

# LASER PULSE

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## Somalia Resilience Food Security Activities: A Private Sector Landscape Analysis

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**ABOUT LASER PULSE**

LASER (Long-term Assistance and Services for Research) PULSE (Partners for University-Led Solutions Engine) is a \$70M program funded through USAID's Innovation, Technology, and Research Hub, that delivers research-driven solutions to field-sourced development challenges in USAID partner countries.

A consortium led by Purdue University, with core partners Catholic Relief Services, Indiana University, Makerere University, and the University of Notre Dame, implements the LASER PULSE program through a growing network of 3,700+ researchers and development practitioners in 86 countries.

LASER PULSE collaborates with USAID missions, bureaus, independent offices, and other local stakeholders to identify research needs for critical development challenges and funds and strengthens the capacity of researcher-practitioner teams to co-design solutions that translate into policy and practice.

**ABOUT THE PROJECT**

The Somalia Resilience Food Security Activities: A Private Sector Landscape Analysis (PSLA) report is one of the key deliverables from the USAID/BHA/TPQ/SPADe Somalia RFSA Design: Private Sector Landscape Assessment (PSLA) project.

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The project has been executed by Consilient Research under a sub-agreement with PARI. The research conducted as part of this project aims to inform the design of future multi-year Resilience Food Security Activities (RFSA) in Somalia.

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## Acronyms

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FAO	Food and Agricultural Organization of the United Nations
FGD	Focus Group Discussion
FGS	Federal Government of Somalia
IDP	Internally displaced person
IFC	International Finance Corporation
ILO	International Labor Organization
IDMC	Internal Displacement Monitoring Centre
KII	Key Informant Interview
NGO	Non-governmental organization
NEET	Not in Education, Employment or Training
ODI	Overseas Development Institute
PSLA	Private Sector Landscape Assessment
RFSA	Resilience and Food Security Activities
TVET	Technical and Vocational Education and Training
UNFPA	United Nations Population Fund
VSLA	Village Savings and Loan Association

## EXECUTIVE SUMMARY

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### Purpose

The purpose of the Private Sector Landscape Assessment (PSLA) is to provide USAID's Bureau for Humanitarian Affairs and potential implementing partners with contextual knowledge of Mogadishu and Baidoa and inform their decisions related to Resilience Food Security Activities (RFSAs). In line with these objectives, the PSLA examines the barriers that shape the employment and self-employment outcomes of marginalized groups, with a particular emphasis on internally displaced people (IDPs). The PSLA aims to be a point of reference for organizations and designing and implementing livelihood interventions informed by USAID's Graduation Approach, enabling them to contextualize various labor market contexts and the position of marginalized communities within them.

### Context

After decades of political instability and armed conflict, Somalia is beginning to embark on a path of stabilization and reconstruction. That said, substantial socio-economic challenges remain. With close to 70 percent of Somalia's population living below international poverty, the country is considered among the poorest and most fragile in the world. Despite recent economic growth and modest improvements in welfare, the private sector has been unable to create enough employment opportunities for a rapidly expanding population. In a structurally weak labor market, disadvantaged communities such as IDPs, women and youth risk permanent socio-economic marginalization and exclusion. This report analyzes the barriers to sustainable employment and self-employment for these groups in Baidoa and Mogadishu.

### Methodology

The PSLA is a purely qualitative study consisting of key informant interviews (KIIs) and focus group discussions (FGDs). The interview data is supplemented by an extensive academic and grey literature review regarding the status quo of the Somali private sector and employment barriers for vulnerable groups. The qualitative data collection used KIIs and FGDs with a range of individuals capable of providing detailed descriptions on private sector trends, growth constraints, economic growth opportunities and employment. However, these themes were largely discussed in relation to four specific sectors: agriculture (livestock, crops, fishery), commerce, transport and construction.<sup>1</sup>

The respondent types included private sector businesses, training institutes, chambers of commerce, local researchers, government representatives, middlemen/ wholesalers, donors/ implementing partners, financial service providers, employees from the host and IDP community, vulnerable jobseekers from the host and IDP community and micro-business owners from the host and IDP community.<sup>2</sup>

### Key Findings

**Paucity of (quality) employment.** Accounting for 95% of jobs generated, the private sector is the main employer in Somalia. Despite economic growth and modest improvements in welfare, the private sector has been unable to create enough jobs for a rapidly expanding population, particularly in the urban

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<sup>1</sup> Annex B provides further detail on how these sectors were selected.

<sup>2</sup> Annex A provides a detailed sample breakdown of KIIs and FGDs conducted.

context. Furthermore, most of the jobs generated are low quality and do not provide a meaningful income.

**The Potential of the Agricultural Sector is not exploited.** Despite its economic potential, the agricultural sector is underdeveloped and unproductive. The sector is characterized by subsistence-level farming and low value addition. With climate adaptation lagging, the sector also grows increasingly vulnerable to climate shocks, with each extreme weather event causing greater economic losses.

**Employment Barriers are multidimensional.** Marginalized communities do not just face a single barrier to employment. Rather, barriers are multidimensional and overlap. In addition to a job-poor labor market, marginalized communities face these four employment barriers: (1) skills mismatch (2) lack of social capital and clan connections (3) socio-cultural norms for women and (4) health and emotional trauma.

**Self-employment is not a panacea in a structurally weak labor market.** Given the lack of employment options, disadvantaged groups tend to turn to self-employment to make a living. This is particularly true for women. However, the combination of capital constraints, a lack of skills, and gender barriers often render these microenterprises unsustainable. Profit margins are extremely low and rate of failure high.

## Implications

**Focus on Agricultural Sector (Livestock, Crops and Fishery).** Given the current underdevelopment of the sector, investment in agri-food chains and processing holds significant economic potential, creating diverse employment opportunities and contributing to long-term economic growth. As many marginalized communities have experience in this sector, jobs created would correspond well to the skill profile of vulnerable jobseekers. Furthermore, investment in this sector opens up the opportunity to make agriculture more climate resilient, a necessity for ensuring sustained sectoral growth.

**Holistic and Targeted Approach to Livelihood Creation.** Marginalized communities face numerous barriers to employment and self-employment in Somalia. Both demand- and supply-side factors constrain economic outcomes. Therefore, barriers must be tackled holistically in an integrated approach. As some employment constraints are group-specific, approaches should be targeted, ensuring that the unique employment needs of the target group are met.

**Prioritizing Quality Employment.** Employment and self-employment do not protect against poverty. In-work poverty rates are high. Quality employment is scarce and out of reach for most disadvantaged communities. For poverty alleviation efforts to be successful, the quality rather than quantity of jobs created should be prioritized. This can lead to true economic empowerment of marginalized groups.

# 1. Introduction

After years of political instability and armed conflict, Somalia is beginning to transition away from fragility and violence. The establishment of the Federal Government of Somalia (FGS) in 2012 allowed for limited but sustained progress on state-building and reconstruction. That said, Somalia is still considered one of the poorest and most fragile countries in the world. Nearly 70 percent of Somalis live below the international poverty line.<sup>3</sup> Recurrent natural disasters and security threats further exacerbate pre-existing challenges, leaving many Somalis trapped in a seemingly perpetual cycle of poverty. With the government's institutional capacities limited, the private sector has been instrumental in addressing some of the country's socio-economic challenges.<sup>4</sup> Accounting for an estimated 95 percent of all jobs created, private businesses are the main provider of employment in Somalia.<sup>5</sup> Despite recent economic growth and modest improvements in welfare, the Somali economy remains unable to provide enough employment opportunities for a rapidly expanding population. Labor force participation is low, even compared to other Sub-Saharan African countries. In 2022, a mere 21.7 percent of adult Somalis were employed.<sup>6</sup> Furthermore, most jobs in Somalia are "low quality," resulting in high rates of underemployment and in-work poverty. Nearly two-thirds of workers (63 percent) are considered extremely poor despite having a job, suggesting that most jobs do not provide enough income.<sup>7</sup> Therefore, having a job does not protect against poverty. Given the lack of wage employment, self-employment is common. Roughly 64 percent of the country's workforce is self-employed.<sup>8</sup>

Historically, livelihoods were predominantly agricultural. However, urbanization together with displacement shifted employment from agricultural to non-agricultural livelihoods. Nowadays, non-agricultural work dominates both self-employment and paid employment. Most of the country's private sector activities are concentrated in commerce and other non-tradable consumption-driven services.<sup>9</sup> In rural areas, retail, petty trading, and other non-tradable services account for 69 percent of employment. In urban areas, 90 percent of jobs stem from retail trade, wholesale trade and other non-tradable services.<sup>10</sup> The economic dominance of commerce and non-tradable services is partially the result of the country's underdeveloped manufacturing sector. Representing a mere 15 percent of established businesses in Somalia, the sector is estimated to generate only 0.8 percent of the country's total jobs.<sup>11</sup>

## 1.1 Employment for IDPs, Women and Youth

Certain demographic groups are particularly disadvantaged on the Somali labor market. Such is the case for IDPs, women and youth. They face additional barriers in accessing sustainable livelihoods, as reflected in extremely low labor force participation rates. The following part of the report provides a brief employment profile for each of the above-cited demographics.

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<sup>3</sup> Wendy Karamba (2021): *Improving Access to Jobs for the Poor and Vulnerable in Somalia*

<sup>4</sup> International Finance Corporation (IFC) (2024): *Creating Markets in Somalia – Unlocking Private Sector-Led Growth at a Critical Juncture of Somalia's Development*

<sup>5</sup> World Bank (2021): *Somalia Country Economic Memorandum: Towards an Inclusive Jobs Agenda*

<sup>6</sup> IFC (2024): Op. Cit. p.8

<sup>7</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>8</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>9</sup> Non-tradeable services include, amongst other things, construction, education, healthcare and electricity.

<sup>10</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>11</sup> IFC (2024): Op. Cit. p.8

### 1.1.1 IDPs

At the end of 2022, almost four million people were considered internally displaced in Somalia.<sup>12</sup> Displacement is driven by both years of armed conflict and accelerating climate change. Most of this internal movement has been from rural to urban settings. Mogadishu currently hosts an estimated 500,000 IDPs.<sup>13</sup> The loss of livelihoods in rural areas as well as better service infrastructure in cities are factors that motivate people to move to and seek shelter in urban areas. Prior to being displaced, most IDPs relied on agricultural livelihoods. Following displacement, they tend to shift from agricultural to non-agricultural livelihoods. Compared to the host community, IDPs tend to rely more frequently on informal labor, such as street vending, casual work and small-scale services. Many IDPs struggle to transfer their agricultural skill set to urban livelihoods, and only very few are able to find skilled work.<sup>14</sup> IDPs are among the poorest groups in Somalia. In-work poverty rates are elevated, particularly among IDPs residing in settlements. This suggests that employment does not necessarily provide a pathway out of poverty. However, IDP households with a higher number of working-age members display a lower likelihood of falling below the poverty line, implying the importance of employment for IDPs.<sup>15</sup>

### 1.1.2 Women

With only 43 percent of Somali women actively engaged in the labor market, Somalia has one of the lowest labor force participation rates for women, even compared to other Sub-Saharan African economies.<sup>16</sup> Deep-rooted social norms and gendered expectations around domestic work are the likely cause behind these high rates of economic inactivity.<sup>17</sup>

Female economic participation is mostly limited to self-employment in the informal sector.<sup>18</sup> Furthermore, cultural practices and gender norms make it difficult for women to enter certain economic sectors altogether such as transportation and construction. That said, better educated women, especially from the diaspora, are starting to break new ground, establishing themselves in sectors that have been conventionally dominated by men such as livestock and fishery.<sup>19</sup>

### 1.1.3 Youth

Somalia's population is young – over 70 percent are below the age of 30. Decades of political fragility and armed conflict have left many young people without skills and education. At 36 percent, a significant proportion of Somali youth is not in employment, education or training (NEET).<sup>20</sup> Neither gaining work experience nor improving their education, these young people risk permanent labor market exclusion and societal marginalization. While abject poverty does not cause violent extremism, it can be an

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<sup>12</sup> IDMC (2023): *Global Report on Internal Displacement*

<sup>13</sup> Peter Chonka et al. (2023): *Safety and Security in Mogadishu*

<sup>14</sup> Nick Crawford et al. (2024): *The Lives and Livelihoods of Forcibly Displaced People in Mogadishu, Somalia*

<sup>15</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>16</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>17</sup> ILO (2014): *Market Opportunity Mapping in Somalia. A Value Chain Analysis and Rapid Market Assessment in Baidoa and Beletweyne Provinces*

<sup>18</sup> ILO (2020): *Sectoral Assessment of Women's Entrepreneurship Development in the Agriculture and Renewable Energy Sectors in Somalia*

<sup>19</sup> ILO (2014): Op. Cit. p.9

<sup>20</sup> Wendy Karamba (2021): Op. Cit. p.8



enabling factor, potentially driving recruitment for Al-Shabab and other militias.<sup>21</sup> Furthermore, many young people leave the country in search of better economic opportunities abroad.<sup>22</sup> Although NEET rates are particularly elevated among the least educated youth, those with higher levels of education are also affected, particularly women. As young Somali women exit the education system, many transition into economic inactivity. Most men, however, transition into the labor market.<sup>23</sup>

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<sup>21</sup> USAID (2017): *Exploring the Connections Between Poverty, Lack of Economic Opportunity*; Georgetown Security Studies Review (2023): *Globalized Crises: The War in Ukraine and COVID-19's Impact on Al-Shabab Recruitment*

<sup>22</sup> Villa, A. and Belli, A. (2024): *Youth on the Move in Somalia: Perspectives, Vulnerabilities, and Horizons*.

<sup>23</sup> Wendy Karamba (2021): Op. Cit. p.8

## 2. Shocks and Growth Constraints Across Target Sectors

The projected medium-term growth outlook for Somalia's economy remains modest and uncertain. Growth across all target sectors faces substantial risks such as recurrent natural disasters, security threats and global economic shocks. Agropastoral livelihoods are particularly affected – accelerating climate change risks making these livelihoods increasingly untenable. The following section of the report looks at each target sector individually, giving a brief overview of how shocks and growth constraints impact on economic performance.

### 2.1 Agriculture

With a long tradition of agropastoralism, Somalia possesses a comparative advantage in the production of crops and livestock.<sup>24</sup> The country's export basket is dominated by primary low-value-added livestock and agricultural goods. Together with fishery, these sectors are estimated to represent 73 percent of Somalia's exports.<sup>25</sup> Despite its historical importance, the agricultural sector has suffered numerous economic setbacks in recent decades, with urbanization and accelerating climate change putting an additional strain on productivity. Once generating the lion's share of employment in Somalia, the sector now only accounts for a modest 26 percent of total jobs created.<sup>26</sup> With most Somali farmers trapped in subsistence-level production, it is unclear to what extent agricultural employment can contribute to poverty alleviation efforts.

#### 2.1.1 Livestock

Contending with and navigating numerous challenges such as climate change and political fragility, the livestock sector has shown itself to be resilient in recent decades.<sup>27</sup> While no comprehensive statistics exist, recent estimates seem to suggest that the total stock of camels and cattle has grown since the civil war.<sup>28</sup> The sector's resilience is also attested to by trade statistics that consistently list livestock as Somalia's primary export.<sup>29</sup> However, livestock value chains are characterized by low value addition, dominated by subsistence-level agropastoralism. Industrial meat-processing and milk production facilities are rare. Most meat and milk is processed and packaged at the household level. Livestock sector ventures are often characterized by low profitability, with many pastoral producers living in extreme poverty.<sup>30</sup> Profit margins for producers are diminished due to the high number of intermediaries involved in the sector, the presence of multiple tax-claiming authorities and the control of oligopolies over the export market. While the livestock sector has shown a surprising level of resilience in recent decades, production is becoming increasingly precarious and volatile. This is largely due to accelerating climate change and erratic rainfalls. In addition, short-term variations in production and revenue are also caused by recurrent trade bans by importing countries in the Arabian Peninsula.<sup>31</sup>

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<sup>24</sup> World Bank. (2020): *Trade as an Engine of Growth in Somalia: Constraints and Opportunities*

<sup>25</sup> IFC (2024): Op. Cit. p.8

<sup>26</sup> World Bank, Somalia Country Economic Memorandum

<sup>27</sup> IFC (2024): Op. Cit. p.8; World Bank. (2020): Op. Cit. p.10

<sup>28</sup> IFC (2024): Op. Cit. p.8

<sup>29</sup> World Bank. (2020): Op. Cit. p.10

<sup>30</sup> Sonia Plaza and Caroline Cerruti (2022): *How Drought Insurance and Value Chains Can Support Somalia's Livestock Economy*

<sup>31</sup> World Bank. (2020): Op. Cit. p.9

### 2.1.2 Crops

Once one of Africa's leading producers and exporters of bananas,<sup>32</sup> Somalia has experienced a significant decrease in crop production in recent years. For example, cereal production per capita declined by 66 percent between 1972 and 2012.<sup>33</sup> Relative to other countries in the region, long-term average yields for certain crops such as maize and sorghum are also extremely low.<sup>34</sup> Even for crops that have better long-term average yields, production stays relatively modest with a lot of unexploited potential.<sup>35</sup> Overall, the sector is underdeveloped and unproductive. Therefore, Somalia is by and large unable to meet domestic food demand, relying on imported goods instead.<sup>36</sup> Despite ongoing reform efforts and donor initiatives, crop production continues to be dominated by subsistence-level farming.<sup>37</sup> Most farmers struggle to increase yields, with many living below the poverty line.<sup>38</sup> Women tend to be particularly marginalized.<sup>39</sup> Their access to agricultural training tends to be limited. They are, therefore, less likely to use good agricultural practices, further depressing their overall earning potential.<sup>40</sup>

The reasons for the decline and current state of Somalia's crop sector are complex. Poor water infrastructure, low-quality seeds, old farming techniques, limited market access and climate change are all contributing factors. In addition, heightened levels of insecurity in rural areas result in farmers abandoning their fields to seek refuge in urban contexts, where they often shift to non-agricultural employment.

### 2.1.3 Fisheries

Somalia boasts an expansive 3,300km long coastline, home to a variety of different high-value fish species such as tuna, swordfish and lobster. Despite significant data limitations, existing assessments suggest that the sector holds great economic potential – the sustainable annual catch is estimated to be in excess of 300,000 tons.<sup>41</sup> With a production of only 140,000 tons per year, much of the country's fish stocks remain under-exploited. The sector is dominated by small-scale fishing, often at the subsistence level.<sup>42</sup> Sectoral growth is hampered by numerous capacity challenges such as poor infrastructure, insufficient cold chain facilities, old fishing equipment, skills gaps among fishermen, low domestic demand and limited access to international markets.<sup>43</sup> Furthermore, value chains are characterized by low value addition.<sup>44</sup> High levels of illegal and unreported fishing by foreign firms pose further challenges.<sup>45</sup> Ongoing reform efforts have largely failed to address these growth constraints effectively. The sector remains underdeveloped, failing to contribute to the Somali economy and livelihoods in a substantial way.

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<sup>32</sup> FAO (2018): *Rebuilding Resilient and Sustainable Agriculture in Somalia*

<sup>33</sup> Bryan Keogh (2021): *Somalia Is Facing Another Food Crisis: Here's Why—And What Can Be Done to Stop the Cycle*

<sup>34</sup> IFC (2024): Op. Cit. p.8

<sup>35</sup> FAO (2018): Op. Cit. p.11

<sup>36</sup> Daniel Maxwell and Merry Fitzpatrick (2012): *The 2011 Somalia Famine: Context, Causes and Complications*

<sup>37</sup> Sominvest. (2022): *Priority Sector Investment Study. Agribusiness Opportunities in Somalia's Food Production Sector*

<sup>38</sup> FAO (2018): Op. Cit. p. 11

<sup>39</sup> UN Women (2022): *Gender, Climate and Conflict Analysis in Somalia and Assessment of Opportunities for Climate Agriculture and Livelihood Opportunities for Crisis-Affected and At-Risk Women in Somalia*

<sup>40</sup> UN Women (2022): Op. Cit. p.10

<sup>41</sup> IFC (2024): Op. Cit. p.8

<sup>42</sup> IFC (2024): Op. Cit. p.8

<sup>43</sup> KII 302. (Implementing Partner). Hargeisa

<sup>44</sup> KII 302. (Implementing Partner). Hargeisa

<sup>45</sup> Jay Bahadur (2021): *Fishy Business: Illegal Fishing in Somalia and the Capture of State Institutions*

## 2.2 Recurrent Climate Shocks and Their Impact on the Livestock, Crop and Fishery Sector

Somalia is ranked as one of the most climate-change vulnerable countries in the world.<sup>46</sup> Even more worrying is the country's unpreparedness – climate adaptation is severely underfinanced.<sup>47</sup> Unreliable rainfalls together with shortening cycles of recurrent drought have had a considerable negative impact on the productivity of the agricultural sector. According to the FAO, the last eight agricultural seasons have all been affected by climate shocks, each of which had significant economic consequences. For instance, the 2016-17 drought is estimated to have resulted in losses of around US\$2 billion,<sup>48</sup> destroying livelihoods and causing large-scale displacement.<sup>49</sup> Accelerating climate change also means that economic impacts have become increasingly substantial in recent years. For example, livestock mortality has gone up by over 30 percent as a result of more intense and longer-lasting droughts.<sup>50</sup> At the same time, livestock productivity has decreased owing to reduced food intake, weight loss, lower fertility and slimmer chances of survival.<sup>51</sup> Climate change also has a substantial impact on the country's crop sector. Failure of crops is increasingly common. Up to 30 percent of total harvest volumes can be lost to climate change-related factors such as crop diseases, floods and droughts.<sup>52</sup> The fishery sector is also affected. Marine habitats and ecosystems are increasingly irrevocably modified and damaged by acidification, higher water temperatures and sea level rise.

If climate change mitigation and adaptation are not made a priority in the coming years, agricultural livelihoods risk becoming more and more untenable. Agropastoralism must be made more climate resilient.<sup>53</sup>

## 2.3 Urban Livelihoods

With historically unprecedented levels of rural-urban migration, urban livelihoods now constitute the main source of employment for Somalis. As the country's productive sectors tend to be severely underdeveloped, most economic activities are concentrated in commerce and non-tradable services.<sup>54</sup> While the increase in consumption-driven services is the result of development assistance, remittances and the return of the diaspora, the commerce sector benefits from the country's dependence on imported goods. At 85 percent, retail and other service firms constitute the majority of urban firms.<sup>55</sup>

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<sup>46</sup> LSE (2021): 2021. *Somalia – Climate Change Laws of the World*

<sup>47</sup> Quevedo, A. et al. (2023): *Financing Climate Adaptation in Fragile States: A Case of Somalia*

<sup>48</sup> World Bank (2022): *Collection of Policy Notes for the New Somali Government—Unlocking Somalia's Potential to Stabilize, Grow and Prosper*

<sup>49</sup> FAO (2018): Op. Cit. p.11

<sup>50</sup> World Bank (2023): *Climate Risk Review*

<sup>51</sup> World Bank (2023): Op. Cit. p.13

<sup>52</sup> World Bank (2023): Op. Cit. p.13

<sup>53</sup> Some argue that a climate secure Somalia must necessarily move away from inherently vulnerable agropastoral livelihoods, emphasizing the growth of urban-based livelihoods instead. However, given the economic importance of agriculture and the lack of alternative employment opportunities in other sectors, this seems difficult to accomplish and might be counterproductive. Unprecedented levels of rural-urban migration without a corresponding growth and diversification of urban livelihoods would only add further to rather than reduce the country's socio-economic fragilities. For a more detailed discussion, see ODI (2024): *Security and Climate Change Implications for Humanitarian, Development and Peace-building Programs in Somalia*

<sup>54</sup> IFC (2024): Op. Cit. p.8

<sup>55</sup> IFC (2024) Op. Cit. p. 8

Self-employment in the informal sector also mostly relies on (petty) trade. One of the sectors that has grown the most in recent years is construction. Since Al-Shabab's withdrawal in 2011, Mogadishu has been a city under reconstruction, leading to a sizable real estate boom, further fueled by the diaspora's capital.<sup>56</sup> That said, urbanization has failed to generate enough employment opportunities for a rapidly expanding population. Unemployment is rampant, particularly among IDPs, women and young people. Furthermore, many of the jobs created in the urban economy tend to be of poor quality. Therefore, urban livelihoods do not necessarily protect against poverty. In other words, growth is not inclusive.<sup>57</sup> It creates winners and losers. While some communities can access more and better paid economic opportunities, others cannot. IDPs tend to fall into the former category. Following their displacement to Mogadishu, IDPs report a decrease in access to jobs and a reduction in average monthly incomes. Host community members, on the other hand, see their employment and average monthly incomes increase.<sup>58</sup> Competition for scarce livelihoods is rife between IDP and host communities. This has the potential to fuel further intercommunal tensions and conflict. Seen from this perspective, the economic opportunities that come with urban growth also carry significant risks.

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<sup>56</sup> Hamza Mohamed (2022): *Somali Real Estate Boom Gives Mogadishu Residents Money Headaches*; Sagal Abas Bafo (2024): *As Mogadishu's Skyline transforms, the Urban Poor call for Economic Conclusion*

<sup>57</sup> Sagal Abas Bafo (2024): *Op. Cit.* p. 13

<sup>58</sup> IDMC (2020): *Measuring the Costs of Internal Displacement on IDPs and Hosts: Case studies in Eswatini, Ethiopia, Kenya and Somalia*

## 3. Employment Barriers

As we discussed above, labor force participation is low, particularly among certain demographic groups. Scarcity of employment opportunities is arguably the most significant driver of this. However, the lack of available jobs is one, but not the only barrier for jobseekers. The following section gives an overview of the additional barriers to employment in Somalia, paying particular attention to what extent they apply to the report's key demographic groups (IDPs, women and youth). We draw on reporting from both employers and jobseekers and discuss the most commonly referenced supply- and demand-side challenges.

### 3.1 Skills

Skills and human capital are crucial determinants of future economic growth and development. Globally, between 10 and 30 percent of cross-country differences in GDP per capita are the result of differences in human capital.<sup>59</sup> After decades of armed conflict, many Somalis are illiterate and lack the skills to rebuild their economy. While it is difficult to assess the current state of skills in the Somali workforce, several indicators point to a significant skills mismatch. Many Somali firms have to recruit internationally to fill specialized positions. Jobs that require vocational skills often remain unoccupied. And Somali job seekers themselves perceive their lack of skills as a major stumbling block to finding employment.

#### 3.1.1 Skill Demand

Very little is known about the kinds of skills that are in high demand in the Somali private sector. Data limitations are particularly rife for micro- and small businesses in the informal economy.<sup>60</sup> In this research, we consulted a range of employers from the agricultural, construction, transport and commerce sector about their views on the labor market and the skills they look for when recruiting. Some respondents claimed that skills may not be important for landing a job. For example, one respondent cited reliability, using measures of religious adherence, as a decisive factor.

*"I look at the jobseeker's physical appearance to see whether they are responsible. The one who prays the five daily prayers can be trusted. Sometimes I check on what they listen to. If they listen to music, they cannot be very reliable. But if they listen to Quran citations, then they can be trusted."<sup>61</sup>*

Previous research also seems to suggest that technical skills or education levels may not be a priority for micro and small businesses in the informal economy. In a recent household survey, the majority of micro, small and informal businesses in Mogadishu stated that the qualifications of their current workforce exceed business needs.<sup>62</sup> This implies that labor demand in the informal economy is largely driven by low-quality jobs, for which no specific level of formal education is required.

That said, while formal qualifications may not be essential for these jobs, most respondents indicated that a minimum level of social and technical skills is required.

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<sup>59</sup> World Bank (2019): *Somalia Economic Update: Building Education to Boost Human Capital*

<sup>60</sup> KII 301. (NGO). Hargeisa.

<sup>61</sup> KII 130. (Big Business Representative). Baidoa.

<sup>62</sup> Wendy Karamba (2021): Op. Cit. p.8

In terms of social skills respondents across all sectors valued communication, trustworthiness and the ability to work in a team.<sup>63</sup> In addition to these social skills, certain sectors also require technical skills. In the agricultural sector, jobseekers should have basic farming skills, such as knowledge of irrigation, weeding, harvesting and marketing.<sup>64</sup> Businesses that operate in transport and logistics often prefer experienced drivers with some skills in mechanics and vehicle maintenance.<sup>65</sup> The construction sector values vocational skills such as welding, building and carpentry.<sup>66</sup> While many respondents highlighted the importance of previous sector-specific experience,<sup>67</sup> others were also open to hiring inexperienced job candidates and training them on the job.<sup>68</sup> However, these respondents constituted a minority. Jobseekers without any technical skills or experience tend to be confined to casual low-quality jobs that do not require any specialized skills such as porters.<sup>69</sup> Even for these job opportunities, physical capability and fitness are often seen as essential requirements.<sup>70</sup> One respondent explicitly stated he would not hire any disabled people.<sup>71</sup>

### 3.1.2 Jobseekers' Skills

Many Somali jobseekers perceive their lack of skills as a major impediment to securing employment.<sup>72</sup> This is not unsurprising, given relatively low education levels among certain demographic groups such as IDPs and women. The following section of the report tries to identify the specific skills challenges IDPs, women and young people tend to face in their job search, based on employers' and experts' perception of skill needs in the private sector.

Prior to their displacement, most IDPs relied on agricultural livelihoods as their primary source of income. For many, translating these agropastoral skills into urban livelihoods proves challenging.<sup>73</sup>

*"The biggest problem they face is that Mogadishu does not have farms, which is a major obstacle for them. If the city had farming land, these IDPs wouldn't face the same challenges. The difference between their farming lifestyle and the urban lifestyle in the city is significant."<sup>74</sup>*

Having lived in rural areas, many IDPs did not have access to formal schooling. Low education and literacy rates further complicate their job search in the urban setting.<sup>75</sup> Furthermore, most have worked in agriculture exclusively, not gaining any technical skills or experience in other sectors. Therefore, respondents indicated that IDPs do not have the necessary technical skills to access qualified employment in most sectors in the urban economy, including transport, commerce and construction.<sup>76</sup>

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<sup>63</sup> KII 134. (SME Representative). Baidoa; KII 136. (SME Representative). Baidoa; KII 229. (SME Representative). Mogadishu. KII 213. (Chamber of Commerce). Mogadishu.

<sup>64</sup> KII 232. (Big Business Representative). Mogadishu.

<sup>65</sup> KII 115. (Chamber of Commerce). Baidoa; KII 129. (SME Representative). Baidoa.

<sup>66</sup> KII 205. (SME Representative). Mogadishu

<sup>67</sup> KII 216. (SME Representative). Mogadishu; KII 233. (Big Business Representative). Mogadishu.

<sup>68</sup> KII 228. (Big Business Representative). Mogadishu.

<sup>69</sup> KII 110 (Big Business Representative). Baidoa.

<sup>70</sup> KII 216. (SME Representative). Mogadishu; KII 217. (SME Representative). Mogadishu.

<sup>71</sup> KII 117. (Big Business Representative). Baidoa.

<sup>72</sup> Wendy Karamba (2021): Op. Cit. p.8; 143 FGD (Employees IDPs). Baidoa.

<sup>73</sup> Nick Crawford et al. (2024): Op. Cit. p.9

<sup>74</sup> KII 221. (Training Institute). Mogadishu.

<sup>75</sup> KII 226. (Training Institute). Mogadishu.

<sup>76</sup> KII 101. (SME Representative). Baidoa; 129 KII. (SME Representative). Baidoa; KII 132 (SME Representative). Baidoa.



The technical skills required to work in these sectors are diverse, but would, for example, include accounting, welding, carpentry, etc.

Lacking these technical skills, IDPs tend to be restricted to casual low-quality work that does not require any specific skills or qualifications. Many IDP men work as porters, while IDP women tend to clean or cook food.<sup>77</sup> The only noticeable exception is the agricultural sector.<sup>78</sup> Here, IDPs can leverage their farming skills, acquired in their places of origin. However, one should note that Mogadishu only has limited farming opportunities. For IDPs living on the outskirts of the city, they may be able to access farms to work. For those living closer to the center, farms may not be easily accessible due to long commutes. Furthermore, greenhouse farming is increasing throughout the city. While IDPs already bring valuable expertise to work in this sector, their skills may need to be updated through short and specific upskilling programs to ensure that they can work in greenhouse farming. In the fishery sector, some IDPs can also use their pre-existing skill set.

*“IDPs displaced from seaside zones like Merca and Barawe have the skills and knowledge to handle fish from start to finish. They are highly skilled. Additionally, some IDPs who didn’t come from coastal areas received support and training from these experienced individuals.”<sup>79</sup>*

The length of displacement also has an impact on whether IDPs can access skilled employment opportunities. Some acquire labor market-relevant skills through on-the-job training. These seem to be common practices in the fishery sector. Those who lack experience and relevant skills come to the market and work as volunteers for the first three months. Through hands-on experience, they learn how to handle and sell fish products.<sup>80</sup> Furthermore, IDPs can learn labor-market relevant skills through integration with the host community. For example, one respondent noted that the majority of Bajaa drivers in Baidoa are young IDPs, implying that they learned how to drive through engagement with and integration into the host community.<sup>81</sup>

Compared to IDPs, women face different skills challenges. While a highly heterogeneous group, most Somali women are subjected to deep-rooted cultural norms that primarily restrict a woman’s role in society to domestic work and childcare responsibilities. As a result, women’s average education levels tend to be lower than that of men.<sup>82</sup> For example, there is a significant gap in adult literacy between men and women. The majority of Somali women are illiterate. Furthermore, the skills women tend to have are concentrated in gender-typical areas such as cooking, hairdressing, tailoring and handicrafts.<sup>83</sup> Their average skill profile can further limit employment opportunities to certain sectors or parts of the value chain in a given sector.

It is not entirely clear whether offering skills training for women in typically male-dominated activities such as driving would have the desired result and diversify employment opportunities for Somali women. As one respondent noted, this would cause a backlash from the community.

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<sup>77</sup> KII 205. (SME Representative). Mogadishu; KII 219. (SME Representative). Mogadishu.

<sup>78</sup> KII 228. (Big Business Representative). Mogadishu; KII 120. (Big Business Representative). Baidoa.

<sup>79</sup> KII 242. (SME Representative). Mogadishu.

<sup>80</sup> KII 216. (SME Representative). Mogadishu.

<sup>81</sup> KII 115. (Chamber of Commerce). Baidoa.

<sup>82</sup> KII 226. (Training Institute). Mogadishu.

<sup>83</sup> ILO (2014): Op. Cit. p.9



*“There are no skills needed for women to work in transportation. They simply do not work as drivers in Baidoa. If they tried to do so, they would face challenges from the community. ....Women who work in construction are not required to have skills. They only deliver the mixed soils to the designated areas.”<sup>84</sup>*

Shifting cultural norms that inform and feed into the education and skill profile of Somali women will take time. In this context it is encouraging to note that better educated women, particularly from the diaspora, are starting to challenge these deep-rooted socio-cultural phenomena, accessing high-quality employment in the formal sector or working in male-dominated sectors.<sup>85</sup>

Compared to IDPs and women, young people tend to have a different education profile. Education indicators for Somali youth are improving, particularly in the urban context.<sup>86</sup> Literacy rates for urban adolescents (15-19 years) have now reached 80 percent. The majority of them have access to formal education (56 percent).<sup>87</sup> That said, there remains a gap between young males and females in terms of educational attainment, particularly at higher levels of education completed. As a result, young women continue to be overrepresented in elementary and unskilled professions. This is also true for more marginalized urban youth such as IDPs. Furthermore, it should be noted that higher education indicators for youth have not resulted in overall better employment outcomes for this group. Somalia continues to have one of the highest youth unemployment rates in the world. One significant reason behind the country’s youth unemployment woes is the education system – it fails to equip young Somalis with labor market relevant skills. For instance, many university graduates remain unemployed or trapped in jobs not commensurate with their qualification levels. The formal education system tends to be of poor quality and does not prioritize vocational or technical skills, something the private sector is in need of.<sup>88</sup>

### 3.1.3 Skills Training as an Effective Way to Increase Employability?

The two above sections have shown that there is a significant skills mismatch on the Somali labor market. According to employers’ and experts’ perception of skill needs, IDPs, women and youth tend to lack the required technical skills for qualified employment in the urban economy. That said, the presence of a skills mismatch does not have to pose a significant employment barrier per se as long as there are effective up-and reskilling programs through which marginalized groups such as IDPs, women and youth can acquire the required technical skills.

Labor market-relevant skills can be acquired through various different avenues, including but not limited to on-the-job training, informal skills programs and more structured technical and vocational education and training (TVET) courses. In certain sectors informal on-the-job training tends to dominate, as in the fishery industry.

*“There isn’t any qualified training available here. However, the fishermen do their best to support and train everyone who comes here seeking a job. ....If we didn’t train them, then it is possible they would not be able to develop their skills.....We’ve trained people from all walks of life.”<sup>89</sup>*

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<sup>84</sup> KII 131. (Training Institute). Baidoa.

<sup>85</sup> ILO (2014): Op. Cit. p.9

<sup>86</sup> Education outcomes for nomadic and rural youth are still significantly worse. That said, as this report is based on employment prospects for marginalized groups in Mogadishu and Baidoa, I focused on urban youth.

<sup>87</sup> UNFPA (2019): Somali Adolescents and Youth: Boom or Gloom?

<sup>88</sup> Heritage Institute (2022): *Youth Unemployment and Security in Somalia. Prioritizing Jobs for Achieving Stability*; Heritage Institute (2020): *Somalia’s Education Sector: Fostering Skills Through a Demand-driven Education System*

<sup>89</sup> KII 242. (SME Representative). Mogadishu.

However, it is questionable to what extent on-the-job training is available to marginalized groups. Informal trainees are usually expected to work as volunteers without any pay for a number of months, before receiving remuneration. Disadvantaged groups tend to live in extreme poverty, relying on daily casual labor to make ends meet. Foregoing this pay for several months to pick up labor market-relevant skills does not seem viable for everyone.

The prevalence of informal on-the-job training is in part the result of a poorly developed TVET infrastructure. Qualified TVET personnel are lacking. Curricula are not based on the skills needs of the local labor market and too theoretical. The private sector is not sufficiently involved in the design and implementation of TVET training courses.<sup>90</sup> Furthermore, these courses are fee-paying, meaning that poor and marginalized communities tend to be excluded.

Against this background, many development actors started offering informal vocational skills programs.<sup>91</sup> Poor and marginalized groups are the main beneficiaries of these courses. Various vocational skills are offered such as carpentry, welding, driving, tailoring and hairdressing. Recently, there has also been a growing focus on emerging sectors including but not limited to renewable energy and IT.<sup>92</sup> However, demand for these courses tends to exceed supply, meaning that many cannot access any training.<sup>93</sup> Research has also shown that skill-based livelihood interventions are only of limited value, particularly when they are not combined with other measures.<sup>94</sup> Most vulnerable jobseekers face multidimensional employment barriers that require an integrated and holistic approach. A one-sided focus on skills is misplaced.

### 3.2 Social Capital and Clan Connections

It is important to note that skill gaps may not be the primary barrier to accessing employment opportunities. The importance of social capital in relation to IDPs' employment prospects is well documented in the literature.<sup>95</sup> In the Somali context, clan backgrounds and connections constitute a unique form of social capital, existing alongside other social and professional networks. Clan-based connections play an important role in the everyday lives of Somalis, including by structuring access to services and livelihoods. Those belonging to minority clans face persistent marginalization and exclusion.

IDPs tend to belong to minority groups. For some, this has always been the case. Even prior to their displacement, they belonged to non-majority clans. For others, this constitutes a new experience. In their respective hometowns and regions, they had been part of dominant clans. However, in the city they lack the same social connections. Studies suggest that some longer-term IDPs may be able to expand their social capital over time, with positive implications for access to services and employment.<sup>96</sup> This option may be particularly available to IDP youth, who were raised in the city. As one respondent noted, most young IDPs in Baidoa tend to integrate with the local host community.<sup>97</sup> These wider social networks can give them access to informal on-the-job training.

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<sup>90</sup> GIZ (2024): *Reviving Vocational Education and Training Across Somalia*

<sup>91</sup> KII 135. (Training Institute). Baidoa.

<sup>92</sup> KII 301. (NGO). Hargeisa.

<sup>93</sup> KII 218. (Chamber of Commerce). Mogadishu.

<sup>94</sup> Nick Crawford et al. (2024): Op. Cit. p.9

<sup>95</sup> Christopher Nkonge Kiboro (2017): *Influence of Social Capital on Livelihood Outcomes for Internally Displaced People in Kenya: A Social Capital Approach*

<sup>96</sup> World Bank. (2014). *Analysis of Displacement in Somalia*.

<sup>97</sup> KII 115. (Chamber of Commerce). Baidoa.

However, most IDPs interviewed for this study identified a lack of social capital as a major obstacle in their job search.<sup>98</sup> Often referring to friends or connections more generally, respondents did not necessarily clarify what type of social capital they mean – whether clans or wider social networks. However, they tended to agree that connections are more important than skills for securing employment.<sup>99</sup> This is particularly true for access to better quality jobs.<sup>100</sup> Lacking connections, many IDPs have no other option than to settle for casual jobs with poor working conditions and minimal pay.<sup>101</sup> However, even for these opportunities, connections may be helpful.

*“We aren’t usually hired for long-term projects that take several days to complete. Instead, the tasks I take on are short-term, often lasting just a day or two, and they are usually based on daily wages. Most of the work I get comes through connections. People who know me will reach out when they need something done.”<sup>102</sup>*

Employers also confirmed that social networks are vital for being given a job.<sup>103</sup> Jobseekers need to be recommended or bring a guarantor. This referral-based system establishes trust. Competitive and merit-based recruitment procedures are rare.

In summary, connections are vital for IDPs’ long-term socio-economic integration. While diversifying socio-professional networks can be one way of increasing their employment prospects, there should also be a focus on promoting “denser” social relations between minority and majority clans.<sup>104</sup> Following displacement, most IDPs belong to minority clans and as a result face heightened levels of discrimination, also on the labor market. Building stronger relations between IDPs and dominant clans is vital for ensuring better access to resources, services and livelihoods.

### 3.3 Gender

Compared to Somali men, women face additional gender-related barriers in securing employment. Entrenched social norms around domestic work mean that many women do not have a job and remain outside the labor force. According to one study, only 46 percent of females are actively engaged in the labor market.<sup>105</sup> Other studies estimate that the labor market participation of Somali women is even more limited.<sup>106</sup> 58 percent of women outside the labor force cite unpaid care and domestic responsibilities as the main reason for not seeking paid employment.<sup>107</sup> It should also be noted that oftentimes women only work if their husbands’ incomes are insufficient to meet basic needs.<sup>108</sup>

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<sup>98</sup> FGD 253. (Employees IDPs). Mogadishu. FGD 254. (Vulnerable Jobseekers IDPs). Mogadishu.

<sup>99</sup> FGD 157. (Employees Host Community). Baidoa.

<sup>100</sup> FGD 144. (Vulnerable Jobseekers IDPs). Baidoa.

<sup>101</sup> FGD 260. (Employees IDPs). Mogadishu.

<sup>102</sup> FGD 160. (Vulnerable Jobseekers IDPs). Baidoa.

<sup>103</sup> KII 102. (SME Representative). Baidoa. KII 103. (SME Representative). Baidoa.

<sup>104</sup> Somali Public Agenda (2023): *Marginalization and Social Cohesion among Minoritized Clan Groups and Dominant Groups, Aid Actors, and Local Authorities in Mogadishu*

<sup>105</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>106</sup> Natasha Sharma et al. (2022). *Breaking the Cycle – Supporting Inclusive access to more and better jobs in Somalia*

<sup>107</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>108</sup> Natasha Sharma et al. (2022). Op. Cit., p.20

Most respondents agreed that women face the most difficulties in accessing quality jobs.<sup>109</sup> Often confined to gender-typical domains such as hairdressing, cooking and tailoring, they tend to be excluded from some of the more profitable sectors and segments of the value chain. For example, Somali women do not work in the transport sector.<sup>110</sup> In the fishery and construction sectors, women are often restricted to unskilled and less profitable jobs, such as selling fish and preparing food for construction workers.<sup>111</sup> Apart from societal norms, women's perceived lack of physical strength can further complicate their job search, particularly for physically demanding tasks in the agricultural sector or construction.<sup>112</sup> Compared to female members of the host community, IDP women are particularly disadvantaged on the Somali job market.

*"In my view, female IDPs face considerable difficulties in accessing employment opportunities. Many lack formal education and the necessary connections within the community, which places an additional burden on them in the job market."<sup>113</sup>*

Other respondents disagreed. According to them, female IDPs face fewer barriers than other groups in accessing employment. They are respected as mothers and possess the ability to multitask effectively.<sup>114</sup> Furthermore, displacement might relax and lift some of the normative constraints around female employment outside the household.<sup>115</sup> As a result, female IDPs may be able to access employment opportunities other women cannot. However, the quality of jobs available to female IDPs tends to be poor, limiting their earnings prospects.<sup>116</sup>

### 3.4 Health- and Trauma-related Barriers

Physical and mental health impacts on productivity levels and therefore on a country's economic growth prospects. Somalia's health care system is underdeveloped, with health care outcomes lagging compared to neighboring countries.<sup>117</sup> Studies also indicate that IDP populations tend to suffer from poor physical and mental health.<sup>118</sup> Traumatic flight experiences can exacerbate pre-existing medical conditions.

However, respondents in this study did not mention health- and trauma-related barriers as crucial employment barriers. The only context in which health and fitness were deemed important were for physically demanding jobs in agriculture, fishing, transport and construction. Lacking specialized skills, many IDPs tend to rely on physically demanding work as their main source of income. This would suggest that those who lack physical strength such as disabled or older IDPs face extra barriers in accessing livelihoods.

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<sup>109</sup> KII 227. (SME Representative). Mogadishu; KII 229. (SME Representative). Mogadishu; KII 235. (SME Representative). Mogadishu.

<sup>110</sup> KII 129. (SME Representative). Baidoa.

<sup>111</sup> It is not always evident whether these restrictions are the result of societal norms or women's own preferences or a combination of both. For example, in the fishery sector women do not usually catch fish as this would require them to spend time alone with men on boats. KII 302. (Implementing Partner). Hargeisa.

<sup>112</sup> KII 128. (SME Representative). Baidoa.

<sup>113</sup> KII 151. (SME Representative). Baidoa.

<sup>114</sup> KII 212. (Training Institute). Mogadishu.

<sup>115</sup> Lucia Hanmer and Eliana Rubiano-Matulevich (2022): *Want to keep internally displaced people in Somalia out of poverty? Increase women's economic opportunities*

<sup>116</sup> KII 221. (Training Institute). Mogadishu; KII 212. (Training Institute). Mogadishu.

<sup>117</sup> World Bank. (2021). *Somalia Economic Update: Investing in Health to Anchor Growth*.

<sup>118</sup> IDMC. (2021): *5 Key Findings on Mental Health and Internal Displacement*

In conclusion, this section has identified the most important employment barriers. Somalia's labor market is structurally weak, providing few (quality) employment opportunities. Disadvantaged communities such as IDPs, women and youth are particularly affected by this lack of jobs. In such a job-poor environment, a lack of connections has emerged as the most important employment barrier, particularly for IDPs. Having lost their socio-professional networks and belonging to minority clans, they find themselves unable to access anything more than highly precarious low-pay jobs. In addition to social capital, Somali job seekers tend to lack the technical skills that the private sector is in need of. Having predominantly worked in the agricultural sector prior to displacement, many IDPs do not have the technical skills to work in many other urban-based livelihoods such as transport, commerce and construction. For women, average education levels are low and skills confined to gender-typical, often less profitable areas such as tailoring, hairdressing and cooking. For urban youth, better education indicators fail to translate into improved employment outcomes. A poor-quality education system fails to provide them with labor-market relevant skills. Gender and health- or trauma-related barriers pose additional challenges and should therefore also inform program design.

## 4. Barriers to Sustainable and Scalable Self-Employment

Given insufficient employment creation, many Somalis turn to self-employment as their primary source of income. In fact, self-employment is now the dominant form of work, particularly for groups that face additional employment barriers such as women and youth.<sup>119</sup> However, promoting long-term sustainable employment through self-employment may be problematic. Businesses typically fail to generate enough profit for people to become self-reliant. Furthermore, small start-ups in Somalia have a high rate of failure.<sup>120</sup> The following part of the report provides an overview of the main barriers to sustainable and scalable self-employment in Somalia.

### 4.1 Access to Finance

Key Informants reported a lack of access to start-up capital and loans as a major obstacle to starting and growing a business.<sup>121</sup> However, there is evidence of progress in this area: financial service providers increasingly offer more inclusive financial service products geared towards the needs of traditionally marginalized groups.<sup>122</sup> Institutions such as Midnimo Microfinance, Amal Bank and Salaam Bank offer *Qardu Hassan* financing, short-term, interest-free lending, *Murabha* financing,<sup>123</sup> a form of sharia-compliant lending, and microfinance services.<sup>124</sup> In addition, financial service providers report increasing efforts to reduce the requirements needed for accessing loans.<sup>125</sup>

*“There have been changes at Salaam Bank. Previously, clients were required to pay 30 percent of the requested loan amount upfront. However, due to financial limitations within the community, we have removed this requirement. Now, individuals can take out a loan without an initial advance payment, provided they meet other requirements such as having a source of income and a functional bank account.”<sup>126</sup>*

Despite these efforts to make the financial service system more inclusive, access challenges persist. Somali banks still prefer lending to individuals with established businesses that have been operational for several years. They are perceived as non-risky borrowers.<sup>127</sup> Receiving start-up capital for small or new business ventures remains challenging. One respondent also noted that banks prefer to invest in sectors that are well established in Somalia, such as construction or hospitality. Obtaining finance for large-scale industrial projects in the productive sectors, for example for a fish-processing facility, is more problematic.<sup>128</sup> Specific groups, most prominently IDPs, still struggle to access loans, primarily because they cannot fulfill the needed requirements.<sup>129</sup> To qualify for loans, individuals must have a reliable source of income, a functional bank account with statements from the last three months and personal

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<sup>119</sup> Wendy Karamba (2021): Op. Cit. p.8

<sup>120</sup> ILO (2014): Op. Cit. p.9

<sup>121</sup> FGD 140. (Micro-businesses IDPs). Baidoa; FGD 237. (Micro-businesses IDPs). Mogadishu; FGD 261. (Micro-businesses IDPs). Mogadishu

<sup>122</sup> Mustafe Abdi (2022): *Access to Finance and Financial Inclusion in Somalia*

<sup>123</sup> KII 155. (Financial Service Provider). Baidoa

<sup>124</sup> Jenny Spencer et al. (2023): *Understanding livelihood-related urban-rural connections for women from Displacement Affected Communities (DACs) in South-West State of Somalia*

<sup>125</sup> KII 107. (Financial Service Provider). Baidoa.

<sup>126</sup> KII 208. (Financial Service Provider). Mogadishu.

<sup>127</sup> KII 246. (Financial Service Provider). Mogadishu.

<sup>128</sup> KII 302. (Implementing Partner). Hargeisa.

<sup>129</sup> KII 116. (Financial Service Provider). Baidoa.

guarantees. These requirements may be difficult to meet for many marginalized groups, including IDP communities.<sup>130</sup>

Instead, they tend to rely on Village Savings and Loan Associations (VSLAs) to access credit. Many VSLAs are supported by NGOs in accessing loans from banks. The NGO would act as the guarantor for the VSLA and open bank accounts for the IDPs.<sup>131</sup>

Despite these persistent challenges, most respondents agreed that the financial service sector has become more inclusive in recent years. The take-up of loans has increased significantly, particularly among women and young people.<sup>132</sup> One reason for the increased take-up of loans is better awareness of the options for sharia-compliant finance.<sup>133</sup>

In some cases, those without access to commercial finance and banking can access loans through social networks. In fact, some business respondents indicated that they consciously avoided taking out loans and instead sought the financial help of their family for business inception.

*“Really, it was something almost entirely prepared by my family – parents and brothers. We did not seek or take out loans from local or international banks. I was careful to avoid getting trapped by loans.”<sup>134</sup>*

Another option for micro-entrepreneurs to access finance is *bakhaar*, meaning informal trade credit. The supplier lets retailers buy inventory on loan and is repaid once the items are sold. *Bakhaar* allows entrepreneurs to run businesses with minimal capital investment. Typically, no interest is paid on this credit.<sup>135</sup> As trust and loyalty build up over time between retailer and supplier, the terms of repayment become more favorable. That said, the reliance on trade credit tends to limit supplier options.<sup>136</sup>

In conclusion, a lack of financial inclusion continues to constitute a significant barrier to sustainable and scalable self-employment. While the reach of the financial sector has increased in recent years, many SMEs face persistent challenges in accessing finance, relying on informal and/ or internal funds instead. This is particularly true for SMEs led by marginalized communities and IDPs.

## 4.2 Necessity Entrepreneurship, Lack of Skills and Competition

Necessity entrepreneurs are individuals who start a small business out of necessity. In their case, self-employment is not motivated by business opportunities, but rather by a lack of alternative employment options. Given Somalia’s dysfunctional labor market, necessity entrepreneurship is common.<sup>137</sup> In fact, it would likely be even more prevalent, if marginalized groups had easier access to start-up capital and loans.<sup>138</sup> While necessity entrepreneurs represent a heterogeneous group with varying education levels and demographic characteristics, this type of entrepreneurship is associated

<sup>130</sup> KII 105. (Financial Service Provider). Baidoa.

<sup>131</sup> KII 201. (Financial Service Provider). Mogadishu.

<sup>132</sup> KII 147. (Financial Service Provider). Baidoa; KII 116. (Financial Service Provider). Baidoa; KII 155. (Financial Service Provider). Baidoa.

<sup>133</sup> KII 240. (Financial Service Provider). Mogadishu.

<sup>134</sup> KII 239. (SME Representative). Mogadishu.

<sup>135</sup> Jenny Spencer et al. (2023): Op. Cit. p. 22

<sup>136</sup> Jenny Spencer et al. (2023): Op. Cit. p.22

<sup>137</sup> KII 245. (Chamber of Commerce). Mogadishu; KII 153. (Local Researcher). Baidoa; FGD 159 (Micro-businesses Host Community). Baidoa.

<sup>138</sup> FGD 237. (Micro-businesses IDPs). Mogadishu.



with capital constraints, low profits and marginal economic impact. As a result of these constraints, many necessity entrepreneurs run similar types of businesses. Most IDP women have microenterprises, selling vegetables and cereals. This type of business is appealing to this demographic because it has few barriers to entry, low operating costs and continuous demand.<sup>139</sup> That said, the multitude of similar businesses offering the same goods leads to market saturation and increased competition. Against this background, it is not unsurprising that many self-employed IDP women live in poverty despite being economically active.

Resorting to self-employment as a last resort, many necessity entrepreneurs lack the skills to lead a thriving business. According to respondents, financial literacy, business management and interpersonal skills are needed to run a successful enterprise.<sup>140</sup> For self-employment in certain sectors, some technical skills are also required, such as tailoring, hairdressing and cooking. As previously mentioned, many Somali women do not have access to formal schooling and are illiterate. The majority lack financial literacy skills and knowledge of business management practices. While NGOs and training institutes offer capacity-building for business owners, only very few courses are designed for illiterate people and their unique learning needs.<sup>141</sup> Furthermore, providing training for this target group may be difficult, as many do not fully understand the added value of these workshops.<sup>142</sup>

While it is important to equip Somali entrepreneurs with the necessary skills and diversify their businesses to reduce competition, the high prevalence of necessity entrepreneurship also underlines the importance of creating more and better wage employment. In that case, fewer Somalis would become entrepreneurs out of necessity. Market saturation and competition would be reduced.

### 4.3 Gender Norms and Unpaid Care Work

Female entrepreneurs in the informal sector economy face numerous barriers to sustainable and scalable self-employment. As the previous section has shown, many women are uneducated and lack the right skills to lead a business. They also continue to face difficulties in accessing finance to start and grow a business. While these are unquestionably important obstacles to female self-employment, deeper socio-cultural norms equally inhibit female economic empowerment.

Entrenched patriarchal structures mean that some female entrepreneurs cannot leave the house without their husband's permission. Others may not be allowed to travel alone.<sup>143</sup> This concern was also reiterated by respondents.

*“Sometimes, your husband may tell you to stay at home and do your business there instead of going to town. This can lead to economic losses and demoralization.”<sup>144</sup>*

Other gender-related barriers to self-employment relate to unpaid domestic work and child-care responsibilities. Deeply entrenched societal norms and gender roles assign the responsibility for domestic work almost exclusively to women and represent an important barrier to female

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<sup>139</sup> Jenny Spencer et al. (2023): Op. Cit., p.22

<sup>140</sup> KII 118. (Training Institute). Baidoa; KII 259. (Training Institute). Mogadishu.

<sup>141</sup> KII 303. (Training Institute). Hargeisa.

<sup>142</sup> KII 258. (Training Institute). Mogadishu.

<sup>143</sup> ILO (2014): Op. Cit. p.9

<sup>144</sup> FGD 138. (Micro-businesses IDPs). Baidoa.



entrepreneurship.<sup>145</sup> Somalia has one of the highest fertility rates in the world, averaging nearly six children per woman. Children of IDP women tend to stay out of school as fees and costs for uniforms and books are too expensive. In the absence of affordable childcare, many women cannot access formal employment as this would be difficult to reconcile with their childcare responsibilities. Self-employment, on the other hand, offers a certain degree of flexibility: women can take care of their children while they work.<sup>146</sup> If necessary, they can also close shop to tend more closely to their children.

#### 4.4 Political Insecurity and Double Taxation

In fragile and conflict-affected states, the private sector can act as a vehicle for reconstruction and stability, providing employment and driving economic growth. However, its ability to do so may be hampered by a unique set of constraints and challenges in unstable contexts. The following section aims to identify these challenges for the Somali case.

The terrorist organization Al-Shabab continues to be a destabilizing force in the country, controlling large parts of southern Somalia and frequently launching indiscriminate attacks against civilians. The reason for Al-Shabab's resilience is linked to their sophisticated tax collection system. There is evidence to suggest that many major companies are taxed by Al-Shabab. Taxes are paid in the form of annual *Zakah* and monthly payments. Fearing for their lives, business owners have no other option than to comply and pay the required amount. Even in areas where it is difficult for Al-Shabab to operate such as Baidoa, most businesses pay.<sup>147</sup> Only very small-scale businesses are exempt from the tax requirement. In areas that are directly controlled by Al-Shabab, the organization taxes everyone and everything. For example, farmers are expected to pay to use the river or canals to irrigate their farms.<sup>148</sup> Al-Shabab also targets specific sectors, especially those that promise to be lucrative, such as real estate and import.<sup>149</sup>

In present-day Somalia, most businesses pay taxes to both Al-Shabab and the Federal Government. This double taxation negatively affects business growth, as several key informants reiterated.<sup>150</sup> Furthermore, the presence of Al-Shabab poses access and transport challenges, increasing the price of goods.<sup>151</sup>

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<sup>145</sup> FGD 140. (Micro-business IDPs). Baidoa.

<sup>146</sup> Jenny Spencer et al. (2023): Op. Cit. p.22

<sup>147</sup> Hiraal Institute. (2020): *A Losing Game – Countering Al-Shabab's Financial System*

<sup>148</sup> Hiraal Institute. (2020): Op. Cit., p.20

<sup>149</sup> Hiraal Institute. (2020): Op. Cit., p.20

<sup>150</sup> KII 116. (Financial Service Provider). Baidoa; KII 131. (Training Institute). Baidoa.

<sup>151</sup> KII 249. (Government Representative). Mogadishu.

## 5. Conclusion and Implications

### 5.1 Potential Linkages with the Private Sector

Overall, this study outlines the main barriers to employment and self-employment for historically marginalized groups (IDPs, women and youth) in Mogadishu and Baidoa. In doing so, this Private Sector Landscape Assessment aims to support organizations implementing programs across the study area and enhance their capacity to create sustainable livelihoods for the most disadvantaged groups by building linkages to and engaging effectively with Somalia's private sector. A crucial factor in achieving this is understanding the multidimensionality and complexity of employment barriers these groups face, ensuring an inclusive and holistic approach to livelihood creation, and so enabling marginalized communities to become self-reliant.

The central theme that has emerged from the desk review and qualitative research is the overall paucity of employment in the Somali economy. Labor force participation is low. Jobs created tend to be of low quality, resulting in high rates of underemployment and in-work poverty. The majority of Somali workers are poor despite having a job. Therefore, employment does not protect against poverty. Given the lack of quality jobs, self-employment is prevalent. Associated with capital constraints and very low profit margins, entrepreneurship often fails to provide a pathway out of poverty. In this overall job-poor environment, IDPs, women and youth are particularly disadvantaged. Their labor market engagement is very limited and often confined to the informal sector economy.

The reasons as to why the Somali economy fails to generate enough employment opportunities are complex. Following decades of political instability and armed conflict, the country has low levels of economic complexity. Economic growth is mostly driven by commerce and consumption-driven services. The productive sectors (livestock, crop and fishery) are underdeveloped and unproductive. Low value-added livestock, crop and fishery goods dominate productive activity. Value addition is rare. Productivity in these sectors is increasingly hampered by frequent climate shocks. For instance, the 2016-17 drought is estimated to have resulted in losses of around US\$2 billion, destroying livelihoods and causing large-scale displacement. With Somalia ranked as one of the most climate-change vulnerable countries, future climate shocks risk making these livelihoods untenable. As climate adaptation is severely underfinanced, such a scenario becomes increasingly likely.

That said, the employment barriers for marginalized groups extend beyond suppressed job creation. The PSLA has highlighted four: (1) skills, (2) social capital and clan connections, (3) gender and (4) health- and trauma-related barriers. Marginalized communities tend to suffer from education and skills deficits, often limiting their employment to highly precarious, low-quality jobs in the informal sector. The education and skills deficits are group-specific. IDPs struggle to adapt to the skill requirements of urban livelihoods. Having primarily relied on agricultural employment prior to their displacement, they do not possess the technical skills to access qualified employment in construction, transport or commerce. For women, deeply entrenched socio-cultural norms limit education access and outcomes, negatively impacting on their overall employment prospects. Responsibilities around domestic work and child-care often exclude women from the labor market permanently. For youth, gendered educational outcomes together with low education levels among marginalized and rural adolescents continue to stymie a more extensive engagement with the labor market. The job search for IDPs is further complicated by their lack of social capital and clan connections. In cities, IDPs tend to have limited social networks and belong to

minority clans. This limits their job opportunities significantly as recruitment tends to be clan- or network-based, particularly for better quality employment.

With the above in mind, building effective linkages and partnerships with training institutes seems necessary to improve the employment outcomes of traditionally marginalized communities in Somalia. Developing powerful up-and reskilling programs in partnership with training institutes can help overcome the skills challenges job seekers tend to be confronted with during their job search. The emphasis should be on vocational and technical skills as these are needed by the private sector and therefore labor market relevant. During these courses, there should be an additional focus on widening and diversifying trainees' socio-professional networks. This could happen through extended work placements or internships.

Given the multitude of employment barriers, many marginalized communities turn to self-employment to make a living. However, these microenterprises tend to generate very low profit margins and do not necessarily provide a pathway out of poverty. Sustainable and scalable self-employment is inhibited by a number of factors in Somalia. This PSLA has identified four: (1) a lack of financial inclusion, (2) necessity entrepreneurship, lack of skills and competition, (3) gender norms and unpaid domestic work and (4) political insecurity and double taxation.

For entrepreneurship to provide meaningful profits and contribute to poverty alleviation efforts, partnerships with financial service providers must be strengthened. Many SMEs continue to face significant capital constraints, unable to access formal financing mechanisms and relying on internal funds instead. Partnerships with financial service providers could focus on scaling existing services and/or developing new innovative products. Furthermore, the expansion and diversification of businesses calls for the development of effective business accelerator programs. Designing and implementing these requires linkages with training providers.

## 5.2 Considerations for RFSAs

While it behooves programs on RFSAs to conduct more specific context and feasibility assessments, this PSLA suggests three general implications and considerations based on the findings of the PSLA.

### 5.2.1 Focus of Intervention on Agricultural Sector (Livestock, Crops and Fishery)

Somalia's agricultural sector holds significant economic potential. With a long tradition of agropastoralism, the country has a comparative advantage in the production of some livestock, crop and fish products. However, the sector's economic potential has remained underexploited in recent years. The high prevalence of subsistence-level farming together with low value addition mean that the sector is currently unproductive and unable to meet domestic demand for food. Investing in agri-food value chains and processing can increase productivity and stimulate employment creation. As many IDPs and women have experience in agriculture, jobs created would correspond well to their skill profile. Prioritizing interventions in the agricultural sector is also timely – without significant investments in climate adaptation agricultural livelihoods will become increasingly untenable. This would result in loss of livelihoods, heightened levels of rural-urban migration and overall higher poverty levels.<sup>152</sup>

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<sup>152</sup> As the urban economy is currently unable to provide enough jobs for city dwellers, it is unlikely that this would change, once rural-urban migration increases to historically unprecedented levels due to climate change and loss of rural livelihoods. Hence, the competition for scarce services and jobs in cities would only go up, and so would poverty levels.

### 5.2.2 Holistic and Targeted Approach to Livelihood Creation

Marginalized communities in Somalia face numerous barriers to employment and sustainable self-employment. Both demand- and supply-side constraints explain unfavorable economic outcomes. This PSLA has identified some of the most important barriers. Building on this insight, livelihood projects should be designed holistically, tackling the most important employment barriers in an integrated approach. One-dimensional approaches to employment creation, such as skills training, are unlikely to lead to higher employment rates for disadvantaged groups. Furthermore, marginalized communities face group specific employment barriers. For instance, compared to men, women have to contend with additional gender-related challenges on the Somalia labor market. Therefore, livelihood programs should be targeted, building on the specific needs of the target beneficiary group.

### 5.2.3 Prioritizing Quality Employment

Having a job in Somalia does not protect against poverty. The majority of those in employment or self-employment live below the poverty line. Most people are simply too poor to be able to afford not to work. Livelihood programs need to be conscious of this reality and prioritize quality rather than quantity in terms of job creation. A focus on and increase in quality employment can lead to substantial economic empowerment.

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**ANNEXES**

**Annex A: Sample Breakdown of KIIs and FGDs**

In total, the PSLA team conducted 100 KIIs and 24 FGDs across Mogadishu and Baidoa.

Respondent types for KIIs were identified following an extensive desk review. Some of the listed respondent groups are sector-specific, meaning that their answers were meant to give better insights into sectoral dynamics and trends. This was primarily the case for big businesses and SMEs. The actual interview participants were selected through purposeful sampling.

*Table 1: KII Sample Distribution*

	Big businesses	SMEs	Financial service providers	Relevant chambers of commerce	Government representatives (both district and national)	Local research organizations	Donors, NGOs, CSOs working on TVET/employment	Training Institutes
KIIs, Mogadishu	8	15	6	6	5	2	6	4
KIIs, Baidoa	6	14	6	6	4	2	6	4
Total	11	29	12	12	9	4	12	8

*Table 2: FGD Sample Distribution*

	Informal businesses (host community)	Informal businesses (IDPs)	Jobseekers (host community)	Jobseekers (IDPs)	Employees (host community)	Employees (IDPs)
FGD, Mogadishu	2	2	2	2	2	2
FGD, Baidoa	2	2	2	2	2	2
Total	4	4	4	4	4	4

In regard to the FGDs, it should be noted that the groups were further split into male and female groups, i.e. they were disaggregated by gender. The all-female focus group discussions were led by female moderators. Vulnerable job seekers were defined as those who did not have a stable and sustainable source of income. For example, they may be unemployed or rely on highly precarious daily labor at times to make ends meet.

**Annex B: Selection of Economic Sectors**

The PSLA team undertook an analysis of employment barriers across four different sectors. The aim is to provide USAID with practical recommendations for a broad range of potential interventions that have both long- and short-term impacts and can be tailored to the different employment needs of diverse target groups (IDPs, women and youth). In an initial desk review, the team identified the sectors that currently provide the most employment (agriculture, commerce, trade and transport). Sectors that were projected to grow and provide more employment in the future (renewable energy and information technology) were also added initially, but then excluded after consultation with USAID. The sectors included in this study represent both rural- and urban-based livelihoods, catering to the skill profiles of various groups.