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Thematic Focus: Access to Finance & Microenterprises

Paper title: Scaling refugee-owned MSMEs: Assessing effects of targeted capacity-building and inclusive financing on livelihoods in Kakuma, Kenya

Authors: Rohin Otieno Onyango, Cynthia Jenipher Amondi, Edmond Wabwire Wanyama, Esther Nasimiya Muyekho, Angela Bwengi, Mary Mwangi, Sara Leedom

Affiliation: Inkomoko

Corresponding Author: Rohin Otieno Onyango, rohin@inkomoko.com

Abstract:

This research investigates the impact of Inkomoko's capacity-building and inclusive financing interventions on refugee-owned micro, small and medium sized enterprises (MSMEs) in Kakuma, Kenya. Motivated by the inadequacies of traditional aid in addressing the growing refugee crisis and economic instability, the study explores how targeted support can drive sustainable livelihoods through private sector solutions. Despite their entrepreneurial potential, refugees face significant barriers, such as limited access to financial resources and local markets. This study examines how Inkomoko's initiatives—encompassing business training, financial management support, and direct inclusive finance—affect business revenue, job creation, and household expenses, with a focus on variations across age groups and genders. Utilizing a mixed-methods approach, pre-post evaluation design, the research analyzes both quantitative data (including revenue growth and job creation metrics) and qualitative insights (focusing on financial barriers and impacts). Findings reveal that while revenue increased significantly, the effects on job growth and variations across demographic groups were less pronounced. The study highlights the need for more nuanced support tailored to specific entrepreneurial challenges faced by refugees, including gender disparities and financial access issues. These insights contribute to refining policies and programs that bridge humanitarian aid with private sector opportunities, fostering economic integration and self-reliance among refugee communities.

Key Words: Refugee, enterprises, financial access, entrepreneurship, economic integration,

Research motivation

This research responds to the critical need for sustainable solutions in refugee support amid a worsening economic crisis. Traditional aid is increasingly inadequate as refugee populations grow and resources deplete. The focus is shifting to economic integration through private sector initiatives, such as entrepreneurship and job creation, as viable paths to sustainable livelihoods. Many refugees have entrepreneurial potential but face barriers like limited access to financial resources and local markets. This study investigates how targeted support for refugee-owned MSMEs can mitigate these barriers, foster economic growth, and prompt a transformative shift in global policy towards more effective and sustainable humanitarian aid.

Our research is further motivated by the notable impact of Inkomoko's capacity-building and direct financing interventions on refugee-owned MSMEs. Our hypothesis is that these Inkomoko interventions can support refugees and host communities who have high potential for entrepreneurship in becoming self-sufficient and overcoming poverty. By examining Inkomoko's effects on refugee-owned MSMEs, with a focus on age and gender, this study aims to uncover how targeted support can address specific challenges faced by refugee entrepreneurs, including gender disparities, youth-related issues, and financial access. The findings will inform more effective policies and programs across the 'humanitarian to private sector' spectrum, supporting and scaling refugee entrepreneurship. Additionally, this research enhances our understanding of operating in complex, underserved markets, facilitating the transition of displacement-affected communities from humanitarian aid to market-based solutions.

Research questions and design

This study examines the effects of Inkomoko's capacity-building and inclusive finance interventions on refugee enterprises in Kakuma, Kenya. The research aims to address the following key questions: (1) What is the impact of the interventions on business revenue, job creation, and household expenses among refugee entrepreneurs? (2) How do these impacts vary by age, gender, and type of intervention? (3) What are the main barriers preventing refugee entrepreneurs from accessing business finance, and what additional support is needed to overcome these challenges? To answer these questions, the study employs a mixed-methods approach using both quantitative and qualitative data collected at baseline and endline. Quantitative data analysis involved paired-samples t-tests to assess the changes in business revenue, job creation, and household expenses over time. ANOVA was applied to examine variations in revenue and job growth across age groups and gender, while Kruskal-Wallis and ANOVA tests were used to assess the differential impact of intervention types on business performance. Qualitative data from semi-structured surveys provided context and deeper insights into the challenges faced by refugee entrepreneurs in accessing finance.

Participant information

Data for this study were gathered from a larger capacity-building project targeting 912 refugees and host community members in the Kalobeyei settlement and Kakuma town between 2023 and 2024. For this analysis, only data from 519 refugee entrepreneurs was included, excluding those from the host community. Participants were categorized by gender, with 52% identifying as male and 48% as female. Age distribution was as follows: 13% aged 18-25, 37% aged 26-35, 33% aged 36-45, and 17% aged 46 and older. Educational backgrounds varied, with 30% having no formal education, 30% having primary education, 30% having secondary education, and 10% having higher education. Inkomoko provided these businesses with training and consulting (coaching and advising) focused on the key levers of growth - financial management, sales, and operations - as well as access to our in-house, below-market rate investment fund. Financing amounts ranged from small-scale investments below \$100 to larger investments exceeding \$30,000 aimed at supporting startup capital, business expansion, and equipment acquisition.

Data analysis

The analysis of data utilized both statistical and coding techniques to comprehensively assess the impact of capacity-building and access-to-finance interventions on refugee-owned

MSMEs. Quantitative data were analyzed using a combination of descriptive and inferential statistical methods. Descriptive statistics, including mean, median, and standard deviation, summarized baseline and endline data on business performance, financial access, and growth stages. Inferential statistics, such as Chi-square tests, paired-samples t-tests, and ANOVA, were employed to determine the significance of changes over time and the relationship between inclusive financing and business growth. For instance, a paired-samples t-test revealed a statistically significant increase in revenue from baseline to endline ($t(518)=-3.27$, $p=.001$), indicating the positive impact of Inkomoko's interventions on business revenue. However, changes in job growth and revenue differences across age and gender groups were not statistically significant. Furthermore, the Kruskal-Wallis test showed no significant differences in revenue growth among different service groups, although descriptive statistics suggested that direct financing might be associated with higher revenue growth.

Qualitative data were systematically analyzed using coding techniques. Initial open coding identified key themes related to barriers to finance, investment impacts, and business growth. These themes were then organized into categories through axial coding, facilitating a deeper understanding of how access to inclusive finance influenced refugee enterprises. Thematic analysis connected qualitative insights with quantitative findings, ensuring a robust and comprehensive evaluation. These mixed-methods approach integrated numerical data with contextual insights, providing a holistic view of the catalytic effect of inclusive finance on business growth among refugee entrepreneurs.

Policy recommendations

To address the urgent need for durable solutions in refugee self-reliance, grounded in Inkomoko's comprehensive data analysis and participant feedback, several policy actions and private sector responses are recommended at various levels of intervention:

National policy level recommendations

1. At the Kenya national level, it is essential to simplify regulatory barriers for access to financial services for refugees. Data from the study shows that low capital (cited 264 times) and mistrust of financial institutions are critical barriers. Implementing policies that allow refugees to use their ID cards for bank account and mobile money registration, and facilitating streamlined processes for acquiring Kenya Revenue Authority (KRA) Personal Identification Numbers (PIN) can significantly reduce barriers to financial inclusion. Such measures will enable refugees to meet a core regulatory requirement to access financial services.
2. Once structural barriers are addressed, building trust between refugees and financial institutions is crucial to utilization. The qualitative analysis revealed deep-seated mistrust of financial institutions, which needs to be addressed through targeted educational initiatives and financial literacy programs. National initiatives, donor, and NGO activities can focus on providing targeted educational initiatives, financial literacy, and brokering relationships. By establishing mechanisms to facilitate trust and broker relationships between refugees and financial institutions, refugees will be more inclined to utilize available services.

County/ sub-county level recommendations

3. In alignment with the SHIRIKA Plan's goal of transitioning refugee camps into integrated settlements and promoting sustainable socio-economic inclusion, we recommend that the Kenya Department of Refugee Services (DRS) at the county or sub-county level, should operationalize the Refugee Act 2021. The data reveals that lack of mobility rights and regulatory barriers are significant impediments to refugees' financial access. Specifically, the DRS should focus on implementing the Act's provisions related to work and mobility rights to enhance refugees' access to and utilization of financial services.
4. Strengthening market linkages and infrastructure support is necessary. The study found that transportation and market access (cited 91 times) are key challenges faced by refugee enterprises. Developing initiatives that enhance market access for refugee enterprises and improving infrastructure, including transportation and digital connectivity, will mitigate logistical barriers and boost business operations for refugee entrepreneurs.

Private sector specific recommendations

5. Expanding financial product offerings tailored to refugees is another critical action. The research highlights a lack of access to investment (frequently mentioned in responses) as a major challenge faced by refugee entrepreneurs. Financial institutions should develop flexible accounts and accessible credit options that cater to the unique needs of refugees, fostering financial inclusion and helping them overcome the capital constraints observed in the study. These tailored products will create a new customer base for private sector partners while addressing refugees' financial requirements.
6. Financial institutions, telecoms, and other private sector partners can adjust their regulations to allow for refugee inclusion, for example, using refugee ID cards as viable ID for onboarding, or issuing SIM cards to refugees. This step aligns with the study's findings on regulatory barriers and mistrust of institutions, showing that streamlining onboarding processes and simplifying access to financial and communication tools can promote greater economic inclusion and self-reliance among refugees.