



Somaliland Enterprise Survey

2013

Hargeisa
March 20, 2014

- Sample & Universe estimate
- Obstacles ranking
- Finance
- Electricity
- Land
- Innovation
- Business licensing and informality
- Labor & skills
- Trust

SAMPLE AND UNIVERSE OF INTEREST

Introduction: What does the Somaliland economy look like?

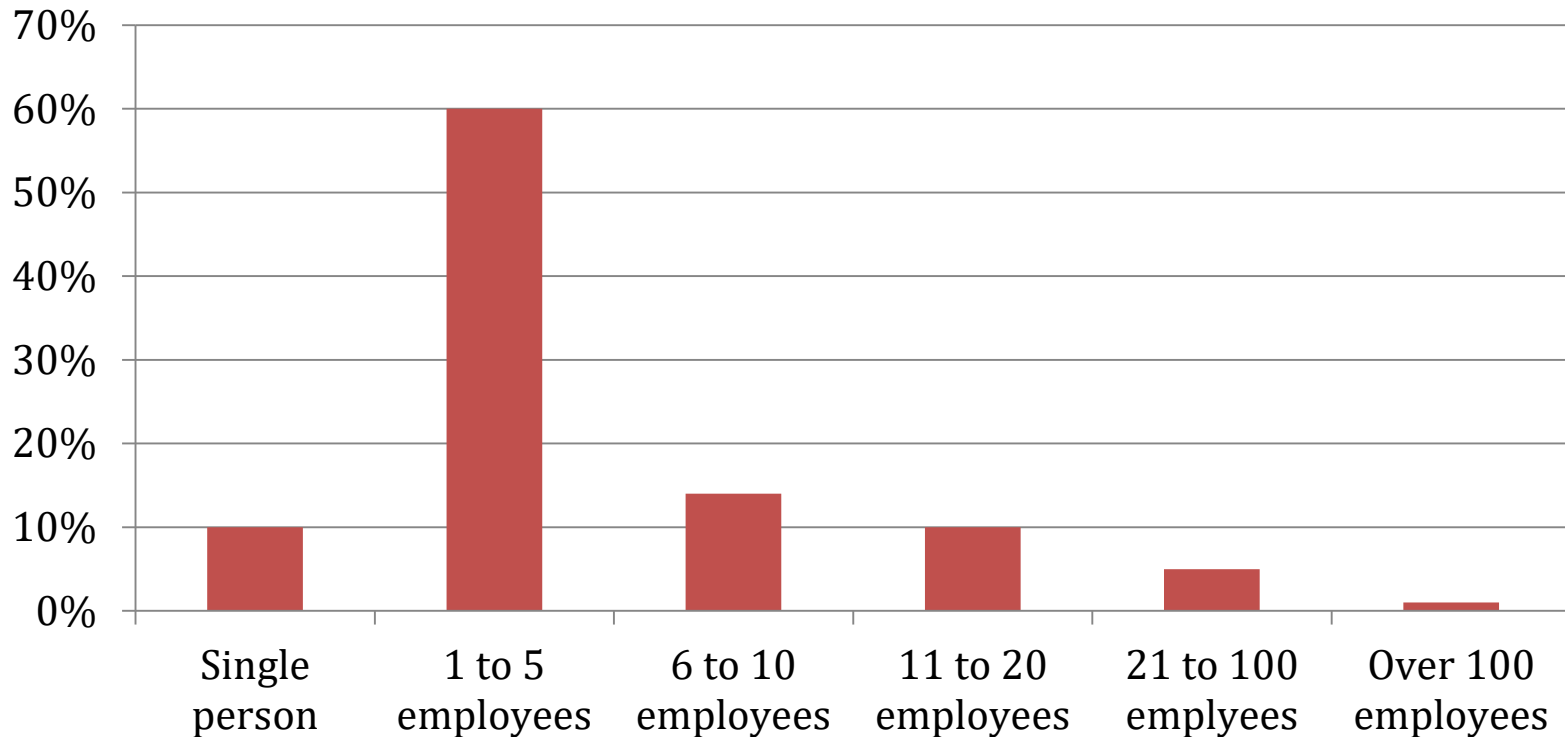
Assembled lists from MOC, Attorney General, Municipalities

City	Total	Size	Total	Sector	Total
Berbera	186	Micro 1-4	1083	Natural Resource Industries	81
Borama	218	Small 5-19	1876	Manufacturing	120
Burco	546	Medium 20-99	386	Remittance	29
Erigavo	117	Large 100+	37	Internet & telecom	50
Hargeisa	1693	Unknown	43	Other IT	8
Lasanood	321	Grand Total	3425	Retail	1785
Wajaale	324			Other Services	1352
Grand Total	3425			Grand Total	3425

Introduction: Enterprise Survey Sample

- 500 interviews were completed
- Data is weighted to generate representative indicators
- Average firm basic statistics:
 - 11 years old
 - Private domestic ownership is 98.6%
 - Only 6 of the interviews encountered any Diaspora involvement
 - 11% have a top manager that lived abroad in the past 20 years
 - 45% received remittances in the past year
 - 24% of firms have female participation in ownership
 - 11% of the permanent full-time workforce is female
 - 11% export at least some of their sales directly or indirectly

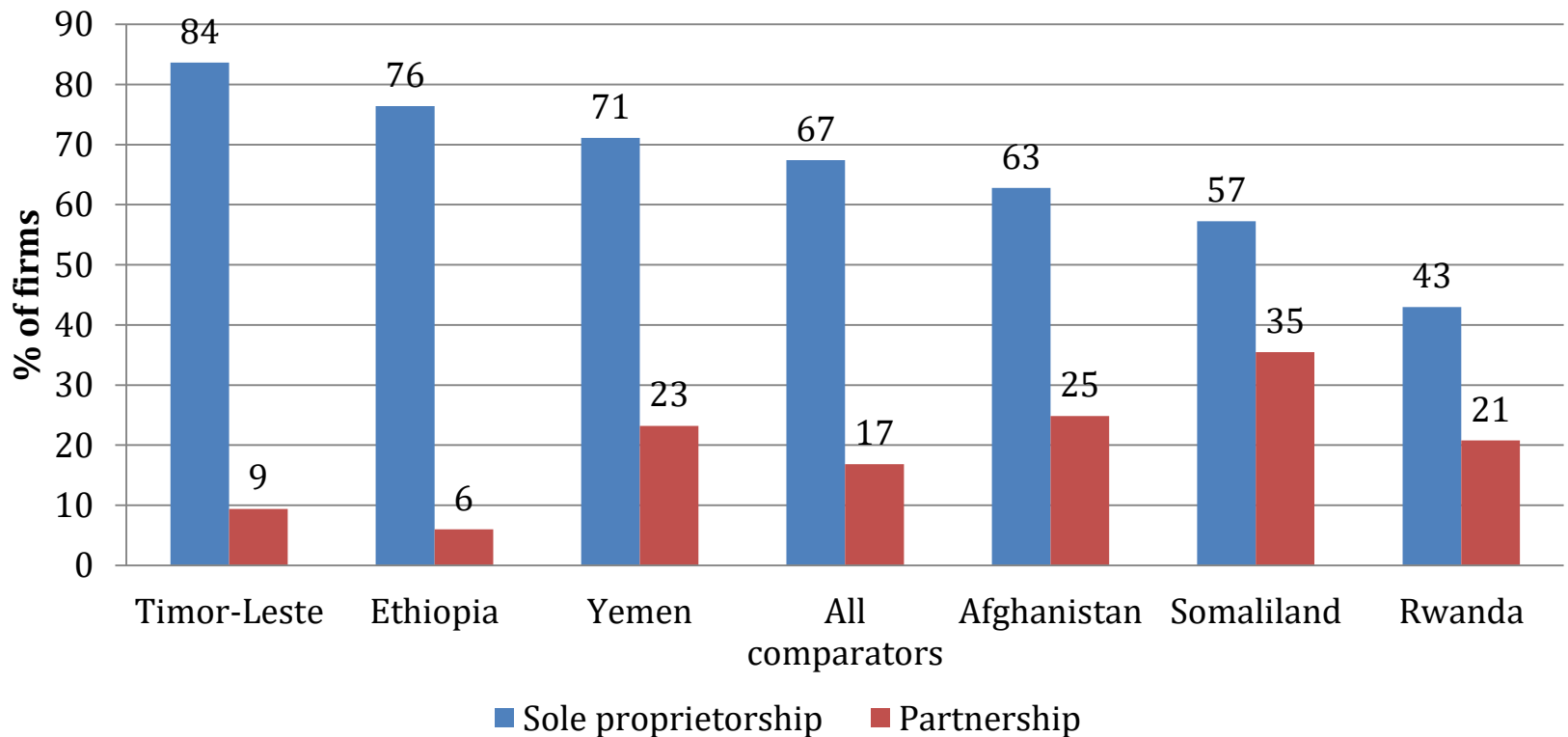
Introduction: Enterprise Survey Sample



- Fewer than 5% of firms employ any foreign, expatriate, or diaspora skilled or unskilled workers
- 63% of workers are under age 30 years
- 40% are family members of the owner

Introduction: Enterprise Survey Sample

- Most firms in Somaliland are sole proprietorship or partnership firms
- Somaliland stands out with a lower percentage of sole proprietorship firms and a much higher percentage of partnership firms



Introduction: Female Owned or Operated businesses

- When female owners are present, and relative to male owners, female owners tend to control micro and small firms much more often than the large firms.
- Firms with female ownership are far more likely to be formed as partnerships than male owned firms are. Follow-up discussions with a number of female business owners suggest that while females are not constrained, in how they form businesses, either by laws or social norms, they are often constrained by costs and family responsibilities.
- Partnerships allow women to share the costs, risks, and responsibilities associated with starting and running a business by pooling capital, knowledge, and experience.

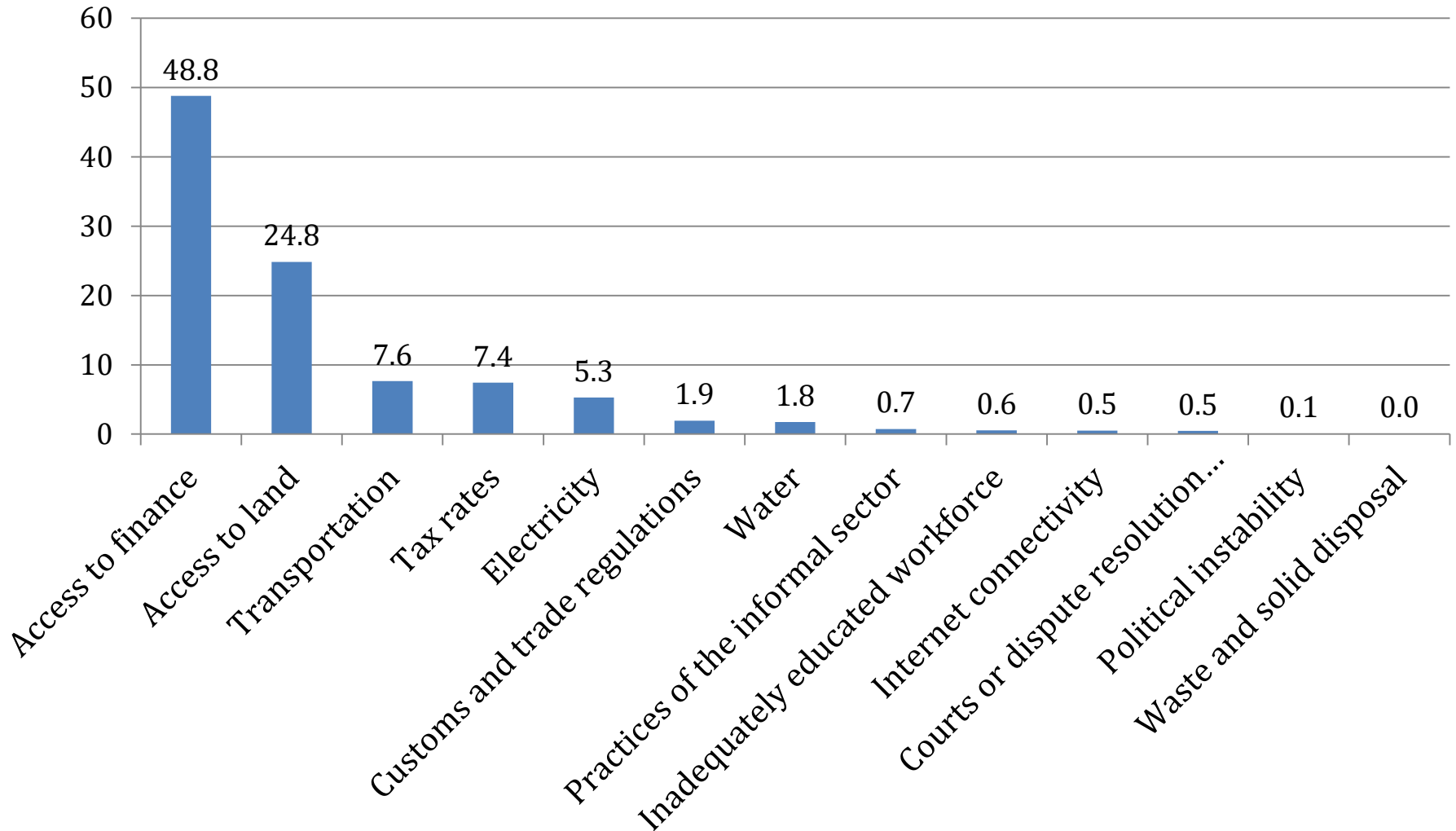
Introduction: Female Owned or Operated businesses

- Consistent with the broader literature, firms with a female largest owner or firms with a higher percentage owned by females tend to be smaller in size, have lower labor productivity and have proportionately more women employees in the workforce
- The proportion of females in the workforce is significantly higher in Somaliland among firms with a female largest owner than a male largest owner (43 vs. 6.6 percent).
- Support for female business owners will have significant impacts on female employment

OBSTACLES TO CURRENTLY OPERATING A BUSINESS

Relative ranking of 13 possible business obstacles

Somaliland-Biggest Obstacle



Top 3 Obstacles by City

Biggest obstacle	Hargeisa	Borama	Berbera	Burco	Laasnood	Erigavo	Wajaale
Electricity	2	10	19	3	3	10	1
Transportation	3	8	17	6	1	1	24
Access to land	30	11	11	20	8	10	13
Tax rates	13	25	1	4	0	1	24
Customs and trade regulations	1	0	0	0	0	0	0
Courts or dispute resolution services	0	0	1	0	0	0	0
Inadequately educated workforce	1	1	1	0	1	0	0
Access to finance	45	42	48	64	78	78	24
Political environment	0	0	0	0	0	0	0
Practices of unregistered competitors	1	1	0	0	1	0	0
Water	1	0	1	3	8	0	12
Waste and solid disposal	0	0	0	0	0	0	0
Internet connectivity	1	2	1	0	0	0	0

ACCESS TO FINANCE

Access to Finance

Access to finance is cited most often as the number one obstacle out of a list of 13 obstacles with nearly 50% of firms identifying it.

Additionally, over 62% of firms identify access to finance as a 'major' or 'severe' obstacle to running their business when asked only about finance. This is significantly higher than the world average of 32%, the SSA average of 45%, and the MENA average of 41%

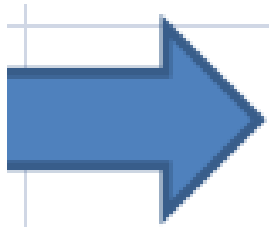
World		32.8
Somaliland	2012	62.4
East Asia & Pacific		18.4
Eastern Europe & Central Asia		24.6
High-income OECD		17.7
Latin America & Caribbean		30.8
Middle East & North Africa		40.7
South Asia		27.1
Sub-Saharan Africa		44.9
Afghanistan	2008	36.6
Ethiopia	2011	31.1
Rwanda	2011	34.4
Timor-Leste	2009	20.8
Yemen, Rep.	2010	35.2

Access to Finance

- While a high of about one third of the firms in Somaliland have an outstanding loan from the past, access to finance seems to have become increasingly difficult in recent years.
- Only 1.4% of firms applied for a loan or line of credit in 2012
- Only 6.5 percent reported “no need for a loan”
- Other factors such as high interest rates or fees (cited by 25 percent of the firms) were much more common among firms as the main reason for not applying for a loan.
- Similarly, approval rates of loan applications submitted in the last one year are also significantly lower in Somaliland than in the comparator countries - 43 percent in Somaliland excluding the micro firms vs. over 85 percent in Ethiopia and Rwanda.

Access to Finance continued

The use of financial services varies significantly by location



	Percent of firms with a checking or savings account	Percentage of firms that received remittances within the past year	Percent of firms with a bank loan/line of credit
Hergaisa	87.6%	47.1%	34.5%
Borama	83.8%	45.1%	37.0%
Berbera	62.2%	36.9%	31.1%
Burco	66.7%	50.0%	40.3%
Las'anood	62.7%	60.4%	21.5%
Erigavo	85.7%	30.0%	60.7%
Wajaale	58.2%	28.5%	10.7%

ELECTRICITY

Electricity

	Public electric service	Private electric service	Percent of firms owning or sharing a generator
Hergaisa	13.0%	82.6%	8.6%
Borama	0.0%	97.3%	9.1%
Berbera	82.4%	10.8%	0.5%
Burco	0.0%	99.1%	0.2%
Las'anood	0.0%	95.4%	3.0%
Erigavo	0.0%	100.0%	0.0%
Wajaale	0.0%	100.0%	0.0%
Total	11.6%	85.2%	5.0%

Generator ownership is surprisingly low given the state of electricity in Somaliland.

- High capital costs and access to finance may be one reason.
- High operating costs make small generators impractical

Electricity continued

The 5% of firms that do own a generator get almost 60% of their total electricity from them

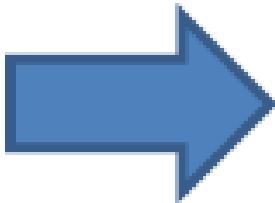
Firms cite relatively infrequent power outages – only 4 per month for a total of 8.8 hours of outage in a typical month. Note that regular scheduled outages, load shedding, and changeover were not counted in this figure.

- This may not reflect the full nature of the constraints posed by electricity as firms compensate by adjusting expectations and operating in low-electricity-intensive industries.
- Efforts to modernize the delivery of electricity should be encouraged as they will have significant spillover effects both in the quantity and scope of economic activity

LAND

Land

Access to land is the second most cited 'biggest obstacle' at nearly 25% despite the fact that most businesses have documentation for their land



	Percentage of firms with documentation of land status	Percentage of land occupied that is rented
Hergaisa	92.3%	62.5%
Borama	98.7%	66.9%
Berbera	86.5%	69.9%
Burco	94.7%	67.8%
Las'anood	88.1%	74.0%
Erigavo	77.9%	57.4%
Wajaale	89.3%	84.6%

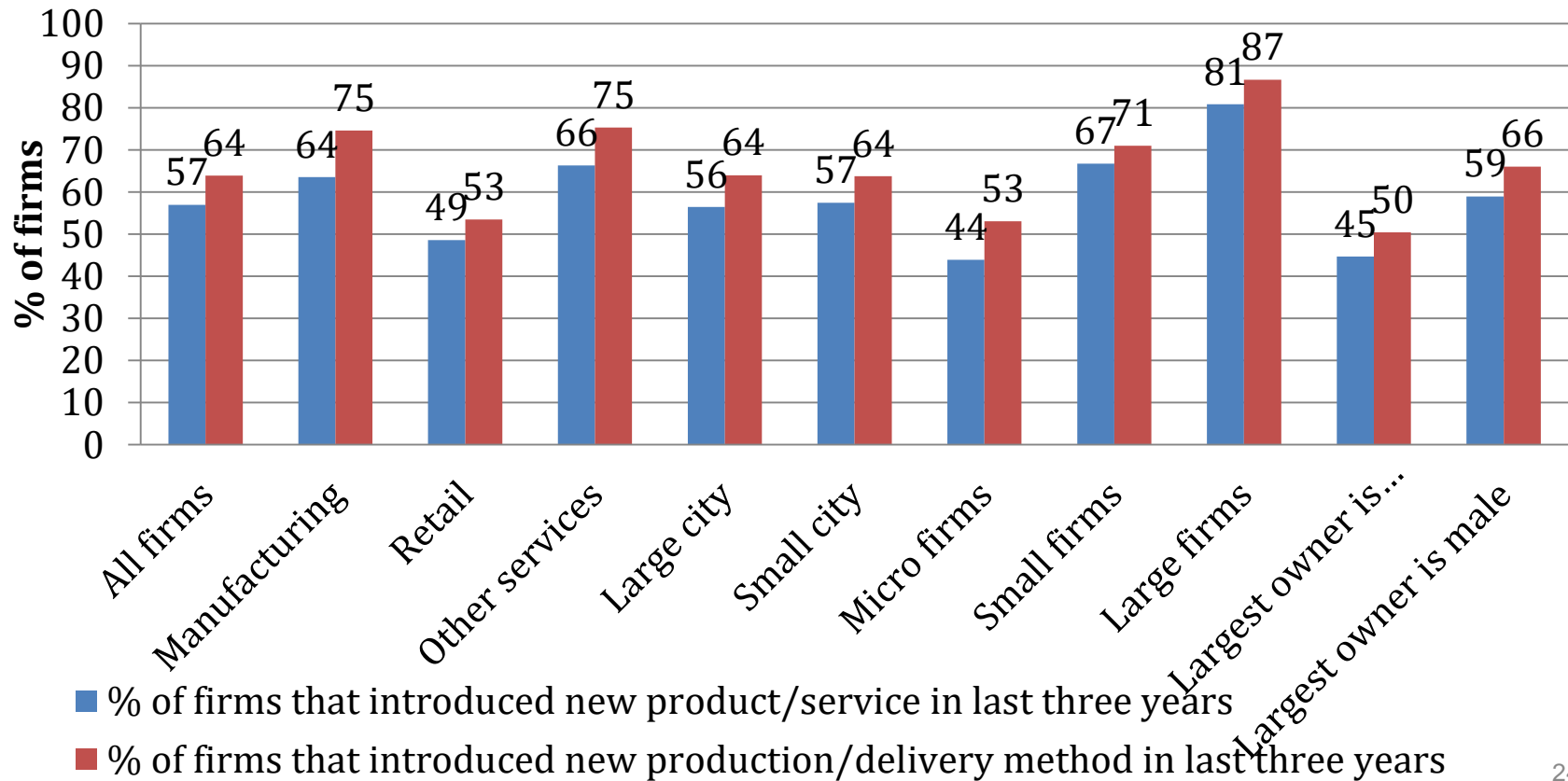
Land

- While most businesses have documentation for the land they occupy, they often have little faith that their documentation would be enforceable during a dispute.
- Land titling, registration, and formalization takes place largely at the local level in a piecemeal fashion.
- Land tenure is usually only formalized as areas are urbanized meaning that rural plots are usually not surveyed or registered in a public registry.
- Many business owners are concerned with transparency in the sale and registration process.
- Many land disputes appear to be sparked by absentee land-owners returning to Somaliland after having lived abroad for long periods of time.

INNOVATION

Innovation

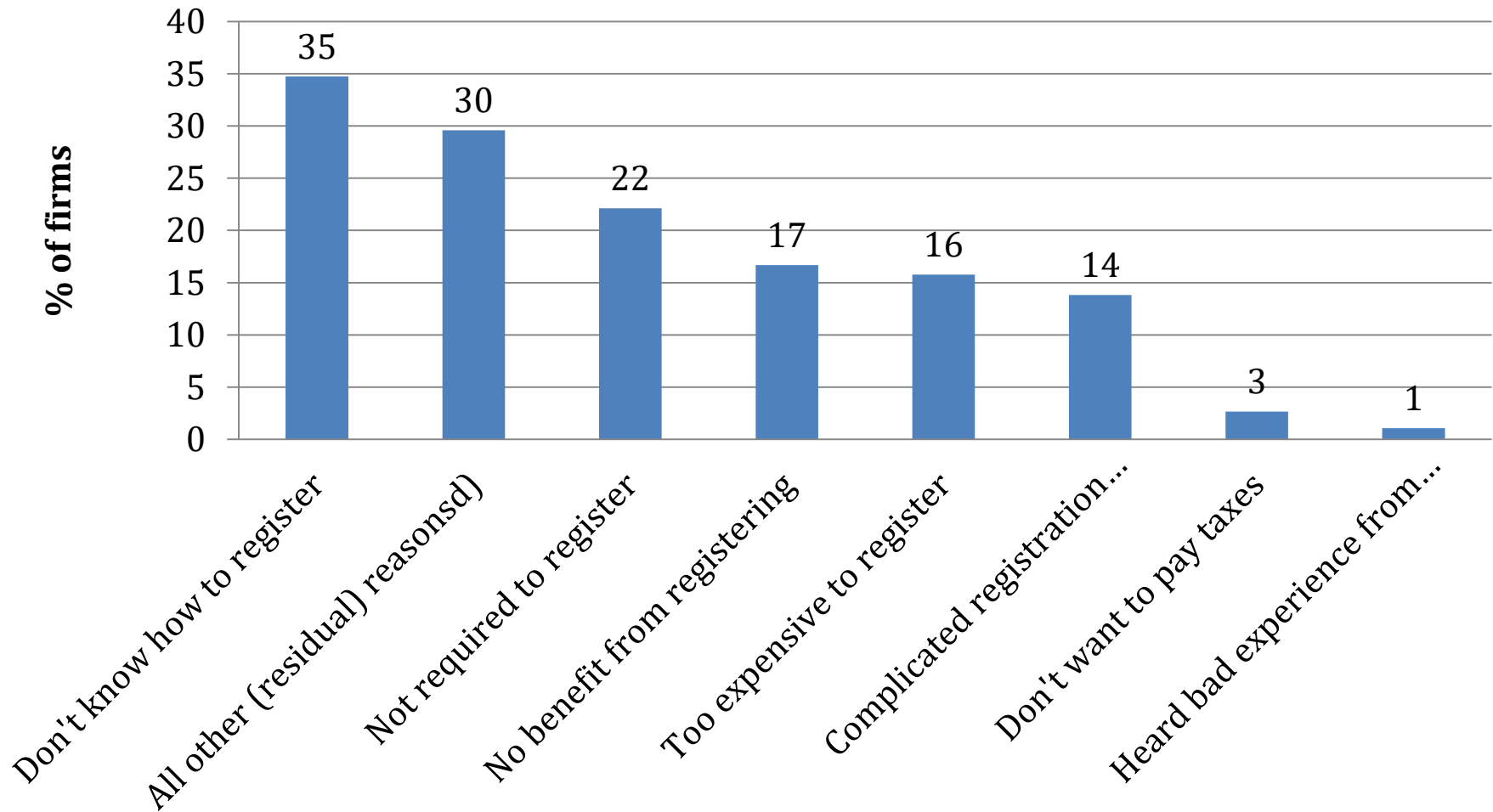
- Innovation activity seems to be widespread in Somaliland with a majority of firms having introduced a new product or service as well as new methods of manufacturing or delivering services over the last three years.



BUSINESS LICENSING AND INFORMALITY

Business Licensing

55% of firms claim to be registered with the MOC which is significantly higher than the official records show.



Business Licensing

What these results seem to suggest is that spreading information about the need to register and how to register may be as important as reducing the cost and complexity of registration

Indeed, follow-up discussions with business owners confirm that businesses are often reluctant to register with the MOC because the benefits conferred for registering are unclear while the cost of registration is quite high. A review of existing channels of information dissemination, marketing, and policy measures to strengthen and clarify channels and benefits may be useful.

TRAINING AND SKILLS

Training & Skills

A high proportion of firms (48%) offer formal training programs

Economy	Year	Percent of firms offering formal training
World		35.1
Somaliland	2012	48.0
East Asia & Pacific		41.6
Eastern Europe & Central Asia		33.7
High-income OECD		39.5
Latin America & Caribbean		43.7
Middle East & North Africa		17.6
South Asia		14.3
Sub-Saharan Africa		30.7
Afghanistan	2008	14.6
Ethiopia	2011	30.0
Rwanda	2011	55.3
Timor-Leste	2009	49.7
Yemen, Rep.	2010	12.9

Training & Skills continued

Skills shortages are widespread and cover every type of skill from customer service, to engineering and maintenance, to management. Many large businesses employ ex-patriots for the more highly skilled positions and often import technical, mechanical and maintenance staff to service equipment.

The need for improved vocational training opportunities is frequently cited by businesses

Experienced difficulty recruiting?	%
Management	13.9
Market or trade information	15.2
Computers and IT	8.6
Accounting and Finance	21.7
Engineering	7.2
Unskilled workers or laborers	22.8

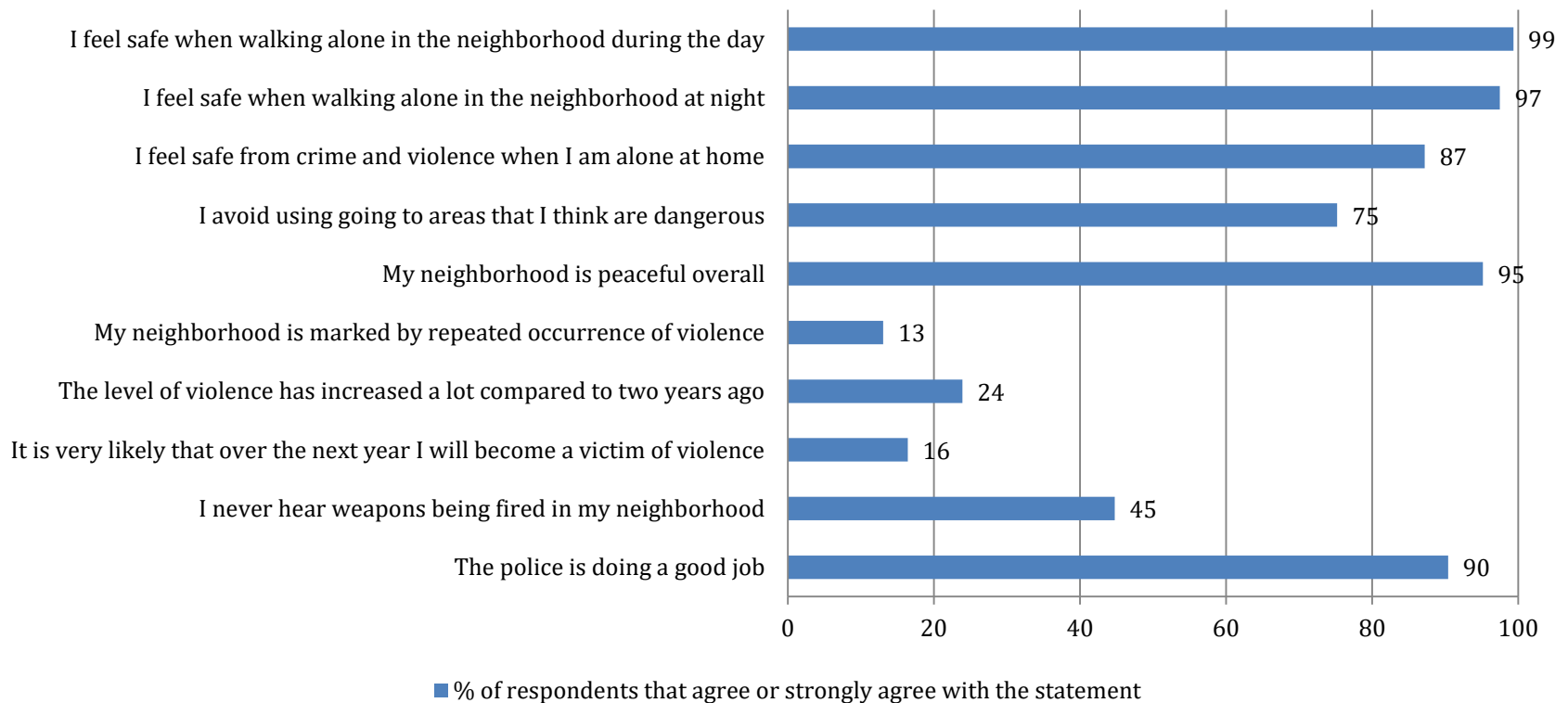
TRUST, CRIME, AND COMMUNITY

Trust & Community

- While the level of crime in Somaliland is low and the respondents feel relatively safe in their neighborhoods, they do take precautions by avoiding crime prone areas and beefing up security at the firm
- 7.5 percent of firms experienced losses due to crime (higher in Borama) --→ Lower than Yemen, Ethiopia or Rwanda.
- 75 percent of the respondents avoid certain ways and areas that they think are dangerous.
- 55 percent of the respondents reported hearing gunshots in their neighborhood
- 24 percent believe that the level of crime has increased in Somaliland over the last two years.
- These results suggest that while the crime situation in Somaliland is not bad, there are lingering concerns that need to be addressed.

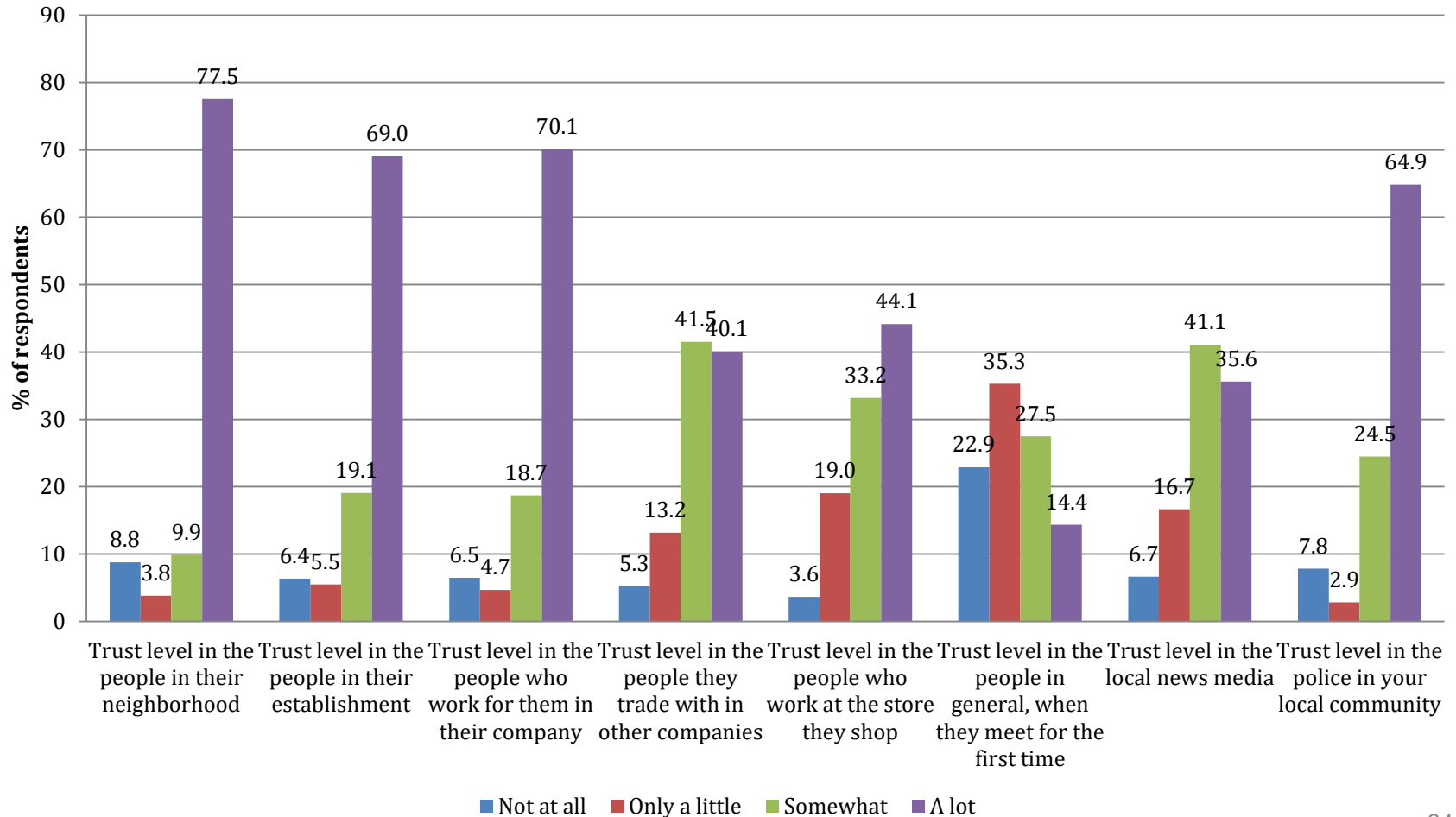
Trust & Community

- Given the relatively low levels of crime incidents, it is not surprising that the respondents have a favorable opinion about the security situation
- But, people feel more secure outside of the largest cities



Trust & Community

The level of trust among people is reasonably high in Somaliland but it takes time and familiarity to build that trust



Trust & Community

- Business owners in Somaliland consistently credit the peacefulness of the country and the culture as a major economic asset.
- Somaliland enjoys a level of peace and trust that allow businesses and individuals to settle disputes and manage affairs despite a weak central government.
- This valuable asset should not be a substitute however for institutions that formalize rules governing the business environment.
- There is a consistent sentiment among business owners that the government is sometimes opaque and often fails to deliver on its promises.



Somaliland Household-Based Enterprise Survey

2013

Review of Household-Based (Informal) Enterprises



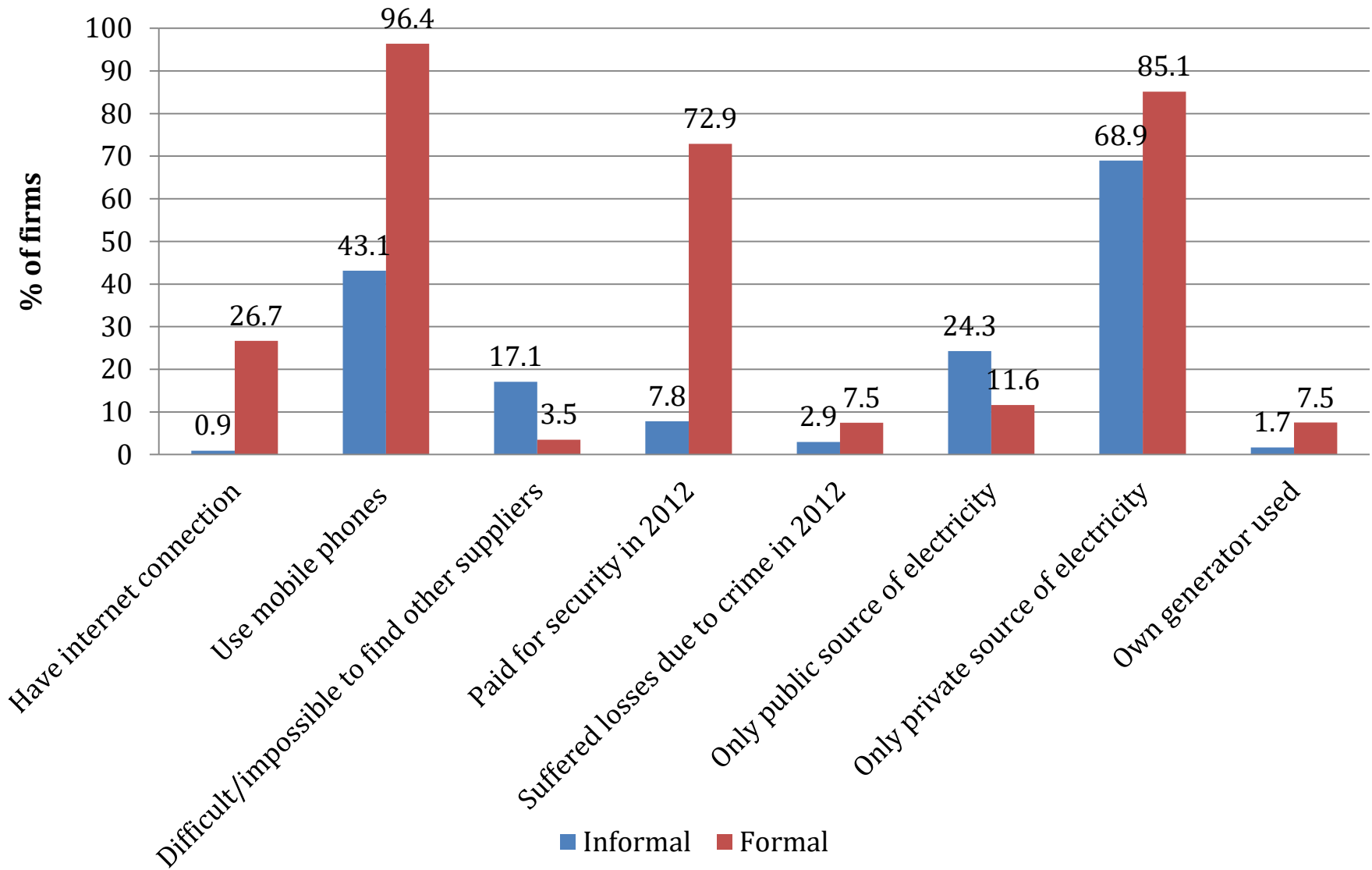
Household-based businesses: Sample

- A Household Survey was conducted from October 2012 to March 2013 and was based on 1700+ households
- Households were asked if anyone in the household ran a business from the home.
- Of the participants, 443 households also ran household-based businesses.
- These households were asked a follow-up battery of questions related to the businesses ran there.
- This survey constitutes a representative sample of household-based or informal businesses in Somaliland

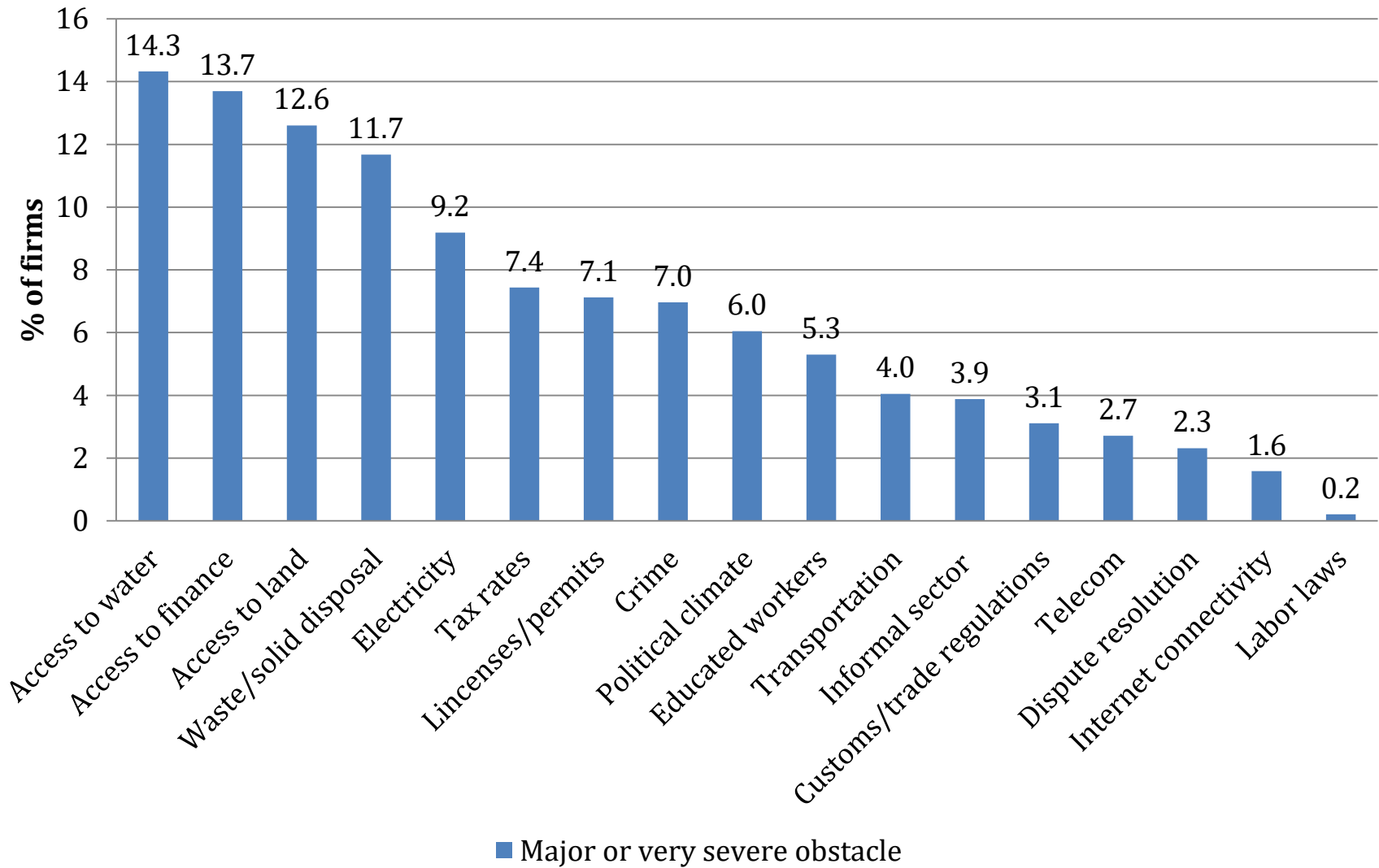
Household-based businesses: Basics

- These businesses are generally single-employee, owner-operator, and family businesses run from the home.
- About 35 percent of the firms have access to working electricity and among these firms 69 percent rely on private sources for electricity
- About 81 percent of the firms require water for business purposes. Of these firms, 89 percent buy water from private sources and remaining 10.6 percent use own connection
- Mobile phones are common with 43 percent of the firms using them. For the firms that use mobile phones, 79 percent do so to receive customer payments

Household-based businesses: Basic differences

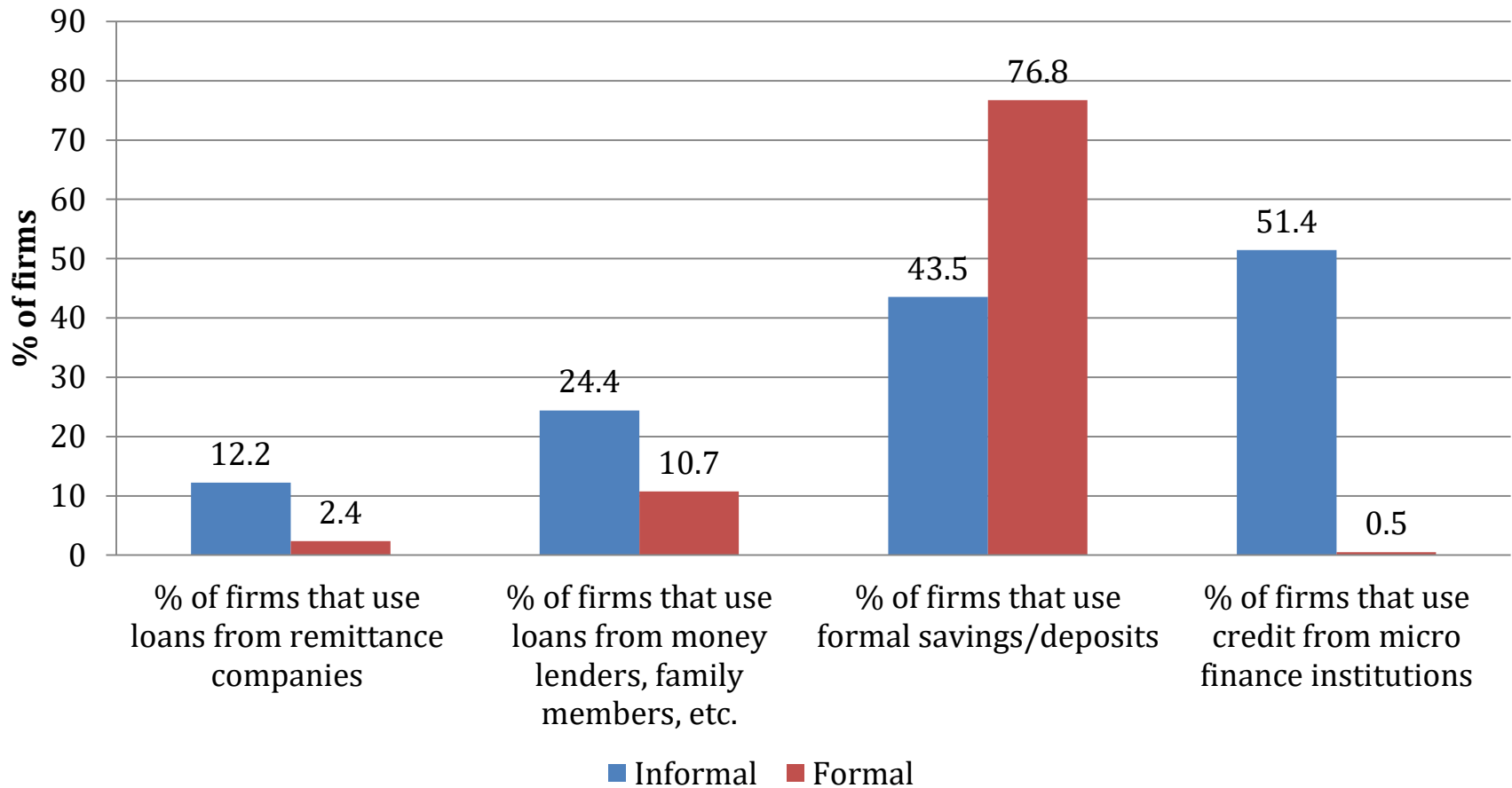


Household-based businesses: Obstacles



Household-based businesses: Finance

- Household based businesses are often served by micro-finance institutions that do not cater to the larger formal firms



Household-based businesses: Finance

- In 2012, 29 percent applied for a loan or line or credit. This is considerably higher than the rate for larger formal firms
- Reasons for not applying are considerably different as well

