

---

African  
Development  
Center  
of Minnesota



# Somali entrepreneurs in the Twin Cities

---

---

# Your presenter: Hussein Samatar



African  
Development  
Center  
of Minnesota



- Executive director, ADC, since 2003
- 8 years commercial banking experience, Norwest/Wells Fargo
- Former senior lender, Neighborhood Development Center
- MBA, St. Thomas University
- Refugee from Somalia: 1991

---

# About the ADC: mission

African  
Development  
Center  
of Minnesota



- “Your guide to financial success in America”
- We work within the African communities in Minnesota to start and sustain successful businesses, build assets, and promote community reinvestment

---

# About the ADC: programs

African  
Development  
Center  
of Minnesota



- Business development
- Home ownership training
- Financial literacy
- Culturally respectful services available in eight languages

---

# Background: hard work and revitalization

African  
Development  
Center  
of Minnesota



- Somalis often work two shifts at full time jobs and run their own businesses at the same time
- In less than 10 years Somalis and other new immigrants such as Latinos and Asians have revitalized commercial corridors
  - Minneapolis: Nicollet Ave., Lake Street
  - St. Paul: University Ave., Payne Ave

---

# Background: growth of entrepreneurship

African  
Development  
Center  
of Minnesota



- 1994: No significant Somali businesses in Minnesota
- 2006: 600 Somali run and managed businesses in the state<sup>1</sup>
- Amazing accomplishment for a refugee population

<sup>1</sup>Estimated by African Development Center

---

# Issues

African  
Development  
Center  
of Minnesota



- What are the major challenges for Somali entrepreneurs?
- How have Somali entrepreneurs dealt with or not dealt with these challenges?
- How can government, economic development organizations, financial institutions assist?

---

# Challenges faced by Somali entrepreneurs

African  
Development  
Center  
of Minnesota



- Lack of planning
- Market isolation/saturation
- Wasted wealth
- Poor financial management

---

# Challenge: lack of planning



- SBA: > 60% of small businesses fail within three years.
  - Main causes: inadequate planning and undercapitalization.
  - No comprehensive data available for immigrant entrepreneurship.
- Without doubt, failure rate is much higher for people whose first language is not English and who were not raised in the American business culture.

---

# Lack of planning: reliance on insular community



- Somali entrepreneurs tend to seek partners they know intimately
- Handshake deals: contracts shunned in Somali culture
  - Traditional clan system
  - Mistrust of government and legal transactions: official corruption endemic in Somali regimes since the 1970s

---

# Lack of planning: sources of capital

African  
Development  
Center  
of Minnesota



- Somali entrepreneurs tend to raise capital from family, friends, and acquaintances
  - No discussion about the rate of return or conditions of repayment
  - No underwriting control over the business venture
- The entrepreneur has little inducement to prove the validity of his or her intentions
  - No business plan

---

# Lack of planning: no experience required

African  
Development  
Center  
of Minnesota



- Somali entrepreneurs lack a background in the products or services being sold
  - Somali culture is an “ownership society”
  - Age-old immigrant myth: streets paved with gold

---

# Lack of planning: inadequate accounting

African  
Development  
Center  
of Minnesota



- Somali entrepreneurs commonly raise and spend money without understanding the potential income from the business
- “Cash box” financial management predominates
- Cash flow, income and balance sheet statements are rare

---

# Challenge: revolving-door partners

African  
Development  
Center  
of Minnesota



- No short supply of unwitting partners to buy shares in failing businesses
- Lack of paper trail exacerbates problem
- Overall wealth drain within the community

---

# Challenge: mistrust

African  
Development  
Center  
of Minnesota



- Somali entrepreneurs have difficulty organizing business associations
- Landlords of the Somali Malls tend to exploit this lack of communication and unwillingness to unite
- Community does not benefit from the experiences of individuals
- Mistrust extends to people outside Somali community

---

# Challenge: market isolation



- Somali Entrepreneurs tend to open the same types of businesses
  - Grocery stores, restaurants and clothing stores
- Marketing focused exclusively on their own ethnic group
- Few Somali businesses break into mainstream markets

---

# Challenge: market saturation



- Examples in the Twin Cities:
  - Three Somali grocery stores on one corner
  - More than dozen Somali women's clothing stores in a small Somali mall or *suuq*
- *Suuqs* – Marketplaces lack planning of what will be sold in each shop
  - The proliferation of *suuqs* not necessarily an indicator of expanding prosperity

---

# *Suuqs* in the Twin Cities

African  
Development  
Center  
of Minnesota



- Suuq Caramel, Lake/Pillsbury – 55 businesses
- Lake Plaza Mall, Lake/5th – 45 businesses
- Village Market, 24<sup>th</sup>/Elliot – 65 businesses
- African International Marketplace, 280/University – 48 businesses
- Somali Mall, Cedar/Riverside – 30 businesses

---

# Challenge: wasted wealth

African  
Development  
Center  
of Minnesota



- Many Somalis support their business from other income
  - Family borrowing, second jobs, more hours spent on failing businesses
- Net loss of wealth to the community both in capital and productivity
- Landlords of the Somali malls profit greatly from this wasted wealth

---

# Challenge: finances and regulation



- Most Somalis in the Twin Cities are Moslems
  - The Quran forbids usury
  - Many Somali businesspeople avoid receiving and giving interest
- Therefore, they don't deal effectively with banks and financial institutions

---

# Result: time bomb

African  
Development  
Center  
of Minnesota



- Undercapitalized business starts
- Poor strategy and marketing
- Trouble with lenders, IRS, MN Revenue
- Resistance to inspections, licensing
- Willingness to repeat failures

---

# Dealing with the challenges?

African  
Development  
Center  
of Minnesota



- A small minority of Somali entrepreneurs write a business plan, consult with attorneys, have bookkeeping services and manage their businesses well
- They are role models whose experience must be understood in the community to prevent wasted wealth

---

# Recommendations: government

African  
Development  
Center  
of Minnesota



- Simplify bureaucracy
  - Licensing and permits
  - Remodeling, land use requirements, health codes, landscaping, parking, environmental standards
- Culture does matter
  - Hire more Somalis in outreach and service positions to address market need

---

# Recommendations: nonprofits

African  
Development  
Center  
of Minnesota



- Focus on entrepreneurship, not assistance
- Lead in offering responsive tools
  - Profit-based Islamic financing
  - Focus on entry to mainstream markets
- Again, culture does matter
  - Aligning service approach to cultural prerogatives will improve the value of services

---

# Recommendations: financial institutions

African  
Development  
Center  
of Minnesota



- Understand: Somali business and personal wealth is a growth market
- Offer outreach to educate and overcome mistrust
- Support productive nonprofits with funding and talent
- Offer Islamic financing

---

# Conclusions: Somali experience

African  
Development  
Center  
of Minnesota



- Somalis are endeared to America; they want to participate and invest broadly but have a great cultural gap to cross
- Somalis are building wealth despite lingering problems of wasted resources
- Somalis need better economic organization, starting with local business associations

---

# Conclusions:

## Mainstream institutions

African  
Development  
Center  
of Minnesota



- Minnesota, and the Twin Cities in particular, is a leading example to the world in cultivating the potential of Somali refugees
- Even so, the present state of affairs is but the tip of the iceberg
- Successful community economic development efforts by Somalis deserve support from government, nonprofits and financial institutions