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THE SOMALI

MICRO, SMALL & MEDIUM ENTERPRISES ECOSYSTEM

CHALLENGES AND OPPORTUNITIES

ABSTRACT

This report provides a description of the challenges and opportunities for micro, small and medium enterprises (MSMEs) in Somalia.

We find that MSMEs and the startup ecosystem are influenced not only by exogenous factors, but also by endogenous factors, and their development depends on the political, security as well as the capacity of entrepreneurs to create, develop and maintain the business.

This study also presents the important role that macroenvironment enablers and market actors play in the development of MSMEs and the startup ecosystem.

In Somalia, local actors and communities must come together to unite their efforts in order to create a new generation of entrepreneurs through encouragement, training, mentoring, inspiration and support for financial inclusion.

THE SOMALI MSMEs ECOSYSTEM CHALLENGES AND OPPORTUNITIES

DISCLAIMER

This report presents the results of country analysis or research, which are disseminated to encourage discussion and comment within the development community. Some sources cited in this report may be informal as they were based on our network of interviewees, as these sources were not available in secondary resources. The findings, interpretations and conclusions expressed herein are those of the author(s) and participating experts and do not necessarily reflect the views of SPARK, BINA and local partners.

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FOREWORD

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This research has been conducted under the partnership of Spark and Bina in their endeavor to support economic empowerment in fragile countries and communities.

Research is essential for planning successful projects especially in fragile countries where data and statistics are hard to find.

The purpose of "The SOMALI MICRO, SMALL AND MEDIUM ENTERPRISES ECOSYSTEM: CHALLENGES AND OPPORTUNITIES" research was to assess and explore the SMEs and Entrepreneurial ecosystem for the sake of successful implementation of Spark's LEAD program in Somalia.

The Bina team of experts with the support of the Somali experts have done a great professional job in gathering data and information from Somali practitioners, businessmen, government officials and incubators.

*Last but not least I would like to thank Spark, Bina team especially **Mr Mohamed Alif** who lead the team and our Somali partners for this important achievement.*

Interviews and workshops were conducted with Somali experts on every component of the SMEs and Entrepreneurship ecosystem to provide the readers with a comprehensive assessment of the ecosystem.

Challenges and opportunities were found and clear recommendations were defined.

I also would like to thank and congratulate the research team for their success in coordinating with the Somali counterpart in a very constructive manner.

I am confident that the study and its findings will provide important insight and guidance to Spark, Bina and relevant institutions in planning their projects to support and to empower SMEs and Entrepreneurship in Somalia.



Mustafa Elsavezli
Bina Program Founder



Abstract

Disclaimer

Foreword

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Acronyms/Abbreviations

- (AFDB)** African Development Bank
- (AML)** Anti-Money Laundering
- (ATM)** Automatic Teller Machine
- (AWB)** Association of Women in Business
- (B2B)** Business To Business
- (B2C)** Business to Consumer
- (B2G)** Business To Government
- (B2O)** Business to International Organizations
- (C2B)** Consumer to Business
- (C2C)** Consumer to Consumer
- (CBS)** Central Bank of Somalia
- (CFIR)** Certificate of Foreign Investment Registered
- (CFT)** Combating the Financing of Terrorism
- (CIT)** Corporate Income Tax
- (COMESA)** Common Market for Eastern and Southern Africa
- (CPI)** Consumer Price Index
- (DEMAC)** Diaspora Emergency Action & Coordination
- (DSP)** Regional Cooperation Partnership for Development and Stability
- (EPZ)** Export Processing Zone
- (ETN TV)** Eastern Television Network
- (E-Zines)** Digital magazines
- (FAO)** Food and Agriculture Organization
- (FDI)** Foreign Direct Investment
- (FGD)** Financial Group Directive
- (FMS)** Federal Member States
- (GCC)** Gulf Cooperation Council
- (GDP)** Gross Domestic Product
- (GNI)** Gross National Income
- (GNI)** Gross National Income
- (IBS)** International Bank of Somalia
- (ICT)** Information and Communication Technology
- (ID)** Identity
- (IDP)** Internally Displaced People
- (IGAD)** Intergovernmental Authority on Development
- (ITEI)** Institute of innovation, technology and entrepreneurship
- (IMF)** International Monetary Fund
- (ISOS)** Institute for Somali Studies
- (ITC)** International Trade Center
- (KIMS)** Kaah International Microfinance Services
- (MGQ)** Aden Adde International Airport /Mogadishu International Airport
- (MSME)** Micro, Small and Medium Enterprises
- (MTC)** Money Transfer Companies
- (NCA)** National Communications Agency
- (NGO)** Non-Governmental Organizations
- (NIPS)** National Investment Priority Sectors
- (OECD)** Organization for Economic Co-operation and Development
- (OIC)** Organization for Islamic Cooperation
- (O2O)** Online-to-Offline

Acronyms/Abbreviations

(PC) Provisional Constitution

(POS) Point Of Sales Terminal

(RISE) Regulatory Indicators for Sustainable Energy

(SCCI) Somali Chamber of Commerce and Industry

(SDG) Sustainable Development Goals

(SDG8) Decent Work and Economic Growth

(SDG9) Industry, Innovation and Infrastructure

(SEF) Salaam Entrepreneurs Fund

(SEI) Somalia Entrepreneurship Incubators

(US) United States

(USD) United States Dollar

(VAT) Value Added Tax

(WTO) World Trade Organization

Acknowledgments

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We thank the **Bina program** under the general leadership of **Mustafa Elsavezli**, acting as the director of the Bina program who provided information and expertise that greatly assisted the research.

The preparation of the report was led and supervised by **Mohamed Alif Kahlani**, entrepreneurship expert with a core team consisting of Tareq Abdalrazeq a researcher who provided inputs, editing and layout, Iyas Sabri, entrepreneurship expert who provided valuable advice and Feyza Nur Samli who provided research assistance.

We thank **Mohamed Yacine Elmaaddy** as the BINA Incubator Manager, the main focal person of the project. Omer Safi and **Ahmed Skaik** for administrative assistance and **Zeid Adle** who was BINA's assistant on the ground in Somalia

The cover of the report is based on a general design by **Farouk Almouddarres**.

We would also like to show our gratitude to practitioners, experts, official and entrepreneurs for their participation in the working groups and for sharing their knowledge and expertise during this research. A full list of interviewees for this report is available in the Methodology section.

We are also extremely grateful for the support and encouragement from the **Zamzam** partner who engaged with the team during the production of this document.

We thank **Mr. Abdullahi Yusuf Mohamed**, for interviewing an official from Ministry of Commerce and Industry on behalf of us.

Special thanks to **Jennifer Rowland**, international development practitioner for proofreading this report.



ENABLERS IN SOMALIA ECOSYSTEM



01 Part

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INTRODUCTION

Overview Of Somalia



Figure 1: Map of Somalia

Somalia spans an area of **637,660** km² and has a population of over **15,893,222** million. The capital, Mogadishu, lies in the southern half of the country, on the Indian Ocean. Somalia borders Kenya to the south, the Gulf of Aden to the north, Djibouti to the northwest, Ethiopia to the west, the Indian Ocean to the east, and it is characterized by the longest coastline in Africa. (Figure1)

According to the United Nations, Somalia is one of the least developed and poorest countries in the world, and most of its main sources of income come from foreign aid,

remittances and the informal sector. African Economic Outlook 2020 report, describes that the socio-economic situation of the country as “very bad”, with reports indicating that 69% of Somalis live below the poverty line. Due to the poor situation of the state, the investment and economic diversification are significantly low, which has led to low productivity and impeded economic dynamism.

Today, Somali entrepreneurs seek to run and conduct businesses in the most adverse of circumstances. To develop and support the agenda for peacebuilding and capacity development in the private sector, they have undertaken numerous initiatives and activities. Their goal lies in establishing the Somali business community, including by supporting the formation of the Business Coordination Authority and the Chamber of Commerce, as well as by establishing partnerships between civil society organizations, the private sector and international NGOs. Moreover, entrepreneurship is just the first step to transforming society, as entrepreneurs are expected to create numerous job opportunities and return a portion of the benefits to the society. Increasing entrepreneurs’ awareness of how to make innovative investments in education, health, and public infrastructure will greatly contribute to resolving conflict in Somalia.

GOAL OF REPORT

This report aims to understand the strengths and shortcomings of the Somali market by analyzing the Somali entrepreneurial environment, its macro-environmental factors and trends, and the facilitators and key players of the MSMEs ecosystem and startups. The final section will be dedicated to highlighting the challenges and recommendations for local stakeholders to improve and activate the entrepreneurship ecosystem in accordance to international standards and the aspirations of the United Nations' Sustainable Development Goals (SDGs).

Methodology

This report is designed to be descriptive and qualitative, as the data was obtained from both primary and secondary sources. The report will address the role of MSMEs and startups in contributing to the country's economy. Therefore, the recommendations are largely based on report findings.

The report indicated that there is an acute lack of data on surveys of MSMEs and startups in Somalia.

Primary sources have been relied on interviews by Somali experts, entrepreneurs, consultants, practitioners, incubators and managers, in addition to knowing their experiences in working with MSMEs and startups. However, due to the COVID-19 epidemic, only one face-to-face interview was conducted, while the rest of the interviews were conducted online via Zoom. The interviewer discussed and took notes on the answers of all interviewed participants. Secondary source data were gathered from international reports, Somali government reports, online sources and other published materials.

Interviews were conducted in December 2020 with nine interviewees named by:

- Mrs. Liin Hassan Mohamed.
- Mr. Shafie Sharif Mohamed.
- Mrs. Xafsa A/Iahi Ahmed.
- Prof. Isse Mohamud Halane.
- Mr. Abdiqani Dirie.
- Mr. Ibrahim Isse Abdulle.
- Mr. Abdullahi Yusuf Mohamed.
- Mr. Refat M.S. Hadagha
- Mr. Masoud Mohamed Gutale.
- Mr. Ahmed Abdikadir Ahmed.
- Mr. Eyas Sabri.

In the final stage of data collection, the authors validated the interviewee's' answers through emails with Somali government officials, SMEs, associations, NGOs, experts/consultants, and Zamzam staff. This step contributed to the confirmation of the data and refinement of the report.

This report targets entrepreneurship field, micro, small and medium enterprises and startups in Somalia.

Macro environment study in Somalia

The Somali economy is largely agricultural, with this sector accounting for approximately three-fifths of Somalia's export earnings and GDP, as well as providing the main source of income for the majority of the population. The growth of the economy is expected to rise in service industries, particularly in transport, telecommunications and trade, in the near future. However, the economy of Somalia is characterized by high levels of inequality, poverty, huge unemployment and a lack of infrastructure. Other challenges include anti-competitive behavior and monopolistic tendencies led by wealthy businessmen.

Demography

Somalia ranks 73rd among countries in the world in terms of population with approximately 15,893,222 (est) million inhabitants as of mid-2020, with 53% residing in cities or towns and approximately 47% in rural areas (figure 2). Somalia's population density is equivalent to 66 people per m2. Estimates are difficult due to the large number of nomads and refugees trying to flee famine and inter clan wars.

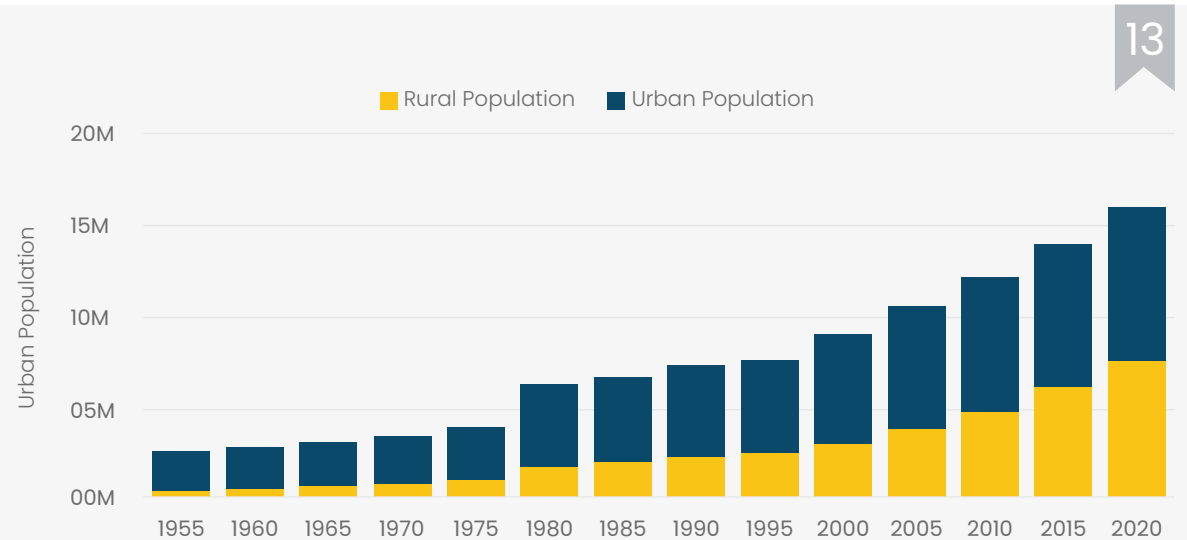


Figure 2: Somalia Urban vs. Rural Population, 1955-2020

Table 1: Large Cities in Somalia

Largest Cities in Somalia

NO	City Name	Population
01	Mogadisho	3,500,000
02	Hargeisa	1,200,000
03	Burco	288,211
04	Baydhabo	227,761
05	Beledweyne	218,027

Like many other countries, the most densely populated city is the capital, Mogadishu. Somalia's other major cities have considerably smaller populations, among them Hargeisa, Burco, Baydhabo and Beledweyne. (Table 1)

Economy

Like many developing countries, data for the real output strength of the Somali economy, as a whole, is unavailable and difficult to be examined, as there are few reliable economic data available. However, Somalia is defined by the World Bank, as a low-income economy, with a gross national income (GNI) per capita equal to or less than \$ 1,035.

Lower-Middle Income
1,036 \$



Upper-Middle Income
4,046\$ - 12,535\$



High Income
12,536\$



By the end of 2020, Somalia had significantly reduced its debt-to-GDP ratio from 111% to 9%. In recognition of this effort, the International Monetary Fund (IMF) in March 2020, allowed Somalia to return to the international financial system after 30 years of exclusion. Somalia further pledged to maintain macroeconomic stability and to put in place a set of reforms intended to strengthen its fiscal stability, governance and debt management, all of which give confidence to foreign investors.

In addition to the existence of new marine oil borders in the process of establishment in Somalia, the law created the Somali National Oil Company, which will participate in petroleum operations, along with the Somali Petroleum Authority, which will perform as a regulatory body overseeing oil and gas activity, and therefore will open the door to oil extraction, which will help strengthen the government and enable it to achieve its goals, besides the existence of the development program that the government plans to implement in the years between 2020-2024.

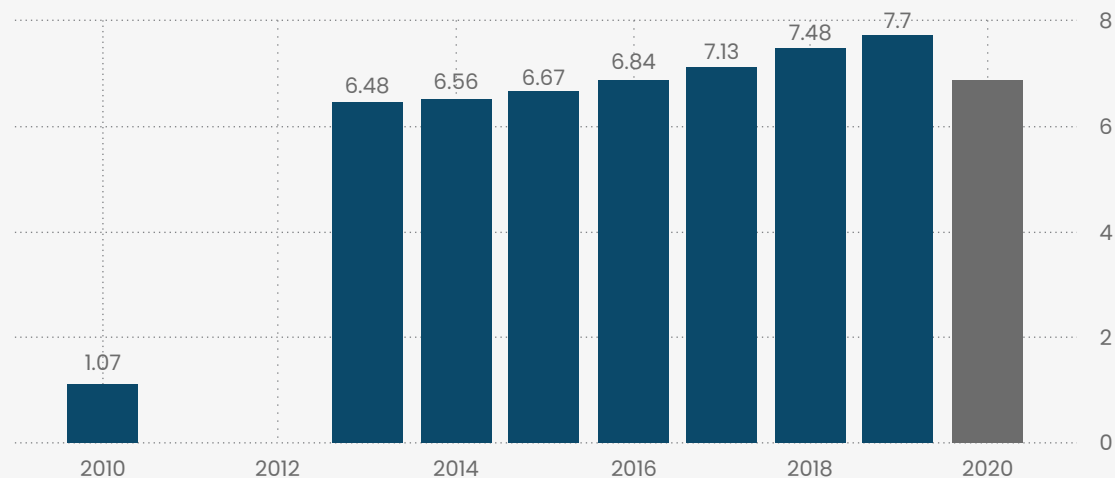


Gross Domestic Product (GDP)

The economy grew by around 2.9% in 2019, compared to 2.8% in 2018. According to the official data from the World Bank and projections from Trading Economics, this increase is mainly due to the revival of agriculture and strong consumer demand. The Gross Domestic Product (GDP) in Somalia was worth \$ 7.70 billion in 2019; its value represents 0.01 percent of the world economy (See figure 3 and Table 2)

The GDP per capita, which is estimated at \$ 328 in 2020, is composed of 60.2% agriculture, 7.4% industry and 32.5% services.

Somalia has experienced moderate real GDP growth, averaging 3.2% per annum. The current account deficit improved from 9% of GDP in 2018 to 8.3% in 2019, due to the resumption of livestock exports and slower import growth. Aid and remittances into Somalia's current account have generally contributed to offsetting deficits, while foreign direct investment has remained modest.



SOURCE: TRADINGECONOMICS.COM | WORLD BANK

Figure 3: The Gross Domestic Product (GDP) in Somalia, 2010-2020

Table 2: GDP Annual Growth Rate

Somalia GDP	Last	Previous	Unit
GDP Annual Growth Rate	2.90	2.80	Precent
GDP	7.70	7.48	USD Billion

Consumer Spending

Figure 4 shows the consumption expenditure according to the World Bank's World development indicators, compiled from officially recognized sources. In 2018, final consumption expenditure (in current USD) in Somalia was reported at \$ 7,889,544,821.

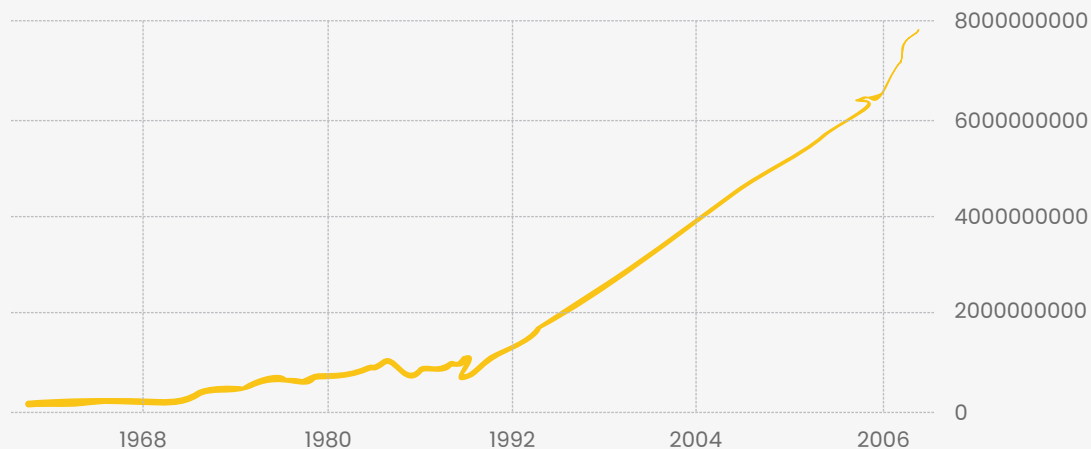


Figure 4: Consumption Expenditure in Somalia, 1960-2018

With consumer spending being the most important component of GDP in developed countries, we believe that the growth in household spending on goods and services could accelerate the pace of economic growth in Somalia.

Inflation

Somalia lacks any policy to deal with inflation. Without institutional or political precautions to regulate and monitor the financial sector, the Somali shilling in general remains vulnerable to fluctuations. According to the World Bank, the inflation rate in Somalia was expected to rise from 1% to 1.5% (2018-2020). However due to Covid-19, it is expected to rise by 6% in 2020.

Employment

Around 83.02% of Somali workers can be found in the agricultural sector, 3.55% in industry, and 13.44% in the service sector. (See figure below)

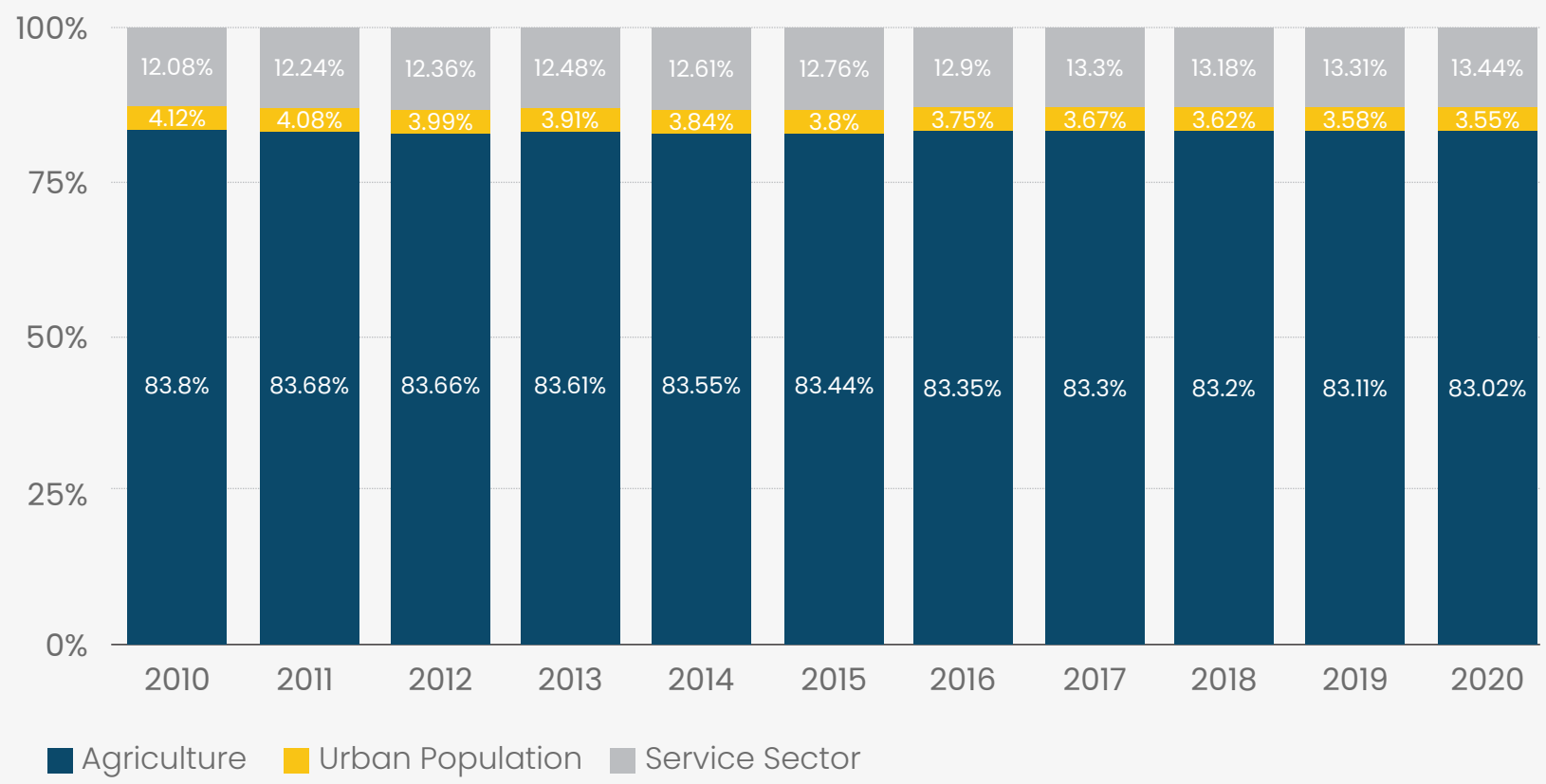
Figure 5: Distribution of Employment Rate by Economic Sector in Somalia, 2010 - 2020

The youth labor market presents a particular challenge to Somalia due to a high proportion of youth in the demographic profile; the country's national unemployment rate for youth under the age of 30 is 70% and afflicts both urban and rural populations.

Women have significantly higher unemployment rates than their male counterparts.

With fewer opportunities for education and higher levels of poverty among Somali families, men are more likely to participate in the labor market than women, especially in government departments and the industrial sector. Only 19% of the female population works in government departments and agencies, compared to 57% in agriculture and pastoralism²³, which signifies their dominance in number over the agricultural sector.

Figure 5: Distribution of Employment Rate by Economic Sector in Somalia, 2010 -2020



Taxes

The Somali state is comprised of a central government and the governments of Federal Member States (FMS), a division that presents a major challenge in tax collection. The government predominantly collects revenue in and around Mogadishu, while the FMS governments collect taxes in their own areas of jurisdiction.

Although the Sales Tax Rate in Somalia stands at 10%, taxes are not harmonized, and no measures have been undertaken to balance revenue differences between the FMS and central government. As a result, tax incomes of FMS are understandably greater than the central government.

After the establishment of the new government in Somalia, according to a World Bank assessment in 2017, revenue mobilization has increased and budgets (the state budgets) have become more realistic.

Taxpayers, including investors and companies, pay taxes to different levels of government and to local authorities. The main taxes in the country include direct and indirect taxes. Direct taxes include personal income tax, rental tax, withholding tax and corporation tax. As for indirect taxes, there is value added tax (VAT), customs duties, excise duties and turnover taxes. The table below summarizes the main direct taxes in Somalia:

Under authority of the Appropriation Law and Law No. 5, November 7, 1966, income tax is payable to the Federal Government of Somalia.

Table 3: Income/Payroll Tax

Monthly income bracket in (US \$)	Tax Rate (%)	Assessment Formula
0-200	0	Exempt
201-800	6	Income above \$ 200 and up to \$ 800
801-1500	12	Income above \$ 800 and up to \$ 1,500
1501-Over	18	Income above \$ 1,501

Under authority of the Appropriation Law and Law No. 5, November 7, 1966, the Corporate Income Tax (CIT) or Company Tax is also payable to the Federal Government of Somalia.

Table 4: Corporate Income Tax (CIT)

Yearly Income Bracket in (US \$)	Tax Rate (%)	Assessment Formula
0-2,399	0	Exempt
2,400-3,600	9	Income above \$ 2,400 and up to \$ 3,600
3,620-4,800	11	Income above \$ 3,600 and up to \$ 4,800
4,820-6,000	13	Income above \$ 4,800 and up to \$ 6,000
6,020-7,200	15	Income above \$ 6,000 and up to \$ 7,200
7,220-8,400	17	Income above \$ 7,200 and up to \$ 8,400
8,840-9,600	19	Income above \$ 8,400 and up to \$ 9,600
9,620-10,800	22	Income above \$ 9,600 and up to \$ 10,800
10,900-18,000	25	Income above \$ 10,900 and up to \$ 18,000
18,100-30,000	28	Income above \$ 18,000 and up to \$ 30,000
30,000-Over	30	Income above \$ 30,000

Under authority of the Appropriation Law and Law No. 5, November 7, 1966, the Rent Tax is payable to the Federal Government of Somalia.

Table 5: Rental Tax

Monthly income bracket in (US \$)	Tax Rate (%)	Assessment Formula
0-499	0	Exempt
500-20,000	15	Income above \$ 500 and up to \$ 20,000
20,000-Over	22.5	Income above \$ 20,000

As the Somali experts, we interviewed said: "Although the tax system is determined by the state, the actual payment by the foreign and also the local investor is negotiated with the responsible institution in the state. As for the benefits and incentives offered to the foreign investor, they depend on each project and its importance to the state. In addition, projects that generate profits up to \$ 400 are not taxed as shown in the table above."

They also mentioned that the micro and small enterprises are unable to pay their taxes due to the critical situation of Somalia's economy, and confirmed that the Ministry of Finance is currently working on an agreement with the local authorities to support start-up businesses.



Governance & politics

Somalia has a federal governing system, whereby the sovereignty of the Federal Republic of Somalia extends over all its territories, and its structure consists of two levels of government: (a) the federal government; (b) the federal member states.

Somalia is in the process of state building and implementing a nationwide system of governance, which has become very challenging, because of the lack of the state's revenues, despite the increased donor support since 2012.

Some of the most controversial topics in Somalia are the country's political, security and development trajectories. The country has been marked in recent years by poverty, famine and recurrent violence. At the local level, Somalis have been politically divided, and until recently, the Somali political class has also lacked a clear path to reconciliation. In 2012, with the support of military offensives and security gains, as well as the establishment of permanent political and executive institutions and the adoption of the federal Provisional Constitution (PC), Somalia finally witnessed a long-term peace with a formation of a federal government through national dialogue and consensus. However, the country's decades-long conflict has created a complex set of political and social grievances that remain a threat to the country's stability.

When we look to the Somali economy, we find that the global economic slowdown along with internal factors such as: low skills, low savings, high poverty, insecurity, institutional weaknesses, vulnerability to climate-related shocks, debt distress and dependence on aid and remittances (about \$1.4 billion annually), present significant risks to the country's economic growth.

For sustainable economic and human development, inclusive politics is extremely important. The Somali people need to be involved as active agents to influence the processes that shape their lives rather than remain at the receiving end of development as mere beneficiaries.



Technology

Somalia is among the 10 most disconnected countries in the world; after years of civil strife and economic collapse, only 10% of the population has access to the internet. (Table 6) 47% of the population is predominantly rural, and poor infrastructure prevents 18% of the population from accessing even electricity, which creates another barrier to Internet access.

Table 6: Top 10 Most Disconnected Countries

Rank	Country / Territory	% of Population	Unconnected People
1	North Korea	100%	23,722,103
2	South Sudan	92%	10,240,199
3	Eritrea	92%	3,228,429
4	Burundi	90%	10,556,111
5	Somalia	90%	14,042,139
6	Niger	88%	20,977,412
7	Papua New Guinea	88%	7,761,628
8	Liberia	88%	4,372,916
9	Guinea-Bissau	67%	1,694,458
10	Central African Republic	86%	4,132,006

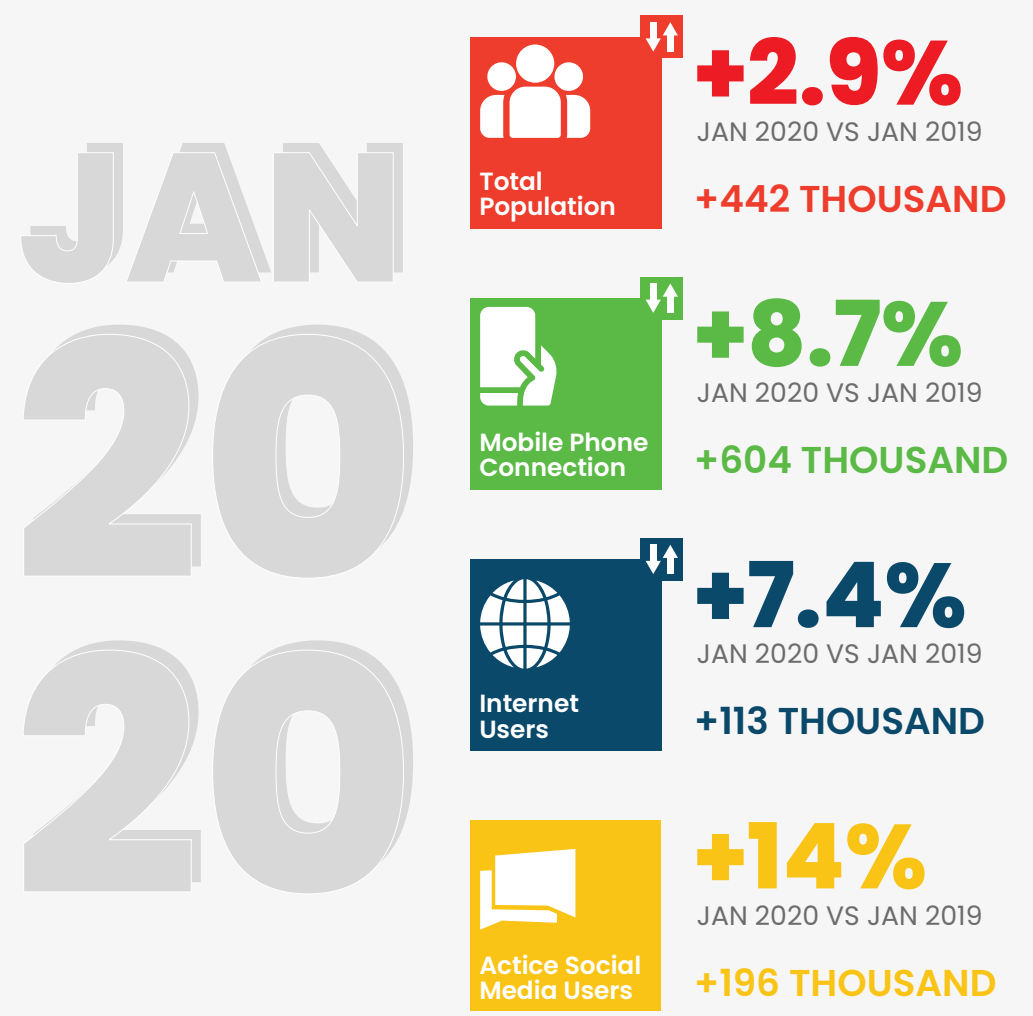


Figure 6: Digital Growth Indicators, 2020

However, Somalia has recently seen considerable growth in Internet users and especially in connected mobile devices (Figure 6). While the number of Internet users grew by an average of 7.4% (equivalent to 113,000) between 2019 and 2020, users connected to the mobile phone are increasing by 8.7% each year (or 604,000).

Figure 7 also shows that 66% of Internet users are connected from a mobile phone while 32.3% of them are connected from a laptop. This means that almost one million users can be reached through mobile apps.

The considerable growth reflects an attractive market. Certainly, with the capabilities that mobile banking provides, young entrepreneurs can take this opportunity and create new channels towards B2C (Business to Consumer), B2B (Business to Business), C2C (Consumer to Consumer), C2B (Consumer to Business) and business to government (B2G).

In 2018, the government adopted the National Communications Law, which established the regulatory authority– the National Communications Agency (NCA) – defining its structure, decision-making procedures and key areas of its responsibilities. The objective of the National Communications Law is to lay the foundations for a competitive and favorable regulatory environment that recognizes the need to ensure access to voice communications services, broadband and postal services across the country.

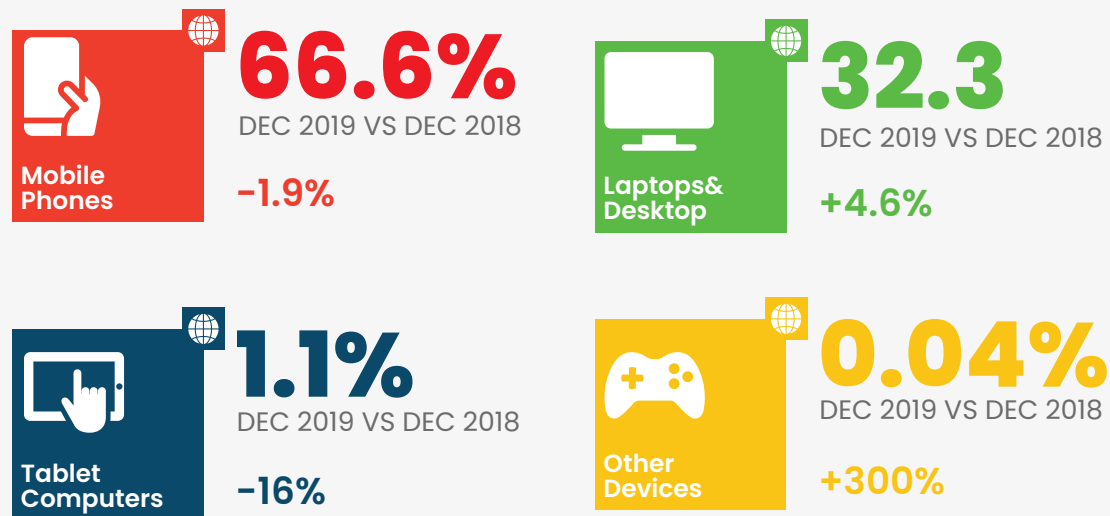


Figure 7: Share of Web Traffic by Device

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Infrastructure

Somalia's infrastructure networks are widely damaged due to long years of civil war. A governmental investment program of \$ 1.8 billion plans to restore, rehabilitate and upgrade the infrastructure network. These efforts will increase the country's urbanization and increase the returns on investment, as they will bring citizens closer to markets and public services. In addition, domestic infrastructure will improve connectivity by linking rural to urban areas and Somalia to neighboring countries, thus promoting local and regional trade. It is estimated that the development of airports and seaports would also improve connectivity, increase productivity and reduce the costs of doing business. In the end, the development of the sector will lead to an increase in income and taxable income. The country's infrastructure includes the following sectors:

Electricity

Somalia faces one of the most difficult infrastructure situations of any country in the world, especially in the electricity sector. Somalia's electricity tariffs stand at almost \$ 1 per kilowatt, resulting in the lowest electricity use rates in the world. Only 18% of Somali citizens have access to electricity, with a sharp divide between urban and rural access: 34% of the urban population and just 4% of the rural population have access to electricity (Table 7).

According to the World Bank Report on Regulatory Indicators for Sustainable Energy (RISE, 2016), Somalia ranks among the highest 5% in the world for the cost of electricity and in the highest 15 % in the world for electricity expenditure as a share of GNI per household.

Table 7: Electricity Access Rate in Africa

	National					Urban		Rural	Population without access (Million)
	2000	2005	2010	2015	2019	2019	2019	2019	
Africa	36%	40%	44%	49%	56%	81%	37%	579	
Somalia	5%	9%	14%	16%	18%	34%	4%	13	
Djibouti	46%	48%	50%	42%	42%	54%	<1%	<1	
Ethiopia	5%	16%	22%	34%	47%	96%	34%	60	
Kanya	8%	14%	18%	41%	85%	>9%	79%	8	

However, according to the Somali experts we interviewed, the large companies that provide electricity services in the country are expected to play an important role in driving prices down to \$ 0.3 per kilowatt over time.

Air Transport

To manage its flights, Somalia depends on four fully operational international airports in Mogadishu, Hargeisa, Kismayo and Garowe where the biggest airport is Mogadishu (MGQ). It also has fourteen small airports with fully or partially paved or gravel runways. In recent years, several major regional and international carriers including Turkish Airlines, Qatar Airways, Ethiopian Airlines, Kenya Airways, Uganda Airlines and Fly Dubai have opened new international routes to Somalia, and this is a growing trend.

Road Transport

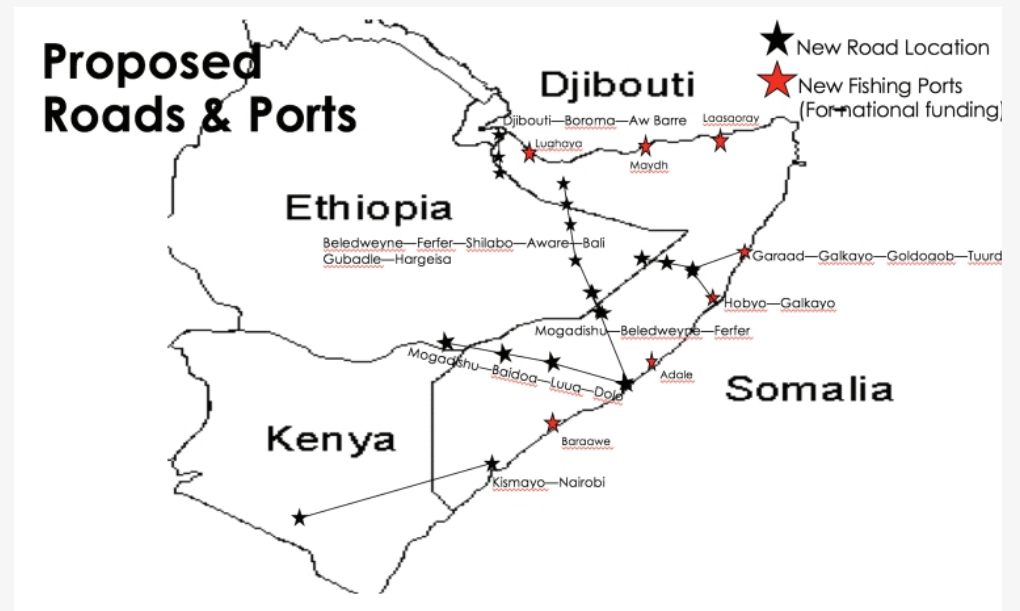
The length of the road network in Somalia is 21,933 km, and it is characterized by its poor condition with only 13% (2,860 km) of it paved. A total of 11,434 km of all types of roads have been identified as long main routes. Recent Somali government efforts, with support from the State of Qatar, have improved the quality of Somalia’s road network, including the construction of major highways linking the cities of Afgoye and Jowhar to Mogadishu.

Water Transport

Somalia depends on ports to handle its imports and exports, though despite its long coastline, the country has only four deep-water ports. All of these were built in the 1980s and all are located in the economic centers of Mogadishu, Berbera, Kismayo and Bossaso, with only Mogadishu and Berbera dealing with significant traffic volumes.

The 2020-2024 investment plan proposed by the Somali government includes plans to expand both roads and ports in the country:

Figure 8: New Road Locations and New Ports for Investment



Law and regulations

Somalia's regulatory system is virtually non-existent. The country's provisional constitution of 2012 is currently under review. Many regulations relating to business, taxation and investment existed within the government before 1991 and are often ignored or not enforced.

Somalia is a member of the Intergovernmental Authority on Development (IGAD) and recently obtained provisional membership in the Common Market for Eastern and Southern Africa (COMESA) with a number of conditions to meet before rejoining the group as a full-fledged member. It is also a member of the Arab League and the Organization for Islamic Cooperation (OIC). However, it is not a member of the World Trade Organization (WTO).

Finance

Somalia is extremely detached from the worldwide financial system; its financial sector is restricted in size and basic in structure. Access to worldwide banking systems remains uncertain for Somalia. Over recent years, Australia, the United Kingdom, and the United States have closed accounts of some Somali money transfer companies because of dangers identified with money laundering. However, in recent times, the international banking system has once again agreed to deal with Somali institutions.

The lack of a legitimate operational financial framework in Somalia has led to a dollarized economy, while the Somali Shilling (SOS) is mostly used for small-scale, face-to-face transactions. The Somali economy has a functioning commercial sector for portable money, and digital currency exchanges are gradually supplanting the physical exchange of banknotes. Mobile banking and money transfer services depend on close collaboration between money transfer companies and mobile phone companies. Local vendors dominate the conduct of monetary transactions and set the exchange rate on a daily basis based on localized and unexpected elements.

Somalia's economy is mainly consumer-driven and based on remittances from abroad and international trade networks, which are controlled by a small group of wealthy businessmen. The ability of Somalis to engage in financial institutions or credit is limited. As a result, most of them live at the subsistence level and are engaged as small traders, small producers of livestock and other agricultural products. People living in rural areas in particular find it difficult to start new businesses due to banking requirements including ID cards and guarantees, which they can't provide.

Finance

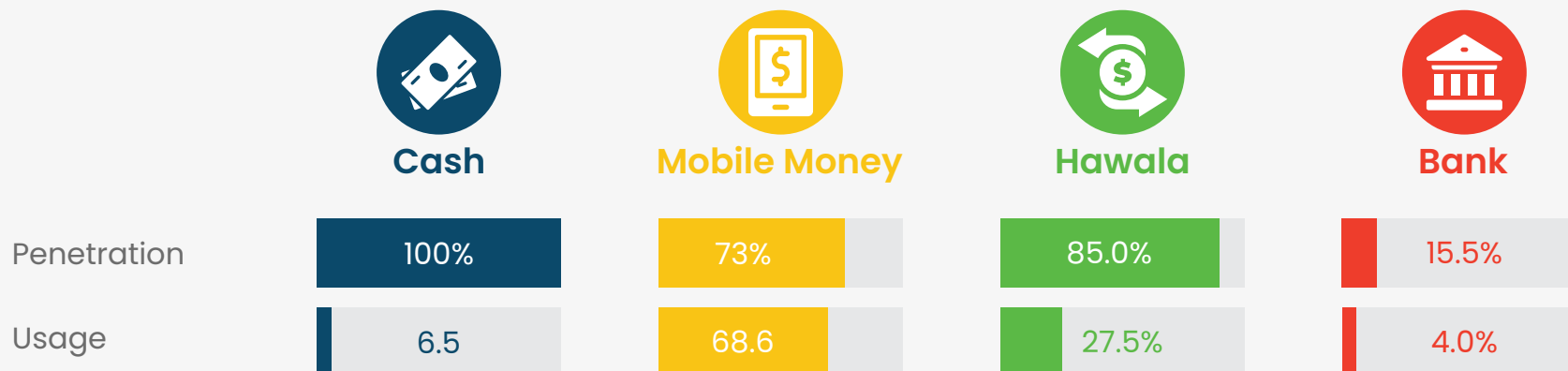
Experts we interviewed said that it is necessary to attract regional financial institutions working in the field of entrepreneurship to support internal financial institutions in Somalia.

Indeed, even access to traditional financial services is exceptionally low in Somalia, though mobile money has improved financial inclusion; data shows that 73% of Somali adults have an account with a mobile money service provider, compared to a penetration rate of 15% for formal bank accounts. About 70% of women have mobile money accounts, which is 5 percentage points less than men. (Figure 9)

In fact, a World Bank report released in 2018 found that almost 73% of Somalia's population aged 16 and over use mobile money. Mobile money has become a fundamental and ubiquitous part of Somalia's economic ecosystem. Penetration rates are highest in metropolitan areas (83%) and camps for internally displaced persons (72%). Yet even in rural areas, 55% of the population uses mobile money. Mobile money is currently the fundamental medium of exchange used by individuals and businesses in Somalia. About 36% of GDP goes through mobile money systems. Mobile money balances appear to be the main monetary asset in Somalia; the estimated value of mobile money transactions in Somalia is assessed at \$ 2.7 billion per month.

Mobile money wallets are also used to save money. Only about a quarter of the population participates in savings activities, only about 15% of the population (and only 7% of women) have a bank account, and less than 5% of individuals with bank accounts are active users. Most (over half) of the people who save do so with a mobile money account. (Figure 9)

Figure 9: Financial Services Development in Somalia



Somalia's mobile money system faces three main sources of risk:

- 01 Lack of customer protection: in Somalia, there is no parity between virtual and real funds. Therefore, customers have no guarantee that their e-money can be exchanged for cash. As the float on the phones of the mobile money users increases gradually, the temptation leads them to use these funds in risky investments or foreign transactions, as there is no need to hold funds in a trust fund or bank account.
- 02 Lack of systematic approach for customer identification: in Somalia, especially in the southern zone, personal data is not systematically recorded for mobile money accounts and there is no formal agreement to protect consumers in case of a dispute. The ease of opening multiple mobile money accounts without identification makes Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) efforts difficult. Links to global financial markets could be hampered by the absence of strong customer due diligence practices.
- 03 Lack of monitoring of mobile money services by Central Bank of Somalia (CBS): consumers have little protection against fraud by mobile money operators due to the lack of monitoring of mobile money services.

As COVID-19 spread to Somalia in March 2020, Food and Agriculture Organization (FAO) has also gone digital by using banking services to send electronic vouchers via SMS. Since mid-March, when the COVID-19 crisis began in Somalia, FAO transferred \$ 15.4 million to 429,300 people securely via mobile money. By giving communities the funds to purchase items locally, FAO is putting money back into the local economy and avoiding delays in the supply chain due to COVID-19.

Trade

Somalia depends heavily on imports of both consumer and intermediate goods, which has resulted in large annual trade deficits.

International trade is the lifeblood of the Somali economy. Major imports are food commodities (rice, pasta, sugar, flour, cooking oil), building materials, fuel and electronics. Sugar is the main import product, followed by khat, a mild stimulant predominantly imported from Kenya and Ethiopia.

The country's leading exports are agricultural products, which account for 80% of the Somali economy's earnings. Somalia's largest trading partners are Saudi Arabia, United Arab Emirates, Yemen and Oman. Somalia has evolved into a trade hub for pastoral products, linking Ethiopia, Kenya and Somalia to countries in the Gulf.

Somali goods productions is unregulated and unable to compete with imported goods. Consequently, the manufacturing sector performs poorly in Somalia. Lack of spare parts and low local purchasing power do not offset the cost of production.

Through interviews with experts, it was found that the field of exporting in Somalia represents a great challenge for young entrepreneurs and that it will be difficult for them to access foreign trade operations due to the presence of dominant businessmen who control the market.

In order to improve market regulation and service compliance, the Ministry of Commerce and Industry has initiated the process of adopting and applying national standards, as well as establishing the Somali Bureau of Standards. The adoption of national and international standards paves the way for greater harmonization of trade with regional and global economies; it also promotes exports through value chain development.



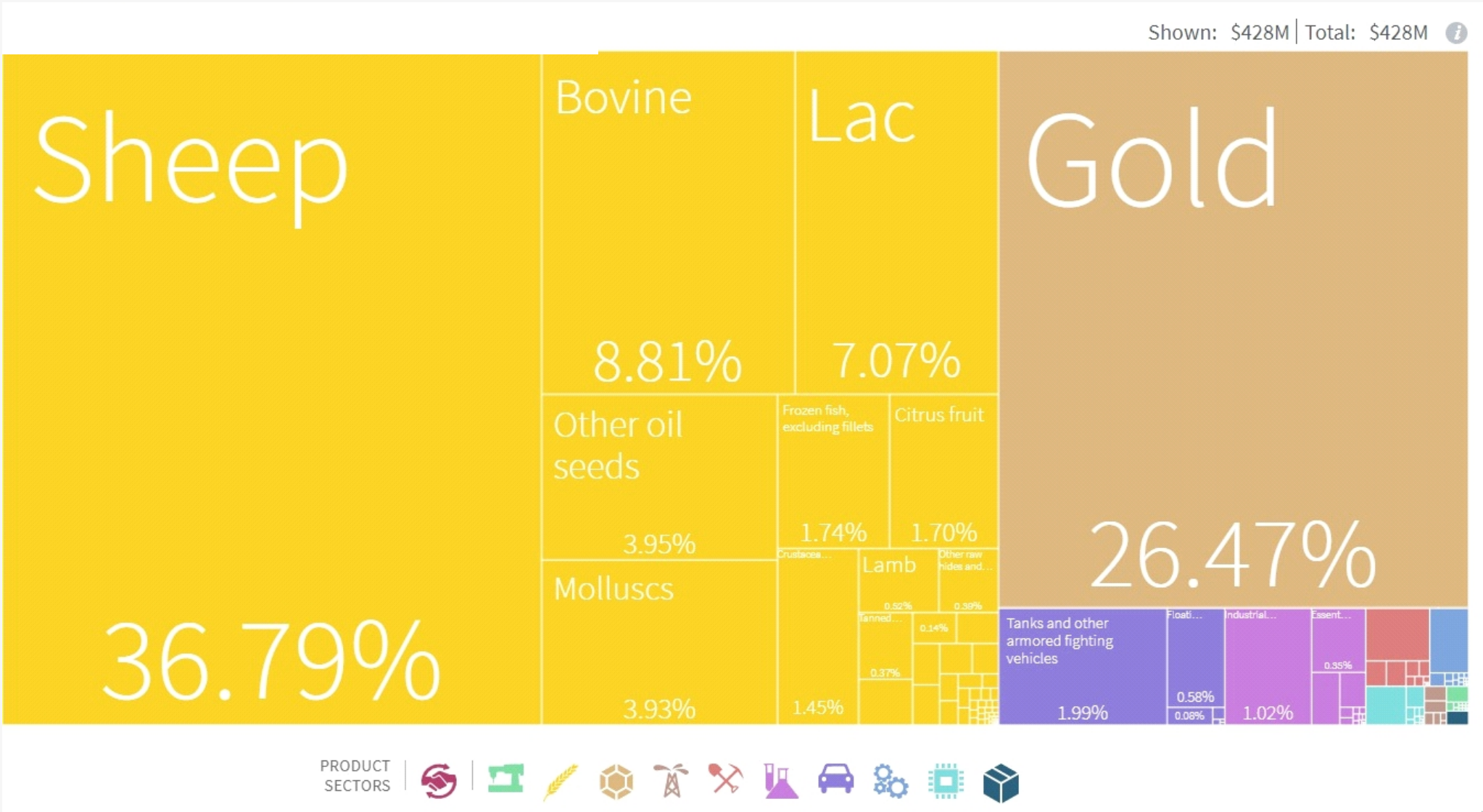


Figure 10: What did Somalia export in 2018

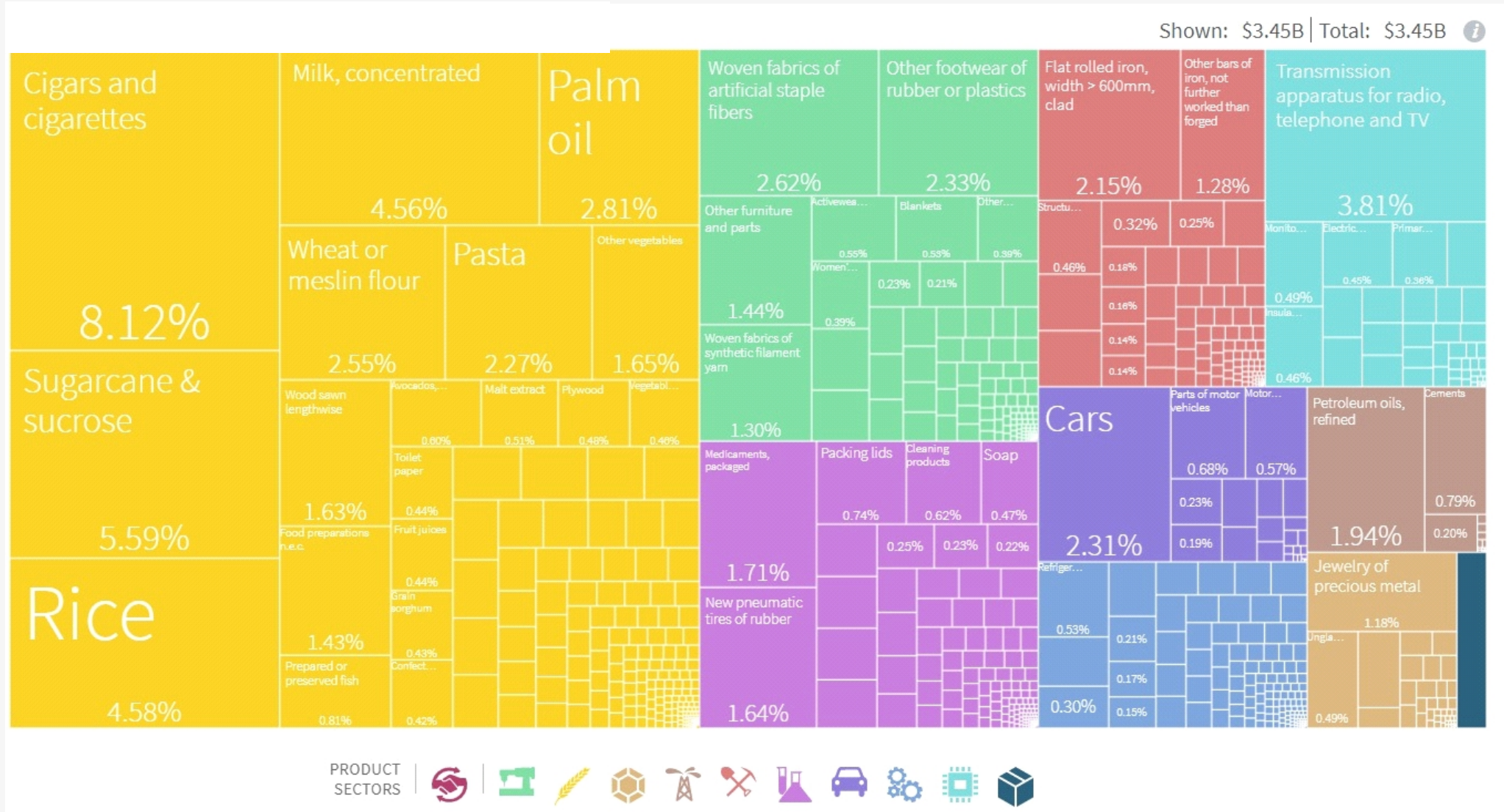


Figure 11: What did Somalia import in 2018

Foreign direct investment (FDI)

According to the IMF, FDI inflow to Somalia in 2018 totaled \$ 409,000,000, placing Somalia at 115 among 189 countries worldwide. Although FDI data for Somalia is incomplete, the existing data shows progress made within the last few years.

Today, the global economy is much more open, but the corona virus pandemic and low commodity prices, especially petrol oil, have affected FDI inflows to Africa. As the new United Nations Conference on Trade and Development UNCTAD report notes, "investment flows to Africa are expected to fall from -25% to -40% in 2020".

The Somali government at both the federal and regional levels is focused on strengthening FDI in the country. According to the Somali Chamber of Commerce and Industry, to achieve this goal, Somalia passed a law in 2015 to protect foreign investments in agriculture, livestock, fishing, mineral resources and industrial activities, as well as provide favorable incentives for foreign investors such as tax benefits and guarantees against expropriation.

The Foreign Investment Law of 2015 offers investors who meet certain eligibility criteria the opportunity to obtain a "Certificate of Foreign Investment Registered" (CFIR) in accordance with the terms and conditions contained in the "Certificate of Foreign Investment in an Approved Enterprise" of the Foreign Investment Board established by Somalia. The Foreign Investment Act guarantees that the investor will be able to settle any dispute through international arbitration. The local justice system provides an effective means of enforcing property and contractual rights. It also protects the investor against expropriation.

In Somalia, there are no restrictions on the creation of private enterprises, whatever the size of investment, sources of finance, and nationality of the owner: foreign investors are allowed to set up and register a 100% local company with no local shareholders. Businesses that perform service, manufacturing, assembly, repackaging, bulk operations, and which transfer all or almost all of their production for export, earn foreign exchange and employ Somalis will be eligible for Export Processing Zone (EPZ) status, which confers an attractive range of taxes and non-tax advantages.

Although tax incentives exist in Somalia and according to KPMG's report, there is no clearly codified system for tax incentives and exemptions. However, significant tax exemptions can be negotiated with the local agency specializing in foreign direct investment and foreign investors. The process can be opaque and requires appropriate due diligence, legal advice and expertise to ensure investors are protected against financial and reputational risks. Somalia's Ministry of Finance is working hard to modernize tax efficiency and transparency as part of its commitment to improve public financial management, and is supported by international financial institutions, including the World Bank, International Monetary Fund and regional instruments.

According to the Investment Promotion Office (SOMINVEST) of the Somali Ministry of Planning, Somalia has concluded bilateral investment treaties with Turkey, Germany and Egypt, and negotiations for similar treaties are at an advanced stage with other countries.

A direct interview with a serial foreign entrepreneur revealed the following reasons that attracted him to invest in Somalia:

- Somalis can easily collect money through their families' network.
- Clans facilitate business, by virtue of the tribal society that is characterized by cooperation.
- Women are very productive in Somalia.

Statistics



Population
15,893,222 million.



Human Development Index
0.351 (Low)



GDP
\$ 7.70 Billion (2019).



Labor Force
3,924,554 (2019).



GDP Growth
2.9% (2019)
Covid19's effect on real GDP growth: -5.4% (2020 est)



Labor Force By Occupation
Agriculture: **83.02%**.
Industry: **3.55%**. (2020).
Services: **13.44%**.



GDP Per Capita
\$ 348 (2020 est).



Unemployment
11.5% (2020)



GDP By Sector
Agriculture: **60.2%**.
Industry: **7.4%**. (2013 est).
Services: **32.5%**.



Population
**Sugar refining, Textiles
Livestock, Money transfer
Telecommunications.**



Inflation (CPI)
1.5%. (2017).
Covid19's effect on inflation: 6% (2020 est).



Ease of doing business rank
190TH (2020)

Challenges in Somalia's Ecosystem

Somalia's MSMEs ecosystem faces the following major challenges:

- Conflict and insecurity in the country.
- Insufficient access to affordable financing for businesses.
- Poor infrastructure and high transport costs.
- Lack of access to appropriate technology.
- Lack of contractual enforcement and property rights.
- Insufficient and unreliable supply of raw materials.
- Shortage of skilled labor force.
- Logistical challenges (lack of addresses for delivery).
- Unfavorable macroeconomic environment, in particular exchange rate instability and inflation.
- Lack of business development and support services.
- Public procurement procedures that discourage MSMEs from bidding.
- Rigidities in the labor market which limit labor flexibility and mobility.
- Official and unofficial taxes that discourage MSMEs from developing and becoming formal.
- Lack of laws governing the protection of companies and intellectual property and the use of property as collateral.
- Fiscal structures likely to distort incentives and discriminate against other MSMEs.

Micro, Small and Medium Enterprises (MSMEs) are an important part of Somalia's business environment. Indeed, sectors such as manufacturing, services and ICT are not as advanced. It is widely recognized that entrepreneurs play a vital role in promoting the private sector and economic growth in Somalia because they embody private ownership and entrepreneurial skills, and contribute to job creation and the diversification of economic activity.

MSMEs have been viewed by some governments and donors as a means of creating employment opportunities and alleviating poverty. MSMEs promote entrepreneurship and innovation in Somalia, which play a vital role in achieving development goals in the country. In the case of Somalia, MSMEs represent the majority of enterprises, with sole proprietorships being the main form of business organization.

In the Somali environment, the lack of skills and knowledge is a major problem in the country, as Somali experts interviewed said this was due to the fact that most of the small and medium enterprises are located in the countryside, where the education rate is low. Therefore, skills and knowledge development projects are needed.



The Impact of Covid-19 on the Somali MSMEs and Startups Ecosystem

In 2019, the share of imports in GDP was at about 68%, with trade taxes accounting for about 87% of total revenue. In mid-2020, during the pandemic, revenues at Somalia's seaports began to drop below 80% due to disruptions in global supply chains, resulting in increased unemployment, decreased tax revenue, and the inability of the government to provide public services and invest in public infrastructure. Like other countries, due to containment measures such as lockdowns, Somalia's economic activity, especially in the service sector, is expected to be reduced. Remittances, which represent around 31% of GDP and are mainly used for household spending, will also be reduced, suppressing household consumption and increasing poverty.

The current pandemic crisis has reduced foreign direct investment, too. According to The World Investment Report, investment flows to Africa are expected to drop from -25% to -40% in 2020. Real GDP is therefore expected to contract by 5.4% in 2020 in the worst-case scenario, due to demand and supply shocks, assuming the pandemic persists until the end of 2020. Despite the decline in aggregate demand, inflation is expected to rise to 6.3% in 2020 (worst case) due to supply shortages. The reduction in trade and the resulting drop in revenue will lead to a budget deficit of 1.3% in 2020. Somalia's dependence on commodity imports, high share of remittances in GDP and the reduction in livestock exports are expected to bring the current account deficit to nearly 10% of GDP in 2020 from the pre-COVID-19 estimate of 7.7%. (Table 8)

Table 8: The Effect of the Current Pandemic Crisis

	2018	2019 (e)	Without COVID-19		With COVID-19 (baseline)		With COVID-19 (worst-case)	
			2020 (p)	2021 (p)	2020 (p)	2021 (p)	2020 (p)	2021 (p)
Real GDP growth (percent)	2.8	2.9	3.2	3.5	-3.3	1.1	-5.4	0.3
Inflation (percent)	5.1	4.4	3.0	3.0	5.8	4.5	6.3	4.9
Budget balance (percent GDP +/-)	0.0	0.1	0.1	0.1	-0.8	-0.3	-1.3	-0.8
Current account balance (percent GDP +/-)	-8.3	-8.0	-7.7	-7.6	-9.3	-8.8	-9.9	-9.1

The Covid-19 crisis has affected government revenue due to the decline in international trade and remittances, but experts reported that this is a good factor as Somali citizens are

starting to consume local products and are considering investing in local projects that help the local businesses operate smoothly. While containment of the pandemic during the third quarter of 2020 is essential to limit the deterioration of the economy, the most important work for the Somali government and international donors will be to support businesses and households, and continue to strengthen the fiscal space.

Ease of doing business in Somalia

According to the World Bank, the Ease of Doing Business score indicates the position of an economy relative to other economies in the world using identical parameters as shown in the following figure:

- 01 Starting a business.
- 02 Dealing with construction permits.
- 03 Getting electricity.
- 04 Registering property.
- 05 Getting credit.
- 06 Protecting minority investors.
- 07 Paying taxes.
- 08 Trading across borders.
- 09 Enforcing contracts.
- 10 Resolving insolvency.



Figure 12: Topic Scores in Somalia

Topic Scores in Somalia

In the 2020 report, Somalia is ranked 190 out of 190 economies; as the figure above illustrates, Somalia is ranked 188 out of 190 in “starting a business” criteria which is composed of nine procedures and executed within 70 days. The lack of protection for minority investors and the weakness of the tax system are two major contributors to Somalia’s last-place ranking. The government is aware of these difficulties and includes them in its 2020–2024 development plan.

Administrative complexity plays a major role in discouraging young people and entrepreneurs from registering and formalizing their business. Although the high rate of illiteracy and the need for financial support seems to be a critical issue for MSMEs and startups, the long 70-day process and the \$ 900 fee to set up a legal entity is also a big issue.

The major cause of such ranking is the lack of law enforcement. However, the 2021 election may bring political stability and be a positive factor in law enforcement and progress in some of the measures of the ease of doing business in the country.



Somali market sustainability

There is no state-based legal or institutional framework for competition in the Somali market. All forms of economic transactions, including financial and monetary systems, as well as services such as health care and education, are privatized. Because regulation of the economy is minimal, Somalia serves as a hub for formal and informal trade throughout the region, which has contributed to the growth of a small number of large traders and organizations, who, often in close cooperation with state actors, control most import and export trade. These traders rely on an extensive network of small and medium-scale traders and carriers. The private sector in general tends to behave aggressively. Larger-scale firms, in particular, try to block competition and oppose formal regulation.

Access to regional business opportunities in Somalia is often limited by clan identity, monopoly politics, and anti-competitive behavior, which greatly reduce open competition, especially in the southern parts of the country where business owners enjoy close relations with political elites and ruling authorities.

The Somali government is working to improve cooperation with other countries by establishing new bilateral and multilateral economic agreements. This cooperation is essential for the next stage of Somalia's development and stability. The Federal Government signed the Trade and Economic Partnership Agreement with Turkey in February 2018 and in the same year, Somalia officially became a member of the Common Market for Eastern and Southern Africa (COMESA). The successful implementation of the Regional Cooperation Partnership for Development and Stability (DSP) will establish the political and diplomatic foundations for improving economic cooperation. These agreements will open the doors to neighboring countries, which are African and Cooperation Council for the Arab States of the Gulf (GCC) countries.

Because Somalia's presidential election will be held in the early 2021, many local entrepreneurs are waiting to start their new businesses until after the results of the election are clear. Somalia continues its unprecedented transition; and a successful election will help lay the foundation for sustainability, stability and credibility within the international community.

MSMEs and the Sustainable Development Goals (SDGs)

MSMEs can contribute to the UN SDGs at four levels: the level of the employees; the level of the individual business; the sectoral levels; and the national level. Through these channels, investments in SMEs can contribute to 60% of the 169 SDGs, according to an International Trade Center (ITC) analysis. As shown in Figure 13, SDGs 8 and 9 stand out among the many goals that can benefit from strengthening Small and Medium Enterprises: SMEs contribute 83% to the targets of SDG 8 targets (Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all) and 88% to the targets of SDG 9 (Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation).

Within Somalia's National Development Plan, the country committed to making progress on the Sustainable Development Goals and principles. It is necessary to focus on a limited number of key priorities due to the extremely modest budget at the national level.



Figure 13: Analysis indicates that the SDGs Impacted Most by SMEs are SDG8 and SDG9

Analysis indicates that the SDGs Impacted Most by SMEs are SDG8 and SDG9

Can MSMEs help achieve Goal 8 (Decent work and economic growth)?

Among the OECD (Organization for Economic Co-operation and Development) countries, MSMEs are the predominant form of business and contribute significantly to economic growth and GDP, generating between 50 and 60% of value added on average. In emerging economies, micro, small and medium enterprises contribute up to 33% of GDP. If we take into consideration the contribution of informal enterprises, the MSMEs contribute more than half of the GDP in most countries, regardless of their income level.

MSMEs contribute up to 45 percent of total employment in emerging market economies, create jobs and have the potential to promote decent work and entrepreneurship. Over the past decades, employment generated by MSMEs has grown steadily; the total number of full-time employees in MSMEs globally has almost doubled from 79 million to 156 million.

Can MSMEs help achieve Goal 9 (Industry, innovation and infrastructure)?

In developing countries, MSMEs absorb a large amount of labor from declining traditional sectors, such as agriculture or fisheries, despite the low contribution of MSMEs to total industrial production. However, it plays a major role in industrial development.

On the other hand, MSMEs face a big challenge in accessing financial services, which is essential for their growth, innovation, improved efficiency, expansion into new markets and creation of new employment opportunities.



SOMALIA STARTUP ECOSYSTEM

Part 02



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Ministry of Foreign Affairs of the
Netherlands

Micro, Small and Medium Enterprises Ecosystem Lifecycle

Somalia faces the double task of rebuilding the economy and engaging young people in the labor market. As part of this process, many micro, small and medium-sized enterprises have been created. According to Somali criteria (Table 9), a micro enterprise employs up to four people, with annual sales or total assets not exceeding \$ 5,000; a small enterprise employs between five and 20 people and has annual sales or total assets between \$ 5,000 and \$ 50,000; and a mid-sized enterprise employs between 21 and 100 people, and has annual sales or total assets between \$ 50,000 and \$ 500,000. All businesses with annual sales exceeding \$ 500,000 and employing more than 100 people are considered large enterprises.

Table 9: Definition of MSMEs

We could not find any official report about the number of MSMEs and start-ups in Somalia, especially with the high percentage of unregistered businesses in the countryside, where owners do not have the necessary documents to register their enterprises. However, according to Ibrahim Isse Abdulle, Director of SMEs

Enterprise	Number of employees	Annual sales/turnover or total assets
Micro Enterprises	1-4	Up to USD 5000
Small Enterprises	5-20	Between USD 5000 - 50,000
Medium Enterprises	21-100	Between USD 50,000 - 500,000
Large Enterprises	Over 100	Over USD 500,000

and Cooperatives at ministry of commerce and industry "The registration of enterprises started manually in 2012 and by computer system in 2017. The Directorate of SMEs has been operating two years and they are planning to re-register and disaggregate enterprises by the end of 2021. In Somalia, there are approximately 6,000 businesses registered with the Ministry ranging from small stores to large companies, mainly based in specially Mogadishu, but also include export oriented businesses in Puntland and Somaliland, which export products outside. This database is not divided according to size, nature of activity or sectors".

As shown in Figure 14, Startup ecosystems develop in four phases: activation, globalization, attraction and integration.

The first phase is characterized by limited start-up experience (founder know-how, experienced investors, advisors and mentors, and community behaviors that support the success of startups), and low start-up return of around 1000 startups or less, and leakage of resources to ecosystems at a later stage, which makes growth difficult.

The globalization phase has led to the production of a series of regionally impressive startups usually above \$ 100 million (higher in leading nations). It involves increasing global connectivity with the founders of the best ecosystems, the success of which defines an ecosystem's scaling potential, and supporting startups to increase their first global reach in the market, which realizes the potential for scaling an ecosystem.

The third phase aims to significantly expand the size of the ecosystem and fill the remaining gaps, removing barriers to immigration and directing attraction through well-designed policy programs.

The last phase integrates the ecosystem into global, national and local resource and knowledge flows within and outside the startup ecosystem, optimizing laws and policies to support its competitiveness and growth, and spreading its benefits to other sectors of the economy and to parts of the nation.

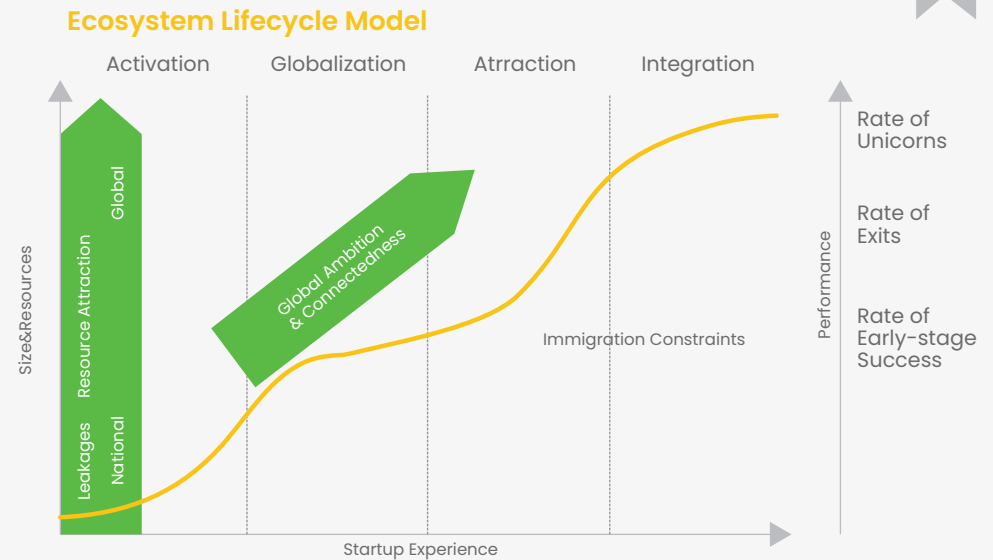


Figure 14: Startup Ecosystems Phases

According to the ecosystem lifecycle model and as shown in the figure above, the Somali market has limited start-up experience where founders are unqualified, investors lack experience, and the market lacks communities, advisors and mentors.

We believe that the entrepreneurial environment in Somalia is in the activation phase and the number of startups is less than 1,000, which indicates a poor environment in terms of number of companies; compared to the global standard.

In addition, according to Somali experts interviewed, even the existing MSMEs and startups in Somalia; need to be re-evaluated in terms of quality and maturity given the country's poor infrastructure, lack of funding and poor education.

Somalia MSMEs Ecosystem

To create a startup ecosystem that can survive and thrive for decades, it is important to understand who the ecosystem participants are, the roles they play, and how their roles shape the ecosystem. It is also important to provide a platform to improve and strengthen each key player. MSMEs and start-ups are encouraged by the generation and dissemination of knowledge, as well as the presence of specific support services or specialized human capital and venture capital. Leveraging the presence of universities and research centers, MSMEs should give priority to qualified and competent young people.



Figure 15: Essential ecosystem actor

The urban cities of Mogadishu and Hargeisa serve as the main hubs for Somalia's MSMEs and start-ups, due to the existence in those cities of research centers and universities specializing in various technical disciplines. This study found that there are ten accelerator programs in Somalia, nine of which are in Mogadishu or Hargeisa; there are 86 startups, three-quarters of which are in Mogadishu or Hargeisa, and there are 98 universities, nearly half of which are in Mogadishu or Hargeisa. (See table below)

Table 10: The entrepreneurial ecosystem components in Somalia

	Mogadishu	Hargeisa	21 Other Cities	Total
Accelerator	6	3	1	10
Startups	26	38	22 <i>INCLUDE UNKNOWN LOCATION</i>	86
Universities	40	18	40	98
Organization	8	5	3	16
Events	29	6	52* <i>INCLUDE UNKNOWN LOCATION</i>	87
Other: program, projects foundation,media	12	5	0	17

What are small and medium sized enterprises?

Small and medium-sized enterprises (SMEs) – often called the backbone of national economies – constitute the overwhelming majority of firms.

Globally, SMEs make up more than 95% of all firms, accounting for approximately 50% of value added and 65% of total employment, when both formal and informal SMEs are taken into account. This amounts to between 420 million and 510 million SMEs, 310 million of which are in emerging markets.

As it is national governments that define SMEs, there is no globally agreed definition. Yet, all SMEs share certain characteristics. One way to highlight the unique characteristics of SMEs is to compare them to larger businesses. Larger firms have more employees, larger balance sheets and higher revenues.

These features allow the staff of large firms to specialize. This makes it easier for larger firms to create new products, manage their suppliers, find buyers, raise financing and export.

For SMEs, a single person often carries out many of these functions. Definitions of SMEs sometimes include microenterprises. However, microenterprises have some unique features. They are often single-worker undertakings, have few or no fixed assets and do not maintain financial or other types of records. Many microenterprises do not have a bank account, and may be shut out from the financing sector. SMEs exist in nearly all sectors.

In agriculture, smallholder farmers account for large shares of the agricultural production of many developing countries. In manufacturing, SMEs produce many of the inputs to complex value chains. In services, SMEs are playing an increasingly important role, as they leverage digital technologies to produce knowledge-based products. Although no global definition of SMEs exists, several organizations have adopted their own. For instance, for the World Bank, an SME is a firm with 99 employees or fewer, whereas for the Asian and African development banks, an SME is a firm with 50 employees or fewer. The European Commission defines SMEs according to a mixture of employee, revenue and asset criteria. Although definitions vary, the competitiveness of the SME sector is a key indicator of the competitiveness of national economies.

Interviews with Somali market experts have highlighted that informal businesses are mainly present in micro and small enterprises linked to the rural field, because most of these enterprises are individually owned, and also because of the difficulty of registering them, as mentioned before.

Main Roles of MSMEs and Startups in Economic Growth

Job creation

SMEs and startups focus on job creation among young people more than large companies do. As a country with a large number of young people, Somalia has an opportunity to leverage SMEs to engage a new generation of young men and women entrepreneurs, likely contributing to economic growth and substantial decreases in unemployment.

Wealth creation

By investing their own resources, whether natural or financial, entrepreneurs help themselves and their collaborators to achieve a stable source of income through their profits, and also help individuals increase their purchasing power. By supporting and encouraging more startups, it is possible to generate more domestic income and boost the country's economic growth over time.

Better standard of living

MSMEs in fragile states can play an important role in equipping the country with new innovations and technologies to improve people's lives. For example, the advancement of mobile banking services in Somalia is helping the government and international NGOs to accelerate community development, especially in rural areas.

Set up a Business in Somalia

Currently, Somalia is developing various public services related to the private sector, including services for business registration. Although the business registration process is being improved, it is currently taking more time than it was a few years ago. The World Bank's Doing Business Report outlines the nine steps needed to start a business in Somalia, which take a period of 70 calendar days to complete and cost the investor \$ 900 to obtain approval to start the business. Somali law has strictly formalized the costs of each procedure as shown in the table below.

Table 11: Breakdown of requirements to start a business in Somalia

Procedures	Time to Complete	Associated Costs
<p>Hire a Notary and complete the name reservation form Agency: Notary Public office</p>	1 Day	No charge
<p>Notary verifies the uniqueness of company name Agency: Ministry of Commerce and Industry</p> <p>The Notary Public takes the name reservation form to the Ministry of Commerce and Industry to verify whether the name has been registered before or not. Ministry officials consult a printed list of the current company names in use. As of June 2016, this list had approximately 990 names. Name reservation is not mandatory in Somalia and is a recent practice.</p>	3 Day	No charge
<p>Draft the Memorandum of Understanding and the Articles of Association and notarize the incorporation documents Agency : Notary Public</p> <p>The Notary Public drafts the Memorandum of Understanding and the Articles of Association and notarizes them. The Notary Public will also require the following:</p> <ul style="list-style-type: none"> - Company Details - Request letter including: <ul style="list-style-type: none"> a) The shareholders contact information b) Percentage of the shares c) The trade name and logo of the company must be written d) Both a physical address and a postal address - Copy of Passport - Two photos of passport size <p>Notary fees are typically USD 100</p>	7 Days	USD 100

Procedures	Time to Complete	Associated Costs
<p>Register the company and pay for the commercial license and the business certificate</p> <p>Agency : Ministry of Commerce and Industry (Department of Licenses)</p> <p>There is not an official fee schedule for business registrations. The cost is based on the practice. However, in many cases it is subject to negotiation. Therefore, some investors could pay more or less depending on their negotiation skills.</p> <p>The business certificate obtained at the Municipality will need to be posted at the front door of the company's premises.</p>	1 Day	USD 300 for the commercial license + USD 120 dollars for the business certificate
<p>Apply for the business certificate at the Ministry of Commerce and Industry</p> <p>Agency : Ministry of Commerce and Industry (Department of Business Registration Issuing)</p> <p>Business entrepreneurs apply for a business certificate at the Office of the Ministry of Commerce and Industry, where the application is circulated internally for approval from three different departments. The Department of Archive collects all application requests by verifying the requirements needed from the new business. Then the Director General of the Department of Business Registration issues confirmation and sends the submitted documents to the Attorney General's office for his or her approval. After obtaining the approval of the attorney general, the business license is sent to the Office of the Ministry of Commerce and Industry for the Minister's signature (the Deputy Minister in case of absence of the Minister).</p> <p>The required documents to apply for the business certificate are:</p> <ul style="list-style-type: none"> - the notarized incorporation documents; - handwritten request letter signed and seal by the representative of the new company; - 2 photos passport size and personal Identification documents (usually passport). <p>In May of 2016, the government started a plan to issue a national identity card, but it is not in place yet.</p>	30 Days	No Charge
<p>Open a bank account</p> <p>Agency : Commercial bank</p> <p>Between 2015 and 2016, five commercial banks started operations in Mogadishu, Somalia (e.g., International Bank of Somalia, Dahshal Bank and Premia Bank). It typically takes between 2 and 5 business days to open a bank account and a background check is not done because there is no personal history data available yet.</p> <p>No minimum capital required to start a business in Somalia. However, proof of a bank account is required to obtain a commercial local license.</p>	2 - 5 days on average	No Charge

Procedures	Time to Complete	Associated Costs
<p>Obtain the commercial local license at the Department of Issuing Permits of the Mogadishu Municipality Agency : Department of Issuing Permits of the Mogadishu Municipality</p> <p>The required documents are as follows:</p> <ul style="list-style-type: none"> - handwritten request letter; - passport identification documents; - Proof of a bank account. <p>In some cases, the business certificate obtained at the Ministry of Commerce and Industry is attached.</p> <p>Most commonly, small business are the ones requesting the commercial local license at the Municipality. Larger companies typically only apply for the commercial license at the Ministry of Commerce and Industry. The cost is based on regular practice, but it varies depending on the negotiation skills of the person requesting the commercial local license.</p>	12 Days	225 USD
<p>Register with the Chamber of Commerce Agency : Chamber of Commerce</p> <p>Companies usually register at the Chamber of Commerce. It is not mandatory, but it is a regular practice to become a member of the Chamber of Commerce.</p>	5 Days	130 USD
<p>Purchase a company seal Agency : Private shop or sealmaker</p> <p>Although not required by law, entrepreneurs should purchase a company seal before formally beginning business operations as it is commonly used in business operations. Depending on how assertive and persistent the business entrepreneurs are with the sealmaker, it can take between 3 and 10 days</p>	3 - 10 days on average	25 USD
Total average	70 Days	900 USD

In developed countries like New Zealand, it only takes half a day to register a local wholly-owned business. The average for sub-Saharan Africa is 21 days, while the international average is 10 days. Clearly, Somalia's 70-day registration period lags far behind both the regional and international averages.

For foreign investors, the steps may differ slightly depending on the form of business in which investors plan to operate their business. In Somalia, foreign investors are allowed to set up a one-person company and register a 100% local company without a local shareholder. Foreign investors must register their business with the Company Registration of the Ministry of Commerce and Industry.



The Role of Research Organizations in the Startup Ecosystem

Think tanks

There are few think tanks in Somalia focused on economic and entrepreneurial topics: we only found three such think tanks. However, we believe they will be a good start for Somalia's ecosystem development, by creating a conception of the Somali market and helping facilitators such as incubators and accelerators to focus on the main risks and opportunities to achieve better results in a shorter time frame.

Mentor Somalia (mentorsomalia.org) is a Somali think tank initiative founded in 2011 by a group of intellectuals and academics, mainly young professional consultants, researchers and lecturers who have experienced the process of rehabilitation and reconstruction in the country and thus realized the need to provide advisory and capacity building services to civil society groups, public institutions and private enterprises.

The Somali Institute for Development Research and Analysis (SIDRA) is a private, non-profit policy research and analysis think tank formed by a group of intellectuals, thought leaders, research professionals and practitioners whose goal is to create new ways of thinking and new solutions to the range of complex challenges in Somalia. Their areas of inquiry range from socio-economic development to climate change through governance reforms, and they focus on providing quality research and development services to public and private entities in Somalia in order to contribute to the achievement of the country's development priorities.

The Institute for Somali Studies (ISOS) is a research center within the University of Mogadishu, founded in 2001, which was ranked among the top think tanks in Sub-Saharan Africa in the Global Go To Think Tank Index 2018 of University of Pennsylvania, United States. It promotes the analysis of key and contemporary issues and developments in Somalia, the Horn of Africa and in Somali communities abroad. In addition, it focuses on issues critical to the recovery and reconstruction of Somalia.

Somali Researchers Association (SRA) is an association brings together Somali researchers and provides a platform to exchange knowledge, experience, and ideas. SRA has representatives across the country. Their research creates awareness about the public problems in people's life provides actionable intelligence to civic leaders and policy-makers.

Communities

There are new communities bringing together entrepreneurs and businessmen like the Somali Chamber of Commerce, Association of Women in Business, Somali Women's Studies Center, Somali Women Entrepreneurs Association and Iftiin Foundation.

The Somali Chamber of Commerce and Industry (SCCI), which has over 1,200 members, serves as a coordination group for local businesses. It was created to increase the competitiveness of businesses in Somalia nationally and internationally. The chamber aims to represent, protect and develop the interests of companies and the business community in Somalia in order to contribute to the socio-economic development of the country

The Association of Women in Business (AWB) is a local NGO working for the empowerment and development of Somali businesswomen. AWB helps women navigate the world of microfinance and banking, find solutions to balance household and business chores, learn how to access funding and markets; and build skills to increase productivity.

The Somali Women's Studies Center (SWSC, somaliiwomenstudiescentre.org) is a women-led NGO, founded in 2011 and based in Mogadishu and Kismayo. SWSC seeks to achieve gender equality and social inclusion by empowering Somali women to take action and improve their socio-economic status.

The Somali Women Entrepreneurs Association (sowea.so) is an online-to-offline (O2O) business platform that connects, inspires and empowers Somali women entrepreneurs and future entrepreneurs to build incredibly successful businesses.

The Iftiin Foundation is an international non-governmental organization based in Somalia. The Iftiin Foundation gives young people the means to become peacemakers and engines of economic growth. They are building a class of independent, empowered, community-oriented young men and women to serve as agents of social change for a peaceful and stable future.

With the help of local communities, young entrepreneurs can find support, encouragement and examples of success stories that can be shared with them to find the best way to build a profitable business. Established and mature companies have needs, and one of the roles of MSMEs will be to fill this gap and provide a suitable offer for companies operating in the market.

Media

Most of the Somali TV stations are generalist and all of them broadcast economic series. Universal TV, for example, focuses attention on talented young people in Somalia with its program "Inspire Somalia," in which young men and women present their business ideas to a panel and try to convince them of the viability of their plans. In addition, Somalia has several e-zines (digital magazines) that review and analyze the economic and business sector, such as "The Somalia Investor" and "allthingsomali.com".

In countries like Somalia where the Internet is concentrated in cities, mass media such as radio or television play important roles within the economic ecosystem. For example, they can:

- Inform entrepreneurs about the business process, as the majority of businesses in the market are considered informal;
- Reward successes through their coverage to encourage young entrepreneurs;
- Democratize information about business and the market;
- Spread the acceptance of "failure," which can be a barrier for entrepreneurs who are ashamed to fail;
- Promote entrepreneurial culture among illiterate families and citizens, and reach out to rural areas.

Experts interviewed for this report suggested that Sky TV and Eastern Television Network (ETN TV) are the leading media channels when it comes to promoting entrepreneurial culture.



Number of Startups in Somalia

Our research shows that Somalia has 86 startups, of which 38 are found in Hargeisa, followed by Mogadishu with 26. Other regions of the country have less than four startups each, and this is quite normal as universities and major economic activities are still limited to large cities.

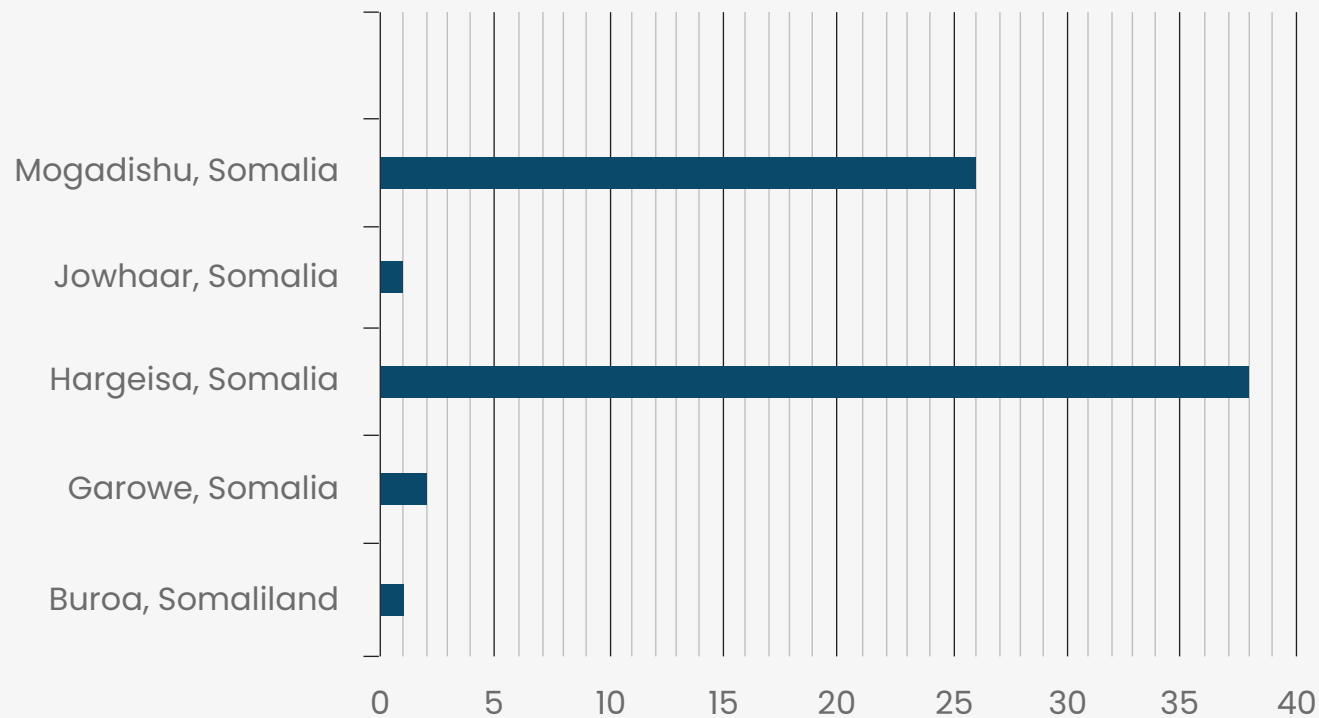


Figure 16: Number of startups in Somalia

Somalia has been reviving its economy since 2016, after holding its first democratic elections in several decades. Having such a vibrant entrepreneurial ecosystem is a good indicator given the country's ongoing insecurity and poor infrastructure.



The role of supporting organizations in Somalia

Organizations supporting the startup ecosystem include those contributing to ideation, incubation and co-working, acceleration and scale-up. The need for such organizations for new entrepreneurs is paramount, especially in a difficult environment where small businesses and startups lack skills, experience and finances.

We have noticed that most of the organizations founded in Somalia have a social orientation. This could be explained by the percentage of external aid provided by international humanitarian donors and fundraisers. The Iftiin Foundation is an example of an organization supporting social entrepreneurship.

In our research, we were able to find a few entrepreneurial support organizations in Somalia, all of which are based in the three main cities of Mogadishu, Hargeisa and Garowe. (See table12)

Table 12: Most known innovation hubs in Somalia

Location	Innovation Hubs
Mogadishu,Somalia	Innovate Ventures
Mogadishu,Somalia	Urban Resilience Lab
Mogadishu,Somalia	Somali Technology Association Centre
Mogadishu,Somalia	Bilaabo Center
Mogadishu,Somalia	Somali Resilience Innovation Hub
Mogadishu,Somalia	iRise
Hargeisa,Somalia	HarHub
Hargeisa,Somalia	Innovate Ventures
Hargeisa,Somalia	Digital Hargeisa
Garowe,Somalia	Somali Innovation Hub
Hargeisa,Somalia	Barkulan Coworking and Innovation Hub

Incubators

Somalia has only two incubators: the Zamzam Foundation and Harhub. A startup incubator is a facility that provides entrepreneurs with the support needed to run their business smoothly, such as affordable workspace, shared offices, peer support, seed funding, mentoring, and training.

Somalia Entrepreneurship Incubators (SEI) is a new entity created by ZAMZAM Foundation to focus on MSMEs and entrepreneurship support service for young Somalis and enable them to become self-employed as well as create valuable jobs.

HARHUB is a recent initiative founded in Hargeisa to provide a workplace for entrepreneurs and support the development of their projects through training, fund facilitation and networking. Harhub has experience in both incubation and acceleration.

IRise was also founded to be an incubator, but as it depends on international funds, its work and activities are intermittent.

Acceleration programs

Accelerators are a relatively recent phenomenon that should not be confused with their predecessors of business incubators. They select cohorts of start-ups for a short but intensive program that aims to help them grow quickly. The selected SMEs participate in a program which generally lasts three to six months. They are matched with mentors, benefit from targeted training sessions and receive short-term funding and office space.

According to the experts interviewed, most of the entrepreneurial programs in Somalia are considered to be “acceleration programs” because they do not have the assets to run an incubator and their existence depends on the duration of the project and the funds provided by international NGOs.

The Role of Funding Organizations

There are three types of investors that commonly invest in SMEs in developing countries: start-up investors, foreign direct investors and specialized investment funds.

Despite the important role that large entrepreneurs play in Somalia, we have not been able to find an investment company or a network of young investors in Somalia. It is quite normal to find reluctant investors at this stage of economic restructuring where little is clear or stable. After discussing this issue with experts during the second workshop, they assure us that there are several factors that can attract foreign investors or encourage local investors to embark on the entrepreneurial investment adventure.

Although the experts we consulted are optimistic about the state of entrepreneurship in Somalia, they also insisted on the importance of the upcoming election in building peace and continuing to improve and build the sustainability of the economic ecosystem.

Currently, Somali SMEs can find support through international aid, angel investors and venture capitalists during their start-up phase.

However, the Somali market is still somewhat too new and fragile for venture capitalists, as they tend to seek projects with three qualities: a rapidly changing business model, a large market, and a significantly better product than the competition, and these criteria are difficult to meet in the current situation in Somalia.

According to one of our interviewees, the Somali diaspora often serve as angel investors, because they are motivated to help their country.

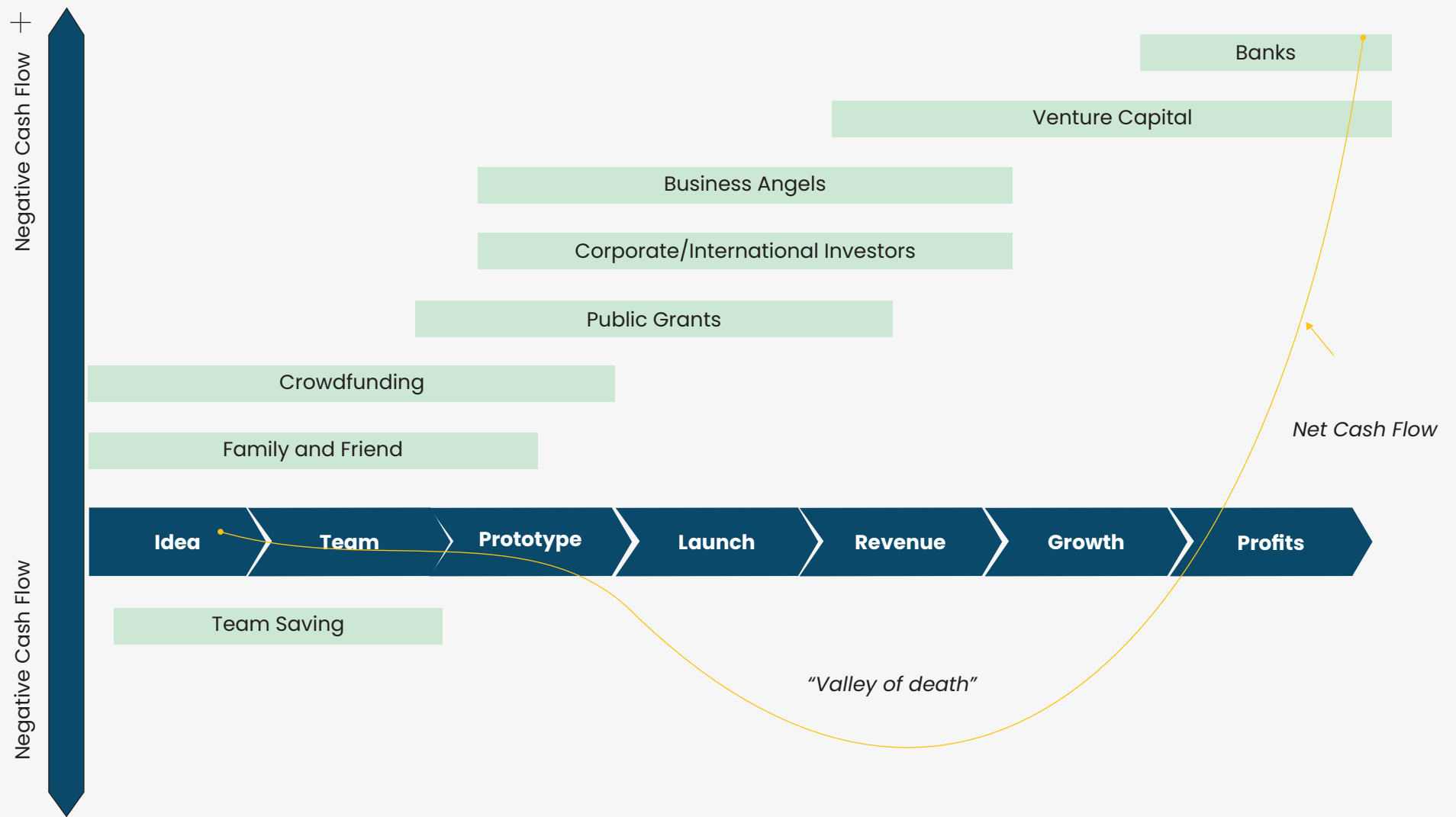


Figure 17: Development stages of start-ups and SMEs

The way in which SMEs and start-ups obtain financing depends on their stage of development, the type of investor and the level of financing required. Figure 17 highlights the different start-up financing options available, including grants and public loans.

According to figure 17, with the current fundraising mechanisms in Somalia, MSMEs and startups are unlikely to be able to cross the “valley of death.” In general, promising start-ups in Africa struggle to acquire the seed capital they need to develop their business activities. There are venture capital firms in the region, but they can rarely invest less than \$1 million, which is too much for a start-up. Banks, on the other hand, charge interest rates of around 18%, which is too high for these promising start-ups.

To attract angel investors and angel investor networks, supporting organizations should prepare for the application process as shown in the figure below

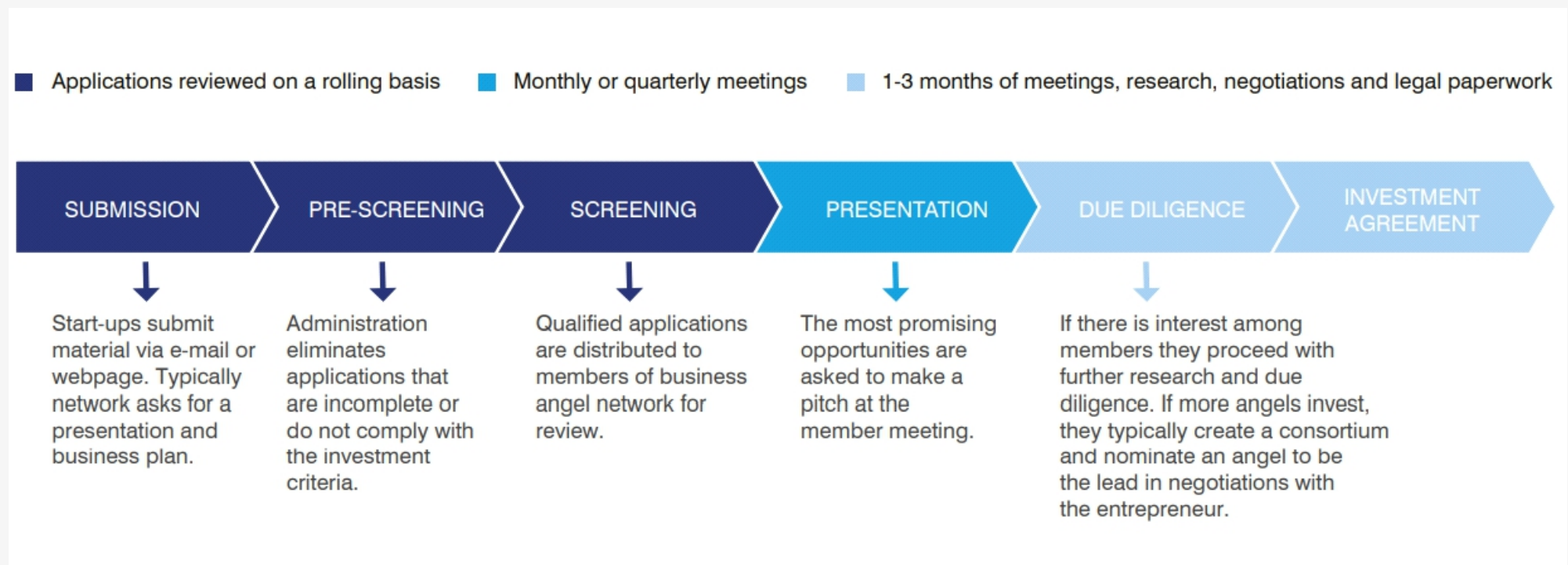


Figure 18: The application process for a business angel network

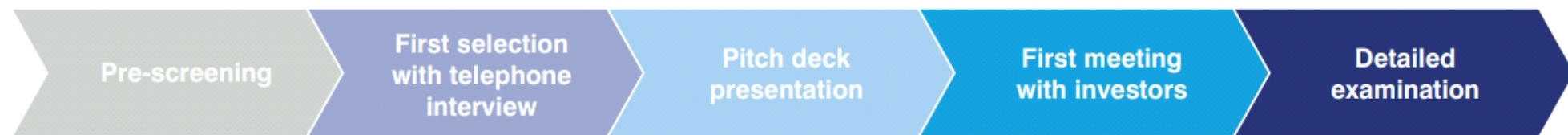


Figure 19: Application process involving business angels/venture capitalists

According to our experts, security remains a challenge for foreign investments, but the Somali market still presents a real opportunity for investors for the following reasons:

- A large market with cheap labor;
- An open market to Kenya and GCC countries;
- A market that lacks many things, which presents a great opportunity for success for foreign investors.



Banks and Microfinance

Local banks

Research shows that there are 13 registered banks in Somalia, only ten of which are active. The financial sector in Somalia is limited and competitiveness among banks is low because the number of banks is low and their activities are diversified. Even in corporate finance, Somali banks may offer either conventional banking or Islamic banking.

Licensed banks offer investment, loan, microfinance and trade products. To be eligible to raise funds through a bank for a specific business, most banks require several conditions, including but not limited to:

- Somali nationality.
- National ID card or valid passport.
- Active account.
- Certificate of registration of the company.
- Business profile and business plan.
- Proof of the guarantor.
- Funding application.
- Business bank statement for the past 12 months (6 months is acceptable but not preferred).
- A certificate of good standing (financial statements for the last 3 years).
- Asset valuation (present value of future cash flows).
- Legally registered company whose main activities comply with Sharia law.

Most young entrepreneurs are unable to provide almost all of these documents due to the high rate of illiteracy among the Somali population. Since most MSMEs are informal, the financial mechanism seems impossible for micro and small enterprises, as banks require a national ID card, certificate of registration of the company, proof of the guarantor, business bank statement and asset valuation.

As for microfinance, experts point out that it is usually not enough to start a project with an average amount of between \$ 1,000 and \$ 3,000 per project.

We have summarized the local banking institutions in Somalia, their involvement in business finance and the product they provide to entrepreneurs.



Shuraako Bank

Product offered to MSMEs

Nordic Horn of Africa Opportunities Fund

SME Financing Somali Agrifood Fund

Powering Progress Fund

Somaliland Youth Enterprise Fund

Work in progress: short and long loans for investment

Grants

Involvement with MSMEs

Shuraako identifies enterprises that add value to the local economy by conducting on-the-ground due diligence and establishing strong relationships, the key to any successful investment. Shuraako designs and introduces new financial products, such as credit guarantees, to the market; it convenes stakeholders through investor- and sector-specific forums and working groups; and it advances market research.

Shuraako launched One Earth Future's Shuraako program connects investors with promising Somali-based businesses to encourage economic development and stability throughout the country.

Kaah International Microfinance Services (KIMS)

Product offered to MSMEs

Financing services: Islamic financial products:

Murabaha,

Qard Hassan:

- 1) Fishing Cooperatives Sector,
- 2) Farming Cooperatives Sector,
- 3) Women Groups and
- 4) Youth Group
- 5) Savings.

Involvement with MSMEs

KIMS has provided training and start-up micro-credit to help more than 550 youth returnees set up micro-enterprises via a dedicated revolving credit facility. Businesses include retail shops selling foodstuffs, garments and fashion items. Some of the returnee young women are engaged in the food processing sector and small-scale restaurants. KIMS is also providing financing support to the fisheries sector in Kismayo including loans to fisheries cooperatives, fisheries related businesses such as boat building and repair, net making, fish processing, packing and distribution.

KIMS plans to open additional 10 branches in eight locations in the coming 12-24 months in Somalia.

Dahabshil Bank

Product offered to MSMEs

Trade finance, export / import financing services.

Loans to Somali Institutions like universities, hospitals, and real-estate companies

Involvement with MSMEs

Dahabshil Bank is a part of Somalia's economic and business circulation and development and offers solutions and services to the Somali market and to consumers.

The bank is involved in Somali business and promoting modern commercial bank services in the region. Currently the bank provides Islamic products like muraabaha, mudaaraba.

Salaam Bank

Product offered to MSMEs

Trade finance, export / import financing services.

Business Banking

Salaam Entrepreneurs Fund

Free Microfinance (up to \$3,000)

Start- up Financing (up to \$50,000)

SME Investment (above \$50,000)

Involvement with MSMEs

Salaam Bank launched a special fund for entrepreneurs called "Salaam Entrepreneurs Fund" (SEF), a \$5 Million entrepreneurship fund allocated by Salaam Bank in collaboration with Hormuud Telecom for Somali entrepreneurs.

SEF is a three-year program aimed to cultivate young Somali entrepreneurs' potential by giving them start-up capital to convert their business ideas into reality. The fund aims to support entrepreneurs by providing early stage and growth financing with active support, particularly for youth and women entrepreneurs in the following five key sectors: *Technology, Renewable Energy, Farming ...*

International Bank of Somalia (IBS)

Product offered to MSMEs

Trade finance:

Import Financing,

Export Finance,
Letters of credit, Murabaha L/C,

Provide in-house developed products for agriculture, fishery and livestock

Involvement with MSMEs

IBS provides full retail, private, corporate and investment banking services. The Bank is able to execute banking transactions with other banks anywhere in the world.

IBS Bank Expansion is planning to geographically expand the bank operations by opening up new branches in Somalia, also expand its product offerings by setting up new departments and venture into offering new banking products.

Premier Bank

Product offered to MSMEs

Trade finance, export / import financing services.

Forex, Payroll Processing

Auto Finance,

Land Construction Finance

Business Trade Financing

Involvement with MSMEs

Premier Bank, being the first licensed MasterCard Affiliate Partner in Somalia and Visa member, is the fastest growing bank in Somalia with branches, ATMs & POS machines across various towns in Somalia. It commands a huge customer base ranging from ordinary customers to retail, SME, corporate, institutional, UN agencies, International NGOs as well as foreign missions/embassies.

Amal bank

Product offered to MSMEs

Trade finance, export / import financing services.

Business Finance

- Amal Equipment Finance

- Amal Commercial Property Finance

- Amal Project Finance

- Amal Working Capital Finance

Micro Finance

Involvement with MSMEs

Amal bank claims to be “The Bank of choice for retail and corporate customers by offering innovative, customized and Shariah compliant financial products and services reliably, conveniently and profitably.”

Amana Bank

Product offered to MSMEs

Trade finance, export / import financing services.

Business Banking:

- Letters of Credit.

- Shipping Guarantees.

- Import Financing.

- Invoice Financing

- No financing solution to SMES

Involvement with MSMEs

Amana bank offer long, medium and short term financing for business expansion and acquisition of commercial property

My Bank Limited

Product offered to MSMEs

Retail / Personal Financing

Motor Vehicle Financing

Home Financing

Electronics financing

Furniture financing

Microfinance

Corporate financing

Construction Financing

Trade Financing

Property Financing

Involvement with MSMEs

My bank provide entrepreneurs and business owner with retail and corporate financing solution.

Gargaara limited

Product offered to MSMEs

Large Loans: \$ 50,001 to \$ 150,000

Micro Loans: target micro-enterprises, individuals, and household enterprises in the range of \$ 500 to \$ 10,000.

Small Loans: target more formal businesses in the range the \$ 10,001 to \$ 50,000.

Involvement with MSMEs

GARGAARA is the leading financial institution in Somalia facilitating access to finance for MSMEs.

The Large Loans financing is targeted at formal enterprises that are seeking to expand an existing successful or potentially successful business and all types of credit would be eligible.

Informal enterprises are eligible for Micro and Small Loans when they show a commitment to formalize during the loan repayment period.

Crowd funding

Crowdfunding initiatives are important to entrepreneurship; through them, the community is able to direct its collective efforts to achieve common projects of interest to Somalis. According to experts, there are four crowdfunding platforms in Somalia, which are as follows:

Tarmiye Crowdfunding (tarmiye.com) helps existing and pioneering start-ups to grow and raise capital through the collective efforts of HarHub, family, friends, networks, and the like. Harhub launched Tarmiye to help small entrepreneurs, especially women. The main objective of Tarmiye is to provide entrepreneurs with seed funds that allow them to turn to banks for larger loans and credits.

SOKAAB (sokaab.com) is the first Somali based crowdfunding platform for organizations and individuals that aim to support communities and youth initiatives in Somali regions.

BULSHOKAAB (bulshokaab.com) was one of the first Somali donation-based crowdfunding platforms for organizations that aims to support communities and youth initiatives across all Somali regions.

The Next Economy crowdfunding platform (next-economy.com) enables young people in Nigeria, Mali, Somaliland and Somalia to unleash their talents, build their confidence and hone the skills they need for a successful career in a job or as an entrepreneur.

These platforms are considered as a good starting point for the Somali ecosystem, but there are more opportunities if the crowdfunding platform is expanded.



Public funding

Although the government planned a special program for entrepreneurship in its "Development Plan 2020-2024," the impact of COVID19 will create budget challenges for the government, in particular with a drop in GDP to -5.3% and inflation estimated to reach 6.3% in 2020.

Service Providers

As the experts have reported, the number of service providers helping young entrepreneurs has increased in recent years. Entrepreneurs need investors and mentors to run their businesses successfully. However, there is another key player in the startup ecosystem that is often hidden away and not talked about, and that is service providers. Service providers can be a company or an individual consultant who assists the startup community in its work.

Hiring an external service provider can be costly for new businesses. Many service providers, especially lawyers, recruiters, and accountants, offer their services for free to help the startup community. It helps both entrepreneurs and service providers to build a professional network. The best service providers provide their time and services for free in start-up companies to establish a good long-term business relationship with the startups.

For the entrepreneurship, incubation or acceleration program to be successful, they need to have access to a large roster of consultants and service providers in various fields who are willing to partner with them at no cost.



Universities

Most of the world's successful startups are located near at least one major university, with the aim of making students and; professors available to startups and providing access to technology transfer offices, research laboratories and promoting entrepreneurship programs. All of this contributes to building a startup ecosystem.

Universities make a valuable contribution to the ecosystem, especially by attracting young minds to courses on entrepreneurship and possibly towards the actual work of building startups. Going through Somali universities, we noticed that out of 100 universities, only three of them have a special program for entrepreneurship:

- SIMAD University (SU): Institute of innovation, technology and entrepreneurship (IITE Institute).
- Frantz Fanon University: Bachelor of Science in Entrepreneurship.
- Abaarso Tech University has Department of Entrepreneurship.

The education system also plays an important role in creating innovative ideas among young people. The participation of universities in spreading the entrepreneurial culture could increase the number of potential entrepreneurs and unveil new talents on the market.



Big Companies

We were unable to find any information about Somali enterprises regarding sector, size and region. However, experts mentioned that the number is quite limited and insist that large companies play an important role in terms of social responsibility by supporting the government in sponsoring infrastructure projects such as construction, water, education.

Talent in Somalia's Ecosystem

According to our experts, there are different success stories in Somalia, but with the lack of media coverage and rewarding events, the successes remain unknown. However, we reached out to one of the successful entrepreneurs, Mrs. Xafsa A/Iahi Ahmed, who told us about her success.

“She started to think about how she could generate an income that is why she got the idea to start baking pastries at home. Subsequently, she decided to start her own business and began to train other housewives in making pastry. The success of this step prompted Mrs. Xafsa to write her first cookbook on Somali cuisine, in which she presented 70 dishes. However, she struggled in the production process and was only able to make 1,000 copies. She sold each for \$ 20, which is a high price in Somalia. As the popularity of her cookbook increased, she printed 5,000 more copies containing 100 recipes, but this time she produced them in China to keep costs and prices down. The second cookbook sold at an affordable price of \$ 10, making it a bestseller.

Little by little, Mrs. Xafsa convinced various luxury dining restaurants in Somalia to serve her dishes. After these successes - and with more orders incoming - she started thinking about opening her own restaurant. Mrs. Xafsa teamed up with four other women and they applied for a loan from a local NGO to get \$ 10,000 each to open their first Islamic restaurant. These funds were not enough for them, so they teamed up with seven more women to join the adventure, after which they managed to repay the loan before the deadline and even achieve a return on investment of \$ 200,000 in two years.

According to Mrs. Xafsa, there are diverse challenges in the Somali market that make entrepreneurship difficult, including:

- Lack of innovation and creativity;
- Lack of protection of ideas;
- Lack of funding to develop the project after launch;
- Lack of support from local authorities;
- Total lack of information on entrepreneurship because most citizens are illiterate and the media do not spread the word.

At the end of the interview, she recommended people to challenge themselves, overcome their fears and most importantly, find good people with whom they can build business to bolster success because no one succeeds in business alone. In addition, when they are a team, everyone contributes money and effort, which means less burden on each one.”

Mentors and Advisors in Somalia's Ecosystem

Along with incubators, mentors play an important role in transforming any startup into a successful business. Mentors are defined as seasoned professionals, entrepreneurs or investors who bring time, knowledge and skills to new entrepreneurs and startups without primarily expecting monetary value or rewards. Additionally, access to experienced mentors by entrepreneurs in the ecosystem allows them to ask the necessary questions to increase the growth rate of their startups and decrease the chances of making the same mistakes as their predecessors.

Our research has shown that mentoring initiatives are limited because there is no formal organization specializing in the field. In addition, we have noticed that the mentoring takes place either in a business incubator, an acceleration program or as part of events like ISWADA, a mentoring program that aims to empower young Somalis in their educational journey by exposing them to a network of Somali models. We also found the DEMAC mentoring initiative, which is diaspora mentoring for local aid actors.

There is a need to launch a permanent organization to bring together “mentors” and professionals, where entrepreneurial facilitators can easily find diverse profiles to empower young people from different regions.



Vocational Education and Training

Vocational technical training is a starting point for young entrepreneurs, especially micro and small businesses driven by innovation and talent. Somalia has several technical vocational trainings and most of them are private or run by NGOs. These establishments lack materials, qualified teachers, links between them and the private sector, only offer a short training course of 3 to 6 months, and cannot provide qualified human resource. Only a few, like Kuwait Educational Charity Academy and some government centers, offer long-term educational programs (2-4 years of study).

Relevant Programs with Entrepreneurial Involvement in Somalia

Activities and events

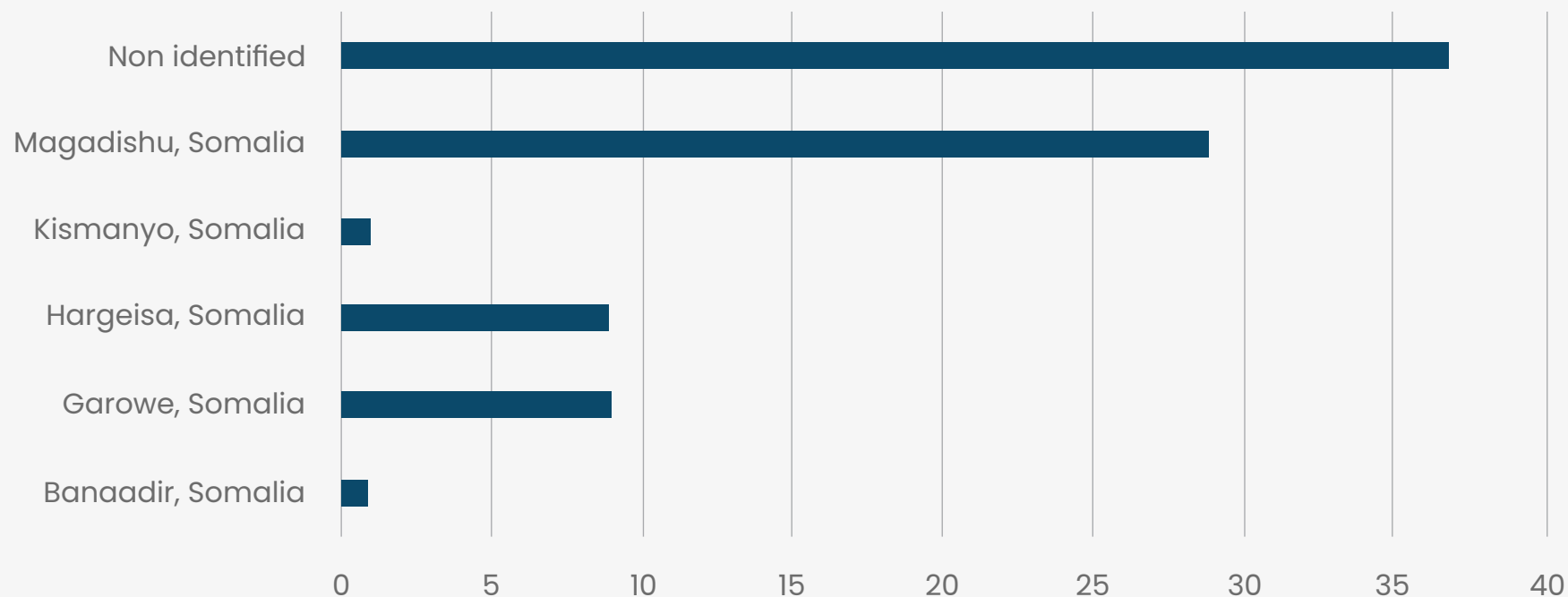


Figure 20: Number of events in Somalia

Somalia is experiencing an unprecedented volume of activities and events related to startups and SMEs. Due to the lack of information, we were not able to qualify whether the events are periodic or repetitive, nor were we able to identify the location of more than 30 events.

As shown in the figure, most of the identified events occur in Mogadishu, Hargeisa and Garowe. According to the figure, Garowe is the next stop to unleash the entrepreneurial spirit, as there is a basic entrepreneurial infrastructure there. In addition, it is a positive and promising place in the Somali ecosystem that we can count on to attract talented and entrepreneurial-oriented profiles.

Investment Opportunities in Somalia

In Somalia, the livestock, energy, telecommunications, agriculture, education, fisheries, manufacturing and finance sectors have potential business opportunities to explore. It should be noted that this list is not exhaustive but it gives an idea of the most popular investment opportunities.

Given the government's limited budgetary resources, a large percentage of investments for the NIPS will be leveraged from the private sector, international financial institutions and donors. The investment gap in infrastructure, industry and services will require billions of dollars of domestic and foreign investment, and the careful structuring of private investment, joint ventures, special purpose vehicles and other modalities will all play a key role in increasing FDI inflows into Somalia. The financing gap is expected to be several billion dollars, with economic and financial rates of return varying according to the opportunities.

The NIPS identifies a number of priority investment sectors (high growth sectors ready to invest), largely reflecting their contributions to Somalia's gross domestic product (GDP). The sectors identified by the Federal Government and Federal Member States as well as representatives of the private sector during the NIPS consultation process are described below, and in most cases they correspond to the sector targets identified by the PND and to the goals of the SDG 2030.

Livestock sector

Somali livestock products for consumption and export represent an important source of food security. Among the investment opportunities in livestock there are:

- Processing of milk;
- Poultry farms (hatcheries for both chicken production and home consumption are underutilized);
- Dairy farming;
- Plant for processing compound feed for poultry, beef and dairy products;
- Meat processing plants;
- Investments in leather processing and the manufacture of leather products;
- Large-scale irrigation projects and services to improve agricultural productivity;
- Invest in new bridges on the Juba and Shabelle rivers to improve access to farms and markets.



Agricultural sector

According to the 9th National Development Plan and the estimates available in the World Bank / FAO report, Somalia has about 3 million hectares of cultivable land, of which nearly 2.3 million hectares produce or could produce crops under rainy conditions. Somalia offers investment opportunities in its agricultural sector, as it is currently heavily dependent on food imports, including raw sugar (14%), rice (5.8%), wheat (3.9%), pasta (3%) and other food products. Export promotion and increased investment in national supply chain development would be attractive to investors. Investment opportunities in the agricultural sector include:

Agricultural equipment rental services in partnership with Somali commercial banks;

Establishment of agro-industrial industries and expansion of existing industries;

Creation of agricultural processing zones to promote agricultural products;

Expansion of rural credit and microfinance services for agriculture;

Investment in the skills of farmers in the use of agro-tools and equipment;

Investment in sugar factories (JSP and Jowhar Factories);

Development and management of irrigation infrastructure in the Shabelle and Juba valleys;

Extension and research services in Somalia.

Fishing sector

Up to 2.4 million tons of fish have been caught by foreign fleets off Somali waters over the past three decades. Following a new 2018 authorization, the Ministry of Fisheries has become a significant contributor to the government's annual revenues. Investment opportunities in the fishing sector are:

Value chain development;

Marine cold storage;

Marine resources processing;

Marine products packaging;

Boat building and repair;

Marine skills center development;

Marine equipment and supplies.

Energy sector

Somalia's economy is growing and needs affordable energy to continue doing so. The country's national energy deficit is considerable and constitutes a potential investment opportunity.

According to the African Development Bank (AfDB) assessment, Somalia's energy mix is dominated by charcoal and firewood: they meet 80–90 % of the energy needs of the whole country and compromise the manufacturing and sustainability of forests. When it comes to renewable energy sources in Somalia, they are a viable and immediate way to increase affordable energy for Somalis. In the energy sector, investors have opportunities such as:

Cable manufacturing;

Energy training institute to upscale energy labor;

Independent power production;

Energy distribution;

Renewable energy from resources such as sunlight, wind and geothermal heat.

Banking and financial sector

About ten commercial banks and 11 money transfer companies (MTCs) are licensed by the Central Bank of Somalia (CBS). According to the IMF, at the end of September 2017, the total assets of commercial banks and loans to the private sector were around 4% and 1.3% of GDP, respectively. Nevertheless, bank assets have continued to improve since 2015 and their capitalization remains generally adequate. This sector presents several opportunities for investors, for example:

Online payment processing;

The majority of SMEs do not have access to medium and long-term financing;

Audit firms required to provide banks with audit and financial control services;

Independent ATM operators.

Information and Communication Technology (ICT) sector

Somalia is one of the first African countries to set up a mobile money platform that has changed the lives of many people and made it easier for companies and SMEs to do business. Moreover, the federal government is working to establish an e-government framework that connects government institutions to facilitate efficient service delivery and improve digital skills and values. Somalia's Federal Government is also focused on expanding connectivity from the coast to the interior of the country.

Investors have several investment opportunities in the ICT sector in Somalia, which are as follows:

Software and hardware development;

Mobile money services development;

Development of ICT in companies and schools;

Data storage;

Metro development for the fiber optic to major towns and cities;

Broadband services;

ICT consultancy services;

Investments in the diversification of Fiber Optic Cables.



Manufacturing Sector

Manufacturing is one of the crucial sectors that the Somali Federal Government is promoting in order to achieve significant export volumes, create more jobs and make the concept of "made in Somalia" a reality. The manufacturing sector lacks investment in:

Industrial parks;

Fish processing zones;

Paper mills;

Packaging;

Logistics, parcel delivery and courier services;

Storage facilities;

Training and management of industrial labor;

Industrial Engineering and Maintenance.



Education sector

Due to two decades of conflict, a generation of Somali children has lost the opportunity to receive formal education. According to UNICEF, Somalia has one of the lowest enrollment rates for primary school-age children in the world: only 30% of children are in school and only 40% are girls. In addition, only 18% of children in rural areas attend school. Substantial investments are needed in the education sector to revitalize it and enable generations of young Somalis to join and benefit from formal education. Among the necessary investments, there are:

Kindergartens;

Primary schools;

Secondary schools

boarding schools;

Vocational schools;

Language schools;

Training and advisory services;

Educational materials.



Conclusions and Recommendations

The objective of this report is to provide a satisfactory answer to the important question of the challenges and opportunities of MSMEs and Startups Ecosystem. The main finding is that the lack of funding and supporting institutions poses various challenges in the entrepreneurial ecosystem in Somalia that kept it in the activation phase; therefore, MSMEs and startups generally struggle to launch and grow their businesses. More specifically, focusing on financial support for Somalis, we find that financial institutions require “impossible” conditions to validate a loan or a micro-credit.

On the one hand, most of the ecosystem components in Somalia are concentrated in the urban cities of Mogadishu and Hargeisa and present 75% of startups, 40% of entrepreneurial events, 80% of supporting organizations and 90% of acceleration programs. On the other hand, rural areas remain far from investments, so most rural Somalis live at subsistence level and are engaged as small traders, small producers of livestock and other agricultural products.

The ecosystem of MSMEs and startups has emerged thanks to several entrepreneurial organizations and success stories, but it remains weak due to its reliance on humanitarian aid and the short-term funding program.

The report concludes that, MSMEs significantly experience the impact of the poor education system and infrastructure, so the Somali market lacks educated and qualified skills to contribute in its development, and the poor infrastructure hampers the growth of the entrepreneurial ecosystem.

The research results show a lack of collaboration between the components of the ecosystem. For example, universities with companies; research centers with decision makers; financial institutions with innovation centers and incubators. Despite the democratization of entrepreneurship, it still does not solve the main challenges facing Somali entrepreneurs.

The results of this study reveal that electricity is a major obstacle to technological inclusion. Although the mobile banking services in Somalia are in noticeable progress, but due to the poor power supply, it is struggling to maintain the same development. In addition, the lack of Internet access can affect the development of the MSME market under such conditions. Besides electricity, the requirements of doing business prevent informal businesses, new entrepreneurs and investors from starting a business due to the long number of days it takes to register a business in Somalia, compared to the average days in other African countries.

Finally, the study reveals that the impact of the pandemic has significantly affected the Somali economy; the Covid-19 crisis has affected government revenues and foreign direct investment, which means that the Somali market will struggle to strengthen new MSMEs and new investors.

This report provides recommendations to alleviate most of the challenges faced by MSMEs and take advantage of the existing opportunities in the Somali market.

Entrepreneurial inclusion

Entrepreneurial activities are most concentrated in Mogadishu and Hargeisa. It is recommended to target and involve entrepreneurship programs and activities in other cities such as: Burco, Baydhabo, Beledweyne and Borama where more than 1 million additional people can be reached.

Require the participation of women in every project or entrepreneurial initiative and promote partnership enterprises to facilitate market access and strengthen resistance and improve the employability rate.

Launch a periodic “entrepreneurship Visa” program where entrepreneurs get 6 major seminars:

- Introduction to entrepreneurship;

- Important sectors and activities for Somalia;

- Management and procedures;

- How to register a company;

- How to prepare a “loan” file;

- How to find an investor.

Create regional integration between Somali startups and regional investors through repetitive matching events.

Involve entrepreneurs and women employed by the government in program seminars.

Advocate for women in business by supporting women-owned and managed MSMEs through appropriate support and incentive programs.

Educational empowerment and capacity building

Provide skills development opportunities for women and youth through on-site training and other programs.

Introduce entrepreneurial programs in vocational and technical training and develop programs that target selected groups, such as: textiles, crafts, fishing, packaging, design, web and application development.

Launch of "Ideation" boot camps in partnership with universities in order to:

- Solve the problems of the agricultural and fishing sectors;

- Support the government to collect data and reach all categories of the population;

- Solve the challenges and problems of international NGOs.

Launch a national competition for final year student to make a "business plan"

Plan initiatives acting on the cultural model of the territory to celebrate local entrepreneurship and innovation.

Reorganize the technical and vocational training system; offer professional internships and industrial apprenticeships.

Empower talented young entrepreneurs through soft skills training.

Creation of an entrepreneurial culture

Reward successful MSMEs by the business community.

Promote successful MSMEs using best practices and strategies through media and other outreach activities.

Launch of seminars to raise awareness about taxation and its importance in the country's empowerment.

Collaborate with TV programs to:

- Promote successes among men, women, individuals and groups;

- Normalize the acceptance of failure as a normal result of entrepreneurial activities;

- Explain the benefits of paying taxes to citizens and enterprises.

Enabling investors to assess small businesses through capacity building initiatives that build the knowledge of business people to acquire the skills they need to assess investment opportunities and mitigate risks.

Creation of an "entrepreneurship club" in technical schools with a link between entrepreneurs as mentees, professors as coaches and external entrepreneurs as mentors.

Stimulation of the local economy

Creation of the “Made in Somalia” label to redirect consumer spending towards local products;

Require the use of locally available resources to create products in innovative ways.

Establish an entrepreneurship program targeting informal enterprises, newly created MSMEs and existing MSMEs.

Considering the specific selection criteria for participants in the entrepreneurial program:

- Treatment of local resources;
- Renewable energy technologies;

Asking young people for digital and IT solutions that provide services to businesses (B2B); international organizations (B2O) and government (B2G).

Hackathon to stimulate innovation in partnership with telecom operators and banking institutions in order to identify and protect customers.

Support boot camps and small grants for micro, small and medium enterprises to help them launch online operations, as well as assistance to improve the responsiveness of the Somali market after COVID 19.

Organize training of trainers (TOT) for young people in main activities in Somalia such as handicrafts and fishing as well as help them to create fish delivery projects for internal regions and districts.

Strengthen communities

Promote and strength the emergence of professional associations dedicated to supporting entrepreneurship in three stages: ideation, incubation and acceleration.

Host international support organizations within local communities such as: INJAZ, Hult Awards, etc.

Strengthen the voice of women in existing chambers through recognition and reward programs.

Strengthen links between industry and education and training institutions through a digital platform or partnership agreements.

Strengthen support services of MSMEs through training and workshops, including preparation of project reports and feasibility studies for credit facilitation, provision of technical information, advisory services, laboratory services and quality assurance services.

Facilitate financial access

Connect investors to small businesses through the creation of investment facilitators, online investment platforms, investment promotion agencies and local financial institutions to connect potential investors to lucrative investment opportunities.

Attract equity investment entities and crowdfunding platforms to promote innovative and promising startups and SMEs.

Providing grants in conjunction with the government to start-up entrepreneurs with an “entrepreneurship visa” and who wish to transfer their business to the formal, this grant will help any business that applies to register to do so.

Experts List



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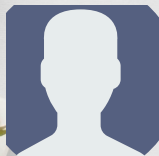
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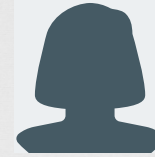
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Mr. Refat M.S. Hadagha

Ex-foreign serial entrepreneur in Somalia



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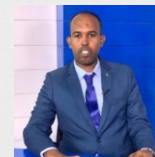
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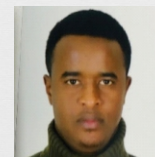
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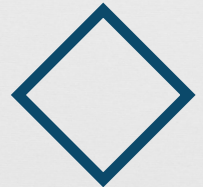
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Somali women entrepreneur



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