

# Business Formation Rates

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## Business Formation Rates in Somalia

### Overview

Somalia's business formation landscape is characterized by high rates of entrepreneurship despite significant challenges in the formal business registration process. The country has a strong entrepreneurial culture, with many businesses operating in the informal sector due to historical governance challenges and limited formal registration infrastructure.

### Key Statistics and Trends

#### Formal Business Registration

- Somalia has one of the lowest rates of formal business registration in the world
- The World Bank's Ease of Doing Business 2020 ranked Somalia as the most challenging country to do business in out of 190 countries reviewed
- Formal business registration processes have been improving since 2015 with the passing of the foreign investment law
- Recent reforms include simplified business registration, improved legal protections, and promotion of foreign investment

#### Entrepreneurship Activity

- Somalia has a market-based economy with high rates of entrepreneurship and a strong business culture
- Small and medium enterprises (SMEs) dominate the business landscape
- The informal sector represents a significant portion of business activity
- Youth entrepreneurship is growing, with over 70% of the population classified as youth under 35

## **Recent Developments**

- The Somalia Investment Promotion Office (SOMINVEST) has been working to streamline business registration processes
- Business registration has been simplified with new processes implemented since 2015
- The National Bureau of Statistics conducted a Business Establishment Census to identify and register active businesses
- Digital business registration systems are being developed to facilitate formal business creation

## **Sector-Specific Business Formation**

### **Telecommunications and Financial Services**

- The telecommunications sector has seen significant business formation and growth
- Mobile money services have spawned numerous related businesses
- Financial technology (fintech) startups are emerging, particularly in Mogadishu

### **Import/Export and Trade**

- Trading businesses represent a significant portion of new business formations
- Import businesses dominate, reflecting Somalia's trade imbalance
- Export-oriented businesses are primarily focused on livestock and agricultural products

## **Construction and Real Estate**

- Construction companies have increased with urban reconstruction efforts
- Real estate development firms are growing, particularly in Mogadishu
- Diaspora investment is driving business formation in this sector

## **Regional Variations**

- Mogadishu has the highest concentration of new business formations
- Hargeisa (Somaliland) has a relatively more structured business registration process
- Coastal cities show higher rates of business formation in trade and logistics
- Rural areas have limited formal business registration but active informal enterprises

## **Challenges to Business Formation**

- Security concerns continue to impact business confidence and formation
- Limited access to formal financing restricts business startup and growth
- Regulatory uncertainty creates challenges for business planning
- Infrastructure limitations increase operational costs for new businesses
- Limited business support services and training opportunities

## **Future Outlook**

- Business formation rates are expected to increase with continued political stability
- Formalization of the economy will likely lead to higher official business registration numbers
- Digital business registration systems will facilitate easier formal business creation
- Diaspora investment will continue to drive new business formation

- International support for private sector development will enhance the business environment

## **Sources**

1. International Trade Administration, "Somalia - Market Overview," January 2024
2. World Bank, "Ease of Doing Business Report," 2020