

The Enterprise Survey (ES 2013) in Somaliland

The World Bank's Enterprise Surveys recently conducted a survey of formal and informal private businesses in Somaliland. These surveys intend to capture the structure, conduct and performance of the private firms in Somaliland as well as the quality of the business climate broadly defined to include various elements such as the availability of physical infrastructure, law and order situation, access to finance, labor regulations, obtaining licenses and permits, etc. The present note is partial in that it focuses only on the Enterprise Survey of formal businesses conducted in 2012 and 2013 (ES 2013). The discussion that follows is divided into two sections. The first section provides information on the survey design and the sampling methodology. The second section uses ES 2013 data to draw a snapshot of what the data say. That is, information is provided on the mean level of all variables covered by ES 2013 and how this mean level differs between firms of small vs. large size, manufacturing and services firms, etc. Significance level obtained from t-tests is provided for the differences in mean levels between these sub-samples. Where possible, a comparison is made between Somaliland the comparator countries which include Afghanistan, Ethiopia, Rwanda, Timor-Leste and Yemen. For brevity, only some of the findings or results are discussed in the text below. The findings discussed are in the nature of selective highlights are far from complete and exhaustive. The full set of results is contained in the accompanying tables.

Section 1: Sample design and Methodology

The Enterprise Survey (ES 2013) was conducted from October 2012 to March 2013 and was based on 500 enterprises which are private sector¹ enterprises in 7 of the largest cities in Somaliland (Hergeisa, Lasanood, Wajaale, Berbera, Burco, Borama, and Erigavo). The survey included micro enterprises with less than five employees as well as larger firms, formal manufacturing firms, gums & resins, telecoms, remittance companies, retail, construction, hotel and other enterprises. The establishments were identified from registrations with the Ministry of Commerce and Industry, the Attorney General's office, and the local municipalities, thus giving a representative picture of the formal, private sector. A second survey of 440+ informal household-based businesses was also conducted in order to capture the experiences of the informal private sector. As mentioned above, the present note analyzes only the Enterprise Survey of 2013 (ES 2013).

Survey Design and Coverage

The ES 2013 is a firm-level survey of a representative sample of Somaliland's formal private sector firms. The key survey instrument is designed to gather information about the business environment as well as many Somaliland-specific issues. It is based loosely on the standard Enterprise Surveys instrument and as such contains a number of indicators that are comparable with data collected in other countries. It is composed of four major parts:

- The first part is designed for general managers or business owners and deals with the internal structure of businesses and investment climate within which they operate, including bureaucratic obstacles and infrastructure constraints.
- The second part deals with finances, production and markets and provides information on business performance which can be mapped to business characteristics and investment climate obtained in the first part of questionnaire.

¹ Detailed information on the Enterprise Surveys methodology and data are available on the website www.enterprisesurveys.org

- The third part of the questionnaire deals with human resources and labor markets issues, particularly the effects of government labor regulations, as well as the cost and quality of the workforce.
- The last part includes a number of questions about trust, safety, security, and dispute resolution in the Somaliland context.

These data facilitate an understanding of the interaction between firm performance/business climate and labor outcomes. The ES is one of three surveys that were completed during the same timeframe. A second survey of approximately 1700 households was conducted using a standard household consumption style instrument along with a survey of approximately 440 household-based informal businesses using a separate instrument.

Survey Sample

The survey sample for the ES 2013 for Somaliland comprised of 500 firms in the manufacturing and service sectors. The firms were interviewed between October 2012 and March 2013. Of those enterprises, 125 were micro firms with fewer than 5 employees, 236 were small firms with between 5 and 19 employees, and 108 medium-sized firms² with between 20 and 99 employees, and the remaining 31 were large firms. This is the first survey of its kind in Somaliland and is intended to inform discussions by providing information that is representative of the private economy in Somaliland. However, due caution is necessary as these data have some limitations.

The ES 2013 survey was designed to be representative of the formal, private sector of Somaliland. Hence, results obtained from this survey can be projected (using weights provided) at the country level. The survey followed a stratified random sampling approach where the stratification was done by industry, firm-size (micro, small, medium and large firms) and location (Hergeisa, Lasanood, Wajaale, Berbera, Burco, Borama, and Erigavo). Hence, the survey results can also be used to make inferences at the stated stratification levels at the national level. However, only 23 firms were interviewed in Erigavo which makes it very difficult to obtain reliable estimates for the entire Erigavo region. Due to the small sample size (large standard errors), estimates at the sub-manufacturing and sub-services level may not be reliable at some levels of aggregation. The survey of informal household-based firms in Somaliland follows a different methodology, uses a different instrument and it is not designed to be representative at the country level. Hence, comparison between formal and informal surveys requires due caution.

Table 1: Sample size by Stratum and Sampling Region

	Construction	Gums, Resins, Agriprocessing, & Aquaculture	IT & Telecom	Manufacturing	Other Services	Remittances	Retail	Grand Total
Berbera	1	11		17	22		7	58
1-Micro				1	2		4	7
2-Small		5		12	13		3	33

² Using standard definitions Enterprise Surveys: Small is 5 or more permanent full-time employees but less than 20; 20 or more but less than 100 is medium and more than 100 is large.

3-Medium	1	6		3	6			16
4-Large				1	1			2
Borama	10	4	4	24	4	6	8	60
1-Micro	2		1	2	1	3	1	10
2-Small	2	2	1	16	2	3	5	31
3-Medium	5	2	2	6	1		2	18
4-Large	1							1
Burco	11	6	4	20	26	2	27	96
1-Micro			2	2	2		12	18
2-Small	4	5	2	15	13	2	15	56
3-Medium	6	1		2	10			19
4-Large	1			1	1			3
Erigavo	4	1		6	8		4	23
1-Micro		1					3	4
2-Small	2			5	7		1	15
3-Medium	1			1	1			3
4-Large	1							1
Hargeisa	26	18	22	42	23	5	20	156
1-Micro		3	9	8	2	1	11	34
2-Small	3	7	6	17	9	4	7	53
3-Medium	11	8	5	13	8		2	47
4-Large	12		2	4	4			22
Lasanood	7	8	4	18	10	3	19	69
1-Micro		2	1	7		1	13	24
2-Small	3	6	3	11	8	2	5	38
3-Medium	3				2			5
4-Large	1						1	2
Wajaale			3	6	10	3	16	38
1-Micro			3	3	5	3	14	28
2-Small				3	5		2	10
3-Medium								
4-Large								
Grand Total	59	48	37	133	103	19	101	500

In addition to collecting the data on firm productivity, this survey collected two types of information on the investment climate: (a) subjective or perception measures of what managers see as the major obstacles that their firms faces; and (b) objective indicators such as production lost due to power outages, and amount of time managers spend dealing with government regulations. Preliminary findings were discussed with stakeholders in Somaliland in July 2013. We use both these sets of data to get a better understanding of the state of the private sector in Somaliland.

Section 2: Some Results from ES 2013

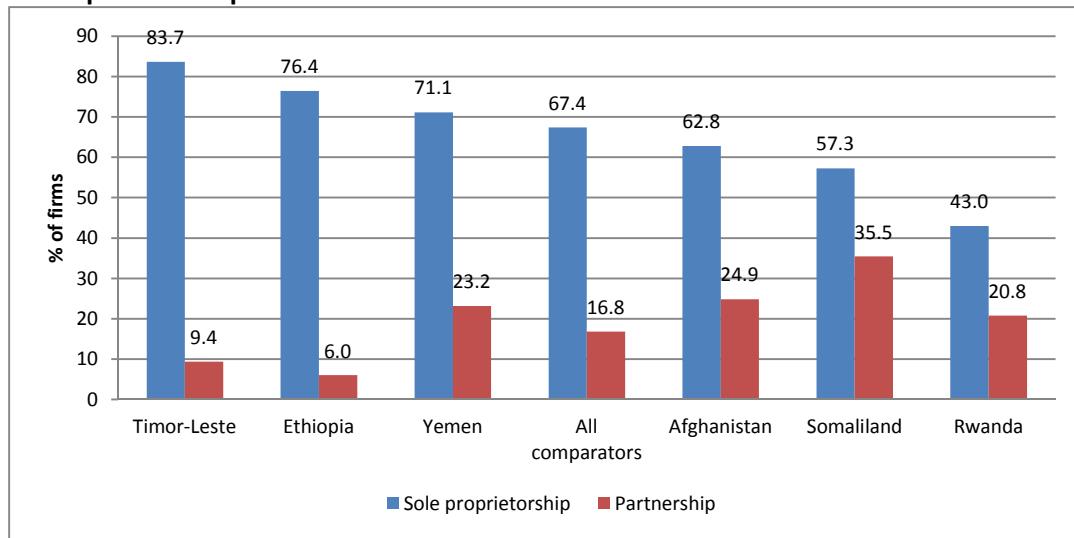
As mentioned above, this section highlights only some of the findings in the data. The discussion that follows serves to illustrate the point and is not intended to be exhaustive or complete. The full set of results is provided in the accompanying tables. A few points to be noted are as follows. First, unless stated otherwise, we discuss below only those results that are statistically significant at the 10 percent level or less. A simple linear regression (OLS model) with Huber-White robust standard errors was used to determine whether the differences discussed below between small and large firms, across countries, etc., are significant or not. Second, results comparing Somaliland with the comparator countries (listed above) exclude micro firms from the Somaliland sample. This was done to make the results for Somaliland and the other countries comparable to each other. Nevertheless, almost all the results for Somaliland vs. comparator countries hold in a qualitative sense with and without excluding the micro firms from the Somaliland sample. This can be seen from the accompanying tables where results for Somaliland vs. comparator countries are provided with and without excluding the micro firms. Third, given the relatively few large firms (100 or more employees) in our sample, we club the medium and large firms together and call them “large firms” throughout the discussion below and in the accompanying tables. Fourth, all results discussed below use weights provided by Enterprise Surveys so that our results are representative at the national level (see the discussion in the previous section on this point). Fifth, for differences in the level of variables within Somaliland, we explore the following dimensions: manufacturing vs. services firms; firms located in capital cities (large cities) vs. the rest (small cities); firms of different sizes that include micro firms, small firms and (medium and) large firms as defined above; firms located in the 6 sampling regions of Somaliland (listed above); and firms that have a female vs. male largest owner. Last, the discussion below spans different areas such as finance, crime, trust, gender, etc. The intention here is to be broad enough to provide an overview of the findings in different areas. Clearly, some topics are not covered for brevity and the ones covered can be explored further and in more detail.

1. While most firms in Somaliland are sole proprietorship or partnership firms, the mix of sole proprietorship vs. partnership firms varies both within and outside Somaliland. About 93 percent of the firms in the full sample in Somaliland are either sole proprietorship firms or partnership firms. This is not too different from the corresponding figure of 84 percent that we find on average in the comparator countries.³ The high percentage of sole proprietorship and partnership firms is also found within Somaliland in the various sub-samples such as small and large firms, manufacturing and services firms, etc. However, when we look at the mix of sole proprietorship vs. partnership firms, there are significant differences between firms within Somaliland and between firms in Somaliland and the comparator countries. In the full sample of Somaliland, sole proprietorship firms constitute 65 percent of the firms

³ The percentage of sole proprietorship and partnership firms in Somaliland remains 93 percent even if we exclude the micro firms from the sample. The figure of 84 percent for the comparator countries increases to 89 percent if we exclude Rwanda which is an outlier among the comparator countries. Even so, there is no statistically significant difference between the figures of 84 percent cited above for all the comparator countries and 93 percent for Somaliland.

while partnership firms constitute 28 percent of the firms. However, the percentage of partnership firms is much lower among small and micro firms (21.2 and 28.2 percent, respectively) compared with large firms (60.3 percent); firms in small cities compared with firms in large cities (20.7 vs. 36.6 percent); and firms with a male compared with a female largest owner (24.4 vs. 51 percent). In comparison with the comparator countries and excluding the micro firms from the Somaliland sample, Somaliland stands out with a lower percentage of sole proprietorship firms (57.3 vs. 67.4 percent)⁴ and a much higher percentage of partnership firms (35.5 vs. 16.8 percent).

Figure 1: Somaliland has a higher proportion of partnership firms and a lower proportion of sole proprietorship firms compared with the other countries



Source: Enterprise Surveys.

Note: The figures for Somaliland are based on the sample of firms excluding the micro firms.

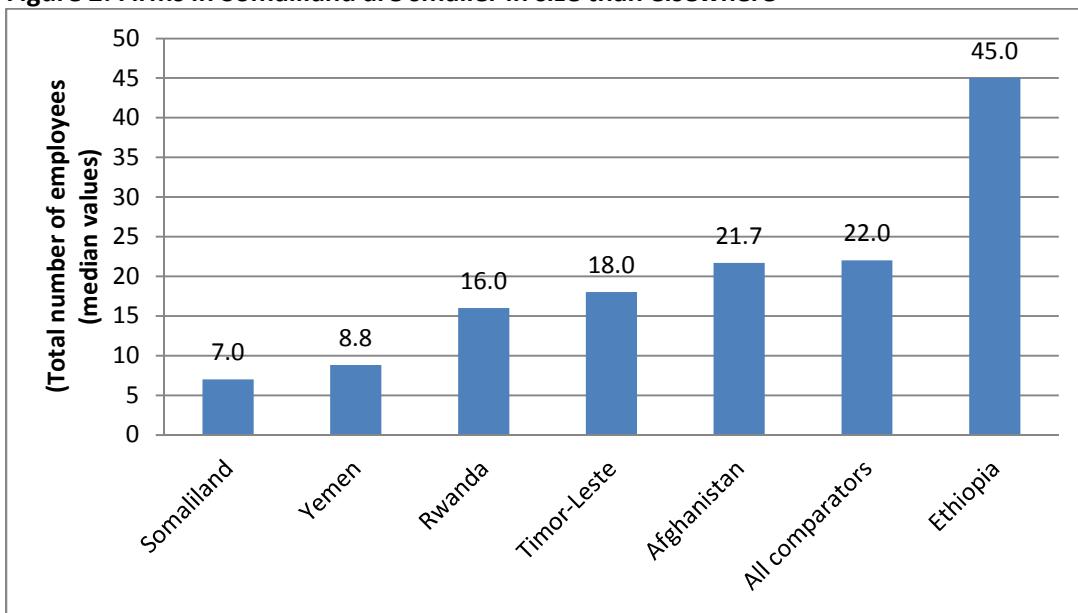
2. Relative to other countries, firms in Somaliland are smaller in size. Firm-size is an important attribute of the firms and is often correlated with exporting activity, innovation, access to finance and firm-performance. Measuring firm-size in terms of the number of full time employees during the last fiscal year (permanent plus temporary adjusted for the duration of employment)⁵, average size of a firm in Somaliland equals 4.5 employees (median value)⁶. Excluding the micro firms, firm-size increases to 7 employees. This is small when compared with other countries (figure 2). Understanding the causes of the relatively small size of firms in Somaliland and its implications for firm-performance is important from the policy point of view. For example, larger firms are often associated with innovation, exporting and attracting foreign direct investment. Policies aimed at encouraging large firms in Somaliland may then be required to reap these benefits.

⁴ The difference between Somaliland and the comparator countries is not statistically significant at the 10 percent level or less.

⁵ We avoid using the annual sales of the firm as the measure of firm-size due to the difficulty in obtaining the appropriate exchange rate for comparing Somaliland with the other countries.

⁶ We use median values here to negate the impact of some extremely large firms in the sample. However, the results discussed in the paragraph hold even if we use mean value of the number of employees.

Figure 2: Firms in Somaliland are smaller in size than elsewhere



Source: Enterprise Surveys.

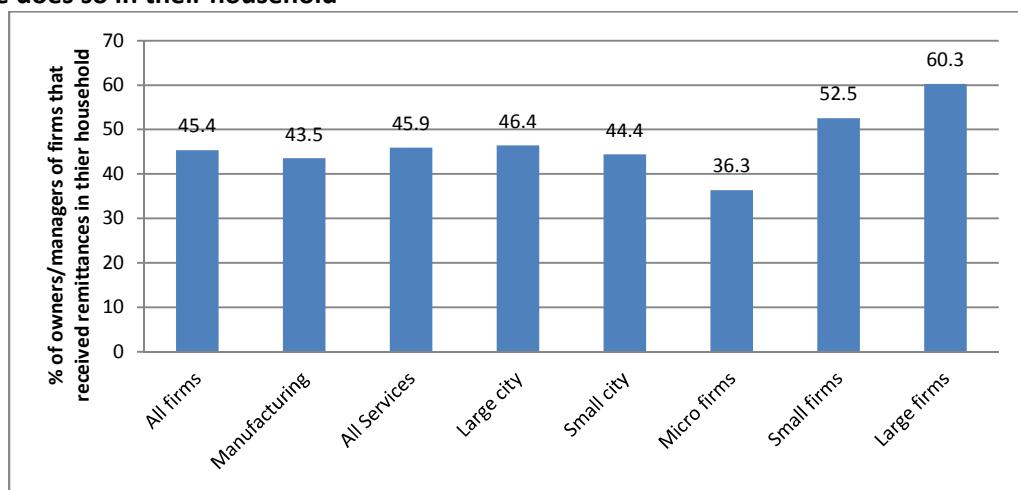
Note: The figure shows median values for each country. The figure for Somaliland excludes micro firms. Total number of employees on the vertical axis includes full time permanent plus temporary workers where the number of temporary workers is adjusted for the number of days worked during the year. All figures are for the end of the fiscal year prior the year of the survey. The figure for all comparators is the average for all the comparator countries shown.

Continuing from above within Somaliland, firm-size is much larger for manufacturing vs. service sector firms (6 vs. 4.2 employees, median values). However, this difference is entirely due to the larger presence of micro firms in the service sector relative to the manufacturing sector. Excluding the micro firms, there is no significant difference in firm-size between manufacturing and service sector firms. In contrast, small and large cities show no significant difference in firm-size in Somaliland (5 vs. 4.1 employees in large vs. small cities, median values). However, in our sample, there is preponderance of micro firms in the large cities and excluding micro firms from the sample we find firm-size to be significantly higher in the large compared with small cities (10 vs. 6 employees in large vs. small cities; median values).

3. Interaction with foreign nationals is limited but not entirely absent in Somaliland. That is, we find mixed results in Somaliland for the interaction with foreigners. First, on average, the percentage of the firm owned by private foreign individuals, companies or organizations is almost non-existent in Somaliland (0.12 percent in the full sample and 0.17 percent excluding the micro firms). Even among the large firms, the percentage is as low as 0.61 percent. In contrast, the corresponding figure is much higher in the comparator countries averaging 7.8 percent (compared with 0.17 percent in Somaliland). Hence, encouraging foreign investments through appropriate policy measures may yield rich results for Somaliland via improved finances, technology and access to foreign markets. Second, the percentage of skilled workers in a typical firm in Somaliland that are of foreign origin or expatriates (diaspora) is less than 2 percent; the corresponding figure for unskilled workers is even lower at 0.3 percent. Further, only 4 percent of the owners/managers of the firm are foreigners (by passport) in the full sample in Somaliland. While large firms do show a higher proportion of percentage of owners/managers that are foreigners, even this is less than 12 percent. Third, foreign presence is somewhat high in Somaliland in terms of the percentage of managers/owners of firms that lived abroad in the last 20 years (11 percent in the full sample). The percentage of such managers is significantly higher among small firms (13.7

percent) and large firms (31.1 percent) compared with micro firms (4.3 percent); it is also significantly higher for firms with a male largest owner compared with a female largest owner (12.2 vs. 4.1 percent). Last, there are a substantially large percentage of owners/managers, 45.4 percent, who received remittances (themselves or someone else did so in their household) from abroad during the last year. The percentage of such managers receiving remittances is significantly higher among large and small firms (52.5 and 60.3 percent, respectively) compared with the micro firms (36.3 percent). Figure 3 illustrates the point. One possibility is that the ones who receive remittances are able to expand business from micro to small and large firms. The other possibility is that owners/managers that are relatively well to do (running small or large firms vs. micro firms) are the ones that are able to send family members abroad and benefit by way of remittances.

Figure 3: A substantial number of business owners and managers in Somaliland receive remittances or someone does so in their household



Source: Enterprise Surveys.

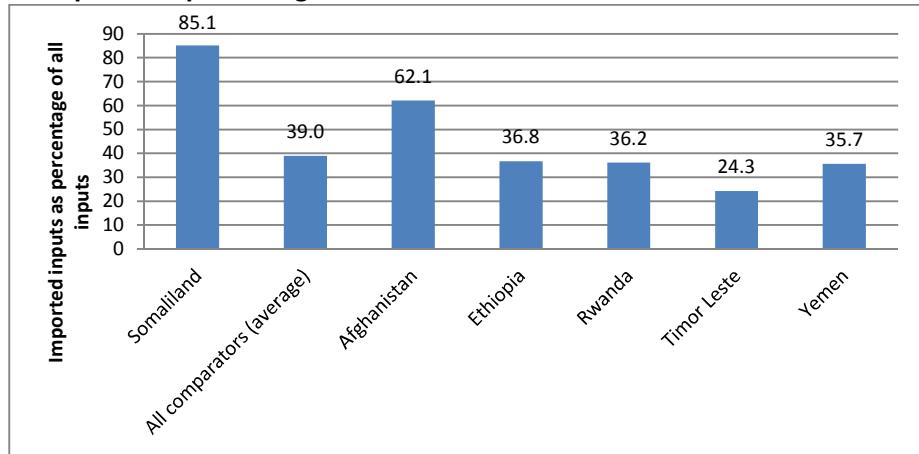
4. Exporting activity is low in Somaliland but the use of imported inputs is high. About 10.6 percent of the firms in Somaliland exported (either directly or indirectly) some or all of their output during the last year. As a percentage of annual sales, exports equaled 4.4 percent for a typical firm in Somaliland. Excluding the micro firms, exports are only marginally higher at 4.5 percent of the annual sales. While exports to sales ratio may appear to be low in Somaliland, it is higher than what we find in the comparator countries – on average, 2.7 of the annual sales in the comparator countries were exported compared with a much higher figure of 4.5 percent in Somaliland. However, this difference between Somaliland and the comparator countries is entirely driven by the manufacturing firms with services firms showing no such difference. It is not too surprising then that within Somaliland, exports constitute a much higher percentage of firm's sales in the manufacturing compared with service sectors (7.5 vs. 3.7 percent). Further and along expected lines, exports to sales ratio is significantly higher among large firms (10.9 percent) compared with small (2.7 percent) and the micro firms (4.3 percent). These results suggest considerable scope for more exports from Somaliland. Policy measures to boost exports may therefore be required not just for the benefit of the private firms but also the beneficial effects that exports have on economic growth.

Recent evidence suggests that the use of imported inputs may contribute significantly to the overall economic development of the country. Such inputs not only alleviate shortages of key inputs but often contribute by via transfer of embodied knowledge. In contrast to exports as discussed above, use of imported intermediate inputs is quite common in Somaliland. That is, in the full sample, over 97 percent

of the firms in Somaliland use imported inputs and these inputs constitute about 85 percent of a typical firm's purchases of all inputs. These percentage figures remain almost unchanged even if we exclude micro firms from the Somaliland sample. In contrast and in the comparator countries, only 56.4 percent of the firms use imported inputs and these inputs constitute 39 percent of all inputs used by a typical firm. Focusing on the full sample and within Somaliland, percentage of inputs that are imported is roughly same for manufacturing and service sectors but significantly higher among micro (85.1 percent) and small firms (87.2 percent) compared with large firms (77.7 percent). Unfortunately, there is no information in the survey on the types of inputs that are imported and their technological content. However, follow-up discussions with business owners revealed that nearly all inputs are imported from foodstuffs to building materials suggesting that exposure to external embodied knowledge and technology may be quite high.

One issue that continually surfaced during these follow-up discussions was that firms often do not know ahead of time how much they will pay at customs and the tariff rate that will be applied. This uncertainty may lead both to market inefficiencies as well as distrust between businesses and government.

Figure 4: Use of imported inputs is high in Somaliland



Source: Enterprise Surveys.

5. Female participation in ownership in Somaliland is similar to that in the comparator countries but varies significantly across regions within Somaliland. When present and relative to male owners, female owners tend to control micro and small firms much more than the large firms. ES provides information on female owners at three different levels: whether the firm has at least one female owner, whether the largest owner is female or male, and the percentage of firm that is owned by females. All the three measures seem to suggest that female participation in ownership in Somaliland is not trivial although far lower than for males. In the full sample, 15.1 percent of the firms in Somaliland have a female largest owner, 22.3 percent have at least one female owner and females own about 11.9 percent of a typical firm in the Somaliland. Interestingly, these measures of female ownership do not show much variation by firm-size or sector. For example, firms with a female largest owner equal 14.2 percent in the manufacturing sector, 14.8 percent among retail firms and 16.1 percent in the rest of services sector.

Interestingly, for the sample of firms that do have at least one female owner, the percentage of firm owned by all female owners is much higher on average among micro firms (62.5 percent) and small firms (54.1 percent) compared with the large firms (30.7 percent). What this suggests is that when

female owners are present and relative to males, female owners tend to control micro and small firms much more than the large firms. This is consistent with the broader findings in the literature that women entrepreneurs are more concentrated in the relatively smaller firms compared with their male counterparts (discussed in more detail in the next point).

Information on female participation in ownership for the other countries is available only on whether the firm has one or more female owner or not. Using this variable, we find no significant difference in female ownership in Somaliland vs. the comparator countries: 24.1 percent of the firms in Somaliland have one or more female owner compared with a roughly similar figure of 26 percent on average for the comparator countries.

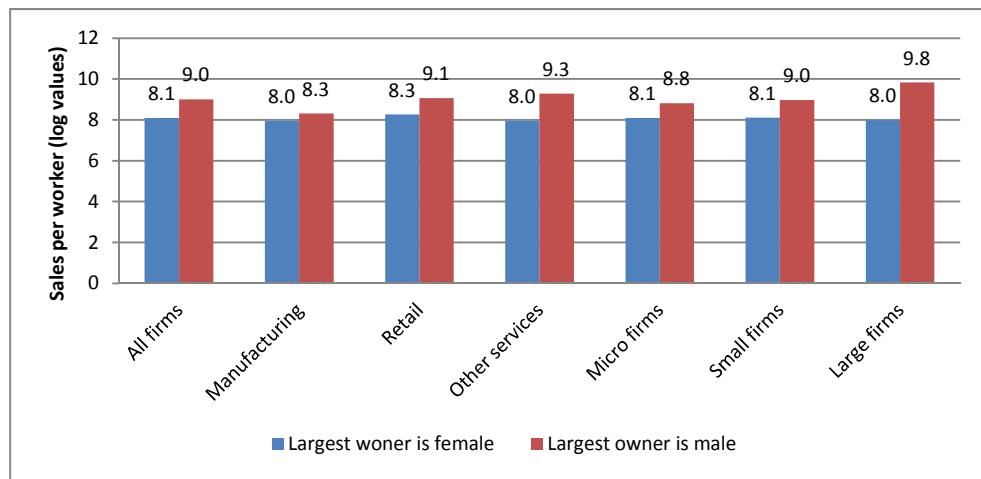
As mentioned earlier, firms with female ownership are far more likely to be formed as partnerships than male owned firms are. Follow-up discussions with a number of female business owners suggest that while females are not constrained, in how they form businesses, either by laws or social norms, they are often constrained by costs and family responsibilities. Partnerships allow women to share the costs, risks, and responsibilities associated with starting and running a business by pooling resources.

Improving female participation in economic activity is important not only for improving the economic condition of women but also for overall economic development and growth. Policies encouraging greater female presence in the private sector through for example, women-friendly laws on maternity leave, etc., and more education for girls are likely to yield rich returns in Somaliland as elsewhere in the developing world.

6. Consistent with the broader literature, firms with a female largest owner or firms with a higher percentage owned by females tend to be smaller in size, have lower labor productivity and have proportionately more women employees in the workforce. Perhaps due to greater barriers that women face, female ownership of firms is often associated with a smaller size of the firm as well as lower efficiency. Our data confirm these results for Somaliland using two of the three indicators of female participation in ownership. For example, focusing the gender of the largest owner of the firm, we find that the total annual sales of a typical firm in Somaliland with the female largest owner in the last year equaled 9.7 (USD, log values). The corresponding figure for a typical firm with a male largest owner is significantly higher at 10.7 log points. Similarly, firm-efficiency defined as annual sales per worker during the last year (log values) is much higher among firms with a male vs. female largest owner (9 vs. 8.1 log points). Interestingly, this gender-based difference in labor productivity holds separately for the sample of micro as well as small firms but not the large firms; across sectors, it holds separately for the retail and other services firms but not the manufacturing firms. Annual sales and labor productivity also show a significant negative correlation with the percentage of firm that is owned by females.⁷ Further analysis is required to assess exactly what causes lower productivity among female owned firms. Policy measures can be applied to reduce or eliminate the causal factors at play so that women can better contribute to the economic development of Somaliland.

⁷ There is some difference in the results for sectors and firm-size when using the percentage of firm that is owned by females as the measure of female ownership rather than the gender of the largest owner.

Figure 6: Female ownership and labor productivity are inversely correlated in Somaliland



Source: Enterprise Surveys.

Note: Sales values used for computing Y-axis values are in local currency units and for the year prior to the survey year. The sample of "Large" firms includes medium and large firms as defined above.

Anecdotal evidence seems to suggest that firms with women in top positions tend to have a higher proportion of female workers than the rest. One reason for this could be that women in top positions tend to open doors for other female workers. It is also possible that certain types of jobs or sectors that are more favorable to women tend to attract both, the manager and owners as well as employees. For either of the two or other reasons, the proportion of females in the workforce is significantly higher in Somaliland among firms with a female largest owner than a male largest owner (43.1 vs. 6.6 percent). The result holds individually for the sample of micro, small and large firms and also for manufacturing, retail and other service sectors. The other two measures of female ownership mentioned above yield similar results with the exception that large firms have roughly similar percentage of female workers irrespective of level of female ownership (or lack of it).

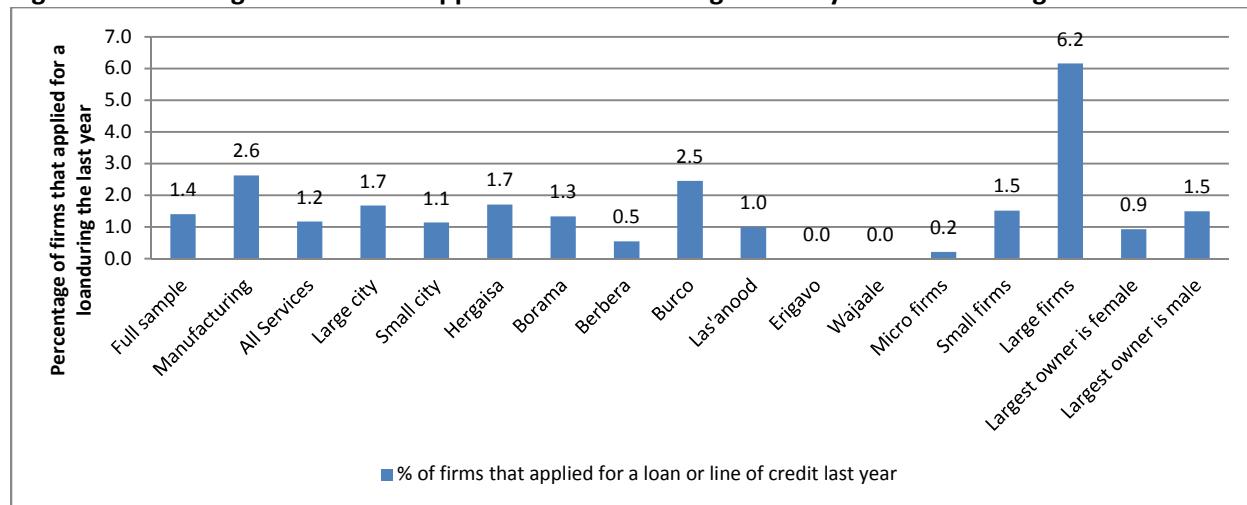
7. Access to finance seems to have become increasingly difficult in the recent year. ES data provide information on the outstanding loans (if any) with the firms as well as on whether firms applied for a loan during the last year prior to the survey. Results for outstanding loans should be treated with due caution as these loans could be taken in the distant past and therefore may not reflect properly on the current situation as far as access to finance is concerned. With this caveat in mind, the data show that close to 33 percent of the firms in Somaliland has an outstanding loan or line of credit. This is much higher than the 16 percent of the firms that we find have an outstanding loan in the comparator countries. Only in Rwanda the percentage of such firms is higher at 45.5 percent than in Somaliland. Somewhat surprisingly, in Somaliland the percentage of firms with an outstanding loan much lower among large firms (17.9 percent) compared with micro (31.7 percent) and small firms (38.5 percent). Also, contrary to what we might expect, measures of female participation in ownership discussed above show no significant correlation with the percentage of firms with an outstanding loan.

As mentioned above, outstanding loans could be from a distant past and may not reflect on current reality. Using information in the survey on access to finance during the last one year, we find that all is not well with access to finance in Somaliland. The discussion below covers how firms rank access to finance as the most important obstacle they face for the day to day operations of the firm and on an

absolute scale, access to fiancé is more than a minor obstacle for a significantly large proportion of firms. We focus here on another objective measure of finance that relates to loan applications during the last year. In Somaliland and focusing on the full sample, only 1.4 percent of the firms applied for a loan during the year prior to the survey. Across sectors, regions and firm-size, we find the highest percentage of firms that applied for a loan in the last year to be among the large firms but even here the percentage is as low as 6.2 percent. Excluding micro firms for a comparison with other countries, only 2.6 percent of the firms in Somaliland compared with a significantly higher 18.8 percent in the comparator countries applied for a loan in the year prior to the survey. The low percentage in Somaliland is not because firms have sufficient capital of their own and don't need a loan. That is, for the sample of firms that did not apply for a loan during the last year, only 6.5 percent of them reported "no need for a loan" as the main reason for not applying and this percentage figure is not too different across different firm-types (sectors, regions, and firm-size) within Somaliland. Other factors such as high interest rates (cited by 25.3 percent of the firms) were much more common among firms as the main reason for not applying for a loan. Similarly, approval rates of loan applications submitted in the last one year are also significantly lower in Somaliland than in the comparator countries - 42.8 percent in Somaliland excluding the micro firms vs. over 85 percent in Ethiopia and Rwanda.⁸

Follow-up discussions with business owners confirmed that the use of financial services is constrained by a number of factors. Financial services such as loans and lines of credit are not available formally in Somaliland and therefore the number of firms that apply for loans or lines of credit is limited to those that have access to foreign credit markets or loans from friends and family.

Figure 7: Percentage of firms that applied for a loan during the last year is low throughout Somaliland

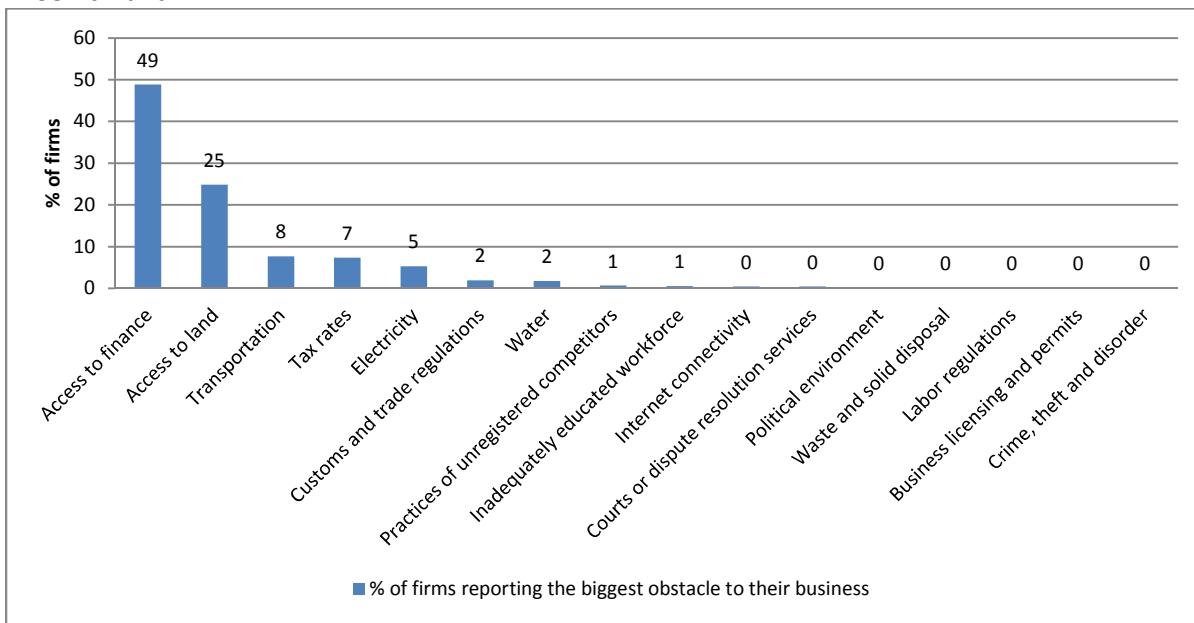


Source: Enterprise Surveys.

8. Access to finance is the most commonly cited single biggest obstacle to doing business followed by to land. When asked to choose the single most important or biggest obstacle to their business from a list of 16 obstacles, poor access to finance was the most commonly chosen obstacle (by 48.8 percent of the firms) followed by access to land (by 24.8 percent of the firms). None of the remaining 14 obstacles was chosen as the most important obstacle by more than 10 percent of the firms (figure 8).

⁸ The figure is not available for the remaining comparator countries due to missing data. In Somaliland, the approval rate of loan applications for the full sample (that is, including the micro firms) equals 45.8 percent.

Figure 8: Access to finance is the most commonly chosen single most important obstacle by the firms in Somaliland



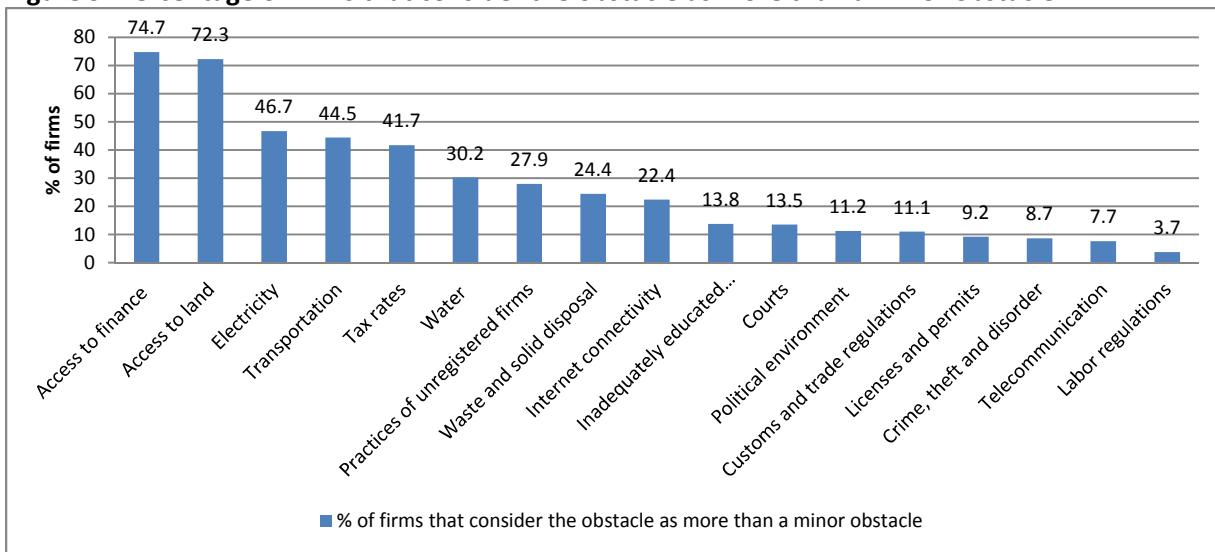
Source: Enterprise Surveys

Interestingly, in Somaliland, the proportion of firms reporting access to finance as the biggest obstacle does not vary much either by firm-size or female participation in ownership; small vs. large cities are also roughly similar in this regard. For example, across firm-size, access to finance was chosen as the biggest obstacle by 45.8 percent of the micro firms, 51 percent of the small firms and 54.7 percent of the large firms. The difference between these percentage figures is not statistically significant (at the 10 percent level or less). These results also hold for access to land as the biggest obstacle across different firm-types with the exception that a significantly larger proportion of micro vs. large firms (29.1 vs. 12.6 percent) ranked access to land as the biggest obstacle.

It is important to note that the discussion above relates to the *ranking* of obstacles. That is, how does a given obstacle compare with the other obstacles. The rank so obtained does not necessarily have any correlation with the severity of the obstacle for firm's operations on an absolute scale. For this reason, ES also provides information on the absolute level of severity of the various obstacles. That is, firms were asked separately for each obstacle if the obstacle were no obstacle, minor obstacle, moderate obstacle, major obstacle or a very severe obstacle. Percentage of firms that reported the obstacle as more than a minor obstacle (moderate, major or very severe obstacle) was highest for access to finance (74.7 percent), followed by access to land (72.3 percent) and electricity (46.7 percent). Figure 9 provides the full distribution. The severity of the obstacles on the absolute scale does show some variation across regions and by firm-size. However, the variation here is specific to particular obstacles but not uniform across all obstacles. For example, the percentage of firms that consider access to finance as a more than a minor obstacle equals 66.9 percent among micro firms and a significantly higher 83.4 percent among small firms. However, for the other obstacles such as access to land, the corresponding figures are roughly equal at 73.4 and 70.8 percent, respectively. While all regions cite access to finance most frequently as the largest obstacle, some differences across regions are notable. In Hargeisa and Borama, access to land and tax rates are in the top three most frequently cited obstacles. In Berbera, electricity and transportation round out the top 3 while Burco cites transportation and access to land. Firms in

Laasnoon most frequently identify water and access to land along with access to finance while firms in Erigavo cite electricity and access to land. Finally, firms in Wajaale identify tax rates, transportation and access to finance in roughly equal numbers.

Figure 9: Percentage of firms that consider the obstacle as more than a minor obstacle



Source: Enterprise Surveys.

Note: More than a minor obstacle means that the obstacle is either a moderate or a major or a very severe obstacle to the current operations of the firm.

Access to land is the second most cited obstacle behind access to finance at nearly 25%. The Enterprise Surveys data suggests that land tenure is not much of an issue with over 90% of firms answering that they have documentation of their land's status. This finding does not square with the finding that access to land is the second most frequently cited obstacle to running a business. When presenting preliminary findings to various Ministries and business-people, they were asked to comment on these findings in order to determine whether access to land, tenure, or cost of land was the issue. It became clear during these discussions that while most businesses have documentation for the land they occupy, they often have little faith that their documentation would be enforceable during a dispute. Land titling, registration, and formalization takes place largely at the local level in a piecemeal fashion. Land tenure is usually only formalized as areas are urbanized meaning that rural plots are usually not surveyed or registered in a public registry. Many land disputes appear to be sparked by absentee land-owners returning to Somaliland after having lived abroad for long periods of time.

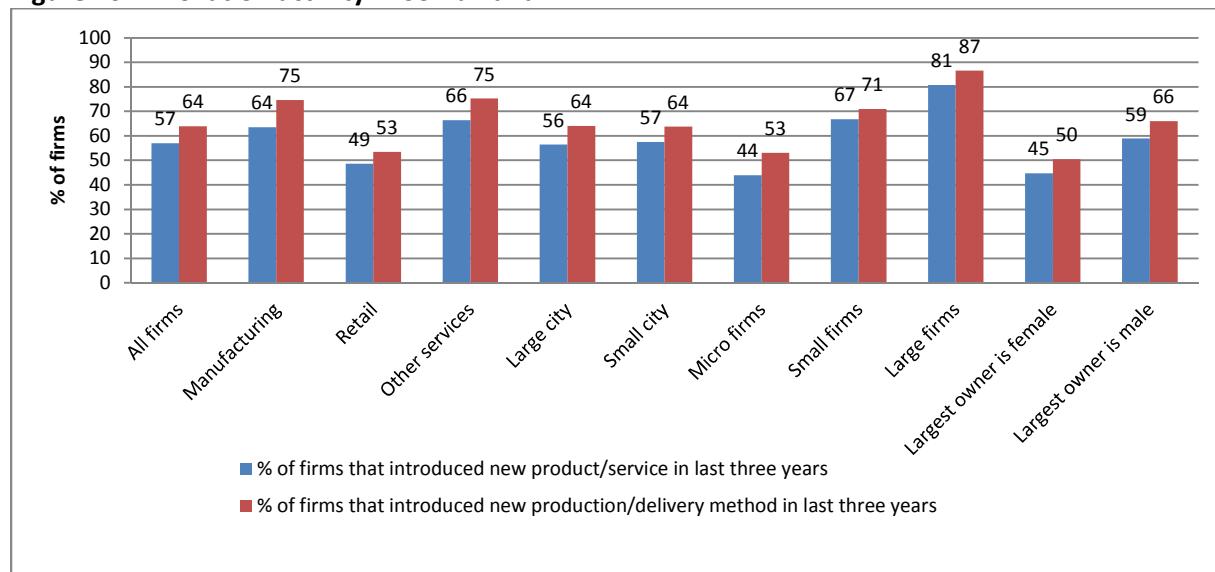
Electricity is the third most frequently cited biggest obstacle. Eighty-two percent of firms in Berbera are served by public electric utilities and about 13% of firms in Hargeisa get electricity from public sources. The remainder of the country relies entirely on private sources for electricity with most of that in the form of diesel generators. Generator ownership is surprisingly low at just 5% of firms given what is known about electricity in Somaliland. High capital costs and access to finance are likely contributing factors to low generation ownership rates. High operating costs may also make small generators impractical thus business activities may be limited by barriers related to scale and electricity. Firms cite relatively infrequent power outages – only 4 per month for a total of 8.8 hours of outage in a typical month (*Note that regular scheduled outages, load shedding, and changeover were not counted in this figure*). This may not reflect the full nature of the constraints posed by electricity as firms may compensate by adjusting expectations and operating in low-electricity-intensive industries.

Improvements in electricity infrastructure would have significant positive economic development impacts. Efforts to encourage the development of safe, reliable, and less expensive energy should be a priority for fostering economic growth because of its potential effects both on quantity of economic activity and the scope of viable businesses that can thrive with improved electrical access.

9. Innovation activity seems to be widespread in Somaliland in the sense that a majority of firms introduced a new product or service as well as new methods of manufacturing or delivering services over the last three years. Over the last three years, about 57 percent of the firms in Somaliland introduced a new product/service and 63.9 percent introduced a new method of manufacturing or offering services. In short, a majority of firms in Somaliland are involved in product and process innovation. However, we caution that how important or significant are these innovations is not clear due to data availability issues. This is an area that merits further investigation.

As one might expect, the proportion of innovating firms is significantly higher among the small vs. micro firms and among large vs. small and micro firms (figure 10). These results for firm-size are not uniform in that they hold for firms in the service sector but not for firms in the manufacturing sector. At the overall sector level, retail sector tends to lag behind the other sectors in innovation. Specifically, over the last three years, only 53.5 percent of the retail firms introduced a significantly improved production or delivery method. This is significantly lower than the corresponding figure of 74.6 percent for the manufacturing firms and 75.3 percent for other services firms. Percentage of firms that introduced a new product or service in the last three years is also significantly lower among retail firms (48.6 percent) compared with other service sector firms (66.3 percent).⁹ Controlling for firm-size and compared with the rest of the firms, firms who introduced a new product or service in the last three years have higher labor productivity, higher proportion of annual sales that are exported, higher proportion of inputs that are imported and they are also the relatively older firms.

Figure 10: Innovation activity in Somaliland



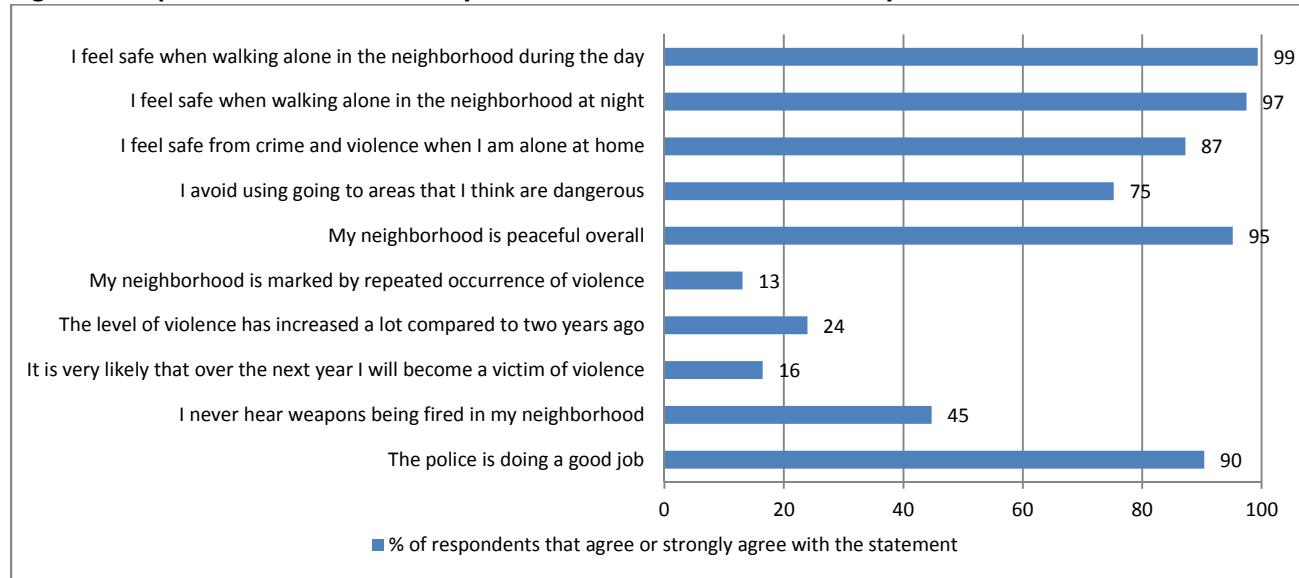
Source: Enterprise Surveys

⁹ While 63.5 percent of the manufacturing firms introduced a new product or service during the last year, this is not significantly different (at the 10 percent level or less) than the corresponding figure of 48.6 percent for the retail firms cited above.

10. While the level of crime in Somaliland is low and the respondents feel relatively safe in their neighborhoods, they do take precautions by avoiding crime prone areas and beefing up security at the firm. ES provides information on the actual experiences of firms with crime incidents and spending on security as well as the opinions of the respondents (managers/owners) about various aspects related to the security situation. These data seem to suggest that while the crime situation is favorable in Somaliland, individuals and firms are concerned enough to take precautionary measures. Specifically, during the last year, about 7.5 percent of the firms in Somaliland experienced losses due to crime. The figure decreases only marginally to 7.3 percent if we exclude the micro firms from the sample. Compared with this figure of 7.3 percent in Somaliland, the corresponding figure for the comparator countries equals a significantly higher 15.3 percent. In fact, all the comparator countries have a higher percentage of firms reporting losses due to crime than Somaliland. Within Somaliland, we find some variation in the level of crime across regions. For example, about 34 percent of the firms in Borama reported losses due to crime compared with no firm reporting such losses in Wajaale. However, there is not much difference here between other firm-types such as small vs. large firms, etc.

Given the relatively low levels of crime incidents, it is not surprising that the respondents have a favorable opinion about the security situation in Somaliland (figure 11). For example, when the owners/managers were asked if they feel they are likely to be victims of crime in the next 12 months, 83.6 percent either disagreed or strongly disagreed with such a possibility. Figure 11 shows qualitatively similar results for some of the other perception related questions. Perception of how favorable the security situation is does show some variation within Somaliland, for example, between small and large cities, but the differences are not consistent across different aspects of the security situation. For example, 0.8 percent of the respondents in the large cities strongly disagreed with feeling safe from crime and violence while at home compared with a significantly higher figure of 9.1 percent in the small cities. In contrast, we find no difference between small vs. large cities in how safe the respondents feel walking alone in their neighborhood at night.

Figure 11: Opinions about the security situation in Somaliland are mostly favorable

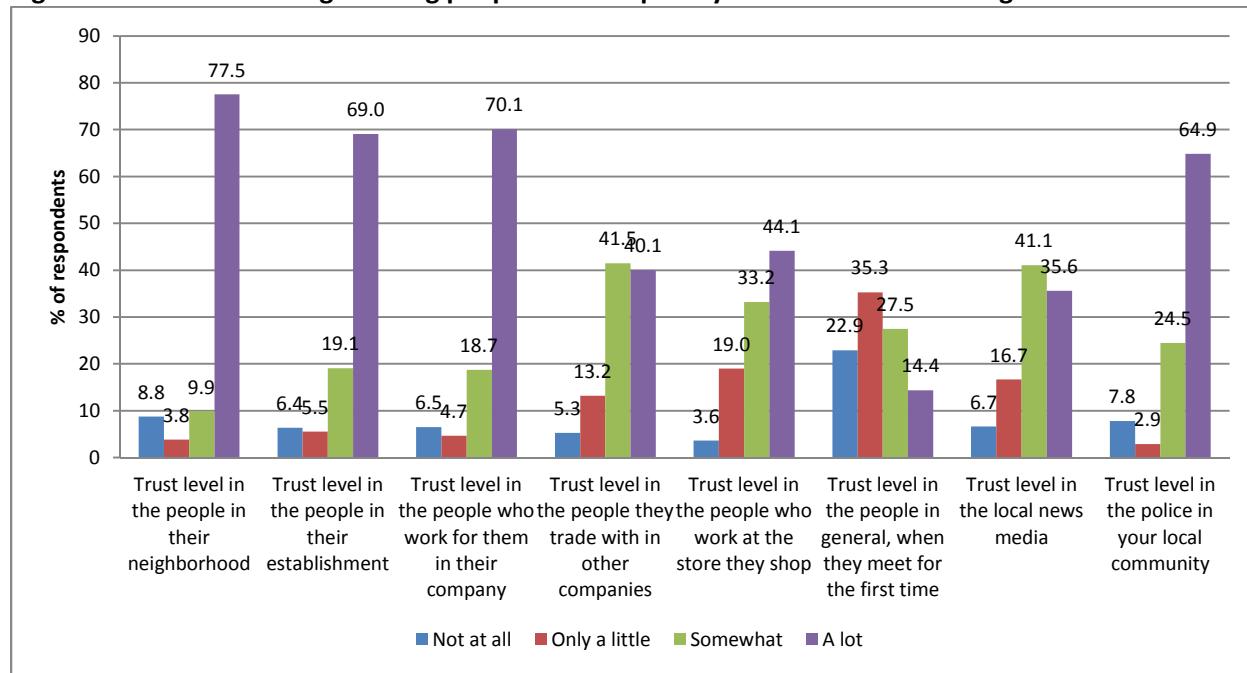


Source: Enterprise Surveys.

Despite the low level of crime and the favorable opinions about security discussed above, about 73 percent of the firms in the full sample paid for security (security services or equipment) during the last year. Such spending is much more common among large firms (88.2 percent) compared with micro (66.7 percent) and small firms (76.4 percent). Nonetheless, only 2.4% of respondents cite crime, theft and disorder as a major constraint to running their businesses. Similarly, 75 percent of the respondents in the full sample stated that they avoid certain ways and areas that they think are dangerous. In addition to these worrying factors, about 55 percent of the respondents reported hearing gunshots in their neighborhood and close to 24 percent believe that the level of crime has increased in Somaliland over the last two years. These results suggest that while the crime situation in Somaliland is not bad, there are lingering concerns that need to be addressed.

11. The level of trust among people is reasonably high in Somaliland but it takes time and familiarity to build that trust. The respondents were asked a number of questions regarding their level of trust in the people they work with, people who work in the stores they shop at, people in general, and the police and the media. Responses were recorded as “a lot”, “somewhat”, “only a little” and “not at all”. Figure 12 provides a glimpse of the level of trust in Somaliland. As the figure shows, a majority of respondents have “a lot” or “somewhat” level of trust in most of the areas covered and relatively few respondents showed no trust at all or only a little. For example, 69 percent of the respondents said that their level of trust in the people they work with is “a lot” and another 19.1 percent said it was “somewhat”; only 6.4 percent of the respondents chose no trust at all (“not at all”). For some of the cases depicted in figure 12, we do find a significantly higher level of trust among micro and small firms relative to large firms; there is also some variation in the level of trust across the various regions of Somaliland. However, these differences by firm-size and regions are not too robust in that they hold for some of the trust related questions but not for the others.

Figure 12: Trust level is high among people who frequently interact but not among the rest



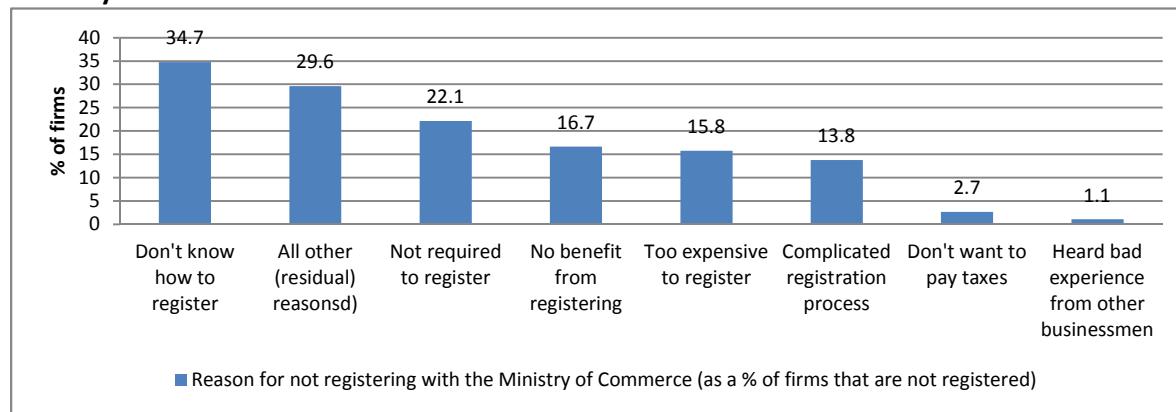
Source: Enterprise Surveys.

A couple of other points stand out in figure 12. First, the level of trust in the police is high but not in the media. Hence, it is difficult to draw any strong conclusions about the level of trust that people in

Somaliland have in social organizations. Second, trust level in people in general when meeting them for the first time seems to be low. That is, only 14.4 percent of the respondents expressed “a lot” of trust in people when meeting them for the first time, 27.5 percent reported their trust level as “somewhat” and the remaining 58.1 percent reported it as “not at all” or “only a little”. What this suggests is that trust level may be high in Somaliland among co-workers, neighbors and other people that one meets on a regular basis but not so between strangers. The level of trust that the government will do its job with respect to enforcing certain criminal penalties is also quite high. Over 96% of firms responded that it is likely or highly likely that authorities would enforce the law if they committed a serious crime. Likewise, over 90% of firms believe the authorities would enforce the law if they failed to pay taxes on some of their income and 84% believe they would be prosecuted if they obtained water or electrical services without paying. Business owners in Somaliland consistently credit the peacefulness of the country and the culture as a major economic asset. Somaliland enjoys a level of peace and trust that allow businesses and individuals to settle disputes and manage affairs despite a weak central government. This valuable asset should not be a substitute however for institutions that formalize rules governing the business environment. There is a consistent sentiment among business owners that the government is sometimes opaque and often fails to deliver on its promises.

12. For about 45 percent of the firms that are not registered with the Ministry of Commerce, lack of proper information is the most commonly cited reason for not registering. When asked if the firm was registered with the Ministry of Commerce, about 45 percent of the respondents reported not being registered. The percentage figure is as low as 7 percent among large firms and significantly higher among micro and small firms (65.6 and 41.4 percent, respectively). Along expected lines again, the percentage figure is significantly lower in the large cities compared with small cities (35 vs. 55 percent). Firms that are not registered were shown a list of reasons for not registering and asked which of the reasons applied to them (if any). The percentage of firms that chose “no benefit from registering” as a reason for not registering is not too high at 16.7 percent in the full sample. However, the percentage of such firms is significantly lower among service vs. manufacturing sector firms (13.7 vs. 31.5 percent), large vs. small cities (0.6 vs. 26.3 percent), firms with a male vs. female largest owner (10.3 vs. 45.3 percent), and in Hargeisa (0.4 percent) and Burco (0.5 percent) vs. Lasanood (62.5 percent) and Wajaale (25 percent). The most commonly cited reason in the full sample for not registering is that firms do not know how to register (34.7 percent) followed by other (residual) reasons (29.6 percent) and not required to register (22 percent). Expensive registration procedure was a reason for not registering for only 15.8 percent and complicated registration process for 13.8 percent of the firms (figure 13).

Figure 13: Don't know how to register is the most commonly cited reason for not registering with the Ministry of Commerce



Source: Enterprise Survey. The figure is for registration or lack of it with the Ministry of Commerce and not with other government agencies. All figures shown are a percentage of the number of firms that are not registered with the Ministry of Commerce (about 225 firms).

What these results seem to suggest is that spreading information about the need to register and how to register may be as important as reducing the cost and complexity of registration. Indeed, follow-up discussions with business owners confirm that businesses are often reluctant to register with the MOC because the benefits conferred for registering are unclear while the cost of registration is quite high. A review of existing channels of information dissemination, marketing, and policy measures to strengthen and clarify such channels and benefits may be useful.

Measures of Firm Performance in Somaliland

The ES for Somaliland provides information on total annual sales of the firm during the last fiscal year and also three fiscal years ago. Using these data, sales growth was computed as the difference in annual sales in 2012 and 2010 divided by the average level of sales in the two years (Haltiwanger growth formula). We further divide the resulting figure by 100 to convert to percentage and divide by 2 to arrive at the average annual growth rate. The results discussed below hold if we divided the sales difference by the initial (year 2010) value of sales. Information is also available in the ES on total wages and benefits paid to workers (henceforth, Payroll) during 2012 and 2010. We compute the growth rate in payroll in a way similar to the one discussed above for sales growth. Under the assumption that changes in wage rates are roughly same across firms between 2010 and 2012 or that such changes are uncorrelated with the potential covariates considered, growth rate in payroll can be used as a reasonably good proxy measure of job creation at the firm level. However, due caution is necessary in interpreting payroll as a proxy for job creation.

13. The median value of sales growth rate in Somaliland equals 10 percent (per annum) and the mean value of the same is 13.8 percent. We find a strong and significant (at less than the 5 percent level) correlation between sales growth rate and a number of variables related to the structure of the firm, level of competition, gender composition of the owners and the level of security and trust as perceived by the firms. As discussed below, some of these correlations disappear or become insignificant when we control for firm-size, an important covariate of growth in our sample. We discuss some of these findings below.

Sales growth is strongly and inversely correlated with the (log of) initial level of sales (that is, annual sales in 2010). That is, there is strong convergence with initially large firms growing more slowly than the small firms (figure 1). For example, firms in the bottom decile by initial sales experienced a median growth rate of 20 percent per annum compared with a median growth rate of just 9 percent for firms in the top decile. Since firm-size tends to be correlated with a number of firm characteristics, it is not surprising that some of the covariates of growth rate lose their significance when we control for initial sales. However, some correlations do survive the control for initial sales and we discuss some of these below.

14. Sales growth is strongly and inversely correlated with the presence of females among the owners. For example, a 1 percentage point increase in the share of female owners in the firm is associated with a decrease in the sales growth rate of 0.19 percentage points. In other words, moving from a firm with no

female owners to all female owners is expected to be associated with decrease in the growth rate of 19 percentage points, a large change given that the mean value of sales growth in the sample equal only 13.8 percent. We note this gender based difference in sales growth survives controlling for initial firm-size as well as sector fixed effects.

Growth rate in sales is higher among firms that report facing a larger number of competitors. Close to 14 percent of the surveyed firms have top decision maker who is has either no education or primary education but not higher. Correcting for weights, these firms constitute over 24 percent of the private sector firms in Somaliland. As might be expected, sales growth is significantly lower among firms with managers having no or only primary schooling (mean growth rate of 5.5 percent per annum) compared with firms with more educated managers (mean growth rate of 16.9 percent per annum).

15. There is little difference in the severity of the various obstacles to doing business as perceived or experienced by the firms between high and low growth firms. The only exception we find is telecommunication services. For example, the percentage of firms that report telecommunications as a major or very severe obstacle (as opposed to no obstacle, minor or a moderate obstacle) equals 4.7 percent for firms with below median sales growth rate. The corresponding figure for firms with above median sales growth rate is significantly higher at 9.2 percent.

16. Faster growing firms seem to have a worse perception of enforcement of laws than the slow growing firms. That is, firms were asked how likely they think the law would be enforced if a crime were committed, if taxes were not paid, or if someone took household services (water and electricity) without paying. For two of these three enforcement questions (non-payment of taxes and obtaining household services), firms reporting very likely (as opposed to less likely) show much slower growth rate than the rest. For example, sales growth for firms reporting non-payment of taxes as very likely to invite enforcement of the law equals 7.7 percent compared with a much higher growth rate of 22 percent for firms that consider the enforcement to be just likely, not very likely or not at all likely. One possible explanation here is that the faster growing firms are more likely to benefit from better enforcement and hence more likely to complain about existing laxities in enforcement.

17. The median growth rate in payrolls equals 16 percent (per annum) and the mean growth rate is 29 percent. Results for growth rate in payrolls show only a few robust correlations with various firm characteristics. Much like sales growth rate, payrolls also show a convergence effect. That is, the growth rate in payrolls is significantly and inversely correlated with the initial (year 2010) value of total payrolls. Payrolls growth rate is also significantly inversely correlated with the initial (year 2010) value of annual sales (log values) but this association becomes weaker and insignificant (at the 10 percent level) once we control for the initial level of payrolls.

Payrolls growth rate also shows a systematic difference between old and young firms – the growth rate is much higher for the relatively young firms and this result holds even when we control for the initial level of payrolls. For example, estimation results show that moving the 25th to the 75th percentile value of age (from 6 to 16 years) in Somaliland is associated with a decrease in payrolls growth rate of about

15.8 percentage points. This is an economically large change given that the mean value of payrolls growth rate equals 29 percent in our sample.

Firms were asked about recruiting methods they use. That is, whether during the last year the firm found new employees through the following channels: family and friends; word of mouth; public advertisement; and the residual category of other channels. Growth rate of payrolls is significantly lower for firms that used the more traditional channels of family and friends and word of mouth than those that did not use these channels. For example, firms using family and friends show a growth rate in payrolls of 19.8 percent compared with a significantly higher growth rate of 32.1 percent for firms that did not use family and friends. There is no significant difference in payrolls growth rate between firms that used public advertisements and other residual channels and those that did not do so.

18. Much like sales growth, we find no significant correlation between the severity of the various obstacles and payrolls growth rate. Similarly, ranking of the various obstacles in terms of how important they are for a particular firm is also uncorrelated significantly with payrolls growth rate.