** refugee employment, and
- **iv.** products and services targeting refugees.

For each theme, it sets out five main principles that different kinds of actors can use as a guide to ensure refugees' economic integration.

As set out in the Charter, investment is an integral part of a larger conversation on private sector approaches to economic inclusion of refugees and moves within the broader private sector-refugees link. For each theme, the Charter sets out several main principles for ensuring refugees' economic inclusion. The principles for refugee-related investment are depicted in Table one and guide the focus of this paper. The five PS4R principles are useful guideposts for refugee-seeking investment, as reflected in the case studies explored within this paper.

**Table 1. PS4R principles for refugee-related investment**

<table>
<tr><th colspan="2">To promote and deploy investments that enhance economic inclusion of refugees, enable inclusive growth of host economies, and benefit investors and target beneficiaries alike, the private sector should consider the following five principles:</th></tr>
<tr><td rowspan="2">Additionality</td><td>Refugee-related investment is complementary to what is available in the market and crowds in on the private sector.</td></tr>
<tr><td><ul><li>Ideally, investments ought to provide both financial and non-financial additionality in terms of (innovative) financing structures, resource mobilization, risk sharing, policy and regulatory change, standard-setting, and knowledge-sharing.</li><li>Investments should enhance opportunities for the host community as well as the forcibly displaced.</li><li>Investors should attempt to channel refugee-related funds through local financial institutions before they consider building new mechanisms with additional intermediaries and resources.</li><li>Alternative or new mechanisms are warranted when a lack of flexibility, speed, or competency prevents the mobilization of assets for deployment to the target recipients.</li></ul></td></tr>
<tr><td rowspan="2">Resilience</td><td>Refugee-related investments should contribute to the host economy’s resilience, long-term viability, and growth potential through market development to counter shocks, including those caused by forced displacement.</td></tr>
<tr><td><ul><li>Investing in alignment with the host countries’ priorities and boosting resilience is fundamental to economic integration of refugees and social cohesion with host communities.</li><li>Investors should prioritize sectors most likely to be impacted by a high influx of refugees such as basic services and climate adaptation.</li><li>The private sector ought to work in partnership with public investors, civil society organizations and refugee communities to increase the marketability of the host economy and drive its</li></ul></td></tr>
</table>

| | |
|---|---|
| | growth through investments in competitive sectors, business-to-business matchmaking, and integration into global value chains.<br>● Investors should acknowledge vulnerability factors and support targeted measures such as insurance schemes and innovative technology solutions to address those to enhance the resilience of refugees and host communities.<br>● Investments in resilience require an evidence-based approach, as it is vital to carefully assess market failures and investment gaps, and to couple investment with adequate technical assistance and capacity building. |
| **Inclusion** | Refugee-related investments should support financial and social inclusion and benefit both the forcibly displaced and host communities.<br>● The private sector should prioritize investment and financial offerings targeting inclusive businesses that expand access to goods, services, and livelihood opportunities on a commercially viable basis to people at the "base of the pyramid," be they refugees or members of the host communities.<br>● Investments ought to promote diversity and offer solutions that help reduce compounded inequality and remove barriers related to gender, disability, and other vulnerabilities that hamper financial and social inclusion.<br>● Investments should be designed to extend services to the unbanked, and to enable the formalization of informal businesses, which cannot access investments outside of the world of microfinance.<br>● The private sector ought to base its investment strategy upon a consultative process with relevant stakeholders (inclusive of civil society, labor market partners, target beneficiaries, and policy makers) in the host communities. |
| **Instruments** | Solutions for investment, banking, and access to finance for refugees and host communities should be flexible and agile to respond and adapt adequately to the increased demand and risks inherent in a refugee-affected market configuration.<br>● Policy makers should seek to create an enabling environment for a variety of funding mechanisms by the |

| | |
|---|---|
| | public and private sector, including several financial instruments deployed for various return horizons and risk appetites, depending on the needs of the market linked to the situation at hand, including recovery, stabilization, and restoration.<br>● Cooperation between various actors (public–private) is necessary to promote blended finance solutions to de-risk investments.<br>● Instruments ought to be designed with an ambition to collect private finance.<br>● Innovative financing solutions, including development impact or sustainability awareness bonds and outcome-based instruments, should be sough and promoted.<br>● Financing instruments should be perceived as part of a larger toolkit and ensure that refugees seeking financing can access the mainstream financial actors and intermediaries. |
| **Impact** | Refugee-related finance and investments deliver long-term impact and are profitable and sustainable for target beneficiaries, investees, and investors alike.<br>● As global appetite for impact investment is as high as US$26 trillion, the focus should be on how to best measure and track intentional impact via appropriate indicators.<br>● Capital result frameworks should be linked to those of internationally recognized targets and standards for impact such as the Sustainable Development Goals (SDGs) and the Global Compact for Refugees to avoid "impact washing."<br>● Impact ought to be monitored consistently on an ongoing basis to identify and share lessons learned that emerge and develop through the investment cycle.<br>● It is recommended that a migrant/refugee lens with a clear set of criteria be applied to capture investments' economic and social impact on both host communities and refugees.<br>● Investors should complement traditional investment analyses with specific analytics to better understand risks related to investments in/by refugee-owned or refugee-oriented business. For example, productivity and debt repayment risks may not be higher than under comparable non-refugee circumstances. |

## About this paper

This paper takes stock of the current state of the refugee-related investment space against the backdrop of swelling forced displacement and refugee numbers globally. It identifies what is needed to grow the refugee-related investment space going forward and offers some recommendations to governments, development partners, and private sector actors (including financial institutions and commercial investors) to accelerate the economic and social inclusion of refuges while benefitting host countries' local private sectors. In that regard, this paper can be used as a guide for refugee-oriented investors and non-private actors working in the field seeking practical ways to implement lessons from the private sector-refugee link.

This paper draws on the need for more research and evidence on the viability of refugee-related investment. It presents and discusses issues and opportunities for investors to enhance the global knowledge on the space, starting from the PS4R framework for refugee-related investment as presented in the Charter of Good Practice. Chapters one and two provide an introduction on refugee-related investments, including a preliminary definition. Chapter three gives an overview of the state of play of refugee-related investment and showcases several case studies useful for the next sections. Chapter four provides a thorough accounting of challenges and obstacles alongside different approaches and initiatives taken in the space, accompanied by an assessment of their effectiveness. Lastly, chapter five concludes with an assessment of what is possible going forward and a set of recommendations for improving the refugee investment space.

## Methodology

The authors interviewed more than 20 players in the refugee investment space across the spectrum of pure concessionality to pure commerciality. Actors interviewed include non-governmental organizations (NGOs) and nonprofits, foundations, development finance institutions (DFIs), venture capitalists (VCs), investment funds, as well as implementers of a variety of novel hybrid models. Interviews aimed to separate the "myth" from the "reality" on refugee investing. To supplement the interviews, the authors also drew from source material provided by the interviewed organizations, publicly available information on the refugee investment space, as well as World Bank Group publications, much of it developed under the PS4R platform.

# 1. Defining refugee-related investment

The World Bank's PS4R platform provides a first definition to establish the scope for the kinds of investments that could be considered "refugee-related." PS4R defines "refugee-related" companies as companies that participate in private sector support and create economic opportunities for forcibly displaced populations (FDPs), including but not limited to refugees, through five criteria:

i. companies owned by FDPs
ii. companies employing FDPs
iii. companies providing services and goods to FDPs or companies linked to displacement flows within the host community
iv. companies allowing the development of sectors that will ultimately result in enhanced downstream economic opportunities and inclusion of FDPs
v. companies located in tense geographic areas due to displacement flow, with a view to alleviate these tensions

In addition, the PS4R approach ensures a gender lens to highlight the role of refugee and displaced women in business (as owners and as employees).

While this framework is useful for defining key principles in deploying refugee-related investment and paves the way for further analysis, it stops short of providing a working definition of what exactly constitutes a "refugee-related investment". While the concept remains flexible, a few definitions have been proposed thus far.

The Refugee Investment Network (RIN) is a financial services non-profit dedicated to leveraging impact investing and blended finance to create sustainable economic solutions to forced displacement crises worldwide. RIN has established the Refugee Lens, a framework for defining, qualifying, and tracking refugee-related investments over time. The Refugee Lens was developed as a means to try to crowd-in private investments into the refugee space, aiming to provide investors with a mean to qualify and assess prospective deals as "refugee-related".[3] They ultimately provide an additional degree of depth and scope — often numerically — on top of the already broad PS4R definition.

According to RIN's Refugee Lens, investments must meet one of the following criteria to qualify as a refugee-related:

i. **Refugee-owned**: the enterprise is at least 51% refugee-owned; or 20% refugee-owned and has at least one refugee listed as a "key person" in operating documents
ii. **Refugee-led**: the enterprise has at least one refugee in senior management (e.g., C-suite leadership positions); or a board with at least 33% refugee representation

iii. **Refugee-supporting**: a project that provides, or has the potential to provide, a good or service that supports humanitarian efforts, or an enterprise or investment that intentionally supports refugees through the development of infrastructure and services that buttress stability in disproportionately large displacement hosting cities/communities by providing infrastructure, jobs (a commitment of at least 20% of workforce), skills, products, or services to refugees that demonstrably improve the quality of refugee self-reliance, resiliency, health, education, or inclusion in financial markets

In addition, according to the Refugee Lens, a given project may also qualify as[4]:

iv. **Refugee-supporting, host-weighted:** if the project supports host community businesses and the sponsor commits to adopt a policy to source at least 10% of all sub-contracting for the project from refugee-owned businesses. Deals must demonstrate either a minimum current percentage of refugee jobs or a commitment to increase their hiring within a reasonable timeframe to that level.

v. **A Refugee Lending Facility:** if the debt instrument lends to refugee-owned/-led enterprises, refugee-supporting enterprises, or refugee borrowers for at least 25% of the loan proceeds.

vi. **Refugee Funds**: if they are private, alternative investment vehicles (e.g., private equity, venture capital, or portfolio structures deploying debt and/or equity) with investment strategies such as late-stage venture, growth equity, or expansion financing that have: a fund manager or general partner that is at least 20% refugee-owned or controlled; OR portfolio companies that are refugee-owned, refugee-led, or refugee-supporting, making up at least 33% of the vehicle's portfolio.

Overall, refugee-related investment can be defined as a specific subset of impact investing that takes a commercial, profit-driven approach (often through a VC or private equity (PE) fund) to investing in companies or projects that will ultimately have an impact on the lives of refugees and their host communities. For the purposes of this paper, refugee-related investment will encompass the five principles of the PS4R Charter as well as the five types of refugee-related companies conceptualized by PS4R and the Refugee Lens developed by RIN. As a result, refugee-related investment seeks to apply commercial and profit-driven principles to creating markets and businesses — and ultimately opportunities — for refugees. The goal of a "refugee-related" investor is not simply to invest in refugees, but to leverage investments and the current financial system to improve the lives, livelihoods, and well-being of refugee communities through the provision of formal work opportunities, goods, and services. This paper will look at refugee-related investment based on this definition.

# 2. Why is refugee-related investment needed?

While numbers of refugees and other FDPs are on the rise, the forced displacement challenge is not shared equally worldwide. Certain high-income countries host large numbers of refugees, such as Germany and Türkiye, which host 1.3 and 3.6 million respectively.[5] However, despite their limited resources, low- and middle-income countries host the lion's share — roughly 85% of the world's refugees.[6] Many refugee-hosting countries are subject to fragility themselves, or otherwise struggle in ways to provide for their own citizens. As time expands, the prospects for preventing these crises and for refugees to return home on average diminish, and hosting situations become increasingly protracted. In 2019, only 593,800 refugees were able to return home — a sharp decrease from the 667,400 refugees who repatriated in 2017 — but these numbers were outpaced by greater displacements.[7]

The increasing number of refugees, coupled with the increasingly protracted nature of many forced displacement crises, underscores the need not only to prevent and resolve these crises, but also to provide employment and income generation opportunities for FDPs and their host communities. With this unprecedented global surge, forced displacement has unsurprisingly risen to the top of not just the humanitarian agenda, but also the development and business agendas.

While humanitarian interventions and donor aid are crucial and indispensable in providing immediate relief in emergency situations, limited relief and government aid budgets cannot fully address the sizable need.[8] And that need is growing: in 2022, 274 million people are projected to require protection and humanitarian assistance, the highest number in decades.[9] At the same time, while the amount of humanitarian grants consistently grows, total official development assistance (ODA) from major donor nations to conflict- and fragility-affected contexts has stagnated.[10] The vast majority of humanitarian aid funding comes from only ten government donors, and the funding gap at present is around 60-70% of total need and growing.[11]

While the humanitarian model has many long decades of experience addressing emergency contexts with short timeframes, it is by no means a panacea. Humanitarian lending is subject to donor appetites, and is not suitable for addressing the long-term, structural changes necessary for providing sustainable economic opportunities for FDPs. Furthermore, this model effectively — but not sustainably — supplies goods and services to refugees and is not designed to trigger and leverage market systems, which encompass mechanisms for locally based supply and demand based on social and profit motives. Market systems of this kind are better placed to ensure sustainable self-sufficiency and integration between refugees and their host communities in a manner that aid cannot.

### Box 2. Refugee-related investment and economic inclusion

Refugee-related investment is one tool or approach that can be used to promote refugee economic inclusion. The transformative potential of refugee investment comes alongside a recent acknowledgement by the international community that private sector engagement can help ameliorate challenges posed by increasingly frequent and protracted forced displacement crises.

According to the UN: "economic inclusion entails access to labor markets, finance, entrepreneurship and economic opportunities for all, including non-citizens in addition to vulnerable and underserved groups." Economic inclusion, as it pertains to refugees, is a broader term relating to the kinds of economic rights, jobs, and opportunities that refugees have access to in a given host country. Due to their status in host countries, their access to the formal economy is often determined by legal, regulatory, and practical barriers. A variety of tools can be used to promote refugees' economic inclusion, ranging from the micro level — e.g., cash-based initiatives to foster livelihoods — to the policy level — e.g. Right to Work legislation — to the macro level — e.g., Special Economic Zone initiatives.

*Source: UNHCR, Refugee Livelihoods and Economic Inclusion – 2019-2023 Global Strategy Concept Note*

As best placed to mitigate the incoming challenges presented by increasing refugee flows, the international community sorely needs to identify sustainable, durable, and scalable solutions that provide jobs, services, and economic opportunities for FDPs.[12] There is a demonstrable need to tap into global capital markets — which number in the trillions — to help address this challenge. However, the field is nascent and presents for many a failure to conceptualize refugee-related investment as anything beyond environmental, social, and governance (ESG) standards on the one hand, or corporate social responsibility (CSR) and philanthropy on the other.

As the refugee crisis expands over time, it stands to reason that there will be a rise in reliance on private sector interventions, as humanitarian interventions may not be appropriate for prolonged challenges of protracted refugee-hosting scenarios and long-term, private sector-led integration. If the problems are of long-term economic integration, then the solutions should be tailored accordingly. Long-term economic integration and short-term grants for humanitarian catastrophes may be two sides of the same coin, requiring different approaches for different aspects of the same base problem of ensuring security, well-being, and economic prosperity for refugee populations and their host communities.

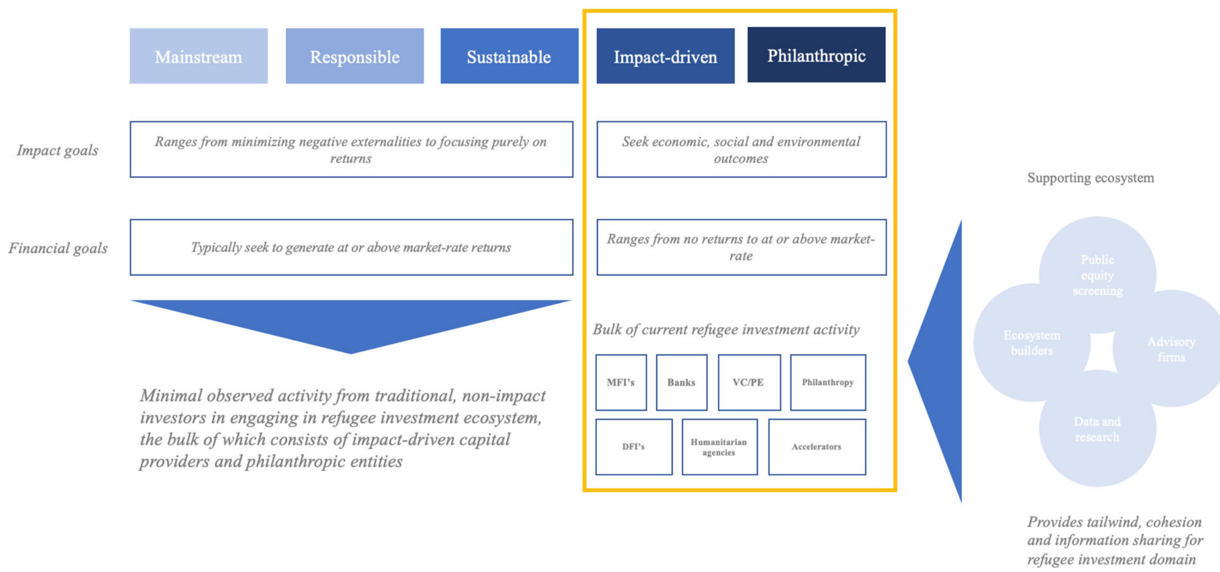
To this end, private investment has the potential to play a crucial role in protracted refugee-hosting contexts and to deliver benefits to refugees, as well as their host communities. A recent study, for example, demonstrated that Syrian entrepreneurs have founded more than 10,000 businesses in Türkiye, yielding economic benefits not just for over 250,000 Syrian refugees, but also contributing substantially to Turkish international trade and the economy.[13] Similarly, the findings of Building Markets' market assessment for Jordan indicate that refugees contribute significantly to the local economy and private sector, with 7% of Jordanian firms owned by refugees, and 40% owned by refugees, migrants, and dual-citizens.[14] Refugee-related investment in refugee-focused firms has the potential to yield dividends in terms of economic well-being and stability for refugees and host communities alike.

Research suggests that private investment in support of FDPs, however, shall not just focus on refugee-owned firms. To maximize returns for investors, refugee-hosting countries, and the refugees themselves, investments might target private or public projects aiming at bettering the social or economic lives of refugees, or fund local companies that serve refugee communities. Much research has been done in recent years on the potential for solving barriers faced by different kinds of refugee-hosting countries through investments that are refugee-related. In Jordan, for example, several refugee-related investment opportunities exist, in a context where refugee-related investing is being done unintentionally already.[15] In Uganda, refugee-related investment might focus on the needs for goods and services for refugees benefitting not just refugee-owned companies, but the whole ecosystem of refugees and local actors.[16] In the UK, intentionally investing in refugee-supporting firms or projects such as affordable housing presents a great opportunity to contribute to refugees' inclusion.[17]

# 3. The state of play

As the field of refugee-related investment develops, a wide spectrum of stakeholders and organizational models are exploring different investment strategies to support migrants and refugees. A range of funds and financial institutions, transaction advisors, accelerators and other institutional models have come to fruition in recent years, as highlighted in Figure 1.

**Figure 1. Overview of refugee-related investment ecosystem and typologies**




Source: World Economic Forum (2019), *Humanitarian Investing – Mobilizing Capital to Overcome Fragility*, White Paper, September 2019

Figure one is part of a mapping exercise conducted by the World Economic Forum through interviews with various funds and other players in the refugee-related investment ecosystem. The refugee-related investment activity identified through this research is predominantly confined to the impact investment and philanthropic end of the capital allocation spectrum, suggesting that there has yet to be a purely commercial investor taking an intentional approach to investing in refugees.

The actors identified by this research are funds that plan to implement refugee-related investment strategies in the near future, as well as private companies that serve refugees and could be recipients of refugee-lens investing. This chapter focuses on case studies of funds and private companies to lay out the state of play of refugee-related investment, while noticing that, despite the increase in attention, the field is still in its early stages.

By and large, the bulk of the organizations that comprise the refugee-related investment ecosystem are nascent, while others have yet to officially launch, as shown in Table 2. Although actors such as the Danish Refugee Council (DRC), Developing World Markets (DWM) and Kiva have been in operation for decades, only recently have they begun to create and launch financial products that target refugees or other FDPs. While it is difficult to estimate the total dollar value of investments currently being deployed with a refugee lens, among the organizations interviewed for this report, Alfanar, DWM, DRC, and Kiva are all in the process of either raising funds or preparing to bring a fund to market. While each entity is using a different investment strategy, and even though not all of them have completed their fundraising, the four entities combined would have total assets under management totaling in principle to more than US$150 million when operating at full capacity, allocated across roughly seven to ten countries with significant numbers of refugees and FDPs.

**Table 2. Typology of refugee-related investment ecosystem players**

| Entity | Definition and Strengths | Example |
| --- | --- | --- |
| **Humanitarian and Development Agencies** | **Role:** Provide emergency relief and aid to vulnerable groups, including refugees, typically in the wake of conflict or disaster.<br>**Value added:** Humanitarian groups excel at leveraging their on-the-ground expertise and presence to deliver short-term solutions to populations in need. | **DRC's Refugee Investment Fund:** DRC has partnered with iGravity to launch a blended finance fund to invest in companies that target refugees in Uganda and Jordan. Using impact-leaded loans and terms with key performance indicators, the Fund also will provide technical assistance to its investees. |
| **Ecosystem Builders** | **Role:** Serve as a forum for promoting a given agenda helping foster policy dialogue, providing advisory support, and utilizing their research and convening powers to help build a given cause.<br>**Value added:** Excel at fostering dialogue and bringing together various stakeholders in the pursuit of a common goal, from which innovation and collaboration can spring. | **Refugee Investment Network:** RIN is a non-profit organization that provides research, convening and advisory services to investors, foundations and other stakeholders working on refugee assistance. |

| Entity | Definition and Strengths | Example |
|---|---|---|
| **Microfinance Institutions (MFIs)** | **Role:** Financial institutions that specialize in providing small, low-interest loans and grants to financially underserved populations and micro, small and medium enterprises (MSMEs).<br>**Value added:** Caters to firms that would typically not have access to/qualify for traditional financial intermediation. MFIs help increase financial inclusion and build out the "base of the pyramid" amongst vulnerable groups, including refugees. | **Kiva Refugee Investment Fund (KRIF):** officially launched in 2021, the KRIF is a US$32.5 million facility to scale lending to fragile communities in the Africa, Latin America, and the Middle East. It functions through Kiva's global network of microfinance institutions who receive investment from the fund, then deploy it to refugees living in these host countries. |
| **Community Development Financial Institutions (CDFI)** | **Role:** financial institutions that provide credit and financial services to underserved markets and populations. CDFIs often have a focus on social responsibility and inclusion, rather than a pure profit motive and may receive support from the public and private sectors.<br>**Value added:** CDFIs support a group of people to become more financially self-sufficient and contribute to the overall economic growth through community redevelopment**.** | **International Rescue Committee (IRC)'s Center for Economic Opportunity (CEO):** IRC has been lending to refugee entrepreneurs in the US since 2003, making over 3,000 loans totaling US$3 million primarily to low-income refugee and immigrant borrowers while maintaining a 94% repayment rate on its portfolio. IRC's lending assets were transferred to CEO in 2016 in a model where borrowers must have a minimum of engagement with IRC's local financial inclusion programming to screen out risks. |
| **Advisory Firms** | **Role:** Provide technical advice and guidance to nascent firms and markets, helping to grow the private sector by leveraging their business experience.<br>**Value added:** Offer much-needed, third-party consultancy to aid refugee investors trying to navigate the space. | **Crossboundary:** A transaction advisory firm that works in emerging markets and has a product/service offering around developing a set of disclosures on humanitarian resilience investment (HRI) in collaboration with USAID and Dalberg. |

| Entity | Definition and Strengths | Example |
|---|---|---|
| **Accelerators** | **Role:** Provide a wide variety of support — from financial to technical — that help early-stage startups grow and develop.<br>**Value added:** Support fledgling companies to eventually qualify for venture capital. | **Acumen-RIN:** undertaken in partnership with IKEA Foundation and the Swiss Agency for Development and Cooperation, Acumen and RIN launched the Accelerator for Ventures Serving Displaced People, helping refugee-led or refugee-serving companies in East Africa. |
| **Philanthropists (including foundations and family offices)** | **Role:** A foundation is an independent legal entity set up for charitable purposes and funded by a family, a company, or a group of like-minded individuals. A family office is a private wealth management advisory firm that serves ultra-high-net-worth individuals.<br>**Value added:** Family offices and foundations are some of the most successful pioneers of impact investing, often reflecting their values and purposes that set them apart from other investment funds. Family offices also provide grant funding to help de-risk and pool more investments. | **The Shapiro Foundation:** The Shapiro Foundation provided several grants providing funding for refugee populations. Its US$250,000 grant funding helped launch the RIN's Refugee Entrepreneurs in COVID-19 Resilience Fund (RECOVR Fund) tagged to CEO, which also helped the CDFI serve its clients during the worsen economic environment of the COVID-19 pandemic. |
| **Private Equity and Venture Capital** | **Role:** Commercial investment funds that deploy capital into companies with the goal of growing and increasing the profitability of the given firm.<br>**Value added:** Providing capital to support firm growth and to generate wealth for investors | **Developing World Markets:** DWM's Displaced Communities Fund will provide equity investment and technical assistance to financial institutions and businesses serving or intending to serve forcibly displaced or migrant populations, principally from Africa and the Middle East. |

| Entity | Definition and Strengths | Example |
| --- | --- | --- |
| **Public Equity Screening** | **Role:** Provide investment screening of publicly traded equities, informing investors about different firm characteristics, in recent years in relation to ESG and carbon characteristics, allowing them to make informed choices about where they deploy their capital.<br>**Value added:** Help investors target refugee-facing firms to help them invest in accordance with their principles. | **OpenInvest:** A financial analysis and investing platform that developed an investment screen allowing customers to invest in companies helping refugees. |
| **Data and research** | **Role:** Provide actionable, market-oriented data — e.g., market segmentation, evaluations and scoring, and macroeconomic analyses.<br>**Value added:** Can provide information relating to refugee bankability and employability, among other things. | **Refugee Integration Insights:** An analytics company that provides metrics on companies' hiring activities, entrepreneurial support, training and education, and other forms of engagement with refugees. |

Most of the organizations working in the refugee-related investment space surveyed for this paper have at least a partial development or humanitarian aspect — e.g., microfinance institutions, impact investment funds, non-profit/humanitarian aid groups, etc. There has been little well-documented and widely known commercial investment activity in this space, possibly deriving from the fact that existing efforts have yet to generate knowledge on best practices in the field. As a result, no one among those interviewed for this study is currently raising or operating funds that have a purely commercial investment thesis. Of the funds interviewed, only Kiva has successfully closed its fundraising and is not seeking to generate returns that are at or above market-rate. Other groups, such as DRC's forthcoming Refugee Investment Fund, are positioning themselves more as a pilot fund that may ultimately seek to raise commercial capital from mainstream, for-profit investors, rather than from faith-based and impact investors or family offices.

When asked to identify any purely commercial vehicle that is working in the refugee-related investment space, none of the interviewed organizations were able to do so. Although examples of financial institutions that lend to refugees exist, such as commercial banks and microfinance institutions, as well as a selected number of refugees who have founded and grown businesses in their host countries, the research conducted for this report did not identify any commercial fund that is actively investing with a refugee lens.

However, there is reason for optimistically thinking that more effective refugee-related investment strategies will emerge as more players who come into the ecosystem have a more intentional and systematic approach to not just supporting refugees, but also to building the field of refugee-related investment. Kiva, DWM and DRC, among others, have yet to begin deploying capital. However, by acting as true first movers in the refugee-related investment market, once they do bring their funds to market, they will pave the way to identify best practices and to assess impact. At the same time, country-level research on investable opportunities that are refugee-related done by the RIN is paving the way to more refugee-related investment activity. Ideally, these early efforts will lead to larger and more commercially focused funds to complement current efforts. The case studies depicted in this section demonstrate where early-stage successes and potentially replicable models may appear.

### Case study 1. The Fund for Action and Innovation by Refugee Entrepreneurs (FAIRE)

> FAIRE is a French endowment fund with a commercial investment model founded in 2018 by Nick Nopporn Suppipat, a successful renewable energy entrepreneur and political refugee. Identifying as both an entrepreneur and refugee, Suppipat began investing in other refugee entrepreneurs in France. FAIRE realized early on that the refugee investment pipeline is underdeveloped, due to a bottleneck in the form of a lack of early, insufficient funding access for burgeoning refugee firms.
>
> Given the implicit risk and patience required, FAIRE established a donation program for very early-stage refugee-owned firms. Business development mentoring followed with the provision of zero-interest, two-year grace period loans. FAIRE decided on loans to engender responsibility and hard constraints for early-stage firms, while providing a bridge between initial investment and need to qualify for VC. Importantly, FAIRE provides mentoring and support over the life of the loans, helping firms with both 'love money' and pitch deck development. FAIRE's model is based on the idea that due to a lack of deal flow, it is best to build out the pipeline by providing "pre, pre-seed" investment with the idea of helping nascent firms reach a point down the line where they can approach VCs. At the time of research, FAIRE was mentoring six refugee businesses and was hoping to scale up its model.[18]
>
> Even in advanced economies like France, it can be difficult to locate VC-ready, refugee-owned funds. This case study highlights the need for active and patient pipeline development, which is all the more true for developing country contexts.

### Case study 2. Impact investor and asset manager Developing World Markets (DWM)

DWM is currently fundraising for its 14th emerging markets impact vehicle, the Displaced Communities Fund, a PE fund seeking a risk-adjusted returns approach through significant equity investments into a portfolio of established inclusive financial institutions in countries with large refugee populations. Currently, the expected total fund size ranges from US$50 million to US$70 million.

The Displaced Communities Fund will aim to help meet the financial needs of displaced populations by making equity investments in Colombia, Ethiopia, Jordan, Kenya, Nigeria, Pakistan, and Uganda, serving displaced persons from Afghanistan, Burundi, Cameroon, Democratic Republic of Congo, Eritrea, Iraq, Palestine, Rwanda, Somalia, South Sudan, Sudan, Syria, Venezuela, and Yemen.[19]

An innovative structural aspect of the Fund is that fund managers' compensation will be tied directly to success against the achievement of impact goals, uniquely aligning incentives with impact. [20] Alongside the Fund's financial performance, the general partner has linked receipt of up to 50% of its carry to three impact performance targets: i) increase in numbers of displaced persons served; ii) increase in jobs/livelihoods opportunities in host, source communities, including displaced persons within these segments, and iii) increase in income/assets for women beneficiaries.

### Case study 3. The Danish Refugee Council (DRC)

DRC recently teamed up with transaction advisory firm iGravity to create the Refugee Investment Fund (RIF), which aims to focus on refugee investments in Jordan and Uganda, two countries with relatively relaxed regulatory environments and sizable, protracted refugee populations. DRC chose these two countries because the favorable policy environment makes the whole ecosystem supporting refugees all that more attractive of an investment opportunity. After sifting through many SMEs, the Fund finally identified 10 to 15 companies with a refugee impact built into their business model.

RIF plans to utilize impact-led loans with terms based on key performance indicators (KPI), in a blended fund with technical assistance and funding from DRC and a donor-funded carry model. While not launched yet, about half of the investors had signed on at the time of research. With about 25% more capital, RIF can reach its goal of US$4 million. By and large, the investors are of the more risk-tolerant variety: faith-based, family offices, venture philanthropists.[21] By using a hybrid fund model with a pipeline split between two host countries with favorable enabling environments, DRC hopes to prove the model of investing in firms that target refugees, with the hope of applying harder commerciality and appealing to more traditional commercial investors in the future.

### Case study 4. The International Finance Corporation's Approach to Refugee Investment

As a global development institution focused on the private sector in developing countries, the International Finance Corporation (IFC) has noted the global call for greater private sector solutions for refugees and their host communities. As part of the IFC 3.0 Strategy[22], the institution pledged to create markets through upstream pipeline project development in countries in fragile and conflict-affected situations (FCS) and recipients of International Development Assistance (IDA), with a goal to substantially increase its investments and engagement in these countries by 2030, an approach it is also applying towards engagement of FDPs.

In line with its strategy, the IFC has been utilizing blended finance in FCS and IDA contexts to help crowd-in, de-risk, and decrease the hurdle rate on private sector investment flows. To that end, IFC is a signatory to the Prospects Partnership for Refugees and Host Communities in East Africa and the Middle East, a Netherlands-funded initiative that has committed US$47 million in the form of upstream and advisory (US$29.5 million) and blended finance (US$17.5 million) to help develop private sector solutions for both host communities and refugees. In June 2021, IFC signed an agreement for the formation of the Blended Finance Trust Fund and has since been focusing on pipeline development in Africa and the Middle East, which is well under development.[23]

As with other players in the nascent refugee investment space, the IFC has also been prioritizing investment, lending, and advisory services to financial intermediaries in its efforts to create markets. For example, the IFC has supported Al-Majmoua, a Lebanese non-profit MFI that supports micro-entrepreneurs, a large majority of whom are women, in developing sustainable businesses in Lebanon. As part of its very small enterprise (VSE) product for host communities, the IFC invested US$5 million of a senior loan, with 20% earmarked for micro enterprises and VSEs in host and refugee communities. The investment was coupled with a risk-sharing facility of up to US$2 million to cover up to 50% of the risks of a US$4 million portfolio of VSEs. Resulting from the investment, 1,862 jobs were created by VSEs, and 600 Syrian refugees were employed by VSEs.[24] While a non-traditional IFC investment, this project improved financial inclusion and jobs.

In addition to investment, the IFC has been leveraging advisory services, like the Latin American (LATAM) Financial Inclusion Group, to help build the business case for refugee-related engagement and investment. The IFC operates through targeted investment in microfinance institutions (MFIs) and financial institutions (FIs) that target refugees, whose majority is retail lending, as evidenced by Al-Majmoua and its LATAM Advisory work with Bancamia. While doing this, the IFC helps create a value proposition and reduce information asymmetries for refugee-focused financial intermediation.[25] Due to the risk mitigation implicit in lending to banks who in return on-lend to refugees or refugee-adjacent SMEs, financial sector engagement appears to be a lighter lift than real sector investment, of which there is a dearth.

While financial sector engagement dominates the IFC's involvement in the refugee space, the exception to this trend is the Kakuma-Kalobeyei Challenge Fund (KKCF), a Prospects Partnership-funded advisory project that serves as a one-stop shop for business support to nascent firms, investment climate and policy advisory services, and hands-on support to corporates. While not an investment per se, it is rather private sector development that hopes to pave the way to investment in the medium-term. Building off of a market study of the Kakuma refugee camp, *Kakuma as a Marketplace,*[26] IFC designed and launched a five-year, US$25 million project, equal parts business accelerator, advisory project, and investment challenge competition to serve the local populations through private sector development[27]. Operating in the Kakuma and Kalobeyei refugee camps in northwestern Turkana County and their respective neighboring towns, the KKCF seeks to attract new businesses and social enterprises to the area, provide opportunities to scale-up and build capacity for social enterprises and businesses already in the area, and develop and grow refugee and host community businesses.

In addition to providing investment climate and policy advisory services to the local government, KKCF provides technical assistance in the form of hands-on support to local larger corporates, facilitating their entry into Kakuma with market and feasibility assessments, as well as providing select corporates with expansion capital to scale up. Most notably, KKCF's rolling competitive business challenge invites regional corporates, social

> entrepreneurs, and local nascent entrepreneurs to compete to win business development support in the form of performance-based grants and technical assistance. For micro and small firms, the grants and technical assistance aim to help these nascent firm graduates to be able to access funding from MFIs and FIs. By 2024, KKCF hopes to: i) facilitate the entry of at least 10 companies into the area surrounding Kakuma, ii) help five already-existing companies expand in the area, and iii) provide grants and capacity building to 50 MSMEs and 50 VSEs. The subsequent goal is the support of 1,500 jobs and providing 50,000 people with improved access to essential goods and services.[28]
>
> KKCF is a unique and noteworthy model for private sector development in a protracted refugee-hosting scenario that innovates in several ways. First, KKCF's model works because the Kakuma region can be assessed as a market in and of itself, consisting of a large population of refugees experiencing protracted hosting situations. As a result, KKCF could not be replicated in urban hosting situations, which comprise the lion's share of refugee situations. Secondly, KKCF is innovative in that the program provides regulatory and investment climate advisory services to the local government, technical and grant assistance to fledgling firms, and helps reduce information asymmetries, plays convener, and offers expansion capital to KKCF-interested corporates seeking to expand into the camps. KKCF demonstrates both what is possible in a camp scenario and the level of handholding, technical assistance, and policy engagement necessary to begin to build the market and local firms in these settings to pave the way for non-concessional, commercial investment.
>
> Even for a leading DFI, while the IFC continues to explore new approaches and modalities in refugee engagement, at the same time it faces many of the same challenges and obstacles to refugee investment experienced by other players in the refugee-related investment space.

While the field is still developing and best practices have yet to emerge, more and more players are entering this space, and more innovative finance and partnerships are emerging. The cases discussed above all demonstrate a range of experimentation and creativity. These insights are further broken down in Table three.

**Table 3. Key insights from the case studies**

| | |
|---|---|
| **Insight # 1** | **Local partnerships are a key differentiator.** DWM's case has deep engagements with local financial intermediaries in the geographies where they invest, which helps assuage concerns of investors as well as minimize information asymmetries. Given the hyper-localized nature of refugees' experiences and challenges, which vary from country to country, successful investment strategies will likely heavily rely on local partners. Kiva has adopted a similar strategy insofar as it is working closely with local MFIs that have pre-existing relationships with refugee clients. |
| **Insight # 2** | **A range of different approaches and partnerships are being tested to assess which strategies are most effective.** There is not yet a single investment strategy, impact thesis or risk/return profile that has proven more successful than others, showing that investors must be creative in how they experiment and collaborate with each other in this space. In DRC's case, partnering with iGravity to pilot an innovative KPI-based impact debt fund is an example of trying a unique and untested strategy to prove it and pave the way for future firms. |
| **Insight # 3** | **Time is needed to build the pipeline and the ecosystem for investing in financial products that support refugees.** FAIRE's case demonstrates that there is still much field-building required and that many refugee entrepreneurs are operating companies that are not yet investment-ready. DWM and Kiva's experiences in working with local financial institutions also demonstrate how to leverage partnerships to build a pipeline. IFC's upstream strategy and KKCF's hands-on private sector development approach are indicative of the need to aggressively build the pipeline, as well as the success it can bring. |

## 3.1 Investment activity in refugee-hosting countries

The innovative and groundbreaking approaches and partnerships illustrated by the case studies must be considered as part of the global flow of investments to refugee-hosting countries. In addition to highlighting activity from current players in the market, it is also helpful to review current investment activity in countries that are hosting large refugee populations. Figure two outlines the five countries with the largest refugee populations worldwide, followed by Figure three, which lists the countries with the largest refugee numbers per capita. Further, we will discuss the investment activity and possibility for refugee-related investment in the countries hosting the highest numbers of refugees.

**Figure 2. Top five refugee-hosting countries, in millions**

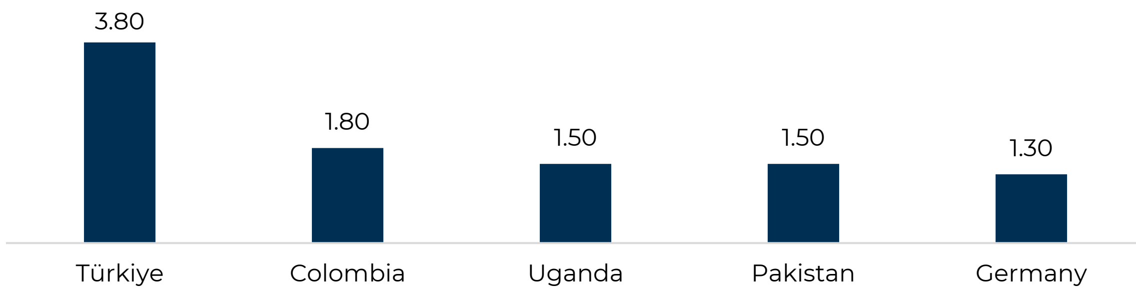
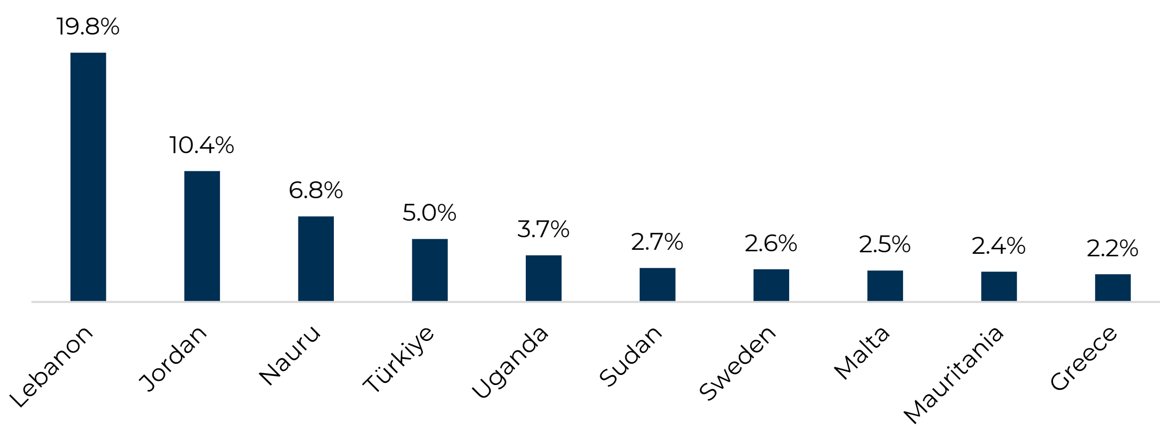
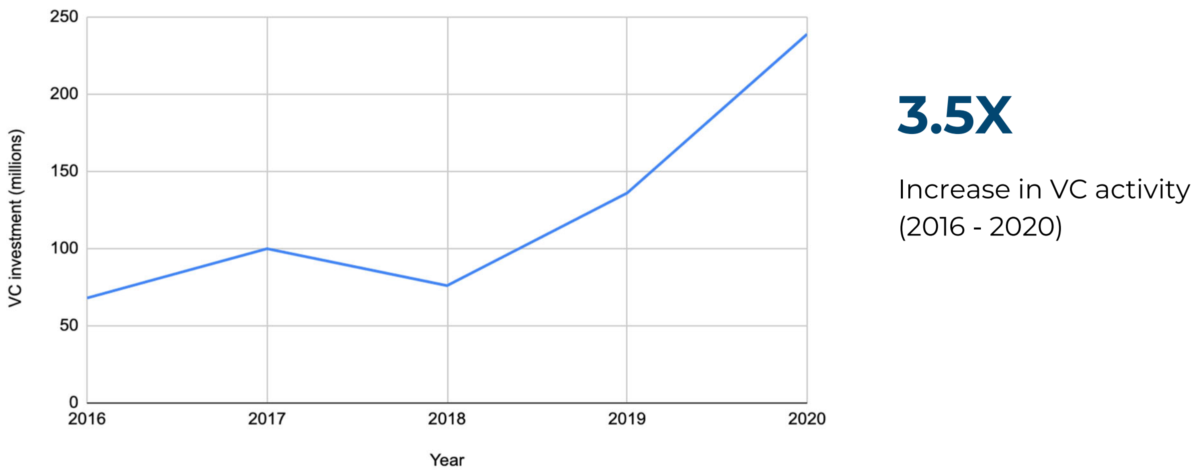



**Figure 3. Top ten refugee-hosting countries, per capita**




Türkiye, the largest refugee-hosting country in terms of total population size, has experienced since 2016 roughly a 27% increase in the number of refugees hosted. At the same time, Türkiye's investment climate has improved, and VC activity has increased significantly as shown by Figure four, nearly quadrupling over that time period.[29]

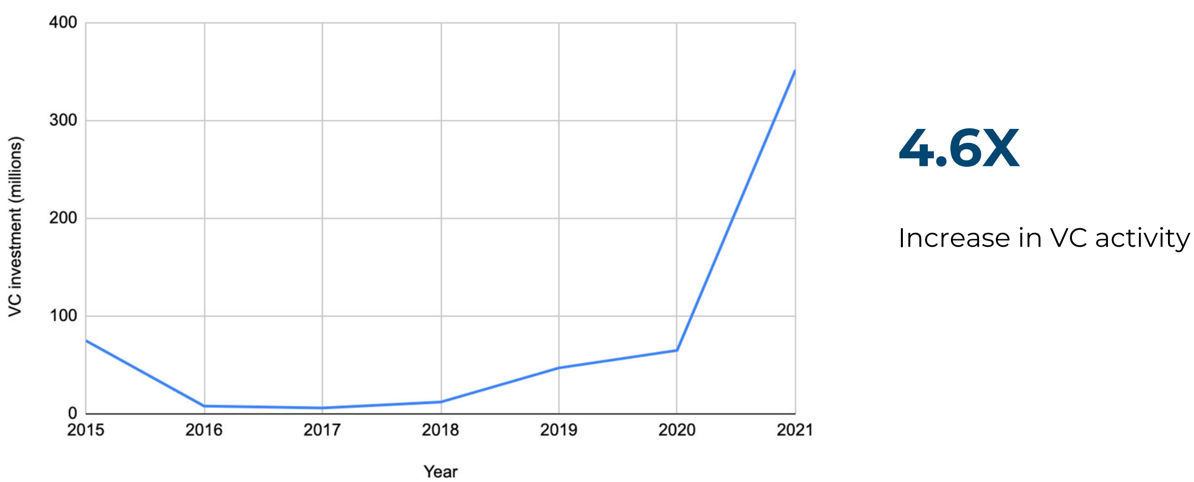
**Figure 4. Venture Capital activity in Türkiye, 2016-2020**




Colombia's VC landscape also developed substantially over the same period. In the first half of 2018 the aggregate value of known VC investments in Colombia stood at US$462 million, and one year later it had more than doubled to US$1.12 billion.

While a smaller, more nascent ecosystem, VC activity has also picked up in recent years in Pakistan, as shown by Figure five.[30]

**Figure 5. Venture Capital activity in Pakistan, 2015-2021**




This trend could be laying the foundation for future refugee-related investment activity. With refugees' stays in host countries becoming increasingly protracted, if the growing local VC ecosystems were to be leveraged, then the subsequent startup growth could be critical to fostering refugees' inclusion.

These linkages could be taking place already, even if not reflected in the data. If refugee populations in these countries and VC and startup activity grow in tandem, refugees may be gradually becoming more and more embedded in companies' customer segments. For example, Jordan, which is home to over 750,000 refugees and has the second-highest per capita number of refugees, has simultaneously seen its startup and VC landscape grow noticeably over the past decade, with startup funding increasing by 58% from 2018 to 2019.[31] In Jordan, multiple notable companies have built programs and projects to work with refugees. VC-backed firms such as Altibbi and Little Thinking Minds, all long-standing members of Jordan's startup ecosystem, have various products and engagements with refugees in the country. Luminus Education, which runs a wide range of technical and vocational education programs, also launched an incubator to support companies serving refugees. Similarly, companies include refugees in their workforce: Sigma Detergents, a detergent manufacturing company owned by a Syrian national, had a workforce composed of roughly 25% of refugees from Syria as of 2019.

DWM observed a similar trend in other countries. In its survey of IFINs across 14 countries in regions that have witnessed high levels of forced displacement, DWM found that all but one stated that they have clients coming from displaced populations within their existing portfolio. Although the IFINs surveyed had not yet developed a cohesive strategy for working with displaced populations, 85% indicated that their boards and managements were interested in building a displacement-inclusive strategy. While displaced populations are distinct from refugee populations, DWM's experience suggests that there is increasing openness to building more intentional approaches to serving displaced populations.[32]

However, these examples show investments targeting refugees in a way that is unintentional. If leveraged properly, improved host country economic conditions bolstered by increased intentionality in refugee-related VC activity could bode well for refugees' economic inclusion. More research and attention should be given to exploring this potential relationship.

## 3.2 What kinds of refugee-related companies are seeking investment?

Having detailed investment funds and investment flows, it is important to answer the question of where refugee-related investments are deployed. Most of the refugee-related companies seeking investment can be broken down into four types:

1. **Microenterprises and home-based businesses**. In many cases, barred from formal employment, refugees start firms, often informally, as a means of subsistence. Microenterprises are businesses with no or few employees (usually less than 10) and small capitalization relative to their country context. In some countries, these businesses can be

operating from the home of the owner, and on a very small scale. Others may be operating informally and consist only of the owner. Microenterprises need limited investments and often represent an entry point for vulnerable segments of the population wishing to enter the private sector, including for refugees. When opportunity for scale exists, these businesses can grow and create significant numbers of jobs locally.

2. **Small and Medium Enterprises (SMEs).** The definition of SME varies by country but usually refers to businesses of 10 to 100 employees. SMEs can have significant forward and backward linkages with other businesses locally, regionally, or globally, and a strong commercial interest to engage with other businesses and scale up. Together with microenterprises, these businesses form a significant part of the private sector in developing countries. These can include refugee-owned companies that began as microbusinesses, as well as local companies providing services to, or employing, refugees.

3. **Global and Regional Businesses**. Global and regional businesses have a strong regional or global reach, are often involved in trade (import and export) and are well integrated into local, regional, or global supply chains. They are usually strong market actors, as they add significant value to products or services, provide services to other enterprises, and have large numbers of employees. Global and regional businesses can be SMEs or large businesses. This category covers global businesses and multinational corporations (MNCs) like IKEA, which trains and hires refugees as a mixture of ESG and competitive advantage, as well as local or regional export-oriented companies that hire refugees or do business with refugee-owned companies.

4. **Social Enterprises.** Social enterprises (SEs) are defined as private organizations that use business approaches to achieve social, environmental, and economic outcomes.[33] The most defining characteristic of SEs, which sets them apart from other profit-driven enterprises, is their pursuit of a social or environmental mission. SEs operate on business principles, using entrepreneurial and/or business activities as a means to generate revenue and advance their social objectives. Some SEs may be subsidy-dependent; however, what makes SEs different from charities, classic NGOs, and other subsidy-dependent organizations is their pursuit of a financially sustainable business model. That said, some SEs (for example, those supported by government revenue) may not generate a profit. Indeed, SEs can include both for-profit and nonprofit entities, and are not limited to a particular legal structure. In many cases, SEs are classified as “hybrid” structures between for-profit and non-profit. Many SEs also represent a form of innovation from the status quo. Social enterprises can be refugee-facing or owned by refugees.

Of the four types of companies, firms that are refugee-related can have a variety of investment needs and goals and originate from a variety of sectors. While not every refugee-hosting country or context is equal, DRC’s experience of pipeline development for their RIF in Uganda and Jordan can provide an illustrative snapshot on the kinds of refugee-adjacent firms, as well as on the needs of those firms seeking investment.

In the case of Uganda, DRC noted two types of firms in their pipeline. First, decently established, socially driven firms interested in RIF investment for impact development, partnerships, and financing who are willing to accept concessional debt to improve their ability to make impact. Second, SMEs eager for both business advisory mentorship and concessional financing in the name of growth, with balance sheets weakened by the COVID-19 pandemic.[34] In Jordan, RIF's pipeline of SMEs can also be split into two groups: those seeking seed funding, and those seeking scaling funding, delineated by being under or over a desired ticket size of US$250,000, respectively. Regarding the sectoral breakdown, the largest represented sectors in the Jordanian pipeline came from agricultural value chains, education and training, and e-commerce and services.[35]

RIN's market assessments also show some priorities for investors interested in having a refugee lens in Ethiopia, Kenya, and Uganda. In Ethiopia, the agri-processing, textiles, and energy sectors present viable opportunities for refugee-related investment, and, according to RIN's assessment, business models should focus on direct sales to utilize low-cost labor and increase rural penetration. In the Ethiopian context, the use of services like PayGo is a good opportunity to increase access to high-cost goods by allowing customers to pay in installments. In Uganda, where regulations for refugees to work are more relaxed, RIN identified nine priority sectors for refugee-related investors, including energy, agriculture, education, housing and hospitality, healthcare.

However, the kinds of refugee-related companies seeking investments and the opportunities for investing in projects that will ultimately affect refugees' lives, depend on the host country's regulations to allow refugees to work and move. In a country like Kenya, where refugees are denied movement and work outside of refugee camps, opportunities are scarce and do not go beyond grants. According to RIN's market assessments, refugees seeking financial support in Kenya often start with grant capital from development partners or NGOs and continue with donor-backed concessional capital financing through funds, remittances from other refugees, and informal borrowing from friends and family. In this and similar contexts, widespread work informality for refugees hinders commercial players from initiating refugee-related investments that truly benefit the refugees.

## 3.3 Conclusion

The state of play in the refugee investment field is largely characterized by early-stage efforts, though there is indeed promising activity. Kiva's recent closing of its refugee investment fund, DWM's forthcoming progress in bringing its fund to market, as well as ongoing fundraising efforts from entities such as DRC and Alfanar suggest that more funds will be coming into the market soon. Similarly, there are notable examples of field-building activities, such as FAIRE's work to support early-stage refugee entrepreneurs to prepare to receive investment, and RIN's market assessments and field-making analysis around their Refugee Lens framework. Simultaneously, DWM's partner financial institutions have expressed strong interest in creating strategies to work with refugee clients more intentionally. By the same token, data is coming to the fore that is helping to mitigate perceived risk, such as Kiva's finding that refugees have a repayment rate of over 90%.[36]

However, the kinds of companies or projects seeking investments to generate a positive impact on refugees' lives are bound to contextual challenges and characteristics, as will be more deeply outlined in the next section. Particularly challenging is the situation of the informality of many refugees in some host countries, which hinders the development of purely commercial efforts in the field.

# 4. Barriers and obstacles

Having noted some trends and opportunities that characterize the space for refugee-related investments, this chapter will examine five core challenges that impede progress in spurring refugee-related investing, as presented in Table 4. These are by no means the only challenges faced by this growing field, though they were commonly discussed and observed by actors interviewed for this report and appear to be consistent across geographies and investment strategies. Additionally, it is important to note that no single player in the larger ecosystem is solely responsible for creating or solving the challenges discussed below. Since these challenges are often experienced across geographies and organizational models, highlighting them should help to galvanize collaboration across sectors to solve them.

**Table 4. Key challenges affecting refugee-related investing**

| | |
|---|---|
| **Pipeline** | Lack of a large and aggregated pipeline of refugee-related investment opportunities |
| **Commercial investors** | Limited engagement with commercial investors and lack of a coherent business case |
| **Knowledge-sharing** | Few venues for learning from failures and knowledge-sharing amongst stakeholders |
| **Regulations** | Lingering hurdles facing refugee integration in host countries |

## 4.1 Challenge One. Lack of a robust pipeline of refugee-related investment opportunities

Many across the refugee-related investment ecosystem identify pipelines as a key challenge. This obstacle consists of a mixture of difficulty identifying refugee-led businesses and businesses serving refugees, as well as problems identifying innovative financial products that can empower refugees. The implications of a lack of pipeline are that investors will struggle to either prove the demand for capital, envision potential returns, or even have interest in exploring investment opportunities.[37]

Building out the pipeline in any given geography will likely require a fair amount of concessional capital to help build the field and de-risk early-stage companies. To this end, groups like FAIRE in France provide very early-stage grant funding and mentorship to promising refugee-led companies, until they are able to entertain VC and other forms of institutional investment. DFIs such as IFC and World Bank have recently placed newfound emphasis on upstream project pipeline development and advisory services, allocating significant time and resources to both help build out the regulatory and legal environment necessary for sectoral growth to create markets, address critical market failures at the crossroads of an enabling business environment and greater access to markets, and provide technical assistance and advisory services to nascent companies to help them become investment-worthy.[38] These market-making and ecosystem-building efforts often involve public, private, and civil society actors in deal-flow creation to strengthen the capacity of entrepreneurship ecosystem institutions, support investment-readiness and business development programs, and provide grants and soft loans to entrepreneurs, as well as equity financing.

While such efforts often target the overall ecosystem of the host country and local start-ups seeking for finance, countries where the regulatory hurdles to the full economic inclusion of refugees are still present will continue to face challenges in allocating any form of returns-oriented capital to refugee-led and refugee-owned businesses. Table five depicts two factors affecting this challenge.

**Table 5. Factors affecting pipeline development**

| | |
|---|---|
| **Regulatory** | Refugees will have difficulty in legally starting companies in countries that have long processes for granting them citizenship or stable legal rights, don't provide them with the right to be sole proprietors of their companies, or close some sectors to refugees' business ownership, thereby making them ineligible for formal investment. In country contexts like Jordan, Syrian refugee-owned firms are often faced with the choice of entering joint ventures with host country nationals or registering their businesses solely in the name of a Jordanian to attain formality.[39] |

| | |
|---|---|
| | Many refugees may not feel comfortable actively identifying as such either, given the lack of clarity on their legal status in certain countries and the risks that it could present. In many cases, the 'refugee' label may be one that displaced persons are trying to shed, and not one with which to keep actively identifying.[40] |
| **Channel** | There are few channels to easily identify refugee entrepreneurs or businesses who include refugees in their customer segments.<br><br>This challenge is further impacted by the fact that many funds and investment products focusing on refugees are in their nascent stages and they have yet to build a robust pipeline. While a company's impact on refugees (through employment or other forms) could be included in its sustainability efforts and ESG criteria, data on companies' engagement with refugees is not easily retrievable as it is usually included in the company's overall social impact. |

Defining the elements of a sound, compelling pipeline is an important step in the process of building credibility and traction around the refugee-related investment space. First and foremost, investors need to believe that there is a significant pool of relevant opportunities to effectively deploy capital. Table 6 can help in building consensus around the types of data points that need to be addressed to ascertain whether a pipeline — in any geography or industry — exists.

**Table 6. Defining the characteristics of a robust and relevant pipeline**

| Characteristic 1 | Characteristic 2 | Characteristic 3 | Characteristic 4 | Characteristic 5 |
|---|---|---|---|---|
| **Size** — VC and PE investors often reject most proposals that they receive, and commercial lenders also often have stringent policies. Thus, to be attractive, pipelines need | **Sector alignment** — Capital providers typically prioritize certain sectors, thus proposals coming from outside of those sectors will likely be rejected outright. | **Access** — Funders often prefer to allocate capital to geographies where they already have a local presence to some extent, or at least where they can easily navigate in terms of | **Legal integration** — Institutional investors, and even private angel investors, cannot legally invest in companies that are not formally registered. Thus, to be relevant, any pipeline | **Financial threshold** — Investors have a range of financial varying thresholds that companies will need to meet — e.g., proof of revenue, earnings before interest, taxes, depreciation |

| | | | | |
|---|---|---|---|---|
| sufficient volume.[41] | | regulatory risk and procedures. | must be composed of registered firms. | and amortization (EBITDA), etc. |

A compelling, representative pipeline will be of varying importance depending on the financial instrument and investment strategy. For example, VC investment strategies will likely require the deepest pipelines, while impact bonds are less focused on volume of opportunities and more often concentrate on identifying the correct group of stakeholders to finance to implement a project supporting refugees. Similarly, lending to financial institutions that work with refugees may present fewer criteria to be examined as part of diligence processes, allowing them to take a more inclusive approach.

*We realized early on that the pipeline of refugee investments is underdeveloped, and that the bottleneck was primarily around early-stage companies that were founded by refugees but were not ready to receive investment. Given the risk of backing these companies, we focused on providing grant funding and support to get them ready for investors.*

—Kristina Vayda — Executive Director, FAIRE

Finally, importance shall be given to identifying the specific segment of the refugee population that the instrument wants to engage with. Different refugee lenses can lead to different investment outcomes. For example, investing in refugee-led or refugee-owned companies requires a different pipeline development strategy than investing in companies that are not founded by refugees, but rather include refugees amongst their employee base. The characteristics of the refugee populations are particularly important to determine what investment instruments would better generate an impact. Segmenting refugees and understanding their financing requirements is critical in building a customized product offering that balances risk-reward, establishes relevance, and strengthens the expected pipeline. The ease with which these various categories of refugee-related investable companies and projects can be identified may range considerably across geographies. Table seven provides a breakdown of the different ways investors will need to approach this component of the pipeline-development process. To this end, Alfanar Venture Philanthropy, FAIRE, and Village Capital are three examples of how nonprofit entities are working to prepare the refugee-related investment pipeline for institutional investors across different geographies, as shown in Table eight.

**Table 7. Factoring refugee linkages into investment strategies**

| | |
|---|---|
| **Entrepreneur** | The impact is more direct as the refugee is the primary recipient of funding. However, the investment may or may not impact the larger refugee population. Additionally, investing in refugees may differ from investing in internally displaced people (IDPs) or other FDPs, depending on the local context's legal framework regarding refugee or FDP-owned businesses and their general economic participation in the host economy. For example, refugees who have moved to the host country because of conflict will have a different profile than an IDP who has been forced to relocate to another area in his own home country. |
| **Employee** | Funds will invest in companies that employ refugees, IDPs, or other FDPs. Likely their employees will include both refugees and residents of the host communities. One potential challenge that this strategy may face is implementing it within the context of a country that has yet to grant refugees the right to work. However, unlike the strategy for investing in refugee founders, this strategy may reach a larger number of refugees, though proving additionality may be challenging, as there may be a degree of separation between the investor and the employees. |
| **Customer** | Investments will be given to companies that serve refugees, IDPs, or other FDPs as part of their client base. The impact will be more pronounced on the firm's customers, and arguably this strategy has a higher likelihood of reaching more refugees than when just backing refugee founders. However, proving additionality on the lives of individual refugee customers may be difficult, given the degree of separation between the investor and the customers. An additional challenge of this strategy is that firms themselves should have enough insight into their client bases to verify whether they are indeed selling products and services to refugees. |
| **Sector** | Funds will invest in a sector that has a substantial representation of refugees, IDPs, or other FDPs in their client base or employ them. Similar to some of the challenges affecting other strategies, the barriers to effectively implementing a sector-based approach mainly concern firms' ability to know how significantly FDPs comprise their employee or customer bases. Additionally, if the fund employs a strategy to invest a portion of its capital in refugee-founded companies, it may encounter the same geographic-specific hurdles mentioned above. |

| | |
|---|---|
| **Generalist** | Funds will adopt a similar strategy as the sector-driven one but focus on general impact investment themes and attempt to identify companies that support refugees in some way, either through employing or serving them, or via direct investment into refugee-founded companies. |

**Table 8. Building the pipeline: examples**

| | |
|---|---|
| **Fund for Action and Innovation by Refugee Entrepreneurs (FAIRE)** provides very early-stage funding to refugee entrepreneurs in France to both build the investment pipeline as well as create an evidence base for investors to back refugee-owned companies, as well as contribute capital to funds supporting refugee entrepreneurs. | **Target**: Refugee entrepreneurs in France<br><br>**Intended result**: Build pipeline and evidence base for refugee investing |
| **Village Capital — Finance Forward MENA 2019** operates as part of a multi-year initiative, in partnership with MetLife Foundation and PayPal. The program is an inclusive fintech accelerator for entrepreneurs operating across the region, whose companies are serving refugee populations. | **Target**: MENA fintech startups serving refugees<br><br>**Intended result**: Identify promising early-stage firms |
| **Alfanar Venture Philanthropy** has provided philanthropic funding to companies supporting refugees in the MENA region, while in parallel developing a for-profit impact investment fund that will invest across multiple sectors and will include a collection of companies that support refugees in its portfolio. | **Target**: Pre-investment MENA firms that are serving refugees<br><br>**Intended result**: Prepare target companies to ultimately receive investment |

It is important to note that there are certainly nuances within the various lenses and there is not a single framework that can capture all investment strategies. Additionally, the refugee lenses featured above are primarily relevant for direct investments into firms, as opposed to impact bonds and other instruments that support refugees through other means.

Pipelines may be simply nascent and in need of aggregation. Both Kiva and DWM's cases had long-term relationships with local financial institutions in their countries of operation, which allowed them to identify opportunities and build an investment thesis that investors could back more easily. In fact, insights from DWM suggest that within their countries of operation, financial institutions had already been lending to refugees and displaced individuals, and in some cases, there was evidence of multiple refugee-serving businesses as well as refugee-operated businesses, which helped to add conviction to their Displaced Community Fund (DCF) concept. DWM has also noted that their partner financial institutions were open to building a more systematic strategy to invest in refugees. Alfanar's team, in the ramp-up to

> *It is very difficult to build a fund that is solely focused on supporting refugee entrepreneurs or companies that serve refugees, as there are not enough deals yet. These companies likely need to be part of a larger portfolio, and Alfanar has invested heavily in building the pipeline. Investors are interested in finding solutions to support refugees, but we need to prove that it can generate a return. As we have been [fund]raising for Lift Ventures, no investors have balked at the idea of using the fund to support refugees. However, we do face challenges nevertheless, as we're a first-time fund.*
>
> —Michelle Mouracade — Lebanon Country Director, Alfanar Venture Philanthropy

their forthcoming fund, has also identified multiple MENA companies serving refugees, which serves as a useful data point when pitching to limited partners. Similarly, Beyond Capital in Jordan has invested in Sharqi, a startup founded by a Syrian refugee, and Innovest Advisory has also formally engaged with a Syrian refugee operating a company in Türkiye.

Last but not least, the role of actors like RIN in building the ecosystem by assessing the existence of specific pipelines in some countries, is fundamental to overcome this challenge. These examples, while still relatively small, are compelling nonetheless in demonstrating that a nascent pipeline may in fact be forming.

## 4.2 Challenge Two. Lack of commercial players and vehicles

Despite growing need, there are few commercial investors actively building investment products supporting refugees. The majority — if not all — of those working in the refugee-related investment space are not traditional commercial investors. For example, the only fund identified in the research for this report that has finalized its fundraising is Kiva, which accepts below market-rate returns as part of its investment strategy.

While several groups have attempted to implement standard VC and PE investment strategies, there does not appear to have been any to date that have demonstrated the ability to effectively raise, deploy, and return capital consistently to investors.

> *We are launching the fund as a pilot to test the viability of a refugee investment and impact strategy. Because we are mainly looking at SMEs with high refugee impact potentials in selected countries, we are an impact-first fund, and so are not yet bringing in traditional commercial investors but hope that this fund can lead to larger vehicles in the future.*
>
> —Morten Högnesen — Head of Program Innovation and Business Engagement, Danish Refugee Council

Simultaneously, while refugee-related investments have been incorporated into some funds as one of the multiple desired investment verticals, like helping to meet ESG aspirations, they are not necessarily the fund's core focus. For example, Al Fanar Venture Philanthropy's forthcoming fund in the MENA region has incorporated refugees as a target population in their overall fund strategy, alongside other investment segments. Typically, groups interviewed for this report had to include some element of concessionality in their overall strategy to crowd-in private investment or have faced pipeline development challenges when seeking to back solely refugee-led companies or companies working with refugees.

Similarly, there has yet to be much large-scale equity investment in the refugee space. From our research, one of the few organizations that have an equity investment strategy is DWM's forthcoming displacement fund, which seeks to provide equity investments to financial intermediaries that work with displaced populations. For a fund, investing in financial intermediaries that on-lend to refugees can be a viable model to increase refugee-related investment as the risk borne by the fund itself is minimal. However, it is important to note that DWM's fund will focus on FDPs rather than just refuges.

Considering the challenges of building a pipeline and business case, some organizations are building small funds to pilot a refugee investment strategy. For example, DRC's forthcoming RIF will provide debt (e.g., impact loans along with terms based on KPIs) to companies in Uganda and Jordan that serve refugees within their larger client-base.

**Table 9. Explaining the lack of commercial involvement**

| | |
|---|---|
| **Primary challenges** | **Nascent business case** — While selected funds and financial products have been able to raise capital, there has yet to be a wide-scale business case created around the refugee-related investment landscape.<br><br>**Misaligned incentives** — Commercial investors and humanitarian organizations typically operate with different incentives, with the former serving shareholders and clients with a profit motive and the latter traditionally working alongside governments and donors. Historically, |

| | |
|---|---|
| | there has been minimal collaboration between commercial investors and humanitarian aid organizations. While both parties may be slowly coming around to the potential mutual benefit in partnering on refugee investment, collaboration of this kind remains nascent.[42]<br><br>**Perception of high risk** — While there are certainly large, real risks and barriers to refugee-related investment, the mere perception of risk can often produce roadblocks to investment that may in fact be unfounded. With the removal of information asymmetries through information-sharing, unfounded risks can be disabused in the eyes of cautious investors.<br><br>**Few financial products available at scale** — Most funding in the refugee-related investment space is still composed of low- or zero-return instruments, thus private investors do not yet have a spectrum of options and avenues in which they can engage. Similarly, most vehicles are relatively small, often not meeting the threshold required for commercial investors. |
| **Secondary challenges** | **Investment in refugee-hosting countries is still maturing** — In many cases, countries that host the bulk of refugees are developing or middle-income countries that have not historically seen significant private investment activity. Foreign direct investment (FDI) in these contexts may historically be on the lower end; a fact that is truer for refugee-related investments.<br><br>**Shifting investment trends** — While there is indeed impact investment and development finance activity across the domains of the SDGs, this kind of investment experiences ebbs and flows around global trends and interest in investment themes, rather than hard commercial principles. |

Commercial players would have an easier time entering the refugee investment space through partnerships with players in the development and humanitarian spaces with complementary skillsets. Beyond any issue concerning real and perceived risks, historically commercial investors and humanitarian or development agencies have minimal collaboration. Often, they have minimal insight into how each other operates and what incentives they respond to, which impedes any kind of collaboration. On top of this, the two communities tend to operate on different timelines in terms of when funding is allocated and when it is returned to investors. These points of divergence, shown in Table 10, may be exacerbated by the fact that there are few specialized intermediaries to help in guiding collaborations between the two groups, as well as minimal perceived talent flows between the two sectors. So long as this chasm persists, information sharing will be minimal, and mistrust will linger between investors and the humanitarian community.

**Table 10. Diagnosing the humanitarian-commercial disconnect**

| | Humanitarian | Commercial |
|---|---|---|
| **Incentives** | • Align with donors' needs and interests<br>• Collaborate with governments<br>• Focus on providing impact to end beneficiaries | • Identify investment opportunities that align with clients' interests<br>• Return capital to clients, often at or above market-rate returns |
| **Timelines** | • Long timelines to disburse capital with complex processes; or short, crisis timelines to provide immediate relief<br>• Funding may occur only in specific windows — e.g., annual disbursements | • Varies depending on instrument, asset, and geography, though typically perceived to move faster than humanitarian sector<br>• Generally seeking to deploy and return capital in the shortest timeline possible |
| **Expertise** | • Humanitarian impact in vulnerable geographies and populations | • Identifying investment opportunities and returning capital to clients |

Interviews conducted for this report identified certain collaboration models that could help in closing this gap. The International Rescue Committee (IRC)'s Airbel Innovation Lab and the European Bank for Reconstruction and Development (EBRD) are partnering in Jordan on a public infrastructure investment project, the EUR53 million West Irbid Wastewater Project, which seeks to provide 120,000 people with sewage infrastructure addressing the significant socio-economic needs of the host and refugee populations in the project area.[43] IRC is supporting the delivery of impact measurement services to help monitor and evaluate the project's impact on end beneficiaries, leveraging its significant on-the-ground knowledge, and EBRD is providing concessional, risk-tolerant capital with a development lens. In this context, IRC is providing transaction advisory; however, a lack of a track record makes scaling-up similar partnerships difficult.[44] Just like most funds are not equipped to make the measurable link between investment and impact, in the same way that superficial investments in seemingly green companies can constitute "greenwashing," so can investing in nominally refugee-facing firms without a concrete link to impact present its challenges.[45] A well-crafted partnership between humanitarian or development organizations and funds can help thread the needle on this issue.

In this regard, a soft diplomacy approach is needed. Nascent partnerships, such as the one between IRC and EBRD, can help indicate where incentives may align, even in light touch ways. When willingness on both sides is aligned, partnerships can be a relatively low-cost initial engagement with the potential to build towards more and longer-term development partnerships around investment products. It is important here to note the relevance of individual initiative and willingness. Instead of "pretending to wear each other's hat,"[46] open-minded, collaboratively, and partnership-seeking individuals on both sides can bring two organizations together to leverage their comparative advantages provided they are honest about their own strengths, as well as their own shortcomings.

## 4.3 Challenge Three. Knowledge-Sharing: data scarcity and information asymmetries with minimal sharing of best practices

As mentioned above, a nascent business case surrounding refugee-related investments problematizes significant commercial investment activity in this space. A key reason behind the lack of a universal, defendable business case is that many of the funds and financial products geared toward refugees are themselves still in development, while others have stalled or failed and left the field with few learnings shared around why. Funds interviewed for this report mentioned requiring several years to raise any investment. Indeed, fundraising timelines can be quite long irrespective of time, asset class, and geography, though lengthy time horizons appear to be a common denominator across many players in this ecosystem. While a myriad of factors may explain why these entities have faced challenges in getting capital commitments from investors, one negative repercussion from these waiting periods is to further delay proving the business case around refugee-related investment. Put differently, until funds across different geographies and investment strategies

> *For investors, not a whole lot of relevant data is available on refugees, in general. There are gaps and inconsistencies surrounding country-level data on refugees, which complicates the process of market-sizing and assessing whether investment opportunities in refugee populations exist. For example, some refugee data might sit with UN agencies, but it might not necessarily be packaged in the most investor-friendly way. Also, organizations providing loans to refugees may not keep track of the right kind of data. We are in the process of testing out a pilot on packaging this information in a useful way for investors.*
>
> —Anonymous investment advisor

can effectively deploy capital in support of sustaining refugees' livelihoods and return money to investors, the field will appear largely inactive and will not be able to prove itself yet in the eyes of investors.

Simultaneously, other entities have either not successfully raised or fallen short of their intended fundraising target, forcing them to curtail or cease activity. These setbacks remain underreported and underdiscussed, leading to limited knowledge-sharing, and further impeding the formulation of a business case. The resulting scenario is one wherein the refugee-related investment space is still relatively opaque and numerous data and knowledge gaps persist. Sharing of data, best practices, investment opportunities, as well as failures, are part and parcel of a healthy investment ecosystem, yet given the challenges, the refugee investment space has yet to mature to this level. Notably, in many refugee-hosting contexts investor-level data is not available. To this end, USAID recently funded Cross Boundary to develop disclosures to help refugee-hosting countries report on the humanitarian aspects of investments.[47] Table 11 outlines a selection of knowledge and data gaps that impinge on progress.

**Table 11. Where is more data needed?**

| Lingering questions (sample): | Data gaps (sample): |
|---|---|
| • What is the risk/return profile of different refugee-related investment products?<br>• Which geographies are most favorable for designing and deploying refugee-related investment strategy?<br>• What are the different types of refugee entrepreneurs and refugee-serving businesses in terms of sector, business model, etc.? | • Refugees' needs and preferences, purchasing power, household consumption<br>• Refugees' skills and educational levels<br>• Sectors with largest percentage of refugee customers<br>• Total Addressable Market (TAM) of refugee entrepreneurs and companies selling products or services to refugees<br>• Processes for refugees' employment and business ownership<br>• Financial inclusion, bankability, and access |

*We still have a lot of information asymmetries and perceived risks surrounding humanitarian investment. A standardized disclosure, in general, can help in the process of assuaging investors' concerns, as well as eventually building an asset class. However, building any asset class takes a very long time. For instance, gender lens investment has been 10+ years in the making, and only now is it making its way into the mainstream.*

—Alex Cheval — Project Manager, Dalberg

With a lack of knowledge-sharing and nascent best practices, another challenge is a gap in understanding the potential impact of refugee-related investment products on refugees and their host communities. Different investment strategies can have different types of impact. Table 12 provides a high-level overview of the different questions and types of impact that sample strategies may have, if implemented and monitored effectively.

**Table 12. Potential impact from various refugee-related investment products**

| Spectrum of beneficiaries | Key questions needing answers |
|---|---|
| • Refugee entrepreneurs/business operators<br>• Refugees enrolled in upskilling programs<br>• Employees of refugee owned/operated companies (both refugees and non-refugees)<br>• Families of employees (both refugee and non-refugee families)<br>• Local businesses, host communities, and economies<br>• Country sectoral and private sector development | • What types of impact can be achieved through refugee-related investment strategies?<br>• How is the impact experienced by different stakeholder groups — e.g., refugees, employees, host communities, etc.?<br>• How much time is required for different strategies to achieve impact on different stakeholder groups?<br>• What is a common measurement standard and framework that can be used across refugee-related investment products?<br>• Are there any types of negative externalities on refugees or host communities that need to be accounted for? |

This lack of data also complicates the process of finding product-market fit for investors. For example, for recent refugee arrivals, VC funding may not be a priority vis-à-vis meeting basic security needs. VCs are fit for a small subset of companies, but very likely not for SMEs or MSMEs founded by refugees trying to subsist. In many cases, refugees who become entrepreneurs in host countries may do so because they lack opportunities in the formal economy. [48] One interviewed firm explained the disconnect between trying to position refugees as an asset class in comparison with ethnic minority investors in the United States: fewer investment opportunities exist in large part because regulatory issues preclude the existence of refugees as an asset class, at least for the time being. [49] When the necessary data is absent, it is difficult to build compelling investment products at scale.

## 4.4 Challenge Four. Investment strategies are often confronted by hyper-local, context-specific, idiosyncratic challenges

The regulatory environment for refugees existing in host countries can create challenges for them to obtain visas, employment opportunities and access to basic goods and services. Consequently, it is difficult for investors to engage with them. Even if funds were to adopt a strategy that invested in companies serving refugees, barriers to hiring refugees would make such strategies difficult to implement across countries.

> *The needs of refugees are very diverse. As we designed our fund and in our ongoing work with local financial institutions, a key focus has been to make sure we do not treat refugees as a homogeneous population with uniform needs and skills across geographies. It has become clear to us how important it is to segment within a refugee population. Understanding the unique regulatory environment for refugees in each country has been critical as well. One commonality we have observed across our work is a perceived risk that refugees are difficult to serve, largely due to concerns of flight risk, lack of credit history, limited fixed assets, and encountered challenges around social animosity and tension. However, partnering with local financial institutions has helped in mitigating the real and perceived risks, while also ensuring that our vehicle is built for purpose.*
>
> —Lev Plaves — Investment Director, Kiva

Complicating this issue further is that every refugee-hosting context varies in regulations and other barriers. In parallel, refugees and other FDPs living in camps will likely experience different challenges relative to those residing in urban environments. Moreover, refugees come from a wide variety of walks of life, including educational backgrounds, skill levels, and sectoral experiences. Refugees who are recent arrivals have different needs and interests, for instance, than those who have been settled in the host country for ten years or more.

As expressed by Daan Besamusca from Open Society Foundations (OSF), due to the local idiosyncrasies of every context or sector, “it is difficult to come in with a Theory of Change and then try and find deals. It’s easier the other way around [e.g., to enter the context and do fact-finding and discover what is possible and needed].” Local barriers and idiosyncrasies must be understood, and investment strategies may need to be reverse-engineered from a position of deep understanding of the local context. Interviews with other actors also pointed to a similar issue, highlighting the challenges in building context-specific strategies to scale refugee lens investing.

> *There are some strategies that work far better in certain countries than others. Ultimately, success also depends heavily on perceived growth opportunities. Scale is critical for investors to become interested and operate confidently, but prospects for scale, and subsequent impact and returns, vary widely across geographies.*
>
> —Suma Swaminathan — Director, Private Equity, Developing World Markets

Thus, because investment products need to be highly customized to fit with the local context, it is difficult to create a universally applicable investment thesis around refugee-related investment opportunities. For example, the risk/return profile of a refugee investment product in Jordan may look quite different from one in Uganda, despite both countries having relatively large refugee populations, and a pool of foreign and domestic organizations from the commercial and humanitarian sectors exploring investment strategies to support them. DRC’s RIF, for example, has chosen to pool Uganda and Jordan due to similarities in refugee-hosting context, as both have relatively positive enabling environments for large numbers of refugees in protracted hosting contexts. However, even in presence of such similarities, idiosyncratic differences between the two contexts might complicate fund management.

Political and regulatory barriers are a lingering hurdle to refugee-related investments and economic inclusion and were cited by several interviewees as the single largest obstacle. Regulation-wise, if refugees are denied legal access to employment, or cannot own a bank account, refugee-related investments are a non-starter. Politically, if significant stigma and accompanying regressive policies exist towards refugees, refugee-related investments may even be perceived with hostility.

At a more granular level, the challenges underpinning this hurdle range from legal prevention of refugees to work or own businesses in some countries, to uneven application of laws, which result in legal gray areas. Additionally, these barriers all reinforce the perception that investing in refugees is risky. Perceived risk persists despite efforts by organizations such as Kiva, who has learned that there is no difference in loan repayment rates between refugees and non-refugees, or DWM, who has worked with financial institutions that already have a number of refugee clients.[50]

> *I am not sure exactly what the issue is since Syrian refugees are technically allowed to establish companies in Jordan. We are not seeing any/many startups. I think if they are allowed to operate easily, we could see some interesting startups that could attract VC interest.*
>
> —Tamer Salah — Managing Director, Beyond Capital

Table 13 breaks down how refugees experience economic inclusion, or a lack thereof, in various countries with large refugee populations. Aside from Uganda, most countries in the table have a tapestry of different regulations affecting refugees, leading to varying degrees of economic exclusion, and further complicating the process of investing in them. For example, within the cases listed in the table, it is difficult to identify a country's geography where refugees enjoy a complete and consistent economic inclusion where they can obtain jobs, open bank accounts, and start businesses in the same capacity as the local population.

**Table 13. Regulations affecting refugees' economic activity in select countries[51]**

| Country | Banking | Work and self-employment | Investment and business ownership |
|---|---|---|---|
| **Bangladesh** | No access to capital, credit, financial institutions. | No formal right to work, be self-employed, or own business. | Refugees cannot invest in Bangladesh, but foreigners can. |
| **Colombia** | Venezuelans with legal status can access financial services. | Venezuelans with legal status have the right to work in the country, including being self-employed. | Venezuelans with legal status can open a company and invest. |
| **Jordan** | Limited access to financial and banking systems. Mobile wallets available for refugees. | Limitations to work in high-skilled sectors. Businesses inside refugee camps can market products inside the camp only. Home-based businesses allowed in some | Possible to set up businesses as a foreigner pending security clearance, bank collateral, proof of residency. Refugees must partner with a Jordanian investor. |

| Country | Banking | Work and self-employment | Investment and business ownership |
|---|---|---|---|
| | | sectors (e.g., handicraft, tailoring, food). | |
| **Kenya** | Refugees in camps rely on the Village Loans and Savings Association or Equity Bank in Kakuma camp. | Right to work and own business, but practical hurdles to obtain permits. | Possibility to partner with a Kenyan investor practically allows to gain license more easily. |
| **Pakistan** | Refugees recently became allowed to open bank accounts. | A work visa is required to be employed. | Refugees cannot own a business or shares of a business. |
| **Türkiye** | Right to open a bank account and receive credit. | Only persons who hold refugee or subsidiary protection status can work independently or be employed, with the identity document serving as work permit. Some sectors require a special permission (e.g., health, education). | Refugees can be foreign investors holding the same rights as local investors and can form any kind of company. |
| **Uganda** | Refugees have financial independence; but may face informal restrictions. | Refugees are allowed to work and start a business. | Refugees can form a business as sole owners or as a joint venture, however the process to formalize it is costly and time consuming. |

Exceptions abound in these cases as well. For instance, in Jordan, Syrian refugee firms are often faced with the choice of entering into joint ventures with host-country nationals or registering their businesses solely in the name of a Jordanian in order to attain formality.[52] Anecdotally, investors and other stakeholders interviewed for this report also vocalized difficulties in understanding when and how different pieces of refugee-specific legislation are implemented, which adds to the real and perceived risk of refugee-related investments. For example, even if refugees in a certain country are legally permitted to own and operate a business, this permission may not be widely known by refugees or considered to be widespread knowledge in the local economy.

Even if the real and perceived risks of conducting business with refugees are overstated or even non-existent, refugees might be hesitant to be publicly recognized as “refugees”. Furthermore, according to other interviewees, this lingering stigma mixed with regulatory inconsistencies may also contribute to refugees’ choice to create informal businesses, which are fundamentally unable to open a bank account, make legal hires, or raise external capital from investors.

In some cases, different refugee-specific regulations conflict with one another. For example, in Kenya, where refugees have the right to employment and start their own business, refugees residing in a camp are not allowed to leave even to do business or work, unless they hold a movement pass.[53] In other cases the situation is completely dire. In Bangladesh, for instance, refugees have virtually no economic rights, and are not allowed to start companies, open bank accounts, or gain employment, rendering any refugee-related investment strategy in the country, for the time being, impossible. Of course, these barriers and inconsistencies do not stifle all commercial and entrepreneurial activity in refugee settings, as there are anecdotally many examples of refugees starting informal businesses. However, without a legally registered firm, it is exceedingly difficult to obtain any type of formal, institutional investment.

The wide range of refugees’ experiences again complicates efforts to treat refugees as a homogenous population, making it more difficult to develop any kind of consistent, widely applicable refugee-related investment strategy across borders. To that end, both real and perceived risks make it difficult to implement direct investment into refugee-owned businesses, to a varying degree from country to country. In this respect, market assessments and mapping of investment opportunities at the country level may help in identifying specific refugee-related investments that would have the greatest impact on refugee and local populations, considering regulations for freedom of movement and work allowed to refugees. In cases where refugees are denied work, for instance, refugee-related investors might focus on social projects such as affordable housing or healthcare or invest in companies providing services to refugees. In countries where refugees are granted similar rights to local communities, investors would have more options to choose from.

At the same time, organizations like the World Bank can engage in pro-refugee policy dialogue with host governments and use instruments like the Global Concessional Financing Facility[54] (GCFF) and IDA19 Window for Host Communities and Refugees to reward pro-refugee policy adoption with access to concessional financing for refugee- and host community-oriented engagements. The IFC’s KKCF’s strategy of investment climate and policy engagement with the Turkana County government also demonstrates how a hyper-local and embedded dialogue can move the needle on idiosyncratic policy reforms to help create markets.

For the time being, ecosystem builders such as RIN are providing tools to incentivize pro-refugee policy reforms that support the growth of inclusive economies by unlocking the possibility for investors to target refugee-related firms. RIN is developing the Refugee Opportunity Index (ROI) to allow for comparisons of policies impacting refugees (most often negatively) across countries and against a set of actionable metrics. The Index will empower RIN and other ecosystem builders to interact with key public and private stakeholders, to amplify its core message, and to participate in policy and investor community initiatives that advance economic freedom for refugees. ROI is built on several sub-indices targeting three broad policy and market segments, notably: (i) refugee admissions, integration, and resettlement policy, (ii) basic rights and access to services, and (iii) employment conditions and access to economic opportunities for refugees.

## 4.5 Conclusion

The refugee-related investment space faces a range of challenges. A combination of lingering political hurdles mixed with a fledgling pipeline and evolving business cases is still holding back increased activity in this domain. As the needs of refugees become increasingly dire and projections suggest that the global FDP population will only increase, solutions beyond aid escalate in demand. In turn, the challenges impeding progress become even more significant.

In large part, these challenges can be attributed to the nascency of activity in this space and deriving lack of data and evidence on refugee-related investment experiences, as well as a need to improve the regulatory environment supporting refuges' economic inclusion. Funds often require long amounts of time to be raised and launched, and an even longer period to return capital to investors. First-time funds and funds entering certain thematic areas for the first time, especially those focusing on developing countries, can experience even longer waiting periods. As many of the organizations mentioned in this report have only recently begun to build investment products for refugees, it is only natural that they will confront long waiting periods characterized by information asymmetries and political opacity. These funds will in turn have a large impact on determining the engagement of future investors: If the current crop of funds successfully returns capital to investors, then it will be far easier to prove the refugee-related investment thesis. In addition, the difference in hosting contexts means that some countries lack strong investment and entrepreneurship ecosystems for local firms, let alone refugee-owned companies. To that end, efforts to improve the dynamism in the ecosystem — building more support programs such as accelerators and mentorship initiatives to help refugee-led and refugee-serving companies in their early stages, market-making efforts, as well as research initiatives to help in filling lingering data gaps — can provide tailwind.

To accelerate this process, in the next section we propose a discrete set of recommendations that can be used to help guide efforts, to help build the field, align players, and in general enhance cohesion in the refugee-related investment ecosystem.

# 5. A way forward and recommendations

Are refugee-related investments myth or reality? The unvarnished truth is that at present, it is a bit of both. Mythical is the idea that refugee-related investments occur according to commercial standards on par with traditional PE or VC investments. In reality, the field is quite nascent and populated mostly by concessional or quasi-concessional investors trying to build the business case. Even the more commercial-leaning players in this space with solid investment theses, like DWM and DRC's RIF, have yet to launch. The field is largely denominated by impact investors, NGOs, humanitarian actors, and DFIs, and is characterized by a paucity of commercial players.

However, compared to several years ago, the field is showing hopeful progress, as some initial grant-reliant refugee-related investment models are moving along the spectrum away from pure concessionality towards pure profit-driven principles. Organizations like Kaah International Microfinance Services (KIMS),[55] a sharia-compliant Somali MFI with a history of improving access to finance for FDPs that began as a public-private partnership (PPP) of the Somali diaspora, have successfully made the transition from grant-based to purely concessional debt finance (low interest or zero interest loans). The grant funding on KIMS provided a track record that allowed the firm to attract debt capital, which will hopefully lead to a transition to commercial capital.[56] Following KIMS' example, perhaps grants and concessional financing is what is needed to prove effective models in the refugee-related investment space, before crowding in increasingly commercial financing.

Fortunately, despite the myriad — and occasionally daunting — obstacles and challenges that serve as roadblocks to developing the refugee investment space, the international and investment communities have several avenues to explore to help build this burgeoning and much-needed economic space. The recommendations contained in Table 14 serve as a starting point for guiding future efforts to evolve the field of refugee-related investing. There is no single framework that can capture the full range of stakeholders and issues that are at play. With the below, we wish to help in identifying priority needs as well as the potential actions and subsequent impact that can be achieved from more concerted efforts.

**Table 14. Recommendations**

| Recommendation | Responsible actor(s) | Main idea | Key considerations |
|---|---|---|---|
| **Recommendation cluster #1: strengthen the ecosystem** | | | |
| **Revise the refugee investment lens** | Ecosystem builders | Build a more tailored refugee investment lens that captures the nuances of different investment strategies, as well as the trade-offs and opportunities that each approach brings. | **Objective:** Promote common understanding across asset classes of refugee-related investment strategies by creating a holistic framework.<br>**Potential impact:** Easier, scalable process for screening in and out potential investments and building consensus across the ecosystem. |
| **Increase availability and streamline Monitoring and Evaluation (M&E)** | Ecosystem builders, data and research organizations | M&E is essential for proving refugee-related investment impacts and is also not in the wheelhouse of traditional investment funds. | **Objective:** Help NGOs and investment funds fundraise sufficient financing for implementing proper M&E and ensure that impact evaluation is streamlined across the refugee-related investment space.<br>**Potential impact:** Increased and streamlined M&E will help ensure a causal link between investments and bolstered refugees' outcomes and help build the knowledge base and lessons learned for improving the field. |

| Recommendation | Responsible actor(s) | Main idea | Key considerations |
|---|---|---|---|
| **Recommendation cluster #2: build the pipeline of refugee-related opportunities** | | | |
| **Encourage pro-refugee regulatory and business environment reform** | Development partners, governments | While political, influential organizations like the World Bank can engage in policy dialogue with host governments and advise and encourage pro-refugee economic inclusion policies. | **Objective:** Entrench pro-refugee economic and social policies that foster greater economic rights and opportunities for both refugees and their host communities.<br>**Potential impact**: More refugee-related investment-friendly enabling environments will lead to greater opportunities for attracting investment, building the business case, and generate refugees' economic inclusion. |
| **Invest in pipeline development** | Ecosystem builders, development agencies, accelerators | Develop programs to build the entrepreneurial and firm capacity of refugee-led and refugee-owned businesses, as well as identify incumbent first that have refugees in their client base. | **Objective:** Build a larger and de-risked investment pipeline through capacity building and network development.<br>**Potential impact:** More easily crowd-in investors and make stronger investment decisions, while also more accurately positioning the overall opportunity to potential investors. |

| Recommendation | Responsible actor(s) | Main idea | Key considerations |
| --- | --- | --- | --- |
| **Build the capacity of financial intermediaries and other service providers to work with refugees** | Development agencies, microfinance institutions, accelerators, advisory firms | Building the capacity of local firms to work with refugees more effectively can also help in identifying potential investment targets, as well as in supporting refugee integration. | **Objective:** Help local businesses to work with refugees more effectively through capacity building programs, also via data and information sharing.<br>**Potential impact:** Local firms will increase their customer base, while refugees will be able to access more goods and services, and ultimately investors will be able to build larger pipelines. |
| **Recommendation cluster #3: build the business case and strategies for refugee-related investment** | | | |
| **Foster dialogue between capital providers and humanitarian / development agencies** | Development agencies, ecosystem builders | Enable dialogue between commercial investors and humanitarian / development sector agencies and identify entry points for partnerships. | **Objective:** Build partnerships around refugee-related investment efforts between commercial and humanitarian actors.<br>**Potential impact:** Larger-scale investment products that are built for purpose and have improved chances of impact. |
| **Tailor the business case** | Ecosystem builders, advisory firms, PE and VC investors, funds | Business cases for investing in refugees vary widely across geographies, populations, and asset classes. Therefore, there is a | **Objective:** Have a malleable set of business cases that are tailored to the risk/return profiles of different refugee-related investment opportunities. |

| Recommendation | Responsible actor(s) | Main idea | Key considerations |
|---|---|---|---|
| | | need to be adaptable when determining the business case across different refugee groups. | **Potential impact:** Better targeted fundraising and capital deployment efforts. |
| **Take a hyper-localized approach** | Ecosystem builders, advisory firms, PE and VC investors, funds | Ensure that the investment strategy is focused on a specific sector and risk profile, accounts for the local regulatory environment, and focuses heavily on addressing refugees' needs. | **Objective:** Build and market refugee-related investment products that are tailored to meet the needs of local refugee communities and economies, especially for piloting and proof-of-concept.<br>**Potential impact:** More interest from and traction with investors, as well as optimized chances of having an impact. |
| **Use sectoral strategies to better target efforts** | Ecosystem builders, advisory firms, PE and VC investors, funds | Focusing on improving the performance and investment prospects in specific sectors can lead to more tailored and effective investment strategies. | **Objective:** Identify sectors where investment opportunities intersect with refugees' needs to better align incentives.<br>**Potential impact:** Higher likelihood of finding product-market fit, and therefore returns and impact, between investors and refugee-related investment opportunities. |

| Recommendation | Responsible actor(s) | Main idea | Key considerations |
|---|---|---|---|
| **Set appropriate expectations around returns** | Ecosystem builders, advisory firms, PE and VC investors, funds | Build transparency and trust around the spectrum of potential returns that refugee-related investment products can achieve, including non-financial returns such as social impact and sustainability. | **Objective:** Build and maintain transparency around realistic returns across the refugee-related investment spectrum.<br><br>**Potential impact:** More effectively educate investors, helping to crowd in relevant capital providers and crowd-out non-relevant ones. |

# Annex A. Base interview questions

The below list of questions reflects the standard inquiries that were explored during interviews. Given the range of stakeholders interviewed for this report, and their varying operational models as well as degrees of engagement in refugee lens investment some questions were more applicable to certain groups than others.

1) Please explain the model of your fund. Have you successfully allocated capital? What are the determinants of success?
2) How does your firm/fund perform in this space?
3) Where do you think the opportunities of scale are? Have you been able to determine a certain methodology or pathway to scale?
4) What obstacles/barriers prevent you from investing in the refugee space, or scaling up in the refugee space?
5) What policies/regulations, if any, would you like to see implemented, at the local or international level, to facilitate refugee investment?
6) What financial instruments do you use, or would like to use, in this space?
7) What is your investment strategy?
8) What are your candid reflections on the refugee investment space? Is there room for more players in this space, and if so, what should they be doing?
9) What partnerships, if any, do you leverage/intend to leverage for your investments to be successful? (DFIs, VCs, Foundations, Non-Profits, etc.)
10) What, in your view, is the role of private investment in the refugee space, in comparison with humanitarian/public sector interventions?

# Annex B. Definitions

**Blended finance** —The strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries.

**Business accelerator** — Fixed-term, cohort-based programs, that include mentorship and educational components.

**Development finance institution** — Financial institution that provides risk capital for economic development projects on a non-commercial basis.

**Displaced person** — A person who is forced to leave their home country because of war, persecution, or natural disaster.

**Guarantee** — A form of credit enhancement in which a third party agrees to cover a certain amount of loss for an investor.

**First loss guarantees** — A technique commonly used in the securitization of assets to provide credit enhancement where a third party agrees to indemnify holders for a given amount or percentage of any losses from the asset pool.

**First-Mover** — A private sector actor who takes on the risk of being the first to enter a new market.

**Humanitarian agency** — Entity providing aid in the form of materials and logistic assistance to people who need help, typically in a short-term capacity.

**Impact investing** — General investment strategy that seeks to generate financial returns while also creating a positive social or environmental impact.

**Internally displaced person** — People who are forced to flee their homes due to armed conflict, generalized violence, violations of human rights, or natural or human-made disasters, but who remain within their own country.

**Limited partner** — Partner in a company or venture who receives limited profits from the business and whose liability toward its debts is legally limited to the extent of his or her investment.

**Microfinance institution** — Financial institutions that are characterized by their commitment to assisting typically poor households and small enterprises in gaining access to financial services.

**Non-governmental organization** — Organization that operates independently of any government, typically one whose purpose is to address a social or political issue.

**Perceived risk** — Subjective judgment that typically combines factors such as emotion, contextual factors, and personal experiences.

**Private equity fund** — Closed-end funds that are considered an alternative investment class. Because they are private, their capital is not listed on a public exchange.

**Rate of return** — The net gain or loss of an investment over a specified period, expressed as a percentage of the investment's initial cost.

**Refugee** — Displaced person who has crossed national borders and who cannot or is unwilling to return home due to well-founded fear of persecution.

**Refugee-related investment** — Investments as actions that positively affect the lives and well-being of refugees or their hosts through direct products and services, workforce development, or improved humanitarian delivery capacity.

**Startup ecosystem** — A network or community formed by people, startups in their various stages, and various types of organizations in a location, interacting as a system to create and scale new startup companies.

**Technical assistance** — The process of providing targeted support to an organization with a development need or problem.

**Venture capital fund** — Pooled investment funds that manage the money of investors who seek private equity stakes in startups and small- to medium-sized enterprises with strong growth potential.

# Annex C. List of acronyms

| | |
|---|---|
| **B2B** | Business to Business |
| **CAPEX** | Capital Expenditure |
| **DFI** | Development Finance Institution |
| **DCF** | Displaced Communities Fund |
| **DI** | Confederation of Danish Industry |
| **DRC** | Danish Refugee Council |
| **DWM** | Developing World Markets |
| **EBITDA** | Earnings Before Income, Taxes, Debt, Amortization |
| **EBRD** | European Bank for Reconstruction and Development |
| **ESG** | Environmental, Social, and Governance |
| **EU** | European Union |
| **EX** | Expenditures |
| **FAIRE** | Fund for Action and Innovation by Refugee Entrepreneurs |
| **FCS** | Fragile and Conflict-affected Situations |
| **FDP** | Forcibly Displaced Person |
| **FI** | Financial Institution |
| **KPI** | Key Performance Indicator |
| **KRIF** | Kiva Refugee Investment Fund |
| **KYC** | Know-Your-Customer |
| **LP** | Limited Partner |
| **MENA** | Middle East and North Africa |
| **MFI** | Microfinance Institution |
| **MNC** | Multinational Corporation |
| **MSME** | Micro, Small, and Medium Enterprises |
| **NGO** | Non-Governmental Organization |
| **OA** | Own Account |
| **ODA** | Official Development Assistance |
| **OSF** | Open Society Foundations |
| **PE** | Private Equity |
| **PPP** | Public-Private Partnership |
| **PS4R** | Private Sector for Refugees |
| **RIMP** | Refugee Investment Matchmaking Platform |

| | |
|---|---|
| **FIG** | Financial Institutions Group |
| **FLG** | First Loss Guarantee |
| **GCFF** | Global Concessional Financing Facility |
| **GP** | General Partner |
| **HRI** | Humanitarian Resilience Investing |
| **ICC** | International Chamber of Commerce |
| **IDA** | International Development Association |
| **IDP** | Internally Displaced Person |
| **IFC** | International Finance Corporation |
| **IFI** | International Financial Institution |
| **IFIN** | Inclusive Financial Institution |
| **IRC** | International Rescue Committee |
| **KIMS** | Kaah International Microfinance Services |
| **KKCF** | Kakuma-Kalobeiyi Challenge Fund |
| **RIN** | Refugee Investment Network |
| **SCR** | Social Corporate Responsibility |
| **SDG** | Sustainable Development Goals |
| **SIDA** | Swedish International Development Cooperation Agency |
| **SME** | Small and Medium-sized Enterprises |
| **TA** | Technical Assistance |
| **UN** | United Nations |
| **UNHCR** | United Nations High Commissioner for Refugees |
| **USAID** | United States Agency for International Development |
| **VC** | Venture Capital |
| **VSE** | Very Small Enterprise |
| **WBG** | World Bank Group |

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