# Business Formality in Somalia: What the 2024 Business Establishment Census Reveals for Growth, Revenue, and State-Building

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## Key Policy Takeaways (Priority-Based)

- **Formalisation must be incentive-led, not enforcement-driven (0–12 months).** Immediate progress requires suspending punitive inspections and fines—particularly against micro and informal enterprises—which tend to deepen informality rather than reduce it. Lowering entry costs through simplified, low-cost registration and licensing, temporary tax relief, and access to basic business services can encourage voluntary formalisation using existing institutional capacity.

- **One size does not fit all: target formalisation where it is most viable (0–12 months).** Formalisation strategies should be evidence-based rather than uniform. High-density urban regions with vibrant markets—such as Mogadishu, Hargeisa, and Bosaso—offer immediate opportunities for productivity gains and revenue mobilisation. SIBEC data should guide targeted pilots in these locations, while conflict-affected and low-density regions require policies that prioritise enterprise viability, scaling, and market access before formal registration.

- **Lower the cost of compliance and support firm growth (1–3 years).** Reducing structural barriers through presumptive or turnover-based taxation with clear thresholds, alongside streamlined federal and municipal licensing systems, can make formal status affordable for small and medium-sized enterprises and support graduation from micro to small-scale operations.

- **Public investment in business infrastructure is a catalyst for formalisation (1–3 years).** Government-led development of markets, trading hubs, industrial spaces, electricity reliability, market access roads, and digital connectivity can integrate informal enterprises into regulated environments while ensuring firms perceive tangible returns from operating within the formal system.

- **Security, state credibility, and data systems underpin sustained formalisation (3–10 years).** Enhancing security around economic hubs, demonstrating transparent use of tax revenues for public services, and institutionalising the Statistical Business Register are foundational to strengthening the fiscal social contract, anchoring evidence-based policymaking, and sustaining formal sector growth.

# 1 Introduction

Following decades of conflict, Somalia's private sector has demonstrated remarkable resilience, emerging as the backbone of the national economy. Despite prolonged instability and institutional disruption, businesses continue to generate employment and provide essential goods and services, including in areas traditionally delivered by the state, such as energy, ICT connectivity, and water supply. The private sector accounts for approximately 95 percent of total employment in Somalia, underscoring its central role in sustaining livelihoods and economic activity in a fragile and conflict-affected context (Bareisaite et al., 2024; World Bank Group, 2024). Across the East African Community (EAC), private-sector employment is also high, ranging from 82.4 percent in Uganda and 87.2 percent in South Sudan to 90 percent in Rwanda and 97.2 percent in Tanzania ((EAC, 2024); see Figure 1). Somalia's 95 percent is particularly striking. In a context of fragility and limited state capacity, private enterprise functions not merely as a market driver, but as a stabilizing force, filling gaps left by public institutions.

Recognizing the need for robust data to inform policy, the Somalia National Bureau of Statistics (SNBS) conducted the 2024 Somalia Integrated Business Establishment Census (SIBEC) in three phases between April and August 2024. This created Somalia's first Statistical Business Register (SBR), which is aligned with international best practices and providing a strong foundation for future surveys, sample selection, and policy analysis.

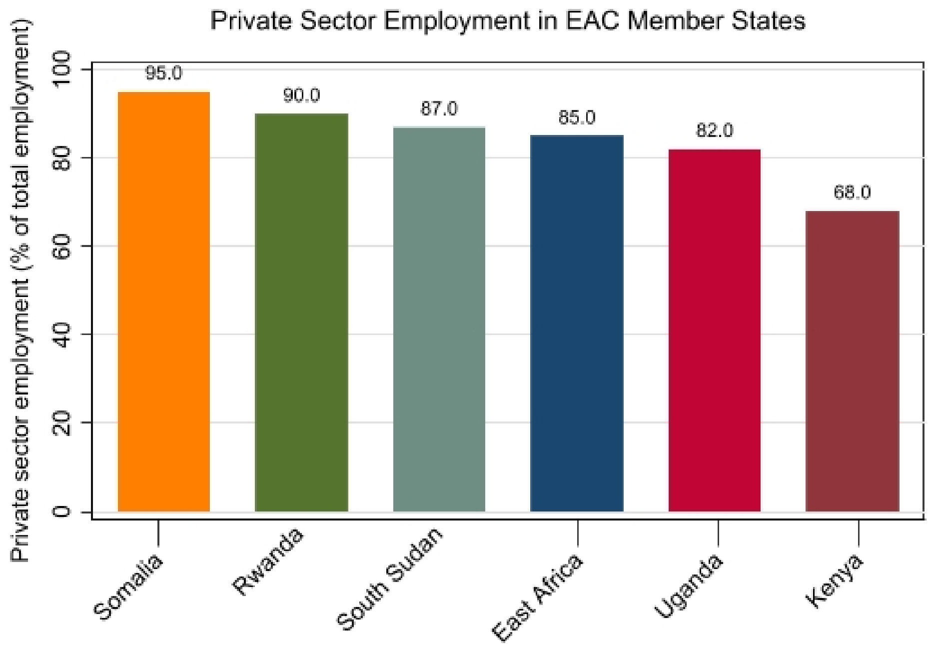


Figure 1: *Note:* Somalia data are sourced from the World Bank (2024) Country Private Sector Diagnostic, while data for other EAC countries are from the EAC Data Portal (2024). *Source: Authors' presentation.*

The census classifies businesses into formal, informal, and micro establishments. Formal businesses operate from fixed premises and are licensed by the relevant authorities, ensuring compliance with regulatory frameworks. Informal businesses operate outside official regulations and are often mobile or unregistered, while micro enterprises are small-scale market-based businesses with minimal staff.

This blog post is the first in a series analysing Somalia's business landscape using SIBEC data, with a focus on business formality and regional variations. It examines where businesses are concentrated, the relative prevalence of formal, informal, and micro enterprises, and the implications of these patterns for economic growth, government revenue mobilization, and evidence-based policy development.

## 2 Where is Business Thriving in Somalia?

Business activity in Somalia is heavily concentrated in a few urban regions, reflecting the uneven development of the national economy. Out of 174,149 establishments, 28% are formal, 25% are informal, and 47% are micro-enterprises, underscoring the predominance of small-scale, largely unregulated economic activity. Wholesale and Retail Trade accounts for 78% of all businesses, illustrating a persistent reliance on imports and limited domestic value addition (SNBS, 2024). This structural pattern contributes to trade deficits, constrains local innovation, and highlights the urgent need to develop policies that stimulate manufacturing and industrialization, which currently represents only 3% of establishments. This low figure is largely driven by structural barriers such as high energy costs, limited access to credit for capital investment, and competition from cheaper imports. Figure 2 further demonstrates that informal enterprises dominate the Somali business landscape, reflecting both regulatory gaps and the adaptive strategies of households and entrepreneurs in a challenging environment.

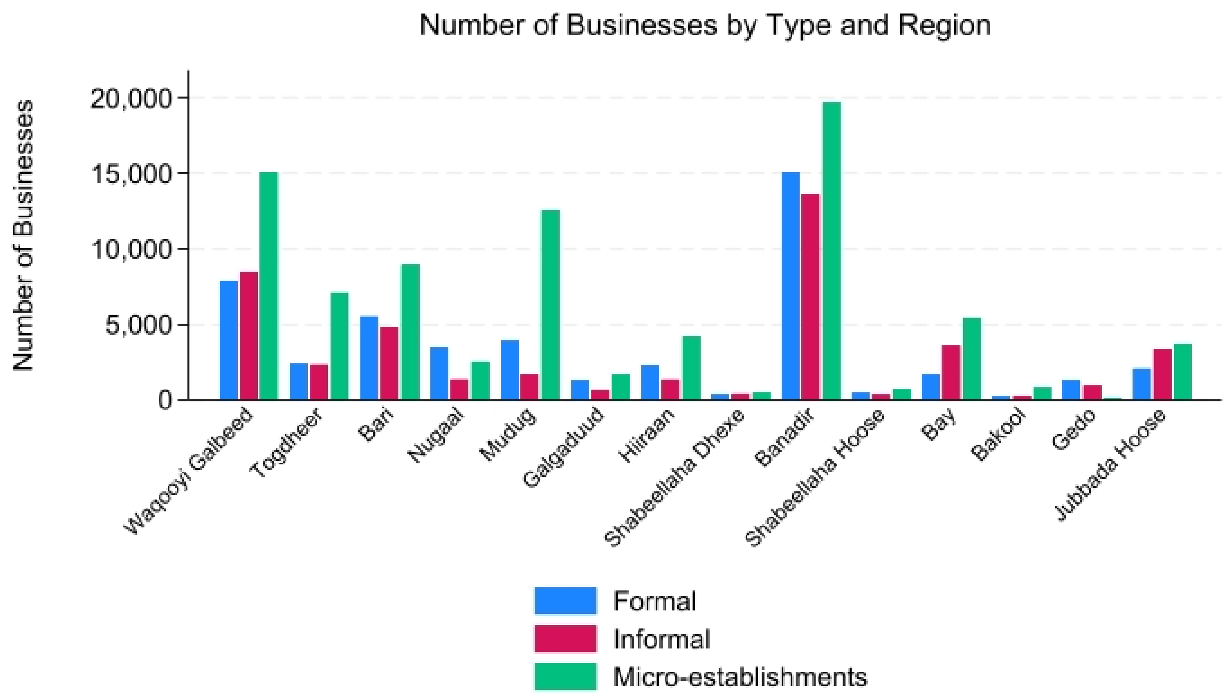


Figure 2: *Formal, informal, and micro establishments in Somalia by region, SIBEC 2024. Source: Authors' presentation based on SIBEC 2024 raw data.*

Regionally, Banadir hosts the highest concentration of businesses with 48,387 establishments (28%), followed by Waqooyi Galbeed (Hargeisa) with 31,491 (18%) and Bari (Bosaso) with 19,308 (11%). Together, these three urban hubs account for 57% of all businesses in Somalia, underscoring their dominance in the national economy. The high concentration of the three regions underscores a significant geographic economic disparity, suggesting that while these hubs are engines of growth, there is a critical need for policy interventions that promote regional economic decentralization and support enterprise development in underserved areas. These regions combine high total counts with substantial shares of formal and informal enterprises, reflecting vibrant urban markets where opportunities and regulatory gaps coexist.

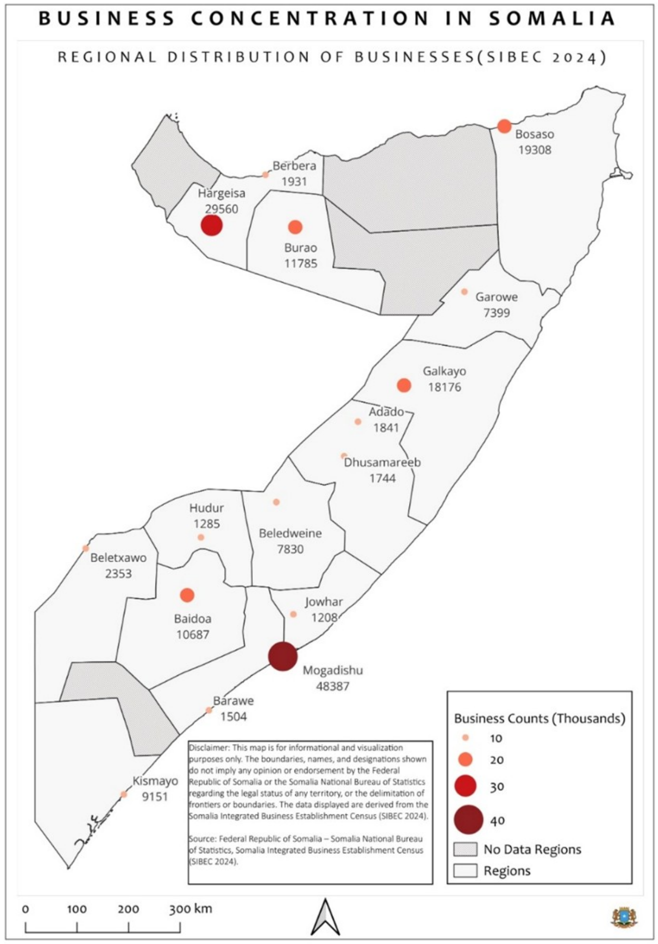


Figure 3: *Map showing regional concentration of businesses in Somalia based on SIBEC 2024. Source: SNBS, SIBEC 2024.*

# 3 Why informality thrives

High unemployment drives households toward self-employment and informal trade, while Somalia's reliance on imports fosters small-scale, low-capital, quick-turnover businesses. The presence of internally displaced persons (IDPs) and marginalized communities contributes further to the prevalence of micro-enterprises, particularly in areas near major markets where opportunities exist but capital and resources are limited. Collectively, these factors demonstrate that urban business growth reflects opportunity but remains constrained by structural, regulatory, and labor-market limitations, with informality often emerging out of necessity rather than choice.

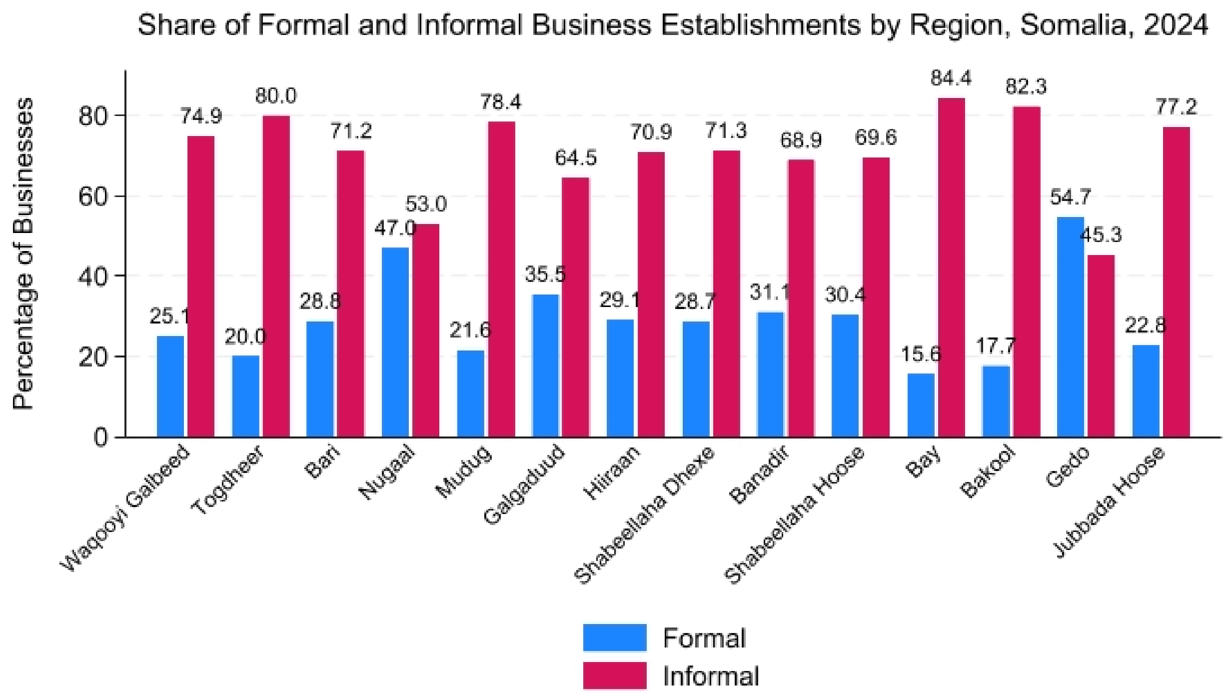


Figure 4: *Share of formal and informal business establishments across Somali regions, based on SIBEC 2024. Source: Authors' presentation based on SNBS, SIBEC 2024 raw data.*

Regions with the highest shares of informal businesses—Bay (84.4%), Bakool (82.3%), Togdheer (80%), and Mudug (78.4%)—have endured sustained insecurity over the past decade, illustrating a clear link between conflict and the prevalence of informal enterprises.

Armed Conflict Location & Event Data (ACLED) for 2014–2023 indicate that these regions experienced high average annual conflict incidents: Bay approximately 247, Bakool 104, Togdheer 43 (the highest in northern Somalia), and Mudug 105 (ACLED, 2026). Banadir and Shabeellaha Hoose, which reported the nation's highest average annual conflict exposure with 652 and 664 incidents respectively, also maintain substantial informal sectors. These patterns suggest that prolonged insecurity, coupled with limited formal employment opportunities and weak regulatory enforcement, drives many households toward self-employment and informal trade. By contrast, Gedo—with 2,353 businesses—presents a different scenario: despite a relatively high share of formal enterprises (54.7%), the absolute number of businesses is small, indicating that the elevated formality percentage reflects limited commercial activity rather than a robust formal sector.

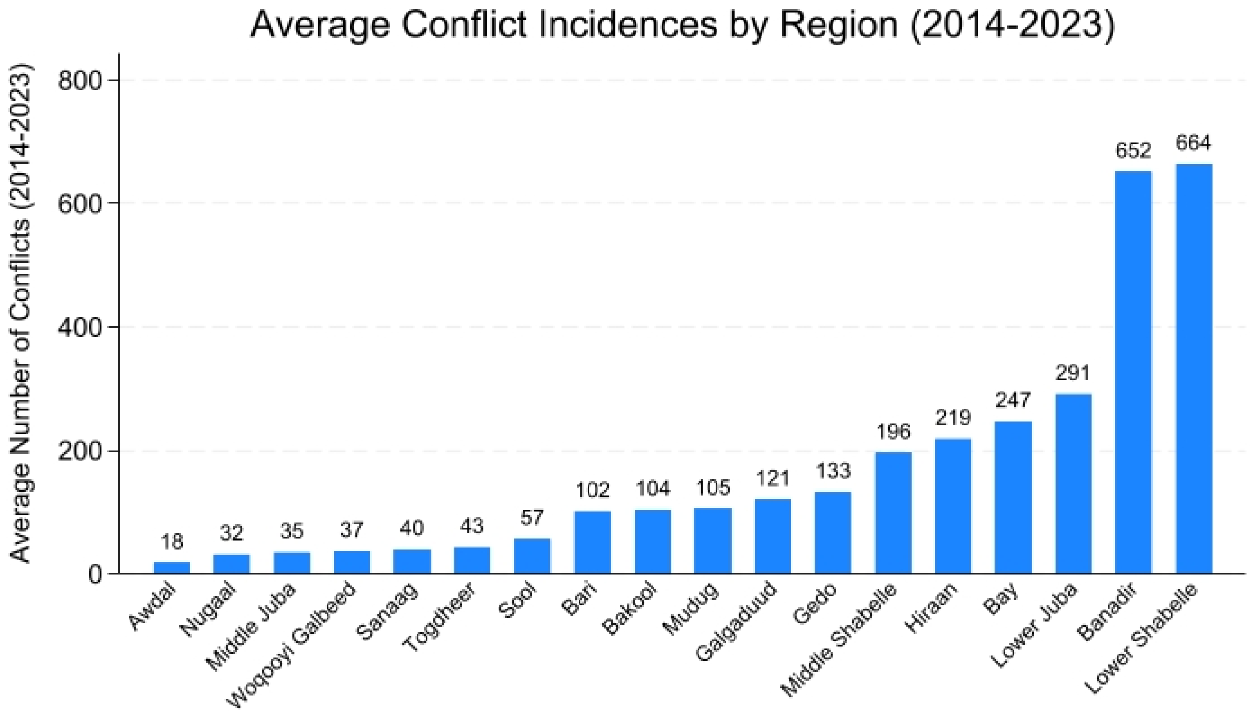


Figure 5: *Average annual conflict incidences in Somalia by region (2014-2023), based on ACLED data.* Source: Authors' calculation using ACLED data.

These patterns highlight the need for targeted economic policies that expand industrialization, formalize informal enterprises, and leverage regional strengths, while addressing the structural constraints imposed by conflict, displacement, and market concentration. Understanding both the absolute numbers and relative shares of business types is critical for evidence-based policymaking that promotes sustainable economic growth and inclusive development in Somalia.

# 4 Policy Implications

The predominance of informal and micro enterprises in Somalia reflects both economic dynamism and deep structural constraints. Most businesses operate at a very small scale, concentrated in wholesale and retail trade, with limited access to capital, infrastructure, and formal markets. In such a context, formalization cannot be treated as a narrow regulatory exercise. Instead, it must be approached as a development pathway—sequenced, incentive-based, and anchored in broader state- and market-building efforts.

First, high-density urban regions with both large formal and informal sectors—where the bulk of economic activity and larger firms are concentrated—such as Banadir, Waqooyi Galbeed, and Bari, offer immediate opportunities for productivity gains and revenue mobilization. These regions already host vibrant markets, established trading networks, and relatively better infrastructure, reducing the fixed costs of formalization. In this context, targeted and incentive-based formalization strategies—including simplified and low-cost licensing, temporary tax relief for newly registered firms, and access to basic business development services—can encourage voluntary compliance without undermining livelihoods. Evidence from fragile and post-conflict economies shows that firms are significantly more likely to formalize when the costs of entry are low and the benefits of formality are visible, such as improved market access, legal protection, and eligibility for finance and public services (Ghossein and Rana, 2022; Benjamin, 2023). Furthermore, donors and diaspora investors can leverage SIBEC data to identify high-potential regions and tailor support, investments, or financing to maximize impact, reinforcing the effectiveness of targeted formalization.

Second, regions with the highest shares of informal and micro enterprises—such as Mudug, Bay, Bakool, and Togdheer—face compounded challenges of prolonged insecurity, displacement, and limited market access, which constrain enterprise growth and household livelihoods. In these areas, informality reflects necessity rather than regulatory avoidance, and the priority should be enterprise viability and gradual upgrading rather than immediate formalization. Accordingly, policy interventions should focus on improving market connectivity, strengthening local value chains, easing access to finance, and investing in secure, government-supported trading spaces. Formalization should be sequenced and incentive-driven, emerging as businesses stabilize and expand, rather than imposed on survival-oriented enterprises operating under fragile and conflict-affected conditions.

Third, public investment in business infrastructure is a critical enabler of formalization. Government-led development of markets, trading hubs, and industrial spaces—where informal enterprises can operate in designated locations, register, and progressively integrate into the tax system—offers a practical and scalable approach. Such investments reduce uncertainty, improve compliance, expand the statistical and tax base, and create clearer entry points for domestic and diaspora investment. By explicitly linking infrastructure improvements to formalization outcomes, policymakers can ensure that firms perceive tangible benefits from participating in the formal system.

Fourth, state credibility and accountability are central to the formalization process. Businesses are more willing to register and pay taxes when they perceive a clear return in the form of public services. Transparent and effective use of tax revenues—particularly in health, education, roads, security, and market infrastructure—strengthens the fiscal social contract and reinforces trust between the state and the private sector.

Finally, security remains a binding constraint on formal sector development. Persistent insecurity raises transaction costs, discourages fixed investment, and weakens regulatory enforcement. Strengthening security—especially around major economic hubs, transport corridors, and commercial centers—is therefore not only a governance imperative, but a prerequisite for sustained formalization and private investment.

Taken together, these findings underscore a central message for policymakers and partners: formalization in Somalia will be achieved not through enforcement alone, but through incentives, infrastructure, security, and credible institutions that lower risk and reward compliance. In other words, if Somalia aims to broaden its tax base, it must first establish trust and enable enterprise viability, so that formalization is practical and rewarding.

# 5 Conclusion and Forward Look

The 2024 Somalia Integrated Business Establishment Census provides an unprecedented, nationally representative snapshot of Somalia's private sector. It reveals an economy driven by micro and informal enterprises, characterized by strong urban concentration and significant regional variation, and shaped by the combined effects of market structure, conflict, and institutional capacity. For government, development partners, diaspora, and investors, these insights point to clear priorities. Formalization strategies must be regionally differentiated, sequenced, and aligned with investments in security, infrastructure, and public service delivery. Supporting enterprise growth, improving market access, and strengthening trust in public institutions are as important as regulatory reform in expanding the formal economy.

As Somalia continues its state-building and economic recovery journey, high-quality business statistics provide a critical foundation for informed decision-making, investment planning, and policy design. Future posts in this series will extend the analysis to sectoral composition using ISIC classifications, gender dynamics, business size and turnover, digital adoption, registration patterns, and regional business hotspots—offering deeper insights into Somalia's economic structure and emerging investment opportunities.

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