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BRIEFING PAPER

BUSINESS REGULATION: A PERCEIVED' BARRIER TO GROWTH' OR AN ENCOURAGEMENT FOR INVESTMENT

ABSTRACT
Fewer constraints in entrepreneurship law and freedom are essential conditions for Economic development. Business regulation has the capacity to control and influence upsurge of investment and business growth. The current status of Somalia economy is an outcome of the dynamic business regulation over the period. This paper reviews how extant and non-extant business regulation has influenced expansion of business activities and investment in Somalia.

KEY TERMS
Investment, Business regulation, Somalia economy, Business activity, SME

INTRODUCTION
Impact of business regulations is based on stringency of regulations applying to domestic small and medium-size enterprises (SMEs) during their life cycle. Fewer constraints in entrepreneurship law and freedom are essential conditions for Economic development[1][1]. In this case, business regulation has the capacity to control and influence upsurge of investment and business growth. Economic scholars define successful business regulation as one anchored on business-custom. In addition, successful business regulation is defined by vigilant oversight authorities that check abuse of power by state regulators and within business self-regulatory arrangements.

This paper reviews how extant and non-extant business regulation has influenced expansion of business activities and investment in Somalia. Economic environment of Somalia is defined by pre-colonial era, colonial era, independent era, and post independent era that was marred with civil war.

The current status of Somalia economy is an outcome of the dynamic business regulation over the period. The foundations of the current dispersed and entrepreneurial activity that operates without government regulation or protection in Somalia were laid in the years before 1990- pre-colonial, colonial, and section of independent era[2][2].

There is need to comprehend business regulations; their enforcement; and, their impact in different economies in order to offer measurable yardsticks for business-oriented governance-reforms.

BUSINESS REGULATION
Law is viewed as a dangerous "medium" which colonizes the lifeworld, and on the contrary as a "constitution" which enables the lifeworld to more effectively deliberate solutions to problems that are responsive to citizens. Simultaneously, the government is a friend of business and a friend of the public. Government intervention in business is mainly through regulation which has mutually positives and negatives. Business regulation can be perceived as either 'barrier to growth' or 'encouragement for investment' and is dependent on the type of business and rules that regulate commerce in that field.

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POWERS BEHIND BUSINESS REGULATION IN SOMALIA

The outer homogeneity of the Somali nation masks the existence of a wide network of tribal, family or clan allegiances held together by trust. The trust within tribal, family or clan allegiances has all along been focal in the formation of business network, leadership structures, and investment in Somalia.

Before colonization, Somalia's clan leaders controlled power and access to pastoral resources; and settled conflicts. Pastoralism was the main economic activity since Somalis are predominantly nomads[3][3] . Other activities were farming, seamen and traders.

Centralized colonial state took control during colonization. Major economic developments included plantations that led to the export of crops; and creation of a professional middle class that earned a salary. Monopoly was exercised on all banana activities and exports. Payment of wages to agricultural families, due to labor shortages created a relatively successful work force.

Upon independence, political parties that emerged tended to reflect on clan loyalties, and politicized clan structure for personal gains. This in return led to wastage of national resources, land grabbing, proletariats, and clashes.

In the 1980s government-run services in Somalia such as ports, airports and customs were operated in ways that favored those close to government, discriminating against individuals perceived as enemies [4][4]. The private sector in Somalia was disadvantaged by political investment, which was the easiest way to get access to resources controlled by the state[5][5] .

Decay of public institutions coupled with unfair business regulation and poor economic management by the government of Somalia resulted in emergence of a vibrant parallel black market. Prominent bureaucrats and traders featured both in the official economy and the parallel economy. They further integrated clannism and political mobilization with economic networks to advance their interests[6][6] .

The corrupt and nepotistic nature of governance and poor business regulation led to collapse of public-sector institutions characterized by hostile economic and political environment [7][7.] Despite the poorly regulated business environment, the informal sector expanded to fill the gap and private-sector activity extended into traditional public-sector areas to fill gaps created by collapsed public-sector[8][8] .

The formal Somali economy was in shambles by 1990. In 1991 the country plunged into one of the most destructive civil wars that led to the demise of formal business regulation in Somalia. Current entrepreneurial activities in Somalia operate without government regulation or protection in Somalia[2] .

[3]Luseno, W., B.M. Swallow, and A. Kamara. 1998. Pastoralism in Ethiopia, Kenya and Somalia: Utah State University, Logan. 36 pp.
[4]Peter Halden, 'Somalia: Failed State or Nascent States-System?' Swedish Defence Research Agency (October 2008)
[5]UNDP, *Human Development Report: Somalia* (2001)
[6]H. Adam, 'Somalia: Militarism, Warlordism or Democracy?', *Review of African Political Economy*, 19 (54), 1992: 11–26.
[7]A. Samater, 'Under Development in Somalia: Dictatorship without Hegemony', *Africa Today*, 32(3), 1985: 23–40.
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BUSINESS REGULATION: A PERCEIVED 'ENCOURAGEMENT FOR INVESTMENT" IN SOMALIA

Lawlessness and insecurity became an integral part of Somalia[9] [9]. The fundamentals of the economy did not radically change and nomads and semi-pastoralists still made up a large proportion of the population. The traditional Somalian economy remained concentrated on the livestock/ agriculture sector, which normally accounted for about 40 per cent of GDP and more than 50 per cent of export earnings [10][10].

The end of corruption and nepotism in business regulation is considered as liberation of Somalian business people[11][11]. Civil war transformed the Somalis from dependents to entrepreneurs[2]. Stateless Somalia provided ample opportunities for local and foreign business elites to trade, invest and operate in domestic and external market completely free of price controls and state regulations [11]. Absence of restrictive government policies, state provision, regulation, and control, has tended to encourage competition and entrepreneurship among Somalis and in Somali[11]. Investor individuals, families, and clans in the informal market in Somalia are purported to raise significant capital for Somali investment in Kenya [10].

Poorly regulated business environment led to concurrent expansion of informal sector and private-sector activity [8]. The end of corruption and nepotism in business regulation contributed to bring about a remarkable development in certain industries formerly dominated by the public sector[10]. The 1990s saw the emergence of major new businesses and services, dominated by remittance/money transfer companies and telecommunications [9].

Success stories such as the financial sector (hawala) exist in the presence of lack of regulation[10]. The hawala money transfer system forms the nerve center of global Somali business activities[10]. Hawala offers a cost-effective, efficient and fast way of transferring funds around the world[10]. Hawala has been very successful in mobilizing credits from community and diaspora for business investment. The combination of ready access to finance through clan networks and the quick and cheap movement of capital through the hawala system is at the core of Somalis business success [10].

A vibrant private sector moved in to establish basic markets such as retail trading, hotels, and newspapers; real estate development and construction; provision of basic infrastructure and institutions for electricity and telephones; air, sea and land transport; provision of water where state water provision facilities are unavailable among others [11]. Private sector has further offered essential infrastructure, and health and education services, whose coverage in some cases extents beyond peak levels achieved under the pre-1991 regime [12]. Health care facilities and education centres have been established some with outside help, others with local initiative and resources [2].

The vibrant Somali business community has successfully developed new markets from the ruins of civil war, in the context of a severely limited government presence and regulation[12]. Somali traders have penetrated markets in neighboring countries and remained competitive [11]. There is a significant cross-border trade in cattle from Somalia to Kenya that has expanded to meet the growing demand for meat in Nairobi and urban Kenya[12][12]. Before the state collapse this trans-border cattle trade represented a minor

[9] Mayoux, Stephane. "Somalia: The Land of Opportunity." 2001.
[10] CIA *World Factbook* (2010)
[11] Abdulsamed. (2011). ***Somali Investment in Kenya.*** London: Chatham House- The Royal Institute of International Affairs
[12] Hussein Mahmoud, ***Livestock Trade in the Kenyan, Somali and Ethiopian Borderlands,*** Chatham House Briefing Paper (2010).
[13] Peter Little, 'Hidden Value on the Hoof: Cross-border Livestock Trade in Eastern Africa', COMESA (2003)

fraction of the total livestock trade of Somalia[10]. The trans-border cattle trade has increased since the state collapse in Somalia [13][13].

Emergence of a vibrant parallel black market in Somalia was an outcome of failed implementation of regulation and poor economic management due to collapse of public institutions. The parallel economy that had emerged in the 1980s grew stronger and developed into a functioning economic system without any regulation from state institutions.

BUSINESS REGULATION: A PERCEIVED 'BARRIER TO ECONOMY GROWTH' IN SOMALIA

Lack of business regulation has negatively impacted on economic activities including agriculture, transport, fishing, and petty traders among others[10]. The private sector has failed as frequently as it has succeeded in terms of efficiency. Traders can pay their international partners only if they have a registered offshore office. Airline carriers maintain the runways and self-handle, which wastes resources and lowers service quality. Market failures preclude efficient market outcomes in the absence of regulation. Monopolies, coordination failures, and externalities have negatively impacted on private sector in Somalia [11]. The only ship-owners and largest livestock exporters and consumer goods importers dominate the market, and restrict entry to the most attractive deals. Telecom companies are not interconnected among themselves due to lack of coordination, so that an international call is needed, in order to call the next door neighbor. Market failure due to inadequate regulation is elaborated by externalities, such as harm to the environment (land transport), or the avoidance of observing quality and standards of products restaurants, livestock exports, medicinal drugs)[11]. The absence of government meant that Somalian businesses lacked a champion on the international scene and needed a measure of government protection. The livestock trade is particularly susceptible to market shocks and the subsequent import ban on livestock from Somalia by the Gulf states, notably Saudi Arabia, had a significant economic impact, exposing the vulnerability of Somalia's largely undiversified economy[14][14]. In this case, the lack of government oversight and protection presented problems[10].

Inadequate business regulation and quality checks have seen closure of leading international remittance company in 2001 -Al-Barakaat and Somali remittance companies operating in Norway due to an alleged association with terrorism. Closure of a leading provider of quasi-banking and telecommunication services, as well as construction and facilitating import/export created panic and uncertainty both in Somalia's economy and overseas. The closure of Al-Barakaat disrupted the flow of remittance to Somalia and negatively affected both trade and the exchange rates. Further, the value of the Somali shilling fell in the main exchange markets. In addition, neighboring countries including Kenya and Ethiopia reacted to the closure with a periodic crackdown on Somali remittance operations in their countries.

Lack of regulation has seen warlords, together with a number of corrupt individuals and businessmen inside and outside Somalia, exploit the absence of a functioning central bank and began to print Somali Shillings notes. Demand for the local currency inside Somalia and fear and unawareness of the short- and long-term implications of forged money for the wider economy have kept this activity flourishing.

[13] Peter Little, 'Hidden Value on the Hoof: Cross-border Livestock Trade in Eastern Africa', COMESA (2003)
[14] Benjamin Powel, Ryan Ford and Alex Nowrasteh, 'Somalia After State Collapse: Chaos or Improvement?', The Independent Institute, Working Paper 64 (November 2006)

The instability of the currency has led some Somali businessmen to demand payment in US dollars, creating difficulties for people with limited access to that currency[10] . The Central Bank developed the legal framework to regulate financial institutions including remittance companies, however execution of this framework is hampered by a lack of institutional capacity and trained personnel to oversee its application [12].

The lack of adequate commercial /lending legislation stunts firm growth. The history of the Somali banking system is one riddled with government interference, mismanagement, and corruption. By 1990 all these institutions were bankrupt due to corruption and mismanagement. Banks would provide services that are not currently provided by the remittance companies such as retail banking, corporate banking, and loans for commercial and social development. In addition, they can provide competitive services to Somalis who are remitting funds to Somalia[12].

The risky business and investment climate allow for only “bazaar-type” business relationships, a situation not proven to have ever led to economic development. The lack of government regulatory protection precludes long-term investments and long-term business dealings, without which the economy will not develop beyond subsistence level [2].

Unregulated business environment exposed business communities in most southern regions and Mogadishu in particular to insecurity. These business communities encountered security cost that could offset any savings resulting from the free market since they had to pay to seek protection and pay warlords or establish their own militia [5]. Somali remittance companies have been faced challenges with banking issues as major banks across the globe contemplate on how best to handle Somali remittance company bank accounts and remain transparent due to terrorism funding [12].

The lack of oversight also means that unscrupulous activity or irresponsible actions go undetected. Lack of regulation in the informal market creates space for cooption of business activity by politics. As identified by the UN Monitoring Group and the Kenyan government, this scenario is likely to sire Islamist radicals that heighten insecurity[10] . Established health care facilities and education centers suffer from inadequate financial resources and human resources among others [2]. Health and education for the socially weak, cannot be profitably provided by the private sector and are therefore not available in the absence of state involvement [11] . Lack of regulation sees trans-border cattle trade between Somalis in Somalia and Kenya increasingly becoming a multi-clan concern [10].

BUSINESS REGULATION AND SMES IN SOMALIA ECONOMY

Mallett, Wapshott, and Vorley carried out literature review in 2015 and concluded that there is very limited empirical evidence on the firm-level effects of regulation on SME growth in Somalia. The study highlighted the importance to understand and address this lack of empirical evidence if regulators are to fully account for the potential effects of the regulation they produce. Without this understanding, well-intentioned attempts to support these firms and growth-oriented owner-managers and entrepreneurs may be doomed to failure[15][15] .

[15]Mallett, O., Wapshott, R., & Vorley, T. (2015). Understanding the Firm-Level Effects of Regulation on the Growth of Small and Medium Sized Enterprices. *BEIS Research Paper Number* 10 (pp. 1-43). London: Department for Business, Energy and Industrial Strategy

World Bank 2018 assessment of the impact of business regulation in Somalia captured several important dimensions of the regulatory environment as it applies to local firms. These indicators have important implications for capital and labor productivities, unemployment, poverty, attraction of domestic and foreign private investments, corruption, and the relative sizes of the formal and informal economies—and thus the efficacy of government tax collection.

Ease of doing business in Somalia was benchmarked on the best regulatory performance observed in different indicators across all economies. Ease of doing business in Somalia scored 20.4% far below Sub-saharan Africa-regional score of 51.61%. This indicated that the government has made some progress in setting up some of the institutions and rules necessary for businesses to operate. However, the low scores especially in comparison with regional indicators conspicuously reflect an incomplete or non-extant regulatory framework. This implies that key and vital regulation especially for large business investment and external parties is still missing. In addition, institutionalization for implementation of business regulation is manifest. Regulatory burdens tend to push businesses in poor countries into the informal economy, which accounts for over 40% of the overall economy in those countries. Governments in developing countries red tape presents a significant hindrance to economic growth; and fosters graft and corruption, which in turn hamper economic development in poor countries.

Regulation for starting a business scored 46.37% against a regional average of 78.52%. This implied existence of hardships in starting business. Hardships in this context have high likelihood to push entrepreneurs into the informal sector/economy, a sector marred with tax evasion and workers' benefits non-payment. Some existing regulations including negotiation on business registrations fee create room for corruption. Personal identification documents pose a challenge especially opening bank account and obtaining commercial local license especially for locals.

Regulation for registering property scored 47.87% against a regional average of 52.62%. Somalia has made some good progress on property rights which presents an opportunity for entrepreneurs to invest. According to World Bank, Somalia should be strategic to bring to the minimum bureaucratic and cumbersome property regulations since they have been associated with more property disputes; more prevalent bribes; and failed registration of assets by entrepreneurs and businesses. Assets in the informal sector reduces credit viability of entrepreneurs and businesses. Some of the magnificent gaps in regulation for registering property include lack of electronic database for checking for encumbrances, recording boundaries, checking plans and providing cadastral information (geographic information system). There is no specific and separate mechanism for filing complaints; no publicly available official statistics tracking the number of transactions at the immovable property registration agency; all privately held land plots in the economy are not formally mapped and are not registered at the immovable property registry; system of immovable property registration is not subject to a state or private guarantee; no specific compensation mechanism to cover for losses incurred by parties who engaged in good faith in a property transaction based on erroneous information certified by the immovable property registry; no national database to verify the accuracy of identity documents.

Regulation for enforcing contracts scored 54.58% above a regional average of 48.87%. Enforcing contracts requires efficient and well-functioning business courts, involving fewer procedures, a shorter time to resolve disputes, and more efficient judges of good repute and integrity. Somalia has made good progress in setting up courts.

The only institutions that have survived the civil war, albeit not totally intact, are the religion of Islam and kinship structures. Kin structures spearheaded the new phenomenon called Islamic Shari'ah courts which Islamic Courts in Somalia [2]. However, there exists gaps in the effectiveness of courts. In essence, there is no court or division of a court dedicated solely to hearing commercial cases; no quality of judicial processes in case management and Court automation; Mediation, conciliation or both are not governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all their aspects; no any commercial disputes—aside from those that deal with public order or public policy—that cannot be submitted to arbitration.

There was 0% regulation for Resolving Insolvency against a regional average of 30.8%. Based on the report, there is no regulation on Management of debtor's assets, Reorganization proceedings, and Creditor participation. In the Labor Market deficiencies in regulation were identified in no hiring regulations (contract terms, working hours, minimum wage, probationary periods); Redundancy rules; Redundancy cost. There was 0% regulation for Paying Taxes against a regional average of 57.52%. There are no tax and mandatory contributions that a medium-size company must pay or withhold in a given year, i.e., no corporate income tax, profit tax, tax on company's income.

There was 0% regulation for Protecting Minority Investors against a regional average of 44.55%. Minority shareholders are not protected against misuse of corporate assets by directors for their personal gain as well as shareholder rights; There are no governance safeguards and corporate transparency requirements that reduce the risk of abuse.

There was 0% regulation for dealing with construction permits against a regional average of 58.59%. Some of the regulation gaps included not easily accessible Building laws and regulations. There are no mandatory inspections legally required before, during, and after construction. Professional certifications is not practiced. No parties are held liable by law for structural flaws or problems in the building once it is in use; or are required to obtain an insurance policy to cover. There was 0% regulation for getting electricity against a regional average of 49%. There are no Mechanisms for monitoring outages, restoring service, no Regulatory monitoring, no Financial deterrents aimed at limiting outages.

There was 0% regulation for Getting Credit against a regional average of 42.08%. this presents an unfortunate situation in Somalia since procurement of credit for businesses is extremely central. Missing integrated legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets in the economy; lack of general description of debts and obligations permitted in collateral agreements; lack of notice-based collateral registry in which all functional equivalents can be registered; lack of law to protect secured creditors' rights; and lack of borrowers' credit information are among key issues reported.

FEDERAL STATES INVOLVEMENT IN BUSINESS REGULATION

State involvement may correct efficiency failures, but it has shortcomings of its own. Government failure, in the shape of corruption and excessive bureaucracy, prevents regulation from fully solving market failures[12] . Ministries of Commerce within federal states are reported to license import-export firms, shipping, airlines, telecoms, and *hawilaad*. Those licenses are not linked to any government services or company rights; like right to use a given frequency for the telecoms. Municipal dues, perceived as pay-off to avoid harassment, are collected from firms with a fixed location; and at tolls on road.

These funds are not fully directed to road maintenance. Airport authorities impose landing fees, collects import-export duties, board dues and other charges (e.g. manifest charge), have monopoly on loading / unloading services and offer very little in return. There is inadequate safety regulation, storage facilities, airport services and maintenance. Finally, it is not uncommon for the state to compete with private players in profitable markets [12]. Likewise, without proper oversight governments have lost out on tax revenue [10].

SUMMARY AND WAY FORWARD

Somalia remains one of the poorest countries in the world. According to the World Bank index on the ease of doing business, it is ranked 190 globally–behind South Sudan and Eritrea respectively [16][16]. Extant and non-extant business regulations have to a large extent impacted negatively to entrepreneurs, businesses, and existing governance structures. Luckily, Somalis learned from their long and costly civil war that they can accomplish many things without a government and norms serving as regulations. Other experiences taught them that there are an array of challenges that are impossible to tackle without an effective central authority.

Extensive research has shown that government is focal to minimize ill effects through establishment of the rule of law, presence of robust institutional arrangements of checks and balances, restriction of corruption, and preservation of fiscal and monetary discipline for the competitiveness of nations and their economic development[17][17]. Research emphasizes the importance of the regulatory role of governments in the protection of the environment, energy production, trade policy, and industrial policy. Government is further mandated with institution building; and deregulation, in essence, complete or partial elimination of regulation in a sector to improve economic performance"[18][18].

The Fraser Institute, a Canadian think tank, argues that countries like Somalia need economic freedom, defined by low taxes, protection of private property, freedom of contract, free trade, and monetary stability, to attract investment, both domestic and foreign [19][19]. It is vital for Somalia authorities to strengthen and enlighten investment climate by removing unnecessary costs that attract risks and bar fair competition. Prospective investors are keen to scrutinize government policies and behaviors especially on property rights, taxes, finance, infrastructure, and corruption [2].

On this note, the key job of the new government in Somalia is to strike a fine coexistence balance between the people, business, and government. Focus should be on Somalia-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand [20][20]. These Somalia specific factors include requisite formal policies; matched by government practice; sufficient regulation and microeconomic discipline [2].

As recommended by World Bank, key and urgent policies should be prepared in the context of political reconciliation and return or compensation of properties unlawfully expropriated during the civil war; regulation and taxation that ensures the reconciliation of the interests of firms and the broader social needs of the general public; financial markets and infrastructure that connect firms with lenders and investors; capacity enhancement and educational system that can produce a workforce equipped with the necessary skills for a modern economy[2] .

[16]Abdi, O. (2018). SMEs Business Growth Strategies and Development Initiatives: An Investigation of the Impact of Economic and Institutional Dynamics in Somalia. South Africa: UGSM-Monarch Business School
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OPPORTUNITIES FOR DEVELOPMENT AND IMPLEMENTATION OF BUSINESS REGULATION

Despite many years of wasted economic opportunities, prevailing allegiances held together by trust, business systems, private sector, judicial system and SMEs among others present Somalia with an opportunity to grow its economy. To achieve economy growth, Somalia needs to prioritize on courts, law and order, contract enforcement, property rights, and self-regulation in order to maximize business growth on the major industries including telecoms; import, export, shipping; money transfer operations; airlines; education, health, and safety nets; foreign exchange; electricity; land transport; and water provision[11]. Government focus on internal and external trustworthiness is key to tap the opportunities that globalization offers.

In addition, SMEs empowerment is central for Somalia growth. Existing SMEs need policies that empower them as vehicles of tackling economic discrimination. The concept of economic inclusivity is highly applicable in SMEs since they have an advantage of being family businesses and incorporating even the marginalized in society including women and youth[17]. Support from UNDP and the international community will go a long way towards the revitalization of the Somalia economy [12]. However, inadequate policies and information, statistics on SMEs inhibit development-partners' ability to harness focused interventions and their interest in revitalizing the SME sector for sustainable economic growth and development [17].

Perhaps the first policy should be on guidelines on development of regulations. The policy should compel regulations that are effective but not overly restrictive; that create of a climate of trust and certainty; that improve transparency and accountability; that improve compliance with other country laws, rules and regulations; that is pro-active in monitoring of suspicious transactions and money laundering schemes as recommended in international conference on Hawala organized by the Central Bank of United Arab Emirates (UAE)[12].

The new government has a good chance to succeed in implementing the necessary government policies and behaviors for economic reconstruction and growth. The efforts should be prioritized, gradual, and incremental. It should build on the few institutions already in existence in the country. New regulations, processes, and institutions should be introduced on a need basis and not under the prescription of policies developed elsewhere.

The government should solicit expertise and judiciously choose, review and implement the most applicable policies, benchmarking the performance of applied policies against comparable countries that preceded the Somali Republic on the path to development and economic prosperity. It is the duty of Somali scholars to ensure that well-researched policy alternatives are available to a new government. This balancing act is an ongoing process of improvement that requires regular review and adjustment of policies.

The new government, Somalia can institute own homegrown policies to pursue the opportunities that arise from globalization. The need for homegrown policies is based on criticism against globalization from academicians, trade unions and other labor organizations in developed countries. Somalia can use homegrown policies to manipulate multilateral agreements that impose trade liberalization on poor countries while keeping their own markets off limits to the products of the poor countries. Further, home grown policies can regulate prescription and imposition of rigid and outmoded policies by supranational institutions entrusted with the global economy[2].

Industries evolve through the development of technologies and institutions, and through continuous interactions among many players in the government and marketplace. There is need for research on how the Somalia state can derive its authority intrinsically or from society. Different approaches would include where the government guides and directs business and industrial activities, and derives its authority from the state. Alternatively, the government can derive its authority and legitimacy from the social contract as a representative of the people [21][21]. Due to the nature of Somalia population, the research can hypothesize the impact of corporatist societies which focuses on collective requirements and duties. Applying the above taxonomy and analysis to the situation in Somalia, a social corporatist institutional arrangement would better fit the present needs of the country. Thus, the state institutions would play a facilitative role, and the government would act as a protector and partner of business and industry, but would not necessarily lead new industry formation or expansion. In such a situation, state and government institutional arrangements would have a diffusion policy orientation, and employ new industry formation approaches.

According to conventional wisdom, it takes many years to establish the institutions that are so indispensable for sustainable economic development. An initial economic growth spurt may be achieved through small, piece-meal policy changes, which in turn may lead to long-term institutional reforms.

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CONCLUSION

Lack of regulation is a bad influence for the business, government and economy. In conclusion, this paper highlights the urgent need for policies informed by evidence-based research to steer business regulation towards tapping maximum benefits in Somalia economy. The research should keenly address aspects on SMEs business growth strategies due to their huge impact on economies. The research should develop a model for increasing SMEs participation in economic development of Somalia and help bridge the policy gaps that stifle SMEs business growth strategies and development initiatives. The research should provide a model of balanced regulation that enhances domestic and foreign investment in Somalia. Of importance is simple and transparent rules that work best- minimize bureaucracy; transparent rules and laws with ease enforcement and focus on preventing significant problems, as opposed to finetuning minor business faults and market inefficiencies; regulation directed at correcting only significant deviations from efficiency, in order to capitalize on scarce government enforcement capacity; and regulation whose level and complexity perfectly matches the regulatory burden that Somalia can tolerate based on the level of development. All nodes (private, public, or hybrid governance) that will oversee implementation of regulation should be availed with enough autonomy so that they cannot be dominated by other nodes of governance; enough capacity to check abuse of power by other nodes so that a multiplicity of separated powers can network to check any node of power from dominating all the others; and must assist with building one another's capacity to responsively serve human needs and have integrity.

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