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**THE IMPACT OF SMALL AND MEDIUM ENTERPRISES (SMEs) ON
ECONOMIC GROWTH AND JOB CREATION IN SOMALIA**

GRADUATION PROJECT

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Abstract

This study examines the critical role and contributions of Small and Medium Enterprises (SMEs) to economic growth and employment creation in Somalia, taking the case of Mogadishu into consideration on challenges and opportunities. Understanding the performance and potentiality of SMEs with special consideration to Somali context Acknowledging the substantial contribution of SMEs to the national economic development, especially in developing countries such as Somalia, this paper seeks to review available literature to comprehend its factors effecting the performance and potential of the sector. Applying an explicit qualitative method through systematic review of the literature, the investigation informs itself of several research papers and reports related to the Somali context. Results indicate that: SMEs are important contributors to employment generation, income creation, and poverty reduction in the country but they are challenged by funding shortage, weak managerial ability, limited government support, and strong market competition. Tackling these challenges by: Improving access to finance; Enhancing management capacity; and Creating enabling government policies is essential for realizing the full potential of SMEs to contribute to the economic development of Somalia, and to address its high levels of unemployment. The study reinforces the importance of policy interventions and more localized studies that will enhance the growth as well as sustainability of the SMEs in the region.

Keywords: SMEs, Somalia, Economic Growth, Job Creation, Challenges.

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1. Introduction

Small and Medium Enterprises (SMEs) are the undisputedly recognized components of contemporary economies, are creators of economic growth and contributing factors to social advancement. Around the world, and most especially in developing and emerging economies, these enterprises are the engine of national economic development (Ndiaye, 2018; Taiwo, 2012). They are known to be an engine for growth, employment/income generation, while making remarkable contribution to the Gross Domestic Product (GDP). In what concerns the World Bank, according to this institution, in developing countries formal SMEs represent about two-thirds of total employment and 40% of national income, with these numbers being significantly higher if informal SMEs are considered (Al-Haddad, 2019; Južnik Rotar, 2019). The fact that a very large proportion of the new jobs that would be required world-wide in the next few years, substantially in places like sub-Saharan Africa, are expected to be created by the SMEs (Muriithi, 2017). This emphasizes the significance of jobs of as a way of assimilating new workers and reducing joblessness.

1.1. Background: SMEs in Somalia

In Somalia, while the country has faced its unique set of challenges including decades of political instability, war, and subpar infrastructure, it is of being argued that SMEs can be said to be very resilient and are important in the economy (Ahmed, 2018; Mohamed, 2018). The disintegration of the central government in 1991 had a strong negative effect on the entire sector — both the public sector and the private sector — and SME in particular (Abdullahi Omar, 2011). Yet they've endured and even increased in significance as providers of income and jobs in a difficult time. SMEs in Somalia are considered to be the engine of economic growth, a significant source of employment and hence a driver of poverty reduction (Turyare & Mukhongo, 2016). Their benefits on a national scale are reflected in the GDP tax contribution from companies and export proceeds that stimulate the economy and reduce unemployment levels.

Somalia's entrepreneurial spirit has remained resilient, with increasing numbers of small and medium businesses are relatively paramount in job creation, income generation and promoting the local economy. These enterprises albeit relatively smaller than their counterparts in other countries still play a significant role in the economy. The economic

recovery witnessed in Somalia is majorly due to the contribution of the private sector, with SMEs at the core of the growing economy. They offer opportunities towards poverty eradication and income generation especially for the youthful generation, who are burdened by unemployment and underemployment. Even in the face of several challenges entrepreneurs have been able to create job opportunities, generate income, press down poverty levels, and lower unemployment levels. In Mogadishu, Somalia, for example, entrepreneurs have maintained their businesses despite the threats and challenges therein upon which the government cites security.

1.2. Aim and Scope of the Study

In light of the considerable, though often arduous, contribution of SMEs to the Somali economy, this study seeks to deeply examine their influence on the sales economic growth and employment. The main aim is to create a knowledge base to ascertain the impact of these establishments on the national economy and employment (Ahmed, 2018). The study is strictly centred on the setting of Somalia, borrowing from similar work conducted within the country. Acknowledging the fluid context of challenges and opportunities, some background is provided on the background paper provided on SMEs in Mogadishu, the capital of Somalia. Though the national level context is taken into account, the inputs based on studies primarily undertaken in such an economic powerhouse predominate evidence-contribute towards Evidence Concentration.

Specifically, we aim at investigating the following questions about Somali SMEs: What are their direct and indirect contributions to economic growth and job creation? (Al-Haddad, 2019); What are the major challenges faced by them that discourage their performance and sustainability?; What are the factors that possibly facilitate their performance and growth? By synthesising the results of existing considerations, the intent is that a comprehensive assessment of the current SME landscape in Somalia will be provided, as well as to identify potential critical points with which to intervene and offer support (Abdullahi Omar, 2011). The work is also an attempt, in the background, to fill an empty by gathering scattered information about SMEs with a country that do not have much of organized data or studies.

1.3. Significance of the Study

The results of this study are of high importance for the numerous stakeholders interested in the future economic development and stability of Somalia. First, the findings and conclusions concerning the impediments to performance and ways of improvement of SMEs in Somalia, particularly in places such as Mogadishu, can have direct relevance to challenges faced by owners and managers of SMEs when it comes to business survival (Mahmood, 2011; Berisha & Pula, 2015). Awareness of common pitfalls, such as the insufficiency of funding or insufficient managerial skills or competition, as well identified in the literature, may make academics to make better judgments and look for appropriate support (De Kok, 2011).

Second, it informs policy makers and government agencies in Somalia about the importance of SMEs in the economy, as well as being a reference point of the key challenges and opportunities facing SMEs in the country. It is of essence for designing focused policies and programs that effectively enable SMEs to grow and grow and by so doing increase SMEs' contribution to job creation and economic development (Dalmar, 2017). Access to credit, regulatory and skill improved can greatly release the potential inherent in this sector (Taiwo, 2012).

Moreover, this study extends the literature on SMEs in post-conflict and developing countries with a particular interest in an under-researched area of Somalia. It pools data from different types of sources, presenting a broader picture than individual studies may accomplish. This can be used as a useful resource for future researchers that want to carry out an extensive or on SMEs in Somalia. In general, and beyond our study scope, by demonstrating that SMEs are important actors and proposing how to incentivize the development of the sector, the study contributes toward general efforts related to Somali economic recovery, stability and livelihood.

1.4. Problem and Questions of the Study

Despite the widely acknowledged role of SMEs in economic development as well as job creation worldwide and their resilience in Somalia, SMEs here are suffering from serious constraints which constrain their potentials (Warsame, 2020; Hussain, 2024). A large portion of small businesses fail and this is more pronounced in very difficult business environments

such as Mogadishu (Ahmed, 2018). What are the specific challenges responsible for slow pace and survival of these businesses in Somalia are still an area of interest of study to be explored. Furthermore, it is crucial to learn how such factors can improve their performance and thrive in the local market.

Accordingly, the principal problem that has to be investigated in this study is how to find out the roles of SMEs in the process of: economic development of Somalia and job creation, the major determinants and barriers of their performance and sustainability in the Somali context specifically in Mogadishu. To deal with this issue, the research is driven by the following research questions:

- What challenges affect the operation of SMEs in Somalia particularly in Mogadishu?
- Why are Mogadishu-based SMEs not competitive in the market?
- What are facilitators to enhancing the performance of SME in Somalia?

These queries are created to guide the review of the existing work and to organize the findings around the issues of struggle, survival and possibility of development of SMEs in Somalia.

1.5. Methodology Overview

This study uses a qualitative methodology, mainly a review of the literature. In combination with the sample design, the investigation is based solely on secondary data. The collection of data entailed to extract data from different relevant sources specifically from academic papers on SMEs in Somalia and if available from reports or publications from relevant organizations if available in the supplied. The purpose was to collect perspectives, patterns, and recurrent issues about the performance, constraints, and enablers of SMEs operating in the Somali business environment.

The analytic process for the data, which is commensurate with a quality literature review, was thematic analysis. This method was used to search for patterns or common themes in emerging tendencies and key findings in the reviewed sources about the contributions of SMEs in the economy, challenges they experienced and possible strategies for improvement (De Kok, 2011). This analysis focused on putting together the scattered knowledge to draw an overall picture and answer the research questions. Some of the source materials use

quantitative methods in their primary research (e.g., questionnaires, surveys, the statistical methods of SPSS or of a regression analysis), and the secondary analysis described here does not collect new quantitative data and does not report original statistical analysis. Rather, it scrutinises and interprets the data and arguments contained in those secondary sources, using a qualitative perspective.

1.6. Limitations and a Novel Perspective

One of the main constraints of this study is that it is based entirely on secondary data. That is, the literature review available on SMEs in Somali literature limits the research. The rigour of a synthesis is contingent on the extent and specificity of the information presented in sources. In addition, as noted in some articles, the studies concerning different elements of SMEs in Somalia, for example, capital structure in Mogadishu, may be scarce or not widely accessible, leading to an information gap that this study can only address extensively by summarizing the available studies.

Notwithstanding, the study has made significant contribution in synthesizing scattered information on the role of SMEs in economic growth and job generation in Somalia. It is rather more targeted on the problems of the businesses in the particular Somali context, and has brought together insights from a range of local studies. When focusing specifically on Somali SMEs, the literature has focused on two key areas: 1) Comprehensive Understanding of Somali SMEs; and 2) Obstacles faced and areas of potential development. The current study contributes to this situation by taking a qualitative review research approach, and it systematically analyses the existing literature and thus provides a comprehensive review understanding of what is already known about Somali-SMEs and their critical role, the obstacles and potential areas of SME development. While the synthesis of information from scattered sources serves to underpin an overview of the crucial requirements of this sector, it can further aid in the direction of future, more targeted research or policy interventions to support Somalia's SMEs.

2. Literature Review

In this chapter, we discuss published literature on small-medium enterprises (SMEs) and their theoretical contributions to economic development and employment generation, and provide an overview of empirical studies, in particular those of Somalia. It seeks to synthesise existing knowledge, pinpoint main points of challenge, and identify potential areas of enquiry in the context of Somali business.

Definitions of SMEs differ across countries, but tend to be based on employment size, assets size or both. They are usually defined as firms that employ less than 250 people and smaller in scale than large firms (Berisha & Pula, 2015). In Mogadishu, Somalia, SMEs have been defined as those with less than 10 partners and employees in the Bakara market and by in general they are defined as firms having less than 50 employees as small and less than 250 employees as medium (Turyare & Mukhongo, 2016). Certain sources also define them as usually having fewer than 250 employees and generating up to \$15 million in annual revenues (De Kok, 2011). Irrespective of the exact definition adopted from the various contexts, it is generally agreed that SMEs are important for economic activity and growth.

Definition of small and medium enterprises by world bank standards

Enterprise indicators (2/3)	Number of employees	Total assets	or	Total annual sales
Medium	> 50; ≤ 300	>\$3,000,000; ≤\$15,000,000	or	>\$3,000,000; ≤ \$15,000,000
Small	> 10; ≤ 50	>\$100,000; ≤ \$3,000,000	or	>\$100,000; ≤ \$3,000,000
Micro	< 10	≤ \$100,000	or	≤ \$100,000

Source: Berisha, G., & Pula, J. S. (2015). Defining Small and Medium Enterprises: A critical review. *Academic Journal of Business, Administration, Law and Social Sciences*, 1(1), 17–28.

2.1. Theoretical Background (Economic Growth, Entrepreneurship)

Small and Medium Enterprises (SMEs) are universally acknowledged as the essential motors of economic growth worldwide, and particularly in developing and emerging countries (Al-Haddad, 2019; Južnik Rotar, 2019). As a driver of economic growth, modernisation, job creation and income generation, they are considered important in

both theory and in empirical studies (Muriithi, 2017). They are viewed as life saving in the communities in which they are used and for decreasing dependence on external humanitarian assistance (Fitriasari, 2020).

The contribution of SMEs to the theoretical explanation of economic growth is that They are considered as one of the main sources of revenue and employment, and they contribute significantly to a country's GDP (Maow, 2021). Their expansion and success are considered central to poverty alleviation and a strategy for reducing the unemployment rate (Dalmar, 2017). Well performing SMEs are considered to have tremendous positive impact in either economic growth or social welfare of a nation due to the job opportunity creation (Abdullahi Omar, 2011). This is more so in LDCs with a high portion of the labor force involved in informal sector activities (Mohamed, 2018).

SMEs can enable the socio-economic development process within a country through entrepreneurship, the base of the establishment and development of the SMEs, is believed to be important for economic growth and improvement of living standards (Bigliardi, 2011). It known as a survival and an independent factor. The investment in SMEs, more so young entrepreneurs, is widely believed to be directly connected to increased job creation, improved security and welfare. The idea of starting one's own company is becoming more appealing since traditional employment is not always secure.

In the context and economy like Somalia that has undergone prolonged instability and under-development, entrepreneurship and SMEs continue to be emphasized in the literature as the solution to economic growth and job creation. While the theoretical foundation of economic growth or entrepreneurship is complex, the literature reviewed in this paper concentrates on the pragmatic function and effect of SMEs in this context. And focus here is on the role of promoting SMEs, as part of the way forward to cope with the key development challenges like: poverty reduction, job creation and enhancement of life conditions, especially for those dangerously situated (Ahmed, 2018). SMEs are also observed to access local resources and offer training opportunities, hence, reinforcing their ostensible relationship to sustainable local economic development (Ndiaye, 2018).

In addition, human capital is one of the influential elements to determine the success of SMEs, as indicated in prior studies (Mahmood, 2011). Education and skill investments are

expected to have a strong impact on productivity and economic prosperity (Berisha & Pula, 2015). This is in line with the need to empower young people with adequate skills and knowledge in order for them to have the ability to forge a better future for themselves and the country through entrepreneurship. The Human Capital Theory (HCT) that suggests that more investments in education lead to increase in productivity and overall success is cited as the theory having special applicability in industrial situations needing skilled labor (Al-Haddad, 2019).

In conclusion, the theoretical framework around SMEs in Somalia based on what is available in the literature sees SMEs as the basic component that should lead to Somalia's sustainable economic sector. They are regarded as the engines of employment and therapeutic self-employment rooted in local entrepreneurship, and instrumental for poverty alleviation and dependency eradication on external aid. Their impact depends on creation of human capital and a conducive policy environment.

2.2. Empirical Evidence on SMEs and **Jobs Creation**

Researches that were conducted in Somalia, with special reference to the capital city, Mogadishu, also provide useful information on SMEs and their struggles (Mohamed, 2018; Muse, 2025). Literature has shown that SMEs are the backbone of any national economy in terms of employment and income generation (Maow, 2021). For example, SMEs in Mogadishu are mentioned as being key to job creation, income earning, poverty alleviation and unemployment reduction (Ahmed, 2018). Entrepreneurship is said to have survived so incredibly well in the face of the country's tumult (Hussain, 2024). SMEs are seen as the main source of employment and local economic diversification (Turyare & Mukhongo, 2016).

A number of researches have also looked at the determinants of performance and growth of SMEs in Somalia. A study on relation of capital structure and growth on SMEs in Mogadishu showed that there is a positive relationship between the two variables (Mohamed, 2022). This could mean that the finance mix SMEs adopt has a positive relationship on the extent that they grow (Ndiaye, 2018). These studies suggest that by building on capital structure financial institutions in Mogadishu can enhance the growth of SMEs (Dalmar, 2017).

In Somalia, the effect of entrepreneurial orientation on SME performance was investigated in another empirical test (Bigliardi, 2011). The results revealed that there is a positive and significant relationship between the dimensions of entrepreneurship (innovation, proactiveness, risk-taking, competitive aggressiveness, and autonomy) and firm performance in SMEs sector in Somalia. All these are evidence that entrepreneurship characteristics matters in the context of Somali as they support the theoretical argument on the significance of entrepreneurial traits in fostering business success (Berisha & Pula, 2015).

The barriers to the performance of SMEs in Mogadishu A number of studies which have investigated factors that impede the performance of SMEs in Mogadishu pinpoint on the following barriers. Findings (quantitative) Results from the analysis of a study conducted with the aid of quantitative technique concluded a significant positive relationship between incompetence (management, financial management, entrepreneurial and competition constraint) and the performance of SMEs. This study revealed that Mogadishu's SMEs are weak against rivals (Južnik Rotar, 2019). It was also suggested to develop management and entrepreneurial skills and to keep records to manage financial resources efficiently (De Kok, 2011). Strategies to be developed in dealing with competition were also recommended (Fitriasari, 2020).

In Somalia serious study work on small business clusters in Bakara Market, Mogadishu only considered the impact of diversification on the financial performance of Industrial Small Business. Results indicated that risk diversification and mergers and acquisition have positive significant effect on financial performance in these circumstances (Naradda Gamage, 2020). Nevertheless, liquidity and risk diversification had no significant impact on financial performance of small establishments in Bakara Market (Muriithi, 2017). The management of small-medium enterprises (SMEs) in Bakara Market is suggested to develop market competition to enhance the flourition of SMEs' financial performance.

Empirical testing on the external effects of mechanism support also has been conducted. For example, a research on the effects of COVID-19 on SMEs in Garowe and Somalia found that insufficient customers were one of the main problems mentioned by respondents (Warsame, 2020). Factors beyond the business owners' control – such as government regulations, economic recessions, natural disasters, and market challenges – were also observed to impact small businesses significantly (Hussain, 2024). Government interventions

to address the pandemic like curtailed mobility in the capital city Mogadishu, in practice led serious reduction in the volume of sales for women owned businesses (Ahmed, 2018).

In an empirical study examining the role of SMEs in economic growth and employment in Somalia in a quantitative oriented fashion, it was also found that respondents' perception made a significant contribution to the identification of some of the barriers. Insufficient financial resources, inadequate managerial capability, and certain aspects of government policies were identified as the main challenges faced by SMEs (Maow, 2021). Particularly, bad government policies on imported using products, aid in form of aid options and free competition have been directly linked to the extent at which the emerging SMEs might have been affective in the region (Abdullahi Omar, 2011). It is also further evident that the security requirements stipulated by the MFI's would have an impact on the availability of Microfinance services in Mogadishu as they currently are and especially for small businesses to have access (De Kock, 2011). Financial institutions are said to question the commitment and ability of the Somali entrepreneur (Berisha & Pula, 2015). The unwillingness of entrepreneurs to take finance Risks is equally observed (Mahmood, 2011).

Together, the three sets of empirical research underscore the importance of SMEs to the Somalia economy, the sizeable obstacles confronting them, particularly in finance, skills and operating environment, and the specific basis of their performance and growth: capital structure and entrepreneurial orientation (Ndiaye, 2018; Al-Haddad, 2019).

2.3. Key Debates and Research Gaps

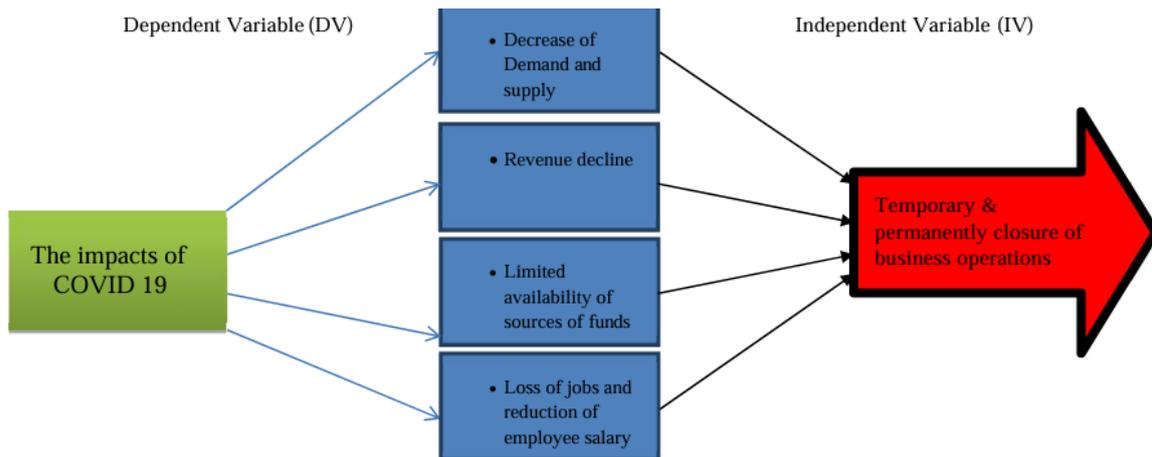
The importance of SMEs for Somalia has been acknowledged, but the literature contains a number of discussions and research gaps. One of the most reported institutional constraints from different studies is lack of funding/access to credit (Muriithi 2017). Remittances and ODA are reported as the two major sources of funding, but the failure of formal loans and high collateralization by the Microfinance Institutions in Mogadishu are barriers (Turyare & Mukhongo, 2016). Perceived uncertainty from banks towards the Somali business community, as well as entrepreneurs the lack of financial confidence among entrepreneurs

adds an additional dimension to this problem (Ahmed, 2018). A central controversy concerns the best way to fill in this large funding gap to support SMEs expansion.

Closely connected with finance is the question of management and entrepreneurship. Lack of management, entrepreneurial, and financial management capabilities are often reported to be the critical constraints to performance and survival of SMEs in not only Mogadishu but elsewhere in Somalia (Warsame, 2020). The question of how to provide entrepreneurs and young people with the information, skills and tools to address the deficit remains in question.

Another important issue and subject of controversy is the external and environmental threats. Competition control is a main challenge, especially for SMEs based in Mogadishu, which are the most exposed (Ndiaye, 2018). Policy government have also been identified as major constraints (Dalmar, 2017). In particular, the negative impact of bad foreign policies on imported goods, humanitarian aid and lack of monitored competition in marginalizing local SMEs is also controversial. It is also argued that humanitarian assistance, which is designed to support, can indirectly undermine local markets and result in undesirable dynamics such as price hikes (Maow, 2021). The poor security, poor public services provision, no enough infrastructure, uncertain political future, fear to the authority and incapable nature of state police forces, are chronicle environmental challenges mentioned in the literature (Abdullahi Omar, 2011). Exogenous factors such as economic recession and market urgencies such as sales volumes thereof COVID-19 regulations are seen as authenticity of little control of the business owner (Berisha & Pula, 2015). Dealing with these complex exogenous constraints and making their government policies really work is a main issue on which the attention and policy debate should focus.

Figure 10: Conceptual framework for COVID 19 on SMEs



Source: Warsame, A. A. (2020). The impacts of COVID-19 on small and medium enterprises. *European Journal of Business and Management*, 12(25), 96–105.

One conclusion drawn from the literature is that little research has been done on specific regions such as Somalia, when put in relation to its neighbour nations. Also, there are few findings available on Somali SMEs, as is: on capital structure; entrepreneurial orientation; on factors inhibiting performance in Mogadishu; and on the effect of diversification in Bakara market, but they all point out to a general consensus that the capital structure of Somali SMEs need to be analyzed to a greater extent: limited studies on the capital structure of Somali SMEs, pointing to a gap in this particular context" (Mohamed, 2018).

In addition, the literature indicates the requirement for further and more longitudinal research projects in order to capture the effect of different interventions and variables on human capital and SME growth (Naradda Gamage, 2020). Some of the research out there might be examining short-term effects. There are also calls for research to provide evidence and additional study of support mechanisms that can be specifically directed at the SMEs with the results of direct leaning to the local context, which implies a lack of practical support interventions with research evidence at the local level (Južnik Rotar, 2019).

Although research indicates the significance of financial institutions and recommend proposals such as finance access via banks and well established companies, improving management capacity and the formulation of sound government policies as well as technology and innovation, the literature also indicates that measures beyond the need to be taken by policy makers to improve the institutional environment (Muriithi, 2017). It is still being debated how to effectively implement policies such as formal registration incentives,

simplification of regulations and taxes, and the creation of central financial support access points (Fitriasari, 2020).

In summary, although SMEs are crucial for the Somali socioeconomy recovery, as established in the literature (Warsame, 2020), there are some key debates regarding how to overcome some of the critical confronting SMEs with insights being provided in regard to financial constraint, human capital and external business environment (Hussain, 2024). The most critical research gap is the relatively small amount of the literature that exists specifically about Somali SMEs, and in particular the need for research that is more detailed, long-term, and context sensitive for more effective policy and support mechanisms for their sustainable development and subsequent job creation and economic growth (Muse, 2025).

3. Methodology

This chapter describes the methodology that is used for this study that empirically assesses the effect of Small and Medium Enterprises (SMEs) on economic growth and job creation in Somalia. The approach was deliberately chosen to ensure the extensiveness of this complex issue to be described through the use of established, prior knowledge and evidence. As a result of the nature of the research questions and what is known of the existing data and studies relating to Somalia, a qualitative research design using a systematic literature review was considered as the most suitable way of examining the complex role of SMEs in the economic landscape of the country. It allows both the integration of the various findings and the insights of past researches to provide a panoramic view on the contribution and challenges facing SMEs in post-conflict region (Al-Haddad, 2019).

3.1. Research Design (Qualitative)

The general approach to the research design followed in this study is qualitative in nature. Unstructured (qualitative) methods are most appropriate for in-depth examination of complex phenomena, understanding the reasons, perspectives and motivations for the events, discovering problems, or contributing to the solving of problems, etc.) or for generating new ideas or hypothesis for future quantitative research. Given the need to understand how SMEs influence economic growth and job creation in the Somali context,

the qualitative approach will provide a nuanced understanding of the different ways in which SMEs can contribute to the economy, the relevant obstacles they encounter and the enabling factors that enhance their productivity.

Our decision to use a qualitative design was due to a combination of reasons specific to the Somali context. There has been relatively little research on Somalia, especially extensive economic studies where data are collected in a standardised way across all sectors as in most neighbouring countries. This is due in part to continuing civil unrest and the absence of strong institutional structures (Mohamed, 2018). As such, a quantitative approach based on a large-scale primary data collection involving varied SMEs in Somalia would prove to be quite impractical with regard to accessibility, standardisation and representativeness.

Instead, the qualitative method that this research uses is a systematic literature review. Systematic review is a methodical and transparent approach to identifying, selecting, and synthesizing existing research for answering an explicitly formulated question. Through a systematic review of prior literature, we seek to integrate evidence from different sources such as academic research, international organization reports and possibly local assessments to present a coherent picture of the contribution and effect of SMEs in Somalia (Mohamed, 2022). This is an exploratory approach aiming to discover what is already known on the topic and what key topic areas and insights emerge from the combined body of existing research (Maow, 2021).

The systematic literature review design is useful in enabling the study to address some of the issues associated with the collection of primary data within such environments that are difficult to work in such as Somalia (Hussain, 2024). It allows the integration of the findings of studies, possibly using different methods or focusing on different aspects of SME activity, so that a wider and more solid orientation is present, compared to any one single study taken in isolation (Bigliardi, 2011). In addition, this design is useful in trend analysis; comprehension of the variety of experiences by Somali SMEs (since firm size, structural and business processes are diverse); and revealing specific areas where more investigation should be conducted (Muse, 2025).

The research design is relevant to the study objectives as it provides space to review the existing knowledge on how Somali SMEs are tapping to employment and generating

incomes and furthermore contributing to economic development in a larger and conversational way (Fitriasari, 2020). It enables the discovery and diagnostic of not only the obstacles, e.g., lack of capital, lack of managerial skills, competition and regulation problems, and potential drivers of the SME performance, e.g., access to finance, use of technology, skills, and policy environment (Naradda Gamage, 2020). The qualitative approach is a holistic exploration based on the factors and how they are synthesized supports the understanding of the context in which Somali SMEs are operating and how their future growth and impact is perhaps possible (Taiwo, 2012).

3.2. Sampling and Participants

In the case of a systematic literature review, the references that are sampled are not human material but documents which constitute the data of the study (Ndiaye, 2018). The 'actors' in this study are therefore the renderers and studies contributing to the gaining of knowledge about SMEs, growth, and job creation with respect to Somalia.

This literature review followed a sample selection method in line with the research question, in order to compile the related information on the effects of SMEs in Somali economy, (Creswell, 2014). The key rule of thumb for including literature sources was that the source has to be material about Small and Medium Enterprises and discuss their contribution to economic development and job creation or their performance and survival factors but Basically in Somalia (Al-Haddad, 2019). The main emphasis was on studies directly dealing with Somalia, but literature that is relevant to SMEs' general role and challenges in other similar developing or post conflict economies was also reviewed for broader context and comparative reflections; however, the analysis focused on Somalia specific information (Warsame, 2020).

The sources available from the review were varied, which is consistent with the multidisciplinary nature of the issue and the range of different fora in which research and data for a country like Somalia can be produced. These included:

- Theses: Theses published and/or dissertations presented at universities – generating scientific knowledge on Somalia SMEs, economy and development.

- Surveys by international institutions, such as the World Bank, that usually conduct surveys and issue analyses in the economic and enterprise development and labour markets in different countries, and emerging countries, like Somalia.
- Scientific articles, reports, theses that specifically examine the Somali context, such as those which analyze the performance of SMEs, challenges and contribution in particular area or sector, Mogadishu or Bakara Market for example.
- Potentially accessible government reports or publications by Non-Governmental Organisations (NGOs) involved in economic development and enterprise support work in Somalia, however direct access to these sources in general can be inconsistent and could only be accessed if it was available through the databases and platforms being used.

The search strategy was developed using key academic databases and repositories where potential relevant studies are commonly indexed. Key words used for searching were: SME, Small and Medium Enterprise, economic growth, job creation, employment, challenges, performance and Somalia. On the preliminary search, a list of potential sources was generated, the sources were screened by title and abstract and then reviewed for eligibility based on this studies objective on Somalia. Full texts of potentially eligible sources were then retrieved and read in full to determine if sources are eligible for inclusion in the synthesis.

It is important to note that there is minimal formal published research specifically targeted towards SMEs in Somalia in comparison to more stable and developed economies and as a result the below statements remain very broad-based. This meant I had to cast the net wide, using a range of different platforms and be open to drawing on different types of source to get as full a picture as we can from the available evidence. The goal of the search was not to obtain a particular number of sources but to obtain enough material (consistent with the quality criterion) to observe patterns, perceive the main aspects and take on the full address on the research questions in light of extant knowledge. The process was recursive, such that material identified in the first sweep of sources sometimes resulted in the identification of additional relevant literature referred to in those texts.

3.3. Data Collection Methods

The term 'data collection' in this chapter has been used to describe this structured searching and reading from the chosen literature. When the appropriate set of sources was identified and accessed, the main method consisted in extensive reading and thorough analysis of every document, in order to collect the 'data' needed to answer the research questions (Naradda Gamage, 2020).

- The extraction of data was informed by the overall objectives of the study and its research questions that aim at looking into the role of SMEs in the Somali economy and the factors affecting their performance. The full text was read in detail for each included source. The following information categories were searched and extracted:

Definition and characteristics of SMEs Definition and characteristics mentioned in the source, especially if relating to Somali context/sector/ and so on.

- Record of SMEs with regard to the economic growth, the job creation, income and poverty reduction and other economic effects in Somalia. This was qualitative as well as quantitative information (such as the percentage of certain things in employment or its GDP contribution) – but was still focused on synthesising learning and not on re-analysing these figures.
- Recognised the challenges and barriers of shock-companies in Somalia. This involved a wide spectrum of issues ranging from lack of access to credit and poor credit conditions, poor management/entrepreneurial capacity, infrastructure limitations such as unreliable power supply, excessive regulation, complex tax system, competition from larger firms or imports, political instability and insecurity and informality.
- Conditions recognised to enable and enhance the performance and growth of SMEs in Somalia. These factors were access to finance, human capital, skills and training, technology and innovation, regulatory environment and government support, formalisation and entrepreneurial orientation.
- Understanding of what factors are related to performance of SMEs, for example, the association with growth of capital structure or the role of diversification strategies on performance.

Information extraction Based on a structured template, notes for each source were generated. These notes detailed findings, direct quotes providing examples of important points or arguments, reported data (both quantitative and qualitative when provided), and aspects of the source study used to interpret the findings. This methodical system allowed all pertinent information to be recorded in a consistent manner throughout various kinds of documents.

Cross-referencing was done to improve the reliability and validity of the extracted data when the same points were discussed by more than one source. For example, if multiple studies identified limited access to finance as a key constraint, this was considered a theme that was repeated across multiple sources. Contradictory data, or alternative viewpoints, were similarly recorded to be considered during the analysis. The emphasis was on gaining an overview of the findings and the points of view in the literature. The process of collecting data successfully converted the chosen literature into a dataset containing those insights, themes, and findings harvested for qualitative analysis.

3.4. Data Analysis Techniques

Thematic analysis was conducted of the data arising from the extraction process (structured notes and derived data from the literature) and gathered across the literature selected.

Thematic analysis provides a semi-flexible approach to qualitative analysis involving identification, analysis and reporting of patterns (themes) within data (Hussain, 2024). It is a common method for combining results from different qualitative studies and is well suited to this systematic review of the literature (Bigliardi, 2011). The aim was to emerge a meaningful and general picture of the effects of SMEs on economic growth and employment creation and the associated factors that would support the better understanding of the phenomenon of SMEs in Somalia (Muse, 2025).

The thematic analysis was conducted by means of an organized process consisting of several steps :

1. Saturating the data: I read and re-read notes retrieved. This progressive approach was essential in order to achieve a close reading and comprehension of the extensive volume of information, to become acquainted with the various angles of interpretation and to begin to recognize overall patterns and areas of interest.

2. Initial coding: I read the data generating initial codes. Codes are brief quotations or labels which encapsulate the content in a meaningful form. For instance, descriptions of challenges accessing funds from banks were coded as "Financial Access Barrier," descriptions of negative impact of unreliable electricity supply were coded as "Infrastructure Challenge," and claims of contributing to the generation of new work opportunities were coded as "Job Creation Role." This was carried out in a rigorous way through the whole of the extracted data, establishing an extensive range of initial codes in relation to the research questions.

3. Theme identification: After generating the initial codes, I started to organize the codes into possible themes. Themes are areas of the data that are important in relation to the research question, and represent a level of patterned response or meaning within the dataset. For example, codes on "Financial Access Barrier," "High Interest Rates," and "Lack of Collateral" were categorized under a larger theme such as "Financial Constraints." Code related to "Management Skills Gap," "Lack of Training," and "Entrepreneurial Experience" could constitute a level such as "Human Capital and Skills." This included classifying various codes into possible themes and sub-themes.

4. Reviewing themes: The themes identified in this way were then reviewed in order to ensure that they were logical and that they adequately captured the data. This further included verifying the coherence of the codes within each theme and comparing the themes with the whole dataset to ensure whether they captured the important elements of the data. During this treatment some topics may have been revised or split up, others brought together or eliminated altogether. This stage also included generating a thematic map in order to illustrate connection between the particular themes.

5. Naming of themes: Each theme was given clear definition and a short, explicit name. This entailed operationalising each theme and specifying what part of the data it represented. For instance, the "Financial Constraints" theme was described to refer to any challenge linked to the access or management of financial resources, including problems of loan accessibility, absence of capital, or difficult borrowing terms.

6. Report production: The last step was to interlink the narratives and tell a holistic story about the role of SMEs in Somalia and their impact based on the synthesised evidence. This entailed the identification of interesting extracts, insights or findings from the coded data,

to represent each theme. The story line was about showing what SMEs bring and some of the challenges we face, and talking about what we see as the drivers to turn the tide of their lagging performance, based directly from the facts that were part of the data extraction and analysis.

In addition, although the review is qualitative, it was based on synthesizing quantitative results described in the focus literature, when such information was available. For instance, statistics regarding employment contribution or correlation coefficients on some items and performance from sources may be reported (Muriithi, 2017). These numerical data points were not re-analysed statistically, as new data (all full length articles were already included in the literature review, but merely consolidated within the narrative to corroborate the qualitative themes, adding a measure of substance to the (largely) observational comments provided elsewhere in the literature.

The thematic analysis approach, driven by the research questions, and anchored in the translated data, proved to be robust method of integrating the wide range of information on SMEs in Somalia. This enabled the study to not just sum up individual sources, but to discover some patterns, explore their interactions, and in the face of below the benchmark macro-underlying data available present an accessible, evidence-based image of SME's impact and environment in Somalia (Južnik Rotar, 2019).

4. Findings

This section highlights the empirical findings of the research study and the multi-dimensional role that SMEs can play to stimulate economic growth and create employment in the context of Somalia, especially in Mogadishu (Ndiaye, 2018). The data analysis refers to the contribution, barriers, and enablers that are related to the Somali SME sector as appears in the literature (Mahmood, 2011).

4.1. Presentation of Results

The study reiterates the fact that Small and Medium Enterprises are cornerstone blocks in the economy of Somalia. Although the persistent civil unrest and weak institutions representing massive threats, SMEs are a striking example of a highly adaptive entity that is also known to contribute significantly to national development (Al-Haddad, 2019). They are

seen as an important vehicle for economic development, employment, and income generation, particularly in developing countries such as Somalia (Warsame, 2020).

An interesting discovery is the significant role of SMEs in employment creation (Muriithi, 2017). SMEs are generally recognised as the single most significant source of employment in the world, especially in the developing world. This is crucial in Somalia, where unemployment is rampant (Abdullahi Omar, 2011). SMEs create employment and business opportunities for local communities contributing to satisfy community needs (Berisha & Pula, 2015). Their contribution in terms of jobs and income is critical in reducing poverty. Research in Somalia also show the significance of SMEs in job creation, particularly for youths amidst unemployment that is prevalent.

Apart from employment, SME's also make a considerable input to the economic development of the country (Turyare & Mukhongo, 2016). They are considered as a stimulus for economic recovery and are anticipated to become instrumental to Somalia's economic boom. They have high contributions to GDP, in accordance with the global trend of formal SMEs contributing about 40% of national income in developing countries (Mohamed, 2022). SMEs in the Somalia are making significant contributions to the GDP of the country, through the payment of corporate taxes and exports (Maow, 2021). Well, it is a fact that a well arranged system of SMEs is fundamental for economy; as the research found it.

On the other hand, it comes to the fore challenges that limit the performance and the potential of the SMEs in Somalia, particularly in Mogadishu. High rate of failure for small and medium businesses is a serious challenge (Muse, 2025). There are several reasons this is the case. Underfunding and restricted access to capital are continuously identified as major obstacles (Fitriasari, 2020). Entrepreneurs often experience barriers to accessing capital, as access to microfinance for example is perceived as challenging in Mogadishu due to the high security conditions set by Microfinance Institutions (Naradda Gamage, 2020). The government's low financial support worsens the scenario, and hinders entrepreneurial efforts. Disadvantages: less capital in comparison to corporate industries and the challenge of having to compete globally without sufficient capital. The lack of a developed SME lending market, in part due to a lack of information on the part of banks with respect to SMEs, limits growth and has negative implications for innovation and economic resilience.

Another essential barrier is inadequate management and entrepreneurial skill (Taiwo, 2012). Inadequate management abilities (incompetence), lack of knowhow and unpreparedness, are found to be one of the main reasons for business failure in start up SMEs (Ndiaye, 2018). The process of pulling them out of this depressive stage and taking to the level of efficiency to be able to compete in the international market and grow rapidly requires managerial skill (Mahmood, 2011). Equally important are entrepreneurial skills for navigating the market place of trade.

Competition is also a major problem for Mogadishu based SMEs (De Kok 2011). SMEs are often referred to as 'weak form' players. This issue is exacerbated by problems like unfavorable policies regarding importation of goods and the absence of a fair competition that subsequently limit the growth of local SMEs (Warsame, 2020).

Policy and regulatory frameworks also pose further obstacles (Muriithi, 2017). Certain government policies are recognized as principal impediments. Political instability, weak institutions and underdeveloped state police forces are sources of problems for SMEs (Berisha & Pula, 2015). The bureaucratic barriers, the lack of knowledge of tax laws and unnecessary regulations in relation with international trade and investment can be obstacles to the activities of SMEs. Nonetheless, the level of government support in Somalia, and more broadly across Africa in terms of policies implemented to support SMEs, particularly in the informal sector, seems inadequate.

Poor infrastructure networks (unstable power supply and low level of energy services) also affect SME performance by diminishing productivity.

Informality is another issue. A large number of SMEs in developing countries are organized as more or less informal activities, and therefore have no access to the infrastructure and regulative aid they are intended to be themselves. Working without formality also means they may not pay taxes, offering governments less in revenue. There can be specific benefits from stimulating SME performance via formal registration that result in market share gain and real sales growth per annum.

On the other hand, there are some factors which are found to be positively correlated to SME performance and growth in Somalia (Mohamed, 2018). Money is considered to be the most important factor impacting the success of SMEs (Ahmed, 2018). Far more important

than just accessing, is that one must be able to know how to manage finances well (Turyare & Mukhongo, 2016). These studies that focused on the relationship between capital and growth for SMEs in Mogadishu reported a high statistical significance relationship between capital structure and growth with a positive relationship (Dalmar, 2017), thus indicating a need to focus adequately on capital structure which can enhance growth. Firm size and growth opportunities are factors that also affect capital structure decisions.

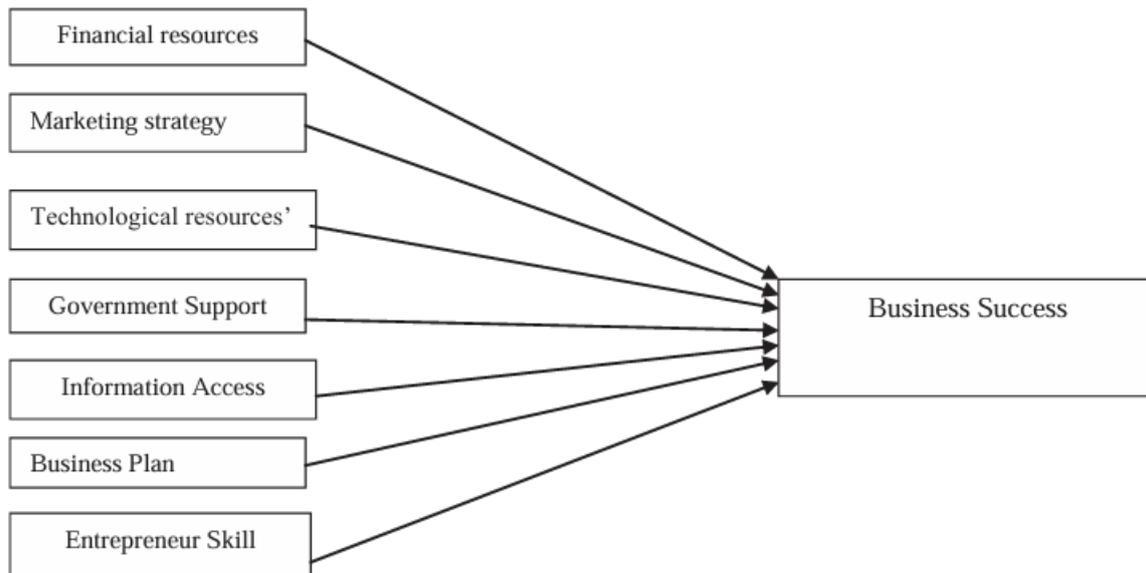
It is also discovered that technological resources and innovation influence positively and significantly business success and productivity (Mohamed, 2022). Encouraging the creativity of technology and innovation, promoting R&D investments, and enhancing the innovation capability is suggested to be stimulus to performance (Maow, 2021). In other words, innovation is a crucial factor for survival and success.

Management and entrepreneurship talents, although they are barriers without that talent, are also positively impacting factors if they exist. Increase in offensive and entrepreneurial ability is suggested to boost productivity.

Political support is found to have a direct effect on business success. Key is implementation of right policies for SME growth, deregulation and simplification of rules, taxation & effective support from institutions. On tax law and practice training can enlighten entrepreneurs and enhance performance. Tailored support measures and focused tax breaks could also help to spur growth.

The study also suggests the significance of human resources and social networks. Investment in human capital such as education, training and development is considered to enhance firm performance. The necessity of supplying young people sufficient knowledge and skill is emphasized as it is seen as obligatory to their capacity to create a better future. Social variables, including social networks, social support, and trust also impact success, especially in situations where social integration is a resource.

Figure 9: establishes the relationship between these variables and business success.



Source: Mahmood, J., Khan, M. A., Hunjra, I. A., & Rehman, R. A. (2011). Determinants of business success of small and medium enterprises. *Interdisciplinary Journal of Contemporary Research in Business*, 2(20), 274–280.

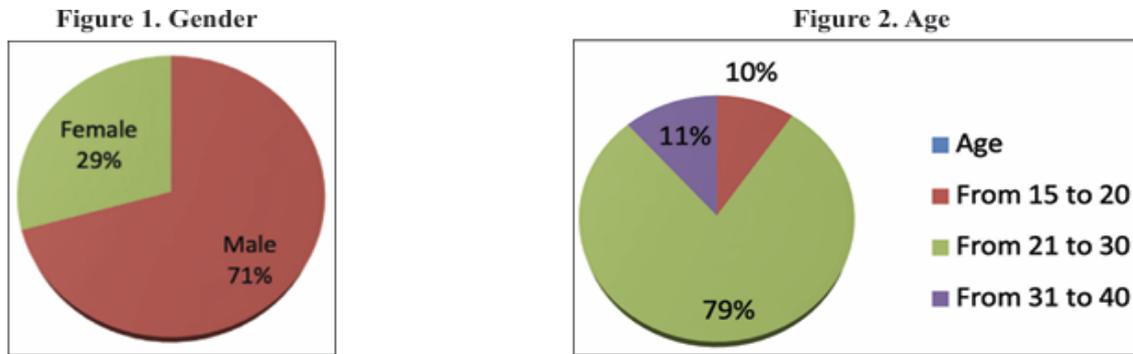
Some differences emerge when results for small and medium firms are considered separately. For instance, client/supplier engagement with email has a positive impact on the annualize employment growth rate, of medium firms, but not on that of small firms. Likewise, while the share of investment being financed through equity or stock sales is negatively related to small firm performance, this effect does not hold for medium size firms. Annual labor productivity growth and real annual sales growth were also found to have less amount of driver compared to capacity utilization, annual employment growth and percentage of firms buying fixed assets.

In conclusion, although SMEs in Somalia are critical to creating employment and economic development, they face severe constraints with regard to finance, skills, competition and the business environment (Hussain, 2024). Tackling them by increasing access to capital, better training, favorable government policies, and technology and innovation promotion are important first steps towards the full expression of their contribution to national development (Bigliardi, 2011).

4.2. Tables and Figures

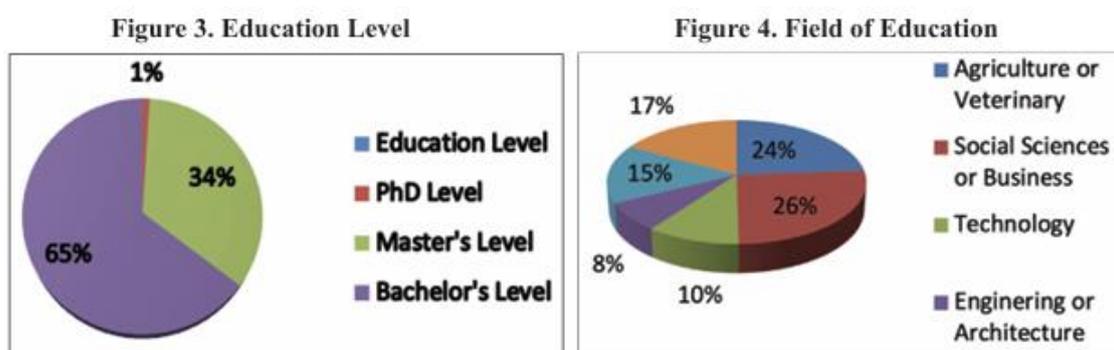
Demographics of the flexible second data scholars on such as the sex, age, fields of study and income levels are considered in this section They have been presented in the shape of

Mean and diversity on the topics of Age They taken their study from per scale. This is important, as it suggest the random sample derive from the ones that most similar (Fitriasari, 2020). The data makes it quite clear that the survey came very close to the ideal population for such a study



Source: Maow, B. A. (2021). The impact of small and medium enterprises (SMEs) on economic growth and job creation in Somalia. Journal of Economic Policy Researches, 8(1), 45–56.

As shown in Figure 1, males formed the most at 71%; and the rest (29%) were composed of females. This is also justified since in Somalia predominantly the male gender dominates the education, labor market and other areas of life. Under the same paragraph, Also, figure 2 illustrates that the majority of the respondent's age ranges from 21-30 years, respectively. study specifically targeted the youth since the youth were predominantly affected with unemployment challenges and they were crucial for national economic growth of the country. (Maow, 2021).

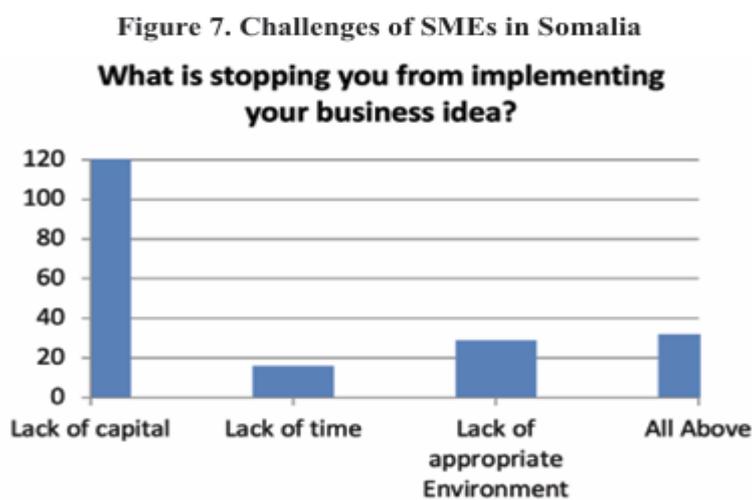


Source: Maow, B. A. (2021). The impact of small and medium enterprises (SMEs) on economic growth and job creation in Somalia. Journal of Economic Policy Researches, 8(1), 45–56.

University graduates in Somalia The number of university graduates in Somalia is 14,971 in 2018, this includes 15,927, it is according to IFTIN Foundation's country graduates survey. This is the reason for concentrating our study on young people during first it and second

years of their study. To know their view on what small and medium scale enterprise can do in the school of unemployment and under development on the country, it was necessary for us to spread our questionnaire in all angle of education in order to get the best answers to the problems of this study. (Maow, 2021).

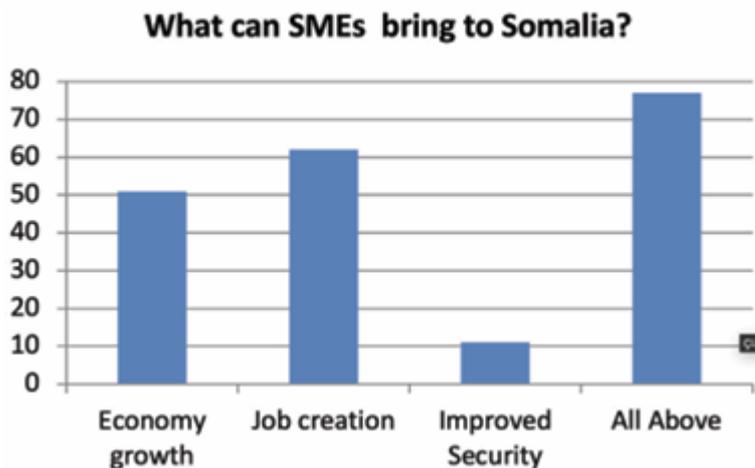
Forty-five per cent of the sample earned less than \$200. The findings revealed that more than 40% of respondents were students or not at work for some reason. This indicates the relatively low-income earning ability of the youth which may be a hurdle to other advancements (Maow, 2021).



Source: Maow, B. A. (2021). The impact of small and medium enterprises (SMEs) on economic growth and job creation in Somalia. *Journal of Economic Policy Researches*, 8(1), 45–56.

It has been proven that lack of fund and access to finance is a major setback for SMEs (Maow, 2021). This is evidenced in most of the responses that answered questions pointing in the direction that intermediaries were their mind to start their own business but they were unable to raise enough capital to do so. (Maow, 2021).

Figure 8. What SMEs can bring to Somalia



Source: Maow, B. A. (2021). The impact of small and medium enterprises (SMEs) on economic growth and job creation in Somalia. *Journal of Economic Policy Researches*, 8(1), 45–56.

Small and medium enterprises have been recognized to be the major source for economic growth and employment generation; studies focusing on small and medium enterprises and their role in development are essential for the economy especially in developing nations (Mohamed, 2018). The respondents perceived SMEs as potential generators of economic expansion and employment. (Maow, 2021).

5. Discussion

The study aimed to examine the vital role and contributions of SMEs to the economy and employment in Somalia, more particularly in Mogadishu. The research's goal was to synthesize the existing knowledge about this crucial sector by a systemic review of available literature, and to understand how these findings converge in the context of the country's specific social and economic context.

5.1. Interpretation of Findings

Reviewing the literature: highlights of importance of SMEs to the country's economy

According to the review of literature, SMEs businesses have great importance in Somalia's economy. Mirroring trends in other LDCs, the role of SMEs in Somalia is described as the engine of economic growth (Muriithi, 2017; Taiwo, 2012). They are not just businesses; they are depicted as essential actors in achieving broader development objectives, such as

economic growth, job creation, income generation, and poverty reduction (De Kok, 2011; Južnik Rotar, 2019). Locally in Mogadishu, SMEs play a vital role in the creation of jobs and contribution to the local economy (Turyare & Mukhongo, 2016; Abdullahi Omar, 2011). In the face of a difficult environment, characterized by political uncertainty, absence of a central government, and economic hardships, the entrepreneurial spirit has proven to be remarkably resilient and SMEs have made progress in recent years (Mohamed, 2018; Muse, 2025).

One central issue coming out of the results is the multidimensional nature of the problems facing Somali SMES. One of the key challenges is lack of access to funds and financial resources (Berisha & Pula, 2015; Naradda Gamage, 2020). This fiscal scarcity affects everything they do, including funding for marketing. The lack of effective management and business development skills are once again cited as key constraints to performance and growth (Bigliardi, 2011; Muse, 2025). SMEs in Mogadishu have been found to have a poor performance in terms of management, entrepreneurship and financial management (Ahmed, 2018). This may indicate a glaring lack of skill in the industry.

Competition is another major obstacle for SMEs in Mogadishu (Warsame, 2020). This competitive pressure, along with the increasing complexity and dynamism in the global marketplace, mandates focused strategies for both survival and growth. Apart from internal business competences, the external factors also have an equal access in blocking the SMEs performance (Mohamed, 2022). Such as few government policies, political instability, absence of strong institutions, poor infrastructures, fear from the authorities and less capacity of police forces (Hussain, 2024). Particularly, bad imported policies) products, humanitarian aid and open competition (areas of operation, are perceived to undermine the development of local SMEs (Turyare & Mukhongo, 2016). Microfinance which is an indispensable source of capital for small business, is difficult to access due to the stringent security required by those institutions.

On the other hand, there are also several issues that can have a positive impact on work performance and growth of the SMEs in Somalia (AlHaddad, 2019). Money is king because it drives operations and growth. Establishment of adequate managerial, entrepreneurial and financial management skills are inevitable in the light of turbulent times and in order to maximise operations (Mahmood,2011). To survive in the market a competitive strategy is

required. External enabling conditions, such as a supportive local system of governance and investment in human resources, are also identified as mattering. According to a research on capital Structure, efficient capital structure decisions have a positive Impact on the growth of SMEs in Mogadishu (Mohamed, 2022), this imply that how firms are able to finance their much needed operations are important in their growth and development. In addition, risk spreading tend to improve financial performance and participating in mergers/acquisitions can have a positive impact on financial performance (Muriithi, 2017). In this context, the entrepreneurial orientation has been suggested as an option for SMEs in Somalia, not only to survive the complex and turbulent environment in which they operate, but also to enhance their performance. The importance of innovation and technology adoption is also emphasized (Muse, 2025).

The above evidence therefore depicts a resilient and critical worthy actors in the economy of Somaliland economy (Ndiaye, 2018). The potential for the growth and employment-creating potential of such enterprises is evident but also hampered by a complex mix of internal capacity gaps (in knowledge, finance management and competitive strategy) AND weaknesses within the external system (access to finance, policy environment, instability, infrastructure) (Warsame, 2020). Meeting these interlinked issues is essential in realizing the full potential of Somalia's SME sector.

5.2. Comparison with Literature

The results on SMEs role and challenges in Somalia resonate significantly strongly with the general literature on SMEs in developing and emerging economies and in the African context in particular, where relevant in the literature reviewed. The finding that SMEs play crucial role in most economies (including the developing and emerging economies) as confirmed by the case of Somalia, in terms of employment and GDP, is substantiated by (Taiwo, 2012). Global estimates from World Bank on Employment and GDP contribution of formal SMEs in developing countries. also describes a benchmark to understand the degree to which the value added from the sector in Somalia is significant, although specific, uniformly collected statistics for Somalia are hard to procure with factors such as informality and instability. The projection that SMEs will account for a substantial share of new employment creation across the globe in the next 15 years demonstrates the opportunity that exists for Somalia through SMEs, if the enabling environment is built (De Kok, 2011).

According to Muriithi (2017) most of the problems observed in Somalia are not unique and are typical of the challenges faced by SMEs elsewhere in Africa including other developing economies. This assembly of financial resources looks grim for the SME in developing countries in general and in Africa in particular due to limited accessibility of fund and unfavorable high lending rates (Mahmood, 2011). Any push towards such as market in Somalia is also overweighed by the absence of information on the lenders and the void of efficient SME lending markets; it is expected that the lack of contracting mechanisms is one of the reason causing the scarcity of funds in Somalia, especially since microfinance is less accessible due to security measurements (Abdullahi Omar, 2011).

Incompetence in management and lack of information is also identified as problems for African SMEs (Berisha & Pula, 2015), which resonates with the findings of skill deficiencies in management, entrepreneurship and financial management of SMEs in Mogadishu (Turyare & Mukhongo, 2016). The demand of managerial capacity to deal with the challenges and development is recognized in the wider literature referred to (Al-Haddad, 2019).

Other external factors such as power shortage and poor infrastructure are also mentioned as constraints affecting African SMEs (Mohamed, 2018) which perhaps reinforces the infrastructure constraints hampering Somali enterprises (Hussain, 2024). Corruption is also an issue faced by SMEs in Africa which can hinder SME performance by escalating costs in direct and indirect forms of payment, and also by introducing uncertainty (Jasra 2015), however the level of empiricism regarding corruption and the contingencies it causes with Somali SMEs was not overt in the cited extracts relative to other challenges.

Political support, or lack thereof is a major challenge to this issue both regionally and internationally – including in Africa (Ndiaye, 2018). African nations such as Kenya and Nigeria have introduced mechanisms to assist SMEs such as improving credit availability but in the Somali context, government policies, and inadequate institutional support have been cited as challenges (Warsame, 2020). The need for African governments to create favourable policies, enhance legal frameworks, business infrastructure and access to finance is consistent with the implied and expounded recommendations for Somalia, including access to finance and enactment of effective government policies (Ahmed, 2018). Other “lessons-learnt” like suggested in one source need for simplification of regulation and taxes and

promoting the formal enterprise registration are general policy recommendation toward promoting SMEs in developing country (Dalmar 2017) as well.

Other authors indicate that challenges and drivers differ among small and medium business enterprises with distinctions on effects of means of interaction with clients such as email and use of equity financing but in the specific studies on Somalia reviewed in this paper such distinctions by SME size in the general SME group were not detailed (Mohamed, 2022). Nevertheless, recognizing that challenges entrepreneurs in small enterprises face are not the same with those running medium sized businesses is important in targeting support in Somalia (Maow, 2021).

The discovery that finance is the single most significant determinant of the success of SMEs in Pakistan is echoed in the focus on finance as a primary constraint and access to finance as a major driver of SMEs in Somalia (Bigliardi, 2011). The same way technology for productivity is of significance in Pakistan is also the same way innovation and technology uptake for performance improvement is in Somalia.

Overall, the problems and prospects of SMEs in Somalia enumerated in the literature is not different from generalized phenomena witnessed in many other African developing countries. What Somalia presents is more profound due to prolonged instability and it has resulted in a confluence of these challenges being significantly worse exacerbated, specifically the infrastructure, institutional and access to finance issues (Naradda Gamage 2020). Comparing the specific findings on Somalia to the wider literature, we find that assistance to Somali SMEs will need to deal with basic challenges shared by many developing countries, as well as responding to the particular post-conflict environment.

5.3. Explanation of Key Outcomes

The main implications for this study is that it highlights a dynamic interrelationship of factors that influence the effect and success of SMEs in Somalia. The first, that SMEs are fundamental drivers of economic growth and job creation in a high unemployment, underdeveloped country is inarguable. Without many large industries and public sector occupations, small and medium enterprises is the major and sometimes the only source of income, employment and poverty reduction (Mahmood, 2011). Though their contribution cannot be empirically measured because of factors such as informality, which makes exact

calculations problematic, their pervasiveness in every sector illustrates how critical they are to everyday economics (Abdullahi Omar, 2011).

The on-going problems, but the main one is the lack of financial access and lack in skills that lead to a loophole and limit growth (Berisha and Pula, 2015). Without working capital, SMEs cannot invest in improving their processes, technology adoption, market penetration or hiring of skilled labour. Weak management and entrepreneurship skills Poor financial management, messy operations at all levels and an inability to vigorously devise effective strategies to counter competitive pressures. This is a major survival and scaling-up barrier that can account for the high failure rates frequently seen in developing countries.

These dynamics are complicated by the operating environment in Somalia. Risk and cost of doing business are exacerbated by political instabilities, weak institutions and infrastructure deficiency. One of the symptoms is the difficulty of access to financing, since lenders are more reluctant in an uncertain environment (Ndiaye, 2018). Unfavorable government policies, particularly those concerning imports and unrestricted competition, put local businesses at a competitive disadvantage, which in turn, limits their ability to compete and expand. It draws attention to the fact that though enhancing the internal capabilities of SMEs is essential, systemic external transformations are also needed to build a facilitating environment.

But the results also provide reason to hope. Somali Entrepreneurs Against All Odds The fact that rooted Somali entrepreneurs can cope with very tough environment however indicates the potential strength of a building spirit Byle, (2017). The beneficial role of capital structure and entrepreneurial orientation indicates that firms that use strategic business practices produce positive outcomes. Moreover, the discovery that supportive local governance, human resources and innovation are influential also provide guidance for specific focus for interventions in these areas (Maow, 2021).

Enabling access to finance is not only about providing finances, it's about creating a financial ecosystem that works and meets SME's specific demand Nor necessarily having different programs such as microfinance, but public and private partnerships (Bigliardi, 2011). Improving capacity also needs context-specific training programs that cover the

shortage in management, entrepreneurship, and financial management deserves of the Somali people.

Implication of the Findings Though it is important to note that the imperative for realizing the full potential of SMEs in stimulating economic growth and employment generation in Somalia is to have holistic and integrated approach (Taiwo, 2012). This should be done by redressing the underlying constraints on access to finance and the development of skills but also by enhancing the external environment to be more stable, predictable and supportive, which can be done through better governance, policy reforms, and development of infrastructure (Naradda Gamage, 2020). The way forward From the literature, it is clear that a one-size fits all approach will not work in assisting Somalia's SME sector, that we must be conscious of the unique SME challenges in this specific time and place: 'The first step along the way to designing effective strategies and policies sought to empower the heart of the economy so vital for the country's long-term recovery and development' (De Kok, 2011). The fact that studies focused on Somalia are beginning to emerge and draw attention to these issues is a welcome development as it paves the way for more effective, focused and evidence-based interventions going forward.

6. Conclusion

Small and Medium Enterprises (SMEs) have generally been acknowledged to be important to the growth of economies and the creation of employment opportunities around the world (Ndiaye, 2018; Taiwo, 2012). This paper has explored the unique situation of Somalia, in particular the Somali capital, Mogadishu, in order to comprehend the far-reaching influence of SMEs on the national economy and labour market, gaps in the attention given to what determines their performance and survival, as well as critical factors which drive it (Ahmed, 2018; Mohamed, 2022). After a systematic literature review and analysis, based on existing Somalia-specific research and insights, this conclusion concludes with an overview of the main findings, practical guidelines and a discussion of the contribution of SMEs to the economic and employment situation in Somalia overall.

6.1. Summary of Findings

My analysis highlights the critical role played by SMEs in the economy of Somalia. They are recognized as important mean of economic development and are recognized as the main source of income and employment, the great contributor to GDP and plays to limit poverty (Al- Haddad, 2019; Južnik Rotar, 2019). Despite the difficulties after the centre state fell apart, small and medium enterprises were very influential. SMEs are considered an answer to economic growth, modernization, job creation and income generation. They create jobs more rapidly than large companies, supplying necessary jobs and income to the people (Mahmood, 2011; Berisha & Pula, 2015).

Nonetheless, the research has revealed huge barriers confronted by SMEs in Somalia (Hussain, 2024). The challenge, among others, has been financial sustainability and lack of access to finance (Turyare & Mukhongo, 2016). The presence of a security barrier to accessing microfinance services in Mogadishu is exemplified by the strict security demands imposed by institutions for instance (Dalmar, 2017). Although there is evidence to indicate that capital structure can have a positive effect on growth of SMEs in Mogadishu, access to initial capital presents a key challenge for potential entrepreneurs (Mohamed, 2018).

In addition, results show that both managerial and entrepreneurial competencies are mostly underperformed in SMEs in Mogadishu (Bigliardi, 2011). Inadequate management which includes management ignorance and incompetence is identified as a problem and a cause of business failure. Business skills and competencies of business owners are related to the failure or success of SMEs.

Further challenge in the market place for SMEs in mogadishu is competition (Naradda Gamage, 2020). The environment is perceived exposed to competition and sensitive for foreign competition that unregulated competition and government ineffectiveness in imported goods policy will hampers local SMEs growth.

External elements, typically out of the immediate control of business owners, can be significant issues. They range from government policies, economic recession, natural calamities and unforeseen market shocks, which have a direct bearing on the performance of small enterprises in Mogadishu. Contradictorily, in Mogadishu local government involvement was considered to have a highly positive impact on the performance of the

SMEs in a study, even though cracking down on corruption and red tape was essential for creating an enabling environment for business. The general picture that emerges is that a variety of factors, from internal capacity and financial access to external market factors and regulation, combined to delay SME development in Somalia.

6.2. Practical Recommendations

However, this study makes a number of practical suggestions, which if implemented, would enable SMEs in Somalia to perform effectively and become more sustainable as well as ensuring SME becomes the primary driver for economic growth and job creation within the country.

First and foremost among these is access to finance. Efforts should also be made to improve the access to the larger bank and company finance (Maow, 2021). That includes increasing transparency and consistency in how banks assess loans and revisiting the effect that onerous collateral requirements have on businesses. Establishing specialized centres to assist SMEs in seeking out and accessing the financial support that is available, locally, regionally and globally, is also suggested. It also suggests effective capital structure policies could be better understood and implemented to enhance growth of SMEs.

Secondly, it requires massive investment towards skills formation (Muriithi, 2017). “I think it is an absolute necessity to be teaching young people (and current business) solid fundamentals” he says. This would involve developing managerial expertise and entrepreneurial capabilities as well as providing specific training on financial management and on filing in taxes. Enhancement of human resource factors in small and medium enterprises can have an effect on the financial performance of SMEs (Abdullahi Omar, 2011).

Thirdly, the government and the policy maker have a basic role on this. (Turyare & Mukhongo, 2016). The most important thing is not only to present such measures and policies but to do so and actually put them in Spits and spats of initiatives and interventions that support the growth of Sme’s are also required. This includes simplifying regulations and tax systems, facilitating the formalisation of business since this drives performance, and reducing barriers to international trade and investment that are not justified (Bigliardi, 2011). In addition, there is a need to deal with market distorting policies aimed at imported

goods and unrestrained competition, to support the growth of domestic SMEs (Muse, 2025). Efforts to increase institutional support to SME more than the fundamentals are also suggested.

Fourthly, to compete in the competitive environment, SMEs should be helped to develop strong strategies that can create a competitive edge. Policymakers should also address the harmful effects of uncontrolled competition and badly regulated import policies.

Finally, diffusion of technology and innovation by enabling investment in R&D is another way to boost SME performance. It is recommended that on-going local studies that can determine focused and attention based support modality for businesses in various regions of Somalia are encouraged. Through these suggestions, we hope that policy makers can work together to develop a more favourable condition for SME to grow.

6.3. Contribution to Economic Growth and Employment in Somalia

The evidence provided significantly supports the claim that SMEs represent a source of economic growth and employment creation in Somalia (Ndiaye, 2018; Mohamed, 2022). They are not simply a part of the economy but are at the very heart of what makes the economy work and in the years ahead will help determine its future prosperity.

SMEs in Somalia are also large job creators and serve as employers, reducing the unemployment rate, mostly in urban areas such as Mogadishu (Ahmed, 2018). On the global level SMEs are anticipated to create large amount of future employment and it also is a fact in emerging market such as Somalia. Their capacity of generating employment more quickly than larger entities is especially relevant for a high-unemployment country (Maow, 2021).

They are a source of vital income and employment, a lifeline for a large number of families.

Economically, SMEs are key contributors towards Somali development (Al-Haddad, 2019).

They represent an integral part of national GDP and serve as part of the foundation of economic system (Mahmood, 2011). SMEs are a powerful force in the poverty alleviation in that they create income and opportunities for people in need. Their ability to utilise local inputs further enables them to become an asset to the domestic economy (Abdullahi Omar, 2011). The development of SMEs is closely related to the general performance of the country's economy. Strategic investments that can lend themselves effectively in the reconstruction of the country and the fostering on sustainable development, promoting

opportunities as generated by the vibrant SME sector include is human capital through education (Muriithi, 2017; Hussain, 2024).

In summary, SMEs in Somalia are facing several challenges but are nevertheless resilient and contributing significantly to the economy. By overcoming the key constraints pertaining to finance, skills, regulatory environment and competition, and by adopting enabling policies and strategies, Somalia will be able to tap the potential of its SME sector to the fullest. In doing so, it will help drive broader economic growth, generate thousands of urgently needed jobs and support broader national stability and prosperity in the long run. The future of Somalia is contingent on the success and expansion of its SMEs.

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