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**Corridors of trade and power: economy and state
formation in Somali East Africa**

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Abstract

Despite ongoing conflicts, Somalia's economy has evolved considerably since the disintegration of the central state in 1991. However, our knowledge and understanding of how transnational Somali economic life is organised and how it influences political dynamics remains limited. As part of the research programme "Governing Economic Hubs and Flows in Somali East Africa" (GOVSEA) this working paper provides an overview of the existing literature on the subject. This paper presents a summary analysis of key features of the Somali economy and proposes a periodisation of the evolution of Somali business between 1991 and today: from the heavily informalised economy of the 1980s, the violent markets of the early 1990s and the subsequent 'duty-free shop' period, to the emergence of a more regulated economy with a significant development of multi-clan shareholder companies since the mid-2000s. In doing so, this paper offers numerous empirical and analytical insights into the relationship between trade, violence and regulation. With ongoing and future research on this topic in mind, we suggest a series of research questions and conceptualise the nexus between everyday economic activities and state formation dynamics. Finally, we propose a 'corridor approach', focussing on transnational corridors of trade and transport that traverse Somali East Africa, as a way of grasping the complex and dynamic interactions between state formation and everyday economic activity.

1. Introduction

Somalia challenges many of our fundamental assumptions about the economy and its sociopolitical organisation.¹ In his analysis of Mogadishu's famous Bakaarah market Marchal (2002: 63) observed how the latter encapsulated the political and economic dynamics of post-1991 Somalia. He described Bakaarah market as "a chaotic space where some basic, if informal, rules are socially enforced, allowing life and business to go on". Despite decades of violent conflict and the breakdown of centralised state institutions, a "hyper-liberalized economy" (Little, 2014) based on transnational trade has emerged in Somalia over the past quarter century. Somali and foreign observers agree that state collapse has encouraged entrepreneurial innovation and competition, as private providers of goods and services has replaced the ineffective, oppressive and corrupt state-led development policies of the former Siyad Barre government (1969–1991). Carrier and Lochery (2013: 335) have noted how Somalia's "fragmented political and economic spaces" are both "interconnected and integrated into a globalized economy". With Somali traders and transporters operating in Eastern and Central Africa, the Middle East, Europe, the US and Asia, a "greater Somalia" (Little, 2014: 177) based on finance, trade and migration has materialised in parallel with protracted state collapse.²

But what are the political consequences of these particular economic processes across the Somali territories? This paper prepares the ground for a focussed study of this "chaotic" yet informally governed Somali economic space, and how its characteristics have influenced dynamics of state formation. Our intention here is both retrospective and prospective: on the one hand we provide a summary review of key economic trends of post-1991 Somalia based on a review of the existing literature; on the other hand, we propose a particular conceptual angle, which we deem fruitful for a better understanding of the nexus between everyday business activities and state formation dynamics in Somali East Africa.³ This paper thus provides both a contextual and a theoretical introduction to the study of how the everyday governance of economic hubs and flows has impacted on state formation dynamics in Somali East Africa. In so doing we highlight and problematise the complicated, rarely anticipated and often ambiguous relations that exist between economic and political phenomena in an empirical context marked by weak or absent formal statehood.

¹ We are indebted to Emma Lochery and Nisar Majid for their incisive comments, which helped shape some of the arguments made in this paper. All remaining errors are our own responsibility.

² Although internationally recognised, the current Federal Government of Somalia (FGS) like its precursors, various transitional governments, has very limited state capacity and its survival hinges on international support (Hagmann, 2016).

³ We use Somali East Africa to describe the territorial space that is predominantly inhabited by ethnic Somalis, consisting of Somalia (including Somaliland, Puntland, and various regional states that are part of the FGS), Ethiopia's Somali regional state of Ethiopia, parts of Djibouti, Northeast Province in Kenya and settlements with a major Somali presence like Nairobi's Eastleigh neighbourhood). We use "Somalia" to refer to the territory that was previously associated with the Somali Democratic Republic.

A number of disclaimers and limitations of this paper must be remarked on. First, although we differentiate and juxtapose “economic” and “political” processes and events, it is not our intention to suggest that these are two separate realms operating with fundamentally different logics. While both have their particular rationalities, they are socially embedded and must thus be understood from a relational, historical and empirical vantage point. Second, with few notable exceptions (telecommunications, financial services) our description and discussion of the Somali economy privileges trading and the provision of goods rather than service provision. In particular, we do not discuss the provision of health and education services in Somalia in this paper, two important public goods that have been shouldered by local, Islamic and international NGOs and a whole array of other non-state actors.⁴ Furthermore, we provide very little insight into crop production and exports. Third, our quest to better understand the Somali economy’s state effects is primarily concerned with licit economic and trading activities. What constitutes “legal” and “illegal” in a situation of statelessness is arguably debatable. We are also aware that licit and illicit economic flows are closely interlinked (Collinson, 2003; Abraham & van Schendel, 2005). Furthermore, criminal activities undoubtedly do have political effects and illicit revenue has been indeed a part of Somalia’s war and post-war economy. Despite these caveats we are primarily interested in what Little et al. (2015) describe as “clean”, i.e. legitimate trade. Consequently, we do not dwell on piracy, which developed into a “major industry” in the recent past, “involving as much as 160 USD million in ransom payments in 2011” (Dua & Menkhaus, 2012: 751, see also Dua, 2013). Other prominent illicit income generators are illegal fishing, kidnapping for ransom, the production of counterfeit money and documents, trafficking of drugs, arms and people, and abuse and corruption of public funds or shady dealings involving international aid agencies (see Marchal, 2002; Ahmad, 2012; UNSC, 2013; 2014). Finally, we do not discuss the prospects of oil exploration in Somalia, although the latter have increasingly become a factor in local and international Somali politics (see Reitano & Shaw, 2013; Bamberger & Skovsted, 2016).

Our paper proceeds as follows. The next section (2) takes stock of the economic record of stateless Somalia, highlighting a mixture of both positive and negative achievements. It illustrates how important parts of the Somali economy could “boom” in spite of an “environment of risk and uncertainty” (Little, 2003: 132). Section 3 reviews key features of the current Somali economy, drawing primarily on area studies scholarship with a focus on business. We briefly discuss the livestock economy, telecommunication, remittances and the Somali shilling in this background section. Section 4 offers a more analytical interpretation of the Somali economy, making sense of the evolving political economy of Somali business from the 1980s to today. It highlights gradually shifting configurations of violence, trade and regulation and the types of business arrangements they produce. Section 5 problematises the nexus between Somali business and state formation dynamics. It

⁴ But see UNDP (2001) and Marchal (2002) on the growth of health facilities and schools in Somalia and Mogadishu respectively and HIPS (2013) on the unchecked growth of university education in Somalia and Somaliland.

identifies a particular number of state effects produced by the predominant stateless economy and proposes a number of research questions that shed light on the governance of economic hubs and flows in Somali East Africa.

The subsequent section (6) elaborates a tentative heuristic framework for the study of everyday economics of state formation. Drawing on an eclectic body of literature we propose three key concepts for this purpose, namely “agents of regulatory authority”, “practical norms” (Olivier de Sardan, 2008, 2015) and “patterns of accumulation”. We suggest a “corridor approach” as a methodological (and partly conceptual) device to grasp the flow of commodities, capital and people, the exchange of value and different regulatory authorities that govern these flows and exchanges in current-day Somali East Africa.

In this paper we use the gender-neutral term “businesspeople” when referring to both female and male traders, merchants and entrepreneurs. We use “businessmen” when we specifically refer to men who occupy the wealthiest and most influential strata of big business in Somali East Africa.

2. Stateless economy: good or bad?

Given the many rather positive assessments of how Somalia's economy fared after state collapse the question must be asked: has statelessness⁵ been beneficial for the Somali population? Mubarak (1997), a Somali economist and former World Bank staff member, was the first scholar to report on the positive outcomes that state collapse had in the economy. Based on a qualitative review of economic trends in stateless Somalia in the first half of the 1990s, he argued that the "absence of government has proven to be better than the repressive institutions and improper policies of Barre's government" (1997: 2028). He pointed out that Somalia's post-1991 economy built on the earlier (pre-1991) informalisation of business activities. But the economy fared much better after state collapse because it was no longer constrained by a repressive, inefficient and corrupt government. Hence the irony, according to Mubarak, that "the vanishing of state institutions was in many ways a blessing for the domestic market" (1997: 2030).

A decade later US economists confirmed this first account using conventional (aggregated, national) statistical data. Comparing a pre-state collapse time period (1985 to 1990) with a post-state collapse time period (1991 to 2005) with regard to 18 development indicators, Leeson concludes that Somalia "appears to have fared better under recent statelessness than it did under government" (2007: 706). His paper demonstrates that 14 of the 18 indicators – including life expectancy, infant mortality and access to health facilities – improved in the absence of a state. Powell *et al.* (2008) made use of 14 development indicators to find out how Somalia after state collapse had fared in comparison with sub-Saharan Africa. He concludes that, while "Somalia's 2005 standards of living are low by Western standards, they compare fairly favorably with other African nations" (2008: 662). Although Somalia continues to be very poor, "the loss of its government does not appear to have harmed standards of living" (Powell *et al.*, 2008: 664–665).

US libertarians have celebrated Somalia's stateless economy as a free market utopia where citizens trade and conclude contracts in the absence of government. Some observers have emphasised the positive role of Somali customary law (Somali: *xeer*) as a valuable substitute for statutory law and, ultimately, state regulation. As Schlee (2013) convincingly argues, this libertarian view corresponds to a romanticised interpretation of *xeer* that bears little resemblance to reality. Furthermore, overly optimistic accounts of Somalia's stateless economy overlook the considerable costs that businesspeople incur because of insecurity, including looting, crime and theft (see Menkhaus, 2003; Hansen, 2007).

More importantly, even if the Somali economy did improve after 1991, the country continuously ranks among the bottom last countries in terms of human development. Authors continuously emphasise this point, starting with Mubarak

⁵ The term statelessness only partially captures empirical realities in post-1991 Somalia. As Carrier and Lochery rightly point out, "while Somalia may have been stateless, this does not mean that Somalis have not interacted with states" (2013: 3: 335). Furthermore, the trajectories of sub-national entities across the Somali territories are very much attempts at state formation rather than examples of state failure (Hagmann & Hoehne, 2009).

(1997) who conceded that massive population displacement, the destruction of property, unemployment, and the lack of education have confronted Somalis with major problems. His main contention is that while an economic boom did occur in stateless Somalia, there was and is an urgent need for government regulation, oversight and management of the “chaotic” and messy economy (Mubarak, 1997: 2036–37). If the downfall of the Barre government did boost Somali trade and business, the sheer absence of a government does not automatically guarantee efficient markets. Quite the contrary: the lack of government regulation produced a series of market failures that continue to hamper Somali business to this day.

As Nenova (2004: 1) concludes in her analysis of how private business reacted to statelessness in Somalia, “monopolies, coordination failures, externalities, and public goods provision, preclude efficient market outcomes in the absence of regulation”. Examples of market failures include the oligopolistic character of livestock export, telecom companies’ inability to interconnect their lines, environmental damage and health risks that result from the absence of enforceable quality standards, or the levying of taxes and licencing by local governments without any reciprocal provision of public goods (Nenova, 2004: 2. See also Marchal, 2002: 113–114). The absence of effective government regulation of business activities has negative repercussions for both business and social welfare. For instance, an analysis by the World Bank and the International Finance Corporation (2012) highlights the deficiencies of Somaliland’s incomplete regulatory framework, noting the need for a banking act, a commercial code, a building code and improved regulation for electricity provision. While starting a business in Hargeisa is faster than elsewhere in sub-Saharan Africa, it is also more costly, they report (World Bank & IFC, 2012: 3). Another major challenge for Somali business is the inability to obtain insurance as global insurance companies consider Somalia too risky.⁶

Furthermore, a stateless economy leaves its citizens to the unmitigated mercy of global and international economic trends. Somalia’s high dependency on food imports leaves its population unprotected from global food price developments. For example, the global spike in price of food commodities contributed to the massive 2011 famine in Somalia (Maxwell & Fitzpatrick, 2012). The most illustrative examples of how weak or absent government negatively impacts on economic wellbeing are the successive livestock bans that Arab Gulf States imposed on the country. As we will see in the following sections, livestock export is Somalia’s most significant export earner as well as source of public revenue for administrations like Somaliland and Puntland. In February 1998 Saudi Arabia imposed a 14-month livestock ban on Somali livestock after outbreaks of Rift Valley Fever in Southern Somalia and North-Eastern Kenya (Holleman, 2002; Little, 2003: 85).⁷ In 2000 Bahrain, Oman, Qatar, Yemen and the UAE joined the livestock ban. Saudi Arabia maintained the ban of Somali livestock imports until

⁶ An Islamic insurance company offering life, car and house insurance was reportedly set up in Mogadishu in December 2014.

⁷ Saudi Arabia temporarily lifted the ban in April 1999, but reactivated it in June 2000. It had already imposed a ban on Somali cattle, sheep and goats in 1983/1984 (Jamal, 1988: 248).

November 2009 while most of the other countries lifted it in 2001 (Holleman, 2002; Majid, 2010). The livestock bans had devastating effects on Somaliland's and Puntland's economy. Steffen *et al.* (1998) reported a 22 million USD loss of income for the Boosaaso trade corridor in the year 1998. The Somali government's inability to provide for effective animal healthcare and to install quarantine stations meant that Somali livestock didn't possess the health certification required for international trade. This benefitted other exporters, namely Australia, which is a major provider of red meat for the Arabian Peninsula. It demonstrates the limits of statelessness when competing in global trade.

Our brief discussion of the positive and negative impacts of weak or absent statehood on the post-1991 Somali economy highlights what clearly is a mixed record. While libertarian and (neo)liberal commentators – including orthodox economists – emphasise the economic advantages of state collapse, development and humanitarian officials, diplomats and ordinary Somalis have pointed out its pitfalls. Undisputed by both is that the downfall of the Siyad Barre government and subsequent events did fundamentally restructure the Somali economy. Regionally, Somalia evolved into “an entrepôt economy for large parts of the Horn of Africa and beyond” (Little *et al.*, 2015: 410) as trade specialised in importing consumer goods from the Arab Gulf and (re-)exporting them – without adding value to them – to consumers in East Africa. Domestically, the war often led to a reversal of gender roles as many Somali women became breadwinners, constituting “the most important fraction of the small and middle traders” (Marchal, 1996: 121, see Gardner & Bushra, 2004). The extent of these economic transformations becomes evident in the following background section, which offers short descriptions of the Somali economy's main pillars.

3. Features of the Somali economy

Economic data on Somalia has been hampered by the prolonged inexistence of reliable statistical information. With the exception of market prices and agricultural output data collected by the Famine Early Warning Systems Network (FEWS),⁸ few validated statistics on economic trends in Somalia are available. Most basic figures like annual growth, GDP or wages are lacking. The obvious reason for this is that the vast majority of production, trading and credit remains informal – which is not the same as illegal – and/or is not registered by state institutions. Some of the “national” data under the heading of “Somalia” also purports to include Somaliland and Puntland, although it is unclear how data from these three entities has been merged. Consequently, most of our current knowledge about Somali business of all kinds is qualitative and based on incomplete time series. Commonly quoted figures are often the result of guesswork.

Livestock, hides and skin, charcoal, and, previously, banana and fish, represent Somalia’s principal exports. Its main imports are sugar, rice, wheat, *khat*,⁹ petroleum and manufactured goods such as textiles, electronics, and basic household items. In this section we focus on the livestock economy, telecommunications and remittances as key pillars of the Somali economy. It is important to keep in mind that food, livestock and money markets “are intimately connected throughout Somalia” (Marchal, 1996: 116). This is because livestock sales often involve barter and because the remittance economy is so significant in all aspects of economic life. Furthermore, many transactions including cross-border trade are based on elaborate credit arrangements (Little, 2005: 13). In the Somali economy credit operates “as a type of delayed payment” (Nori, 2009: 170) that buffers seasonal fluctuations.

Livestock economy and exports

Historically, the rearing and marketing of sheep, goats, camels and cattle has marked Somali society, culture and politics (Baumann *et al.*, 1993; Lewis, 1999, Hoehne & Luling, 2010). Livestock and small stock, constitute a major backbone for the Somali population, determining wealth and food (in-)security. Little’s long-term fieldwork demonstrates how Somali herders have proved resilient in adapting to changing and often unforeseen conditions including droughts, disease, economic shocks, insecurity, and state collapse (Little, 2003). In the past Somali pastoralists had to overcome government interventions – namely resettlement and irrigation schemes favouring sedentary lifestyles and agricultural production – that were hostile to their way of life (*ibid*: 168). Neither the Siyad Barre government nor current Somali administrations invested significant revenue into the livestock economy. As a characteristically mobile commodity, the

⁸ www.fews.net

⁹ *Khat* (or *qat*) is a mildly stimulant narcotic leaf that is chewed in many parts of Somali East Africa. Men are its main consumers. *Khat* is primarily grown in eastern Ethiopia (Hararghe) while *miraa*, a similar plant, is grown in Kenya’s central regions.

livestock value chain involves producers, traders, trekkers, fodder vendors, and different types of brokers and middlemen (Mahmoud, 2008). Animals are trekked and trucked up to several hundred kilometres from their place of origin to their final destination (Majid, 2010: 59). Up to seventeen million people in the Horn of Africa region make their living from cross-border livestock production and trade (FEWSNET, 2010). In Somaliland an estimated 60% of the population based its daily subsistence on meat and milk in 1998 (Ministry of Agriculture, 1998 cited by APD, 2002: 5).¹⁰ Milk marketing is an important source of daily income for many Somali pastoralists, linking bush camps to urban markets (APD, 2002: 42; Nori, 2009). Livestock prices are lowest during the dry *jilaal* (December to March) and *xagaa* (June to August) seasons when fodder is scarce and peak during the rainy seasons *gu* (March to May) and *deyr* (September to November).

In spite of, or rather, as a result of state disintegration Somalia became “one of the largest exporters of live animals in the world” (Little, 2005: 4).¹¹ In the mid-1990s approximately 1.4 million small stock were exported annually from Somalia to Arab Gulf States and Kenya (Steffen *et al.*, 1998). Somalia accounted for over 60% of all livestock exports in East Africa during the 1990s (Little, 2003: 37–38). Today, Somalia competes with Australia, the number one sheep exporting country for markets in the Arabian Peninsula. Most live animals are exported through the ports of Berbera (Somaliland) and Boosaaso (Puntland), although cross-border livestock trade routes change rapidly in response to changing market and policy conditions (Little *et al.*, 2015: 411). Typically, Somali livestock traders are the sole owners of their businesses (Negassa *et al.*, 2008). Mobility, accessibility and marketability allow herders to navigate risky climatic, economic and political environments. Cell phone communication and cross-border relations with relatives and business partners enable them to move their stock across state and clan boundaries (Little, 2003: 79). Livestock exports are influenced by seasonally shifting demand and supply factors. The monsoon season (June to September) reduces shipping from Somalia as dhows and smaller ships avoid the rough sea (Majid, 2010: 10).¹² Livestock exports are highest during the annual *hajj* pilgrimage period in Saudi Arabia.

Telecommunications

Although much less important in terms of livelihood provision than, for instance, the pastoral economy, telecommunications have been the major enabler of post-war business in Somalia. With an estimated population of more than ten million, mobile phone connections have risen dramatically in recent years and

¹⁰ While export figures of Somali livestock are available, there is little data on the value generated by the pastoral economy domestically.

¹¹ The growth of Somali livestock exports after 1991 is described in section seven of this paper.

¹² Marchal (1996: 95) describes *dhows* as “more fit for the Somali situation” as they have lighter tonnage (500 to 750 tonnes), do not require insurance and operate on a flexible timetable.

were expected to reach over five million in 2015.¹³ Telecommunications' spectacular growth has connected remote communities to global flows of capital and information.¹⁴ Somali telecommunication companies are among the cheapest and most efficient worldwide. Since the mid-1990s wireless companies had started to reduce prices for mobile phone communication, although there has been a lack of standardisation and interconnectivity (Nenova, 2004: 3), meaning that subscribers can only call contacts using the same company and thus often use multiple SIM cards. Telecommunication companies managed to protect their property and to thrive in the absence of state institutions. To this day they remain unregulated (Iazzolino, 2015). Collins (2009) explains the rise of Somali telecommunications as a response to an extraordinary demand for communication that resulted from displacement in a clan society. This demand reflects the "networked nature of Somali society" where clan not only signifies identity, but also a safety network (Collins, 2009: 204) in a situation of worldwide dispersion movements. In many ways telecommunications represent the material infrastructure on the basis of which Somalis maintain social connections with relatives and friends across the globe, facilitating the flow of remittances.

In Somalia mobile phone companies are closely linked to money transfer operators (MTOs). *Al-Barakaat* was the biggest Somali remittance company before its forced closure by the US government in November 2001. Owned by Ali Ahmed Nur Jim'ale, *al-Barakaat's* funds were frozen despite flimsy evidence from the Bush administration of the former's role in terrorist financing (Lindley, 2009: 531). In 2002 three telecommunication companies emerged that built on *al-Barakaat's* previous telecommunication facilities and infrastructure. These new companies are *Hormuud* in south-central Somalia, *Golis* in Puntland and *Telesom* in Somaliland (Iazzolino, 2015: 21). In so doing Jim'ale created local shareholder companies embedded in the sociopolitical dynamics of different Somali territories, but in which he controlled a large stake (Lochery, 2015: 266). *Telesom* has a dominant market share in Somaliland with some one million subscribers (Iazzolino, 2015: 21). In 2009 *Telesom* introduced the mobile money platform called *Zaad*. It allows customers to deposit and transfer funds using their cell phones. *Zaad* became widely popular in Somaliland and is used to buy groceries or petrol, for the payment of monthly bills or simply to remit money to another person (author's observations, Hargeisa, 2015).¹⁵ *Zaad* is in many ways "an indigenous response to a critical need for banking services" (Stremlau & Osman, 2015: 12) that emerged in the absence of retail banking servicing the general public. It

¹³ This figure hides the fact that many subscribers make use of multiple SIM cards because of lacking interconnectivity. According to the World Bank, 49 out of 100 Somalis had a mobile subscription in 2003 (compared to 27 in Ethiopia and 71 in Kenya).

¹⁴ The first author still remembers his amazement when he met a South African engineer in a Mogadishu hotel who told him that he was part of a mission to establish a state of the art GSM-network in the capital in 2001. During that time insecurity was still a major problem in Mogadishu.

¹⁵ Iazzolino (2015: 23) reports that Hargeisa's biggest electricity company Kaah receives 65% of its payments via *Zaad*. The success of *Zaad* is a reminder of the spectacular success of the *M-PESA* mobile banking service offered by Kenya's *Safaricom*.

exemplifies the close interface between mobile communication and money transfer or what Collins calls the “remittance-telecom nexus” (2009: 215).

Remittances and *xawilaad*

Somalis rely heavily on remittances from the one to one and a half million-strong diaspora to pay for their basic needs (Hammond *et al.*, 2011).¹⁶ According to estimates remittances account for up to 35% of GDP, one of the highest in the world. Their importance started with Somali labour migration to the Gulf States, which reached 375,000 persons who remitted some 500 million USD annually at the end of the 1980s (Green & Jamal, 1987 cited by Ahmed, 2000: 381).¹⁷ According to Ahmed (2000: 381) remittances overtook livestock exports as the most important source of income in the 1990s as Somalis continued to flee their country to Europe, North America, East Africa and the Middle East.¹⁸ The FSNAU estimates that remittances to Somalia account for at least 1.2 billion USD per year, constituting the “largest source of international funding” (2013: 23). The authors report “high levels of remittance support” in both urban and rural areas, though with a clear tilt towards cities. Most recipients rely on single remitters and use remittances to cover basic household expenses (*ibid*: 2), although they also play a crucial role in providing capital for starting up businesses. Remittances are unevenly distributed geographically and by clan, with much higher volumes transferred to northern Somalia compared to southern parts of the country. The Somali diaspora not only remits money to its country of origin for development projects, investment or credit, but also to finance military operations, reconciliation meetings or *diya* blood compensation payments (Horst, 2008). Horst (2004) also argues that *xawilaad* remittances are particularly important for vulnerable individuals, for example Somalis stuck in Dadaab refugee camp.

Xawilaad (*hawala* in Arabic, meaning “transfer”) describes the money transfer companies that Somalis – and others – use to send money globally either as remittance or as a part of business transactions. *Xawilaad* is at times also used to refer to *franco valuta*, to specialised money transmitters and to the receiving or sending of money to relatives, friends or business partners (Marchal, 2002: 19–20; Lindley, 2009: 525).¹⁹ Some 12 *hawala* companies operated in Somalia in 2011 (Hammond *et al.*, 2011). In the absence of a functioning central bank and banking sector they are “the only formal, practical, and regulated set of institutions

¹⁶ Remittance senders include households, diaspora-based NGOs, professional and clan-based associations, mosques, private investors, women and youth groups (Hammond *et al.* 2011).

¹⁷ Jamal (1988: 240) reports that “In 1980, remittances amounted to two-thirds of the urban GDP; by 1984, they were 1.5 times.”

¹⁸ This statement is to be read with caution. Ahmed’s article (2000) appeared at the time of the devastating Saudi livestock ban and does not provide a systematic comparison of the relative importance of these two sources of income over time.

¹⁹ Both *franco valuta* and *xawilaad* entail a transfer of “value or debt” rather than “actual money” (Lindley, 2009: 522). This debt is settled later on via reverse transactions and, in the case of *franco valuta*, via trade transactions. For an account of the practical steps to remit USD to Somalia with a *xawilaad* operator see Lindley (*ibid*: 523).

through which to send money to Somalia” (Adeso, 2015). *Hawala* agents first transacted money transfers with high frequency radio during the civil war. Later on they upgraded to fax, phones and the Internet (Lindley, 2009: 522). The speed and spread of money transfer operations evolved in parallel with the growing Somali telecommunication sector. After the demise of *al-Barakaat*, *Dahabshiil* and *Amal* became the two leading Somali money transfer operators (Lindley, 2009). According to its website *Dahabshiil* “employs 5,000 people across 126 countries with offices in London, Hargeisa, Mogadishu and Dubai”.²⁰ These large Somali remittance companies complied with anti-money laundering and anti-terrorist checklists and procedures in the past decade. Despite these efforts major commercial banks in money-sending countries, most prominently *Barclays* in the United Kingdom, closed their bank accounts on grounds of their lacking financial regulation and oversight (Adeso, 2015).

Somali shilling(s)

Somalia’s post-war recovery was accompanied by a strong demand for liquidity in the absence of a central bank or state-led monetary policy. Different currencies are used in Somalia and its adjacent Somali speaking areas. Somalis use the Somali shilling and the Somaliland shilling respectively, but rely heavily on the USD for bigger purchases or transactions (commerce, trade, salaries and project spending by international institutions). Ethiopian Birr and the Kenyan shilling notes are also in circulation as are a number of other foreign currencies. The Somali shilling became a *de facto* stateless legal tender in 1991, but fared surprisingly well thereafter. As Little (2003: 141, 144) recounts, the Somali shilling proved remarkably stable throughout the 1990s and was at times more stable than the Ethiopian Birr and the Kenyan Shilling. Luther (2012: 16), who wrote his doctoral dissertation on the Somali shilling, described it as a “Money without a state”, and observed that “Although the exchange value of the 1000 Somali shilling note fell from US\$ 0.30 in 1991 to US\$ 0.03 in 2008, the purchasing power eventually stabilised, as the exchange value equalled the cost of producing additional notes”. The Somali shilling lost value over time as counterfeit reprints of the original banknotes were brought into circulation. Yet it stabilised, and its continued use and circulation demonstrate the need for a daily means of payment, namely for low value transactions, in a stateless economy.

By 2001 five types of banknotes in Somali denomination were used in northern and southern Somalia: the original, pre-1991, Somali shilling, Somali shillings introduced by Mogadishu faction leaders such as the Balweyn I and II Somali shilling (1996/97), Somali shillings introduced by Puntland (1999) and, finally the Somaliland shilling introduced in 1994. According to Mubarak (2002: 318) this new and old currency was equivalent to 53 million USD, i.e. about half of the pre-war balance. In his analysis forged reprints represent the majority of Somali banknotes currently in circulation (ibid: 324). Somaliland issued its own currency,

²⁰ www.dahabshiil.com (accessed: 1 August 2016). Dahabshiil is family owned and operates as a decentralised, multi-clan franchise, not as a shareholder company.

the Somaliland shilling, which by early 1995 had become the legal tender in western and central Somaliland as far east as Burco.

The Somaliland shilling stabilised at the end of the 1990s, but lost again to the USD with the imposition of the livestock ban in 2000. The Ethiopian Birr is partly used in western Somaliland and the Somali shilling in eastern Somaliland (APD, 2002: 44). Before 2001 the Somaliland government maintained an official exchange rate to the USD, which was much below the actual rate. It devalued the Somaliland shilling in 2001 to the chagrin of its importers. The move also sparked protests among ordinary citizens as the devalued currency reduced household purchasing power (ibid: 49).

4. From war economy to shareholder firms

How did Somali business evolve after 1991? Given the fragmentary nature of economic data and the few studies that have been conducted at firm level so far (see Marchal, 2002; Hansen, 2007; Ahmad, 2014; Lochery, 2015), this question lends itself to different interpretations. Drawing on the existing literature we identify a number of important developments. Our intention here is not to suggest a linear progression of all Somali business activities across all of Somali East Africa. While we identify distinct configurations of Somali economic actors and their respective political economy, we do not propose an evolutionary model. Some patterns – for instance economic informalisation – have been long-term, predating the civil war. Other patterns, for example the funding of armed clan militias and warlords, have been more limited in time and space. The different business configurations discussed in this section may thus occur both consecutively and concomitantly within Somalia.²¹ Together, they demonstrate the evolving interplay between protection, regulation and economic profits. As the following sections will explain, the macro trend for Somali business after 1991 has been an evolution from:

- radically decentralised to more integrated markets;
- a reliance on clan protection and coercion to the establishment of multi-clan shareholder and decentralised franchise companies;
- short-term capital accumulation to more strategic and long-term business expansions;
- a low-tech and low-skill economy to more technological sophistication and labour skills;
- and from an avoidance of state regulation to increasing compliance with international rules and standards.²²

Roots of economic informality (ca. 1980 to 1991)

A glance at Somalia's pre-war economy reminds us of how both state failure and formation are processes rather than simply status quos (Hagmann & Hoehne, 2009). In particular, two classic studies by Jamal (1988) and Mubarak (1997) on economic trends and policy during the Siyad Barre period (1968 to 1991) are instructive. They are in many ways a prerequisite for an understanding of Somalia's post-1991 economy. Economic informalisation, the internationalisation of labour, the growth of remittances, but also a distinct contempt for state regulation, all date back to this period. Somalia's real economy was very much affected by state policy – from *franco valuta* to the distribution of import licences – and through the way patronage networks determined access to important resources, appointments and import licences. Parallels between the pre and post-

²¹ For a succinct summary of Somalia's pre-colonial, colonial and independent economy see Marchal (1996: 11–27).

²² At this point we cannot indicate which particular industries fit with this overall analysis and which developed differently.

state collapse period abound. They include the enormous role of the informal market in providing livelihoods, the limited usefulness (if not uselessness) of official statistics centred on the formal economy, and the important role of international trading in near free-market conditions.

The Siyad Barre government nationalised major companies and created a series of parastatal organisations between 1970 and 1972. The adoption of a state-controlled economy was accompanied by a geopolitical alignment with the Soviet Union (Samatar, 1988). With few exceptions Somalia's socialist economic programmes of the early 1970s proved disastrous. Mubarak describes them as an economic failure from the beginning, blaming them as "the principal origin of the macroeconomic crisis it experienced through the 1980s" (1996: 49). State enterprises were unable to produce meaningful amounts of goods and services and remained chronically underfinanced. Public finance management was poor and much of state revenue was directed towards the security apparatus. Budget deficits and external debt figures grew steadily under the Barre regime (Mubarak, 1997). Between 1978 and 1986 inflation "increased more than 17-fold" (Jamal, 1988: 236) as a consequence of the *franco valuta* system or what Jamal aptly named a "Saudi wage-repatriated money-exchange rate-price spiral" (1988: 233). This period also marks Somalia's dependence on the import of foodstuffs, which increased by a factor of six between the early 1970s and the mid-1980s, partly as a result of international aid (ibid: 231).

The government's inability to steer or positively impact on the economy was persistent. Economic policy was inconsistent and overwhelmed by subsequent droughts and political turmoil, in particular Somalia's 1977/78 Ogaden war against Ethiopia (Lewis, 1989). For a decade Somalia functioned like a dual economy; while the cereal market was controlled up to 1981, livestock products were traded freely (Jamal, 1988). Following its switch of allegiance to the United States the Somali government initiated a series of economic reforms in collaboration with the International Monetary Fund (IMF) in the early 1980s with the aim of controlling inflation, reducing external debt and balancing the budget. These stabilisation programmes included the dismantling of public enterprises, adjustment of the official exchange rate, and a loosening of restrictions on the private sector (Mubarak, 1996: 16). But increasing discord within the ruling elite – which had benefitted from the authoritarian control of a skewed economy – led the government to halt and reverse some of these programmes. In 1984 and 1987 the government stopped these stabilisation programmes and reinstated expansionary policies, only to re-join the standby agreement with the IMF in 1987 (Mubarak, 1996: 65–67). Mubarak characterises Somalia's adjustment and stabilisation programmes of the 1980s as a "half-hearted effort" that lacked consistency and further accentuated economic woes (1996: 91).

Public service delivery and utilities, which had been modest from the beginning, further decayed in the 1980s. Power shortages, electricity blackouts, deteriorating health and sanitation services, and a decline of education, road maintenance and water supply were the result (Mubarak, 1996: 120). In parallel, corruption, smuggling and the black marketeering of goods, services and currencies became entrenched in the 1980s (Mubarak, 1997: 2028). Corruption was

“open, large-scale, massive” Mubarak (1996: 103) noted, and involved the large-scale abuse of foreign aid (see also Marchal, 1996: 26). De Waal sums this period up as “politically inefficient”, describing the Siyad Barre administration and its connected elites as a “rentier kleptocracy” (2015: 111, 112).

While the state-controlled economy became dysfunctional, the private sector “expanded largely in the informal sector” in the 1980s, mitigating some of the shortcomings of the state-led economy (Mubarak, 1996: 58). By the late 1980s the informal sector had become “the largest employer in the urban labour sector and among low-skilled rural migrants” (ibid: 126).²³ Transportation, health, education and financial services were largely shouldered by the informal sector in the 1980s (ibid: 127). A driving force behind the Somali economy’s informalisation and the rise of Somali trading was the *franco valuta* system (Jamal, 1988; Mubarak, 1996). It allowed the growing number of migrant workers in the Arab Gulf to remit part of their salaries in the form of goods exported to Somalia. The private sector was permitted to import commodities as long as the source of their foreign exchange remained outside of Somalia. This practice was encouraged by Gulf States’ rules that prevented migrant labourers from seeking citizenship and investing locally. While the government had to approve of imports that fell under state monopoly, it increasingly relied on the *franco valuta* from the mid-1980s onward, asking traders to import foodstuffs and spare parts.²⁴ The *franco valuta* was disbanded in 1981, reinstated in 1984 and again disbanded in 1985 (Mubarak, 1996: 64–65, 133). In his account of Somalia’s economy in the 1980s Jamal (1988) offers a critical account of the *franco valuta*. He describes it as “system to procure imported goods for Somali consumers – bought by Somali dealers, from money earned by Somali workers abroad and purchased by the workers’ relatives at home” (Jamal, 1988: 212). The “virtual freedom to import goods” came close to a “virtual cessation of the government’s attempts to control incomes in the country” (ibid: 212, 213). The *franco valuta* undermined the government’s capacity to control the prices of foodstuffs, rents and wages and contributed to the Somali shilling’s depreciation (ibid: 217).

The rapid growth of informal trading and the increase of imported commodities by the informal sector proved a stark contrast to the crisis in the formal economy. Jamal (1988) was among the first to remark on the discrepancy between official accounts and statistics of Somalia’s formal economy on the one hand, and the vibrancy and boom of the informal economy on the other hand. In his own words: “all reports said that the economy was in ruins, yet in Mogadishu one only saw signs of a great boom” (ibid: 213). Maybe no more than 30% of the real Somali economy was recorded in official government and World Bank reports in the 1980s (Little, 2003: 7). In the real, informal Somali economy of the 1980s a large part of national income resulted from outside remittances, not from domestic

²³ School graduates had benefitted from guaranteed employment in the public sector before 1983/84 (Mubarak, 1996: 126).

²⁴ The government’s endorsement of *franco valuta* imports was motivated by the grossly overvalued Somali shilling, which in turn resulted from state imposed price controls and foreign currency exchange rates (Mubarak, 1996: 6: 65).

production, most exports and imports eschewed custom authorities and the state had limited control over internal trade (Jamal, 1988: 203–204). The actual Somali economy of the time was made up of a “vast subsistence sector which operate[d] independently of government-controlled prices or external and internal imbalances”, urban incomes that were determined by repatriated money, a rural economy that worked in parallel to state regulation, and livestock exports that operated “in an essentially free-market setting” (ibid: 246, see also 244). With the exception of government employees – who also engaged in informal trading – the entire Somali population operated partly or completely outside of the formal economy. The large-scale informalisation of the economy thus became both a product and cause of state failure. It mostly benefitted traders, both those with connections to the regime (particularly from the Marehan and Dhulbahante clan families), and those without. Small informal traders established themselves in cities hawking cigarettes or cleaning shoes. Mid-size traders pooled their resources to import goods, and big traders with access to wholesalers based abroad imported large quantities of goods to Somalia (Marchal, 1996: 40–41).

Violent markets: the economy of plunder and protection (1992 to ca. 1995)

The Somali civil war started in earnest in 1988 with the escalation of the Issaq-based Somali National Movement (SNM) insurgency, which defeated the military government in today’s Somaliland at great human cost. In December 1991 a coalition of clan-based militias organised under the umbrella of the United Somali Congress (USC) ousted the Siyad Barre government.²⁵ The downfall of the repressive Barre regime triggered the start of a war economy characterised by, first, an economy of plunder and second, widespread violent resource capture that echoed Elwert’s (1997) accounts of markets in which profit making and the transfer of assets essentially rely on physical force. This “political-military entrepreneurship” (de Waal, 2015: 117) drawing on violence and clan mobilisation peaked in the early 1990s. It was most prevalent in southern and central Somalia.²⁶ The corollary of the economy of plunder was the rise of a protection economy, which was organised on the basis of clan lineage.

Two waves of fighting destroyed large parts of Mogadishu at the end of 1991 and the end of 1992 respectively. The victorious USC militias looted and destroyed assets owned by the state – and the economic and political elite – most of them from the Darood clan family – who they accused of collaborating with the *ancien régime*. The fighters also targeted the properties of traders who lacked protection from powerful armed clans (Marchal, 1996: 53). The subsequent splintering of the USC and infighting between competing Hawiye militias brought Mogadishu’s sea- and airports to a halt. Most of Somalia’s public infrastructure including state

²⁵ For a full account of the conflict dynamics, evolving clan relations and international intervention by UNOSOM in the first half of the 1990s the reader is referred to Bradbury (1994), Schlee (2001), Lewis (2002) and Kapteijns (2013).

²⁶ Similar looting and targeting of former government supporters occurred in Somaliland. But, significantly, most of the stolen property was returned as a series of peace conferences managed to mend inter-clan relations in the breakaway republic (Bradbury, 2008).

buildings, small industries, parastatals, and public utilities such as electricity, water, or telephone lines were ransacked and destroyed in this period (Mubarak, 1997: 2030). Powerful warlords and their clan militias sold the looted iron and copper to Gulf States (Lewis, 2002: 308). A further major and lasting effect of this period was the retreat by former city residents to their “home” clan territories outside of the capital. The height of the war economy occurred in 1995/96 during the “banana wars”, which were sparked when two warlords fought over the control of Merka port, which generated about 800,000 USD monthly as part of the lucrative banana trade (Nduru, 1996).

The violent markets that emerged in southern and central Somalia entangled businesspeople with the “military politics of territorial control” of their respective clan lineages (de Waal, 2015: 116). The private sector supported the USC factions both because they resented the Barre regime and because clan militias were “the only institution(s) that could protect them” as they lost important assets to the war (Hansen, 2007: 40). Collaboration with warlords and violent entrepreneurs was the only option to navigate the multiple checkpoints and demands for “taxation” by competing and often changing freelance militias (Marchal, 1993). In his research on the role of business in Mogadishu’s war economy Hansen (2007: 45) highlights the emergence of “protection payments” between businesspeople, warlords and international actors, which became an integral part of the local economy.²⁷ A “symbiotic relationship” (ibid) connected traders, humanitarian organisations (including the UN) and foreign companies to faction leaders who were paid for their protection. Ahmad (2012: 327) speaks of a “business–warlord power alliance that was created by the UNOSOM mission” and which “has been perpetually financed by the international aid industry”. Because of rampant insecurity, violent crime and theft, any economic activity or investments – both by clan relatives and outsiders – required the payment of protection fees to local strongmen and their clan militias in the first half of the 1990s.²⁸ With the withdrawal of UNOSOM the protection economy lost its strength and warlord revenues decreased (Hansen, 2007: 45).

“Duty free shop”, brokerage and rising business class (ca. mid 1990s to end 2000s)

Despite continuous insecurity and sporadic outbreaks of violence in many parts of Somalia, the deadly clan violence of the early 1990s gradually subsided. Political dynamics took on a more local and decentralised logic (UNDP, 2001). Decreasing levels of foreign assistance to Somalia gave way to a more competitive

²⁷ See also Dua (2013) for a discussion of the historical and current role of protection. He describes protection as “a form of work within this trading world” (ibid: 3: 358).

²⁸ In reality these protection contracts with clan-based armed groups often served the purpose of making sure that private business or humanitarian projects were not looted by these very groups. Warlords of the time thus essentially operated as “protection rackets” (Ahmad, 2014). Drawing on the work by Tilly (1985) Ahmad (2012: 3: 317) argues that Somali warlords shifted their relations to their original (clan) constituency. As they were able to mobilise external resources the warlords became increasingly predatory on the local population.

market that involved an increasing number of traders and wholesalers (Webersik, 2006: 1467). By the mid-1990s major financial companies from other parts of Somalia began to (re-) invest in war-torn Mogadishu, partly in collaboration with the warlords (Hansen, 2007: 45). *Dahaabshiiil*, for instance, which had its headquarters in Hargeisa, opened its Mogadishu office in 1995 (Marchal, 2002: 22). This development marked a partial departure from the early days of the war economy, during which the pursuit of economic interests strictly hinged on military protection by one's own clan lineage.²⁹ Cross-clan business arrangements and decentralised multi-clan franchises increasingly replaced this parochial economic logic. In order to benefit from what Menkhaus (2004: 51) described as the "largest duty free shop in the world", merchants had an incentive to work across clan territories to move goods, capital and personnel. But as Carrier and Lochery (2013: 343) point out, the stateless economy in southern and central Somalia was not strictly duty free as business transactions required the payment of protection money and informal taxes to checkpoints and local authorities.

The absence of state taxation and regulation and the demand for foodstuffs, construction materials, consumer goods and petrol represented a unique business opportunity for traders with capital, clan protection and connections to Dubai. As Hansen (2007: 52) puts it, "the years 1994–1999 was [sic] a period of re-establishment of businesses, and a change of structure of the businesses". The need for protection by powerful local clan groups did not dissipate, but it took a more cooperative turn. Marchal (1996: 43–45) pointed out the significance and permanence of brokerage in Somali politics and business. With the advent of colonialism, brokerage replaced protection (*abaaan*, protector in Somali), which facilitated caravan traders' movement across hostile clan territories. In analogy, during the period under discussion brokers from local or dominant clans increasingly facilitated business activities by outside traders or companies, enabling them to regain a foothold or reclaim property in their territory.

Over time the Somali business class, in particular big traders, trumped the politico-military dominance of the warlords and their militias. As the influence and geographical reach of armed clan factions shrank, businesspeople and some companies increased their own security personnel between the mid and end of the 1990s. This eventually allowed them to ward off demands for protection payments (Hansen, 2007: 46–49). Menkhaus (2003: 417) dates 1999 as the year when "leading Mogadishu businessmen broke with the warlords, and refused to pay 'taxes' at militia roadblocks". Capitalising on the fact that many warlords were running out of cash, these businessmen "bought the militiamen away from the warlords, and sub-contracted out management of the militia to *sharia* courts" (ibid).³⁰ This move

²⁹ This said, more hidden violence against and exploitation of minority and weaker clan groups by more powerful clan groups continued, in particular in the agricultural areas, along the coast and the Shabelle and Juba rivers.

³⁰ The *shari'a* courts were established in several Mogadishu neighbourhoods in the early 1990s. They operated at the sub-clan (lineage) level and thus had limited territorial and demographic jurisdiction. The *shari'a* courts mostly addressed street crime or what Menkhaus termed "the criminality of the underclass" (2003: 417).

represented a qualitative change in Somalia's urban post-war protection economy. It also illustrated the growing emancipation of the business class from the warlords and their clan factions and, more broadly, their newly found political power (ibid: 415). Many of these Mogadishu-based businessmen later on became prominent backers and beneficiaries of the Transitional National Government (TNG) that emerged from the Djibouti (or Arta) peace process in 2000 (Webersik, 2006).

Ahmad (2014) describes economic rather than religious or ideological motifs as the main reason why Mogadishu's business elite voluntarily financed the *shari'a* courts and, later on, the Islamic Courts Union (ICU). Islamic security providers were more advantageous for businessmen than relying on "multiple warlord protection rackets" (Ahmad, 2014: 95) or maintaining their own permanent security detail. The *shari'a* courts had started out as clan lineage jurisdictions before they transcended clan boundaries. They offered "reputational benefits and social capital" (ibid: 96) and featured a legal-religious normative order. But most importantly, Islamists provided security across clan divides and territories, which made them a cheaper alternative to engaging with multiple clan-based protectors (ibid). But businesspeople's affinity to Islam cannot be reduced to economic interests only. Traders have embraced Islamic identity as a basis for social capital and trust that allows them to pursue business across clan divides (Carrier & Lochery, 2013: 344). As Marchal and Sheikh (2015) highlight, Salafi Islamic beliefs and lifestyles have become widespread among Somali businesspeople (see also Carrier, 2016).

Shareholders, standards and the quest for regulation (ca. mid-2000s to today)

While the dynamics described in the previous paragraph are still at work and necessitate more in-depth empirical inquiry, the past decade has been marked by further transformations of Somali business. In this current time period many medium and major companies and business ventures have professionalised their workforce and business practices. They have also increasingly adopted and integrated international standards and certificates in production and trade. A further significant evolution is the spread of multi-clan shareholder and decentralised franchise companies, bringing together capital and investors from various areas within Somali East Africa as well as the global diaspora.³¹ The diversification of shareholders, agent networks and customers has been a deliberate strategy to expand into new markets (Lindley, 2009: 526). Many successful shareholder companies rely on religious networks and old student networks (Hansen, 2007: 55). As Lochery observed, "through (...) strategies of shareholder companies and franchising, telecommunication and remittance companies embedded clan dynamics within their organisational structures, enabling them to expand their businesses and protect their assets" (2015: 266). Furthermore, the establishment of inclusive shareholder companies maximises

³¹ Shareholder companies first emerged in south and central Somalia while family business continue to dominate most sectors in Somaliland.

capital available for investments, minimises clan-related conflicts, and increases access to new markets. Businesspeople's relation with their clan became progressively more distanced as an emphasis on a "culture of business" and shared Islamic identity challenged the previous dominance of familial ties (Marchal, 2002; Hansen, 2007; Carrier & Lochery, 2013). This evolution represents the clearest break with the paradigm of parochial single-clan business and its reliance on physical force of the early 1990s. It is indicative of a gradual economic (re-)integration of hitherto fragmented clan and political territories towards a more unified national economy.

The rise of the ICU in Mogadishu, the Ethiopian military intervention, and the subsequent conflict between *harakat al-shabaab* and African Union forces have profoundly destabilised southern and central Somalia in the past decade.³² Yet both before and after 2005 sub-national entities like Somaliland and Puntland, nascent local and regional administrations and widespread informal local security and governance arrangements have provided a modicum of security across Somalia (Menkhaus, 2007b). The lifting of the Saudi livestock ban in 2009 further boosted livestock exports and international trading. Real estate prices in major cities like Mogadishu or Hargeisa skyrocketed as residential areas expanded and central business districts flourished. This increasing stability was accompanied with opportunities for profit and investment in rapidly growing urban centres. It has motivated many Somalis in the diaspora to return to their homelands.³³ Rapidly expanding companies benefitted from the skills and education these returnees had acquired abroad. The Somali economy thus became further internationalised as trade networks, investments and human resources expanded beyond East Africa and the Middle East. The cumulative effect of these developments has been a nascent reconstruction of Somalia's economic and financial infrastructure that is most notable in the telecommunication sector. As Somali big business became increasingly multinational, with registered offices in multiple countries, it has acquired international licences and adopted global standards. Improvement of customer care in expanding markets also required a professionalisation of employees, for instance in the fields of telecommunication, remittances, cargo and logistics.

In this globalised and interconnected business context complying with rules – be they technical standards or regulatory requirements by foreign countries – increasingly pays off for commerce. For some sectors and companies a gradual shift from state avoidance to compliance with local and international regulation occurred. This shift happened, *inter alia*, in the remittance sector as money transfer operators moved from pre-existing trust networks to more due diligence, "know your customer", codes of conduct and more self-regulation, including the adoption of the Anti-Money Laundering and Combating the Financing of

³² For an account of political and military developments between 2005 and 2015 the reader is referred to Barnes and Hassan (2007), Menkhaus (2007a), Marchal (2009) and Albrecht and Haenlein (2016).

³³ Marchal (2002: 14), commenting on the paradox of major investments in Mogadishu despite insecurity, argues that "there is no mechanical linkage between the state of Somali politics and the decision made by people to come back".

Terrorism (AML/CFT) rules (Adeso, 2015: 13). Somali companies selective acceptance of (self-)regulation reflects their willingness to defend their business interests and to avoid external regulatory legislation. They have formed cartels and business associations, which increases their bargaining position towards local authorities, governments or foreign organisations. The creation of the Somali Financial Services Association (SFSA) in 2001, which brings together major remittance transfer companies, is a case in point (Omer & El Koury, 2004). Other industries, for example electricity companies, also formed their own business associations. The Somaliland Chamber of Commerce, Industry and Agriculture represents local business in economic policy decision making.

5. Interrogating the Somali economy's state effects

How have these developments of Somali business impacted on dynamics of state formation? While the preceding sections illustrated the multiple impacts of weak or absent statehood on the Somali economy, much less is known about the political and “state effects” (Mitchell, 1999) that economic processes produced with regard to the creation and institutionalisation of state power. A dominant theme emerging from past research is the Somali business class’ ambivalent attitude towards state reconstruction. The war economy of the early 1990s allowed some merchants to engage in primitive accumulation. Yet as a general rule open conflict has not been conducive for business. Several observations confirm this point. Mubarak (1997: 2036) stressed that economic boom hinged on local communities’ success in “bringing law and order and external security to their locale” while “economic activity remains suppressed” in situations of violence. Hansen’s (2007) research on Mogadishu-based companies highlighted how many businesspeople had lost their assets and property during the peak of the civil war. More recently, Hoehne (2015) reported on the detrimental economic effects that the longstanding border dispute between Somaliland and Puntland has had in Las Anood.

While there is agreement that insecurity and lawlessness hamper business, while security – informal or state enforced – enables it, the degree to which Somali business was and is willing to finance, support and comply with state authority is disputed. Little concluded that for many communities “it does not make a great deal of difference (...) what kind of political configuration (...) exists at the top (...) as long as government does not overly constrain local livelihoods (...) and trading systems (...)” (2003: 168). In the early 2000s the concomitance of statelessness and economic boom raised the question of whether and to what degree the increasingly powerful business class had an interest in the resurrection of a central Somali state. Menkhaus (2003: 414) argued that protracted state collapse in southern and central Somalia was also the consequence of “certain (...) economic interest groups” who feared that a functioning state would translate into diminished profits. Whether or not Somali business prefers an effective state with the ability to regulate the economy over an absent or weak state continues to be subject of debate as well as a research gap. Examples exist for both scenarios. Carrier and Lochery (2013: 343) argued that some Somali traders purposely invested in Eastleigh because “the costs of doing business in stateless Somalia were too high”. Their observation indicates a preference for political stability and some degree of stateness. In Somaliland, where business has a long history of funding statebuilding, the powerful banking and telecommunication sectors managed to ward off increased taxation proposed by the government in 2011, a move that would have generated significant additional public revenue (Phillips, 2013; Iazzolino, 2015). This latter example might be seen as underscoring Somali business’ wariness of strong statehood. In economic terms this ambivalence can be modelled in terms of economic gains or losses that an increase in state capacity produces for business income.

Despite businesspeople’s ambivalent attitude towards state reconstruction,

many of their economic activities impacted – both positively and negatively – on state formation. The most visible and direct contribution to statebuilding is the revenues which the taxation of livestock exports and other goods generate. Both Somaliland and Puntland rely heavily on port taxation of livestock exports, which accounts for the biggest part of their annual budgets.³⁴ Cross-border trade in livestock and, to a lesser degree, consumer goods across Somali East Africa has generated significant amounts of public revenue along the market chain. This trade is rarely captured in national statistics and remains mostly “unregulated”. But it is effectively taxed at international and local political borders, producing considerable tax income at local and regional levels. For example, Somali livestock sold in Kenya is taxed at different Kenyan markets before it joins “formal market channels in urban centers” (Little *et al.*, 2015: 407). The importance of livestock taxation for public revenue is seen in the fact that both Ethiopia and Kenya have complained about the loss of tax revenue as livestock is exported from Somaliland (Ethiopian goats and sheep) and to Ethiopia (Kenyan camels) respectively (ibid: 5, 9).

As discussed in the previous section, the increasingly powerful Mogadishu business class and its sympathisers within the *al-Islaah* movement played a key role in channelling resources away from the warlords to the *shari'a* courts at the end of the 1990s (Marchal, 2009, 385–86). The political influence of businessmen who sympathised with *al-Islaah* peaked with the creation of the TNG led by Abdiqassim Salad, which Le Sage criticised as a “sovereign disguise of the Mogadishu mafia” (2002). Conversely, in Somaliland the business community assumed an instrumental role in backing the creation and building of the Somaliland state. Issaq businessmen had already played “a leading role” during the formation of the rebel SNM in the 1980s (Marchal, 1996: 28). The important peace conferences that laid the political groundwork for the young republic benefitted from cash contributions by businesspeople, the diaspora and the local population (Bradbury, 2008: 70). The Somaliland business class, namely Issaq traders based in Djibouti, proved instrumental in providing a major loan to President Egal’s administration at a critical moment of Somaliland’s state formation trajectory in the mid-1990s (Balthasar, 2013: 223–224).

Business elites also “covered budgetary shortfalls for both the Egal and Silanyo administrations” including a 3.5 million USD loan accorded to the Somaliland government between 2010 and 2012 (Phillips, 2013: 64). Finally, business has assumed a crucial role in funding Somaliland’s increasingly costly electoral campaigns (Verjee *et al.*, 2015). The Somaliland business community’s outsize political influence on state politics led de Waal to describe it as “a profit-sharing agreement among the dominant livestock traders, with a constitution appended” (1996: 6). To this day Somaliland-based business enjoys considerable leverage over the political elite. This is evidenced in its ability to reject the proposed taxation of revenues by telecommunication companies. But family connections between

³⁴ In 2001 some 80% of foreign currency in Puntland came from the taxation of livestock exports (UNA, 2001, cited by Nori, 2009: 122).

leading politicians and powerful merchants – for instance members of the Habar Awal lineage – have also been helpful in stabilising Somaliland politically. Furthermore, the Somaliland government instituted an embryonic tax regime in 1996 with the adoption of the Somaliland Direct Tax Law and a series of tax laws governing indirect taxation (World Bank & IFC, 2012: 44).

In light of the subsequent evolution of the Somali economy, its pronounced transnational linkages and its obvious, large impacts on state formation dynamics, we have formulated the following overall research question for our research project: *How has the governance of economic hubs and flows influenced dynamics of state formation in Somali East Africa after 1991?* This overall research question can be further broken down into sub-themes and particular sub-questions, which all serve the purpose of interrogating the Somali economy's state effects.

Theme 1: Daily governance of trade and transport

- How do traders buy, move, store and sell commodities in a context of limited statehood?
- How do corridor operators navigate between customary, state and religious institutions to gain access to markets?
- Which routinised rules regulate the cross-border trade of livestock and consumer goods and how have these rules evolved over time?

Theme 2: State effects of economic hubs and flows

- Which private, state and other agents control the infrastructure, security and revenues of select ports and marketplaces?
- How have the regulation, security and revenues of select ports and marketplaces evolved over time and space?
- What roles do business elites play in building or undermining public administrations and inter-group relations?

Theme 3: Emergence and erosion of regulatory authorities

- Which state and non-state regulatory authorities have emerged in the governance of economic hubs and flows? (political regulation)
- How do these multiple regulatory authorities relate to one another within transnational trade corridors? (transnational governmentality)

6. Everyday economics of state formation in trade corridors

Our proposed research agenda emphasises the processual and performative dimensions of statehood in Somalia. Building on political sociology we define the state as an effect of practices and institutions that aim at exercising some form of centralised control of population and territory; combined with the idea of the state as an encompassing, coherent entity endowed with ultimate authority and placed above and outside society (Abrams, 1988; Bourdieu, 1999; Mitchell, 1999; Gupta & Ferguson, 2002). However, states have hugely different histories and forms, and are produced by combinations of different “languages of stateness” (Hansen & Stepputat, 2001); some more practical (such as security forces, organisation of a national economy, and knowledge about territory and population) and others more symbolic (such as the language of law, inscription of a common history in the territory, and national symbols). Furthermore, we distinguish between state formation and statebuilding. State formation refers to the diffuse and long-term processes by which ideas, rationalities and practices of stateness permeate society. Statebuilding refers to concerted projects of centralising, extending or strengthening an apparatus of control within a given territory.³⁵

Two competing schools of thought have dominated debates about geographical areas where the state’s capacity and reach is limited and how political order is being remade in failed states. First, the state failure literature emphasises the negative causal effects of weak and dysfunctional state institutions on populations’ security, livelihoods and rights (Reno, 2000; Rotberg, 2004; Milliken & Krause, 2012). While it echoes political scientists’ and policymakers’ concern for rebuilding central governments, it wrongly conflates statelessness with anarchy and does not capture variegated local statebuilding dynamics. The latter have been particularly marked in the Somali territories, which are home to subnational political entities that differ starkly in terms of state capacity, juridical statehood and actual political processes (Hagmann & Hoehne, 2009). Second, the hybrid governance literature underscores how different societal actors produce local governance and security in the absence of a functioning state (Menkhaus, 2007b; Boege *et al.*, 2008; Raeymaekers, 2010). While it explains the emergence of non-state forms of order, it does not distinguish between more constructive and more corrosive types of authority (Meagher, 2012). Building on these two literatures, we posit that state formation occurs through the everyday practices by which economic operators are “doing the state” (Migdal & Schlichte, 2005) and by which economic processes produce “state effects” (Mitchell 1999). Public goods such as security, regulation and revenue are thus co-produced by a broad range of state and non-state actors and practices (Lund, 2007; Hagmann & Péclard, 2010). They result in different, variegated formations of sovereignty (Ong, 2000; Hansen & Stepputat, 2005; Stepputat, 2015).

Somali East Africa is home to a broad variety of formal state institutions, which

³⁵ See Corrigan and Sayer (1985) for state formation as a cultural evolution; Berman and Lonsdale (1992: 5) for the notion of “vulgarization of power” and Khan (2010) for the idea of political settlements.

differ in terms of their presence, reach and regulatory capacity. Even in territories where administrations are weak, absent or remain unrecognised internationally, we still find plenty of references to state and stateness in local practices, institutions and ideas of public authority. In order to empirically document and understand how both state and non-state actors produce stateness, a state-centric approach to the interaction between economic activity and dynamics of state formation is thus not helpful. There is thus a need to find concepts that are not *a priori* bound up with either the state or the economy and their associated foundational distinctions such as public/private, formal/informal, legal/illegal, state/society or politics/economy. We find such axiomatic distinctions unhelpful for understanding how the governance of economic hubs and flows has impacted on dynamics of state formation in Somali East Africa. In line with the exploratory character of our project and the imperative of studying “empirical statehood” (Jackson, 1990) we adopt an inductive research strategy that is inspired by political anthropology (Olivier de Sardan, 2008; Hansen & Stepputat, 2001) and political sociology (Migdal & Schlichte, 2005; Vu, 2010) to analyse how economic hubs and flows are governed across time and space in the areas of study. Our basic assumption is that economic processes always involve some kind of governance, which can be shouldered by either state or non-state actors. Consequently, even a stateless economy is still a governed economy. Specifically, we propose a tentative heuristic framework that builds upon three concepts that draw on existing scholarly work and emerge at the theoretical interstices between political anthropology, political sociology, and political economy: “agents of regulatory authority”, “practical norms” and “patterns of accumulation”.

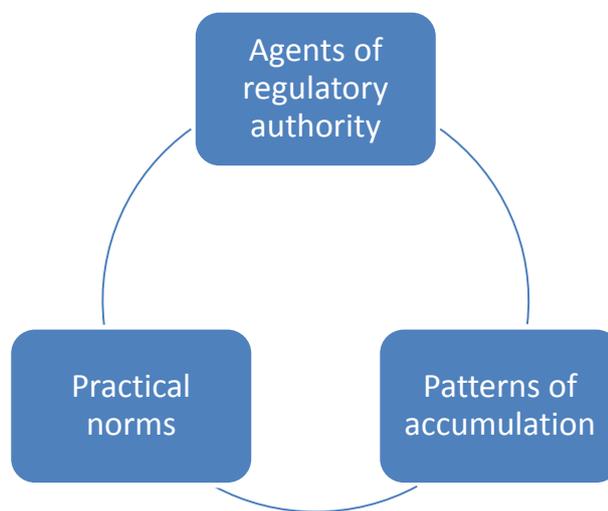


Diagram 1: Three interpretative concepts for the study of economic state effects in Somali East Africa (drawing on Roitman [2005] and Olivier de Sardan [2008, 2015])

Agents of regulatory authority

The notion “regulatory authority” was originally coined by Roitman (2005) in her study of border economies in the Chad Basin, referring to taxation, licensing, charging of fees or tribute, and even the seizure of part of the goods. But it can be

extended to other types of regulation, for instance the technical quality standards that international organisations and transnational companies increasingly use for regulating the cross-border flows of goods and services in specific commodity chains such as coffee, diamonds, or in transport hubs (Gibbon & Ponte, 2005).³⁶ Roitman (2005) is interested in identifying the social relations and particular “fiscal subjects” that are produced through shifting regulation, as well as the associated ideas of rights and obligations: who has the right to be(come) rich, and what kind of entitlements do subjects expect from payments?

“Regulatory authority” belongs to a family of concepts that allow us to capture the often messy relations of public authority in areas with limited presence and reach of formal state institutions. Other such concepts are “twilight institutions” (Lund, 2007), “real governance” (Olivier de Sardan, 2008), “negotiated statehood” (Hagmann & Péclard, 2010), and “governance without government” (Menkhaus, 2007b). “Agents of regulatory authority” refers to the plurality of actors involved in making and breaking the rules that govern the flows of goods, people and services. As the previous review of the Somali economy demonstrates, everyday governance in the Somali areas has relied heavily on regulatory authority associated with customary law and contracts (Somali: *xeer*), blood compensation (Somali: *diya*) or *sharia* (Marchal & Sheikh, 2015; Stremlau & Osman, 2015). Like its related concepts, this first concept focuses on the question of public authority. This entails the form of legitimacy and degree of compliance that are associated with particularly regulatory practices {for example the provision of public goods such as security or justice} or the symbolic registers that claims to legitimacy draw upon (see Hoffmann & Kirk, 2013).

Practical norms

Olivier de Sardan’s (2008, 2015) innovative concept “practical norms” points to the social norms and regulations that exist empirically, but do not neatly fit into categories of either “formal” or “informal”.³⁷ Consequently, both formal and informal organisations and practices can be governed by “practical norms” that are rooted in people’s everyday interactions and morality. Importantly, this concept helps us move beyond the common distinction between formal and informal in which the “informal” is associated with social, customary, or “cultural” norms as is common in African studies. As Olivier de Sardan (2008) argues, customary law also has its formal, regulatory norms which, however, are often ignored or bent in practice. The same applies to official rules, which may often be neglected, reappropriated for other purposes or simply ignored.

The concept “practical norms” fits with the empirical context of Somali East Africa where pockets and periods of statelessness fundamentally question *a priori*

³⁶ Inspired by the latter approaches, we may also identify the “key agents” (of global commodity chain analysis) that seek the capacity to define conditions of access, exchange relations, and the distribution of risk and profit in the chain (Raikes *et al.*, 2000).

³⁷ Olivier de Sardan defines practical norms as “the various informal, de facto, tacit or latent norms that underlie the practices of actors, which diverge from the official norms” as well as from “social norms” (Olivier de Sardan, 2001 cited by Olivier de Sardan, 2015: 26).

distinctions between formal and informal. One important question is what kind of tacit, latent, usually implicit, but nevertheless routine, norms guide the (non-) compliance with the official norms. For instance, when do traders pay all their taxes and when do they decide to do so only selectively? The notion of “practical norms” also helps us focus on what agents of regulatory authority *do* rather than what they *say* they do or what they are expected or supposed to do. When do they make exceptions from the official norms – be they circumscribed by state law, *shari’a* or *xeer* – and when do they comply with them? In a situation of extreme legal pluralism and multiple social expectations, the manoeuvring between different normative orders is fraught with practical norms that adapt over time. In this sense Olivier de Sardan (2008, 2015) emphasises the centrality of practical norms in producing social change.

Patterns of accumulation

Marxian (Marx, 1867) in origin, this concept grasps the processes by which different actors generate, extract, accumulate, distribute and (re-)invest trade-derived revenue.³⁸ Evidently, apart from traders a series of other actors are involved in the facilitation and regulation of trade and transport. They also contribute to shifting patterns and “networks of accumulation”. We draw here upon Meagher (2005) who distinguishes between the more widespread social networks of survival and the more limited networks of accumulation. Apart from contributing to our understanding of how particular commodities and services are positioned and circulate within the wider Somali political economy, a focus on patterns of accumulation reveals relations between traders and businesspeople on the one hand and relevant agents of regulatory authority – particularly states – on the other hand.

Extending the traditionally narrow economic focus of Marxist theory, Bourdieu’s (2002) notions of social, cultural and symbolic capital are equally helpful for our analysis of patterns of accumulation. This holds particularly true if we consider these accumulation dynamics in relation to Bourdieu’s field theory (Hilgers & Mangez, 2014). The field is an analytical device that is formed by a set of relations, rules and norms that guide exchanges between actors that differ both in terms of their social positions and of their material endowments. For instance, in the economic field of the Somali livestock trade, pastoralists, brokers, traders, custom officials, transporters or clan militias engage each other during interactions along a particular trade corridor. These encounters produce contestations and alliances between the involved actors as well as opportunities for capital accumulation and thus reproduction of the field. The economic field is formed on the basis of a certain degree of recognition of the rules by the actors involved – the above-mentioned practical norms – and the unequal distribution of different forms of capital (Bourdieu, 2002: 24). A trader can, for example, bolster his social standing by converting accumulated economic capital into symbolic capital,

³⁸ See Samatar (1992) for an early, Marxist analysis of the relationship between the state and an increasingly differentiated and fragmented class of livestock traders in Somalia.

investing in pilgrimage by paying for other people to go on *hajj*.

The idea of patterns of accumulation and field theory add to our earlier concept of “agents of regulatory authority”, highlighting the need to identify who and what defines the proverbial rules of the game including the rules that govern actors’ access to and exit from a particular field. This is what Bourdieu (2002) calls the monopoly of legitimate symbolic force, referring here to the state as the possessor of a meta- (“state”) capital that works across many different fields (see Bourdieu, 1999 on state capital). Beyond the state we find other agents of regulatory authority that are immersed in the accumulation of other forms of capital.³⁹

These three concepts are pillars of an interpretative approach with the potential to connect empirical observations to broader theories of state formation, post-conflict statebuilding, public authority, and war-to-peace economies. Our interpretive approach to the Somali economy’s state effects allows for process tracing of causal mechanisms across dissimilar research sites. These causal and analytical processes, once identified, can then be formulated and tested as more formalised propositions, permitting us to validate, reject and refine existing theories.

Broader debates

Our proposed research into the daily governance of trade and transport, the state effects of economic hubs and flows, and the emergence and erosion of regulatory authorities provides insights that are relevant for a number of broader debates. First, with regard to *state formation* Giddens (1987), Mann (1984), Scott (1998), and Tilly (1985) continue to provide central arguments for current debates. Yet, these theories tend to foreground how capital and public administration(s) “penetrate” the hinterland from a centre. In reality the formation of state subjects may follow different routes, and ethnographic studies suggest that in some areas and conjunctures state formation dynamics are generated in border- or hinterlands rather than at the political centre (Sahlins, 1989; Nugent, 1994; Stepputat, 2001). Somali East Africa could be a case in point for this latter interpretation as Menkhaus (2007b) has observed. However, he suggests that the longer subnational and non-state authorities continue to regulate the economy and provide public goods, the harder it will be for a central state to revive and assert its authority. Furthermore, the balance between exogenous and endogenous drivers of state formation and the possibility of building states “from the outside” (Paris & Sisk, 2009) have often been discussed. In the Somali case, the appropriation of external resources for statebuilding and other projects has become entrenched (Hagmann, 2016). The global Somali diaspora regularly involves itself in political and economic processes in the region. It is thus impossible to draw a clear-cut boundary between locally and externally driven statebuilding.

³⁹ As in the case of “key agents” (Raikes *et al.*, 2000) and “lead firms” (Gibbon & Ponte, 2005) in global commodity chains.

Second, the relationship between *economic rents and statebuilding* requires further scrutiny. Tilly (1990: 88–90) suggested that while war accelerates the centralisation of state power, opportunities for wealth accumulation – for instance trade – retard it (see Vu, 2010: 157). The literature on rentier states (Beblani & Luciani, 1987; Svensson, 2000; Ross, 2001) highlights how growth based on rent extraction, from oil to foreign aid or ports, is detrimental to the emergence of effective and accountable government. Rents relieve governments from generating public revenue through taxation in return for service delivery and rights accorded to its citizenry. More recent scholarship proposes a different take on the relationship between economic rents and statebuilding. It suggests that informal relations and collusions of interest between business and political elites can compensate for weak property rights and contract enforcement, enhancing investments and even contributing to the development of legitimate public authority (IDS, 2010; Hoffmann & Kirk, 2013). North *et al.* (2012) argue – contrary to the rentier state literature – that rent-based state apparatuses can, in fact, contribute to building viable state–citizen relations and central state institutions by broadening access to rights and rents. In Somali East Africa one question that arises is thus; how, where, and under which conditions do economic rents incentivise sub-national administrations to either abstain from or engage in reciprocal state–society relations (see Eubank, 2012).

Third, research into the governance of Somali economic hubs and flows will contribute to discussions on the *role of business in armed conflict* (see Ganson & Wennmann, 2016). On the one hand, mainstream approaches to peacebuilding consider trade and functioning markets as positively influencing the termination of violent conflict (Oetzel *et al.*, 2010). The United Nations Global Compact and other international programmes highlight international companies' contributions to peace and development in conflict-prone areas through, for example "Business for Peace" programmes (UNGC, 2015). On the other hand, an extensive literature from the 2000s onward has documented how armed conflicts have been fuelled by the unchecked extraction of non-renewable resources, such as diamonds, oil and timber (Le Billon, 2001; Pugh & Cooper, 2004; Ballentine & Nitzschke, 2005). In Somali East Africa the question is what the effects of wealth are when trade in consumer goods and extraction of renewable goods (agro-pastoral products, for example) play dominant economic roles.

Corridor approach

Where and how can we best study the interplay between agents of regulatory authority, practical norms and patterns of accumulation in the greater Somali economy? How can the governance of economic hubs and flows best be studied empirically? We propose a (trade) "corridor approach" as a methodological device that allows us to document and analyse the governance of economic hubs and flows in Somali East Africa. A focus on corridors fits with our interests in multi-scalar processes of economic and political developments in the context of in/security and intensified globalisation. For the purpose of this research endeavour we define a corridor as a trans-boundary geographic space of economic, political and social relations in which we can observe a) the flow of

commodities, capital, and people, b) the exchange of value, namely goods and credit and c) different regulatory authorities governing a) and b). In the Somali case, Nori (2009: 112) has described corridors as “conveyer belts that take out local (pastoral) products and bring in consumer goods”. While corridors facilitate the movement and added value of commodities, they also concentrate “friction” (Tsing, 2005), which materialises in the form of checkpoints, borders, taxation and bureaucratic procedures, transport congestion, and political and sometimes violent conflicts. Thus, transnational trade corridors concentrate the performance of authority (see Chalfin, 2010). Three corridors in Somali East Africa are of particular interest for the study of trade and its state formation dynamics: the *northern corridor* connecting eastern Ethiopia with Somaliland (major hubs accessible for researchers are Jijiga, Tog Wajale, Hargeisa and Berbera); the *central corridor* connecting eastern Ethiopia with Puntland (major hubs accessible are Garowe and Boosaaso) and the *southern corridor* connecting central Kenya with southern Somalia (major hubs accessible are Eastleigh/Nairobi and Garissa). Our trade corridor approach is inspired by three bodies of literature.

First, in the field of international development, the technical term “corridor” is defined as “a coordinated bundle of transport and logistics infrastructure and services that facilitates trade and transport flows between major centres of economic activity” (Kunaka & Carruthers, 2014: 1). With a long history, corridors figure prominently in policies and plans of development banks, regional economic communities, and central and metropolitan governments. While this approach to corridors is predominantly technical and economic, our view of trade corridors emphasises the embedded and place-bound aspects of commodity flows. In particular we are interested in the political dimensions of trade and transport corridors. We thus primarily understand corridors as an assemblage of conventions, laws, policies, technologies, templates, and capital investments. These corridor assemblages have partly developed as a result of neo-liberal policy interventions that smoothen and speed up the circulation of commodities, facilitating a leaner and cheaper flow of commodities between global markets and landlocked capitals or productive regions via seaports (Arvis *et al.*, 2011). These corridor policies form part of a larger “respacing of Africa” (Engel & Nugent, 2010) or, perhaps better, “rescaling”, with a push towards globalisation and the introduction of a dominant set of standards, procedures and sanctions (Chalfin, 2010; Cowen, 2010). The (re-)making of trade corridors involves not only a rescaling of social and economic relations. It also encompasses competition and political struggles over resources as well as the broader rules of the game. This is evident in all of the Somali trade corridors, with the Berbera trade corridor as a prominent example.

Second, building on classical world system theory, a particular type of analysis of how commodities travel and transform on their way from producer to customer has developed in the French *filière* school (Gerrefi, 1999), Global Commodity Chains (Raikes *et al.*, 2000), and Global Value Chains (Gibbon & Ponte, 2005). This approach focuses on chains of agents and actions pertaining to a singular commodity. Its aim is to identify which firms and which agents define the terms of production and exchange of a commodity (for example through global standards),

and how profits and risks are distributed among participants of the commodity chain. Our proposed corridor approach differs from the French *filière* school as we consider “bundles” of commodities that flow through the same or related trade networks. These commodity bundles follow established but sometimes shifting transport routes, and pass through hubs of transport and exchange where services, infrastructure, agents of regulation, brokerage and communities are concentrated, e.g. marketplaces, border posts, and air- and seaports. Thus we are more concerned with how trade and transport “embeds” itself socially and spatially (or not), in order to analyse the state effects of these processes. This squares with Carrier and Lochery’s observations about Eastleigh where “networks (...) are not so much informal as woven in and out of the remit of state regulation” (2013: 347).

Third, we draw on anthropological, sociological and historical studies of how trade is embedded in social relations (Granovetter, 1985; Buur & Rodgers, forthcoming), in addition to more network analyses that measure the shifting linkages, intensities and densities of trade relations (Walther, 2014). Compared to these contributions our proposed research places more emphasis on the infrastructural and spatial dimensions of trade and transport. Combining these complementary approaches into an analytics of trade corridors allows for empirically grounded research that adds a political dimension to previous studies of livelihoods, livestock, and commerce in the Somali territories, but also an economic dimension to former studies of politics and state formation. A corridor approach thus facilitates an analysis of shifting movements of “bundles” of commodities. It also directs our attention to the politics of managing and formalising trade corridors in the region, as well as the state effects that trade and transport produce.

The commodities that circulate in Somali trade corridors have very different materialities that shape their interactions with corridor agents and operators. Livestock, which is the main commodity produced and traded in the region, does not necessarily depend on roads for transport. Animals can be trekked across borders without registration. This produces shifting, “off-road” arteries en route to the seaports, the bridgeheads or “gateways” of the land-corridors (Little *et al.*, 2015). But as livestock depend on water, fodder and sanitation, it places high demands on infrastructure and services in sites of exchange and quarantine. These marketplaces and points of shipment then become sites of taxation and extraction. Conversely, consumer goods and other commodities whose transport depends on roads – for instance, gasoline – can be taxed at borders and roadblocks. The telecommunication and remittance sectors, which have been instrumental in the extension of Somali business and political networks, are characterised by yet another type of materiality. While most of its transactions are online and thus virtual, the formation of secure international “routes” for money transfer to and from Somalia have also been dubbed “corridors”.⁴⁰

The corridor approach also has a methodical advantage for data collection in

⁴⁰ For example the “Safer Corridor Initiative” by the UK government, representatives of the British banking sector, the World Bank and the Somali community.

what are often politically insecure areas. We are interested in studying interconnected urban hubs and corridor operators. Researchers can therefore access and triangulate corridor-specific data on trade, transportation and regulation in most of the corridor without necessarily having to access all hubs and follow all flows. Hence, the corridor-based research design facilitates contingency planning. Data collection and analysis of the interaction between agents of regulatory authority, practical norms and patterns of accumulation in a trade corridor follows the steps below:

- 1) Actor mapping (for example the ECRIS methodology developed by Bierschenk & Olivier de Sardan, 1997) and value chain analysis (Gibbon & Ponte 2005) allow to identify key corridor operators, commodity flows and economic processes in a particular corridor.
- 2) To reconstruct changes in commodities, routes, prices and economic operators in specific hubs after 1991, we suggest using purposively sampled interviews of key informants such as traders, drivers, service providers, local officials, security personnel, entrepreneurs, financial operators and elders. Semi-structured interviews with these key informants generate data on a) the acquisition, prices, transport, storage, sale, and export of select commodities; b) the taxation, licensing, certification and regulation of exchanges of goods and credit; c) actor networks; d) conflicts and cooperation between corridor operators including corporate and kinship groups; e) state policies, property rights and border customs; and f) violent expropriation, insecurity and predation in trade routes and markets.
- 3) The actor, chain, network and process identification is complemented by more ethnographic methods, for example a “biography of things” approach (Kopytoff, 1986), semi-structured interviews, oral histories, informal discussions, and participatory observation, for example by accompanying truck drivers, public officials, and traders as they work. Data can then be triangulated with written sources such as grey literature, reports and surveys produced by governments and NGOs. Data analysis of anonymised field notes concentrates on key empirical puzzles encountered in the field, and process tracing of agents of regulation, practical norms and patterns of accumulation (Yin, 2003).

7. Conclusion

The evolution of business and trade in the Somali territories represents a fascinating case study of the governance in the making of an economy. In this paper we have highlighted and problematised two important political dimensions of the Somali economy that are often overlooked. First, the governance of the economy along trade corridors encompasses generic processes of ordering, managing, and standardising that traders, merchants and investors engage in on a daily basis. Trust, reciprocity and protection, but also fear, threats and compliance are all part of Somali economic governance. Our review and discussion of existing research clearly demonstrates that economic processes always involve some kind of governance. Considered from this vantage point, even a stateless economy is still a governed economy that is bound by various social and other rules and norms. In this sense, there is no such thing as an ungoverned free market.⁴¹ Second, exchange, investments and innovations across the Somali territories produce direct and indirect state effects. They provide revenue for local administrations, shape settlements between business and political elites, offer security arrangements across clan boundaries, and contribute to compliance with international rules and standards. State effects can also be negative, for example when merchants circumvent or block taxation or quality controls, thereby undermining statebuilding efforts.

Both the potentials and the ambiguities of the Somali economy's role in state formation are apparent. On the one hand, marketplaces in urban Somali East Africa mobilise a broad array of actors – traders, companies, state officials, clan elders, diaspora investors, and aid agencies – that govern exchanges of value on a continuous basis. As sites of taxation, security and resource control, these economic hubs are the locations where Somalis mobilise resources, social relations and information; build trust, provide security, and invest in infrastructure. On the other hand, the Somali state collapse institutionalised an “economy without a state” (Little, 2003) in which investors and traders both thrive on and are severely handicapped by limited statehood. While some sectors of the economy have benefitted from state collapse – insecurity, a dilapidated infrastructure, the absence of insurance, and lacking standards increase risks and transaction costs.

The existing literature, reviewed in this paper, highlights how the Somali economy after 1991 evolved from radically decentralised to more integrated markets; from a reliance on clan protection and coercion to the establishment of multi-clan shareholder and decentralised franchise companies; from short-term capital accumulation to more strategic and long-term business expansions; from a low-tech and low-skill economy to more technological sophistication and labour skills; and from an avoidance of state regulation to increasing compliance with international rules and standards. Empirical research into particular economic activities – for example transport or trade – is needed to confirm this overall observation on a case-by-case basis. These gradual and unfinished changes in Somali business are indicative of shifting configurations of trade, violence and

⁴¹ We thank Emma Lochery for this observation.

regulation. This said, different economics of state formation co-exist in Somalia as the same type of economic hubs produce different state effects. For example, while Somaliland's Berbera port is at the centre of livestock exports and increasing investments into the trade corridor, Kismayo port gained prominence for its illicit export of charcoal, which sustains criminal rackets.

Finally, considerable research gaps remain with regard to Somali economic life. Livestock, telecommunications and remittances are commonly recognised as the pillars of Somalia's internationalised post-1991 economy. They are also the economic sectors that are, comparatively speaking, better researched and documented although important knowledge gaps remain. Unfortunately, Somalia's economic infrastructure, namely roads and trucking, remains thoroughly under researched. Transportation is a particularly interesting sector as it doesn't involve major firms, but relies on cross-clan and multiple owner arrangements as well as extensive use of brokers. The same applies to the booming retail (small shops, supermarkets) and hospitality sectors (hotels, restaurants). Real estate has become another crucial element of the Somali economy – playing a role both as input factor and rapidly growing market – in need of academic inquiry. The near total absence of data on labour in Somalia represents yet another research gap and major challenge for economic analysis. Finally, more studies into consumption styles and the appropriation and translation of various (global) products in Somali are needed. Last but not least, the gendered impacts of the evolving Somali economy remain a major research desideratum.

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