Inclusive private sector development in forced displacement contexts

Learning Memo

Entrepreneur perspectives: What does it take for forcibly displaced entrepreneurs to succeed?

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Landscape for forcibly displaced entrepreneurs

- Displacement crises are increasingly protracted, and humanitarian assistance is spread thin. There is a push towards self-reliance through employment despite the fact that in regions hosting the largest share of displaced persons, labour markets struggle to generate adequate numbers of formal wage employment opportunities. In some cases, employment is restricted for non-nationals, including refugees, creating additional barriers to self-reliance.

- Entrepreneurship can provide a viable livelihood pathway when employment pathways are restricted. Although markets in displacement contexts are typically characterized by high rates of informality, a predominance of micro enterprises and high exposure to shocks, there is still demand for goods and services that can be served by local entrepreneurs.

- As humanitarian assistance is drawn down, there are opportunities to fill gaps in services. Forcibly displaced entrepreneurs can fill such gaps and generate business ideas that are responsive to challenges faced by their communities. Forcibly displaced persons are motivated by necessity and aspiration, both to improve their lives and those of the people around them.

- Where there is a viable market, the provision of goods and services are likely to be sustained longer and in a manner that is more responsive to the growth and development of local communities. Often, businesses run by forcibly displaced persons and members of their host communities serve a social purpose.

- However, forcibly displaced entrepreneurs face challenges in starting and expanding their businesses that are more pronounced due to their status. These include lack of documentation that is recognized by banks and business development service providers, weaker networks compared to those of their host community counterparts and capital that has likely been diminished or lost during displacement.

- Putting refugee entrepreneurs in a position to respond to such demands for goods and services requires a comprehensive framework that draws on the comparative advantage of government institutions, development partners, civil society and private sector actors. Uganda, for instance, was the first country to pilot the Comprehensive Refugee Response Framework (CRRF), for more predictable response, multi stakeholder engagement and longer-term investments.

Challenges for forcibly displaced persons to engage in entrepreneurship

- Access to capital is a challenge for any micro, small and medium enterprise (MSME) and even more so for forcibly displaced entrepreneurs. Commercial banks generally accept national identity documents or passports, in addition to other Know Your Client (KYC) requirements. For refugees, identity documents do not always meet these requirements. Both refugee and other forcibly displaced entrepreneurs often have limited capital or assets to serve as a guarantee for commercial loans.

- Business registration and other formalization processes are muti-faceted and can involve going through chambers of commerce and industry, tax authorities, civil registries and financial institutions. It takes significant amounts of time to learn about these processes, particularly for refugee entrepreneurs that are new to the country and may not speak the local language. Refugees are often keen to register their businesses to establish a formal presence in the host country.

- Limited access to information is another challenge which puts forcibly displaced entrepreneurs at risk of abuse and exploitation when engaging in entrepreneurship. Refugee entrepreneurs have less knowledge about processes in their host country, and are sometimes in greater need of support. They are therefore more vulnerable to exploitation through loan providers and other informal intermediaries.

- Situations of displacement are often in contexts with existing social tensions, both between and within groups. Entrepreneurs from outside the local community may be under greater scrutiny for their success, particularly when members of the host community do not enjoy similar levels achievements in their business operations.

- In displacement contexts, humanitarian assistance may cover basic goods and services through direct assistance. This impacts the behaviour of entrepreneurs and their willingness to accept loans over grants, as well as the willingness of community members to pay for goods and services they may have traditionally received for free.

- There is a lack of sustainable business development services for refugee and host community members that supports their financial independence and capacity to operate in the long-term. If delivered by projects, this can entail a once off injection of seed funds without longer term investment.

Case Studies on Forcibly Displaced Entrepreneurs

- Case Study 1: Fabian Shema is a Rwandan refugee entrepreneur living in Uganda. His commitment to providing for his family and community underpin his business model. He first established a community school to respond to the needs of local families unable to afford school fees for their children or access secondary school opportunities. From there, he then went on to set up the Ripple Savings and Credit Cooperative to enable community members to access finance for school fees and other critical needs. His own financial struggles had forced him to drop out of school and fully dedicate himself to helping his family meet their basic needs. He started to teach his siblings, who were unable to afford school fees at the time. This expanded to teaching a larger group of community children who found themselves in a similar situation. In 2018, Fabian registered his school, although he faced challenges accessing funds and navigating business registration processes. Motivated by his participation in the ILO Start and Improve Your Business (SIYB) and ILO Financial Education trainings, he initiated the process of setting up asavings and credit cooperative in 2021 and registered it in April 2023. These initiatives all addressed genuine gaps in services in the local community. Knowing his own community intimately meant that Fabian was well placed to identify the gaps that could be translated into opportunities for business development, while the solutions he designed were also responsive to practical constraints in the local environment.

- Case study 2: Patient Baraka is a refugee entrepreneur from the Democratic Republic of Congo (DRC) living in Uganda. He built his business in response to local health challenges and, in doing so, demonstrated how challenges can be leveraged as opportunities. Back in his home in DRC, Patient studied biology and as a young child observed the operations of his grandfather's pharmaceutical business. When he fled the civil war to Uganda, he started to experiment with natural products that would repel mosquitos. Participating in an ILO SIYB training programme helped him refine his business model for the product. Patient started this business with seed funding, which he then used to prototype the repellent. He marketed the product to caregivers and was ultimately able to have the product certified by the Ugandan National Drug Authority, which opened further markets domestically and abroad. He is now employing 10 staff from the refugee and host community. This example shows the resilience and innovation of refugee entrepreneurs and the creative vision they apply in identifying market opportunities.

Initiatives taken by FDP entrepreneurs to establish and grow their businesses

As demonstrated in the case studies:

- Refugee entrepreneurs make significant investment learning about the relevant legislation, policies and procedures governing the MSME environment and financial sector in their host country. This information is not always readily available, and sometimes requires trial and error in going through registration processes.

- With modest seed funding, refugees pilot the goods and services they wish to market. It is from this point that loans, and other forms of blended finance can be introduced to gradually grow the business.

- Refugee entrepreneurs invest in building networks within their host communities, to other business owners, as well as customers and input suppliers. From this point, greater trust can be developed.

- Refugee entrepreneurs form and join cooperative associations, to address capital constraints and access to finance.

- Refugee entrepreneurs seek out business development services, either facilitated by national providers, or through development assistance.

Necessary actions moving forward to support entrepreneurship in forced displacement contexts

- Mentorship programs can support forcibly displaced entrepreneurs to receive guidance and support, while also building networks within their communities. When mentor-mentee relationships span across refugee and host community divides, they can also support greater trust and cohesion.

- Cooperative structures are well placed to support refugee and host community members when they have sound governance and management systems, a sufficient pool of capital, an enabling policy and regulatory environment, and capacity within its members to serve a representative function.

- Networking and knowledge sharing platforms can be cultivated to enable resource sharing and collaboration among FDP entrepreneurs.

- Access to capital is a necessary step to start and expand businesses. Initial seed funding, accompanied by business management training or financial education and transition to loan products, can support a sustainable expansion over time.

- Formalizing businesses opens up more market opportunities. Streamlining processes and procedures can support formalization processes, while enabling businesses to create more revenue and more jobs in the community.

- Knowledge and training processes are critical for learning the fundamentals of business, but also to know about business registration and management processes in host communities. Business development services encompass financial education and support, entrepreneurship training and gender-oriented training (among others).

Key resources

- SIYB Guides and Publications
- Get Ahead Resources
- Young Congolese refugee fights the Malaria endemic in Uganda
- ILO Global Programme on Financial Education