

Research Article

Small Enterprises Holding the Line When Markets Collapse: Lessons from Refugee and Host Community Entrepreneurs in East Africa

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Abstract

The suspension of United States foreign aid in early 2025, which constituted more than 80% of international assistance in several refugee-hosting countries, created a sudden funding shock with wide-ranging consequences for refugee livelihoods. This study examines the effect of these cuts on micro and small enterprises (MSEs) operating in refugee settings, which are central to livelihood and market resilience. Drawing on a rapid assessment conducted in Kenya, Rwanda, Ethiopia, and South Sudan, in May-July 2025, the study employed a partially mixed sequential equal status design, combining Inkomoko's client loan portfolio data, 76 key informant interviews, and a targeted literature review. Results indicate that reduced aid flows contributed to declining household purchasing power, increased loan defaults, and business closures, alongside severe disruptions in food, health, and education services. Evidence also points to both fragility and resilience: repayment stress was most acute among refugees, with deterioration in early 2025 and only marginal recovery thereafter. At the same time, entrepreneurs demonstrated adaptive strategies; shifting toward subsistence activity, leveraging informal networks, and adopting digital tools. Business continuity was sustained through mobile training, WhatsApp groups, peer mentoring, and flexible financing, though women entrepreneurs faced sharper setbacks, underscoring the need for psychosocial and cooperative support. The study concludes that although refugee businesses remain highly exposed to aid volatility, their adaptive capacity can be strengthened through flexible, localized, and community-driven models that reinforce resilience in shifting humanitarian landscapes to a market systems thinking and focus on sustainable and private sector-led initiative.

Keywords

Refugee Enterprises, Micro and Small Enterprises, Entrepreneurship, Financing, Resilience, Humanitarian Localization, Financial Inclusion, Livelihoods

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1. Introduction

Humanitarian assistance has long been marked by volatility, but the abrupt suspension of United States foreign aid in January 2025 represents one of the most consequential shocks in recent decades. Accounting for more than 80% of international support in several refugee-hosting countries, the sudden withdrawal of funds destabilized essential services in nutrition, health, education, protection, and livelihoods [1, 2]. Early evidence points to sharp reductions in food rations, health clinic closures, and interruptions in education and protection programs within refugee settlements, with immediate repercussions for displacement affected populations and host communities [3, 4]. These developments underscore the structural fragility of refugee-hosting economies across East Africa, where survival and recovery remain closely tied to aid flows [5].

The crisis highlights tensions in the global humanitarian-development-peace (HDP) nexus. International frameworks such as the 2016 World Humanitarian Summit and the OECD's nexus agenda call for bridging short-term relief with long-term resilience and stability [6, 7]. Yet, when a single donor withdrawal can unravel entire systems, the limitations of current financing models become evident. This disruption raises urgent questions about how humanitarian and development actors can build shock-responsive systems that sustain both immediate protection and pathways to durable solutions.

Within this debate, refugee self-reliance has become a central policy objective. The Global Compact on Refugees and the Comprehensive Refugee Response Framework (CRRF) emphasize the importance of enabling refugees to contribute economically and socially to their host communities [8]. Research on refugee economies demonstrates that displaced populations are not passive recipients of aid but active economic agents who generate livelihoods, create markets, and foster resilience when provided with enabling conditions [9]. MSEs, in particular, are increasingly recognized as vehicles of self-reliance, mediating between humanitarian interventions and sustainable market systems.

Parallel to these debates is the agenda of localization, which calls for shifting resources and decision-making closer to affected populations [7]. The 2025 aid cuts expose the fragility of top-down, donor-driven aid models and reinforce arguments for investing in local institutions, private sector actors, and community-based organizations that can sustain services when international flows decline [10]. In this context, organizations like Inkomoko, which directly support refugee and host-community entrepreneurs, exemplify the potential of hybrid models that bridge humanitarian and market systems while aligning with localization principles.

2. Literature Review

2.1. MSEs and Livelihoods in Humanitarian Contexts

Micro and Small enterprises (MSEs) have increasingly been recognized as engines of resilience in fragile and humanitarian settings [11]. Unlike traditional humanitarian aid, which often delivers short-term relief, MSEs create opportunities for sustained livelihoods, build market linkages, and foster agency among displaced and host populations. Studies in East Africa demonstrate that refugee-run businesses often thrive in niches overlooked by host-country economies, such as cross-border trade, informal retail, and culturally specific goods [12, 13]. These businesses serve not only as income sources for refugee households but also as crucial providers of goods and services in environments where formal supply chains are fragmented.

However, the potential of MSEs in humanitarian settings is frequently undermined by structural barriers. Refugee entrepreneurs face limited access to finance, restrictions on movement and work rights, and inadequate legal documentation [14, 15]. They also operate in economies that are disproportionately aid-dependent. In such environments, market demand is driven by humanitarian aid flows, food rations, cash transfers, and NGO-procured goods. When aid budgets shrink, MSEs that rely on this consumer base often collapse. Thus, refugee entrepreneurship is deeply entangled with the political economy of aid.

2.1.1. Aid Dependency and Market Vulnerability

The literature on aid dependency provides critical insights into the dynamics observed during the 2025 funding cuts. Aid dependency has long been critiqued for creating structural vulnerabilities: distorting local markets, discouraging self-reliance, and rendering economies highly sensitive to donor priorities [16, 17]. For refugee-hosting contexts, this dependency is particularly acute. In Kakuma, Kenya, for instance, humanitarian aid not only subsidizes basic consumption but also shapes entire value chains - from wholesalers supplying NGOs to micro-retailers selling subsidized goods in camps [18].

When aid is abruptly reduced, two cascading effects occur. First, refugee households lose direct purchasing power, leading to reduced demand for goods and services. Second, the collapse of aid-funded programs undermines the broader ecosystem in which MSEs operate [19, 20]. Clinics, schools, and protection services - many of which are supported by donor funding - also function as economic anchors. Their closure not only withdraws services but also removes employment and procurement opportunities. Thus, MSEs in humanitarian settings are doubly exposed: to fluctuations in household purchasing power and to disruptions in institutional demand.

The 2025 U.S. funding cuts exemplify these vulnerabilities. A dynamic that resonates with critiques of “humanitarian economies” as aid-saturated ecosystems where market vibrancy is contingent on external resource flows.

2.1.2. Resilience Frameworks and Adaptive Capacity

Against this backdrop, resilience has emerged as a central concept in humanitarian and development scholarship. Defined broadly, resilience refers to the capacity of individuals, households, communities, or systems to withstand, adapt to, and recover from shocks [21]. In the context of refugee livelihoods, resilience is not confined to survival; it encompasses the ability to sustain or even transform entrepreneurial activity under conditions of adversity.

The literature identifies several interrelated dimensions of resilience that are particularly relevant to refugee enterprises. Economic resilience highlights the capacity of businesses to adjust their operations in times of crisis, such as pivoting from non-essential goods to food or hygiene products when consumer demand contracts [22]. Social resilience underscores the importance of networks of support, including community-based savings groups that often provide informal insurance against shocks [23]. Institutional resilience, meanwhile, draws attention to the adaptability of organizations like Inkomoko, which can restructure programs, revise financial products, and forge partnerships to sustain service delivery amid funding volatility [24].

In sum, these dimensions illustrate that resilience is not merely an individual attribute but an ecosystem property. Refugee MSEs thrive not in isolation but through supportive infrastructures of training, financing, market linkages, and enabling policies. Consequently, resilience programming must extend beyond equipping entrepreneurs with coping skills and instead prioritize strengthening the systemic capacities that allow refugee businesses and markets to adapt, recover, and endure.

2.1.3. Humanitarian Entrepreneurship and Localization

A growing body of literature advocates for “humanitarian entrepreneurship” as a pathway to bridge relief and development [25]. This perspective sees entrepreneurship not merely as an economic activity but as a means of restoring dignity, agency, and community cohesion. Humanitarian entrepreneurship reframes refugees from passive recipients of aid to active economic agents, capable of innovating and contributing to host economies.

Parallel to this is the localization agenda, which calls for shifting power and resources from international actors to local organizations, refugee-led groups, and community-based enterprises [26]. The rationale is that local actors are better positioned to deliver contextually relevant and sustainable services. In MSE support, localization implies fostering

partnerships with refugee cooperatives, local vendors, and government initiatives rather than relying solely on international NGOs.

However, localization in practice faces structural constraints. International funding architectures often privilege large INGOs, leaving refugee-led organizations underfunded and vulnerable to collapse during donor exits [27]. The 2025 aid cuts highlights this gap: while some international NGOs secured partial support from philanthropy, many refugee-led organizations shut down entirely.

2.2. Emerging Gaps in the Literature

Despite growing attention to refugee entrepreneurship, three critical gaps remain. First, empirical research on how macro-level funding shocks affect micro-level business outcomes remains limited [16, 17]. Much of the literature examines refugee businesses under conditions of protracted aid, but fewer studies capture moments of abrupt resource withdrawal.

Second, while resilience has become a buzzword, its operationalization in MSE support remains uneven. Few studies provide concrete models for integrating resilience into financing, training, and market development for refugee entrepreneurs [21]. Third, the intersection between localization and entrepreneurship is underexplored. While refugee-led businesses are championed rhetorically, their role in MSE ecosystems is rarely analyzed beyond case studies. Understanding how they can be sustainably integrated into broader support frameworks is a pressing research agenda.

2.3. Theoretical Framework

This study is anchored in Resilience Theory, which conceptualizes how individuals, organizations, and systems absorb shocks, adapt to changing conditions, and, in some cases, transform structures in response to crises [28, 29]. In the context of refugee economies, resilience is not merely the capacity to survive volatility but also the ability to reconfigure livelihood strategies, financing mechanisms, and support systems in ways that enable long-term sustainability. Applying resilience theory allows us to examine refugee MSEs as critical nodes within fragile market systems, whose responses to sudden aid withdrawal, whether coping, adapting, or transforming offer insights into broader patterns of economic survival and recovery in humanitarian settings.

Complementing this perspective, Resource Dependence Theory (RDT) highlights the structural vulnerabilities created when organizations or enterprises rely on external and volatile resource flows [30]. RDT posits that survival and performance are shaped by the degree of dependence on external actors and by the strategies deployed to mitigate uncertainty. For refugee MSEs, the suspension of U.S. aid not only reduced customer purchasing power but also constrained access to finance, exposing the risks of donor-driven economic

ecosystems. Integrating RDT with resilience theory provides a dual lens: while resilience theory illuminates adaptive capacities, RDT underscores the systemic fragilities of aid-dependent enterprise models. Together, these frameworks guide our analysis of how refugee MSEs navigate the 2025 funding cuts and point to pathways for reimagining support systems that are less vulnerable to external shocks and more firmly grounded in localized, resilient market structures.

3. Materials and Methods

3.1. Research Design

This rapid assessment utilized a partially mixed sequential equal status design [31], integrating both qualitative and quantitative data sources. Specifically, the analysis drew on Inkomoko's client loan portfolio data spanning January 2025 - July 2025, 76 key informant interviews with refugee entrepreneurs and community leaders, and a targeted literature review. The approach was adapted from crisis-response methodologies, emphasizing speed, contextual sensitivity, and triangulation to ensure robust findings despite compressed timelines. By combining stakeholder perspectives, internal financial records, and secondary evidence, the design allowed for both breadth and depth of analysis, capturing how aid shocks reverberate through household economies, MSE operations, and broader humanitarian market systems.

3.2. Study Location

The study was carried out in four countries where Inkomoko maintains active programming - Kenya, Rwanda, Ethiopia, and South Sudan. Collectively, these countries host over three million refugees, making them among the largest and most protracted displacement contexts globally. Within each, the research focused on key refugee-hosting sites: Kakuma, Dadaab, and Kalobeyei in Kenya; Mahama, Nyabiheke, Kiziba, and Mugombwa in Rwanda; Jigjiga and Assosa in Ethiopia; and Gorom, Mangala, and Maban in South Sudan. These sites were selected purposively to capture geographic variation, differing aid delivery modalities, and diverse stages of market development. Rwanda's relatively integrated refugee policies, for example, contrast with South Sudan's fragile, aid-dependent environment, offering a comparative frame for examining how refugee-owned MSEs respond to systemic shocks.

3.3. Data Sources and Collection

The assessment drew on three complementary sources of evidence. First, as shown in Table 1, 76 key informant interviews (KIIs) were conducted in May 2025 with refugee entrepreneurs (n=41) and community leaders, RLO representatives, and cooperative members (n=35). Semi-structured guides elicited perspectives on customer demand, supply chains, financing constraints, and coping strategies following the suspension of aid.

Table 1. Distribution of the KII respondents.

	Inkomoko refugee clients			Leaders			Grand KIIs total
	F	M	Total	F	M	Total	
Ethiopia	6	4	10	3	6	9	19
Kenya	8	6	14	5	8	13	27
Rwanda	4	5	9	4	4	8	17
South Sudan	4	4	8	2	3	5	13
Total	22	19	41	14	21	35	76

*F=Female, M=Male.

Sensitive issues such as loan diversion, household food insecurity, and community tensions were explored with care when interviewing respondents. Second, Inkomoko's loan portfolio data for January-July 2025 was analyzed to track repayment, defaults, and write-offs across gender, age, and sectoral categories. Third, a targeted literature review of peer-reviewed studies situated these findings within a broader regional and global context.

3.4. Sampling Strategy and Data Analysis

Given the short timeframe, the study adopted a purposive sampling approach rather than a statistically representative design, prioritizing participants with direct exposure to aid cuts and micro and small enterprise (MSE) activity. Particular attention was given to inclusivity, with gender balance (54%

women, 46% men) and youth representation (ages 18-35, 44% of respondents) to ensure coverage of vulnerable groups.

Qualitative data (interview transcripts and secondary literature) were thematically analyzed to validate or challenge field observations, highlighting convergences and diver-

gences on issues such as consumer demand and loan repayment capacity. On the quantitative side, the analysis examined loan repayment outcomes across demographic groups. Descriptive statistics (means, medians, and standard deviations) summarized overdue loan amounts and days in arrears.

Table 2. Shapiro-Wilk statistic for robustness check of principal past due date amount and days past due date variables.

Variable	Observations	W	V	z	Prob>z
Principal past due date in USD					
Dec-24	13608.0	0.3	4676.0	22.8	0.000
Mar-25	12154.0	0.3	4299.0	22.5	0.000
May-25	13608.0	0.3	4242.8	22.5	0.000
Days past due date					
Dec-24	13608.0	0.7	1748.8	20.1	0.000
Mar-25	12154.0	0.8	1364.9	19.4	0.000
May-25	13608.0	0.8	1431.5	19.6	0.000

Group differences were tested using Two-sample Wilcoxon rank-sum (Mann-Whitney) tests for binary categories (gender, youth, and RDP status), with Wilcoxon signed-rank tests applied as robustness checks. The Shapiro-Wilk test (shown in Table 2) confirmed non-normality, severe for principal past-due amounts ($W \approx 0.3$) and moderate for days past due ($W \approx 0.7-0.8$, $p < 0.05$). Accordingly, non-parametric tests were used to generate more reliable estimates across groups and time periods.

3.5. Ethical Considerations

The study adhered to humanitarian research ethics. All participants provided informed consent after being briefed on the study's purpose and confidentiality safeguards. Sensitive topics were approached with a "do no harm" lens to minimize retraumatization. Respondent identities were anonymized, with only gender, location, and business type disclosed in illustrative quotes. Data was securely stored, with access restricted to the research team.

3.6. Limitations

Several limitations frame interpretation of the findings. The four-week data collection window constrained longitudinal analysis. The purposive sample, while diverse, cannot be generalized to all refugee entrepreneurs. The rapidly shifting humanitarian context means that conditions described in July 2025 may have since evolved. Finally, although aid cuts were the central driver of disruption, concurrent macroeconomic pressures; such as inflation and currency volatility, also

shaped outcomes. Despite these constraints, triangulation across qualitative, quantitative, and secondary data provides robust insights into the immediate to short-run effects of aid withdrawal on refugee MSEs, offering both an evidentiary baseline and actionable guidance for ongoing adaptation.

4. Results

This study set out to examine the immediate to short-run effects of the January 2025 U.S. aid suspension on MSE support services across refugee and host communities in Rwanda, Kenya, Ethiopia, and South Sudan. Guided by four research questions, the assessment focused on identifying patterns of service disruption, organizational response, business-level consequences, and emergent strategies articulated by clients. Results reveal a consistent trajectory across all four countries: humanitarian funding cuts triggered contraction in the range and quality of support services, declining consumer demand, precipitated stress at both the organizational and business levels, and created visible fractures in the entrepreneurial ecosystems that had previously underpinned refugee livelihoods. At the same time, the findings document how entrepreneurs themselves responded to these constraints, pointing to nascent strategies for adaptation.

4.1. Quantitative Loan Performance Trends

The analysis of Inkomoko's client loan portfolio provides a quantitative entry point into the effects of aid disruptions on repayment behavior. Repayment performance was relatively

strong in December 2024 but deteriorated sharply by March 2025, with mean principal past due rising from USD 62.0 to 86.7 and days past due from 73.2 to 106.5 (both $p < 0.001$). By May 2025, a modest recovery was observed (principal = USD 83.0; days past due = 108.9), though arrears remained above December levels. Refugees were disproportionately affected (PAR>30 = 20%, NPL = 15%) compared to hosts (PAR>30 = 12%, NPL = 9%), while youth and men also showed higher delinquency risks. Shapiro-Wilk tests confirmed strong departures from normality in repayment data (principal $W \approx 0.3$, $p < 0.001$), justifying the use of non-parametric tests.

Table 3. Portfolio at risk (PAR) and non-performing loans (NPL) by demographic group, all countries.

Category		PAR>30	PAR>60	NPL
Gender	Male	15%	14%	12%

Category		PAR>30	PAR>60	NPL
Strata	Female	14%	13%	11%
	Refugee	20%	18%	15%
	Host	12%	11%	9%
Age	Youth	16%	14%	13%
	Non-Youth	10%	9%	7%
Region	Overall	15%	13%	11%

The results, as depicted in Table 3, show that repayment risk is uneven across demographics. Refugee clients had the highest portfolio at risk (PAR>30: 20%) and non-performing loans (15%), well above host loan clients. Youth also exhibited higher delinquency (PAR>30: 16%, NPL: 13%) compared to non-youth. Gender differences were marginal, with males showing slightly higher risk than females.

Table 4. Wilcoxon signed-rank test of gender differences in days past due, all countries.

Days past due date	Observations	Median	Mean (SD)	z (p-value)
Female				
Dec-24	7,438	0.0	73.0 (153.2)	
Mar-25	6,614	21.0	107.1 (183.1)	-45.3 (0.000)
May-25	7,438	16.0	108.9 (188.4)	-39.2 (0.000)
Male				
Dec-24	5,975	0.0	73.2 (151.6)	
Mar-25	5,357	16.0	106.0 (179.4)	-42.7 (0.000)
May-25	5,975	12.0	109.1 (187.5)	-37.7 (0.000)

Table 4 shows that both female and male borrowers experienced significant increases in days past due from Dec 2024 to Mar 2025 (females: 73.0→107.1; males: 73.2→106.0; $p < 0.001$). From Mar to May 2025, delays remained high with only slight increases (females: 107.1→108.9; males:

106.0→109.1). Median values also rose sharply between December 2024 and March 2025 then started to decline steadily in May 2025, confirming broad deterioration in repayment timeliness and underscoring the need for system-wide rather than gender-specific interventions.

Table 5. Wilcoxon signed-rank test of youth vs. non-youth principal past due, all countries.

Principal past due date in USD	Observations	Median	Mean (SD)	z (p-value)
Youth (<=35 years)				
Dec-24	7,646	0.0	70.8 (282.4)	
Mar-25	6,902	21.3	97.9 (352.4)	-18.2 (0.000)
May-25	7,646	10.9	92.5 (282.6)	-17.8 (0.000)

Principal past due date in USD	Observations	Median	Mean (SD)	z (p-value)
Non-youth (>35 years)				
Dec-24	5,884	0.0	45.7 (158.5)	
Mar-25	5,180	0.0	67.1 (199.7)	-10.2 (0.000)
May-25	5,884	0.0	65.6 (185.2)	-12.2 (0.000)
Overall				
Dec-24	13,608	0.0	73.2 (152.2)	
Mar-25	12,154	20.0	106.5 (181.0)	-25.3 (0.000)
May-25	13,608	15.0	108.9 (187.7)	-15.8 (0.000)

As shown in Table 5, among youth (≤ 35 years), mean principal loan past due rose from 70.8 in Dec 2024 to 97.9 in Mar 2025 ($z = -18.2$, $p < 0.001$), then declined slightly to 92.5 in May ($p < 0.001$). Non-youth (> 35 years) also showed increases from 45.7 to 67.1, then to 65.6 (all $p < 0.001$). Both groups experienced significant arrears growth, with youth consistently carrying higher overdue amounts, highlighting greater repayment challenges for younger borrowers.

4.2. Service Gaps Emerging from Funding Cuts

Beyond Inkomoko's financial portfolio, the withdrawal of donor support manifested most visibly in the abrupt interruption of "wraparound" services that had previously enabled MSEs to progress beyond subsistence activities. Across all four countries, training and capacity-building programs were either truncated or canceled. In South Sudan, for example, the shutdown of seven health clinics eliminated jobs, supplier contracts, and indirect market opportunities. At the same time, the suspension of business training cycles left many entrepreneurs without the completion certificates required to qualify for formal loans, thereby directly constraining their access to finance. In Kenya, digital literacy modules that had been designed to support refugee integration into e-commerce were paused indefinitely, curtailing pathways into online markets that had shown promise during the COVID-19 recovery. Similarly, education programs for refugees were scaled down. For instance, in Kenya, the leader of a refugee-led organization (RLO) supporting education in a refugee camp explained: *"Many parents lost their jobs after US-funded projects were terminated. Most no longer afford tuition fees, and some have been forced to withdraw their children from the program. We are unable to pay our teachers... We are struggling to feed the children."*

Advisory and mentorship services were similarly disrupted. In Ethiopia, staffing reductions led to a reduction in mentoring frequency, from monthly one-on-one sessions to quarterly group meetings. This change significantly diluted the tailored nature of business support that many early-stage enterprises

had depended upon. Non-financial services were disproportionately deprioritized, particularly those aimed at women's empowerment. Psychosocial support groups for female entrepreneurs, which had addressed the intersecting barriers of trauma recovery and market participation, were classified as "non-core" and suspended under new budget constraints. These gaps reveal how financial services alone were insufficient to sustain entrepreneurship in the absence of the broader ecosystem of training, advising, and psychosocial support.

4.3. Organizational and Partner Program Responses

Humanitarian and development partners responded to the contraction of donor financing in ways that highlight both their adaptive capacity and their structural fragility. Three response patterns were observed.

The first was retrenchment, with several international NGOs scaling back or fully withdrawing from MSE programming and closing operations in many camps. In Rwanda, for instance, a major livelihoods consortium reduced operations from three districts to one, cutting off hundreds of entrepreneurs from access to loans, training, and market linkages. Similarly, a refugee led organization (RLO) from Rwanda said that *"The program stopped, we have no funds to conduct it and we have temporarily closed our doors."*

The second was substitution and narrowing, whereby organizations attempted to maintain lighter-touch services while suspending more resource-intensive ones. For example, savings groups were allowed to continue operating but growth loans were suspended; in-person financial literacy trainings were replaced with SMS-based reminders. While these strategies preserved some degree of continuity, they also weakened the intensity and quality of support.

The third response was the forging of new, often ad hoc, partnerships. In Kenya's Kakuma refugee camp, local community-based organizations collaborated with private distributors to sustain minimal market access for refugee-run shops. Although creative, such arrangements lacked formal

institutional backing, making them vulnerable to breakdown. Collectively, these patterns underscore the precariousness of programming in contexts where service continuity is tethered to donor flows.

4.4. MSE and Business-Level Effects

At the enterprise level, the consequences of service disruptions were immediate and multifaceted. Liquidity constraints and cash flow pressures emerged as central challenges. The rise in repayment delays documented in loan data was corroborated by client testimonies. Entrepreneurs in Ethiopia and Kenya described how the absence of regular advising left them unprepared to adjust repayment schedules or manage fluctuating inventories.

Stalled growth trajectories also became evident. MSEs that had begun to diversify into higher-value activities such as agro-processing, tailoring, or cross-border trade reported having to scale back operations. One female refugee entrepreneur running a grocery shop in a refugee camp in Rwanda observed that: *“The business was running smoothly at the start of 2025, and in the first two months, I even expanded by renting an additional space and fruit value addition. However, since April, following sharp cuts to refugee stipends and partner funding, my customers' purchasing power has decreased. Now I have reduced the diversity and quantity of products that I sell and operate with only minimal profit, just enough to survive.”* This regression to lower-value activities represented not only financial loss but also a reversal of the long-term progress toward business formalization.

The vulnerability of women-owned businesses was particularly pronounced. Female entrepreneurs in Ethiopia and South Sudan reported sharper declines in turnover, attributing these to a decline in women's disposable income and the suspension of psychosocial support groups and to heightened caregiving burdens. A female entrepreneur running a female beauty salon in Ethiopia noted that: *“Most businesses, particularly those run by women, have either closed or reduced their outlets, especially in the beauty industry, salons, clothing shops, and luxury goods. I run a beauty salon, and now most ladies only come for basic hair care. Services like nail care, facials, and other non-essential treatments have sharply declined. This is mainly due to reduced consumer spending and some of my refugee clients returning to their home countries this year.”* As one South Sudanese participant observed: *“Without the women's circle, I felt alone again in business. I returned to selling vegetables at home.”* These accounts illustrate how the contraction of non-financial services undermined not only economic performance but also the social supports that had enabled women to sustain entrepreneurship.

Overall, many businesses regressed toward subsistence-level operations, with only a minority able to maintain growth trajectories. This downward shift in entrepreneurial capacity represents a significant erosion of the progress made in the years preceding the crisis.

4.5. Client Perspectives and Forward-Looking Strategies

Despite these challenges, refugee and host entrepreneurs articulated pragmatic perspectives on how to sustain support in crisis conditions. Continuity, even at reduced intensity, was valued above abrupt withdrawal. Clients frequently noted that “any support is better than none,” indicating that partial service delivery could mitigate the worst effects of aid shocks.

Entrepreneurs identified digital tools as vital beyond crisis response, positioning mobile platforms, fintech, and e-commerce as long-term resilience multipliers. Investments in digital literacy and infrastructure expand market access, diversify revenues, and strengthen adaptability, reframing digitalization from temporary convenience to a cornerstone of entrepreneurial sustainability and competitiveness.

Community-led models also surfaced as a forward-looking strategy. Several clients suggested that advanced entrepreneurs could serve as peer mentors in times when professional advisors were unavailable. This approach aligns with broader debates on localization, emphasizing the role of communities in co-producing support systems.

Finally, flexibility in financing was identified as crucial. Clients advocated for rolling credit facilities, longer repayment grace periods, and shock-responsive loan terms. These suggestions resonate with the quantitative evidence of rising defaults, pointing to the need for more adaptable financial products in volatile humanitarian settings.

The results reveal a dual narrative. On one hand, the 2025 aid suspension precipitated measurable financial distress, visible service gaps, organizational retrenchment, and enterprise-level setbacks. On the other hand, refugee and host entrepreneurs demonstrated agency in proposing and enacting adaptive strategies, including technological innovations, peer-led support, and demands for more flexible financing. These findings underscore both the vulnerability of humanitarian MSE support systems to external shocks and the latent adaptive capacity within affected communities.

5. Discussion

This study examined whether refugee- and host-owned MSEs can “hold the line” when external markets collapse, in this case following the January 2025 suspension of U.S. aid across East Africa. The findings demonstrate a dual reality: refugee businesses are both deeply vulnerable to systemic shocks and simultaneously capable of adaptation under constrained conditions. This paradox: fragility in the face of abrupt aid withdrawal but resilience once adaptation mechanisms are mobilized, illuminates broader debates in resilience studies, humanitarian financing, and refugee livelihood studies.

5.1. Fragility and the Limits of Donor-Dependent Models

The deterioration of loan performance in early 2025, with PAR >30 days and NPL ratios peaking in May, illustrates the extent to which donor-dependent ecosystems expose MSEs to volatility. This aligns with critiques of projectized humanitarian financing that emphasize its failure to provide the institutional scaffolding needed for enterprise stability [3, 4, 7]. As psychosocial services, advisory support, and training cycles were abruptly curtailed, MSEs regressed toward subsistence, echoing Carter and Barrett's poverty trap dynamics [32]. In this respect, resilience was not absent but constrained, structurally limited by the withdrawal of the very support mechanisms designed to sustain entrepreneurial growth.

5.2. Adaptation and Emerging Pathways of Resilience

By July 2025, repayment indicators had stabilized, revealing that refugee entrepreneurs did not collapse under crisis conditions but reoriented their practices. Strategies included mobilizing kinship and informal networks, shifting into subsistence activities, leveraging digital tools such as WhatsApp business groups, and experimenting with peer mentoring. These behaviors resonate with resilience frameworks that emphasize adaptation and transformation under stress [21, 24]. Yet the qualitative data nuance this picture: women entrepreneurs experienced sharper downturns, particularly when psychosocial groups were suspended, underscoring that economic resilience cannot be separated from social and emotional support [4]. This extends current resilience debates by highlighting the relational and psychosocial dimensions of entrepreneurship, often overlooked in market-centric analyses.

5.3. Localization, Agency, and Humanitarian Contradictions

The study also reinforces debates on localization. Refugee MSEs consistently demonstrated agency by maintaining investment capacity (average loan size held steady) and by innovating to preserve continuity, however modest. Yet their role remains peripheral in humanitarian financing structures that prioritize international NGOs and short-term outputs [26]. This tension echoes what Lenner and Turner describe in the Middle East: refugee businesses sustain livelihoods but remain structurally excluded from formal recognition and capital flows [33]. The East African evidence suggests that localization must extend beyond rhetorical recognition of refugee agency to structural reforms. This requires deliberate policy action by host governments, regional bodies (IGAD, AU), and financial regulators - including streamlined work permits, simplified business registration, and fair trade access. To unlock the full potential of refugee MSEs, host govern-

ments should institutionalize inclusive policies, while IGAD and the AU harmonize mobility and trade frameworks that reduce cross-border frictions. Financial regulators must expand access to digital finance and credit. Such measures shift localization from rhetoric to a sustainable engine of regional growth and resilience.

5.4. Comparative Insights from Crisis Contexts

The East African patterns mirror experiences in other crisis-affected regions. In post-earthquake Haiti, bypassing local MSEs in favor of international suppliers weakened recovery multipliers [34]. In South Sudan, informal trade revealed rapid entrepreneurial adaptation but remained stunted by financial constraints, market instability, and infrastructural deficiencies [35]. Across these cases, including the present study, the central lesson is that MSEs hold latent adaptive capacity but require consistent, flexible, and localized financing mechanisms to realize it. Absent such scaffolding, their resilience remains partial and precarious.

5.5. Future Research Directions

These findings open several avenues for further inquiry. It is important to note that this study was conducted as a rapid assessment that was largely qualitative complemented by quantitative Inkomoko loans portfolio data. This limits its external validity; therefore, the results should be interpreted as indicative rather than generalizable. Moreover, the January 2025 U.S. aid suspension represents an evolving policy environment, and it is premature to conclude whether aid to African countries (particularly Least Developed Countries) will be permanently withdrawn or resumed. This uncertainty itself underscores the need for sustained monitoring. A key next step is to track follow-up data from subsequent quarters to determine whether the July 2025 stabilization represents a sustained recovery or merely a temporary plateau. If such longitudinal data cannot be collected, this remains a critical research need. Second, comparative analysis of gendered resilience strategies could deepen understanding of how psychosocial and cooperative structures mediate women's entrepreneurship under stress. Third, experimental studies on adaptive financing - rolling credit facilities, grace periods, or equity-like instruments - could test models better aligned with MSE lifecycles in crisis settings. Finally, policy-focused research can examine how host-country regulatory reforms, such as work permits and cross-border trade facilitation, shape the structural conditions under which SMEs "hold the line."

Ultimately, this study shows that refugee MSEs cannot fully insulate themselves from systemic shocks, but neither are they passive victims of aid volatility. When markets collapse, they demonstrate adaptive resilience: partial, uneven, but real. The July 2025 data and qualitative testimonies provide an initial snapshot; sustained follow-up is essential to

confirm whether these adaptive strategies endure over time. Future research will need to also remain attentive to shifts in international aid policy, which will significantly shape the external environment in which refugee and host entrepreneurs operate. The challenge for humanitarian and development actors is to recognize these strategies, reinforce them with adaptive financing and institutional reforms, and move beyond donor-dependent project cycles toward models that embed refugee enterprises within durable economic systems.

6. Conclusions

This study asked whether refugee- and host-owned small enterprises can withstand systemic shocks, in this case the sudden January 2025 suspension of U.S. aid, which disrupted MSE support across East Africa. Evidence points to both fragility and resilience. Loan performance indicators deteriorated sharply between January and May 2025, reflecting cash-flow stress and weakened market ecosystems as training, advisory, and psychosocial services were curtailed. Yet by May - July 2025, repayment indicators showed early signs of stabilization, suggesting that entrepreneurs adapted through coping strategies rather than collapsing, reorienting their businesses toward subsistence activities, informal networks, and digital tools. Further, given refugees and youth faced the greatest repayment challenges at the onset of the funding cuts shock, this is an indication of the need to prioritize offering them targeted risk management and repayment.

Qualitative insights reveal that refugee entrepreneurs value predictable continuity (even at reduced levels) over abrupt withdrawal and increasingly rely on pragmatic solutions such as mobile-based training, WhatsApp business groups, peer mentoring, and shock-responsive financing mechanisms. Women, who faced sharper setbacks, underscored the importance of psychosocial support and cooperative structures, highlighting the inseparability of economic and social resilience. These findings demonstrate that while MSEs in refugee settings are highly vulnerable to aid volatility, they also exhibit adaptive capacity that can be strengthened through localized, flexible, and community-driven models.

Four recommendations emerge. First, organizations need to expand adaptive financing options, such as rolling credit facilities and grace periods, while embedding resilience assessments into client services. Second, it is important for humanitarian and development actors to anchor livelihoods as a core pillar of crisis response, linking SME support with digital tools, localized procurement, and pooled financing mechanisms to sustain continuity. Third, while policy reforms such as work permits, registration, and cross-border trade facilitation could unlock significant opportunities, their feasibility is constrained by domestic politics, administrative capacity, and uneven implementation. Any advocacy for these reforms should therefore be grounded in country-specific evidence, such as client testimonies of restricted mobility and loan access documented in this study, while acknowledging

the limits of host-state sovereignty. Lastly, with scarce resources and many NGOs downsizing operations, there is a need for greater collaboration and burden-sharing among refugee support organizations to efficiently respond to community needs.

Ultimately, when markets collapse, refugee enterprises can “hold the line,” but only if their adaptive strategies are recognized, reinforced, and systematically integrated into humanitarian and development practice. Importantly, these conclusions are offered in the context of ongoing uncertainty: U.S. aid provision may yet resume or take new forms, and the full implications for refugee enterprises will only become clear with time. The scope for policy change is real but contingent, requiring careful calibration of recommendations to political economy realities.

Abbreviations

MSEs	Micro and Small Enterprises
NGO	Non-governmental Organization
HDP	Humanitarian-development-peace
CRRF	Comprehensive Refugee Response Framework

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Author Contributions

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Olive Ashimwe: Investigation, Validation, Writing - review & editing

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Data Availability Statement

The data is available from the corresponding author upon reasonable request.

Conflicts of Interest

The authors declare no conflicts of interest.

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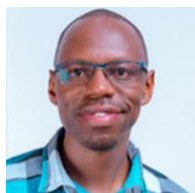
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Biography



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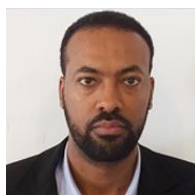


Dennis Kyalo (MSc) is an Agricultural Economist and Research and Learning Specialist with over 10 years of experience in policy research, development economics, and social impact assessment across Africa. He currently serves as Head of Research at Inkomoko, where he leads evidence generation, knowledge translation, and strategic learning. Dennis has co-authored more than 20 research and knowledge outputs, including technical reports, journal articles, and policy briefs, and has presented widely to academic, policy, and practitioner audiences. His expertise spans quantitative and qualitative analysis, impact evaluation, gender and youth dynamics, education and teacher professional development, refugee and migration studies, and entrepreneurship. He has held research, programs, and leadership roles with Teaching at the Right Level (TaRL) Africa, World Wide Fund for Nature (WWF), Kenya Institute for Public Policy Research and Analysis (KIPPRA) among others. Dennis holds an MSc. in Agricultural and Applied Economics and a BSc. in Agricultural Economics.



Olive Ashimwe (MSc) is an experienced leader with deep expertise in designing and implementing business development programs for micro and small entrepreneurs. As Regional Director of Business Growth Services at Inkomoko, she leads a team of more than 350 program staff, manages program contracts with key funders, and drives market expansion. Her work has directly impacted over 100,000 entrepreneurs across East and Central Africa, with a strong focus on refugee camps and host communities. Olive has served as program lead on initiatives funded by partners including BPRM, the Mastercard Foundation, and the IKEA Foundation. She holds a Master's degree in

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Research Field

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Olive Ashimwe: Business development services, Entrepreneurship development programs, MSMEs growth and performance, Entrepreneurial competencies, Startups and ecosystem development.

Henok Laike: Business development services, Entrepreneurship development programs, MSMEs growth and performance, Entrepreneurial competencies, Quantitative research, Entrepreneurship policy analysis, Startups and ecosystem development.

Mary Mwangi: Business development services, Organization Development, MSMEs growth and performance, Entrepreneurship and Small Business Development, Startups and ecosystem development.

Margaret Mengo: Water Sanitation and Hygiene, Sustainable Housing, Startups and ecosystem development, Entrepreneurship development programs.