



Somaliland: **Africa's longest de facto** **independent state**

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1. Introduction

In 2021, the Horn of Africa-one of Africa's volatile regions- is undergoing dramatic changes. Ethiopia, the second populous country in Africa is in turmoil (Times, 2021). The war in the Tigray region of Ethiopia has become a source of anxiety for the regional stability of the Horn. Now with Ethiopia at war with Tigray Peoples' Liberation Front (TPLF), Eritrea, Africa's most oppressive regime is projecting its regional power beyond its borders creating regional and global concerns for its actions. (Watch, 2018). Somalia, Africa's longest failed state, is in a political impasse with no election agreement insight (Venugopalan, 2017). The out-going president, Mohamed Abdi Farmaajo, has tried to extend his mandate, but because of a lack of agreement with the Federal Member States (FMS) and the presidential candidates, the illegal extension was revoked by the parliament (Reuters, 2021). This is a political blowback for Farmaajo's miscalculated strategy to remain in power without an agreement with the key political stakeholders. After thirty years in conflict, Somalia is in ruin and Al-Shabab-the Islamists hardliners-control most of it and the war is showing no sign of slowing down. Djibouti, Africa's second-largest debt to China (Service, 2019), has organized an election won by the incumbent Ismail Omar Gelle with more than 90% of the votes casted (Jazeera, 2021). He has been in power since 1999.

However, with all these regional security problems in the Horn, Somaliland remains the most stable and democratic de facto state in the region. On 31st of May this year, after two decades of a multiparty system, Somaliland will be holding yet another popular election-the 7th of its kind since 2001. Likewise, thirty years ago, on this day, on 18 May 1991, Somaliland had unilaterally dissolved the 1960 union with Somalia. After three-decades-long de facto statehood, Somaliland has proved its resilience, endurance, and commitment to a peaceful and democratic country in a region marked by violent conflicts. In contrast with the rest of the region, Somaliland's state formation process was a consensual, tradition-based, and elite-bargained process where instruments of violence and control of rents were managed in clan-based power and resource sharing formulas. Somaliland's approach to both peace and state-building has proven sustainable and remains a good model for reconciliation and state-building for clan-based societies around the world.

This discussion paper is intended to capture Somaliland's journey to end violence, reach a durable political settlement through an elite-negotiated process, form a new legitimate and democratic government, and facilitate a free market economy. The paper presents Somaliland's unique approach to peace and state-building- locally-driven, culturally-rooted, reconciliation-focused, and traditionally-engineered processes whereby all key stakeholders were engaged to reach a new political settlement agreed by dominant players. In this regard, the paper argues that the state formation of Somaliland was built on existing traditional informal institutions thus creating a neopatrimonialism political culture. The paper further explains that Somaliland's success factors for its peace and state-building process are now its major constraints to inclusive economic growth and development. Clientelism and patronage have dominated the political culture forming a small elite circle whose interests threaten the very basic principles of free-market economy. In moving forward, the paper proposes; a) adoption of a democratic developmental state to facilitate state interventionist policies that are friendly to the market economy, b) to move from "big stuck"

dilemma to systemic reforms, and c) to adopt a new political leadership that is not similar to one being used now “status quo leadership”.

2. Drivers of peace and state-building: Somaliland’s unique model of statecraft

International intervention: In a region engulfed by intra and inter-state conflicts in the last three decades, Somaliland is being considered the only democratic and stable country in the Horn of Africa (Hersi, 2020). Academics and scholars have debated factors that had enabled Somaliland to be a stable, democratic, and functioning polity. Some of these academic scholarships have concluded that lack of an international intervention coupled with the roles played by informal institutions and players are the key main factors for Somaliland's success of consensually-based state formation (Philips, 2020). This is quite right, international intervention in most of the African states have failed and left behind a chaotic and political disorder. Interventions destroy locally-led, bottom-up and culturally-rooted peace and state-building. Somalia is a prime example. Thirty years of international intervention-1992-2021- and yet Muqdisho, the capital of Somalia is one of the most unsafe and insecure cities of the world. In the last three-decades, billions of dollars were invested in Somalia to stabilize the conflict-ridden country but the situation deteriorated day after day. Therefore, what is the secret of Somaliland's stability in this highly unpredictable and volatile region? The answer is simple; a locally-led and owned reconciliation is the cornerstone for peace and state-building processes, not to the contrary.

A cause-the dissolution of the 1960 union: The 1960 union between Somaliland and Somalia was the most significant historical mistake that Somaliland ruling class made in the 20th century. The Somali political nationalism-an ethnic-based nation-state ideology was the driving force that created the union- and was engineered by three main factors; a) Ethiopia’s expansionism in the late 20th century, b) Arab nationalism and c) Pan-Africanism (Lewis, 2017). With these three factors, the majority of Somaliland elites including the elected parliament in 1958 voted for the union with Somalia. Two reasons are clear on why Somaliland had wanted the union; a) prevention of total Ethiopian annexation and b) to push Ethiopia's withdrawal of the exerted lands of Hawd and Reserve Area. The Somali Republic-the product of a union between Somaliland and Somalia- tried two times to reclaim its territory by force-1964 and 1977-both of which had failed.

Due to these factors, the 1960 union was inevitable. Strategically, the decision was the worst of its kind in the political history of Somaliland, but justifiable due to the presence of external threats. Suddenly, the union fallout. With no fair power-sharing, military and political elites tried a coup d’état in Somaliland in 1961, but failed. The discontent between Somaliland and Somalia started till the formation of an armed movement-Somali National Movement- in 1981 in London. After decades of war and violence, the Siyad Barre regime was defeated and SNM took control of Somaliland ending thirty years of unjust union and thereafter reconstituted the sovereignty of Somaliland within the borders of the former British Protectorate (Hersi, 2020).

The informal institutions-a traditional architecture of state formation: Rebuilding a state from the ruins of war is not an easy task. After the end of the war, the major task was to; a) reconcile the intra-clan hostility between the Isaaq and non-Isaaq clans that was created by the war, b) rebuild instruments of a monopoly of violence, c) centralize rents and d) constitute a democratic governance

system with traditional characteristics (hybrid system). A holy and enduring alliance between a government and its people in building the country's security and political institutions without the intervention of third-party countries is what differentiates Somaliland from other countries in the region. Precisely this organic governance system provided stability and security which is important for the country's economic growth and development.

From 1991-1997, Somaliland had hosted more than 38 peace and reconciliation conferences aimed at ending violence and creating a peaceful environment for the state-building initiatives (Development, 2008). All of those conferences were financed by Somaliland people without receiving international support. This locally-driven, traditionally old-fashioned, elite-engineered peacebuilding process was a key step for Somaliland's success in the country's state-formation. Informal institutions and players played a key constructive role in the intra-clan conferences that were held in different regions of Somaliland. With the absence of state structures, informal institutions helped to centralize authority, create the state's legitimate monopoly of violence and centralize rents, all of which had been achieved in the late 1990s.

Centralization of Rents: control of revenue sources of the government was as important as absolute control of instruments of violence. Berbera port was the main rent source for Somaliland and government control of the port and the city was a priority. In his state-building initiatives, the late president Mohamed Ibrahim Egal succeeded to control sources of rents and extract diaspora investment to finance basic functions of the emerging polity.

With both rents and instruments of violence under his authority, Egal had used to dismantle the most organized organization-the SNM. SNM was internally divided but had challenged his rule and as result, Egal's political strategy was to dismantle the organization to; a) consolidate his power, b) create a more formal state structure and c) re-shape Somaliland's political discourse by moving from an elite-driven and controlled power and resource to masses-participated politics. Within eight years, Egal had succeeded all and left behind a functioning democratic state.

A committed, resilient, and dynamic diaspora community: who support the local economy by injecting hundreds of millions of dollars in the form of supporting their families and relatives which in return contributes to a growing consumer economy. According to a World Bank report in 2012, in 2008, the diaspora provided 80 percent of the capital for small and medium-sized companies in Somaliland. In Hargeisa alone, 40 percent of the households received their income through remittance, and about 25 percent of those rely on the diaspora as their main source of income (World Bank & IFC, 2012). In 2011, the Somaliland government released the first-ever 2030 Vision report. In the report, there are five key pillars for the country's development that the Somaliland government focuses on. The first pillar, 'the economic development,' highlights the significance of the diaspora community for the country's short-term and long-term development (Ministry of National Planning and Development, 2011).

A thriving, but slow private sector: which was originally led by Somalilander-Djiboutian businessmen who moved to Somaliland in 1991 which outgrew the state and is in dire need of government reforms and regulations. In most major cities across Somaliland, the private sector dominated all of the essential services, such as education, health care, electricity, and waste management. The private sector intervened in the areas of 'market failure' or little to no

government intervention. At the moment, reform is needed as the cost of education, health care, and electricity are soaring across the country. Somaliland's economic recovery was largely led by the private sector precisely because of the weakness and absence of public institutions. That is, the private sector outgrew the public sector at a significantly higher rate since 1991. According to a World Bank 2016 study, the Somaliland government's contribution to the country's GDP is less than 10 percent. The reason being as the country is not recognized by the international community, hence the country is excluded from the global financial institutions. Therefore, Somaliland's economy is dominated by three sectors; a) remittances, b) livestock and c) telecommunications. All of the mentioned sectors are managed by a small group of the private sector (Horst and Musa, 2019).

3. Somaliland: Creative Destruction

3.1 Neo-patrimonial culture

The influential German philosopher Max Weber first coined the word “neo-patrimonialism” as a “traditional rule in which authority is based on the ties of personal loyalties between a leader and his administrative staff” (Kelsall, 2013). Kelsall further explained “that the important takeaway of Weber’s philosophical conception of the term “neo-patrimonialism” is that the system is held together by the personal distribution of material resource and perks (rents)”. In the case of Somaliland, the political system can be categorized as neo-patrimonial whereby the top leadership because of the weak and absence of effective and highly performing technocratic bureaucracy creates a loyalty-based system. Rents are highly centralized and distributed through deal-based bargains. In this context, the state becomes a predatory and small group of elites-politicians, businesses, traditional leaders-dominate the scarce resource of the public. The masses are left behind with no social infrastructure programs given to support their livelihoods. However, the neo-patrimonial political system was important during the early days of the state formation process. In the early stages of the state formation, patronage and clientelism were used to cement the 1993 political settlement in Borame.

For the purpose of this discussion, institutions constitute the social, political, legal and economic system of the state. According to North, "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. [...] they structure incentives in human exchange, whether political, social, or economic. Hence, institutions are the rules that regulate social interaction".(Dobler, 2011). On the other hand, Helmke and Levitsky defined informal institutions as “socially shared rules, usually unwritten, that are created, communicated and enforced outside official channel sanctions (Shandana Khan Mahmand, 2016). With that conceptual clarification provided and given Somaliland's informalized institutions in the early stages of the state formation process, formal institutions were either non-existent or had been dominated by informal institutions thus creating a culture of clientelism and patronage relationships. Scholars like Chabal, Dalas, Bratton and Van de Walle have all agreed that in a neopatrimonialism state "the real power and real decision-making lie outside formal institutions. Decisions about resources are made by "big men" and their cronies, who are linked by informal (private and personal, patronage and clientelism) networks that exist outside the state structure and who follow the logic of personal and particularistic interest rather than national betterment”

(Cammack, 2007). This has been the case with both Rayaale and Silanyo's administration. Their main successes were to maintain the status quo without changing the rules of the game. In return, the private sector benefited the most and as result, the state became predatory.

However, the incumbent, President Muse Bihi has tried to change the course by; a) weakening the role of informal players and institutions, b) regulating the market to curb the influence of the private sector and c) strengthening state capability. This is quite a risk for his future political career but one that is needed to balance the full domination of informal players and institutions on the system—a source of negative growth syndrome. But President Bihi's approach is based on his own personal political vision without deep institutional thinking behind it figuring out empirically how to transition from informal rules of the game to formal rules of the game. The political economy of Somaliland has become clientelist and rent-seeking, both of which are not helpful for rapid economic growth and development. In other words, Presidentialism, clientelism and patronage networks have worked for the early evolutionary process of state formation, but now are the main constraints to economic growth.

4. Big Stuck

From the 1990s to the late 2000s, peace and security were the top agenda of Somaliland's rebuilding project. In this regard, tangible results have been achieved. Until today, Somaliland is the most stable and secure country in the Horn of Africa. But, with this stability, peaceful democratic transition of power and security, Somaliland is economically underperforming. The country is in a big stuck and economic growth has been very slow causing market failures. State capacity, meaning the ability to implement core functions of the state is absent. Somaliland is one of the three lowest economies of the world making poverty and unemployment a major source of economic distress (Bank, 2014). Its economy is livestock-based contributing more than 30% of the GDP followed by import trade 20% (Bank, 2014). Productive industries are nonexistent and the country's economy is being driven by the service industry and traditionally-produced products, both of which are now being heavily affected by climate change and the Covid-19. With peace and stability, why is Somaliland in big a stuck mode? Below is a game park of how “Big Stuck” or capability trap affects emerging economies introduced by Matt Andrew, Lant Pritchett and Michael Woolcock have first discussed the concept of “Big Stuck” or capability trap. (Matt Andrew, Lant Pritchett and Michael Woolcock, 2017).

In their book, a story is being told:

Lant, "one of the writers of this book visited a rather game park. He and a few other visitors were driven into the park seated on benches built onto the back of a flatbed truck. A guard carrying a vintage rifle was also in the back to protect them from any beasts they might encounter. As they drove along increasingly bumpy and rutted roads, Lant became concerned that the driver often had his wheels directly in the ruts. He mentioned to the guard that perhaps the driver should stay out of the ruts "Don't worry" the guard replied, "the driver knows what he is doing. Just look for animal". Another fifteen minutes later, there being no animal to observe, Lant mentioned again

to the guard that driving in the ruts was a risk. "we do this every day," said the guard. "We know what we are doing, just let us do our job". Not ten minutes later-whump! -everyone was thrown forward as the truck, with wheels in the ruts, ground to a halt, completely high centered. The truck was stuck, with a rear-wheel spinning uselessly in the air. As the visitors jumped down from the trucks, the guard said: "Damn, the same thing happened yesterday". (Matt Andrew, Lant Pritchett and Michael Woolcock, 2017).

This game park reflects the same situation in Somaliland and many other developing countries. To unstuck, the role of informal institutions has to be transitioned to introduce state-interventionist policies to accelerate growth. This state-led growth development strategy can only be made by having bureaucratic institutions. Through decades of research, APD has come to the conclusion that the system was not built to promote inclusive economic growth. Internal factors and players are holding back the country's economic growth due to the lack of political will to change the rules of the game. However, there are external problems such as Somaliland's lack of access to international capital because of its status under international law. With the lack of Foreign Direct Investment (FDI) combined with the private sector's predatory nature; the country is not investing in key potential labor-intensive primary industries.

5. Status Quo Leadership

In a state whereby technocratic bureaucracy is weak, personal political leadership is very important for the country's transition from underdevelopment to an emerging economy. However, in a context, shaped by historical factors and players, leadership is constrained by powerful informal players. Somaliland's top political leadership depends on how to manage (transition) from an informal rule of the game to formal rules of the game. This is not an easy transition to make, but one that needs an aggressive leadership initiative.

Political leadership is influenced by; a) the interplay of formal and informal institutions, b) neopatrimonialism and c) the nature of transactional, deal-based politics. In the early days of the state formation process, transactional, deal-based politics was necessary to control rents and instruments of violence to create stability and develop security sector institutions. However, with the context dramatically changing, neopatrimonialism has become a major constraint for development and reforms. Status Quo leadership-a leadership approach that only uses informal institutions and players to their political gains to maintain the status quo-have taken the center of Somaliland's political elites. It is a time for a change. Informal institutions and players are protecting their interests; to maintain the status quo because they benefit the most. Therefore, they are natural enemies of a radical transformative change. A radical revolutionary and uncompromising leadership is needed to change the country's political course.

6. Our proposed Development Road Map

This paper, given the political economy of Somaliland, proposes that Somaliland's success depends on how it manages the dominance of the role of informal institutions and players, builds the state capability, and creates a conducive for business-state investment partnerships. For Somaliland to be economically-prosperous, socially-inclusive and politically well-governed, it needs to change its political discourse from a hybrid system to a developmental state where the state institutions play a very important role in steering development and regulating the market.

6.1 Democratic Developmental State

Chalmers Johnson coined the term “developmental state” to explain Japan’s fast-growing economy, which he argued, followed neither state socialism nor Anglo-Saxon capitalism (Yusuke Takagi, Veerayooth Kanchoochat, Tetsushi Sonobe, 2019). Johnson argued that bureaucracy was the key entity given enough authority to guide the country's economy and to implement its policy efficiently. Robert Wade had also indicated that the “key strategy that fostered Taiwan’s extraordinary rate of economic growth as governing the market” (Yusuke Takagi, Veerayooth Kanchoochat, Tetsushi Sonobe, 2019). We believe that Somaliland’s model for economic growth is neither state socialism nor free market capitalism. First, a highly regulated market in Somaliland’s context will distort the free market economy that had been introduced naturally in the early 1990s. In addition, state socialism was introduced in the early 1970s and failed. On the other hand, as a recovering economy from war, an unregulated market and absence of state-led interventionist policies to promote growth will create anti-growth syndromes. On this background, we believe democratic developmentalism can be the right model for Somaliland's development. With that said, the following key areas could be a starting point for future discussions:

A development Strategy: Currently, there is no targeted, implementable development-oriented strategy. However, in the last decade, Somaliland produced National Development Plans (five years plan). These Plans were critiqued for their lack of relevance, funds to implement and possible targeted developmental projects. It is therefore imperative to have a defined, relevant and achievable developmental strategy. Possible areas to focus are included; labour-intensive industrial policies, fishing industry, import-substitution industries and agriculture, all of which are important for economic growth.

Business-state partnerships: To achieve these developmental programs and policies; investment has to be provided by the private sector (because Somaliland would not access international capital). Therefore, the relations between business and the state have been re-structured to promote investment in highly needed industrial projects.

State capability: The capacity to implement policies is very important for state-led intervention policies. Therefore, bureaucratic reform is needed the most to reform institutions and improve government efficiency to support policy implementation for the key developmental programs.

Ending natural monopolies: While the country's private sector has come a long way, there seems to be a symbiotic relationship between the state and the business community. That is, few companies were formed in the form of natural monopolies, particularly those in the telecommunication, import trade, and the finance sector, in which one or two corporations dominate the market and it makes it unbelievably difficult for others to break into the market. Over the years, there have been many telecommunication and financial institutions that went out of business, because it was impossible for them to compete in the Somaliland markets due to intense competition from the big corporations and a lack of government regulation. To fix this, the Somaliland government must introduce anti-trust laws or create regulatory institutions. For example, President Bihi's establishment of the Somaliland Electricity Commission is an important step in the right direction where the government can play its role in addressing the country's high-cost electricity and reforming the electricity sector.

Financial sector reform: This sector lacks the most fundamental legal, policy, and regulatory framework needed for financial inclusion and development. Since 1991, this sector has been unregulated, informal and exclusive. In addition to that, nearly 40 percent of Somaliland households rely on remittance from their families mainly in the western world. According to the Somaliland central bank, the Somalilander families receive 500-900 million USD from the outside world via remittances annually. That is, the remittance alone constitutes between 35 to 70 percent of the country's GDP which shows how crucial this sector is. Additionally, besides the money transfer services, financial institutions do not offer the normal services that traditional banks offer. These private financial institutions offer services such as savings and current accounts, letters of credit for business and mobile money transfer systems, or *Xawala* Services and Islamic banking services. However, many scholars who have studied their Islamic banking techniques of *Murabaha* and *Musharaka* question the credibility and the authenticity of such services. For example, several borrowers who were interviewed for this paper state that they have re-paid fantastical amounts of interest rate as high as 18 percent.¹ Therefore, state-led research is needed in order to conduct a thorough understanding of Somaliland Islamic banking institutions and the most viable option to improve the financial capacity of the country. Additionally, with Somaliland's foreign direct investment increasing and the country positioning itself to join the globalized economy of the world, a key legislation for the upcoming parliament is to seriously debate about the 'commercial banking act' which has been in the parliament for the past decade. A thriving banking sector is crucial for any country's economic growth and development.

Private sector reform: According to a 2012 World Bank's Doing Business in Hargeisa report, Hargeisa ranks 174 out of 183 economies in regards to 'the ease of doing business.' The major factor for this poor ranking is due to the fact that the country's legal and regulatory frameworks are lacking and non-existent at times. Additionally, inefficient public sector and poor administrative procedures with a lack of respect for government regulations are making the private sector to underperform (World Bank, 2016). Additionally, the idea in which as long as the business communities support the state, they will get lower taxes on their imported products, whereas, some of the biggest corporations in the country have paid little to zero corporate tax over the years.

¹ Interviews were conducted in Hargeisa on the 10th of May 2021.

Therefore, to reform, this sector the government must do the following: a) remove barriers and formalize the informal sector; b) promote 'pro-poor policies across the country such micro-finance; and c) again, accelerate all of the regulatory framework needed to genuinely reform this sector.²

7. Conclusion

Over the last three decades, Somaliland has done exceptionally outstanding achievements (on peace and stability) compared with the rest of the Horn of Africa countries. However, these achievements have not yet produced a growing inclusive economic development. The country is in ominous poverty and most of the young generations are unemployed. Reasons for underdevelopment are clear; informal rules of the game are anti-growth syndrome and doing nothing to address this problem would even worsen the economic situation of Somaliland threatening peace and stability. This paper has unfolded that informal institutions and players are the main constraints to Somaliland's lack of economic development causing capability trap and predatory state. With this system-absence of technocratic bureaucracy, domination of informal and players and institutions, unregulated market, capability trap, predatory nature of politics-Somaliland is seen as unprepared to fight against poverty, introduce market-friendly interventionist policies and create jobs through the investment of labor-intensive industries.

² The government can find the recommendations from the World Bank 2016 report on Somaliland and the Doing Business in Hargeisa report in 2012 very helpful.

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