Article 08:

THE EVOLUTION OF THE COMMERCIAL SYSTEM AND REGULATORY FRAMEWORK IN SOMALIA

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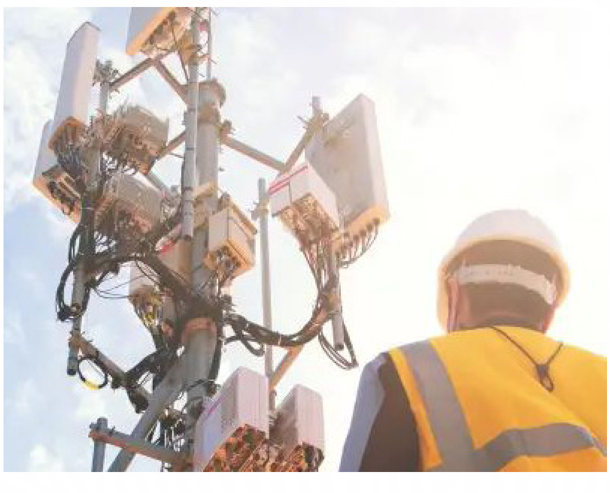
This article presents a brief of the impact of technology and the transition of informal to formal trade systems, as well as the current legal framework, regarding their developments, compatibility, and role in the emerging protection of business interests in Somalia. Also, it will briefly describe the legal implications with an example of the current situation in Somalia.

What is not surprising is that the Somali economy is currently undergoing a historic structural change. For a long time, the private sector especially small and medium-sized enterprises (SMEs), which accounts for 90% of the business actors in the market, operated in an informal environment largely governed by customary law (Xeer) and informal trust networks. However, everting has changed. For instance, following the completion of the Heavily Indebted Poor Countries (HIPC) initiative and the subsequent introduction of sector-specific legislation, the Somali Companies Act and the reform of many other relevant laws, including the Somali Labor Code (final revision 2026), Somalia is moving towards a formal market system.

The transformation tale of the two economies, the Somali market is now defined by a deep dualism (informal and formal), while the formal sector is growing, an estimated above 80% of economic activity remains informal. Following the collapse of the Somali Central Government, the private sector particularly small and medium enterprises have historically relied on the customary law, where market-based disputes were traditionally resolved through "Xeer" without regard to the role of codified laws. This kind of system is short-term beneficial to small businesses but lacks legal certainty. Over the past years, the Federal Government of Somalia has intensified efforts to promote and ensure the credibility of businesses operating in the country through the implementation digitalization such as the Somali Business Registration System (SBRS) and digital tax initiatives. These are intended to bridge the gap between the existing legal and regulatory framework by providing a formal level of formality to high-growth informal actors.



THE PILLARS OF THE MODERN SOMALI ECONOMY

The most important cornerstone in the modernization of Somalia's economy is the implementation of laws that facilitate the guidance of Somali businesses. A notable example is the introduction of the Somalia Companies Law, No.18 OF 26.12.2019, which established the two main legal basis for (i) limited liability meaning allowing entrepreneurs to separate personal assets from business risks, and (ii) corporate governance, standardizing how boards and shareholders interact.

Another notable example is the launch of the most recent ongoing amendment of the Somali Labour Code which seems as significant milestone. The new regulation replaces outdated colonial-era and centralized codes and aligns with delegated or federal standard and Somali employment relations with International Labour Organization standards. It provides a tripartite framework involving the government, the Federation of Somali Trade Unions, and the Somali Chamber of Commerce and Industry thus ensuring that businesses are formalized and worker rights are protected.

Following that, the Somalia Federal Government's Ministry of Commerce and Industry has revolutionized the entry process through the eBusiness system (recently introduced digitalized system), where all the essential information can be accessed online (stip.gov.so). STIP is a trade portal that stores all trade-related information in Somalia. The World Bank has supported in Somalia with this initiative.

To further explain business process digitalization, a good example is that businesses wishing to register with the federal government of Somalia undergo a simplified registration process. Such results that the name reservation and registration are facilitated through instant digital verification using the MoCI trade database within a single day; this is replacing the old manual system that was time-consuming and costly. Similarly, licensing has become digital, which shows that the transition to the electronic commercial books system mandates digital record-keeping.

The impact of Somali business digitalization has reached the Intellectual Property sector. The protection and preservation of ideas and innovations are a global priority and inviolable. It is clear that Somalia has adopted the same approach and is currently giving importance to the protection of intellectual properties. This effort began in 2019 after the Somali Intellectual Property Office (under MOCI's Department of Industrial Development) was re-established. The amazing thing is that this system is also partially digital, although it is not yet fully digitalized. But the remaining challenge is the existence of a poor regulatory framework, whereby the old laws are working and have not yet been amended.

Despite these advancements, the compliance rate remains a challenge. Reports indicate that while business registration can now take as little as one day, the enforcement of tax compliance is still in its nascent stages. Also, the high cost of registration and licensing services remains the same, which is the main complaint of many businessmen and businesswomen.

HARMONIZATION OF THE REGULATORY FRAMEWORKS

A major hurdle remains the harmonization of laws within the institutions of the Federal Government of Somalia and between the Federal Government and the Member States. For example, it is difficult for a business registered in Mogadishu to operate or obtain the right to operate in Puntland and Somaliland. Not only. Even though conflicting laws are a problem, and most of the laws in FGS and the Member States are not based on the needs and realities of the country which may result in many laws failing to be enforced, while others have had poor results.

Fragmented laws create problems for businesses, doing away with this, will eliminate the high costs and will save time. This again gives Somalia an opportunity to attract foreign direct investment, and also causes many small businesses to enter the market, maintain the competition, and compete effectively.

Somalia's economy is undergoing a significant transformation from an informal, customary-law-based system toward a structured formal market, driven by landmark legislation such as the Companies Act and the revised Labour Code, alongside digital initiatives like the Somali Business Registration System and the eBusiness portal. While these reforms have streamlined business registration to as little as one day and extended into areas like intellectual property protection, major challenges persist – including low tax compliance, high registration costs, and a fragmented regulatory landscape that makes it difficult for businesses registered in one region to operate in another. Until legal harmonization between the Federal Government and Member States is achieved, Somalia's ability to attract foreign investment and transition its largely informal economy into the formal sector will remain limited.

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