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BUSINESS
OPPORTUNITIES OF
FISHING SECTOR IN 
SOMALIA



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Editorial

Small Manufacturing Businesses in Somalia are growing gradually and most of them closed almost immediately. Some of them fears to expand their manufacturing businesses because they fail to understand economies of scale hence manufacturing operations stop. The focus with economies of scale is on the cost per unit, or average cost (AC) – not the total cost. If you take advantage of economies of scale, your unit cost will typically decrease as the number of unit's increases – so you'll probably earn more. Growing bigger, and producing more, can yield significant returns.

As the Somali regions continue their nearly three-decade-long struggle for recovery from political collapse in the early 1990s, catalysing investment to make it possible economic growth is a goal shared by many stakeholders both inside and outside the area. Investment in local communities can spur entrepreneurship, job creation, and the development of much-needed infrastructure. The resulting increase in individual savings and development of capital could generate positive incentives to formalize the banking sector and, attract additional international capital.

On the other hand, Somalia has one of the longest coastlines in Africa combined from Red sea and Indian Ocean. Fishing is one of the factors of production that the economy of the country can depends, but traditionally the Somali society's lack of awareness with their fish caused to decrease the production level of the fish. So it is significant to understand the opportunities of the fishing sector, the situation of Somali fishing companies their equipment and challenges.

In Technology it is important for businesses because technological advancement brings new business opportunities and the field of mobile applications has much importance in today's market. Nowadays, Mobile applications are considered one of the best sources of income in the world. It can provide billion dollars of profits within short period of time. The apple's app store is an example of mobile apps power; it generated more than \$20 billion in revenue for developers in 2016. Somali Software development industries are not considering this great business; therefore, the software development industries must take these opportunities and create a viable and sustainable mobile app development.

In this edition of SBR, different aspects have been reports, women entrepreneurship, fishing, mobile applications, leadership, economics of scale, performance appraisal. It ranges from business to technology and I am thanking to the authors of this articles.



EFFECTS OF LEADERSHIP ON EMPLOYEE MORALE IN HIGHER EDUCATION

MR.ABDULKADIR NOOR JIBRIL

INTRODUCTION

Running university programs and managing academic and support staff needs leadership skills to maintain a positive morale of the staff. This article highlights effects of leadership on employee morale in higher education, also underlines Higher education and Business

MORALE

McKnight, Ahmad and Schroeder (2001) describe morale as “the degree to which an employee feels good about his/her work and work environment” (p.467). Seroka (2009) defines employee morale as the general level of confidence or optimism experienced by a person or a group of people, especially if it affects discipline and willingness. Morale can be a total satisfaction that a person gets from his/her position in the job with co-worker and the job environment. It is more influenced by the leadership than the low levels of management.

SIGNIFICANCE OF MORALE

Morale is relating to the productivity and the performance of the employee, a high morale employee tends to stay organization perfectly then the low morale one, his/her loyalty to the organization and the leader increases as long as positive morale exists. Low morale is high cost for the organizations. Millett (2010) provided six reasons of morale importance which are

as following: improved productivity, performance and creativity, reduced number of leave days, higher attention to detail; a safer workplace; and increased quality of work. Mazin (2010), furthered that high employee morale leads to people keep coming the work on time, and better communication, less time wasted on gossip, better recruitment and retention, and more creativity. Several researchers stated that low levels of morale can increase costs, absenteeism, strikes, lack of motivation and interest, decreased efficiency and can cause the objection of staff to carry out his/her service.

CAUSES OF LOW MORALE

There are many reasons can cause low staff morale, but the top one stated by most researchers is poor leadership. Fretwell (2002) underlined the importance of the leaders' role, since organizations are influenced by the leaders' vision and decisions. Leadership quality is considered to be among the factors causing low morale of the staff (Schuler, 2004). Robbins (2003) also stressed that change and poor leadership are basic causes of low employee morale. Steven (2009) asserted leadership a list of factors causing low morale of staff such as leadership not serving as role model, no accountability and lack of career and succession plan. Psychometrics Canada (2010) also mentioned that poor leadership can cause negative effects on staff morale. Furthermore, the mistrust of management, poor interpersonal relations and inflexible working conditions can be other factors that effects staff morale (Dye & Garman, 2006).

HOW TO DEAL WITH LOW MORALE

Dealing employee with respect, considering their condition of life, giving them good work environment and developing their skills are part of strategies make employees feel better towards institution and leadership. Low morale is the consequences of consecutive events and practices by the leadership occurred in organization and made employees feel fear regarding their future in the institution such as layoff, resignation or termination of skilled staff, budget reduction, and shrinking decisions into the circles of the top management. To boost positive morale of staff in the institutions, leaders are required to create mutual trust between leader and staff, as Dye and Garman (2006) stated that managers can get trust and increase employee morale by being accessible and authentic, fostering openness and through role modeling. It is a leading by example and better communication with employees. Stevens (2009) gives five solutions to deal with low morale he stated that managers should attract the appropriate talent, and hiring for skill and behavior, finding best practice and hiring for passion and focus on the customer.

LEADERSHIP IN HIGHER EDUCATION

Leader is an inspiring person, a person who gives guidance and instruction as leading and directing role in the surrounding environment to make sure in achieving specific goal and outcomes. Leadership is an art to initiate and motivate followers so they can struggle hard towards attainment of specific objective. Academic leaders should encourage, instigate, guide and lead the faculty members towards accomplishment of common objective. According to Gmelch, W. H. (2002) academic leader is to work with his followers as a group and guide them by giving instructions to each

member about how to carry out and complete the work as he is to empower staff to come up with the desired result and achieve objectives. Regarding the previous researches employee of higher education require autonomy in order to complete and perform their professional job effectively. Brymans (2007) stated that an important leadership quality is to sustain professional and personal autonomy of his employees, to deal with such situation a strong and persuading leader is required to lead faculty members. The concept of Academic Leadership has been presented by Ramsden (1998) and he propose that leadership in higher education have characteristics as; leadership in teaching i.e. introducing new ideas of teaching, adding excitement teaching, leadership in research i.e. leader must set his own research examples and give guidance for the staff, strategy vision and networking i.e. leader should establish clear goals and articulate those to everyone, collaborative and motivational leadership i.e. leader should motivate people to give their full and try to achieve difficult objectives also there should be openness and an environment of trust and support, fair and efficient management i.e. delegating task and organize the tasks, development and recognition of performance i.e. praise people work and provide them with feedback and give them support, interpersonal skills i.e. look into other peoples interests. Academic leader must have a clear sense of values and must able to adopt the internal and external changes in the organization (Selznick 1984: 27). Leader should be knowledgeable and capable enough to manage his subordinates successfully.

LEADERSHIP STYLE/APPROACHES AND EMPLOYEE MORALE

Leader is to have a power to influence the activities of the follower through communication process in order to achieve specific goal and objectives. Leadership is defined as the process of influencing the activities of an organized group toward goal achievement. (Rauch & Behling.), the below are some leadership style.

Participative Leadership

Participative leadership is the most effective approach of leading the people successfully as Lewin found (1978). this approach has particular feature and is known different names such as power sharing, Management by Objective (OBM), joint decision making and empowerment (Harris, Moran, & Mora, 2004; Miner, 2006). Leaders have responsibility towards their followers. They must be honest and constant in their behavior and not always disregard suggestion of employee in order to motivate follower's participation and engagement (Sinclair, 2008). Participative leadership approach is a powerful management tool as it can be harmful in some situations. According to Seifert (2006) if the employee

comes to believe that the management is unfair they turn into resistant to the participative approach. Also in same situation if the employee met inconsistent in the behavior of the manager, he will get in the risk of losing of respect of the employees (Marchington & Vincent, 2004).

Transformational and transactional leadership

Transformational leadership is defined as a power and influence theory where the leader acts in manner that influence and appeal to followers' higher order needs, inspiring and motivating them to move towards a particular purpose (Bensimon et al, 1989). it is generally compared with transactional leadership which is a process of social exchange where leader indulge and treats with follower to influence through giving resource as information, promotion, projects, funds and other rewards in return with certain type of work, behavior or performance. Transactional leadership can also be understood as synonymous with 'management' and management behaviors, while transformational leadership is related with real or effective leadership. Both these theories have been widely concerned and researched in higher education and continue to sustain up interest. According to Bryman (2007), transformational leadership, in the educational setting, brings about and sustains systematic change in schools. In responding to questions regarding their leadership style, many academic deans indicated that transformational leadership was one of their preferred methods (Lustik, 2008; Rhodes, Brundrett, & Nevill, 2008).

Laissez-Faire Leadership Style

The least advantageous leadership approach is the laissez-faire style. According to Bass (1985), the laissez-faire style is base on an avoidance of leadership. The manager operates in a passive manner so it is why called Laissez-Faire style. According to Northouse (2007), the laissez-faire manager avoids his/her responsibilities and abandon to satisfy the needs of subordinates or colleagues. This leadership behavior is destructive to the organization's productivity and morale (Bass, 1985).

HIGHER EDUCATION AND BUSINESS

Universities are not established for profit generally, it creates, disseminates knowledge and publishes research for the goodness and wealth of the society but some private universities operate as profit seekers. Gazi Mahabubul Alam stated in his research Article conducted in Bangladesh 2009 "private HE sector considers education as business goods rather public goods". Universities contribute the growth of business with skilled and knowledgeable Human Resource, most of leaders, management and employees in public and private institutions were once students in Universities or colleges. Profit based Universities neglect quality education and focus maximization of

student enrolment to gain more profit this negatively affects business, economic and the whole development of the society.

CONCLUSION

Leader's decisions and behavior affect morale and performance of a staff in academic institutions or any other organization, leader can create culture of team work, trust and collaboration by employing appropriate leadership style. Prior research on leadership has shown that how a leader acts and communicates with followers during very challenging periods can create the foundation for future trust in the leader (Kasper-Fuehrer and Ashkanasy, 2001) and impacts on morale. Educational Institutions mostly are not for profit entity although some private institutions are established to gain profit and neglect quality of education service.



HOW TO DEAL WITH LOW MORALE

Dealing employee with respect, considering their condition of life, giving them good work environment and developing their skills are part of strategies make employees feel better towards institution and leadership.



FOREIGN DIRECT INVESTMENT IN SOMALIA

ALI ABDULKADIR SHEIKH ALI

INTRODUCTION

Economic development is essential for every country, but it is especially crucial for those countries in the aftermath of protracted armed conflict, needing peace building, recovery and reconstruction. Development aid alone cannot transform damaged economies, and it is here that foreign direct investment (FDI) can be a valuable tool to revitalize industries, rebuild infrastructures and, eventually even eliminate the need for aid.

As the Somali regions continue their nearly three-decade-long struggle for recovery from political collapse in the early 1990s, catalysing investment to make it possible economic growth is a goal shared by many stakeholders both inside and outside the area. Investment in local communities can spur entrepreneurship, job creation, and the development of much-needed infrastructure. The resulting increase in individual savings and development of capital could generate positive incentives to formalize the banking sector and, attract additional international capital.

Moreover, economic development goes hand-in-hand with a lower risk of terrorism and civil conflict. Undoubtedly, economic development is a first-order priority for the governments, multilateral organizations, and non-profits that seek ways to assist the Somali regions in their on-going recovery (Benson, n/a).

Research studies previously made show that foreign direct investment plays a key role in filling or bridging the gap that exists in the area of development, foreign exchange, and investment and tax revenue gaps in many developing countries (Hlongwana, 2015).

Theories of FDI can be split into two groups: Micro level and Macro level. The micro level theories of determinate of FDI try to provide answer for the question why multinationals companies (MNCs) prefer opening businesses in foreign countries rather than exporting or licensing their product. While, the Macro levels of determinants of FDI clarify on the host countries situations that determine the inflow of FDI (Menamo, 2014)

BACKGROUND OF FDI

The literature has shown that FDI not only offers a significant benefit for developing countries, but that it can also be utilized as the key driver for economic growth and development. The fact that FDI contributes to the creation of employment, as well as to technology and knowledge transfer in relation to capital and skills, makes it one of the key policy drivers for many countries' economic growth strategies (Gebrewold, 2012). Many studies have shown that FDI can be used to raise people out of poverty, through the creation of employment. FDI has operated this way in Somalia. FDI has been a key focus area in and, a tool for the boosting of economic growth for developing economies. Therefore, Somalia is not an exception and should become one of the economies that see the FDI concept attractive for solving some of the fundamental challenges, in terms of economic and development growth. However, reports have shown that, the African countries that have adopted FDI policies, Somalia has been least active in attracting FDI.

Among other industrial development strategies that it has used for boosting economic growth, Somalia has made an effort to liberalize trade and, to implement incentive policies so as to enhance FDI attraction. Moreover, Somalia is currently rebuilding its economy with other developing economies, from other regions; it needs to understand the importance of FDI contribution to the economy. The existing body of literature of FDI research studies in Somalia is very limited and, this study in particular is on the relationship between FDI and economic growth. However, for Somalia to attract FDI, it needs to understand the key determinants of FDI and the existing challenges and opportunities. This study was aimed at examining Somali FDI trends and the economic contribution of FDI over the specified periods.

CHALLENGES THAT FACE FOREIGN DIRECT INVESTMENT IN SOMALIA

It has become increasingly clear that economic development and, poverty reduction can significantly reduce the incidence of conflict. This is of particular importance for countries recovering from violent conflicts, considering they are often among the poorest even compared with other developing countries, and, are extremely vulnerable to slipping back into violence. Economic development therefore, plays a key and interrelated role – along with Political development and the maintenance of security – in post-conflict peace-building processes aimed at creating lasting and sustainable peace. Clearly, the needs of post-conflict transition countries vary according to their situations. The overriding priority in those countries emerging from complete collapse such as Somalia is to restore

stability and security. Where institutions are still intact to some degree, efforts can concentrate more on improving economic and social conditions by establishing effective, accountable governance mechanisms. Accordingly, the challenges of post-conflict economies are very different to those of developed, and even of other developing economies.

OPPORTUNITIES IN DEVELOPING COUNTRIES LIKE SOMALIA THAT ATTRACT FDI

These can be in terms of low labor cost, level of infrastructure, political stability, abundant of natural resource to name a few, also the details are expressed in the following sections:

Low Labor Cost

Country's factor endowments are commonly understood as the amount of land, labor, capital, and entrepreneurship that a country possesses and can exploit for different sectors. The Rybczynski theorem (1955) explained that increasing the level of the labor supply would lead to raise production of the good, which uses that factor intensively.

Natural Resources

It is the most important determinants of FDI. Dunning (1993) states, the need to secure economic and reliable sources of mineral and primary products for the industrializing nations of Europe and North America. Therefore, natural resources were the major reason for the expansion of FDI. Somalia has abundant resources including minerals, fertile arable land, a long coast, oil reserves, livestock, et cetera. So, there is a big window of opportunity for all foreign investors in Somalia (Mohamud, 2012)

Little Capital

According to the neoclassical approach, the availability of little capital in the developing countries makes its return to be increased. In this line of argument, capital moves from a country where return on capital is low to a place where return on capital is high. This approach is based on the perfect competition and risk aversion.

High level of Government Support and Investment Incentives

FDI policy instruments used to attract foreign investors. This has some impact to determine FDI, but as explained in Asiedu (2004) the investment incentives by itself cannot be enough. The host country should increase other determinants like infrastructure and market size.

Trade Liberalization

Most of literature's focuses on the empirical relation between trade and growth while, many studies find a connection between trade, or some other measure of

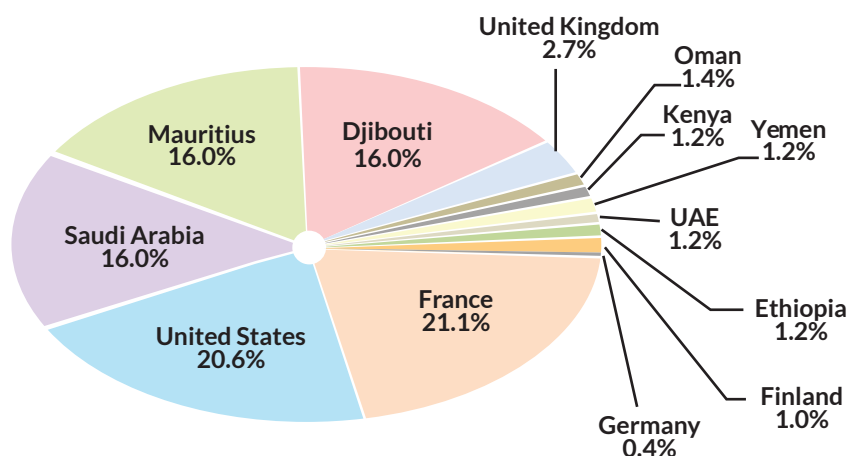
openness, and growth. Bajona, Gibson, Kehoe & Ruhl (2008) among others studied the theoretical relationship between trade liberalization and growth. They concluded that trade liberalization leads to higher productivity or higher rates of growth in real GDP.

Inward investment in Somalia between January 2003 and May 2015

Rank	Exporting Countries	No. Companies	No. Projects	No. Jobs	Cost (Million \$)
1	France	1	1	122	197
2	United States	2	3	431	192
3	Saudi Arabia	1	1	89	150
4	Mauritius	1	1	89	150
5	Djibouti	1	1	89	150
6	United Kingdom	3	3	94	26
7	Oman	1	1	31	13
8	Kenya	1	1	18	11
9	Yemen	1	1	18	11
10	UAE	1	1	18	11
11	Ethiopia	1	1	18	11
12	Finland	1	1	151	10
13	Germany	1	1	40	4

Source: Ministry of Finance and Economic Development

Top countries investing in Somalia between January 2003 and May 2015



Somalia Outwards' Investment between January 2003 and May 2015

Source: Ministry of Finance and Economic Development

IMPORTANCE OF FDI

Agrawal & Khan (2011), states supporting points regarding the importance of FDI, which are:

- 1) FDI acts as a vehicle for the transfer of advanced manufacturing technologies from the Developed countries (DCs) to the Less Developed countries (LDCs),
- 2) FDI increases competition in the host country's markets,
- 3) FDI helps the host countries improve their foreign exchange reserves (or balance-of-payments position) by increasing exports,
- 4) FDI brings along with it the management know-how needed to run the facilities,
- 5) FDI provides the financial resources needed by the host country,
- 6) FDI enhances the training and employment opportunities for the people of the host country,
- 7) FDI reduces the burden of imports on the host countries through import substitution,
- 8) FDI acts as catalyst for increasing domestic savings and investment.

As a result of these benefits, many developing countries, like Somalia, are now actively seeking for promoting FDI by trying to create a favourable environment for it. Some of the measures taken include economic and political reforms aiming at macroeconomic and political stability, investment in infrastructure and human capital and liberalization of trade.

CONCLUSION AND POLICY RECOMMENDATIONS

As all sorts of investment in particular FDI, there is the need for the government:

- To revise its macroeconomic policies to attract foreign direct investment and productivity of resources allocation in the economy.
- To re-examine its foreign trade policy by liberalizing it, introducing and making appropriate adjustment in taxes in such a way that it does not distort the working of the economy. Finally, effort should be made by the government to attract foreign investment to the country.
- To increase other determinants like infrastructure and market size. To encourage the domestic revenue sector by way of investing in the public sector and encouraging investment in the private sector as well.
- To restore stability and security by building institutions, which are intact to some degree, concentrate more on improving economic and social conditions by establishing effective, accountable governance mechanisms.

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INVESTING IN LOCAL



Investment in local communities can spur entrepreneurship, job creation, and the development of much-needed infrastructure. The resulting increase in individual savings and development of capital could generate positive incentives to formalize the banking sector and, attract additional international capital.



Performance Appraisal: The Proper Method for Somali Companies Global Social Sustainable Enterprise (GSSE) Candidate

HODAN BARRE MOHAMUD

INTRODUCTION:

IT IS ABOUT PERFORMANCE APPRAISAL IN 360-DEGREE

The 360-evaluation feedback method was first used in the 1940s. The 360° method provides each employee the opportunity to receive performance feedback from his or her supervisor, peers, staff members, co-workers and customers. 360-degree feedback or multi-source feedback is an appraisal or performance assessment tool that incorporates feedback from all who observe and are affected by the performance of a contestant. (The Economic Time, News Paper, 2012).

STATEMENT OF THE PROBLEM

A 360° performance appraisal arrangement seems to be a perfect performance appraisal that fits the current day set-up for evaluation, as it attains appraisal or feedback from all approaches employee, manager, customer and others. The traditional appraisal system generally allows injustice and personal influences the researcher wanted to provide the management of Reliance Life Protection with a model of 360° appraisals that gives a feedback from all approaches. It is possible to analyze the performance of employees from several perspectives. Hence, the study on 360° performance appraisal is important to a company like Dependence

Lifetime Protection. (Banu, C. V., & Umamaheswari, P., 2009)

Before implementing it, Somalia companies should first invest time in understanding the use and purpose of the appraisal method. Then, they should communicate the tool and its use to the company staff. Therefore, Somali companies can measure and implement the 360 appraisal method by following guidelines:

1. Companies should identify the proper skills they want to assess. Each company gives priority to some specific and relevant skills.
2. They should carefully select the raters of the program. The raters should avoid biases and personal judgment; they should focus on the skill rating scale.
3. Companies should encourage confidentiality of the data gathered about individual employees.
4. The focus should mostly be searching for strengths rather than weaknesses.
5. Follow up step should be in place after gathering feedback of every staff member.

Having to incorporate each person can either enhance the organization outcome or mislead it. 360-degrees performance appraisal like any other traditional appraisal system has its pros and cons.

PROS OF 360 DEGREE PERFORMANCES

1. Increases self-awareness

360 degrees can be used as an eye opener among the individual as they compare their own with those of the other team members / peers. These enable them to focus on ways to improve their performance while aiming higher. Team members are also able to understand the strength and weakness of their members and assist each other where they experience weakness.

2. Clarifies behaviors

360 degrees as it sounds is an all-round type of performance appraisal where the appraiser also has the chance to appraise themselves. The slogan "customer is always right" is at times overrated and customers take advantage and what things to work their way especially during performance appraisal.

3. Promotes dialogue

360-degree feedback is a great tool of enhancing communication with the parties involved. Having to engage all the stakeholder in one task ensures that all are in the same page. Areas of improvement are communicated without prejudice and acknowledged by the receiver

4. Improves working relationships

When individual / team members understand well the goals and expectations of the organization they can create a working culture that focuses on the organizational goals. People learn how to work with each other, respect each other and meet deadlines without delay.

5. Increases accountability

Accountability is emphasized in 360-degree performance appraisal with the confidentiality and anonymity of the results. Unlike the traditional appraisals where the managers cater their subordinates to get higher rating. In 360 the rating is anonymous making the managers more accountable for his leadership skill.

6 Enhances performance

When we compare the 360 with the traditional appraisal system, its main aim is to improve performance. When all the other parties of the appraisal system have done their part the data analysis is recorded. The appraised is informed about strength and weakness on the discussion forum and performance plans and goals established

Encourages personal development

When the appraiser is able to know their strength and weakness, there are able to develop their skills especially in areas where they showed weakness. Without critiquing it is important that the appraised be informed and guided on how to improve on their performance.

CONS OF 360 DEGREE PERFORMANCE APPRAISALS

1. It's expensive and time consuming

According to Rogel., 2012. As an organization, it is very important to know what others feel about you especially customers. In a normal 360 degrees, at least 8 people must evaluate one person. The logistics involved in the preparation of the system ends up been expensive as it will involve training those that don't understand the procedure which is time consuming.

2. It may lead to labor turnover

360 degrees is used as a reward tool, employees manipulate the system by placing their needs ahead of the organization goal. The talented and committed employees are under rated and as a result they resign.

3. Lower morale of the best talent

Employees form groups particularly when they want to demoralize the best and committed employees. They discuss on how to rate them negatively to reduce their rating. The rates affect the morale of the individual who are unable to overcome the comment.

4. Political/Results can be misleading

The idea of scratch my back I scratch yours best explains the politics that can evolve from the 360 degrees performance appraisal. People involved in the appraisal are already working together and have personal relationship which affects the appraisal process. If the appraisal is used for promotion /reward purposes the report can be falsified thus affecting end result. Managers can influence the process by recommending persons of their choice to get the promotion which is harmful to the organization especially.

EFFECTS OF PERFORMANCE MANAGEMENT SYSTEM ON EMPLOYEE PERFORMANCE

Performance management systems are meant to measure the right things necessary for effective performance. Setting up a performance management process provides a vehicle through which employees and their supervisors collaborate to enhance work performance in the process of achieving the organization's strategy. This process is most effective when both the employee and the supervisor take an active role and work together. Performance management maximizes its effectiveness when the four component processes of goal setting, measurement, feedback, and recognition and reward are linked together.

Effective performance goals flow from and support the mission, vision, and goals of the organization. By ensuring that the mission, goals and strategies of the larger organizational unit drive all performance measures and improvement initiatives, supervisors are better able to help employees see how their efforts contribute to the achievements of the objectives. This

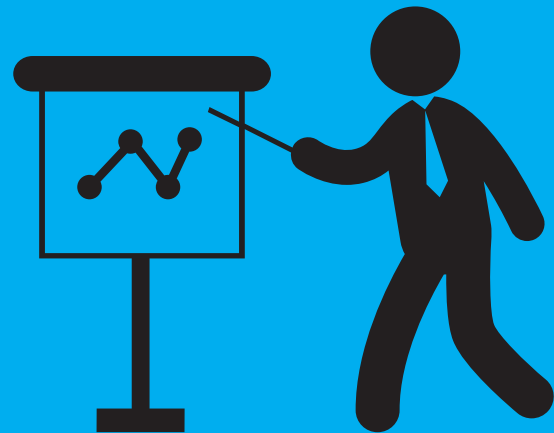
is the only way to ensure that the organization's performance management systems are consistent with the long-range issues.

The key characteristics of effective performance coaching and feedback conversations is that they are dialogues, not monologues, which occur regularly, rather than being reserved for formal reviews. They are balanced to address strengths as well as concerns, and they are conducted with respect, both in words and non-verbal behavior. (Kamoche., 2004).

Formal performance reviews are also useful in staying in line with long range goals. Employees need to know what is expected, and you need to be able to measure their adherence to those expectations in a fair and equitable manner. During annual performance reviews managers and employees work together Feedback should give employees clarity, a reason to go forward, and direct their work effort toward the goals of the department and the institution. Individuals who receive feedback on performance relative to their goals will be more committed to their goals than individuals who do not receive feedback. For feedback received to be effective, it needs to have the following elements: specific, timely, and appropriate. It is more effective when it reinforces what the employee did right and then identifies what needs to be done in the future.

CONCLUSION

In Somali business, they are used to control employee as work measurement system, supervisors, peers and subordinates. Receiving formal recognition is a powerful form of feedback. Recognizing and rewarding desired levels of customer service is the final step towards encouraging consistent performance. Establishing incentive programs can encourage teams to set higher goals than otherwise would have been set. Incentives such as monetary incentives, additional training, higher employee involvement in decisions on how the work gets done, or other things employees determine are of value should be offered. Incentives increase goal acceptance by employees. Rewarding and recognizing outstanding customer service shows employees that the organization cares about customer service and promotes goal accomplishment. It will also use change culture of the organizations.



STATEMENT OF THE PROBLEM

A 360 performance appraisal arrangement seems to be a perfect performance appraisal that fits the current day set-up for evaluation, as it attains appraisal or feedback from all approaches employee, manager, customer and others.



UNEMPLOYMENT IN SOMALIA: DESCRIPTIVE ANALYSIS

MOHAMED SANEY DALMAR

INTRODUCTION

Unemployment is the most vital problem all over the world especially in developing economies. In some ways unemployment moreover became inconsistent problem facing in many of the developed and developing countries. When someone needs to work and have the knowledge and the skills to qualify and don't get a job is known as unemployment. Keynesian economics rely on that unemployment is there "when markets and demand for goods and services are in efficiency".

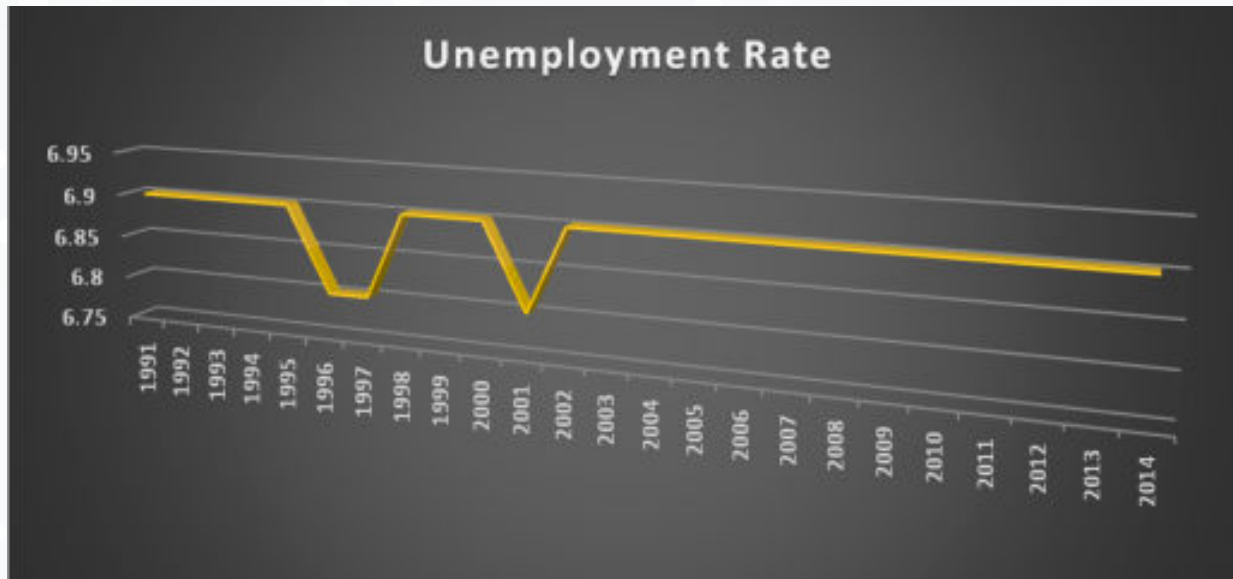
According to IMF, 2008 report stated that unemployment is measured by the annually percentage of labor force which can't find a job but can work. According to the International Labor Organization rules that, a person is jobless and unemployed if the person is not working, presently accessible for work and looking for work.

UNEMPLOYMENT: DESCRIPTIVE ANALYSIS

In Somalia, since the collapse of the military regime, unemployment became foremost problem which has stimulated both urban and rural areas of the country. According to ILO (2010) defines Unemployment as without a job, want a job, have actively sought work in the last 4 weeks and are available to start work in the next 2 weeks or out of work, have found a job and are waiting to start it in the next 2 weeks.

Unemployment in Somalia have enforced a lot of people to leave the country and migrate in search of an improved life through dangerous journeys through deserts and seas. More than 60% of youth have intents to leave the country for better living opportunities. Below graph shows that unemployment rate in Somalia were constant all the time except in periods of 1996-97 and in 2001 there was decrease which has ever occurred after the state collapse.

General increase in gross domestic product (GDP) will cause a decrease in unemployment as the Okun's Law states.



General increase in gross domestic product (GDP) will cause a decrease in unemployment as the Okun's Law states.

CONCLUSION AND POLICY IMPLICATIONS

The paper attempted a time series analysis which includes the macroeconomic determinants of unemployment in Somalia for the period of 1991-2014. Applying the ADF and Philips-Peron and Cointegration tests.

- Less manufacturing industry is part of the unemployment because more firms in this industry can hire skilled and unskilled labor.
- Private sector institutions can provide needed employment through the creation of small businesses.
- The government of Somalia should encourage the trade openness
- Somali government should promote private domestic investment and provide needed capacity to utilize the extraordinary idle capital.
- External debt is an available option to the government for only productive purposes and projects



UNEMPLOYMENT:

In Somalia, since the collapse of the military regime, unemployment became foremost problem which has stimulated both urban and rural areas of the country.



Why Women Enter into Entrepreneurship

NASRA AHMED MOHAMED

Entrepreneurship, which is usually seen from the perspective of men driven economy due to its complexity, has recently witnessed an influx of the female gender especially in the area of Small and Medium Enterprise (SMEs) (Gelin 2005; Josiane, 1998). A lot of women may have the capability to be an entrepreneur and can take part of the economic developmental so in generally; women takes part the entrepreneurship in a type of wealth and employment. The most significant thing that encourages any new business entrepreneur is the amount he or she needs to be invested in a new business. The requirement of starting a new business is all the same, whether it is large or small, so in order to start a small scale business, the new candidates has to think of various expenditures like infrastructure, human resources, equipments & machineries, raw materials, equity etc., and has to make the project feasible in accordance with the potential. Additionally, need of safe and long term funding is essential in new business ventures because, for a new entrepreneur. Therefore, these two factors provide sufficient time possibility to occur in the market potential for their products or services and to capture the business opportunities for better profitability.

Women have similar entrepreneurial potentials as men to contribute to wealth creation and employment by starting and developing their own businesses. Unfortunately, their potential has not been fully understood and utilized because of the systemic challenges that women entrepreneurs face. The most of the obstacles face by the women entrepreneurs come from the cultural background, level of confidence and choice of business that they make. So for them to come-up with a solution to their problem, and increase

their entrepreneurial potential they have to face the cultural perspectives of their community and get confidence to start their businesses.

In Somalia, after the collapse of Somali state, prolonged civil war and insecurity, it have caused huge human suffering and material losses across the country, leaving physical and emotional scratches on all aspects of Somali society. In addition to death, and the devastation, the violent conflict has resulted in extensive displacement of people both within and beyond the country's borders. Family relationships have been interrupted, traditional social values damaged, and roles and responsibilities within the family have undergone major fundamental changes. These changes mostly happened to Somali women because they became entrepreneurs; therefore, this article focuses on this issue of why these women enter into the entrepreneurship.

Women entrepreneurs are those that can play an important role to the socio-economic development and the community also family wellbeing. Women entrepreneurs are women that participate in total entrepreneurial activities, and take the risks involved in combining resources in a unique way to take opportunity identified in their immediate environment through production of goods and services. The women started their businesses on various reasons, one of those reason is, in the civil war most men were busy on fighting, the orphanage number increased. Thus, a lot of women started businesses for economic purpose to cover the needs of their family and develop the life and the wellbeing of their children by taking the role of both as father and mother. Furthermore, when it comes to entrepreneurship, there are a lot of people who are interested the entrepreneurship and like to be

independent and become their own bosses. Sowomen are part of this people and some of them start their businesses by trying to understand what it is like to own a business and how it works. More when it comes on serving your community and doing what you like to do, entrepreneurship is a good place to start with and grows your life style. So some women also start business to improve their lifestyle and have a fun by practicing their ideas. The factors that motivate women to become entrepreneurs are summarized to push factors, which are defined continuing the existence of the life and pull factors which is using the own skills to the field of the business. In addition to that, women are becoming entrepreneurs due to several factors, which may be classified as “pull factors” and “push factors”. Push factors refer to factors that promote women to start their business driven by financial need because of family state of affairs (Gnanadhas & Jesurajan, 2011). Also, according to, Chelliah and Lee push factors are factors such as inadequate family income, unhappiness with a salaried job, complexity in finding work and a need for flexible work schedule because of the responsibility of the family. While, Pull factors are the factors associated to the independence, accomplishment, entrepreneurial drive and desire for wealth, social status and power. Women entrepreneurs do business for covering the daily needs, having pleasure for this work, and taking advantage on their freetime. Women entrepreneurs start different kinds of businesses whether its formal or informal businesses, some women start the informal businesses to satisfy the family's financial needs.

In Somalia, before the fall down of the central government women seemed to be conquered and directed by men providing financial, guidance and social needs after some years, thus, Somali women started businesses in different areas. Before the civil war, Somalia women were the backbone of the family by taking care of the children and staying homes most of the time. But after the civil war aroused that country both married and unmarried women started businesses and become the economic providers of the family while they are still taking care of their family and children.

In the meantime, Women entrepreneurs in Somalia have to deal with various socio-economic problems. The attitude of the society and the support from the family and the community is a major determinant to the success of their businesses so the social and cultural roles played by the women can put some pressure to their entrepreneurship activities. As a part of their social binding, women have to perform household duties with simultaneously operating as business owners. A woman entrepreneur is expected to perform the roles of wife, mother, daughter, daughter-in-law and businesswoman. Mostly three factors that motivated women to become entrepreneurs these factors are those that want chance, forced and created factors. Chance women

entrepreneurs are those who begin a business with no clear objectives or plans. Forced women entrepreneurs are those who are forced to start their businesses for circumstances such as death of a husband, financial difficulties, with no supporting from anybody, lack of job, divorce. Created women entrepreneurs were categorized into programs and environmental motivated women entrepreneurs.

Finally, women generally entre into entrepreneurship for many reasons but in our community a lot of women entre into entrepreneurship for getting income and being independent and as we see the fruits of Somali women's contribution are growing and that will result on creating more jobs, innovating, and emerging markets, I recommend, supporting the women entrepreneurship through training and financial support.

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The most significant thing that encourages any new business entrepreneur is the amount he or she needs to be invested in a new business.

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MOBILE APPLICATION DEVELOPMENT OPPORTUNITIES IN SOMALIA

ALI OLOW JIMALE

INTRODUCTION

Technological advancement brings new business opportunities and the field of mobile applications have much importance in today's market. Nowadays, Mobile applications are considered one of the best sources of income in the world. It can provide billion dollars of profits within short period of time. The apple's app store is an example of mobile apps power; It generated more than \$20 billions in revenue for developers in 2016. It is not surprise that everybody is working on app because people need to have important information at their hands using their smart phones. In addition to that, mobiles are widely used for accessing the Net because of their small size and mobility. Some studies are predicting that the mobile phones, specially smartphones, will take the place of being popular means for accessing the web over personal computers (PCs) by 2020. Moreover, many software development companies in the world have expanded their mobile app development industries over past few years since the demands of mobile apps are raising day after day. However, Somali Software development industries are not considering this great business, therefore, this review clarifies the basics for including a viable and sustainable mobile app development department to the Software development industries in Somalia and the opportunities it can offer to the business.

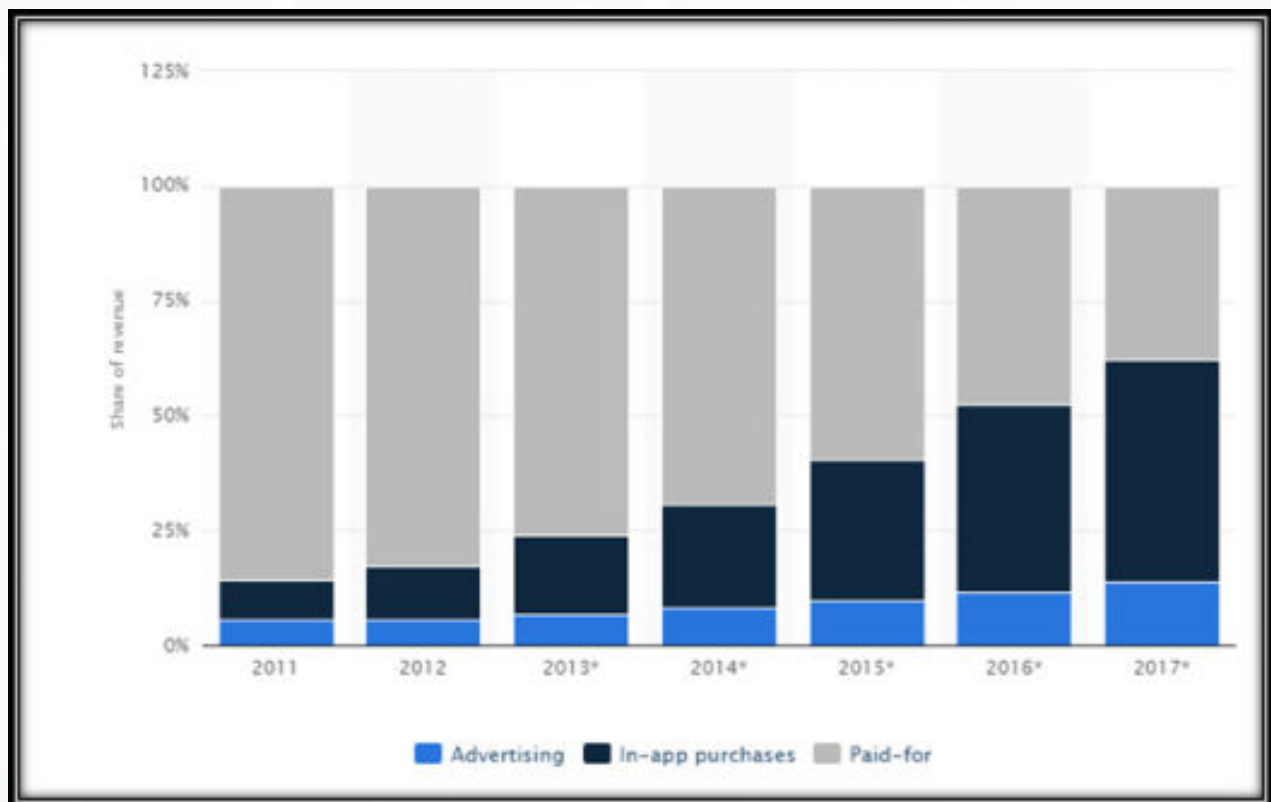


THE INCOME SOURCES OF MOBILE APPS

In general, software development is an excellent field for earning high-paying incomes and mobile applications are exceptional. Mobile applications (mobile apps in short) are software applications developed for small devices such as smartphones, PDAs and tablets using smartphone platforms that support mobile apps including ANDROID, windows phone, Blackberry and iOS. There are three popular types of mobile apps, these types are native, hybrid

and web apps. Native apps are device dependent apps which was developed for specific mobile operating system. The native apps cannot support other than their platform. For example, ANDROID app cannot be used on iPhone. Hybrid apps are designed and developed using multi-platform web technologies such as HTML5, CSS and JavaScript. These apps are mainly developed for websites. Accelerometer, gyroscope and geolocation are examples of Hybrid apps. Web apps are developed using HTML5, JavaScript or CSS. These apps behave similar way to the native apps but

they use browser to run. Mobile apps are developed to enhance the functionality of smartphones. These apps provide one of the best incomes in the world. Recent studies show that mobile application development have great business opportunity. It earns billions of dollars yearly. This huge amount of revenue comes from the sales of mobile apps (paid for), in-app purchases and advertisements within mobile apps. The following chart shows the percentage of mobile app revenues from the three mobile apps since 2011 up to now.



CURRENT SOFTWARE DEVELOPMENT INDUSTRIES IN SOMALIA

Mobile apps are great business for making money and helping Software development companies to remain competitive and continue growing. Google and apple are considered the biggest players in the mobile app market those have stores with great number of apps that allow users to download it. Both companies earn huge amount of money as revenue every year. In 2016, Google play store generated \$17 billion while apple processed \$34 in sales on 63 billion and 29 billion downloads respectively. There are many ways that Software development companies can make money from mobile apps. These ways include: Freemium, Freemium apps that allow multiple purchases, Advertising on freemium apps, Advertising, Partnering with a sponsor, Video advertising, Promotional services and Paid apps. The link <https://www.entrepreneur.com/article/251575> contains the details

of the eight ways to get revenue from mobile apps. Software development companies in the world paid more attention to the mobile app development over past years, however, Somali's Software development industries do not give much consideration in this field. Most of the software development companies in Somalia offer desktop application development and web application development. These industries have skillful programmers and experts those able to build enterprise solutions for the business domains, websites and portals. All of these efforts are indicating that the country is growing technologically, but still the business requires to extend their sales and connect their customers and employee through mobile platforms and the software development industries do not properly consider these needs.

MOBILE APPLICATION DEVELOPMENT OPPORTUNITIES

Somali mobile phone companies provide the cheapest telecommunication services in Africa. In addition to that, wireless telecommunications services are available across the whole country. These services resulted an extensive use of mobile phones in Somalia and the number of smartphone users are increasing daily. The overwhelming move of daily communications from desktop to mobile, generated that the business in Somalia require to launch mobile applications that meets the demands of their employees and customers. Companies want to make their processes being mobilized while the business managers require mobile inside their buildings to have a faster way to the decision-making process. Most of the local televisions and radios do not have mobile app available for free download and provide quick access to televisions and radios programs, banks do not have mobile apps that allow the users to check their account balances,

transfer their fund and pay the bills. The software development companies do not focus on how mobile free apps can make money by offering free apps that contain additional paid features such as developing game app that have some free basic levels which encourages its users to purchase other existing new levels etc. Hospitals in Somalia are out to launch personal health record mobile app that gives patients an interface to make doctor appointments, pay treatment fees and access their lab results. The local telecommunication sector is lacking mobile app that allow the people to check balance, reload prepaid and transfer credit. There is no online shopping mobile app that allows to search for things and displays the product purchasing details such as checking the item price and shipment costs. The opportunities that mobile app development offers to the developers in Somalia are not limited to the mentioned but there are many other opportunities that the field can provide.





KEY CHALLENGES IN MOBILE APP DEVELOPMENT

Every developer can try to build and publish mobile apps in one of the application stores, but the challenges come while thinking about enterprise mobile apps. There are many challenges that mobile app development companies can face while developing enterprise mobile apps. The most common challenge that software development companies are facing is security; there are critical issues to be considered while coding such as the security of mobile apps related to financial transactions or the apps that record important data because any data loss or manipulation can cause serious problems in the software development organization. In addition to that, one of the biggest obstacles that mobile developers face always is creating noticeable apps, in this case, the developers must know the target group, the aim of the app, its functionality, the market, the price and where the app will be sold. Developing an app for a single

device is not a good idea in this decade since the smartphone choices are unlimited and designing mobile app that is compatible with multiple devices is not easy. Look and feel of the app is another challenge, the developers should create an interactive, user friendly and easy to use app. People always like the apps that are running in minimal battery, however, it is hard to develop an app that consumes the battery life.

Conclusion

Generally speaking, mobile app development is a great business gap exists in Somalia that can create billion-dollar market and the opportunity it offers is tremendous. In order to today's mobile application market, the recommendations are suggesting including mobile app development department in the software development companies in Somalia. Also, the reviewer is encouraging the junior programmers to study and try developing mobile apps to establish potentially high-paying career mobile app development industry in the future.



Business Opportunities of Fishing Sector in Somalia

ABDIAZIZ AHMED ALI AND YUSUF A. SULDAN A. RAHMAN

INTRODUCTION

Fishing is one of the man's oldest activities and has been practiced from the earliest ages. The word of fishing means activity of catching fish, while some people they use as sports. According to FAO report (2014) "Fish accounts for almost 17% of the global population's intake of proteins".

Somalia has one of the longest coastlines in Africa combined from Red sea and Indian Ocean. Fishing is one of the factors of production that the economy of the country can depends, but traditionally the Somali society's lack of awareness with their fish caused to decrease the production level of the fish. So in this article, we will present the opportunities of the fishing sector, the situation of Somali fishing companies their equipment and challenges.

We mentioned in the above, Somalia has the longest cost line in Africa. It has coastal waters which border both the Indian Ocean and Gulf of Aden which goods for biological productive due to the good climate that enables to live more organisms. According to

researchers, the fish migration that takes place in Atlantic and Pacific regions meet at the tip corner of Somalia and that attracts fishing companies, but the fishing sector is undeveloped with an average annual GDP is 1%. So there are huge opportunities in fishing sector that can lead to the economy of the country's growth and standard living of the society rises. This is appropriate ways that we can manage the resources of this sector, through:

- ◇ Fostering sustainable investment either locally or international,
- ◇ Getting Somali professional marine and fisheries to provide the young generation for basic fishing skills,
- ◇ Well trained and qualified employees that have physical and mental abilities to produce more Product,
- ◇ Proper equipment, either small scale or large scale,
- ◇ Obtaining source of information about fishing sector or other resources of the see for the fishers, investors and customers.

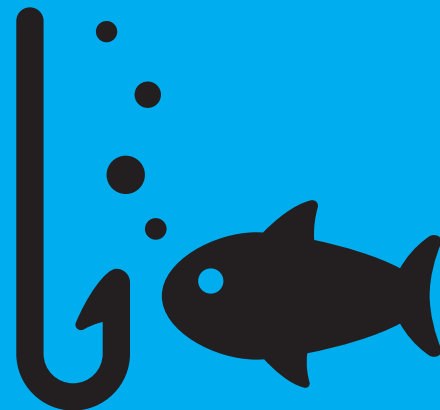
Somalia has a few growing companies that work on

fishing activities for the business purpose and they are not being able to export the fish. Moreover, fish productions are limited to the coastal areas due to the poor transportation and they can't deliver their products far places. Although, we have number of natural resources, which are good for fishing, but fewer companies and these industries, are trying to cover the demand of the society. The ministry of fisheries must give concentration, and provide assistant to the fishers in order to increase their product and create new enterprises that fosters the competition of this sector to improve the quality of the fish. During the civil war and the collapse of the state, infrastructures of the country were destroyed, including the fishing equipment that results limited access to fish for large portion of population. Somali fishers presently they uses small scale like safety equipment such as sunglasses, protect hat, and they wear appropriate cloths.

The ocean and rivers in the country are good for biological production due to the good climate which enables more organisms to live, but there are more circumstances which is restricting to the level of fishing and the amount of the fish per given day. However, the below parts are the most challenges of fishing sector:

- 1) Low level of technology: the equipment's under the disposal of the fishermen are few.
- 2) White shirt jobs: most youth they prefer working in office jobs instead of working fishing sector.
- 3) Lack of sustainable investment: the youth they have disappointment they do not have reliable investment if they try to develop the fishing. Also, they need to buy sophisticated boats, nets, motors, and GPS and all this equipments needs micro finance scheme.

Lack of ready market: the poor transportation of Somalia reduces the possibility of getting fish for the population far away from where the fish caught. The fish is perishable foods and the local markets do not have refrigerators that keep the meat to be fresh. With regard to the downfall of our country made the fishing sector to be forgotten, but the emerging companies seem to have brought this sector to life. With more investment and organizational support may improve our techniques in fishing, which may lead to economic growth and stability. In conclusion it is important to motivate, and increase skills of our youth and other parts of the society to take part the development of this sector.



Somalia has one of the longest coastlines in Africa combined from Red sea and Indian Ocean. Fishing is one of the factors of production that the economy of the country can depends



FINANCING FOR DEVELOPMENT POST MDGS: CHALLENGES AND WAYS FORWARD

MOHAMED OKASH SUGOW

INTRODUCTION

Development is life without poverty and income inequality; development is a respect of human rights, availability of peace and strong public institutions to deliver better and sustainable services. Development has been ultimate goal for all societies in the world, and it has been measured into three dimensions which are social, economic and political. The most widely used indicator to measure the level of development is Human Development Index (HDI) developed by United Nations Development Programme (UNDP). Financing for development is process of funding development projects and programmes by governments, private sector, multilateral development banks, charity organizations, individuals, civil society and philanthropy. Finance is the discipline of managing money; It is how ought to control and expend the money in appropriate manner. So financing for development is spending money into development path, If Somali government build a technical and vocational schools, hospital and Medical College or improve the quality of drinking water and clean energy that is financing for development. The history takes back in 2000, the year adopted the Millennium Development Goals(MDGs), the first Global Anti-poverty movement which contained 8 goals. The MDGs faced challenges including how to finance the

global goals. Latterly, the world adopted the 17 Sustainable Development Goals (SDGs) in the year of 2015; the SDGs are complex, inclusive and far oriented development goals. The world societies and development partners realized that there is a need to address the financing for development; therefore, this paper will attempt to identify the challenges of financing for development and sheds the light to the ways forward for financing for development.

THE HISTORY OF FINANCING FOR DEVELOPMENT

The first international conference for financing for development was held 2002 in Monterey, Mexico; the conference was gathered international delegation including Heads of States and Governments and international bodies. According to UN "Monterrey Conference did not establish a new intergovernmental mechanism; rather it was decided to strengthen and make fuller use of the General Assembly and the Economic and Social Council, as well as the relevant intergovernmental/governing bodies of other institutional stakeholders, for the purposes of conference follow-up and coordination". The second international conference on financing for Development was The 2008 Follow-up International Conference on Financing for Development to Review the

Implementation of the Monterrey Consensus adopted the Doha Declaration on Financing for Development which was subsequently endorsed by the General Assembly in its resolution 63/239 (UN). Latterly, the Third International Conference on Financing for Development was held July 2015, in Addis Ababa, Ethiopia. The outcome, Addis Ababa Action Agenda, of the Conference is an important contribution to the implementation of the 2030 Agenda for Sustainable Development. therefore, the main goals of the these conferences were to establish a global framework for financing development in order to realize respecting all human rights, ensure gender equality and women's empowerment, sustainable growth, shared prosperity and resilience to shocks, to promote peaceful and inclusive societies, enabling decent work and productive livelihoods for all, while preserving the planet for future generations.

CHALLENGES ON FINANCING FOR DEVELOPMENT

Development has never been accident; it is a choice and undertaken process towards a better life. Less developed Societies seek to achieve sustainable growth, better jobs, shared prosperity, resilience to shocks, peace and respecting human rights and as well as gender equality and good governance. Ending poverty and hunger requires a solid financial framework to address development problems, and there has been limitations and bottleneck facing financing for development (FFD). The challenges FFD are endless, few of these challenges should be include weak tax administration, lack of private finance, corruption and poor financial management, and Illicit financial flows (IFF) and Based erosion for profit shifting (BEPS) and so many others.

Most governments generate income from taxes and non-tax revenues. Most developing nations like Somalia has poor tax administration. The tax policies needs to review and implement properly in order to increase the national income; therefore, lack of proper taxation resulted low revenue. Tax exemption and tax exile are common malpractice and challenges face in tax administration because less capital countries will never benefit with tax exemption since they depend on foreign Aid. Furthermore, the role of private finance is limited in the developing world that resulted a huge gap in development finance. Some countries have no laws and policies promote private investment and development financing because of weak administration capacity or conflict and fragile states. The private sector can play a curtail part in investing infrastructure development and also development financing. Corruption is key enemy of financing for development. Fraud and theft paralyzes the economy and development process, and corruption has strongly associated with low revenue. Therefore, these issues

are always risk to public financial management in poor countries; they suffer inadequate planning capacity, poor expenditure control, lack of accounting systems and cash management and poor financial reporting.

Tax avoidance of international and local corporations are another set of challenges in FFD. Illicit financial flows is referred cross border tax evasion activities; the activities are related to business but it is illegal and they make money from smuggling, trafficking, wild life and drugs. According to World Bank «Money illegally earned, transferred, or used the cross borders; IFF reduces domestic resources and tax revenues». Around \$1 trillion of flows are transferred across border annually in the world. That money would be invested anti-poverty programmes, and these funds are always being used illegal purposes and non-peaceful purposes. Finally, Based Erosion and Profit Shifting is great challenge facing developing countries in areas corporate income tax generation. According to OECD «Base erosion and profit shifting (BEPS) refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations». Countries are losing a hard currency because this economic crime, profit shifting, since it affects negatively the national income and economic growth. Financing for development has been encountering limitations.

WAYS FORWARD

The global development landscape have been changing after MDGs were adopted in 2000, and new development finance architecture were emerged across less developed countries. This paper will identify few areas for successful FFD. First, Domestic Resources Mobilization (DRM) is the only and largest financial pool to finance for development; therefore, countries must mobilize and spend their national resources effectively. Successful nations in DRM will able to finance poverty reduction programs, manage macroeconomic stability and reduce aid dependence. Developing countries must promote self-reliance and domestic resource mobilization policies. Second, Official Development Assurances (ODA) are either grants or concessional loans aimed to promote growth and welfare in less capital countries; it provides by wealthy nations to the developing world; therefore, the smarter use of ODA is vital unique resources for development. According OECD, ODA has reached about \$13 billion in 2013. Addis Ababa Action Agenda insisted that «We [es] welcome the increase in volume of ODA since Monterrey. We are encouraged by those few countries that have met or sur-passed their commitment to 0.7 per cent of ODA/GNI and the target of 0.15 to 0.20 per cent of ODA/GNI to least developed countries».

Third, the Multilateral Development Banks (MDBs) can

fuel the development financial leverage since they provide policy guidance and technical assistance. The role MDBs are essential at all developing process; their guidance and assistance results integrations. They bring together experts and development specialist to develop and innovative policies and techniques for tackling problems or enhancing skills. For example, the issue IFF is under discussion by multilateral banks as well as academicians, colleges and governments. Developing nations have been benefiting from Multilateral Development Banks.

Moreover, since financing for development is facing huge challenges, the less capital nations must seek global integration since the border line between nations is really disappearing; nations can either swim or sink together at this age of globalization. The issues of climate change, energy, transportation are all needed to address globally. Equity investment can be fundamental source of financing by private sector. Public private partnerships is also very important in development. The 14 action BEPS package should help countries to fight against tax evasion activities since it designed to tackle based erosion and profit shifting activates. Finally, the paper suggests to establish and develop global partnership for development agendas. Inclusive and strong financial framework is essential for successful financing for development.





UNDERSTANDING ECONOMIES OF SCALE FOR SMALL MANUFACTURING INDUSTRIES MOGADISHU, SOMALIA

ALI IBRAHIM MOHAMED

INTRODUCTION

Small Manufacturing Businesses in Somalia are growing gradually and most of them closed almost immediately. Some of them fears to expand their manufacturing businesses because they fail to understand economies of scale hence manufacturing operations stop. This paper will focus mainly on how the new entrepreneur learns economies of scale, its value and profits. The paper will also give examples related to economies of scale and recommendations.

Economies of Scale

Economies of scale are defined as the decrease in long run average and marginal cost from an increase in the size of operating unit. Economies of scale can be internal to the organization (Technological and management factors) or external (cost reduction due to the effect of technology in an industry). Big companies are often more profitable than the smaller ones because of economies of scale. Suppliers may offer discounts for large order, transport cost may decrease, offer discounts per trip costs to complete for large volume of Business.

Imagine, you work for a company in production area, your sales are increasing and you could sell more of your product if you made more units. However, you are nervous about the risks of hiring more people and you also need to hire a production manager to run a large team plus, you assume you will still make the same profit on each item sold. You don't think the increase in the volume would offset the cost of extra staff, so you decide to keep producing the same quantity.

Your competitors however have had a lesson in economies of scale. They know that growth and increased production could bring their cost down and therefore increased per unit profit.

Learn How to Work out Economies of Scale without Economies of Scale

For example

To illustrate this; suppose you manufacture clean water bottle, this is your current cost structure for each unit

If you produce 500 bottles per month, your manufacturing cost of goods sold is $(500 \times \$21) = \$10,500$. Each bottle sells at \$27, leaving you with gross profit of \$3000 per month, which is a 22.22% gross profit margin. With higher demand for your product, you could increase production to 1000 units per month. To increase production, therefore you will need to hire a production manager to keep operations running smoothly.

Net Income for a month

500 Units					1000 units	
Revenue	500	\$27	\$13500	1000	\$27	\$27000
COGS	500	21	10500	1000	21	21000
Gross profit	500	6	3000	1000	6	6000
Maintenance			700			1050
Transport			200			400
Management						3000
Net Income			\$2100			\$ 1550

What do you do? The market won't allow market price to increase, you might lose some customers, because you can't meet demands but looking at figures, it does not seem to make sense to work more and earn less.

Within an Economies of Scale

Good, if you did some research, you can quickly understand the following:

- ◇ If you increase the size of your raw material order your suppliers give you a discount price, so the actual cost to produce each unit will go down.
- ◇ The transport cost would decrease from \$400 to \$300 because of bigger order.
- ◇ Hiring production and maintenance manager would increase efficiency, so you could actually produce 1250 units instead of 1000 units with the same labor costs (a 25% increase).
- ◇ A new per unit cost structure with output level of 1250 units:

Items	Cost	Total cost
10(1 little)	\$0.90	\$9
10 (0.5litir)	0.65	6.5
5 (0.30Litter)	0.40	2.0
25 Minutes/Per hour	3	1.25
Total		18.75

Now look your income figure

1250 Units			
Revenue	1250 unit	\$27	33,750
COGS	1250	18.75	23,437.5
Gross profit			10,312.5
Maintenance			1050
Transport			400
Management			3000
Net income			\$5,862.5(17.4% of sales)

While you're total cost (COGS plus maintenance and Transport) is higher, your average cost per unit has decreased – therefore your profit margin has increased.

Units	500	1250
Total Cost	11,400	27,887.5
Cost Per unit	22.8	22.31
Gross profit Margin	15.5%	17.4%

CONCLUSIONS

The focus with economies of scale is on the cost per unit, or average cost (AC) – not the total cost. If you take advantage of economies of scale, your unit cost will typically decrease as the number of unit's increases – so you'll probably earn more. Growing bigger, and producing more, can yield significant returns.

RECOMMENDATION

After learning and understand economies of scale, I recommend and call you to the attention of the following points:

- ◇ By taking advantage of the opportunities that come from larger size and increased output, companies can reduce their average unit costs, and increase their profits.
- ◇ Organizations must be careful about outgrowing their economies of scale and getting too big.
- ◇ Average unit costs usually decrease with increased output, but only to a certain point.
- ◇ After that, costs may begin to rise again as the company creates unwanted inefficiencies.





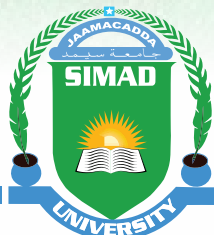
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