

UNLOCKING SME FINANCE IN SOMALIA'S FRAGILE AND CONFLICT-AFFECTED SETTINGS



SAAMEYNTA: SCALING-UP SOLUTIONS TO DISPLACEMENT IN SOMALIA

Background & Context

Baidoa, the largest city in Somalia's South West State, hosts an estimated 500,000 internally displaced persons (IDPs) living in overcrowded settlements with limited access to livelihoods, infrastructure and essential services. Internal displacement in Somalia is driven by a combination of challenges including armed conflict, climate shocks (primarily droughts and floods), food insecurity and forced evictions. For the residents of Baidoa, the large IDP population places heavy pressure on displacement-affected communities (DACs), stretching already limited basic services and increasing competition for jobs, land and natural resources, which sometimes leads to social tensions. At the same time, IDPs contribute positively, stimulating local markets and attracting humanitarian and development investments that improve infrastructure and create shared economic opportunities for both displaced people and their hosts.

Baidoa's economy is largely agro-pastoral, with crop production—especially sorghum and maize—and livestock trade comprising the main sources of the population's employment. The city serves as an important commercial hub, linking surrounding rural areas to urban markets in southern Somalia, despite the ongoing challenges related to displacement, limited infrastructure and insecurity. Small and medium enterprises (SMEs) play a vital role in sustaining the local economy by providing employment, supporting value chains, and ensuring the availability of essential goods, such as food, livestock products and pharmaceuticals, as well as basic services such as electricity, water and waste collection. However, many of the city's current and aspiring entrepreneurs face persistent barriers that limit business growth, including restricted access to finance, limited business training, weak market linkages and climate-related production shocks.

To address these obstacles, the United Nations Development Programme (UNDP) partnered with the South West State Chamber of Commerce, and a local financial institution to establish an SME finance pilot. Its aim is to strengthen Baidoa's economic development by providing entrepreneurs – from retailers to small scale farmers, agribusiness to hospitality – with the skills, capital and support systems needed to grow their businesses and create jobs.

This approach directly contributes to [Somalia's National Durable Solutions Strategy](#) and the [Solutions Pathways Action Plan](#), which emphasize economic inclusion as a core pillar of long-term stability for displacement-affected communities. By combining business training, access to finance, and ongoing technical support, the project promotes sustainable economic recovery and growth, reduces aid dependency, and enables both residents and IDPs to build self-reliance.

The stories and results presented in this publication demonstrate how targeted support to SMEs can transform lives, strengthen local markets and lay the foundation for durable solutions in Baidoa.



Woman browsing a market stall in Baidoa

From Caregiver to Employer

How a Baidoa Agripreneur Transformed Her Business and Her Community

"Credit builds responsibility and focus. Knowing I had to repay motivated me to work harder and grow the business." Ms. Qamar Sahal Mohamed



Qamar with her team at the factory



Qamar managing her business



Qamar operating milling machinery

Ms. Qamar Sahal Mohamed, a lifelong resident of Baidoa, exemplifies the resilience and leadership demonstrated by women entrepreneurs the world over, but especially those in displacement-affected communities. A mother of 13, her life changed dramatically when, in 2013, her husband suffered a stroke that left him unable to work. Overnight, she became the sole provider for her large household, assuming full responsibility for their economic well-being.

Her family's six-hectare farm had long sustained the household through fruit and vegetable production. However, Ms. Qamar quickly recognized that farming alone could not meet her family's changing needs.

Noting a consistent demand for locally produced cooking oil, she invested in a small processing machine and began producing sesame, peanut, coconut and sunflower oils. She personally sourced raw materials, processed the oils, and built a loyal customer base that valued the quality, consistency and reliability of her products.

As her reputation for high quality oils grew, she reinvested her earnings in a grain-grinding machine, enabling her to diversify into maize, sorghum and wheat flour milling. This expansion positioned her as a key supplier for households and small retailers within Baidoa. However, recurring droughts and unstable raw material prices created significant operational challenges. Without sufficient working capital to purchase inputs in bulk, she frequently faced production interruptions.

“Supporting SMEs like mine means supporting the backbone of our economy. Women face real barriers, yet we drive change when empowered.” Ms. Qamar Sahal Mohamed

In 2023, Ms. Qamar applied for and completed business management training. Out of 80 applicants, she was among 25 selected for the training and later among 16 entrepreneurs who successfully met all requirements for financial support. Following the training, her business profile was submitted to a local bank, and after providing national identification and securing a guarantor, she was approved for a US\$50,000 SME finance loan with a 6 percent markup over 24 months.

The financing marked a turning point for Ms. Qamar’s enterprise, which she named Farjano Oil and Cereal. With adequate working capital, she began purchasing raw materials in bulk, thereby eliminating production gaps and significantly increasing output. Daily oil production rose from 3–4 jerricans to 6–7, enabling her business to supply approximately 180–200 jerricans per month. Her flour milling capacity expanded in parallel, allowing her to serve major Somali markets including Mogadishu, Garowe, Galkacyo and Bossaso, as well as occasional export orders to nearby Kenya and Ethiopia. Importantly, she successfully repaid the entirety of the loan within the two-year period.

In addition to the business’ growth, Ms. Qamar’s enterprise has had a significant impact on the community. Today, she employs 38 workers, 30 who are themselves IDPs, of which 24 are women. Drawing on her own experience as a woman entrepreneur, she deliberately prioritizes IDPs, recognizing that stable employment is essential to restore dignity, reduce dependence on humanitarian assistance, and enable families to rebuild their lives. Several of her employees have since achieved their own financial independence, enrolled their children in school, and have stable incomes for the first time in years.

Looking ahead, Ms. Qamar plans to expand Farjano by investing in solar energy to reduce operational costs, revitalizing her six-hectare farm to diversify production, and acquiring a delivery vehicle to improve distribution efficiency. She also continues to champion women’s entrepreneurship in Baidoa.



IDP Mother Rebuilds Her Life Through Work and Stability

View of an IDP settlement



An IDP employee processing cooking oil

Ms. Habiba Mahamed Yarow, originally from Buur Hakaba, fled with her husband and seven children after drought and insecurity made survival there impossible. When they arrived in Baidoa, the family had only a small amount of flour which ran out within a few days. They resettled in Buula Nuuriya, a displacement camp on the outskirts of Baidoa. They had no relatives, no income and no support network.

Soon after their arrival, tragedy struck again. Habiba’s husband became critically ill and passed away, leaving her solely responsible for the household. Ms. Habiba survived through whatever labour she could find – from collecting scrap metal to gathering firewood to taking work at nearby farms. The work was exhausting, unpredictable and deeply unsafe. She describes that time as “hardship stacked upon hardship,” recalling days when she could not even give her children money for their daily needs.

Ms. Habiba met Ms. Qamar while searching for regular employment. The meeting changed her life. Despite having no formal skills, Ms. Habiba asked Ms. Qamar Sahal how she could work in the business. Ms. Qamar responded immediately, telling her to return the next morning to begin. She started by learning to roast peanuts and sesame seeds, then assisting in grinding porridge flour. Her adaptability and commitment quickly made her an essential part of the business.

For the first time since her displacement, Ms. Habiba earned a consistent daily income which transformed her household. She can now provide her children with pocket money every morning, something she could not have imagined during the early years of their displacement. Four of her children are now in school, two of whom attend Quranic classes, while the remaining two help with the household chores and provide care to their younger siblings.



Habiba

DISPLACED MOTHER REBUILDS HER LIFE THROUGH WORK & STABILITY

“Now we have something in our pockets. This life is far better than the one we had before.”

Challenges remain. Drought and unstable market conditions remain a threat to her and her co-workers’ financial stability. In addition, as a daily wage earner, a day when the machinery doesn’t work is a day without pay.

Still, her story is one of hope and progress. Her income and stable employment have given her dignity and the ability to look toward the future with optimism.

“In the future, I hope we can rise above this poverty.”

Ms. Habiba’s journey illustrates the critical role SMEs play in providing IDPs, especially mothers, with dignified work, economic independence and a pathway out of crisis.



Habiba processing grains



“Now we have something in our pockets. This life is far better than the one we had before.” Ms. Habiba Mohamed Yarow

Habiba handling production tasks



Abdisalan and his sheep

Rebuilding Through Livestock: A Family Man Supports 30 Children and an Entire Community

Born in 1974 in Hargeisa to a Baidoa-origin family, Mr. Abdisalan Ali Mohamed grew up far from his ancestral home.. When the civil war spread across the country, Mr. Abdisalan moved to Mogadishu, then to Baidoa. But insecurity within the country remained widespread, forcing him to flee again, this time across the border to Mandera, Kenya, where he lived in a refugee camp.

In 1992, he returned to Baidoa determined to build a stable life in his own homeland. He travelled between Baidoa, Bosaso and Mogadishu in search of stable income and opportunities, but always returned to Baidoa, the place where his roots, family and, he believed, a better future could be anchored.

In Baidoa, he started as a mixed poultry and livestock farmer. However, a severe poultry disease outbreak in 2019 destroyed most of his birds, forcing him to pivot fully into livestock farming. Rather than collapse under the setback, he used it as an opportunity to rebuild the business with a new vision: a vertically integrated goat enterprise supplying affordable meat to Baidoa and eventually producing dairy products like milk, butter and cheese.



Livestock consuming farm feed



Staff member at the livestock site

Through the SME credit facility, he received a US\$30,000 loan which he used to rehabilitate the farm, construct new animal shelters, procure veterinary medicines and improve feeding systems. This allowed him to regulate his production cycles and to reliably supply the local market. His impact extends far beyond his own family. Mr. Abdisalan employs 12 IDPs, including women, who assist with animal care, feeding and cleaning. These jobs provide reliable income to families who were previously dependent on humanitarian aid.

Today, Mr. Abdisalan continues to support his 30 children, many of whom are adults with children of their own. Some are in university, others in secondary or primary school, and all depend on him and the stability of his family business.

"If we strengthen these farms, we can feed our families, employ others, and build peace through work." Mr. Abdisalan Ali Mohamed

RESULTS ACHIEVED

SUPPORT

- ✓ **9 SMEs**
- ✓ TOTAL MURABAHA DISBURSED
\$350,000
- ✓ MURABAHA LOAN RANGE*
\$30,000 - \$50,000
- ✓ TERM
2-3 YEARS
- ✓ MARK UP RATE
6% ANNUALLY
- ✓ SECTORS SUPPORTED
AGRICULTURE, LIVESTOCK, HOSPITALITY, PHARMACY AND TAILORING.

IMPACT

TOTAL ANNUAL REVENUE INCREASE
\$176,000

AVERAGE ANNUAL REVENUE INCREASE
\$19,611

NEW JOBS CREATED
148

WOMEN IDPS
68 (46%) 94 (64%)

*Murabaha: Islamic financing based on cost-plus-profit sales with deferred payment

PROJECT MAP



CHALLENGES



Baidoa market

SMEs in Baidoa's displacement-affected communities face several systemic and environmental challenges that limit their growth and ability to scale. Access to flexible and affordable financing remains a major barrier, as many entrepreneurs struggle with limited working capital and short grace periods that do not align with seasonal agricultural cycles. Market volatility, further exacerbated by drought, inconsistent crop yields, and fluctuating raw material prices directly impact production and disrupt supply chains. Weak market linkages constrain growth, with poor road infrastructure and high transportation costs curtailing SMEs' ability to expand beyond local markets.

Technical constraints also persist, including limited access to modern processing equipment, veterinary services for livestock businesses, and quality packaging materials for agribusinesses. Daily wage workers, especially IDPs employed by SMEs, remain particularly vulnerable; when machinery stops running or production slows, their income disappears.

Additionally, certain sectors, such as hospitality, continue to face regulatory and operational challenges, including licensing procedures, compliance costs and high utility expenses.



Abdisalan at the livestock facility with staff

LESSONS LEARNED



Tailoring training session



Woman holding a handful of grains

SMEs demonstrate a strong capacity for job creation

This was especially beneficial for IDPs, women and youth when SMEs were equipped with targeted financing and business support. Business management training proved essential in helping entrepreneurs formalize and control their operations, strengthen documentation and meet financial institution requirements.

scale their operations. As SMEs expand, they generate direct and indirect employment across agricultural and non-agricultural value chains. Business growth also increases sustained demand for locally produced agricultural raw materials and incentivizes higher-quality and higher-volume production, thereby strengthening local markets and expanding income-generating opportunities.

Flexible and adaptive finance is critical

Concessional, Sharia-compliant financing with longer grace periods, extended loan terms, flexible repayment schedules, and appropriate risk-sharing mechanisms is essential for Somalia's SMEs in fragile and displacement-affected communities. Such financing allows enterprises to invest, adapt and expand while managing cash-flow volatility, without undermining enterprise viability or household stability.



Women entrepreneurs emerged as strong financial managers

They often reinvest profits into production growth and focus livelihood support for vulnerable workers. The employment provided by women-led SMEs delivered more than income; it restored dignity to the entrepreneurs, strengthened food security, and improved school attendance among IDP children.

Access to SME finance drives local economic development

Improved access to SME finance catalyzes local economic development in DACs by enabling existing SMEs to grow, invest and



Integrating climate resilience measures is essential

The challenges posed by climate shocks underscored the need to integrate climate resilience into SME support, particularly in sectors reliant on agriculture, livestock and natural resources.

RECOMMENDATIONS

Expand access to affordable and flexible financing

Adaptations could include financial products that incorporate repayment grace periods, seasonal or otherwise adaptable repayment schedules aligned with agricultural cycles, and credit-guarantee mechanisms for MFIs and banks so that risk-sharing translates into lower collateral requirements and markup rates for SMEs. Combining guarantees with concessional or blended-finance credit lines for climate-resilient investments (e.g. drought-tolerant inputs, solar-powered crop processing machine, climate-resilient storage and market infrastructure) would allow SMEs, particularly in climate-sensitive sectors such as agriculture and livestock, to invest in adaptation, stabilize production, and grow without being overburdened by early repayment pressure.

Establish entrepreneurship training programmes

Training programmes for entrepreneurs in basic accounting and bookkeeping, as well as digital skills (including mobile money and simple business applications), would improve business performance. They would also enhance access to finance, enabling SMEs to build a verifiable payment history and unlock asset- and cashflow-based lending. Special attention should be given to women, as they face additional cultural, financial and caregiving barriers to participating in training and enterprise development.

Provide targeted employment services for IDPs, women and youth

Integrated employment services for IDPs, women and youth, combining demand-driven vocational training with basic employability skills, mentorship, job placement and entrepreneurship support, and time-bound wage subsidies, would improve job readiness, hiring and economic inclusion.

Support IDP-led cooperatives and collective enterprises

Cooperatives and collective enterprises improve access to finance, markets and productive assets by enabling IDPs to pool resources, share risk and build collective creditworthiness. These models help overcome key barriers faced by IDPs, such as lack of identification, capital, collateral and required guarantors, while strengthening livelihoods and economic resilience.

Strengthen value chains

Government and the national development bank can undertake value chain and sector specific risk assessments and use the results to design targeted credit facilities and guarantee schemes with local MFIs and banks, so that risk sharing and concessional or blended finance lower collateral requirements and borrowing costs for SMEs investing in these value chains. Adopt a value chain approach rather than supporting isolated enterprises. Integrating farmers, aggregators, transporters, processors, and workers not only amplifies development impact but also reduces systemic risks across the production and market ecosystem.

Integrate SME needs into climate-resilient economic planning

Strengthen climate resilience by improving the regulatory framework for Takaful (Sharia-compliant) insurance and expanding access for SMEs and smallholders to climate resilient finance through credit lines, guarantees and grants that support drought tolerant agriculture, veterinary services, renewable energy and climate adaptive market infrastructure.

Inclusion of IDPs, women and youth in local economic governance

Facilitate the meaningful participation of IDPs, women and youth in District Councils and municipal economic decision-making bodies, including Local Development Committees, market and trade boards, and Chambers of Commerce, to ensure inclusive local economic decision making. Access to SME finance drives local economic growth by enabling business expansion, creating jobs and increasing demand for locally produced agricultural and non-agricultural goods. Agriculture, veterinary services, renewable energy and climate adaptive market infrastructure.

SAAMEYNTA



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