

## Dispute Resolution and Microenterprise Ownership in a 'Fragile' State: Evidence from Somalia

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*Can informal institutions facilitate enterprise growth through resolving business disputes in the contexts where formal mechanisms are near-complete failure? Descriptive statistics from original survey data in Somalia, a country with decades long conflict and weak formal institutions, reveals that trust in formal and semi-formal institutions are positively correlated with microenterprise ownership by female respondents. More importantly, interventions targeted for microenterprise growth show stronger association with business ownership in communities with higher trust in formal, (clan-based) semi-formal or informal institutions. Our findings suggest that while improving institutions remain a priority for the country, enterprise development initiatives can be more effective by factoring in community trust in institutions for dispute resolution.*

### Introduction

Efficient institutions that protect property rights and enforce contracts are important for firm growth. Existing literature provides evidence that in contexts where formal institutions do not work well, informal institutions may help resolve disputes and enforce contracts. The mechanisms through which informal enforcement works typically requires repeated interaction and a clear attribution of responsibilities. However, these features may not be guaranteed in a socially or politically unstable environment. Little is known on how individuals and firms resolve disputes during conflict or in post-conflict environments, when formal institutions are at near-complete failure and access to informal institutions may be limited. This is certainly the case in most places in Somalia, which has been plagued by civil conflict for decades.

In this research, we investigate the (formal and informal) institutions through which micro-entrepreneurs are able to manage their businesses disputes in the context of a 'fragile' state as Somalia. We also explore the interaction between gender, access to dispute resolution institutions, and entrepreneurship. Furthermore, we explore the association between the village savings and loan associations (VSLAs), which are the most common vehicles to promote and support business in Somalia, and access to dispute resolution institutions.

## Data and Methodology

The study is based on household survey data collected in 141 communities in Somalia, from six districts (Badhan, Buraou, Erigabo, Galdagob, Galkayo and Hargeisa). Data were collected between January 2020 and May 2020. The survey collected information on a sample of 4130 individuals, 2040 men and 2090 women. The data covers information on household's demographic structure, socio-economic status and business ownership.

Surveyed individuals were asked about different types of conflicts they might face and from which formal or informal institutions they would seek assistance to resolve these disputes. The specific types of conflicts included in the survey were: (i) a disagreement related to recovering payment from a customer who bought on credit; (ii) a disagreement over quality of products received from suppliers; (iii) a dispute related to inheritance; (iv) a dispute about whether or not one should circumcise their daughter; (v) being threatened or attacked with a gun, knife or weapon; and, only for women, (vi) harassment on the street, public transport or other public spaces such as school or office.

Individuals were also asked to express their trust in the effectiveness of various dispute-resolution institutions. We distinguish the institutions as informal (religious leaders and neighbourhood committees), formal (police and court) and, in the case of clan-based institutions, semi-formal (Aqil, chief Aqil or Suldan).

We explore the correlation between the (perceived) effectiveness of these institutions at the community level and women's business ownership. Moreover, we explore the interaction between VSLA participation and (perceived) effectiveness of dispute resolution mechanisms in influencing women's business outcomes. The analysis is primarily descriptive and does not reflect causality.

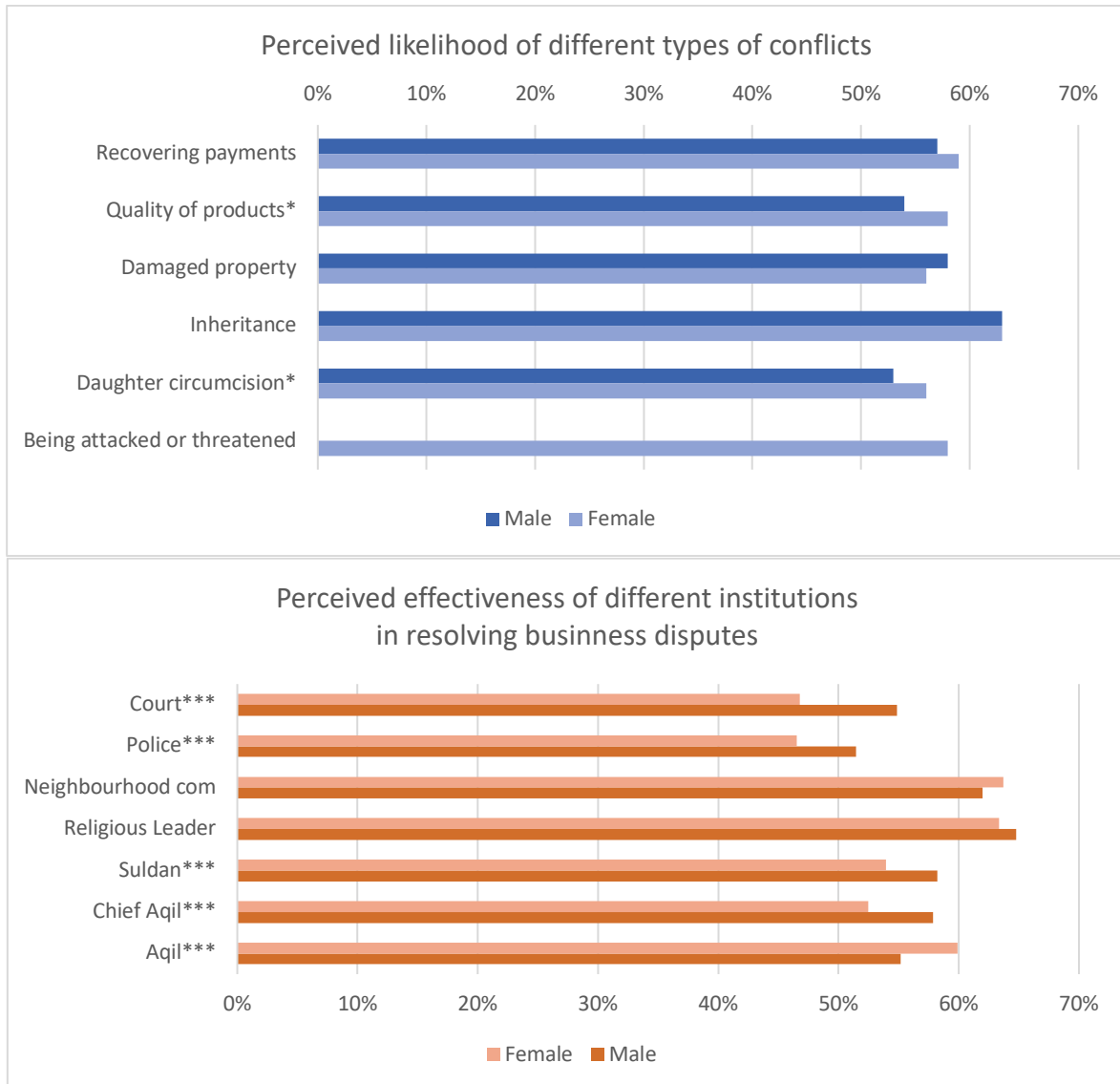
## Main Findings

### Perceptions of Conflict and Conflict Resolution Mechanisms

Figure 1 shows the average perceived prevalence of different types of conflicts and the perceived effectiveness of different types of informal institutions in resolving business conflicts.

For each dispute type, more than half of both men and women in the sample report that they are likely to experience each type of conflict (see Figure 1a). There is generally a high level of confidence in the effectiveness of both formal and informal institutions. Figure 1b shows that around half of the respondents report each of the institutions to be "always effective" in resolving the disputes. They show relatively higher level of confidence in informal institutions, followed by semi-formal and formal. Women have lower confidence in the effectiveness of most dispute resolution institutions, except for religious leaders, neighbourhood committees and Aqil.

Figure 1



Note: The upper panel shows the percentage of male and female respondents who thought that a given dispute type was likely to occur (as opposed to not at all likely). The lower panel shows the percentage of male and female respondents who reported that they thought a given institution was “very effective” in resolving business disputes. \*\*\*, \*\*, and \* indicate differences between male and female respondents being statistically significant at the 1, 5, and 10 percentage levels. Being attacked or threatened was asked to female respondents only.

At the question “who would you go to help to settle the dispute”, the respondents declare they would be more likely to ask for help from the neighbourhood committee or other informal institutions (e.g. clan leaders and religious leaders) than the formal ones (e.g. police and court). Women seem to have lower access to all dispute resolution institutions than men.

## Dispute Resolution Mechanisms and Women's Business Outcomes

We find that the perceived effectiveness of dispute resolution institutions by women in a community is positively correlated with the likelihood that female respondents own a non-agricultural business. Communities with a larger share of women reporting that a source of dispute resolution is always effective are associated with a higher percentage of women owning a non-agricultural business. If all women in the community (excluding the respondent herself) believe that the Suldan is always effective in solving the disputes, the likelihood of a woman owning a business increases by 18.6 pp. Similarly, a positive and significant association is observed for the perceived effectiveness of police, religious leaders and courts.

The perceived effectiveness of the institutions by women is positively associated also with the profitability of their businesses. Communities with higher perceived effectiveness of dispute resolution have more profitable businesses.

## Dispute Resolution Mechanisms, VSLAs and Female Entrepreneurship

We find that in communities where the perceived effectiveness of the dispute resolution institutions is higher, access to VSLAs has a stronger positive association with female business ownership compared to communities with lower trust in the institutions. In particular, the correlation between the level of participation in the VSLA and business ownership is statistically larger in communities with high perceived effectiveness of the Suldan, police and neighbours compared to other communities. This suggests that VSLAs are more likely to be effective in increasing female micro-entrepreneurship in communities in which women perceive the dispute resolution institutions to be more effective. We do not see such a relationship for profits of female-owned business.

## **Conclusions and Policy Implications**

Our findings provide suggestive evidence that dispute resolution mechanisms are important for the establishment and growth of female-owned enterprises in fragile contexts, such as Somalia. Moreover, business development efforts (through, for example, VSLAs) for women are more likely to be effective in communities where women have more confidence in the effectiveness of mechanisms of dispute resolution.

## **Moving Forward**

Future research testing the causality of these relationships as well as exploring the mechanisms behind them is necessary. A second round of survey of the same respondents is expected to provide insights through panel data analysis.

*This note is based on research conducted as a part of PEDL [ERG 6659](#).*