Article 07:

Against All Odds:

THE QUIET RESILIENCE OF SOMALIA'S SMALL BUSINESS SECTOR

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A small business is a privately owned, profit-driven enterprise that does not hold a dominant position in its industry. In Western countries, it is typically characterized by having fewer employees and generating lower annual revenue than larger corporations. In Somalia, however, the definition carries additional weight, as small businesses form the backbone of an economy still finding its footing amid political instability, limited infrastructure, and an underdeveloped financial sector. For many families, a small business is not merely an income source but a survival mechanism, and yet the environment in which these businesses operate makes sustainable growth extraordinarily difficult.

Small business owners in the case of Puntland, especially those operating in major cities like Garowe, Bosaso, and Galkayo, confront a range of overlapping challenges that prevent their enterprises from expanding and becoming more scalable. Chief among these is the absence of a functional legal framework. Without enforceable commercial law, business owners have little protection against unfair competition, contract breaches, or predatory practices. When an entrepreneur invests time and capital into establishing a business whether a supermarket, a pharmacy, or a fuel station another individual can legally copy the exact concept and open an identical operation directly next door. There is no mechanism to protect the original innovator, and the result is a marketplace defined by imitation rather than differentiation. This dynamic discourages risk-taking and limits the kind of entrepreneurial diversity that drives economic growth in more developed markets.

Compounding this is the near-total absence of foreign direct investment and government subsidies. In many developing economies, small businesses benefit from state programs that provide startup grants, tax relief, or technical assistance. In Puntland, such structures are largely nonexistent, leaving entrepreneurs to self-finance or rely on informal lending networks that often come with unfavorable terms. The Murabaha-based financing available through some Islamic microfinance providers offers an alternative to interest-bearing loans, but access remains limited and rates can be burdensome for businesses operating on thin margins.

Access to credit is among the most persistent structural barriers. Formal banking infrastructure in Puntland is still developing, and many small business owners lack the credit history, collateral, or documentation required to access institutional financing. This restricts their ability to purchase inventory in bulk, invest in better equipment, or weather seasonal downturns. Without capital, businesses stagnate at subsistence level – covering costs, but never growing.

The high cost of electricity and telecommunications presents another serious obstacle. Because these services are supplied by privately owned monopoly companies operating without much regulatory oversight, prices remain elevated. Electricity costs alone can account for a disproportionately large share of a small business's monthly expenses, reducing profit margins to the point where expansion becomes unfeasible. Reliable power is not a luxury for a business, it is essential for refrigeration, lighting, point-of-sale systems, and digital communication – yet many entrepreneurs in Puntland must choose between keeping the lights on and reinvesting in their operations.

Labor quality is an equally limiting factor. Many workers lack vocational training or professional skills aligned with the needs of small and medium enterprises. Low worker productivity translates directly into lower output, inconsistent service quality, and reduced competitiveness. For business owners who cannot afford to train staff from scratch, this creates a persistent ceiling on what their enterprises can achieve.

Women entrepreneurs face a distinct and compounded set of challenges within this already difficult environment. While women represent a significant portion of Puntland's small business operators, selling produce, preparing food, and running small retail stalls, their businesses rarely grow beyond subsistence scale. The reasons are structural and deeply interconnected. Most women begin with minimal startup capital, and whatever profits they generate are typically absorbed by household expenses rather than reinvested into the business. This cycle of subsistence prevents any meaningful accumulation of business assets.

Beyond capital constraints, women business owners frequently lack access to formal financial services. Banks and lending institutions often require a male guardian or property guarantor before extending credit to women, an effective barrier that excludes a large portion of potential borrowers from the formal economy. Without financing, there is no growth. Without growth, there is no economic empowerment.

Training and management education are also largely inaccessible to women entrepreneurs. Most have had no exposure to bookkeeping, business planning, or profit and loss management. Operating on intuition alone makes it difficult to identify inefficiencies, plan for the future, or adapt to market changes. The domestic burden further compounds this disadvantage – the responsibilities of childcare and household management consume time and energy that might otherwise be directed toward the business.

There is also a pronounced lack of product and service differentiation among women-run businesses. The majority sell the same goods – vegetables, fruit, snacks, and basic household items – in the same markets, competing on price alone. With no room to raise prices and no strategies to add value through packaging, branding, or additional services, profits remain consistently low. Market access is restricted to a single location, and without knowledge of or exposure to new technologies and marketing methods, expansion into new customer bases remains out of reach.

Taken together, these challenges paint a picture of a small business sector operating under enormous constraint. However, there is huge upside and potential in remedying this situation with legal reform, investment in financial infrastructure, targeted support programs for women entrepreneurs, workforce development, and regulatory oversight of utility monopolies. The entrepreneurial spirit is present, what is missing are the conditions that allow it to flourish.