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Capital structure determinants of small and medium enterprises in Mogadishu, Somalia

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ABSTRACT

The aim of this study is to examine the factors influencing the capital structure of small and medium enterprises (SMEs) in Mogadishu, Somalia. The study applies the trade-off theory, which posits that several characteristics affect how firms finance themselves. According to this theory, firm size, which serves as a proxy for bankruptcy costs, positively influences capital structure—larger firms face lower bankruptcy risks. The research employed a descriptive correlation research design and utilized a stratified random sampling technique to gather data through questionnaires. Data analysis was conducted using the Statistical Package for Social Sciences (SPSS version 20). The study identifies three independent variables—profitability, cultural factors, and firm size—as crucial indicators of capital structure for SMEs in Mogadishu. These factors are pivotal as SMEs expand and initiate new operations. Interestingly, the perceptions or beliefs of owner-managers have little impact on capital structure decisions, while network linkages do not significantly influence SMEs' capital structure. It underscores the responsibility of SME owners and management to ensure their financial structures are optimally managed. The study highlights profitability as a significant factor affecting capital structure. In the absence of profits or insufficient profitability, businesses may struggle to survive as investors seek returns that ensure capital growth over time. Profitability thus plays a critical role in the long-term sustainability of a company.

1. Introduction

Due to their involvement in product creation and specialized service offerings, small and medium enterprises (SMEs) play a crucial role in the economies of countries worldwide. Moreover, both developed and developing nations benefit significantly from the contribution of the SME sector to economic processes, employment, and job creation. SMEs are widely recognized as a vital driver of job creation and economic growth in developing countries (Amoah and Amoah, 2018). SMEs are renowned for their pivotal role in society, including job creation through innovation and creativity, as well as their support for workforce development and human resources (Agyapong, 2010). The popularity of SMEs has grown steadily across the globe in recent decades. Apart from SMEs, the Global Growth for National Economic Empowerment Strategy (NEEDS) aims to enhance industrial growth (Akingunola, 2011). According to Arif et al. (2020), there is no global definition of small enterprises. The same survey underscored the significance of SMEs in different countries around the world. SMEs are determined by various variables, including the number of employees, the amount spent or invested, total assets, revenue turnover, and option capability. Many nations in Sub-Saharan Africa, particularly Somalia, are seeing a growth in SMEs.

However, the failure rate is also significant, primarily attributed to a scarcity of financial institutions catering to the needs of SMEs. These enterprises require adequate financial resources to maintain their market presence and ensure their survival. Hence, the significance of capital becomes apparent, as it directly impacts the cash flows and overall development of SMEs. Furthermore, securing low-cost funding, ensuring the availability of production equipment, implementing effective staffing strategies, establishing a well-organized management framework, and accessing both local and global markets is crucial for strengthening the

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operations of SMEs and fostering long-term socioeconomic growth (Akingunola, 2011). One of the most crucial aspects of business is the financing of SMEs. Furthermore, financial resources are necessary for the development and management of a business. Capital structure is defined as the "balance of debt and equity" within a company (Cassar, 2004). It can be described as a combination of financing sources found on the balance sheet. The capital structure is comprised of four main components: capital and retained profits, family loans, debt, and equity.

Funding provided by family members or friends, often referred to as funds from family and friends, plays a significant role in financing SMEs, particularly in supporting ethnic minority enterprises (Nawi, 2015). Many publications originating from sub-Saharan African countries specify investment strategies for SMEs and highlight factors that influence the capital structure. Therefore, the purpose of this study is to examine and investigate the capital structure and its determinants in SMEs located in Mogadishu, Somalia. The four major components of the capital structure are capital and retained profits, family loans, debt, and equity.

2. Literature review

Chadha and Sharma (2015) pointed out that the creation of capital structures is one of the most important decisions taken by a company's finance management. The capital structure chosen by the company affects its overall cost of capital and, as a result, its market value. It must be determined when additional finances are required by the organ organization to support the new enterprise. Before selecting the one that best supports the optimal capital balance or decreases overall capital costs, financial management must consider the pros and disadvantages of numerous long-term financing solutions. The majority of the capital structure is made up of debt, common stock, and preferred stock, which is used to fund the many long-term objectives.

In other words, debt dominates the capital structure. Equity debt holders are creditors who have little long-term commitment to the company and are more interested in retrieving the remaining principal and interest as soon as possible. Equity investors are stockholders who commit to the company for the long term. Nothing is more important for a new firm than raising financing. However, how money is raised can have a big impact on a company's performance. This assertion could be beneficial to any company, not just new ones. Several factors influence a company's debt-to-equity ratio in its capital structure, including the firm's characteristics, the economy, and management's views and objectives. According to the same survey, management's top priority is to weigh the costs and benefits of using both debt and equity.

Decisions about capital structure are crucial for any firm entity (Sheikh and Wang, 2011). Management is frequently in charge of making capital structure decisions that maximize the company's worth in a corporate setting. Maximizing the company's worth, on the other hand, is difficult since it demands a balanced combination of debt and equity instruments, considering the various costs and benefits. Wrong decisions in the securities selection procedure will cause the company to face financial troubles and, eventually, insolvency. Nawi (2018) stated that it is not always easy to determine which solutions would yield the highest return on capital structure decisions. A company's financing options are numerous. Its activities rely on personal savings, internal finances, loans, stock, or a combination of the above. The phrase "capital structure" refers to how the various components of a company's funds are organized.

An appropriate balance between internally generated funds and borrowed money is essential for a company. A corporation uses its capital to cover current expenses and plan for future major projects. Deciding the capital structure is one of the most important responsibilities of a financial manager. The total cost of capital and the decisions related to capital structure directly affect the company's market value. The company must determine when it will start operations and when additional funding will be needed for new projects. Martinez et al. (2019) studied the factors influencing the capital structure of SMEs in Central and Eastern Europe (CEE), focusing on Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, and Romania. Using panel data from 15,253 companies between 2014 and 2022, the researchers found that firm-specific factors play a major role in shaping capital structure, while industry and country factors only explain 4% of the variation in debt levels. The firm-specific factors align with the pecking order theory. About one-fourth of SMEs in CEE have a certain level of debt capacity, which reduces their overall debt share. The study did not find evidence that systematic industry business risks affect capital structure.

2.1. Culture and capital structure

According to Farooq et al. (2020), culture refers to the collective programming of the mind that divides people from one country, region, or group from those from other countries, regions, or groups. According to Nawi (2018), culture has its own ethics, attitudes, philosophy, values, and ways of existence. As a result, each group member has unique goals and meanings; this was dubbed "culture." Firms from distinct national cultures have different capital structure preferences. According to the same study, a country's national culture has been identified as an important feature that is entangled with multiple economic activities and influences economic outcomes (Farooq et al., 2020). The same study proposes that finance managers consider national culture as a crucial aspect of capital structure in their financing policy (Farooq et al., 2020).

According to Mogha and Williams (2020), national culture might influence company capital structure decisions through institutional and agency channels. Blonk (2018) discovered that country culture has an effect on company capital structure. He discovers that Hofstede's qualities of uncertainty avoidance, masculinity, and social trust all explain variations in corporate capital structure in terms of direct consequences. Furthermore, there is little indication that culture influences capital structure, as measured by the link between the cultural dimensions of power distance and uncertainty avoidance and firm-level profitability and liquidity parameters. According to De Jong et al. (2008), country-specific factors influence capital structures both directly and indirectly via macroeconomic variables such as law enforcement and investment protection. Fan and Wang (2022) provided evidence that a country's legal system and public governance characteristics are related to its cultural impact on capital structures. Thus, the study proposed that:

H1: Culture positively affects capital structure.

2.2. Profitability and capital structure

A company's profitability is an important competitive advantage that supports long-term success. It is noted that the factors affecting profitability differ across industries, and the methods for maximizing profits have been extensively researched. The study highlights that capital structure is a key factor influencing corporate profitability. Statistical analysis shows that leverage has a significant negative relationship with profitability. Additionally, the research is based on the pecking-order hypothesis, which suggests that companies prefer using internal financing over external financing to achieve higher profitability. The study also indicates that profitable consulting firms typically utilize less short-term and long-term debt. Yazdanfar and Öhman (2015) found a positive link between the size of SMEs and their profitability, indicating that larger SMEs are often more successful than smaller ones. However, they noted that this relationship varies by industry; specifically, there is a significant negative relationship between size and profitability in the retail and wholesale sectors. Similarly, Goddard et al. (2005) identified a negative relationship between size and profitability in the industrial and service sectors in Europe. This contrasts with the findings of Yazdanfar and Öhman (2015), Goddard et al. (2005), and Chadha and Sharma (2015), who all observed a negative relationship.

H2: Profitability has a negative relation to the capital structure.

2.3. Firm size and capital structure

Harc (2015) suggested that extensive studies examining capital structure determinants confirm the existence of a considerable impact of size on capital structure. Financial theories suggest two different explanations (Harc, 2015). According to the trade-off theory, size positively impacts the capital structure since the size is considered a proxy for bankruptcy cost; the more significant the company, the lower the risk of bankruptcy. Bui et al. (2023) suggested that a firm's size is positively associated with capital structure. Furthermore, evidence suggests that large companies choose long-term debt, whereas small businesses prefer short-term. Bhat et al. (2023) sought to expand indefinitely, and there is no limit to how big they may get. Growth in scale is a universal corporate aim because its size sends a powerful signal to the market, competitors, and internal stakeholders of its quality, strength, and stability. The scale of a company has a considerable impact on the nature of its relationship with its surroundings. Larger companies wield more power over their immediate stakeholders than small businesses. When a company grows, it undergoes a functional change in its internal organization and funding. According to Hamyat et al. (2017), the size of a business is determined by its sales volume. One of the methods for calculating the measure is to keep track of net sales. Stallkamp (2015) defined revenue as the size of a company. He noticed in his research that businesses of various sizes and in multiple industries choose their capital structure in different ways. Larger companies have a higher debt-to-equity ratio than small and medium businesses, and they prefer to employ cash generated domestically. In addition to his research, he explains how businesses of various sizes choose their debt differs significantly. Smaller and medium-sized companies are more ready to use internally generated cash than larger businesses, and he discovered in his research that revenue and capital structure (leverage) had a good link (Stallkamp, 2015).

H3: Firm size has effects on capital structure

2.4. Owner's perceptions and capital structure

According to Ang et al. (2010), family-owned firms account for 80% of enterprises in the United States and 95% of businesses worldwide. Sole proprietorships, limited liability companies, partnerships, and C and S corporations are examples of these firms. These owners' tastes and risk tolerance will influence the capital structure. Many CEOs and other top executives invest a significant portion of their financial wealth in company stock or stock options and their primarily undiversified human capital. Although many organizations have diversified shareholders, decision-makers (top management, controlling families) do not. These individuals' decisions about their capital structure can significantly impact their finances. Van Auken et al. (2021) and Wong et al. (2018) studied the effect of owner-manager attitudes and personal characteristics on SMEs ' financial decision-making dynamics. Borgia and Newman (2012) examined

various topics, including owner-manager experience, growth intentions, preferences, and relationships. Grunert and Norden (2012) stated that features and managerial skills significantly impact lenders. Furthermore, the owner-manager's competencies and characteristics substantially impact the borrower's ability to obtain a loan. Managers with a higher risk proclivity employ more debt (Borgia and Newman, 2012). They also elucidated the link between the owner-personal manager's personality, corporate traits, and attitude.

H4: The owner's perception positively affects the capital structure.

2.5. Network relations and capital structure

According to Nawi (2018), apart from business relationships, social relationships are vital to a company's success because they build a complex link based on mutual trust and confidence. The same paper mentioned that social relations are crucial for SMEs to expand the choices of available sources of funds. Direct dealings with equals or indirect dealings through the equals' network, such as family members, can provide valuable insights into the counterparts' reliability. He indicated that the association with a network could offer a good sign to the business community.

Chuairuang (2013) showed that businesses must obtain finance to stay afloat. Small businesses have more difficulty getting financial services than more influential organizations due to their limited access to capital markets. According to the same study, the disparity of knowledge between small firm management and resource suppliers exacerbates these challenges. Many information asymmetries are suggested to be minimized by networks that connect those in need of capital with those who can give it.

H5: Network relations have a positive significant relationship to the capital structure.

3. Methodology

This research used a quantitative methodology, measuring variables with the use of indicators. The descriptive approach, which stresses the application of specific information and appropriate procedures to characterize the issues under examination, was the basis for the researcher's decision to choose this strategy. The study concentrated on SMEs that have memberships in the Somali Chamber of Commerce and Industry (SCCI). Approximately 2519 participants were identified as the study population using the most recent version of the SCCI database, which is SCCI 2021. The decision was made since Mogadishu, Somalia's Bakara Market, is known as the center for SMEs. The study focused on a population of 2519 employees from SMEs in Bakara Market. The selected SMEs belonged to various sectors, including manufacturing, general trade, telecommunication, banks and remittances (financial sector), and energy. These sectors have been operating for the past 30 years. The survey was conducted among owners, managers, or heads of the accounting and finance departments. After determining the sample size using the Slovene formula ($n = N/1 + Ne^2$, with n as sample size, N as total population, and e for margin of error), the survey was successfully administered to 345 respondents.

4. Research findings and discussions

4.1. Response rate

The researcher distributed 345 questionnaires to the respondents. However, only 300 were returned, yielding an approximate response rate of 87 percent. Three hundred responders (87%) were deemed adequate for the study and extrapolated the findings. The high response rate can be attributed to the respondents' willingness to collaborate and participate in the research and the researcher's thorough preparation. Table 1 shows the results obtained.

Table 1: Response rate

Category	Frequency	Percentage
Questionnaires returned	300	87%
Questionnaires did not return	45	13%
Total	345	100%

4.2. Demographic profile of the respondents

The demographic section of our analysis provides an insightful overview of the respondent profiles based on various attributes such as gender, age, qualification, job title, business experience, and type of business. Table 2 presents the characteristics of the respondents involved in this study on capital structure determinants in SMEs in Mogadishu, Somalia. The classifications include gender, age, qualification, job title, business experience, and type of business. The majority of respondents are male, comprising 64.7% of the sample, while females make up 35.3%. This indicates a gender disparity among the respondents, with males being more prevalent in the sample. The age distribution is relatively balanced. Specifically, the largest group is those over 65 years (35.7%), followed by those aged 34-64 years (34.0%), and those less than 34 years (30.3%).

Most respondents hold a Bachelor's degree or other qualifications (63.0%), while 33.3% have a Master's degree, and a small percentage (3.7%) possess a PhD. Consequently, the educational background of the respondents is predominantly at the bachelor's level, with a significant number holding advanced degrees. The largest proportion of respondents are business owners (45.7%), followed by managers (28.0%) and heads of finance/accounting (26.3%). Therefore, the study captures insights from key decision-makers within SMEs, ensuring that the data reflects the perspectives of those directly involved in managing and financing the businesses.

Table 2: Demographic profile of the respondents

Characteristics of the respondents	Classification	Percent (%)
Respondent's gender	Male	64.7
	Female	35.3
	Total	100.0
Respondent's age	Less than 34 years	30.3
	34-64	34.0
	Over 65	35.7
	Total	100.0
Respondent's qualification	Bachelor and other	63.0
	Master	33.3
	PhD	3.7
	Total	100.0
Job title	Owner	45.7
	Manager	28.0
	Head of finance/accounting	26.3
	Total	100.0
Business experience	Less the 1 year	7.3
	1-3 Years	40.0
	4-10 Years	30.0
	Over 10 Years	22.7
	Total	100.0
Type of business	Sole proprietorship	39.0
	Partnership	42.3
	Company	18.7
	Total	100.0

A significant portion of respondents have 1-3 years of business experience (40.0%), while 30.0% have 4-10 years, 22.7% have over 10 years, and only 7.3% have less than 1 year of experience. This diversity in business experience implies that the study benefits from a range of insights from both relatively new and seasoned business professionals. The majority of businesses are partnerships (42.3%), followed by sole proprietorships (39.0%) and companies (18.7%). This distribution indicates that partnerships are the most common business structure among the respondents, which could influence the capital structure decisions observed in the study.

4.3. Descriptive analysis

Table 3 presents the descriptive statistics for various factors related to the capital structure determinants in SMEs in Mogadishu, Somalia. Each factor is measured on a scale from 1 to 5, and the statistics include minimum and maximum values, mean, and standard deviation. Starting with culture, the mean score is 4.040, which indicates that, on average, respondents rate culture as an important factor. The low standard deviation of 0.064 suggests that responses were closely clustered around the mean, indicating a general consensus on its importance. Similarly, profitability also received a high mean score of 4.182. This implies that it is considered a crucial determinant of capital structure for SMEs. Although the standard deviation of 0.074 is slightly higher than that of culture, it still reflects low variability in responses, showing that most respondents agree on its significance. Furthermore, the size of the firm was rated the highest, with a mean score of 4.250. This suggests that it is perceived as the most significant determinant among the listed factors. The low standard deviation of 0.062 indicates a strong consensus among respondents regarding its importance. In addition, owner-manager related factors also scored highly, with a mean of 4.222, highlighting its importance in capital structure decisions. However, the standard deviation of 0.162 is higher compared to other factors, suggesting more variability in responses. On the other hand, network relation has a lower mean score of 3.148, indicating that it is considered less important than the other factors. Despite this, the low standard deviation of 0.057 suggests consistent responses among participants. Finally, the overall mean score for Capital Structure is 3.693, indicating a moderate level of importance. The higher standard deviation of 0.091 suggests some variability in how respondents perceive its importance.

Table 3: Descriptive analysis

Variables	Minimum	Maximum	Mean	Std. deviation
Culture	1	5	4.040	0.064
Profitability	1	5	4.182	0.074
Size of firm	1	5	4.250	0.062
Owner perception, beliefs, and motivation	1	5	4.222	0.162
Network relation	1	5	3.148	0.057
Capital structure	1	5	3.693	0.091

4.4. Validity and reliability test results

This test aimed to ensure that the questionnaires on capital structure determinants were accurate. SMEs determinants employed the Cronbach Alpha Coefficients to examine validity and reliability, yielding an Alpha Coefficient of 0.941, indicating that the instruments were reliable for the study (Table 4).

Table 4: Reliability test

Cronbach's alpha	Number of items
.941	49

4.5. Multivariate analysis

The data presented includes the model summary, analysis of variance, and coefficients for a regression model assessing the impact of various factors on the capital structure of SMEs in Mogadishu, Somalia.

4.5.1. Model summary

The regression analysis model is summarized in Table 5. Table 5 illustrates the findings of multiple regression with capital structure as the dependent variable and culture, profitability, size, owner-manager factors, and network relation as the independent variables. Correlation coefficients (R) and R-Square show the link between capital structure and culture, profitability, size, owner-manager variables, and network relation. The findings showed that there was a strong positive correlation between capital structure and culture, profitability, size, owner-manager factors, and network relation variables collectively of 0.828.

Table 5: Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.828	.686	.681	4.26177

The study's coefficient of determination (R2) is 0.686, indicating that changes in independent factors generate variability in the dependent variable (Y) (X1, X2, X3, X4, X5). The corrected R square results show that the capital structure determinants collectively (culture, profitability, size, owner-manager factors, and network linkage) explain .686 percent of changes in capital structure, while the other is beyond the study's purview.

4.5.2. Analysis of variance

The p-value and beta coefficients are interpreted in Table 6 to determine the model's fit quality. According to Table 6, The P-value (0.000) is less than the 0.05 level of significance, indicating that the model is statistically significant and thus a good fit.

4.5.3. Coefficients table

To illustrate regression analysis results and analysis of the beta and p-value of the independent variables (Culture, Profit, Size, Network relations, Owner Manager). Table 7 creates the study's regression model, addressed in chapter three. Because the section includes a Y-intercept term (beta zero) and a slope term, the focus is primarily on the unstandardized coefficients (beta one). The standardized coefficients were based on re-scaling the variables to get the Y-intercept to zero. P-values can explain the statistical importance of specific determinants on capital structure components on capital structure. Three of the five independent variables had p-values of less than 0.05. There were positive and significant effects on culture and capital structure (B=.235, t=4.913 p-value of 0.00), which indicates that culture significantly impacts capital structure. As a result, the study rejects the null hypothesis that culture has no impact on capital structure and accepts H1. The study finds that profit has a positive and significantly affects capital structure with structure (B=.320, t=5.742, p-value (0.000). Hence, a null hypothesis that Profit does not substantially impact capital structure is rejected.

There was a positive and significant effect of size on capital structure (B = 0.226, t = 2.986, p-value = 0.003, which is less than 0.05). This means that the study rejects the null hypothesis that size has no significant impact on capital structure. For owner-managers, there was a positive but not significant effect on capital structure (B = 0.094, t = 1.366, p-value = 0.173, which is greater than 0.05). Therefore, the study accepts the null hypothesis, meaning that owner-managers do not have a significant effect on capital structure. The effect of network relations on capital structure was positive and slightly significant (B = 0.077, t = 1.873, p-value = 0.062, which is greater than 0.05). Although the effect was weak, it indicates a potential, but not strong, relationship between network relations and capital structure.

Table 6: Analysis of variance

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	1.1	5	.2320	12.774	.000*
Residual	.53	29.7	.18.163		
Total	1.63	34.7			

*: significance level of 0.05; Dependent variable: Capital structure; Predictors: (Constant), network relation, owner manager, culture, profit, size

Table 7: Coefficients

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. error	Beta		
(Constant)	4.848	1.298		4.505	.000
Culture	.368	.075	.235	4.913	.000
Profit	.494	.086	.320	5.742	.000
Size	.370	.124	.226	2.986	.003
Owner-managers	.163	.119	.094	1.366	.173
Network relation	.129	.069	.077	1.873	.062

Dependent variable: Capital structure

5. Discussion

The general aim of the study was to investigate the factors that influence capital structure in small and medium-sized businesses in Mogadishu, Somalia. The study used primary data, and data collection was done through questionnaires on a five-point Likert scale. The data were analyzed using SPSS version 20. The first hypothesis proposed that culture is likely a determinant of capital structure. The results showed that culture has a significant effect on capital structure, with a p-value of 0.000. This finding is consistent with Blonk's (2018) research. The second hypothesis suggested that profit is likely a determinant of capital structure. The results indicated that profit significantly impacts capital structure, which aligns with the findings of Lim (2012). The third hypothesis proposed that size is likely a determinant of capital structure. The results revealed that size has a significant impact on capital structure, which is in line with the findings of Matias and Serrasqueiro (2017) and Bui et al. (2023) in their studies on SMEs. The fourth hypothesis suggested that the owner's motivation, perceptions, and beliefs are likely determinants of capital structure. However, the results showed that these factors do not have a significant effect on capital structure, which contradicts the findings of Nawi (2018) and Wong et al. (2018). Lastly, the fifth hypothesis proposed that network relations are likely a determinant of capital structure. The results indicated that network relations do not have a substantial impact on capital structure, which differs from the conclusions of Chuairuang (2013) and Nawi (2018).

6. Conclusion

The study concluded that there is a significant relationship between the dependent and independent variables. A questionnaire was used to collect relevant data, which was analyzed using SPSS version 20. The study adopted a descriptive correlation research design and regression analysis to achieve its objectives. The results show that a country's culture significantly impacts the capital structure of SMEs in Mogadishu, Somalia, particularly when starting a business. The findings also reveal that profit has a significant effect on capital structure. Without profit or with lower profits, businesses may not survive. Investors seek a return on their capital, and profit ensures that a company can operate in the long term. The study also found that firm size significantly affects capital structure. As a firm grows in size, its capital structure increases and the number of employees also rises as the business expands. On the other hand, network relations do not significantly impact the capital structure of SMEs. This suggests that the motivation, perceptions, and thoughts of owners and managers, along with network relations, have a weak influence and do not play a substantial role in shaping the capital structure of SMEs in Mogadishu, Somalia.

Therefore, the following recommendations are offered to improve the attributes that dictate the capital structure of SMEs in Mogadishu, Somalia.

- SMEs owners and managers should ensure that their company's capital structure is constantly optimal. SMEs owners should be aware that the information will prevent them from obtaining bank loans or other external sources of capital.
- The study proposed that a center or organization be established to assist policymakers in functioning appropriately in SMEs and following their examples and standards when seeking funding and preparing financial statements.
- The study will recommend that a formal market be opened to supply business shares.
- The study would also suggest that the government gains indirectly from the operations of SMEs, which have a significant impact on the economy and benefit the government when they grow.
- Understand the risk profile of the business and the industry in which it operates. This involves evaluating factors such as market volatility, regulatory risks, and potential disruptions due to political instability or other external factors.
- To evaluate the cost of various sources of capital available to SMEs in Mogadishu, including debt, equity, and alternative financing options such as microfinance or crowdfunding. Assess the interest rates, fees, and terms associated with each source to determine the most cost-effective mix of capital.
- To consider the unique characteristics of the local market in Mogadishu, including consumer preferences, competitive landscape, and economic trends. Tailor the capital structure to align with the specific needs and opportunities present in the local market.
- The government should foster a supportive atmosphere for small businesses. Every six months, the government should update the chambers of commerce that exist and follow and establish rules that will help SMEs do business and expand into giant corporations.

If we want to get a better understanding of this topic, we will examine the following topics to find other factors that affect the capital structure in Somalia and suggest the following topics.

- To examine how Mogadishu's SMEs' capital structure has been shaped by informal financing methods such as community-based loans and rotating savings and credit associations.
- To study the relationship between Mogadishu's SMEs' choice of capital structure and risk management techniques
- To compare the funding methods and capital structure factors of SMEs in Mogadishu to those in other regions of Somalia.

To assess the impact of initiatives such as microfinance schemes on capital structure decisions and SME performance.

Compliance with ethical standards

Ethical considerations

Informed consent was obtained from all participants before data collection. The participants' anonymity and confidentiality were strictly maintained, and they were informed of their right to withdraw from the study at any time. This study posed a minimal risk, and no personally identifiable information was collected.

Conflict of interest

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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