

**THE ECONOMIC DEVELOPMENT OF
SOMALIA TELECOMMUNICATION SECTOR
IN THE ABSENCE OF AN EFFECTIVE
REGULATORY BODY: EVIDENCES FROM
MOGADISHU - SOMALIA**

**ABDULQADIR ABUBAKAR SHEIKH HASSAN
GELLE**

**ASIA e UNIVERSITY
2019**

THE ECONOMIC DEVELOPMENT OF SOMALIA
TELECOMMUNICATION SECTOR IN THE ABSENCE OF AN
EFFECTIVE REGULATORY BODY: EVIDENCES FROM MOGADISHU -
SOMALIA

ABDULQADIR ABUBAKAR SHEIKH HASSAN GELLE

A Thesis Submitted to Asia e University in
Fulfilment of the Requirements for the
Degree of Doctor of Philosophy

June 2019

ABSTRACT

The purpose of this research is to investigate the economic development of the Somalia private sector in the absence of an effective regulatory body or framework. Private sector firms in the telecommunication industry within Mogadishu City, Somalia, have been selected as the case for study. The study has been divided into four specific objectives. These objectives are: To examine the characteristics and conditions under which the private telecommunication firms in Somali currently operate; To analyse the strengths and weaknesses of the private telecommunication firms in Somalia today; To explore the main challenges faced by the Somali private sector presently; and To discuss the role the State can play to ensure a sustainable growth agenda of the private sector in Somalia now and in the future. In order to achieve the above-mentioned objectives, the study was divided into five chapters, and each chapter was divided into a number of sections and sub-sections. As far as the research methodology is concerned, this study employed a mixed research design by using both descriptive and case study research designs due to the nature of the data to be collected for analysis. The study also employed the use of probability and non-probability sampling techniques, where stratified random sampling and purposive sampling procedures were used. Data was collected through primary sources using structured questionnaires, interview guides, and observations. The data to be collected during fieldwork was subjected to both quantitative and qualitative analysis techniques, where quantitative data was analysed using the SPSS tool, while qualitative data was analysed using thematic grouping and content analysis. The analysed data were presented in the form of frequency tables, charts, and graphs. The study concludes that weaknesses and strengths had a significant effect on the economic development of the telecommunication sector in Somalia; the telecom sector in Somalia lacks adequate qualified personnel and a shortage of sufficient economic development stimulators or incubators. The telecom sector in Somalia suffers from increased competition in unregulated markets and the prevalent risk of balkanisation coupled with tribal breakup has negatively affected the development of the telecom sector. The study concludes that the telecom sector faces many challenges that limit this sector, including access to finance. The study concludes that the current regime has barely done little to foster a conducive environment upon which a vibrant telecommunication industry can be built, the government of Somalia lacks adequate capability to collect domestic tax and pay external debts and the government had a role in facilitating and support the development of efficient and secure nationwide communications infrastructure that provides affordable and pervasive broadband connectivity and accelerates socio-economic development in all parts of Somalia, this study recommends that the Somali government should limit the regulatory burden on the private sector with 'light touch' customer-centric regulation to promote innovation and encourage the free flow of information while ensuring the necessary checks and balances are in place that ensures the protection of the public, a level playing field and sustainability/reliability of services. The Somalian government should establish a strong legal environment and facilitate and support the development of efficient and secure nationwide communications infrastructure that provides affordable and pervasive broadband connectivity and accelerates socio-economic development in all parts of Somalia, where necessary.

Keywords: Economic development, private sector, telecommunication sector, regulatory body, Somalia.

APPROVAL

This is to certify that this thesis conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Doctor of Philosophy.

The student has been supervised by: **Prof Dr Tom Nyamache, Turkana University College, Kenya**

The thesis has been examined and endorsed by:

Assoc Prof Dr Oo Yu Hock,

Asia e University

Examiner 1

Prof Dr Roslan Abdul HaKim

Univesiti Utara Malaysia,

Examiner 2

This thesis was submitted to Asia e University and is accepted as fulfilment of the requirements for the degree of Doctor of Philosophy.



Professor Dr Siow Heng Loke

Asia e University

Chairman, Examination Committee

(14 June 2019)

DECLARATION

I hereby declare that the thesis submitted in fulfilment of the PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

Name: Abdulqadir Abubakar Sheikh Hassan Gelle



Signature of Candidate:

Date: 14 June 2019

ACKNOWLEDGEMENTS

My sincere thanks go to my academic project supervisors who have journeyed with me as my research supervisor Prof. Tom Mokweri Nyamache and mentors: your competence, constructive criticisms, and commitment have helped me to make significant and relevant modifications to this study.

My heartfelt sentiments of gratitude go to all my family members: my dad, my mother, my wife, and all my siblings: thank you all for being there for me, for your moral support, and for showing me by example what it means to be hardworking and honest in life.

Lastly, my gratitude goes to all my friends and classmates: your company and encouragement have made me come this far. Thank you very much for your company and encouragement.

May God bless you all.

TABLE OF CONTENTS

ABSTRACT	ii
APPROVAL	iii
DECLARATION	iv
ACKNOWLEDGEMENTS	vi
TABLE OF CONTENTS	vii
LIST OF TABLES	x
LIST OF FIGURES	xii
LIST OF ABBREVIATION	xiii
CHAPTER 1 INTRODUCTION	1
1.0 Background of the Study	1
1.1 Problem Statement	3
1.2 Objectives	5
1.3 Research Questions	5
1.4 Operational Definitions	6
1.5 Justifications and Significance of the Study	7
1.6 Basic Assumptions of the Study	8
1.7 Limitations of the Study	9
1.8 Delimitation of the Study	10
CHAPTER 2 REVIEW OF LITERATURE	11
2.0 Introduction	11
2.1 Characteristics and Conditions under which the Private Sector in Somali Operates Currently	11
2.2 Strengths and Weaknesses of the Private Sector in Somalia Today	13
2.2.1 Roots of Economic Informality (1980 to 1991)	15
2.2.2 Violent Markets: The Economy of Plunder and Protection (1992 to 1995)	19
2.2.3 “Duty-free Shop”, Brokerage and Rising Business Class (the Mid-1990s to End 2000s)	21
2.2.4 Shareholders, Standards, and the Quest for Regulation (Mid-2000s to Today)	23
2.2.5 Interrogating the Somali Economy’s State Effects	26
2.3 The Main Challenges Faced by the Somali Private Sector Presently	29
2.4 The Role the State Can Play to Ensure a Sustainable Growth Agenda of the Private Sector in Somalia Now and in the Future	31
2.4.1 Determinants of Private Sector Investment	33
2.5 Empirical Literature	42
2.5.1 Private Investment and Economic Growth	51
2.5.2 Government Expenditure and Private Investment	73
2.5.3 Determinants of Private Sector Investment	78
2.5.4 Determinants of Economic Growth	84
2.5.5 Remittances and Private Sector Growth	91
2.5.6 Remittances Effect on Poverty and Social Development in Somalia	102
2.6 Theoretical Review	133
2.6.1 The Theory of Economic Development	133

2.6.2	Systems Theory of Organisations	135
2.6.3	Contingency Theory of Management	137
2.7	Conceptual Framework	139
CHAPTER 3 METHODOLOGY		141
3.0	Operational Definitions	141
3.1	Research Design	141
3.2	Target Population	142
3.3	Sample and Sampling Technique	143
3.4	Data Collection Instrument	144
3.5	Sample Size and Sampling Procedures	144
3.6	Description of Data Collection Instruments	144
3.6.1	Pilot Testing of the Instruments	145
3.6.2	Validity of the Data Collection Instruments	145
3.6.3	Reliability of the Data Collection Instruments	146
3.7	Data Collection Procedures	147
3.8	Data Analysis and Presentation Techniques	148
3.9	Ethical Considerations	150
CHAPTER 4 RESULTS AND DISCUSSION		152
4.0	Introduction	152
4.0.1	Response Rate	152
4.1	Prerequisite Tests Results	152
4.1.1	Pilot Results	152
4.1.2	Multi Collinearity Test	154
4.1.3	Homoscedasticity	155
4.1.4	Normality Test	156
4.1.5	Sampling Adequacy	156
4.2	Background Information	158
4.3	Characteristics and Conditions under which the Telecommunication Sector in Somalia Operates	161
4.3.1	Pearson Correlations	162
4.3.2	Regression Test	163
4.4	Weaknesses and Strengths of the Telecommunication Sector in Somalia	165
4.4.1	Pearson Correlations	167
4.4.2	Regression Test	168
4.5	Challenges Faced by the Somali Telecommunication Sector Presently	169
4.5.1	Pearson Correlations	171
4.5.2	Regression Test	172
4.6	Role of State in Ensuring Sustainable Growth in Telecommunication Sector	173
4.6.1	Pearson Correlations	175
4.6.2	Regression Test	175
4.7	Economic Development	177
4.8	Summary of Inferential Statistics	178
4.8.1	Correlations	178
4.8.2	Regression Analysis	182

CHAPTER 5	CONCLUSION, IMPLICATION, AND RECOMMENDATIONS	185
5.0	Introduction	185
5.1	Discussion of the Findings	185
5.1.1	Characteristics and Conditions under which the Telecommunication Sector in Somali Operates	185
5.1.2	Weaknesses and Strengths of the Telecommunication Sector in Somalia	187
5.1.3	Challenges Faced by the Somali Telecommunication Sector Presently	188
5.1.4	Role of State in Ensuring Sustainable Growth in the Telecommunication Sector.	189
5.2	Optimal Framework	190
5.3	Conclusion	192
5.4	Recommendations	193
5.5	Suggestions for Further Research	194
	REFERENCES	195
	APPENDICES	206
	Appendix A: The Map of Somalia	206
	Appendix B: Introductory Letter	207
	Appendix C: Questionnaire	208
	Appendix D: Flow Chart	215
	Appendix E: Researcher's Proposed Budget	216

LIST OF TABLES

Table		Page
3.1	Target population of the study	142
3.2	Sample size	143
3.3	Cronbach's Alpha unwavering quality coefficient	148
4.1	Response rate	152
4.2	Reliability analysis	153
4.3	Summary of collinearity statistics	154
4.4	Test of homogeneity of variances	155
4.5	Tests of normality	156
4.6	Kaiser-Meyer-Olkin (KMO) and Bartlett's test	158
4.7	Gender deference	158
4.8	Age group	159
4.9	Level of education	160
4.10	Duration of time which the participants had worked in the company	160
4.11	Characteristics and conditions under which the telecommunication sector in Somali operates	161
4.12	Correlations	163
4.13	Model summary	164
4.14	ANOVA ^a	164
4.15	Coefficients ^a	164
4.16	Weaknesses and strengths of the telecommunication sector in Somalia	165
4.17	Correlations	167
4.18	Model summary	168

4.19	ANOVA ^a	168
4.20	Coefficients ^a	169
4.21	The extent to which current business challenges affect private sector development in Somalia	169
4.22	Correlations	171
4.23	Model summary	172
4.24	ANOVA ^a	172
4.25	Coefficients ^a	173
4.26	Role of State in ensuring sustainable growth in the telecommunication sector	173
4.27	Correlations	175
4.28	Model summary	175
4.29	ANOVA ^a	176
4.30	Coefficients ^a	176
4.31	Economic development with private sector in Somalia	177
4.32	Correlations	180
4.33	Model summary	182
4.34	ANOVA	182
4.35	Coefficients	183

LIST OF FIGURES

Figure		Page
2.1	Conceptual framework	140
5.1	Optimal hypothetical model	191

LIST OF ABBREVIATION

AfDB	Africa Development Bank
AfDG	Africa Development Group
CEO	Chief Executive Officer
CSIS	Centre for Strategic and International Studies
DFID	Department for International Development
HDI	Human Development Index
MSME	Micro, Small, and Medium-sized Enterprises
NGOs	Non-Governmental Organisations
ODA	Official Development Assistance
SPSS	Statistical Package for Social Sciences
TFG	Transitional Federal Government
UN	United Nations
USD	United States Dollar
WB	World Bank
WEF	World Economic Forum

CHAPTER 1

INTRODUCTION

1.0 Background of the Study

Unlike the formal economy, activities of the informal economy are not included in a country's gross national product (GNP) or gross domestic product (GDP). Although more than 60 percent of the world's employed population is in the informal economy, it's however important to note that informal economy does not offer a “cushion” during economic crisis. There are many conceptual and statistical definitions of formality and informality, but one pole of consensus is that the distinction can be made only relative to some set of state regulations and laws (Guha-Khasnobis et al., 2006). Legal requirements on enterprises, to register, pay taxes, and provide certain benefits to their workers, are often a starting point in concept and in official statistics (ILO 2013).

The African continent is going through exponential growth and the economic future of the continent and its citizens is tied closely to the private sector industry players (AfDB, 2011). This is attributable to the fact that more than two-thirds of the total investment in the country comes from the private sector which also generates nine-tenths of both formal and informal employment and additionally contributes to three-quarters of the continent's economic output (AfDB, 2015).

According to the AfDB (2011), the private sector in the continent is made up of micro, small, and medium enterprises (MSMEs), and individuals on the continent are forced into entrepreneurship on a small scale due to their aspirations and also out of desperation. A majority of the MSMEs being run are family-based, quite informal, small in size, and often they are sole proprietorships. Additionally, the majority of these enterprises are managed and operated by persons who have no other avenues to

get employment and whose livelihoods are solely derived from these enterprises (AfDB, 2015). These entrepreneurs lack basic training on how to run their enterprises and access to important market information is not available to them.

Aré et al. (2010) held a similar perspective that for sustainable economic growth of a country, the private sector must be present because it brings with it good jobs and makes available opportunities for economic growth that are both sustainable and inclusive. Therefore, while the state may empower its citizens through funding, availing public goods, and proper regulation, the private industry players may also offer services and create opportunities for employment in addition to advocating for reforms in policy, promoting good governance practices, encouraging a virtuous circle that creates better business environments for the private industry and these will in turn create reforms in governance structures (Amsden, 1997).

TechTarget (2015) defined the private sector as the section of the economy operated by individual groups or persons as a way of earning profits or livelihoods and often the state does not control the sector which is also sometimes known as the citizen sector. Collier (2010) pointed out that the development of the private sector is recognised widely by the diaspora as a key driver for economic growth that is both inclusive and sustainable. Therefore, the private sector is regarded as being essential in the alleviation of poverty because it acts as a means of availing new and better economic opportunities to the people of a given society (Haufler, 2013).

Additionally, basic institutions that are fundamental for economic activities and the well-being of society such as good roads, air, refineries, health services, educational facilities, and water provision services were not available anymore. The country saw a total collapse of state institutions which saw a rise in informal systems

of governance as a result of a long absence of an efficient and effective body or mechanism to carry out regulation.

The private sector's history of economic development in the country of Somalia is unique. A majority of this history can be traced back to the year 1991 when President Siad Barre and his government were overthrown through a coup from power. Due to the lack of a working government, the country went through major changes with the collapse in financial institutions, the lack of a central bank for the domestic currency, and public services and utilities were no longer available (Lindley, 2009).

The private sector in Somalia was founded on this backdrop which was a response to fill a vacuum that had been created by state institutions that were either inefficient or absent. The private sector in the country has grown over the years exponentially more particularly in the service industry. Ruttan (2006) pointed out that unlike in the 1970s and 1980s period when a majority of the output from industries and the service industry was available by the government, almost all production from industries, provision of services, and trade activities is majorly carried out by the private sector in Somalia. Commercial ventures have also witnessed significant private investment activities which include money transfer services, marketing, trade, construction, transport and communication, education, hospitality, health, security, and the fishing industry (Aré et al., 2010). However, the remittances received from the diaspora fund these services because the government and leadership are ineffective and continue to be a serious concern for the country. The insurgence of terrorist organisations such as al-Shabaab has made the situation worse and dire.

1.1 Problem Statement

Despite the fact that Somalia for a long time has been characterised by weak fiscal space and institutions, active insurgency, and an incomplete political settlement,

various economic sectors have continued to thrive. According to ILO (2013), the informal economy in Somalia is expanding in many settings and playing a significant role in the nation's economy and if supported it can go a long way in reducing poverty and inequality.

In spite of the significant role played by the private sector as the 'economic powerhouse' of Somalia, this sector has been accused of not delivering optimal market outcomes. Studies have also shown that most of the international support, material or otherwise, is primarily channelled through voluntary organisations, groups, and individuals, hence with the exclusion of the private sector. Besides, there is a dearth of research that focuses on the economic development of the private sector in the face of an absent regulatory framework in the world, particularly in the war-torn countries of the world, like Somalia. This has made it hard to create responsive lawful and strategic structures and start programmes that address the extraordinary needs of the private part that works under such extreme conditions. Likewise, the greater part of the auxiliary projects that are set up today to address the financial improvement of the private area are to a great extent 'outside,' since they depend on the European as well as American private division encounter (Beine et al., 2001; Tracey et al., 2005).

Consequently, there is a developing need to direct broad investigation, build up more contextualised and applicable models, and design programmes that are intended to address the one-of-a-kind financial improvement needs of the Somalian private division without appropriate administrative specialists; for without these systems, the basic pretended b they private segment in the general advancement of Somalia, even without a well-working administrative body, will keep on being dominated. Likewise, without appropriate research, the inquiry in the matter of why the Somalia private segment has not possessed the capacity to understand the most ideal financial

outcomes will keep on remaining unanswered or, far more detestable, be hidden away from plain view. Subsequently, there is a need to pass on the current monetary condition of the Somalian private division even with the absence of a legitimate government administrative structure and evaluate the future advancement headings of the private part in the nation. It is thusly upon this background the present research is borne in looking to address these gaps.

1.2 Objectives

The general objective of the study was to investigate the economic development of the Somali private sector in the absence of an effective regulatory body. A selected number of telecommunication firms that operate in Somalia's City of Mogadishu was the basis for this study.

The specific objectives of this study were:

- i To examine the characteristics and conditions under which the telecommunication sector in Somali operates currently;
- ii To analyse both the weaknesses and strengths of the telecommunication sector in Somalia today;
- iii To explore the main challenges faced by the Somali telecommunication sector presently;
- iv To discuss the role the state can play to ensure a sustainable growth agenda of the private sector in Somalia now and in the future.

1.3 Research Questions

The following research questions guided this study:

- i What are the characteristics and conditions under which the telecommunication sector in Somalia operates currently?

- ii What are the weaknesses and strengths of the telecommunication sector in Somalia today?
- iii What are the main challenges faced by the Somali telecommunication sector presently?
- iv What role can the State play to ensure a sustainable growth agenda of the private sector in Somalia now and in the future?

1.4 Operational Definitions

Economy: According to (Cambridge Dictionary, 2015), economy refers to the system of trade and industry by which the wealth of a country is created and used. This term can also be used to refer to a whole collection of distributors, producers, and those consuming services and goods in a given community, region, or locality (Business Dictionary, 2015b).

Development: This term refers to the process of developing, growing, or making progress (Dictionary, 2015). In economic terms, development refers to the economic improvement of a country's or region's economic status through having more business activities and processes (Macmillan Dictionary, 2015).

Economic Development: Entails the use of new technologies and a general change from an economy that is agricultural based to one that is industrial based and an increase in the welfare and standards of living for the citizens of a country (Business Dictionary, 2015a).

Private Sector: This term refers to the part of a country's economic system that is run by individuals and companies, rather than the government (TechTarget, 2015). This sector mostly includes privately owned profit-making institutions or commercial businesses (such as multinational corporations).

Absence: Absence refers to a state or condition in which something expected, wanted, or looked for is not present or does not exist (Merriam-Webmaster, 2015).

Effective: According to Oxford Dictionaries (2015), the term effective refers to the success of something in producing a desired or intended result.

Regulatory Body: A regulatory body (sometimes referred to as a regulatory agency or authority) is a governmental body that is created by the legislature or constitution to implement and enforce specific laws (Study.com, 2015). Such a body normally has quasi-legislative functions, executive functions, and judicial functions. According to Business Dictionary (2015c), a regulatory body serves two primary functions in government: to implement laws and to enforce those laws.

1.5 Justifications and Significance of the Study

This study endeavoured to carry out an investigation of the economic development of the Somalia private sector in the absence of an effective regulatory framework. In the developed world, the relationship between the state and the private sector is mostly straightforward, i.e., both institutions exist for the benefit of the citizens; hence, they both inter-depend on each other for mutual fulfillment. However, the case may not be true in developing and third-world countries, especially the post-conflict countries. The nations that are coming out of prolonged war or an elongated time of civil unrest and conflict are faced with a bitter and difficult paradox; they are in urgent need of basic working infrastructure but do not have the necessary public revenues, institutional and government capacity and interests from investors and foreign donors to ensure that such services are made available. This is where, in most cases, the private sector comes in by trying to minimise this gap or apparent paradox. This is why the researcher picked this area of study or topic: firstly, the economic boom of the private sector and the success stories accompanying it make it a good case study for post-

conflict countries; and secondly, the prolonged period of conflict (civil war) and the economic growth of the private sector in Somalia make the study a good case from which to learn lessons, as well as the implications for effective regulatory reforms to be implemented.

Various groups and stakeholders will find this study to be significant. For instance, findings from the study will help inform the private sector and government regulatory bodies on how they can work together and enrich each other for the benefit of the people of Somali by proposing a framework upon which these institutions can be able to make sound decisions that are based on factual evidence. In particular, the Somali government will benefit from this study in developing and implementing effective laws and policies that will ensure a more economically viable and developmentally sustainable private sector in Somalia, and even beyond.

In addition, the government and other key players stand to benefit from this study by being able to understand the conditions under which the private sector in Somalia operates, in addition to identifying the various obstacles facing the private sector in Somalia today. This will hopefully provoke some positive steps that are geared towards addressing the identified challenges. Lastly, future scholars and academicians may want to use the findings and recommendations of this study as the basis to advance their studies on the aspect of economic development of the private sector in Somalia or on other related topics.

1.6 Basic Assumptions of the Study

This study has a number of assumptions. Key among these include the following: (1) Having an effective regulatory framework in place will lead to the economic development of the private sector in Somalia; (2) Besides government regulatory framework, there are other factors that influence the economic development of the

private sector in Somalia; (3) The response and return rate of information gathering instruments to be utilised as a part of this examination will be sufficiently adequate to warrant a believable and dependable investigation process; (4) Discoveries from this examination will be utilised to make speculations regarding comparative investigations or cases in different parts of the world, other than Mogadishu-Somalia; and (5) Conclusions and suggestions to be drawn from the investigation discoveries will provoke positive decision-making and action-taking among the concerned stakeholders or target groups.

1.7 Limitations of the Study

A few limitations are envisaged by the researcher in this study. Here are a few of those challenges and their possible mitigation strategies: (1) In terms of the scope, the current study will limit itself to investigating the economic development of Somali private sector in the absence of effective regulatory; (2) The study has also limited itself to studying private sector institutions located within Mogadishu City in Somalia; it is therefore assumed that findings from this study can be used to generalise about other private sector institutions in the whole of Somalia and even beyond; (3) Some respondents may not be cooperative, or may not give honest responses, when filling in questionnaires or responding to interview guides: however, this challenge will be overcome by organising a familiarisation forum with the respondents themselves and by conducting a pilot study to assess the level of reliability and validity of the data collection tools mentioned; and (4) There is inadequate time allocated for collecting, analysing, interpreting, and presenting field data: however, the researcher will overcome this challenge by hiring the services of two qualified individuals to serve as the research assistants; the researcher also plans to start the field work early enough so as to provide ample time for undertaking these processes.

1.8 Delimitation of the Study

It is true that there are a number of factors that can lead to the economic development of the private sector, besides having in place an effective regulatory body or framework, such as the level of employee motivation, quality of management styles, and the well-being of the national domestic product. However, this study limits itself to investigating the economic development of the Somalian private sector in the absence of an effective regulatory body. Mogadishu City, in Somalia, has been selected as the case for the study. The study will also delimit itself to covering the following specific areas (objectives): (1) To examine the characteristics and conditions under which the private sector in Somali operates currently; (2) To analyse the strengths and weaknesses of the Somalian private sector; (3) To explore main challenges faced by the Somali private sector presently; and (4) To discuss the role the State can play to ensure a sustainable growth agenda of the private sector in Somalia now and in the future.