Transnational capital in Somalia

Blue desert strategy

Jos Meester
Ana Uzelac
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CRU Report

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Cover photo: Containers sit on a ship waiting to be off loaded at Mogadishu's port in Somalia on September 17, 2015. © AMISOM Photo / Tobin Jones

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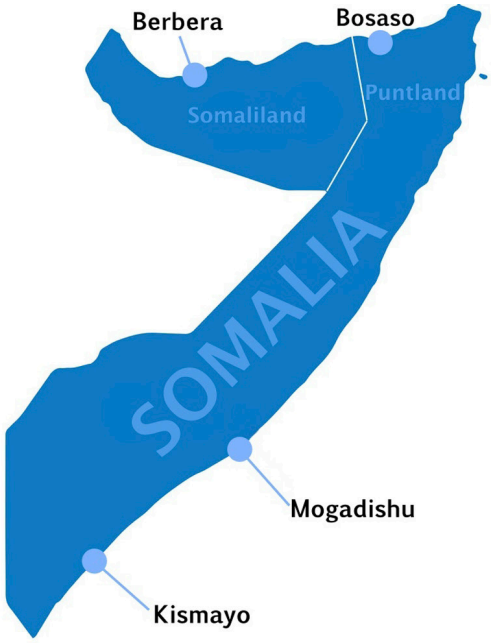
Abstract

This report explores the impact of transnational businesses active in Somalia and Somaliland on socioeconomic development and governance within the territories. The economic resurgence in the country owes much to the sizeable and pioneering role played by these transnational entrepreneurs. Their willingness to invest at even the most difficult times has bridged the Somali population through a range of hard periods that saw other actors withdraw, and has pushed a degree of economic recovery and widened the availability of goods and services. Yet part of the reason that these companies fulfilled this role was that it allowed them to entrench a strong competitive position (mainly through liquidity constraints and clientelistic networks spanning the public and private sector) and allowed them to rapidly develop a range of new markets. Their positioning has hindered competition and entrenched a status quo that benefits certain sections of the political settlement over others. The peacebuilding paradigm employed by the international community, focusing on state institutions to rebuild and stabilise post-conflict states, is brought into question by these dynamics. The transnational businesses act as a stabilising force and manage to provide a degree of governance and public services where (legitimate) governance is lacking. Yet, these conglomerates also interfere with existing political institutions: they affect the outcomes of the representative process that is supposed to deliver credible leadership at national and local level and constrain the ability of existing executive branches to take and implement decisions. Donor engagement through the diaspora suffers from the underdevelopment of the regulatory infrastructure – especially financing – and the interest structure that ensures this situation endures. The challenge in Somali regions is therefore how to engage parts of its transnational community in the creation and stabilisation of the *entrepreneurial middle class*, in order to stimulate economic and political development.

Figure 1 Map of Somalia and major port cities



Acknowledgements

This report would not have been possible without the funding support of the Ministry of Foreign Affairs of the Netherlands. The authors are especially grateful to the Somali transnational community (especially in the Netherlands, UK, Dubai and Somalia) and all the people willing to share their views on this contentious topic, as well as Ahmed-Keyse Ali Roble and the International NGO Safety Organization in Somalia for their logistical support to our work. A special thanks goes to Fia van der Klugt, Marjolein Jongman, Roelof Haveman and Ismael Moalim (Dutch Ministry of Foreign Affairs) for their support. We would also like to thank the reviewers, among others Ladan Affi (Zayed University), Ali Hersi (Saferworld) and Mariska van Beijnum (Clingendael's Conflict Research Unit), who have invested their time and efforts in providing comments and suggestions for this report. Additionally, we would like to thank Melissa Krassenstein, whose support and diligent work was invaluable for this report.

Executive summary

- Despite weak governance, the Somali economy has not fully collapsed and has proven remarkably resilient during even the harshest episodes in the last three decades.
- Somali migrants have been noted for their ability to adapt their 'nomadic' heritage to life in displacement, maintaining a high degree of mobility and strong social networks. They are best approached as a transnational community spanning multiple countries, rather than a static diaspora settling into a new country while maintaining ties to Somalia.
- The emergence of a transnational community went hand in hand with the emergence of transnational entrepreneurship: a form of entrepreneurship that includes border-crossing businesses that rely on the existence of dual cultural, institutional and economic features and involve at least the countries of origin and destination, if not more.
- The transnational Somali community was instrumental in reversing the flow of capital and the economic resurgence.
- Transnational entrepreneurs have entrenched their economic role and clientelist networks, which has had a significant impact on socioeconomic development and governance.
- The idiosyncrasies of the Somali economy are not just something that transnational companies cope with – weak institutions and a difficult business environment are at the very core of these companies' business models.
- No Somali state institution has been able to take a major role in the development of Somalia nor Somaliland. Instead, it has been the private sector that has taken the lead in the economic development of the area, largely unchecked by government authority.
- The main constraint companies face in Somalia is growth potential. In a market where nearly all goods and assets are imported, the importance of having access to substantial capital (especially in hard currency) is the key factor to transforming a small-scale start-up into a fully-fledged business.
- Several major transnational conglomerates have leveraged their liquidity as a competitive asset, and scrambled to gain a dominant position in a wide variety of markets, often unrelated to their core business as their growth strategy.
- Companies' secure their competitive position by establishing favourable relations to formal and informal governance through their highly professional corporate social responsibility (CSR) departments.
- The corporate social responsibility track is frequently supported by a range of clientelistic incentives aimed at formal and informal authorities, while few if any taxes are paid.

- The aggressive way in which private business reacted to statelessness in Somalia, resulted in 'monopolies, coordination failures, externalities, and public goods provision', that precluded efficient market outcomes. This has at times fuelled mistrust between the business and political elites as well as factional infighting.
- Transnational business practices have influenced governance in Somalia and Somaliland, as market concerns are often interlinked with clan power dynamics and concerns about (clientelistic) distribution and justice. The resulting oligopolistic governance practices reinforce clan power hegemonies, status quo politics based around established patronage networks, and the unequal distributions of resources.
- In the absence of more open, competitive markets, both small and medium enterprises (SMEs) and forms of diaspora investment have largely failed to significantly stimulate economic development and contributed to market inefficiencies.
  - In Somalia, competition over state power and resources (furthered by the system of aid rents) has not translated into genuine competition in the market. Instead, SMEs and small competitors are beholden to political elites, tied to more factionalised spoil politics and segmented into discrete networks. Their ties to systems of political patronage have at times risked destabilising critical security arrangements and political pacts, as allocating patronage to new economic actors has threatened to destabilise distribution across the wider political settlement.
  - In Somaliland, the formation of a discrete economic elite class has seen the reproduction of elite and clan power that has allowed for more organised competition from the bottom up. The number of actors involved in economic and political activity are fewer in Somaliland and constitute only three primary groups of actors (government, clan and business). These key stakeholders are closely interlinked where access to economic wealth by key clans has been a deciding factor for political power and vice versa.
- Efforts to improve the economy and good governance through private sector development are challenging tasks in contexts where the private sector remains stronger than the state. Diaspora investment and aid offers some potential for addressing liquidity concerns but risk reinforcing rent-seeking practices and power differentials.
  - In Somaliland, more support to SMEs is needed to counter the authority and political influence of monopolies and provide a unique opportunity for economic development, whereas in Somalia, such support may risk reinforcing rivalrous competition, inefficient market outcomes and conflict.
- Based on the analysis, the following recommendations are made:
  - Effective programming in Somalia or Somaliland must take into account and address the interests the major transnational conglomerates.
  - The development of a formal banking system increasing access to capital would be a key step to ensuring more equitable economic development.
  - Scaling up selected SMEs could function as a catalyst to create space for further economic development.

Abbreviations

AS	Al-Shabaab
ATM	Automated teller machines
CAGR	Compound Annual Growth Rate
CSR	Corporate social responsibility
DFID	Department for International Development
EVC	Electronic Voucher Card
FDI	Foreign Direct Investment
FGS	Federal Government of Somalia
GDP	Gross domestic product
IBS	International Bank of Somalia
ICT	Information and Communication Technologies
IDP	Internally displaced person
IFC	International Finance Corporation
IFI	International finance institution
IMF	International Monetary Fund
INGO	International non-governmental organisation
KIMS	Kaah International Microfinance Services
MTO	Money transfer operator
NCA	National Communications Authority
NGO	Non-governmental organisation
NPD	National Development Plan
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PLS	Profit and Loss Sharing
PSD	Private sector development
PSG4	Peacebuilding and Statebuilding Goals 4
SEED	Sustainable Employment and Economic Development
SMEs	Small and medium enterprises
SNM	Somali National Movement
USD	United States dollar

1 Introduction

Background

Since the collapse of the Siad Barre regime in Somalia in 1991, the territory has gone through nearly three decades without effective central governance.[1] Throughout this period, the territory faced protracted civil war, several international and regional military interventions, periods of rule by warlords, regional fragmentation and secession, the rise and fall of the Islamic Courts Union and precarious governance by several internationally sponsored institutions attempting to restore a semblance of statehood. The hardships inherent in this tumultuous period were further compounded by recurrent episodes of severe drought, flooding and other major natural disasters.[2] While the situation has certainly improved over the last few years, giving rise to more optimistic views on Somalia's future, events such as the 2017 Mogadishu truck bombing continue to highlight the tenuous authority of the Somali federal government.[3] While areas of relative security and stability, such as seceded Somaliland, do exist, large parts of the country, the capital, and the public sphere remain firmly in the control of non-state actors such as Al Shabaab or territorialised clan-governance.[4] The complex patchwork of local, regional and international actors active throughout Somalia continues to give rise to a wide range of disputes over territory, resources, allegiances and authority at

1 Although several formal governance arrangements have existed since 2000 (e.g. the Transitional National Government, the Transnational Federal Government and the Federal Government of Somalia) their authority throughout the country has varied and been severely limited, leaving large segments of the country with little to no effective governance.

2 Most notably draughts in 1992, 2011 and 2016, a tsunami in 2004, and a cyclone in 2013.

3 Stevin. M. 2017. 'Somalia's Crooked Route to Democracy', *The Wall Street Journal*, 16 January, https://www.wsj.com/articles/somalias-crooked-route-to-democracy-1484568003 (accessed 29 May 2019); T.G. 2017. 'The Economist explains: Why Somaliland is east Africa's strongest democracy', *The Economist*, November 13, https://www.economist.com/the-economist-explains/2017/11/13/why-somaliland-is-east-africas-strongest-democracy (accessed 29 May 2019); World Bank Group. 2018. *Federal Republic of Somalia systematic country diagnostic*, Washington DC: World Bank Group; BBC. 2018. 'Mogadishu truck bomber sentenced to death', BBC, 6 February, https://www.bbc.com/news/world-africa-42958703 (accessed 29 May 2019).

4 For example, Al Shabaab-run Sharia courts remain a popular source of justice provision for property and business disputes, as state courts are often perceived as slow and corrupt (interview with a Somali analyst in the UK, Bristol, December 2018; interviews with a Somali businessman in Dubai and a Somali trader, Dubai, December 2018); Hoehne, J. 2016. 'The Rupture of Territoriality and the Diminishing Relevance of Cross-cutting Ties in Somalia after 1990', *Development and Change* 47(6), 1379–1411.

local level and within the federal system.[5] The continued fragmentation and instability have ensured that Somalia has maintained a position at or near the top of most indices of state fragility for years, and earned it the reputation as the prime example of a failed state.[6]

To stave off the worst of the humanitarian impact of these crises and to support the development of the territories and of its governance in particular, Somalia has been the recipient of substantial aid and other assistance from international donors for years (e.g. Somalia has received over a billion US dollars in official development assistance (ODA) annually since 2013).[7] Donor engagement has revolved around three key strands of programming: 1) good governance and institution building, aiming to increase the government's institutional capacity, service delivery and authority; 2) public-private partnerships and business environment reform; and 3) humanitarian action (mainly resilience related).[8] While some of this assistance has certainly served an important role bridging many people through the periods of extended drought, many humanitarian and development efforts have run into significant difficulties. Extensive patronage networks, widespread corruption, unstable political coalitions and a lack of access due to security risks have jeopardised tangible development progress, ensuring that Somalia has become known as the '*graveyard of foreign aid*' and '*the world's foremost graveyard of externally sponsored state building initiatives*'.[9]

5 For examples, see Abdile, M. 2010. 'Diasporas and their Role in the Homeland Conflicts and Peacebuilding: The Case of Somali Diaspora', Diaspeace Working Paper 7, 1798–1689 on local resource and territory issues, Hagmann, T. 2016. *Stabilization, Extraversion and Political Settlements in Somalia*, London: The Rift Valley Institute on elite competition and extraversion within the statebuilding process, and Meester, J., Van den Berg, W. and Verhoeven, H. 2018. *Riyal Politik: The Political Economy of Gulf investments in the Horn of Africa*, CRU report, The Hague: Clingendael, for regional dynamics.

6 World Bank. 2018. 'Harmonized List of Fragile Situations', http://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations (accessed on 29 May 2019); Fund for Peace. 2019. 'Fragile States Index', https://fragilestatesindex.org/ (accessed 29 May 2019); Bertellsman Stiftung. 2018. 'The Bertellsman Transformation index' https://www.bti-project.org/en/home/ (accessed 29 May 2019); Menkhaus, K. 2014. 'State Failure, State-building and prospects for a functional failed state in Somalia', *The Annals of the American Academy of Political and Social Science 656*(1), 154–172; Menkhaus, K. 2007. 'Governance without Government in Somalia: Spoilers, State Building, and the Politics of Coping', *International Security* 31(3), 74–106; Grosse-Kettler, S. 2004. *External Actors in Stateless Somalia: A War Economy and its Promoters*, Bonn: Bonn International Center for Conversion.

7 Organisation for Economic Co-operation and Development. 2019. 'Aid at a glance charts', https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/aid-at-a-glance.htm (accessed 29 May 2019).

8 Aid Coordination Unit of the Office of the Prime Minister. 2017. 'Aid Flows in Somalia: Analysis of aid flow data', 17.

9 For example, as noted by the United Nations Monitoring Group on Somalia and Eritrea '*On average, at least 80 per cent of withdrawals from the Central Bank are made for private purposes and not for the running of*

Despite the bleak picture regarding governance that is evident from Somalia's image of a failed state, the Somali economy did not fully collapse and has proven remarkably resilient during even the harshest episodes in the last three decades. Especially as the security situation improved somewhat in recent years, the Somali economy has shown remarkable growth (given the still unstable business environment). Somalia achieved a modest but persistent (formal) economic growth of 1.7% (Compound Annual Growth Rate – CAGR) between 2013 and 2017, compared to a decline in many other fragile states such as South Sudan, Iraq or Afghanistan over the same period.[10] This level of economic growth is especially notable considering that the majority of productive assets and investment capital that existed under the rule of Siad Barre had been lost throughout the civil war: moveable assets were shifted out of Somalia; immovable assets were either destroyed or looted to fund the conflict; and capital was parked or reinvested in safer havens (such as Dubai).[11] Additionally, although donor funding for private sector development has been rising, total funding remained at a mere 5.6% of the total National Development Plan ODA funding (2015-2017).[12] Hence, these levels of economic growth cannot be adequately explained by donor support.

The dearth of domestic capital and limited availability of donor funds begs the question how, by whom, and from where this growth has been fuelled. While some observers hailed the emerging economic model as a functioning example of an '*economy without a state*' where remittances fuel a flourishing cross-border trade, others noted the opportunities for smuggling licit and illicit goods, as well as the opportunities for private individuals in mediating aid-flows in a protracted state-building process.[13] While such

Government, representing a patronage system and a set of social relations that defy the institutionalization of the state.' (2013. *Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council resolution 2060 (2012): Somalia*, New York: United Nations), also see Fartaag, A. 2016. 'Breaking point in Somalia: How state failure was financed and by whom', Fartaag Research and Consulting, for further allegations; Menkhaus, K. 2014. 'State Failure, State-building and prospects for a functional failed state in Somalia', *The Annals of the American Academy of Political and Social Science 656*(1), 154-172; Menkhaus, K. 2007. 'Governance without Government In Somalia: Spoilers, State Building, and the Politics of Coping', *International Security* 31(3), 74-106.

10 World Bank Group. 'World Bank national accounts data, and OECD National Accounts data files', https://data.worldbank.org/indicator/ny.gdp.mktp.cd (accessed 20 May 2019) (based on gross domestic product (GDP) at current prices).

11 Hansen, S. 2007. 'Civil War economies, the hunt for profit and the incentives for peace (The case of Somalia)', AE Working paper 1.

12 Aid Coordination Unit of the Office of the Prime Minister. 2017. 'Aid Flows in Somalia: Analysis of aid flow data', 17.

13 Leeson, P. 2007. 'Better off Stateless: Somalia before and after Government Collapse', *Journal of Comparative Economics* 35(4), 689-710; Little, P. 2003. *Somalia: Economy without State*, Bloomington: Indiana University Press; Menkhaus, K. 2007. 'Governance without Government In Somalia: Spoilers, State Building, and the Politics of Coping', *International Security* 31(3), 74-106; Menkhaus, K. (2013)

models are appropriate to describe the resurgence of the Somali economy in the initial post-civil war years, economic developments in the last decade have far outstripped what can be expected from such a war-economy. Somalia today has developed into a lucrative market in its own right, rather than merely an ungoverned territory facilitating transit of goods into other markets.[14] This market has seen an influx of transnational entrepreneurs, running operations fully reliant on the Somali market, but formally headquartered outside the Somali territory in order to benefit from access to banking, developed legal frameworks, logistical hubs, educated (diaspora) human resources, and security. Attention to the economic resurgence has remained largely limited to technical considerations, and the role of peculiar emerging business models thriving in the Somali market has not been fully understood and appreciated by international audiences.[15] As a consequence, an influential set of stakeholders and significant interests have not been adequately considered by donors, thus risking the impact of programming, or even further fragmentation and conflict, as projects conflict with these actors' interests.

This analysis seeks to inform the policies of donors invested in development efforts in Somalia, by examining the interests and influences of business actors in public institutions and the wider public sphere. The transnational entrepreneurs that have emerged in Somalia are influential political actors. In stark contrast to rapid developments in the private sector, government capacity in Somalia and Somaliland has lagged behind. The capacity of government bodies to regulate businesses operating in

State Collapse and the Threat of Terrorism, London: Routledge; Menkhaus, K. 2014. 'Statebuilding and Prospects for a "Functional Failed State" in Somalia', *The Annals of the American Academy of Political and Social Science* 656(1), 154-172; Le Sage, A. 2002. 'Somalia: Sovereign disguise for a Mogadishu Mafia', *Review of African Political Economy* 29(91), 132-138; Marchal, R. 1996. *The Post Civil War Somali Business Class*, Nairobi: European Commission, Somalia Unit; Hansen, S. 2007 'Civil War economies, the hunt for profit and the incentives for peace (The case of Somalia)', AE Working paper 1; Grosse-Kettler, S. 2004. *External Actors in Stateless Somalia: A War Economy and its Promoters*, Bonn: Bonn International Center for Conversion; Webersik, C. 2006. 'Mogadishu: An Economy without a State', *Third World Quarterly* 27(8), 1463-1480; Hansen, S. 2003. 'Warlords and Peace Strategies: The case of Somalia', *The Journal of Conflict Studies* 23(2), 57-78; Marchal, R. 2002. *A survey of Mogadishu's economy*, Nairobi: European Commission, Somalia Unit; Samatar, A. 2007. 'Somalia's Post-Conflict Economy: A Political Economy Approach', *Bildhaan: An International Journal of Somali Studies* 7(8), 126-168.

14 Cassanelli, L. 2010. 'Private Sector Peacemaking: Business and reconstruction in Somalia', *Accord* 21, 41-44.

15 Notable exceptions, Cassanelli, L. 2010. 'Private Sector Peacemaking: Business and reconstruction in Somalia', *Accord* 21, 41-44; Hagmann, T. and Stepputat, F. 2016. 'Corridors of trade and power: economy and state formation in Somali East Africa', DIIS-GOVSEA Working Paper 8, and Musa, M. and Horst, C. 2019. 'State formation and economic development in post-war Somaliland: the impact of the private sector in an unrecognised state', *Conflict, Security & Development* 19(1), 1478-1174; yet many current observers continue to view the Somali market predominantly through the predatory or war economy paradigms (Webersik, C., Hansen, S. and Egal, A. 2018. *Somalia: A Political Economy Analysis*, Oslo: Norwegian Institute of International Affairs).

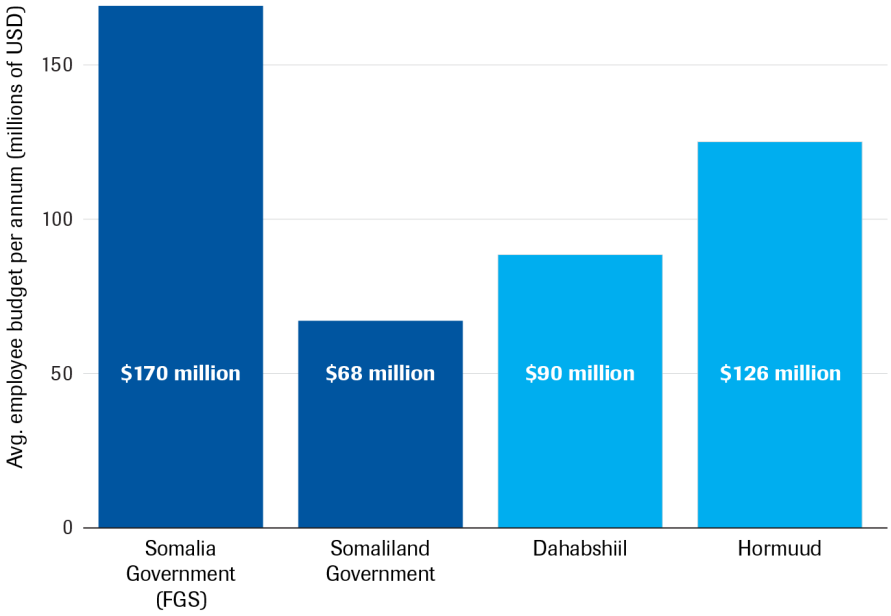
their territories has been extremely limited, which prompts the question to what extend government is regulating businesses and to what extend economic incentives instead are ruling political processes and governance throughout the Somali territories. As some observers have noted, nearly all political developments in Somalia are underpinned by a clear economic rationale.[16] Actors in the Somali private sector have remained far from neutral observers, and have actively facilitated, influenced, bankrolled and/or participated in key political developments such as the 2016 elections to the federal government of Somalia, the numerous Somaliland peacebuilding conferences from 1991 onwards, the 2000 Arta conference, and the establishment of the Islamic Courts Union.[17] While tax discipline remains markedly low, the flow of private funds into the public sphere has been substantial. Businesses fund charities that are providing public services, they financially support specific government institutions and are major financiers for many politicians' election campaigns.[18] While most Somalis sharply divide the business community and the political community, and have markedly different opinions of both groups, individuals frequently move back and forth between corporate and cabinet positions. Business and politics are strongly intertwined, and both communities have mutual but often differing interests regarding number of salient topics (such as security, service delivery, justice, protectionism).

16 Cassanelli, L. 2010. 'Private Sector Peacemaking: Business and reconstruction in Somalia', *Accord* 21, 41-44.

17 Although clear evidence of the involvement of business interests in these processes may remain elusive in a number of cases, as such relations are frequently kept deliberately opaque. Nonetheless, informative examples of business involvement in these processes can be found in Bradbury, M. Abokor, Y. and Yusuf, H. 2003. 'Somaliland: Choosing Politics over Violence', *Review of African Political Economy* 30(97), 455-478; Hansen, S. and Mesøy, A. 2009. *The Muslim Brotherhood in the Wider Horn of Africa*, Oslo: Norwegian Institute for Urban and Regional Research; Musa, M. and Horst, C. 2019. 'State formation and economic development in post-war Somaliland: the impact of the private sector in an unrecognised state', *Conflict, Security & Development* 19(1), 1478-1174; Fartaag, A. 2016 'Breaking point in Somalia: How state failure was financed and by whom' Fartaag Research and Consulting.

18 Isak, N. 2018 'Challenges of Domestic Revenue Mobilization in Somalia'; De Waal, A. 2015. *The Real Politics of the Horn of Africa: Money, War and the Business of Power*, Polity Press, 124; Verjee, A. et. al. 2015. 'The Economics of Elections in Somaliland: The financing of political parties and candidates'; Fartaag, A. 2016 'Breaking point in Somalia: How state failure was financed and by whom', Fartaag Research and Consulting.

Figure 2 Estimated annual employee budget of public and private actors in Somalia[19]



19 The Federal Government of Somalia (FGS) employee budget is derived from International Monetary Fund: Middle East and Central Asia Dept. Somalia: 2017 Article IV Consultation and First Review Under the Staff-Monitored Program-Press Release; Staff Report; and Statement by the Executive Director for Somalia. IMF Country Report No. 18(55), 5, 26 February 2018, https://www.imf.org/en/Publications/CR/Issues/2018/02/26/Somalia-2017-Article-IV-Consultation-and-First-Review-Under-the-Staff-Monitored-Program-45662 (accessed 10 April 2019). The Somaliland government is derived from Somaliland Parliament. Government Budget Report: 2017. 'Shaxda Guud' tab('Kharashka Shaqaalaha' budget post), https://web.archive.org/web/20190309184838/http://somalilandparliament.net/parliament-business/goverment-budget/, (accessed May 2019). Dahabshiil and Hormuud are estimated using an average monthly salary of 1,500 USD over 5,000 and 7,000 employees respectively. Estimates of these figures are based on an interview with Somaliland ministers, Hargeisa, February 2019; Dahabshiil (2019) Careers. (https://www.dahabshiil.com/careers, accessed 10 April 2019); Staff, M. 2018. 'Hormuud Telecom Somalia: Communication is Key', Africa Outlook: Technology. 60, 2. 27 April, https://issuu.com/outlookpublishing/docs/hormuud-telecom-somalia/2, (accessed 10 April 2019).

Research objective

This report explores economic developments in Somalia, the transnational entrepreneurs it gave rise to, the business models that thrive in the Somali market, and the impact these developments have on governance. Given the significant capital flight throughout the civil war, it highlights the role of the transnational Somali community reversing the flow of capital and its role in the economic resurgence. It thus focuses on the role of transnational businesses driving investment in Somalia. Specifically, this report seeks to answer the question how the Somali private sector influences governance, what role transnational capital and entrepreneurs have played in socioeconomic developments, and how this influences the development pathway in Somalia and Somaliland. In doing so, it seeks to inform policymakers in the international community active in Somalia, in order for them to understand and manage the business interests entrenched in the political and statebuilding processes. By improving our understanding of transnational business interests and their intersection with development programming, this report seeks to improve the effectiveness of and reduce the risks to programming efforts, most notably in the fields of good governance, rule of law, inclusiveness and (diaspora driven) private sector development (PSD). Insights derived from economic developments in Somalia may also prove informative for developments in a number of other areas going through processes of economic recovery in a fragile environment. Politically influential, 'hard-to-tax', sectors and corporations exist in numerous other areas, and are especially difficult to govern in those contexts where state capacity and authority is limited.[20]

In order to explore the economic development and its impact within Somalia, this report seeks to answer the question '*What is the impact of the transnational businesses operating in Somalia on socio-economic development and governance in Somalia?'* This question is answered by step-wise exploring: 1) what the transnational Somali community looks like, and how it relates to Somalia; 2) how transnational businesses position themselves in the market and how they operate; and 3) what the impact is of transnational business interests on socioeconomic development and governance. The study is conducted through a political economy analytical framework, and builds upon data gathered through desk research, market analysis, telephone interviews and multiple episodes of fieldwork informed by multi-sited ethnographic methodological practices. The research was conducted between September 2018 and March 2019, covering the sites of Somalia, as well as transnational Somali communities in Dubai (UAE) and the UK.[21] Unfortunately, it was not feasible to include the China-based

20 Cottarelli, C. 2011. 'Revenue Mobilization in Developing Countries.' International Monetary Fund.

21 Somaliland was visited by the researchers in February 2019, research in South Central was conducted through interviews with key stakeholders. In total, 49 respondents were interviewed across all sites.

community, and Kenya was excluded, as aid-based businesses were not in scope, and the business activities in Eastleigh have been extensively explored elsewhere.[22]

The nonetheless broad scope of the research and its fieldwork generates numerous insights regarding the Somali market and the businesses within them, but it should be kept in mind that Somali market dynamics are not homogenous across the Somali territories, nor across the transnational community, and are evolving and changing rapidly as the economy develops. Dynamics between Somalia, Somaliland and other states vary substantially as a consequence of their distinct clan and historical circumstances. As such, insights gained from the economic development patterns in the Somali territories may be informative, but cannot be expected to hold uniformly across all Somali territories. Extrapolations to other territories that do not take into account local context may thus obscure important differences (for an in-depth discussion of the methodology and its limitations, please refer to the annex).

Structure of the report

This report explores the impact of the transnational businesses active in Somalia on socioeconomic development and governance within the Somali territories. It commences in the first chapter by exploring the development of the transnational Somali community, highlighting how its character changed from the initial dispersal throughout the civil war (and before), through its establishment in its host countries, and subsequently its re-engagement in Somali affairs. It highlights the development and transnationalisation of the Somali community, illustrating the establishment of the transnational entrepreneurship that emerged from it and which has come to play such a big role in Somali economic and social developments. The next chapter further explores the way transnational entrepreneurs operate. It examines the role of transnational entrepreneurship within the Somali context by tracing the business models employed by some of the largest conglomerates active in the Somali territories. It specifically seeks to explore how these companies manage to drive economic growth while also shaping the political environment in order to maintain a favourable business environment, allowing for further growth. Chapter 4 turns attention to these transnational actors' interests in and impact on development in Somalia. It explores the political and societal implications of businesses' activist role, and how it impinges on the interests of other stakeholders within Somalia (especially on political actors, community leaders and the international community). It also explicates how this impact differs in the different contexts of Somalia and Somaliland. Chapter 5 then considers how the influence of

22 See for instance Carrier, N. 2017. *Little Mogadishu: Eastleigh, Nairobi's Global Somali Hub*, New York: Oxford University Press; Abdulsamed, F. 2011. *Somali investment in Kenya*, London: The Royal Institute of International Affairs.

corporate actors on socioeconomic development and governance impinges on donors' (diaspora based) private sector development efforts in the territories. The final chapter synthesises the main findings from across the previous chapters, and sets out concrete recommendations for policy makers active within Somalia to understand and manage the business interests entrenched in the political and statebuilding processes, allowing them to improve the effectiveness of and reduce the risks to programming efforts.

2 The Somali transnational community

Throughout the civil war and the unstable and conflictual developments of the 1990s and early 2000s the majority of productive assets and investment capital that existed under the rule of Siad Barre had been lost: moveable assets had been shifted out of Somalia while immovable assets were either destroyed or looted.[23] The Somali population had also been heavily affected as many fled the country, thus giving rise to a wide dispersal of families and communities that nonetheless strongly identified as Somali. The businesses that arose in this context and subsequently drove the economic resurgence of Somalia were very much a product of these new realities, thriving on the dispersed nature of the Somali community rather than merely coping with it. Thus, in order to understand Somalia's resurgence, the businesses that drove it, and its impact on governance, it is essential to understand the dispersed Somali community from which the Somali entrepreneurs originated and drew their resources. This chapter seeks to explore what this newly established transnational Somali community looks like, the type(s) of entrepreneurship this community gave rise to and the social significance of this development. Subsequent chapters in turn will explore the functioning of the newly established transnational enterprises and their impact on socioeconomic developments and governance.

The dynamics of a transnational community

Relatively small in size, but economically and socially very influential, Somali communities abroad have been the focus of many studies of Somalia's economic resilience in the past decade.[24] These studies have generally referred to these communities as the 'diaspora'. The concept of the diaspora has long been one the main tools in analysing human mobility, used to understand the relation between migrants

23 Hansen, S. 2007. 'Civil War economies, the hunt for profit and the incentives for peace (The case of Somalia)', AE Working paper 1.

24 Some notable works include Hammond, L. et al. 2011. *Cash and Compassion: The Role of the Somali Diaspora in Relief, Development and Peacebuilding*, UN Development Programme (UNDP); Horst, C. 'The Role of Remittances in the Transnational Livelihood Strategies of Somalis', from *van Naerssen*, T., Spaan, E. and Zoomers, A. (2008), Global Migration and Development, Routledge, and more recent Abdi, C. 2017. 'Elusive Jannah: The Somali Diaspora and a Borderless Muslim Identity.' *Journal of Islamic Studies*. 28(2), 261-264.

and their respective countries of origin and settlement.[25] This conventional perspective revolves around migrants' assimilation in their countries of 'settlement' and the impact of their departure on their countries of origin.[26] This dichotomy, however, has increasingly failed to capture the evolving nature both of migrant communities and of their relations with the countries of origin and residence, as it overlooks the increasing mobility and increasing circularity of migrant populations' movements, instead assuming these populations are relatively static.

The concept of a static diaspora is especially problematic when it comes to the Somali community residing outside of Somalia, whose freedom of movement has dramatically increased throughout recent years, as the first generations of Somali refugees across the global North acquired the passports of their countries of residency and started travelling as they reconfigured their social and economic behaviour to the new reality of the vastly increased mobility these passports allowed (see box 1 for a more detailed history of Somali migration in the 20th century).[27] Rather than acting as a group attempting to settle in a new location, Somali migrants have been noted for their ability to adapt their 'nomadic' heritage to life in displacement, maintaining a high degree of mobility and strong social networks that reached beyond the confines of the Kenyan refugee camps (as far as the US and Europe).[28] This phenomenon extends well beyond the refugee communities in Kenya and Ethiopia, with Somali individuals and businesses across the world constantly reconfiguring in complex cross-border patterns of personal and business relations. Recognition of this increasing mobility of many migrant communities has started to shift the policy and academic debate and introduced a

25 One of the most used definitions of diaspora is: '*(e)migrants and their descendants, who live outside the country of their birth or ancestry, either on a temporary or permanent basis, yet still maintain affective and material ties to their countries of origin*', Aguinas, D. and Newland, K. 2012. *Engaging the Asian diaspora*, Bangkok and Washington DC: International Organization for Migration and Migration Policy Institute; The authors narrowed the understanding of diaspora to six essential criteria: dispersion under pressure, choice of destination, identity awareness, networked space, duration of transnational ties and relative autonomy from host and origin societies. See Bruneau, M. 2008. 'Diasporas, transnational spaces and communities'. CNRS – University of Bordeaux, from Bauböck, M. and Faist, T. 2010. 'Diaspora and Transnationalism: Concepts: Theories and Methods', IMISCOE Research, Amsterdam University Press.

26 Tan, Y. et. al. 2018. 'Transnationalism, diaspora and development: a purposive review of literature', *Geography Compass* 12(12), 1-20.

27 For example, a 2009 UNDP study of the Somali diaspora referred to it as a community 'still very much on the move' – with an implicit expectation that the community would at some point not be 'on the move' anymore (*Somalia's Missing Million: The Somali Diaspora and its Role in Development*, UNDP Somalia). Ten years later, Somalis abroad – and especially the economically most active ones – have become only more mobile, building this mobility into the core of their business model, and challenging this static lens.

28 Horst, C. 2006. *Transnational Nomads: How Somalis Cope with Refugee Life in the Dadaab Camps of Kenya*, Oxford: Berghahn.

more dynamic understanding of these groups.[29] Recent studies have accepted actors' tendency to operate across multiple borders and the increasingly complex relations across various economic and social spaces. Moving beyond the concept of the diaspora, they instead introduced the idea of an ever-shifting transnational community spanning several countries.

The concept of the 'transnational immigrant community' first emerged in the context of the studies of advanced industrial liberal democracies – and specifically in the context of the studies of globalisation and the emerging transnational capitalist class, international non-governmental organisations (INGOs) and think tanks/academia. Particularly influential was the shift towards defining and analysing the *transnational social space* that emerged at the turn of the century, facilitated by advances in technology that increased ease of travel, communication and settlement.[30] These transnational spaces were defined as being based on social networks and interpersonal relations – '*relatively stable, lasting and dense sets of ties reaching beyond and across borders of sovereign states*', comprising '*combinations of ties and their substance, positions within networks and organizations and networks of organizations that cut across the borders of at least two national states*'.[31] They are sustained through shared kinship groups, shared circuits and communities of shared values, rather than through the physical proximity of group members.[32]

29 See Bauböck, M. and Faist, T. 2010. *Diaspora and Transnationalism: Concepts, Theories and Methods*, Amsterdam: Amsterdam University Press.

30 '*Transnational social spaces are combinations of ties, positions in networks and organizations, and networks of organizations that reach across the borders of multiple states. These spaces denote dynamic social processes, not static notions of ties and positions. Cultural, political and economic processes in transnational social spaces involve the accumulation, use and effects of various sorts of capital, their volume and convertibility: economic capital, human capital, such as educational credentials, skills and know-how, and social capital, mainly resources inherent in or transmitted through social and symbolic ties.*' Faist, T. 2000. 'Transnationalization in international migration: implications for the study of citizenship and culture', *Ethnic and Racial Studies* 23(2), 189-222.

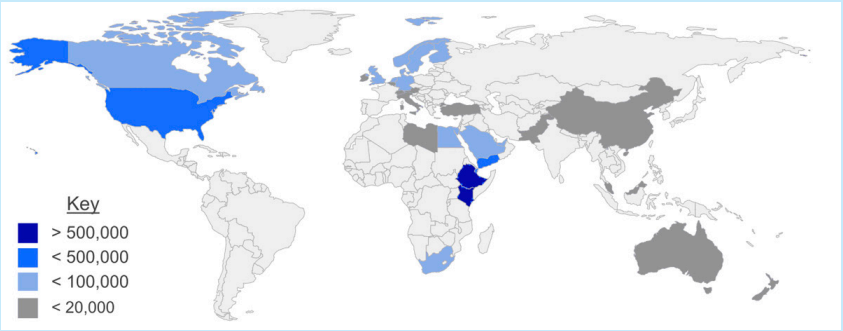
31 Bauböck, M. and Faist, T. 2010. *Diaspora and Transnationalism: Concepts, Theories and Methods*, Amsterdam: Amsterdam University Press.

32 Kinship groups are based on culturally received notions of reciprocity which involve the maintenance of familial obligations. Remittances from immigrants to those in the homeland are a key example of how reciprocity occurs across transnational social spaces. Circuits refer to the circulation of goods, information and people. Economic exchanges constitute one instance of such circuits. In this case they are instrumental in character, predicated on commercial exchange practices that are based on the exploitation of insider advantages in the formation of ethnic trading networks. Communities have been defined as 'aggregates of people who share common activities and/or beliefs and who are bound together principally by relations of affect, loyalty, common values, and/or personal concern (i.e. interest in the personalities and life events of one another)'. This puts the motives for interaction as central to the formation of a transnational community, implying that the existence of a community is subject to changes and fluctuation in the motives. (Brint, S. 2001. 'Gemeinschaft Revisited: A Critique and Reconstruction of the Community Concept', *Sociological Theory* 19(1), 1–23).

Theories of transnationalism posit that the existence of communities in transnational social space has been made possible due to the advances in communication and transportation technologies over the course of the past century. Affordable air travel, the availability of money transfer operators and advances in mobile technologies have created the opportunities for migrants to maintain sustained interpersonal contact with people remaining in their countries of origin as well as with each other, transfer assets and retain a level of agency and influence within these countries. All this has contributed to routinised and frequent physical contact between countries of origin and residence, the relative ease of changing or adding multiple residences and the constant circulation of ideas, goods, and services – as well as a possibility of collective or at least coordinated actions of larger groups of migrants or migrant businesses towards their countries of origin.

Box 1 Somali migration in the 20th century

Figure 3 The Somali diaspora across the world[33]



33 Data derived from the United Nations High Commissioner for Refugees (UNHCR), United Nations Department of Economic and Social Affairs (UN DESA) and UN Population Division, with additional data for country-specific resources from the UK Department for International Development (DFID), United Nations Development Programme (UNDP), Urban Refugees, the Joshua Project, Centerss for Disease Control and Prevention (CDC) and national statistical databases (e.g. Statistics Sweden, Australian Bureau of Statistics). Note that precise Somali diaspora statistics are difficult to gauge for a multitude of reasons. First, the categories in which diaspora data are organised by statistical reporting largely comprise of 'refugees', 'migrants', and 'immigrants'. These over-simplified labels can be problematic as they frame status as a fixed label, ignoring the reality that 'individuals may change status or simultaneously fit in two (sometimes more) pre-existing categories'. See Crawley, H. and Skleparis, D. 2018. 'Refugees, migrants, neither, both: categorical fetishism and the politics of bounding in Europe's 'migration crisis', *Journal of Ethnic and Migration Studies*, 44(1), 48-64. It is worth noting that every country measures census data differently and there are some countries that simply do not capture certain data that may exist in another.

Three waves of migrants from Somalia are generally recognised:

- The first wave predates Somalia's independence. It consisted mainly of seamen from the port cities of the Red Sea, who left Somalia during colonial times and settled predominantly in the UK, in port cities such as Cardiff and London. Tested and challenged, also through high-profile episodes of racial discrimination, those communities have forged a particularly strong Somali identity, and are until this day characterised by strong links with Somalia.
- The second wave originates from the Somali labour force that established itself in the Gulf countries during the 1970s and 1980s, but who were unable or unwilling to return to Somalia due to political instability. In the three decades that have passed since, however, the Dubai-based diaspora has grown and become much more than just an outgrowth of the old labour diaspora. Offering substantive business opportunities, Dubai has attracted members of the so called 'fourth wave' (see below), who have turned it into a vital business hub for the Somali community and economy. '*The UAE has emerged as a hub for Somali business and in the post-civil-war era, Dubai has become Somalia's lifeline.*'[34] The Somali diaspora – old or new – has insecure legal/residency status in Dubai, subject to annual renewals and with weak protection, even for long-term residents. Yet, these regulations have not prevented Somalis that came to Dubai in the 1970s and 1980s, nor their much more educated children, from integrating into the local economy as professionals, rather than entrepreneurs. They have, as a rule, excellent Arabic skills and as the nationals of an Arab league country have access to jobs in public health (at hospitals or pharmacies) and law enforcement (police). Other jobs include retail businesses or even local media.[35]
- The third wave consisted of refugees who escaped from civil conflict and who form the bulk of the current diaspora, numbering around one million. Some fled to refugee camps in neighbouring countries, others had been studying outside Somalia or belonged to the diplomatic corps of the Somali state, and others happened to be outside the country in 1990 at the time

In countries such as UAE, census data is not split by nationality, making it difficult to gauge the size of the Somali community. Countries like UAE, China, Malaysia and Turkey have known populations of Somalis that are unreported. A number of interviews have been conducted to fill in gaps where recorded statistics are missing. Also note that Somalis are often travelling on passports from other countries, with no recorded registration listing them as Somalis. Lastly, it should be kept in mind that the population of Somalis in Yemen may have declined since the start of the war in 2015.

34 Wikileaks. 2008. 'Somalia - Political Perspectives from Dubai', 20 November, https://wikileaks.org/plusd/cables/08NAIROBI2619_a.html, (accessed 20 May 2019).

35 Abdi, C. 2017. *Elusive Jannah: The Somali Diaspora and a Borderless Muslim Identity*, Minneapolis, MN and London: University of Minnesota Press.

of the state collapse. The first refugee flows came out of Somaliland into Ethiopia at the time of the destruction of Hargeisa in 1988. This was followed by a mass movement of Somali refugees into Kenya in the early 1990s, during the period of intense conflict in Mogadishu and violence and famine in Southern Somalia. A third group consisted of the relatives left behind who later benefited from family reunion programmes and joined relatives who had settled in western countries. Many came through different – often irregular – channels facilitated by those established outside the country.

- Though not widely recognised, a smaller, 'fourth wave' of Somali migration can be distinguished. This wave took place in the mid-2000s: these were EU-based Somali migrants, mainly from Scandinavian countries and the Netherlands, who left under the combined pressure of anti-Muslim discourse prevalent in the national-level politics of north-western Europe until today and due to perceived red tape. This wave migrated to the UK, where they felt they could enjoy more religious and cultural freedom, and set up their businesses more easily. They settled on the basis of their EU citizenship, increasing the strength and the size of the UK-based Somali diaspora.

In their host countries, Somalis are commonly classified into three main groupings, regardless of the wave of which they were a part and despite their different characteristics in terms of age, qualification, livelihood patterns and level of integration into the host societies as well as their relation to Somalia.[36] The first is the generation of fathers and mothers who settled in the host countries as refugees, often having spent time in refugee camps in neighbouring countries. The second category is the children of these families who either accompanied their parents or were born in the host country. The third category is the latest arrivals, the young generation, with or without skills and educational qualifications, who went to the West for economic reasons through family reunion programmes or any other means. Of these three groups, the first and the third are generally considered to be most strongly attached to Somalia – providing help to relatives left behind by either arranging sponsorship to bring them to the West or sending money to support them in Somalia. This group has been described as '*the centripetal force that constantly maintains and reinforces the bonds with the homeland through marriage, philanthropy and business undertakings*'.[37] But this generational divide is fluid, with second-generation Somalis re-engaging with their regions of origin – either temporary or more permanently – as qualified experts or entrepreneurs, carefully balancing this re-engagement with other, often multiple, aspects of their identities.

36 *Ibid.*

37 *Ibid.*

The emergence of transnational entrepreneurship

Considering the Somali migrant community as a transnational community is key to understanding the way it functions and exerts its (economic) influence. The emergence of this transnational community went hand in hand with the emergence of *transnational entrepreneurship*: a form of entrepreneurship that includes border-crossing businesses[38] that rely on the existence of dual cultural, institutional and economic features[39] and involve at least the countries of origin and destination, if not more. It is a '*new economic practice that goes beyond the traditional remittances, since it mobilizes the competencies, skills, social and cultural capitals acquired by migrants during their incorporation processes*'.[40] The transnational approach allows for an analysis that encompasses the extent of their circulation across borders and business cultures, as well as the extent to which they have incorporated the political and economic realities of Somalia and Somaliland into their business models – hedged, as it were, their professional bets on it. In practice, transnational entrepreneurship has rapidly become a defining feature of the contemporary Somali economy and state-formation process, as a number of transnational entrepreneurs have become key actors in the Somali political economy.

Since the early 2000s many Somali entrepreneurs have expanded their businesses to include several countries: many businessmen are not based where their family is based, and neither part of the family is static/remains in one location. Numerous Somali entrepreneurs' careers have taken them through a number of different jurisdictions – leading them, for instance, to change their residence from the UK to Dubai, while maintaining close ties to the community in Somalia and Europe, all the while traveling to Somaliland for sales or to China for their procurement, while their children study in Turkey or Malaysia. Statistics are very hard to come by, but the evidence available presents a picture of a business community that at the top layers exhibits the characteristics of a transnational community and transnational entrepreneurship in an extreme form.[41] At lower layers, the Somali transnational community exhibits different forms of engagement, which are often dependent on individuals' prosperity, wealth as well as business and personal ambitions, all contributing to the economic dynamics within Somalia. Across the Somali business community, three general modes of economic engagement with Somalia can be distinguished.

38 Zapata-Barrero, R. and Rezael, S. 2019. 'Diaspora governance and transnational entrepreneurship: the rise of an emerging social global pattern in migration studies', *Journal of Ethnic and Migration Studies*.

39 Drori, I., Honig, B. and Wright, M. 2009. 'Transnational Entrepreneurship: An Emergent Field of Study', *Entrepreneurship Theory and Practice 33*(5), 1001–1022.

40 *Ibid.*

41 Somalia and Somaliland have poor national-level statistics, while in their other countries of residence Somalis are not registered as a separate category nor can they self-identify as such (for instance, in the UK they often fall under 'other' or those from the fourth wave under 'EU migrants').

The first and widely described form of engagement is through *remittances*. The economic engagement of the Somali population abroad with their homeland was, in the beginning of the civil war, mainly kinship-based, and built around refugee communities' provision of remittances. A significant part of the Somali community abroad is still not very well off, and is still mainly engaging with Somalia and Somaliland within this framework, with remittances as the main contribution to the economic development of the country. Somalis abroad are presumed to be remitting around USD 1.3 billion annually to Somali regions,[42] an amount used to boost the purchasing capacity of their families in Somalia and possibly also to help family members start micro-businesses, more for sustenance purposes than as any form of 'investment'.

A second modality is through the *operation of small, medium and even micro enterprises*. This modality was made possible as Somali regions stabilised and opportunities for business engagement grew, leading some members of this community to mobilise 'the competencies, skills, social and cultural capitals acquired' to re-engage with their country of origin. A lot of Somali transnational businessmen operate at the level of small or even micro business – almost a third of respondents in a survey of Somali diaspora investment identified themselves as '*owners of a Somali business*'.[43] This is not surprising given the low entry barriers to small and micro business across the Somali regions – or the lack of other employment opportunities. Many of these businesses should be classified as 'enterprises of necessity' rather than opportunity and also a kind of social investment – as well as an attempt to reconnect with the country of origin, pay a debt to one's clan/family of origin or create a possibility for a return at some later date.[44] This number also tallies well with the expressed intent of almost three-quarters of the respondents to return to Somalia/land at some point.

The third, and most influential modality, is the role as *transnational entrepreneur*. The past decade has witnessed the emergence of a transnational Somali business class in pure form – with large-scale enterprises run by Somalis with dual or multiple nationalities, operating across various jurisdictions, albeit firmly anchored in the specifics of the multiple Somali economic realities, and incorporating them at the core of their business model. Somali transnational entrepreneurs running large enterprises most often have at least dual nationality, which allows them to move across multiple borders, select from a range of residences and have footholds in several countries. Somali transnational entrepreneurs are also quite mobile and tend to follow the opportunities that are often

42 Benson, J. *et al.* 2016. *Somali Diaspora Investment Survey Report: Typologies, Drivers, & Recommendations*, Shuraako.

43 *Ibid.*

44 For a discussion on necessity and opportunity-driven entrepreneurship, see: Schumpeter, J. 1934. 'The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle', *Harvard Economic Studies*, 46.

transmitted through social networks – although this holds in equal measure for the less-affluent members of the community.[45] The business practices and processes in which the Somali transnational business community are engaged are also often spread through several different countries, with Dubai and to a lesser extend Djibouti, featuring as the main financial and business hubs. Many key Somali businesses, including the well-known money transfer operator (MTO) Dahabshiil, are headquartered in Dubai while their boards of directors are staffed by Somalis with a UK or other nationality. The level of mutual interdependence between the fortunes of these well-off Somali transnational entrepreneurs and the governance systems in Somalia is unprecedented in comparison to other transnational communities, and their interactions significantly influence the political and economic dynamics of Somali regions.

One of the key characteristics of Somali transnational enterprises is that their earning model is built around the Somali markets.[46] The idiosyncrasies of the Somali economy are not just something that these big transnational companies cope with – they are at the very core of these companies' business models, whether the model is built around the lack of a banking system, ubiquity and the importance of mobile technologies, or even the actual absence of certain market elements, such as for instance insurance. As a consequence, the entrepreneurs managing these enterprises are highly interested in – and likely ready to influence – the developments in their country of origin, and actively engage in domestic political and economic issues in order to steer outcomes. The Somali business class has thus become an important driver of both the Somali economic resurgence as well as political developments (see box 2).

These enterprises also serve as veritable hubs, where exchanges of 'competencies, skills, social and cultural capitals' take place, and know-how and practices are transferred. One of the most striking examples of this slow but impactful human and social capital transfer is the fact that the most powerful businesses in Somalia and Somaliland operate as relatively well-developed shareholder companies, not just abroad where they are formally incorporated, but also in Somalia or Somaliland where there is no legal framework to support actual national-level incorporation or financial trading. An especially illustrative case were the entrepreneurs that brought to Somaliland a nascent self-regulating insurance business, even though there are no insurance laws in the country – applying to their operations the legal and business know-how acquired abroad (see box 3).

45 Interviews illustrate various examples of the impact of such networks in many different situations – choosing the place of residence, the manner of engagement with Somali regions or the networking that facilitates engagement with economic realities on the ground.

46 Although some of the more recent ventures in the Somali oil and gas market have somewhat shifted this model by including Kenya as a key market.

While donors across the OECD countries have, to different extents, invested in reconnecting Somalis abroad with the economy of their country of origin, this process is by no means donor-driven. Somali transnationalism is very much a grassroots phenomenon and Somali migrants are certainly pursuing 'border-crossing business activities involving their country of origin and destination' with vigour and inventiveness. They are pooling and mobilising the financial capital of Somali communities across the world as well as their own social capital inside Somalia and Somaliland and building successful large-scale businesses that now dominate the economic landscape and have outgrown the fledgling public sector.

Box 2 A transnational powerbroker

He left Somalia long before the civil war, to study in the US, where odd student jobs were his main sources of income. When he saw a petrol station for sale, he found a way to up his credit card limit and make his first investment. Several petrol stations and a career in stock trading later, he returned to Somaliland – a US passport holder and with good family ties to local politics. This background allowed him to capitalise on the opportunity to handle the logistics for food aid coming into the country, later evolving into wider port-related businesses and supporting the development of a number of TV channels. His media company now stretches across the region, with stations operating in Ethiopia and Djibouti, allowing him to influence political agendas, and at times present more politically risky stories regarding government mismanagement or corruption. Although these channels risk being shut down, he can still channel through his media companies abroad. His siblings are already in high government posts. He matter-of-factly admits he harbours highest political ambitions: '*This country is ruled by poor people. But poor people are hungry for wealth, they cannot rule well.*'

Social embeddedness of transnational entrepreneurship

The links between transnational businesses and governance models will be explored at length in the following chapters, but it should be recognised that in addition to profit and rent-seeking motives, transnational entrepreneurship also has an important societal function independent of the enterprises' bottom line. In particular, investors in SMEs in Somali territories are often motivated if not by an idealised concept of return, then certainly by an equally idealised concept of contribution to the country's development. Numerous interviews conducted for this study show that the notion of reconnecting with the country and its society looms large in this group, fuelled in equal measure by a sense of kinship and interdependency at the extended family scale, as well as by the increasing opportunities to play a meaningful role in the country's development (often through conducting projects rather than paying taxes) and perhaps also gain a kind of

social status that may not be available in the country of residence.[47] This also ties into a notion of reconnecting with the society by bringing something to it – be it access to aid money, jobs or ideas.[48] It has by now become a fairly common point that remittances may be an essential obligation among many diasporas groups, but in the Somali context, in order to earn one's right to be fully part of the community again – e.g. compensate for the absence during the conflict – more than remittances is needed.[49] This commitment goes beyond the business investments – some Somali interviewees insisted that their reconnecting with the homeland was predicated on whether they actually brought their children and families with them.[50]

What underlies these affective and societal attitudes is also a sense of complex societal obligations stemming from the nature of clan ties and customary law (*Xeer*) that directly or indirectly introduced responsibility of the family/clan for transgressions committed by an individual family/clan member through a system of detailed penalties that often required the social and economic resources of an extended family.[51] While it would be a grave simplification to make a direct connection between the sense of shared clan obligation and today's societal structure and mechanisms in Somalia, many interlocutors recognised the ongoing pressure of one's reputation being seen through the clan lens, but also affecting the overall social standing of the extended family/clan. Individual Somali businessmen, working as professional service providers, in SMEs and in large conglomerates, continue to see themselves also as part of a community – and are beholden by it, for better or worse. Community relations are therefore always present in the functioning of transnational businesses, through religious payments such as *zakat*, but also through elaborate corporate social responsibility programmes that serve multiple purposes, which will be discussed in detail later in the study.

47 Interviews with various transnational Somali actors and entrepreneurs in the UK, Dubai and Somaliland.

48 Interview with a European academic, The Hague, December 2018.

49 Returnees seen as not contributing are frequently negatively viewed as '*Dhaqan Celis'* (culture returnee) or temporary returnees attempting to profit from aid-flows (Interview with a Somali academic, Dubai, December 2018); for a detailed discussion on the affective attitudes towards remittances, see also Mohamud, M. 2014. 'The "Ideal" Return', *Horn of Africa* 2012(2), http://afrikansarvi.fi/ issue8/82-artikkeli/223-the-ideal-return (accessed 20 May 2019).

50 Interviews with Somali diaspora professionals, Bristol, December 2018.

51 For an in-depth description of origins and structure of *Xeer*, see Mohamed, J. 2007. 'Kinship and Contract in Somali Politics', *Africa* 77(2), 226-249.

What all Somali transnational entrepreneurs seem to share is a sense of vast opportunities for business growth and recognition of personal importance often denied to them in the countries of settlement but offered by their country of origin. *'In the West one needs to struggle to come up with an original idea and find a niche in the market – here, every idea is new.'*[52] This wealth of opportunities they have readily embraced, contributing to a rich and textured economy, although it has also created some potential challenges.

52 Interview with a diaspora entrepreneur, Hargeisa, February 2019.

3 Business without borders

As discussed above, the Somali economic model has relied heavily upon its population abroad as a key asset, for instance for the sourcing and financing of goods required domestically. As frequently noted by international observers, remittances have long formed the backbone of the Somali economy, fuelling domestic consumption of imported goods and providing small-scale investment capital for small enterprises.[53] While such activities bridged the country through periods of drought and severe conflict, its significance has been declining as the Somali economy developed from a war economy into a viable domestic market in its own right, most notably since 2011. Such developments have given rise to increasing urbanisation as well as returns from Somalis abroad, and has significantly raised housing prices and rental fees while remittance levels have remained relatively stable.

While the significance of remittances declined, rapidly rising Somali demand for an increasingly wide range of goods and services, as well as the restart of the container terminals in both Berbera and Mogadishu, have provided substantial opportunities that few small and medium enterprises have managed to step up to due to various growth constraints. Paradoxically, although economic opportunities increased, a range of smaller companies have given way to a few major transnational conglomerates serving most of the market.[54] In effect, the formerly significant role of remittances flowing from the transnational community has largely been eclipsed by transnational businesses servicing the Somali markets while keeping a foot in the international Somali community as well.

In order to assess the impact of transnational businesses operating in Somalia on socioeconomic developments and governance, this chapter explicates the business models these corporations have used to capture significant shares of the market and presents an in-depth examination of some of the largest transnational conglomerates. It specifically seeks to explore how these companies manage to drive economic growth while also shaping the political environment in order to maintain a favourable business environment, allowing for further growth. Subsequent chapters will, in turn, explore how the operations of these transnational business models have affected socioeconomic

53 Benson, J. *et al.* 2016. *Somali Diaspora Investment Survey Report: Typologies, Drivers, & Recommendations*, Shuraako, 22; Lindley, A. 2007. *Remittances in Fragile Settings: a Somali Case Study*, HiCN Working Papers 27, Households in Conflict Network; Hammond, L. *et al.* 2011. *Cash and Compassion: The Role of the Somali Diaspora in Relief, Development and Peace-building*, UNDP.

54 Interview with Somali logistics and trading company, Dubai, December 2018.

developments and governance. However, before exploring the transnational business models themselves, it is important to consider the relatively unique domestic Somali business environment in which they operate.

Somali exceptionalism

> *There is no government, that is the only odd thing about Somalia. Understanding this is the only barrier for foreigners [...].*[55]

While not strictly correct, the lack of governance noted by a management-level employee of a major Somali money transfer operator (MTO) does reflect a key aspect of the business environment in Somalia and Somaliland. While both Somalia and Somaliland have a formal government, its organisation is relatively small, weakly institutionalised and commands limited authority (especially in comparison to the far-more developed business community). The ability of individual governmental entities to act is further constrained because of a weak institutional capacity, an unclear regulatory environment, a weak information position (especially the lack of financial reporting among businesses), and insufficient staff capabilities (reinforced by clan-based hiring policies).[56] While many of these institutional weaknesses are by no means surprising nor unique, given the fragile environment and violence of the 1990s, it should be kept in mind that government weakness may also be partially by design, given Somali cultural antipathy towards formal government as well as shared memories of state oppression and exploitation under Siad Barre.[57] Although tracing the historical causes of state weakness is beyond the scope of this report, it is important to highlight that as a consequence of this severe weakness no Somali state institution has been able to take a major role in the development of the Somali territories. While the Mogadishu government has been noted for its extraversion and rent seeking, and the Somaliland government as a relatively stagnant institutionalised clan-power-sharing agreement, it has been the private sector that has taken the lead in the economic development of the area.[58]

55 Interview with a Somali MTO director, Dubai, December 2018.

56 Isak, N. 2018. 'Challenges of Domestic Revenue Mobilization in Somalia', *International Journal of Economics, Commerce and Management* 6(9), 172-181; World Bank Group. 2018. *Federal Republic of Somalia systematic country diagnostic*, Washington DC: World Bank.
Group; Interviews with a Somaliland diaspora civil servant, a Somaliland minister, and an entrepreneur in the construction sector, Hargeisa, February 2019.

57 Leeson, P. 2007. 'Better off stateless: Somalia before and after government collapse', *Journal of Comparative Economics* 35(4), 689-710.

58 Menkhaus, K. 2018. *Elite Bargains and Political Deals Project: Somalia Case Study.* UK Government Stabilisation Unit; Hagmann, T. 2016. *Stabilization, Extraversion and Political Settlements in Somalia*, London: The Rift Valley Institute; Hoehne, M. 2013 'Limits of hybrid political orders: the case of Somaliland', *Journal*

Private businesses are the main development actors throughout Somalia (supplemented by a number of international development actors), and have operated largely unchecked by any kind of authority. Whereas in most oligopolistic systems under study it was a government that created a state-owned enterprise or protected an existing major enterprise's privileged market access (e.g. either through formal arrangements as with Samsung, Hyundai or LG in South Korea, METEC or Ethio Telecom in Ethiopia, or through more through informal structures such as the privatisation of state companies in Russia or the Gupta family's companies in South Africa), in Somalia the case is reversed. In the Somali case it was the private sector that created and consolidated a market, largely in the absence of any kind of formal governance, and in many cases, it is private enterprises supporting governing institutions to the extent that doing so protects their control over a given market. In contrast to other oligarchic systems it is thus not a state institution or individual politician acting as a patron of a (privatised) company, but rather state institutions are acting as subsidiaries of the major business conglomerates.[59] Similarly, the tendency of oligarchic systems to protect the status quo in order to maintain a stagnant market, preserving the company's dominance over a market is largely absent throughout Somalia.[60] Instead, Somali companies are pushing rapid economic developments, and their support for political changes depends on the extent to which they align with the company's growth strategy.[61]

In addition to the differentially balanced state-business relation, the frequently observed oligarchic phenomenon of worsening socioeconomic outcomes (mostly approached through income inequality) does find its reflection in the Somali system.[62] While some actors most definitely managed to maintain or acquire wealth throughout the civil war period, the vast majority of the population lost whatever possessions they previously

of Eastern African Studies 7(2), 199-217; Interviews with Somaliland ministers, a Somaliland diaspora civil servant, Hargeisa, February 2019.

59 See *Somaliland Chronicle*. 2018 'How Somaliland Parliament became a wholly owned Subsidiary of Dahabshiil', August 19, https://somalilandchronicle.com/2018/08/19/how-somaliland-parliament-became-a-wholly-owned-subsidiary-of-dahabshiil/ (accessed 29 May 2019).

60 Michels, R. 1911. *Political Parties: A sociological study of the oligarchical tendencies of modern democracy*, New York: Hearst's International Library Company. In many oligarchic systems this leads to a status quo bias and economic stagnation that risks becoming obsolete compared to advancements internationally. In Somalia, in contrast, the oligarchic actors seem to maintain an interest in economic and technological advancements in order to grow the markets in which they operate.

61 For example, large MTOs have successfully resisted revisions to Somaliland banking regulations, which risked opening up the sector to new entrants, on the basis of Sharia-compliant financing arguments. Interview with an American Academic, Hargeisa, February 2019.

62 Fogel, K. 2005. 'Oligarchic Family Control, Social Economic Outcomes, and the Quality of Government', *Journal of International Business Studies* 37(5), 603-622; Michels, R. 1911. *Political Parties: A sociological study of the oligarchical tendencies of modern democracy*, New York: Hearst's International Library Company.

had and was left fairly destitute. Coupled with the relatively flat nomadic organisation principles and the limited degree of urbanisation, Somali society emerged from this period with relatively low levels of inequality.[63] Rapid economic developments over the past few years have introduced a degree of organisation, however, widening the gaps between different socioeconomic groups. This widening inequality is a relatively new phenomenon, and is not widely recognised within Somalia.[64] It has, however, been feeding increasing local resentment within the private sector and political sphere. Smaller enterprises especially have faced reduced opportunities to maintain their position in the market and compete in government tenders due to their weaker political connections. Outside of the business community, the extent to which people's clan-based representatives in politics are really improving clan members' fortunes is increasingly being questioned. Most notably, young people attempting to obtain a job are increasingly disillusioned with the extent to which their clan connections can get them ahead, given the major salary discrepancies between most governmental patronage positions and positions in the private sector that are accessible mostly to better educated sections of the population.[65]

The transnational business model

The sustained economic growth in Somalia over the past years has created opportunities in a wide variety of sectors, drawing in a wide range of investors from across the transnational Somali community. The majority of diaspora investors and domestic entrepreneurs indicate the availability of profitable opportunities which they have been able to capitalise on, yet growth opportunities have been more constrained and are not a realistic perspective for all actors involved.[66] A select few private actors have been able to benefit disproportionately from the opportunities available, and have developed in large conglomerates with rapidly growing operations in a majority of markets. While the relatively advanced remittances/MTO markets have frequently been cited as the

63 Interview with an entrepreneur in the construction sector, Hargeisa, February 2019. Note, however, that considerable socioeconomic differences have long existed between the four major clans and minority clans (Lewis, I. 2003. *A Modern History of the Somali: Nation and State in the Horn of Africa*, London: Longman).

64 The focus has mostly been on the distribution of resources between clans, rather than on distribution between individuals within a given clan (Interview with a Somaliland diaspora civil servant, Hargeisa, February 2019).

65 Interviews with a Somaliland diaspora civil servant, a transnational entrepreneur and a Somaliland entrepreneur, Hargeisa, February 2019.

66 Benson, J. *et al.* 2016. *Somali Diaspora Investment Survey Report: Typologies, Drivers, & Recommendations*, Shuraako, 31; Interviews with entrepreneurs in the logistics sector, Dubai, December 2018; Interviews with transnational and national entrepreneurs in the media, construction and manufacturing sectors, Hargeisa, February 2019.

key drivers of growth, and most conglomerates maintain significant operations in these markets, the importance of profits from this market should not be overestimated.[67] For example, assuming that Dahabshiil, the biggest MTO in Somalia, manages to capture a 75% market share of Somali remittances (about USD 1.3bn, 60% of which is funnelled through MTOs), earning 5% in fees over the transfers leads to a relatively modest annual revenue of approximately USD 29m.[68] This is unlikely to cover the company's operating costs, as it employs about 5,000 people managing its network of roughly 24,000 agents across 126 countries.[69] Although Dahabshiil has also tapped into non-Somali remittance corridors (most notably in Asia), it should be clear from this example that profits from Somali remittances alone cannot adequately account for the substantial growth the company has gone through.[70] The company has therefore established a wide variety of other operations in markets such as micro finance, property, cement, electricity, food, cars and the exploitation of a shopping mall (see figure 4).

Profitable business opportunities are readily available in developing markets such as Somalia.[71] The actual constraint that most Somalia companies face is growth potential. The importance of a core market such as remittances helps companies overcome this constraint, not through the profits earned but by the access to liquidity. In a market where nearly all goods and assets are imported, the importance of having access to substantial capital (especially in hard currency) is the key factor to transforming a small-

67 Randa, J. and Musuku, T. 2018. *Rapid Growth in Mobile Money: Stability or Vulnerability? (English)*. Somalia Economic Update; No. 3. Washington, DC: World Bank Group; Orozco, M. and Yansura, J. 2013. *Keeping the lifeline open: Remittances and markets in Somalia*, https://oxfamilibrary.openrepository.com/bitstream/handle/10546/297149/bp-keeping-lifeline-open-somalia-remittances-310713-en.pdf (accessed 29 May 2019).

68 Data based on Orozco, M. and Yansura, J. 2013. *Keeping the lifeline open: Remittances and markets in Somalia*, https://oxfamilibrary.openrepository.com/bitstream/handle/10546/297149/bp-keeping-lifeline-open-somalia-remittances-310713-en.pdf (accessed 29 May 2019); Dahabshiil. 2011. 'Dahabshiil CEO Reveals Secret to International Success in Financial Times Interview', *All Africa*, July 8, https://allafrica.com/stories/201107081390.html (accessed 29 May 2019); Dahabshiil. 2019. 'About us', https://dahabshiil.com/about-us (accessed 29 May 2019); King, A. 2003. *Hargeisa Urban Household Economy Assessment*, FEWS NET, http://fews.net/sites/default/files/documents/reports/so_baseline_urban_Hargeisa_en.pdf (accessed 29 May 2019); Interviews with a Somaliland minister and a director of a large MTO, Hargeisa and Dubai, December 2018 – February 2019.

69 Assuming all staff work at fully loaded costs of USD 1,500/month implies annual costs of USD 36m (interview with a Somaliland Minister, Hargeisa, February 2019). Note this calculation assumes there are no non-HR costs involved in making a transfer, and does not take into account any other operating costs such as buildings, IT and other indirect spend, marketing costs, non-payroll security expenses, fixed costs or zakat contributions, etc. Dahabshiil. 2019. 'Careers', https://www.dahabshiil.com/careers (accessed 29 May 2019).

70 Interview with a director of a large MTO, Dubai, December 2018.

71 Interview with entrepreneurs in construction and manufacturing, Hargeisa, February 2019.

scale start-up into a fully-fledged business. Even short-term access to such liquidity can be rapidly leveraged into further growth, given the generally high profit margins, short cycle times and limited upfront investments required for most types of business in Somalia.[72] Given its strategic importance, access to liquidity is tightly controlled to maintain competitive advantages. While many markets are easy for new players to enter, there is fierce competition in those core markets from which major conglomerates draw the foreign currency that fuels their operations in other potentially profitable markets. This liquidity disparity is further entrenched through both a weak financial regulatory environment as well as other more protectionist regulations limiting the scope of foreign funding to enter Somalia without a strongly established domestic partner. In Somaliland, established *hawala* money transfer agencies have been remarkably effective at leveraging rather unique requirements of Sharia-compliant financing to protect their control over financial flows.[73]

A consequence of the poor availability of capital and credit/financing modalities is the strong limits it places on the establishment of small enterprises as well as their ability to scale up, forcing existing SMEs to rely solely on organic growth. Taking up a larger projects requiring an upfront investment is simply not feasible given the constrained working capital.[74] Liquidity constraints form an artificial limit to the development of the SMEs, in particular limiting the emergence of medium-sized enterprises able to compete with the conglomerates (also see box 3).[75] This, in turn, limits the demand for a more transparent and level playing field that medium enterprises require to compete with larger competitors, allowing the close ties between business and political actors to endure. Effectively, the overall size and turnover of a company across its markets becomes a key competitive criteria, allowing it to rapidly capture market shares in other profitable markets and to maintain a favourable political environment to protect it.[76]

72 Interview with an entrepreneur in logistics, Dubai, December 2018; interviews with entrepreneurs in the construction sector, Hargeisa, February 2019.

73 Interviews with entrepreneurs in construction, a Somaliland minister and a Somaliland diaspora civil servant, Hargeisa, February 2019. Please note that the *hawala* money transfer agencies by no means limit their commercial activities to money transfers; they are also large players in other markets in Somaliland. While Sharia-compliant finance is by no means unique to Somaliland, it is rare for such regulation to prohibit the existence of traditional banking. Most countries operating a Sharia-compliant financial system, such as KSA and UAE, allow for the existence of regular banking by its side.

74 Interview with an entrepreneur in construction, Hargeisa, February 2019.

75 There is competition between conglomerates, but smaller companies mostly function as distributors if they have to share a market (with the conglomerates acting as wholesalers). Interview with an entrepreneur in logistics, Dubai, December 2018.

76 Interview with an entrepreneur in consulting, Hargeisa, February 2019.

Box 3 Prospects for small and medium enterprises

In addition to the major conglomerates and a few other large companies, numerous SMEs operate across a wide range of sectors in Somalia. The constraints on SMEs arising from the conglomerates' business models are substantial, however. While familial links are often cited as a source of start-up finance, the fact remains that such capital remains poorly available to less well-connected individuals, thus limiting them to sectors requiring limited up-front investments.[77] While social networks do support raising capital, the potential volume reached is limited in comparison to what the conglomerates have at their disposal. Additionally, '*If a small company is successful, the conglomerates will offer the same service, on a larger scale, on a better location, with a bigger sign, leveraging their economies of scale.*'[78] Small companies offering innovative services are thus frequently outspent by larger competitors, and are often unable to compete. Others that do manage are at times bought out.[79]

The small companies that manage to establish themselves, generally in the more open sectors of the economy, can frequently reap considerable profit margins.[80] Nonetheless, their growth is constrained, and many fail to grow to medium-sized enterprises. One of the constraints to growth is caused by the liquidity constraints, making it hard for successful businesses to access loans to support their growth. Yet the limited availability of business and technical skills has also created substantial impediments. In particular, many construction companies have failed in the course of larger projects due to miss-estimations of term project costs, cash-flow problems throughout the project, or errors in the application of more advanced construction techniques.

With a few notable exceptions (such as telecoms, livestock and some agricultural products) most consumption within Somalia is served through imports from abroad rather than domestic production (e.g. approximately 80% of products in Somaliland are imported).[81] As such, barriers to entry, like initial capital requirements or specialist skills, are low for most markets, and government regulations and controls over imported goods are weakly developed and poorly enforced. The growth strategies of most of the

77 Benson, J. et al. 2016. 'Somalia Diaspora Investment Survey Report: Typologies, Drivers, & Recommendations.'; Interview a Somaliland Minister, Hargeisa, February 2019.

78 Interview with an entrepreneur in consulting, Hargeisa, February 2019.

79 Interview with a Somali academic, Dubai, December 2018.

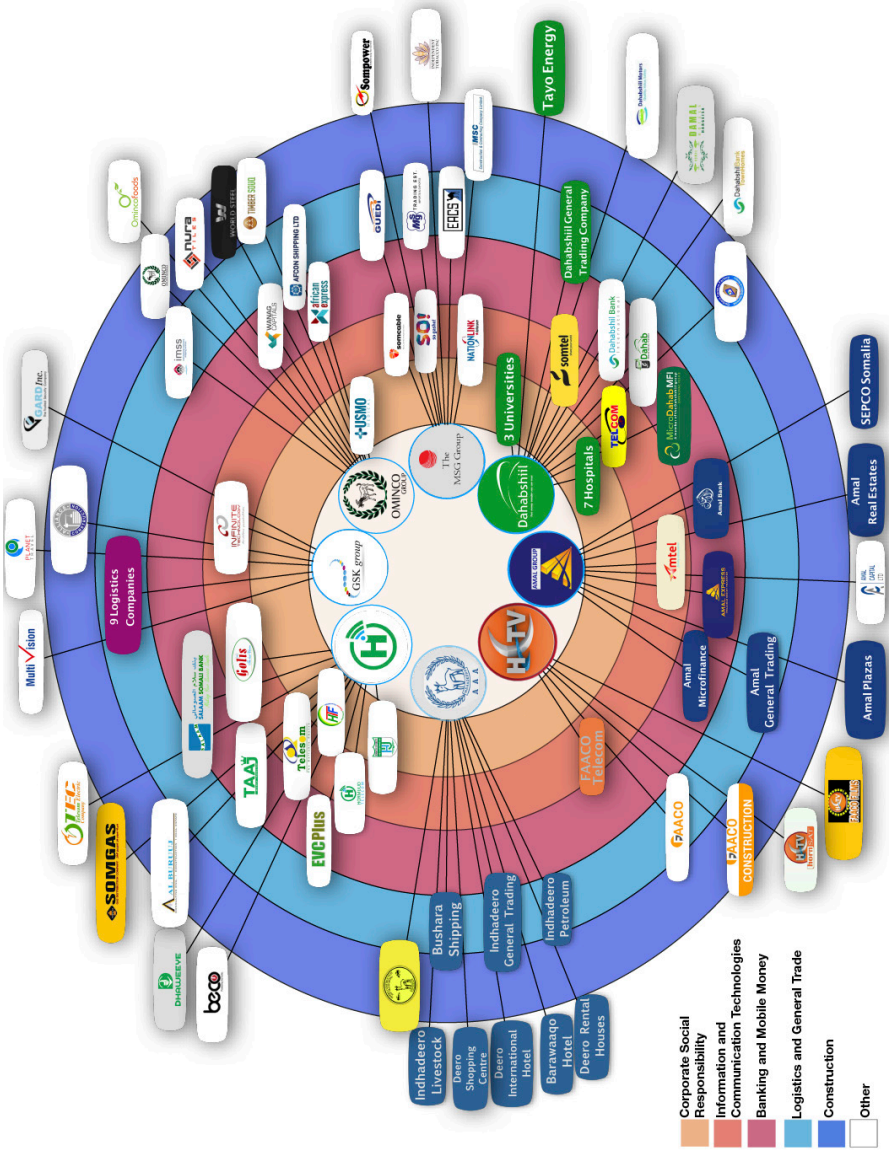
80 For instance in construction. Interviews with entrepreneurs in construction, Hargeisa, February 2019.

81 Interview with a representative of the Chamber of Commerce, Hargeisa, February 2019; Interview with entrepreneurs in logistics, Dubai, December 2018.

major conglomerates appears to capitalise on this situation: rather than reinforcing their competitive advantage in a select number of markets most of the major conglomerates have scrambled to gain a foothold in a wide variety of markets, often unrelated to their core business (such as rice, cars, electricity, hotels, construction and property – see figure 4). Given that the majority of these goods are imported, these companies can frequently leverage a scale advantage by being able to move goods in container volumes rather than smaller freights. This has allowed them to take up positions as one of few wholesalers, forcing smaller less capitalised players in the market into roles as distributors or retailers.[82] Nonetheless, (price)competition with other conglomerates has so far been considerable, and has been offset mainly by companies pushing for further protectionist measures and preferential access to key formal and informal institutions to further entrench their positions (see box 4 for an example).

82 Interview with an entrepreneur in logistics, Dubai, December 2018.

Figure 4 The eight most influential transnational businesses in the Somali territories and their related entities across sectors[83]



83 The nature of the relationships noted varies considerably, given the ambiguity in their regulatory environment, and can for instance range from a formal subsidiary or joint venture arrangement to a non-formalised partnership, a department, or the company acting as a major charitable funder of a non-profit organisation. Similarly, ownership structures vary, and may take forms such as a formal

With the importance of companies' relations to formal and informal governance structures, the corporate social responsibility (CSR) departments of the major Somali conglomerates serve an important strategic function. These departments are well funded and highly professionalised, work in close coordination with higher management, and allocate a substantial amount of funds that often equals corporate zakat contributions (which are generally 10% of net income, although figures up to 20% have been noted).[84] Zakat contributions are generally directed toward charitable organisations and projects, working mainly on traditional humanitarian issues. While donations to, for instance, drought relief are undoubtedly appreciated, they are rarely publicly announced nor directly related to a pay-off.[85] CSR contributions, on the other hand, are generally characterised as 'community projects', with a developmental focus, in response to project proposals or requests from the community.[86] While projects may vary considerably, from education to healthcare to infrastructure development, their implementation is generally characterised by a far more targeted and visible approach. Community requests often arise in the form of (clan) elders making direct requests for funding at branch offices, suggesting to personally implement projects targeting clearly defined beneficiaries.[87] The direct nature of the social services provided effectively allows the company to develop its own social contract with the community in question, thus securing a licence to operate in the area. It has also allowed major conglomerates to enjoy relatively high levels of trust from the general population, whom have generally been wary of new entrants and been slow to make use of their services.[88]

shareholder structure (often under UK law through incorporation in Dubai) or an informal group structure with a shared CEO delegating branches of the company to family members. As a consequence, relationships shown above may not always be documented nor formalised, and may only be evident in the practical operations of these companies. For ease of presentation, several companies have been grouped together: '9 Logistics Companies' under GSK Group are Djibouti Container Freight Station, Djibouti Shipping Lines, East Africa Holdings, General Transport Services, Integrated Shipping Services, OGF Shipping, Premier Shipping Agency, Red Sea Express and Three Sixty Stevedoring; '3 Universities' under Dahabshiil are Hargeisa University, Amuud University and Mogadishu University; '7 Hospitals' under Dahabshiil are Benadir Hospital, Burao Hospital, Garoowe Hospital, Hargeisa General, Las Anod Hospital, Kaysenay Hospital and Madina Hospital. Sources used for this visual include company documents and websites, interviews and newspaper articles (please see: *Sources on business entities* (p. 82) for a list of sources).

84 Interview with CSR employee of a large MTO, Hargeisa, February 2019; Affi, L. 2012. 'Destroying and Constructing the State from Below: The Role of the Somalia Diaspora in Conflict, Development and Governance.' PhD Philosophy (Political Science) dissertation. University of Wisconsin-Madison Libraries, Madison, United States.

85 Interview with a Somali academic, Dubai, December 2018.

86 Interview with a director of a utilities company, Hargeisa, February 2019.

87 '*Clan elders alert [our company] of the needs*' (interview with CSR employee of a large MTO, Hargeisa, February 2019).

88 For understanding the trust relationships between these conglomerates and the local population, see Neil Carrier and Hannah Elliot, 'Entrust we must: the role of 'trust' in Somali economic life', DIIS Working Paper Series 2, 2018. Similar views were expressed in interviews; Interview with an entrepreneur in logistics,

Corporate-funded social services have been highly visible against the backdrop of weak governmental provision, as was the case when Hormuud ambulances and firefighters became the first responders to the 2017 Mogadishu truck bombing.[89]

The direct relation established avoids the company having to rely on frequently weak central governmental structures to provide access at the location.[90] The company also builds its own soft-power, establishing a relation with regional clan-stakeholders who are in turn able to lobby their clan-aligned political representatives in the company's interest. In this regard, the coincidence between Dahabshiil's and clan-elders' Sharia-based objections to the initial draft of the Somaliland banking law (which would create space for traditional banking) were striking.[91] At an international level, major corporations have also been known to influence the flows of development aid in order to influence government policy.[92]

Dubai, December 2018; Ernst & Young. 2018. *Expanding the Circles of Trust: Unleashing the Power of Financial Intermediation and Global Connectedness for Somalia.*

89 Shabelle Media Network. 2017. 'Hormud Telecom's Response to Bombing Victims Draws Praise', 21 October, https://www.radioshabelle.com/hormud-telecoms-response-bombing-victims-draws-praise/ (accessed 29 May 2019).

90 Note, however, that state services may also be beneficiaries. For instance, Sompower (a Dahabshiil entity) supplies lights and electricity to police stations free of charge.

91 Interview with a Somaliland diaspora civil servant, Hargeisa, February 2019. Note that in Gulf countries non-Sharia banking is generally allowed to coexist with Sharia-compliant finance.

92 Interview with a European academic, The Hague, December 2018.

Box 4 Insuring a future position

Tucked away in a small office building off the main street in Hargeisa, the first and so far the only insurance company to operate across all Somali regions, Takaful, has been quietly serving a fledgling client base despite seemingly insurmountable challenges. Established by Kenyan Somali diaspora and staffed by expat mid-level managers from across the Islamic world, the company offers health insurance, maritime insurance, goods in transit insurance and even the good old-fashioned car insurance. Not that there are many takers for the latter: '*There is no law on obligatory car insurance here, and people don't yet understand the benefits of having it*,' a mid-manager calmly explains.

In fact, across the Somali regions, there actually is no legal framework for insurance at all – no laws or by-laws that would regulate what is estimated to be one of the world's most lucrative service markets, or allow insurance companies to make financial investments in the local economy. '*We therefore do only annual contracts and hold ourselves to the international standards of the insurance branch, and to the British contract law which is still valid in Somaliland,*' the manager continues.

The client base for health insurance so far consists of NGO workers on collective health insurance packages and a handful of Somali diaspora returnees. The insurance package is supervised and approved by the company's Sharia Board and aligned with Islamic family law. It offers a broad coverage, including covering the health consequences of terrorist attacks – including trauma counselling for survivors. The year 2018 was particularly unfortunate that way, so the claims were abundant and Takaful made no profit on health insurance. But Takaful still manages to break even for the fifth consecutive year – mainly due to maritime and cargo insurance, the latter covering loss of cargo due to traffic accidents, but not roadside armed theft. The risk is simply too high and the premium would be exorbitant, the manager explains.

So what is the business model behind working in non-existent legislative space and barely breaking even? The company has a vision, the mid-manager explains, and it will fulfil this vision. '*If you want to grow, you need government support, to make some of the insurance required – for instance, car insurance. We are waiting for these laws to be put in place,*' the mid-manager explains. '*That way we would be well placed to offer a package to all the car owners in Somaliland.*'

'*We are hopeful it will happen soon,*' the manager says. The Takaful CEO, he explains, is '*discussing the challenges with the government... We just need the law that will make some kind of insurance obligatory, then the market will be ours.*'

The corporate social responsibility (CSR) track is frequently further supported by a range of more individualised incentives. One Somali diaspora businessman clarified that '*businesses are richer than the government in Somalia. For many people, getting a government post is a de facto application for a position in one of the big companies.*'[93] A Somaliland minister, formerly employed in the Somali banking sector, underlined similar concerns, citing his own and his personnel's salary discrepancies compared to those prevalent in the telecommunications sector.[94] As a consequence, movements between the private sector and ministries are not uncommon. While such career opportunities may ensure that regulatory bodies and private entities share technical knowledge keeping their activities in sync, the attractiveness of such career perspectives may create undesirable personnel incentives. It should be noted that crossovers between the public and the private sectors occur in both directions, although movements into the public sector seem to occur more at elite levels.[95] Many corporate actors also, usually somewhat covertly, fund election campaigns of specific political groups and individuals. While this may, at times, harm a company's connections to certain constituencies, it has proven to be a reliable way to benefit from government tenders.[96] Electoral support has been key to the establishment of a number of government-mandated and natural monopolies, although it should be kept in mind that a number of contracts thus awarded have also been declared void after incumbent politicians changed in the next electoral cycle.[97] Corporate support to public officials therefore continues throughout their term in office, ranging from *quid pro quo* financial incentives to more general investments in politicians' continued goodwill (for instance, the somewhat symbolic provision of armoured vehicles to ministers of the Federal Government of Somalia is rumoured to be supplied by a telecom conglomerate).[98] Government institutions' lack of adequate resources and the low salaries of civil servants have facilitated the development of such particularistic relationships, reducing government actors' manoeuvring space to take action independent of corporate interests.

93 Interview with a European academic, The Hague, December 2018; Interview with an entrepreneur in cosmetics, Dubai, December 2018.

94 Interview with a Somaliland minister, Hargeisa, February 2019.

95 For example, the Somaliland Minister of Energy previously chaired the board of directors of Sompower, the biggest Somaliland energy company (Interview with a director of a utilities company, Hargeisa, February 2019).

96 Interview, prominent business elites, Mogadishu and Nairobi, September 2016.

97 Examples from Somaliland include fibre-optics networks and airport security (the latter has been withdrawn following corruption allegations after the elections brought a new government to power). Interviews with entrepreneurs in ICT and consulting, Hargeisa, February 2019.

98 Interview with an entrepreneur in logistics, Dubai, December 2018.

While substantial funds flow into the public sphere, formal tax contributions from the private sector remain markedly low (USD 88.6m/2.8% of GDP in 2016).[99] None of the major conglomerates make any financial statements or any other data public, intentionally creating ambiguity regarding any taxes due.[100] While with some companies flat tax rates have been agreed, these arrangements can hardly be considered equitable.[101] Among many corporate actors, there is a willingness to contribute to the state budget, however. As one Somaliland ministerial employee explained: '*Whether you call it taxes, charities, or CSR, whenever the government needs help they can call the private sector and ask for the money.*' This, however, creates a situation in which tax contributions are negotiated, frequently between parties in an unequal financial position. Contributions made thus become particularised: they may be directly connected to a public official managing the contribution, may stand in direct relation to the services it funds, and at times have been known to be paid into private accounts.[102] Both the Federal Government of Somalia (FGS) and the Somaliland government have accrued substantial debts owed to the business community, further weakening their position as independent authorities (see boxes 5 and 6).[103]

99 World Bank. 2017. *Somalia Economic Update, July 2017: Mobilizing Domestic Revenue to Rebuild Somalia*, Nairobi: World Bank Group.

100 Interview with a Somaliland diaspora civil servant, Hargeisa, February 2019.

101 USD 400,000 monthly for Hormuud in Somalia (United Nations Monitoring Group on Somalia and Eritrea (2016). 'Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council resolution 2244 (2015): Somalia'. United Nations Security Council, New York).

102 Fartaag, A. 2016. 'Breaking point in Somalia: How state failure was financed and by whom'. Fartaag Research & Consulting.

103 Reportedly USD 20m in Somalia and USD 80m in Somaliland (interview with a Somali minister, Mogadishu, February 2019; *Africa Intelligence*. 2019. 'Musa Bihi Abdi embarrassed by his predecessor', 22 February, https://www.africaintelligence.com/ion/corridors-of-power/2019/02/22/musa-bihi-abdi-embarrassed-by-his-predecessor,108346027-art (accessed 29 May 2019). Note, however, that this may not take into account all debts of all government entities in all channels. Rumours surrounding FSG accounting practices suggest that substantial parts of its income may only pass through its accounts briefly, in order to cosmetically inflate its revenue-raising capacity, before finding its way back into the financing party's accounts. Interview with an INGO director based in Somalia, The Hague, March 2019)

Box 5 The Dahabshiil model

Dahabshiil is one of the largest and most well-known money transfer operator (MTO) in the world, covering some 126 countries worldwide. The family business is incorporated in the UK, headquartered in Dubai, and operates out of Hargeisa.[104] Its British-Somali CEO, Abdirashid Duale, is from the Habar Jeclo sub-clan of the Isaaq, and had close ties to Somaliland's previous cabinet.[105] The company started out in the 1970s in imports, and in the 1980s moved into transferring remittances to Somalia, predominantly from the Somali diaspora community in the Gulf.[106] The company grew rapidly following the international displacement that occurred during the Somali civil war. The company accepted remittances abroad, transferred them in goods on the international market, sold those goods in the Somali territories, and used the proceeds to pay the remittance recipient. Liquidity in Somalia was maintained by servicing Somali businesses importing goods for sale on the Somali market.[107] Earnings (probably consisting of three components: the remittance handling fees, profits over sold goods and services for Somali importers) allowed the company to grow rapidly across various locations, and funds transferred were also key to funding the Somali National Movement (SNM) throughout the civil war.[108] Funds were not transferred directly to the SNM but were channelled through clan elders, granting them a degree of control and establishing Dahabshiil's initial political network.[109]

Since the civil war, Dahabshiil has managed to largely maintain its dominance over the Somali remittances sector (while also expanding into other corridors),

104 Dahabshiil.com

105 '*Dahabshiil's owner, Abdirashid Duale, is the first cousin of Presidency Minister Hersi's wife and that Duale's two wives are Hersi's first cousins.*' International Crisis Group. 2015. 'Somaliland: The Strains of Success', Briefing No. 113: https://www.crisisgroup.org/africa/horn-africa/somaliland/somaliland-strains-success (accessed 29 May 2019); Also note that Ali Hassan, a cousin of Abdirashid Duale, functioned as chief of cabinet in Hargeisa, and Saad Ali Shire, the former minister of foreign affairs, is a former Dahabshiil employee.

106 Hansen, P. 2004. 'Migrant Remittances as a Development Tool: The Case of Somaliland', https://publications.iom.int/books/migrant-remittances-development-tool-case-somaliland (accessed 29 May 2019).

107 Interview with a management employee of a large MTO, Dubai, December 2018.

108 Jamal, V. 1992. *The Least Developed and the Oil-Rich Arab Countries, Somalia: The Gulf Link and Adjustment*, 128-152; Russell, S. 1986. 'Remittances from International Migration: A Review in Perspective', *World Development* 14(6), 677-696; Lyons, T. and Samatar, A. 1995. *Somalia: State Collapse, Multilateral Intervention, and Strategies for Political Reconstruction*, Brookings Institution Press; and Gundel, J. 2003. *The Migration-Development Nexus: Somali Case Study*, The Migration-Development Nexus. Eds. Geneva: United Nations and the International Organization for Migration.

109 Interview with a Somali academic, Dubai, December 2018.

and to expand its footprint in other (import) markets. Over these decades, the company has aggressively engaged in a series of mergers and acquisitions in order to acquire majority market shares in a number of new markets, always ensuring it maintains a controlling share in the resulting entity of at least 51%.[110] It has also leveraged its liquidity to establish itself as the largest bank in both Somalia and Somaliland, and has managed to defend its dominant position through its predominantly elite-level political connections while maintaining popular acceptance through its CSR programmes. This has been especially effective in Somaliland, where its dominant market position allows it to offer relatively small loans with a short maturity at substantial interest rates (about 15%).[111]

The company has attempted to expand its operations by establishing a number of other monopolies in cement (Berbera cement factory) and electricity provision (Sompower in Hargeisa and Tayo Energy in Berbera).[112] Such monopolies would give Dahabshiil a strong position in a number of value chains, substantially improving its position to continue extracting a large share of each chain's margin. While the company has managed to acquire controlling stakes in these companies through its elite connections, Dahabshiil's rising influence has, on various occasions, resulted in considerable backlash from powerbrokers in surrounding areas, requiring it to buy in additional shareholders.[113]

110 Interviews with an entrepreneur in construction, a director of a utilities company, and a Somaliland diaspora civil servant, Hargeisa, February 2019.

111 Interviews with entrepreneurs in construction and manufacturing, and with a Somaliland diaspora civil servant, Hargeisa, February 2019. Dahabshiil offers loans up to USD 200,000, with a maturity of either one or two years. Note that it pays the loan amount in-kind, usually in building materials often imported by Dahabshiil-related entities, which are thus generating additional profits (loans are to be paid back in USD). Note also that it motivates this practice as a requirement of Islamic banking.

112 Interview with a director of a utilities company, Hargeisa, February 2019; Somaliland Electricity Association. 2018. 'Tayo Energy Berbera Electricity Company Berbera Power Station Road, Berbera Somaliland', available through the Wayback Machine at https://web.archive.org/web/20180607110035/http:/seasomaliland.com/download.php?file=ATTACH_7DDAB9-CF438A-6CED7B-DF2826-EF54A0-302975.pdf&source=article (accessed 29 May 2019).

113 Interview with an entrepreneur in construction, Hargeisa, February 2019; Somaliland Press. 2017. 'Somaliland government hands over plant operations to Red Sea Cement Co.', 13 June, https://www.somalilandpress.com/somalilandgovernment-hands-over-plant-operations-to-red-sea-cement-co/ (accessed 29 May 2019).

Box 6 The Hormuud model

Hormuud was established in 2002, largely on the legacy of the MTO Al Barakat, which was shut down due to US sanctions imposed in 2001. The company, and its predecessor before it, is owned by Ahmed Nur Ali Jimaale, based in Doha (Qatar).[114] It operates out of Mogadishu, but has aligned entities operating in Hargeisa (Telesom) and Puntland (Golis). Its core markets ensuring its liquidity are telecommunications and the mobile payments facilitated through its mobile money platforms (Zaad, EVC and Sahal).[115] The company maintains strong ties with the FGS and is one of the larger contributors to its tax income.[116]

Regardless of its relatively recent establishment, the company has had remarkable success acquiring a major market share and has become the dominant player in both its core markets. Its success and ability to expand rapidly is frequently attributed to its dispersed ownership structure.[117] Generally, Hormuud-aligned entities have a complex shareholder structure covering thousands of larger and smaller shareholders. These shareholder structures generally reflect the power distribution of the entity's operating environment, thus ensuring all relevant stakeholders have an interest in the entity's continued (and profitable) functioning, allowing the company a substantial degree of soft power to protect its commercial interests. This shareholder structure also ensures the entity has a licence to operate across the territory (key in insecure environments), insures the company against a dominating interest that might withdraw resources, and establishes a degree of trust with its consumer base.[118] It does, however, necessitate that services are split up and parcelled out across different entities in different territories in order to adequately reflect the different stakeholders in each environment (e.g. telecommunications and mobile payments are offered through different Hormuud-related entities across the Somali territories). The companies' diversified shareholder structures have allowed them to recruit in a relatively meritocratic manner across different constituencies instead of relying on patronage systems. This aspect has been

114 *Africa Intelligence*. 2018. 'IOG's neighbours encircle and isolate him', 14 September, https://www.africaintelligence.com/ion/corridors-of-power/2018/09/14/iog-s-neighbours-encircle-and-isolate-him,108323648-art (accessed 29 May 2019).

115 The mobile money platform in particular gives access to substantial liquidity, as users rarely withdraw their funds.

116 United Nations Monitoring Group on Somalia and Eritrea (2016). 'Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council resolution 2244 (2015): Somalia.' United Nations Security Council, New York.

117 Interview with and entrepreneur in construction, Hargeisa, February 2019.

118 Interview an entrepreneur in cosmetics, Dubai, December 2018.

frequently credited as a key factor in Hormuud's ability to rapidly enter new markets and to deliver high-quality services compared to its competitors.[119] Coupled with more targeted financial incentives (especially in Mogadishu) and a similarly high-quality public CSR strategy, Hormuud has been markedly effective. As a CSR professional from the company explained: '*We put the benches for students to hang out at the Hargeisa University campus. Next thing we know, the competition puts some benches next to ours. But we don't care. We're winning hearts and minds.*' [120] Hormuud has championed its role as a replacement for the state, mediating between clans, and in this way has entered the Somaliland market. It has been able to mobilise discontent with the state service delivery to its advantage: '*We cannot sit and watch when the state is unable to react: We have different shareholder structure. We have shareholders in every clan, which is how we gain access to every client.*'[121]

The conglomerates' political business models have been a relatively effective approach to capturing a wide variety of markets, yet some sectors have remained relatively competitive, allowing a wider variety of producers to operate. A clear example can be found in the construction sector, where dozens of small and some medium-sized construction companies have been able to exist side by side with larger competitors (often with partnerships with the major conglomerates). With the economic growth and influx of returning diaspora, demand for construction work has skyrocketed and plot prices have risen sharply, fuelling further interest from property investors.[122] The sector generally generates high returns on investment (up to 20% per project for SMEs, up to 50% for more professional companies).[123] Given that (small-scale) construction requires relatively little in terms of technical requirements, has low-scale advantages, and the short-term liquidity required is often provided by the buyer, the sector has low barriers to entry.[124] While such traits have made it nearly impossible for large actors to fully capture the market, it should be noted that conglomerates have been able to appropriate large parts of the margin on a project by leveraging their dominant position as suppliers. For instance, in Hargeisa, Dahabshiil has managed to position itself as a dominant

119 Interview with a businessman, Hargeisa, February 2019.

120 Interview with a representative of the CSR department of a telecommunications company, Hargeisa, February 2019.

121 Interview with a telecommunications representative, Mogadishu, February 2019.

122 Interview with an entrepreneur in construction, Hargeisa, February 2019.

123 Interviews with entrepreneurs in construction and property, Hargeisa, February 2019.

124 Note that this assumes an environment with little regulation. Also note that medium-sized and large building projects are dominated by a few big players with more technical expertise, advanced equipment and the ability to maintain sufficient working capital for longer-term projects. (Interview with an entrepreneur in construction, Hargeisa, February 2019).

player supplying loans to bail out over-budget projects and for construction materials, and appears to be attempting to capture the cement market.[125] A similar ostensibly competitive situation exists in the livestock sector, with a wide range of herders trading sheep, goats and camels in a number of different regional marketplaces. While there are some major old Somali companies with relatively strong positions in the sector, the major conglomerates do not appear to have entered the market in a significant way.[126] It should be kept in mind, however, that the market is subject to major influences from its main buyer, as virtually all exports follow established trading channels almost exclusively with Saudi Arabia (which has been known to stop all livestock trade at times).[127] The livestock market is thus a relatively difficult market to enter into for traders without favourable access to the right export channels.

The rapid rise and dominant economic presence of the major Somali transnational conglomerates is visible throughout all markets and Somali regions. The impact of the emergence of transnational entrepreneurship has been multifaceted, given the complex political settlement prevalent in the area. Transnational businesses have provided a number of critical services and a degree of governance throughout the civil war period and during post-war reconstruction (in the absence of a state). Telecommunications have prospered, and MTO/remittances have provided a critical lifeline for the country as well as aiding post-war recovery (especially during droughts and famine). The advanced networks of import/export traders also mean that there has been a wide variety of goods available even during the more difficult times, thus raising the quality of life in Somalia (and beyond, as some of the goods are subsequently exported to Somalia's neighbours). The increasing trade volumes have also provided the economic rationale for the reopening of container terminals across the Somali territories. The restart of container shipping created a stable supply of foodstuffs and other goods, eliminating the seasonal supply and price fluctuations of small-scale Dhow shipping (which virtually halts during the monsoon season), thereby reducing food insecurity. The Somali transnational community also grew regionally and internationally (making inroads into other markets such as Kenya, South Africa, Ethiopia, Uganda and the UAE) generating the capital required for further investments in Somalia and in Somali hubs abroad.

125 Interviews an entrepreneur in construction and a Somaliland diaspora civil servant, Hargeisa, December 2019.

126 For example, the Indha-Dheero group and the Omar group.

127 Suleiman Saeed Al-Jabri is a particularly important actor in this regard, being both the chairman of the committee of livestock traders at the Chamber of Commerce of Saudi Arabia (which influences import procedures and certification of livestock) and Al Jabri Co Ltd (a trading company) (*Arab News*. 2012. 'Australia eyes meeting 60% of Saudi livestock requirement', 1 August, http://www.arabnews.com/australia-eyes-meeting-60-saudi-livestock-requirement (accessed 29 May 2019).

Yet, the aggressive way in which private business reacted to statelessness in Somalia has resulted in 'monopolies, coordination failures, externalities, and public goods provision', that precluded efficient market outcomes. Such practices have at times engendered mistrust between the business and political elites and fuelled factional infighting, especially in Somalia.[128] The major Somali conglomerates have developed more rapidly than governance institutions and have been able to leverage their position to shape the business environment in their favour. The lack of regulation and regulatory bodies have allowed for an unchecked growth in the Somali markets, leaving space for the sale of counterfeit or expired medication, spoiled food staples, the use of unsafe construction practices and other cases that highlight a lack of consumer protection.[129] Suppliers and substitute goods are of little consequence, given the virtually non-existent supplier lock-in and low switching costs of the import model. New entrants are barred from many markets by liquidity constraints, scale advantages in logistics and unfavourable regulatory constraints. Buyers meanwhile have limited choice in oligopolistically divided markets. While strong competition does exist between the major corporate actors, this competition has been limited to a select few core markets granting access to liquidity and a range of market regulations. This has allowed the major corporate actors to expand rapidly, venturing into a wide range of markets and extending their influence over both formal and informal governance structures.

128 Nenova, T. 2004. 'Private sector response to the absence of government institutions in Somalia (English)', Washington DC: World Bank group, 2; Marchal R. 2002. *A Survey of Mogadishu's Economy.* Nairobi: European Commission, Somalia Unit, 113–114.

129 Kohler, J. *et al.* 2012. 'An examination of pharmaceutical systems in severely disrupted countries', *BMC International Health and Human Rights* 12(34); Mazzilli, C. *et al.* 2009. *The private sector and health: A survey of Somaliland private pharmacies*, UNICEF; Interview with an entrepreneur in construction, Hargeisa, February 2019.

4 Transnational business and domestic governance

Given the transnational origins and business models of the corporations driving economic growth in Somalia, it can be expected that the interests of the business community are not necessarily aligned with those of other domestic actors and constituencies within the Somali territories. Combined with the limited capacity and authority of state institutions in Somalia and Somaliland and business actors' willingness to actively shape politics, it should come as no surprise that business interests have had a significant impact on political developments. In Somalia and Somaliland, the flow of private funds into the public sphere has been substantial and the transnational entrepreneurs providing these funds have developed into influential formal and informal political actors.[130] This chapter thus sets out to explore the impact of transnational businesses and capital on socioeconomic development and governance. It takes stock of the political and societal implications of businesses' activist role, their access to private and public capital, and how the interests of business actors align or conflict with the public sphere. It also explicates how this impact differs in the different contexts of Somalia and Somaliland.

Governance and oligopoly

In a context of economic and political fragility and the absence of regulation or competitive markets, where businesses have captured significant public and private authority, some negative impacts have occurred. Transnational business practices have influenced governance in Somalia and Somaliland, as market concerns are often interlinked with clan power dynamics and concerns about (clientelistic) distribution and justice. This has meant, in particular, that certain features of transnational business practices (conglomerate operations, capital inflows, diaspora investment strategies and diaspora-led SMEs) have been reinforcing of an oligopolistic system and a closed, anti-competitive market system.[131] Thus, control over finance – the ability to diversify one's

130 See Marchal, R. 1996. *The Post Civil War Somali Business Class*, Nairobi: European Commission, Somalia Unit; Musa, M. and Horst, C. 2019. 'State formation and economic development in post-war Somaliland: the impact of the private sector in an unrecognised state', *Conflict, Security & Development* 19(1), 1478-1174.

131 Nenova, T. 2004. 'Private sector response to the absence of government institutions in Somalia (English)', Washington DC: World Bank group, 2; Webersik, C. 2006. 'Mogadishu: an economy without a state'. *Third World Quarterly*, Vol. 27, Issue 8. 11 December.

sources of revenues – and even broader state and public authority has often resided with the business community, and a relatively small interest group of economic and political elites. This group has managed to tailor statebuilding practices, even regulation, and aid markets to their advantage. The impact of such oligopolistic practices has varied between Somalia and Somaliland due to the different economic models and market structures in each territory, as well as differences in the business practices which the main companies undertake.

Administrations in Somaliland and Somalia have never had the political will to regulate the private sector, and recent attempts in Somalia by state actors to become the 'regulator' appear to be politically motivated against opponents, characterised by elements of state capture, predation and other forms of aggressive redistribution. In both cases, the business community continues to prove stronger than the state. Transnational businesses (in the form of conglomerates) have asserted influence over regulatory and reform agendas while operating in ways that reinforce anti-competitive dynamics. Thus, in both Somaliland and Somalia, governments enter into large debt relationships with the business community, which the business community uses as leverage to ensure preferential treatment and monopolistic practices, and to facilitate mutually beneficial relationships of collusion with bureaucrats and elites. The resulting oligopolistic governance practices reinforce clan power hegemonies, status quo politics based around established patronage networks and the unequal distributions of resources (even when CSR efforts may be supportive of the advancement of non-elite groups). Oligopolistic governance practices have included:

1. the development of a coterie of political elites, representing market interests rather than societal interests
2. large-scale monopolists/conglomerates, such as Dahabshiil or Hormuud (as well as some monopolistic local businesses), entrenching existing power relations and systems of elite co-dependence (although they may employ different methods to do so)
3. other impacts include increased land speculation and the selling of public land (to big companies and as incentives for diaspora return and investment), practices of displacement, and increasing demarcation of clan territory to ensure regulation of resources in the absence of a strong government.

As a result, in the absence of more open, competitive markets, both SMEs and forms of diaspora investment have largely failed to significantly stimulate economic development and have contributed to market inefficiencies. In the absence of any centralised or coordinated strategy, diaspora investment has been harnessed discretely by politicians or channelled into less-productive sectors. Politicians seek to mobilise the proceeds for personal gain and as an alternative source of political finance in order to avoid indebtedness to the local business community. This has meant that diaspora investments, when not diverted as political finance, are channelled into two key routes:

1. low-impact sectors (such as land and property, shops and cafes that also constitute non-innovative sectors): the lack of impact on development of such investments has caused deep resentment with locals, whom expect better-educated diaspora Somalis to leverage their skills to develop new opportunities that could not be developed by locals.
2. investments in assets or ventures aligned to conglomerates (including shareholder schemes, investments aligned with conglomerate operations to ensure investment returns, market protection and minimal risk), thus reinforcing liquidity disparities within the market.

For SMEs, oligopolistic dynamics in the economy and politics have constrained their ability to operate, and new forms of capital inflows (aid and foreign investment) have not reached these actors in any significant way. However, even in the face of an uneven playing field, SMEs have managed to find some space to escape the authority of the conglomerates, although this has occurred more so in Somaliland (where SMEs have greater economic maturity and non-rent-seeking business acumen when compared to Somalia). SMEs are an important source of bottom-up resilience against oligopolistic practices, and a key indicator for economic growth models in fragile contexts. The adverse effects of certain practices by international finance institutions (IFIs) targeting SMEs and their broader interaction with the global political economy require further study.[132] The key struggles for SMEs in the Somaliland and Somalia context are as follows:

1. In both Somalia and Somaliland, SMEs have little opportunity to grow or exist. Lacking the political representation that conglomerates have in parliament or the cabinet – whether through owners, family members or co-opted clan representatives. Thus, the majority of SMEs cannot drive the reform agenda or seek protection.
2. Those few SMEs that are successful, are interested in economic reforms, and try to level the playing field with some degree of rule of law and firmer rules of the game to compete with conglomerates. They have access to important forms of social and local support.

132 Organisation for Economic Co-Operation and Development. 2017. 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy,' OECD: Better Policies for Better Lives, Meeting of the OECD Council at Ministerial Level, https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf, (accessed 10 May); McIntosh, K. 2016. *What evidence is there that markets in Tanzania are more oligopolistic than in other countries at a similar level of development?* Economic and Private Sector: Professional evidence and applied knowledge services. Oxford Policy Management, https://assets.publishing.service.gov.uk/media/57ed04c7e5274a0eba000017/EPS_PEAKS_Tanzania_Oligopoly.pdf (accessed 15 May).

3. Where aid-flows (particularly in Somalia) have offered some liquidity for these SMEs (whether through microfinance or contracts), they have also contributed to a bifurcation of the private sector and greater rent-seeking as business elites, bureaucrats and politicians create companies.
4. The predominant informalisation of the economy and new demands for market participation and transparency has often divided SMEs generationally and between local and diaspora-run SMEs, where the latter have been more successful at winning NGO and government contracts.
5. In Somaliland, lesser aid dependency, budgetary support or concessional loans have nurtured less rent-seeking among SMEs. Defining success factors included business acumen and the ability to find inroads into non-captured markets, which has given an edge mostly to SMEs run by locals.
6. By contrast, diaspora-driven SMEs remained donor darlings but have struggled with expansion due to personal ambitions, unfamiliarity with informal economic norms and practice, and misalignment in expectations. Diaspora-led SMEs were largely focused at elite segments of the population. Some were highly speculative regarding liquidity and other business drivers that led to poor results in practice. Others were highly risk averse, investing in established sectors with predictable returns rather than developing innovative sectors in new goods and services.
7. The policies of IFIs have generally reinforced monopolistic business practices by seeking to increase the liquidity of financial institutions, engaging only with companies registered outside Somalia, and relying on public-private dialogue or business associations which disproportionately represent big conglomerates.

In both the Somali and Somaliland contexts, big businesses have adapted their business model to each location's distinct political settlement, as well as cultural legacies of colonialism and conflict dynamics. The structure of state-business engagement thus differs by location, requiring the business community to take different approaches to influence the political agenda. Whereas in Somaliland, the relationship has been one of reinforcing hegemony around a specific clan alliance, in Somalia the relationship between economic and political elites has been more rivalrous. In both cases, the private sector has certainly developed faster and stronger than government entities, but how political elites perceive the threat posed by business actors and how each community manages their influence differs. On the whole, in both cases, the business community is more pragmatic, knows no borders in working across regions and clans in order to make their business viable, but they also seek to protect critical aspects of status quo politics to protect their interests. While in Somaliland this has meant maintaining certain clan hegemony, in Somalia it has meant ensuring security and reducing costs. The following section outlines these nuances and impacts on systems of governance in greater detail.

Differences and similarities between Somalia and Somaliland

In both Somalia and Somaliland the state is weak compared to the powerful business interests, allowing businesses to be largely extractive of the state.[133] Market and state capture is thus driven by businesses, especially as the predatory or rent-seeking capacity of the government has been greatly restricted by a population deeply suspicious of hegemonic forms of power due to Siad Barre's divisive legacy. Memories of Siad Barre's 'militarised rentierism' and its practices of state predation on Isaaq businesses in the north had affected Somaliland and Somalia differently.[134] Whereas such policies exacerbated forms of competition among business and economic elites in Somalia, it emboldened the largely Isaaq economic elites in Somaliland (having been marginalised by Barre) to rise in protection of their interests.[135]

The competition is complicated in Somalia by the extent of clan rivalries and the activity of foreign actors (which includes heightened access to aid-flows, diaspora in politics, and strong Gulf connections). As a result, the business community in Somalia has played a more complex role as spoilers and competitors to state authority. The ensuing competition has positioned transnational capital and transnational businesses as a stable and powerful community with shared interests, but also as a resource to be competed over. In Somalia, Al Shabaab competes with government as a provider of rule of law/justice and security, and as a taxing authority, while catering to transnational businesses' security needs. Transnational businesses thus pay taxes and even prefer to resolve land or business disputes in Al Shabaab courts, as they offer quick and enforced dispute resolution.[136] In addition, especially in Somalia and to a lesser extent in Somaliland, rents created by the state (which benefit from the absence of regulation)

133 Little, P. 2003. *Somalia: Economy without State*, African Issues. Bloomington: Indiana University Press; Phillips, S. 2016. 'When less was more: external assistance and the political settlement in Somaliland', *International Affairs* 92(3), 629–645.

134 Marshal, R. 1996. *Final Report on The Post Civil War Somali Business Class*, Paris: European Commission, Somalia Unit.

135 The distinction between business-state relationships in Somaliland and Somalia has been under-investigated. Marchal, R. 1996. *Final Report on The Post Civil War Somali Business Class*, European Commission, Somalia Unit; Marchal, R. 2010. 'The Puntland State of Somalia. A Tentative Social Analysis', HaL Sciences Po, CERI – Centre d'études et de recherches internationales; and Reno, W. 2003. 'Somalia And Survival in the Shadow of The Global Economy', QEH Working Paper, Number 100, provide initial indications of this difference, and how in particular the Barre mistreatment of Isaaq businesses had galvanised support around a national agenda.

136 Rift Valley Institute. 2017. 'Land Matters in Mogadishu: Settlement, ownership and displacement', *Rift Valley Institute and Heritage Institute for Policy Studies*; Interviews with business individuals and diaspora returnees, Mogadishu, February 2019.

flow to businesses, and the business community can leverage the state to make demands by capturing specific state institutions and more generally using state power to push private interests.

The number of actors involved in economic and political activity is fewer in Somaliland and constitute only three primary groups of actors (government, clan and business). These key stakeholders are closely interlinked where access to economic wealth by key clans has been a deciding factor for political power, and vice versa. The business community played a decisive role both in driving the peace and state-building agenda of the Somaliland National Movement (SNM) and in formulating the post-war settlement.[137] The predominant role of Somaliland's business community has been less contentious, although the influential role of Djibouti and aggressive tactics by conglomerates towards SMEs has encouraged pushback (including against the role that conglomerates have played in political stagnation and corruption).

In both Somalia and Somaliland, social mobility is limited and practices of wealth accumulation reinforce certain dynamics of clan dominance. It was mainly elites from certain clans, and mostly business individuals, who had capitalised during the civil war, and who continue to dominate the business sector (particularly in banking and telecommunications). Some opportunities have been created by generational shifts, and the rise of a younger generation and the diaspora, as well as out of political divides, but these have not resulted in the interim in efficient market outcomes. The large monopolies use certain regulatory practices and clan dynamics to retain their political independence, allowing them the space to expand and diversify, while small SMEs with less resources have little protection from being economically marginalised or bought out by their bigger competitors.

In Somalia, SMEs exist mainly by capitalising on aid funding by aligning closely with international organisations or foreign governments which, in turn, alienates them from the broader business community and their access to important economic markets such as Bakara in Mogadishu. They may be seen as sell-outs or traitors, which hampers their capacity to operate. As a result, while there are more SMEs emerging in Mogadishu, their ability to compete alongside the big conglomerates is more constrained in Mogadishu than in Hargeisa, for clearer political, generational and internal-external reasons. In Somaliland, in contrast to Somalia, the absence of aid revenues reduces the pressure on SMEs to build unproductive rent-seeking arrangements. Likewise, in Somaliland, greater competition occurs among the monopolies in certain markets (as they coexist within a more general shared protectionist agenda) and visibly constitutes

137 Phillips, S. 2016. 'When less was more: external assistance and the political settlement in Somaliland', *International Affairs* 92(3), 629–645.

a clearly defined elite class of business individuals. What this has engendered is more bottom-up pressure from the SMEs in favour of reforms.

In both contexts, many young entrepreneurs are beginning to challenge the reliance on both patronage and clan as the primary avenues through which access to economic opportunities is ensured.[138] They have challenged entrenched forms of political and economic governance and ideas about appropriate (transnational) business practices and idealised conceptions of how to get ahead. Clan still remains an important source of protection and security in the absence of alternatives (i.e. in seeking loans or shares) but clan links also come with heavy financial burdens. While these links could provide you some form of employment (i.e. in the government, not in the major corporations) there is a limit to how far clan could get you. The currency of clan as an organising logic within the economy (compared to in the state) has thus been further diminishing.[139]

Somalia

Somalia has always engendered more of a rivalrous competition model between businesses and the state than exists in Somaliland. Contestation exists between economic and political elites '*where big business, politics, religion and clan are inter-linked*'. In Somalia, '*the business community [is] not interested in peace and stability, especially some rogue elements, whereas the state also has become increasingly hostile against their interest (as they don't want regulation and tax)*'.[140] Since 2016, this contestation has become more acute as the state assumes a greater role as 'regulator' (at least in discourse and in line with World Bank and IMF conditionalities, although it still struggles to implement its policy). Key moves in this regard have included President Farmajo's push, in coordination with Finance Minister Beyle, to annul contracts with 17 private companies that handled public services (i.e. immigration services for visas, logistics). The aim was to reassert direct government control over several revenue-generating services (including taxation). In addition, the administration introduced a 5% value added tax on imports through the Port of Mogadishu and formalised the tax regime on telecommunications companies (see box 7). The administration also attempted to tax the companies in the heavily fortified Halane camp (the base of the African Union Mission and the United Nations). The heavy push for taxation has been accompanied by measures attempting to curb corruption in government; Farmajo has halted all selling of public land.

138 Interviews with academics and diaspora returnees, Hargeisa and Mogadishu, February and March 2019.

139 Ibid.

140 Interview, former presidential aspirant, Mogadishu, December 2018.

Box 7 The telecommunications laws

The telecommunication sectors in Somalia and Somaliland are dominated by the same business actors: Hormuud, with its Somaliland counterpart Telesom, and Golis Telecom in Puntland (together approximately 81% of SIM cards); Dahabshiil, through its Somtel brand (approximately 16% of SIM cards).[141] Although there are telecommunication laws in both places, it is evident that in practice regulation, taxation and implementation look quite different from each other.

The most obvious difference in the telecommunication law in each respective location is the process of drafting and passing the law. On 2 October 2018 after 14 years of drafting and public consultations, Somalia's president signed the National Communications Act into law, providing the basis for issuing licences to mobile operators, determining tax levies, and providing some degree of protection of consumer rights.[142] The long formulation process was largely a factor of the many rounds of drafting and advising by different branches of the FGS as well as the involvement of the World Bank's ICT Sector Support project. In Somaliland, the telecommunications sector, regulated by the Ministry of Posts & Telecommunications in Hargeisa, has had a telecommunications law in place since 5 July 2011 after seven years of internal discussion within the government.[143] Negotiations surrounding the National Communications Act occurred largely within the ministry, rather than in parliament, and the federal cabinet unanimously approved the resulting law. Nonetheless, the competition between the major telecommunications businesses was reflected in the bill, which contained no clauses on interconnectivity between networks, a measure which could have hurt one of the conglomerate's market share.[144]

Although a law is in place in both territories, implementation remains fraught with difficulties. In Somaliland, companies may see the benefit in the government

141 Based on a Clingendael survey conducted by Forcier Consulting in October 2016, with over 180 respondents in Hargeisa, Garowe and Mogadishu. Hormuud dominates the Mogadishu market and its other brands are market leaders in Hargeisa and Garowe, while Dahabshiil is the second biggest competitor in these markets.

142 World Bank Group. 2017. 'Legal ICT Framework is Pivotal Moment for Somalia'. The World Bank: Feature Story. 2 October.

143 Somaliland Telecommunications & Posts Laws. 2019. *Communication Laws*. 28 May. Web. http://www.somalilandlaw.com/communications_laws.html, (accessed 10 April 2019).

144 Interview with a Somali public sector employee, Mogadishu, February 2019; SomalilandBiz. 'Somaliland Telecoms Sector Guide.' Web. http://www.somalilandbiz.com/sector-guides/telecoms-2/ (accessed March 2019).

appearing as a regulator, but a functioning regulatory authority has not been set up. The government has thus failed to collect significant taxes from the sector, as businesses have contested the methods by which their tax burden is established, most notably the estimation of their sales volume. The Somaliland government is therefore in the process of setting up systems that allow it to monitor the minutes sold by each company. While this may improve the information position of the ministry, the fundamental power inequality between corporate actors and the state in their negotiations remains to be addressed.

In Somalia, an independent regulatory body for the communications sector, National Communications Authority (NCA), was established. Additionally, measurable indicators of success, such as '*an increase of 31 percent revenue collection has been registered [since 2017]*',[145] have been praised by international bodies like the IMF and secured further support from grants provided by the World Bank. While such advances may be encouraging, it should be kept in mind that Hormuud (92% of SIM cards in Mogadishu) has been paying taxes to the Mogadishu government since 2014, before any regulatory Act was created.[146] Additionally, the FSG has been attempting to court the World Bank and other international partners to grant it debt forgiveness, which would allow the FSG to access new sources of international funding. To achieve this, the FSG needs to show regular increases in government tax revenues.[147] The ability of the FSG to achieve these regular increases has been surrounded by rumours of suspicious payments being made and recorded as tax income, and subsequently returned to the actor that made the payment.[148] In this regard, it is possible that while tax systems are indeed meeting international standards more than ever before, they may be achieving a cultural shift in tax-evasion practices with only limited increases in tax revenues.

145 Shabelle Media Network. 2019. 'Somalia's Economic Growth Accelerating to 3.5 Percent in 2019, Says IMF.' 27 February. https://www.radioshabelle.com/somalias-economic-growth-accelerating-to-3-5-in-2019-imf/ (accessed March 2019).

146 Hormuud Telecom has had an agreement with the FGS since 2014 to pay a flat fee of USD 400,000 per month. United Nations Monitoring Group on Somalia and Eritrea (2016). 'Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council resolution 2244 (2015): Somalia.' United Nations Security Council, New York, p. 116.; Clingendael survey conducted by Forcier Consulting in October 2016.

147 International Monetary Fund: Middle East and Central Asia Dept. 2018. *Somalia: Second and Final Review Under the Staff Monitored Program and Request for a New Staff Monitored Program-Press Release and Staff Report*. 6 July. Web. https://www.imf.org/en/Publications/CR/Issues/2018/07/06/Somalia-Second-and-Final-Review-Under-the-Staff-Monitored-Program-and-Request-for-a-New-46060, Accessed March 2019.

148 Interview with an INGO director based in Somalia, The Hague, March 2019.

Through these policies, Farmajo distinguishes himself from former presidents Sheikh Sharif and Hassan Sheikh who were both seen to be beholden to key business interests and individuals within Mogadishu. For example, Hassan Sheikh had allied himself with strong business elites in the banking and financial sector, and had also allocated state patronage (specifically within the financial and construction industries through public contracting and setting up discretionary banking funds). Such practices garnered popular backlash, and were seen as the abuse of state resources to the benefit of clan and family.[149] The emergence of new businesses with direct relations to the president, frequently winning public tenders, raised widespread concerns about state capture of the economy.

Box 8 Banking sector and political alliances

The expansion of the banking sector post-2012 raised concerns about capital flight, trust relations, and losses. President Hassan Sheikh gave operating licences to Somali Central Bank, International Bank of Somalia (IBS) and Premier Bank. As of 2017, Premier Bank is also operating in Somaliland. For the first time in decades, Premier Bank has partnered with MasterCard and Swift, thereby introducing the country's first automated teller machines (ATMs) in 2015. Yet, it also became evident that new and emerging business elites were mainly using Premier's international Swift code to move money out rather than investing locally.[150] In addition, despite the emergence of IBS in 2012, IBS was mired in close political relations with Hassan Sheikh and Damul Jadid, amid allegations about the use of discretionary funds, and struggled to overcome the dominance of Hormuud and to build trusting relations. The risk is that economic expansion can be used by elites to capture the economy.

Partially in response to the fallout of corruption claims surrounding Hassan Sheikh, President Farmajo shied away from courting the business community to the same extent. This was part political tact and part political need. Farmajo was not of the Hawiye clan (who make up the greatest part of the business community in Mogadishu), which meant that cracking down on the influence of business elites through more stringent regulation and taxation was also critical to political survival and the consolidation of power. Farmajo also saw himself as a 'technocrat', and thus relied instead on the spoils coming from a strong modern election campaign, alternative sources of political finance (mainly from

149 Hassan Sheikh, for 3-6 months of his presidency, as director of Alkheiyrat gave advantages to his company against others in all aspects of their work – e.g. exclusive monopoly over prisons – which has caused tensions in the business community.

150 Interview, Premier manager, February 2019.

the Gulf), and close diaspora patrons. Deliberate political tactics to separate private and public spheres and neutralise the political influence of the business community also risked positioning his administration in opposition to market and security interests. His rhetoric that sought to renegotiate certain critical components of the political settlement – as a 'reformer' – raised concerns from the business community.

As one Hormuud representative argued, '*Farmajo has not been good for the business community in general, creating local resentment and disrupting networks*'.[151] As another businessmen indicated, '*Farmajo has been bad for business – road blocks, restriction of movement, heightened security, the closures of Bakara market and general inconsistency has made business difficult and more expensive*'.[152] Attempts to open up the political space by handing out new contracts was also not effective without broader economic restructuring. The high cost of security and informal norms around economic activity meant new entrants could not compete, leaving them heavily dependent on existing businesses and conglomerates.[153] This was certainly the case for new diaspora-led SMEs that were being favoured in construction, management and other public service contracts under more externally oriented administration. Liquidity disparities between local businesses and diaspora-led SMEs is well-known to favour the former. As one political activist indicated, '*what you saw were new diaspora companies going back to the old companies saying, "I'll give you 20% of proceeds if you help me", and the old businesses are also receiving letters from government giving them the green light to bypass taxation. [These] can come from anyone within the ministries, since it is disjointed.*' [154]

The competition for influence between political and economic insiders has meant diaspora businesses have faced popular resistance on multiple fronts due to the threat they may pose for existing norms of economic activity and their role as gatekeepers for donors.[155] As one respondent explained, being an economic insider is still important for reducing security costs and streamlining business: '*After the civil war, everyone ran away – overseas, the people in the villages and small towns migrated to Mogadishu and they started making businesses. That community who has been working together shares ideology in terms of religion, deals with each other in the Bakara, and is well-connected with Hormuud. Hormuud represents a generation of old businessmen and it is respected for that*'.[156] As this business man explains, '*diaspora cannot visit this market and thus*

151 Interview, local businessman, Mogadishu, January 2019.

152 Interview, local academic and activist, Mogadishu, February 2019.

153 Interviews, parliamentarian and business actor, Mogadishu, January 2019.

154 Interview, diaspora business in construction, Mogadishu, January 2019.

155 *Ibid.*

156 Interview, diaspora business in research consultancy, Mogadishu, December 2018.

their business activities will not be successful'.[157] Where it may just be a matter of clan for business in Somaliland, it is a matter of networks, security and money in Mogadishu, which makes it more difficult for new entrants despite the greater circulation of liquidity in the market. In addition, Hormuud is embedded at all levels of the government (through civil servants, shareholders and even the provision of security) to ensure its dominance within South Central Somalia.

Thus, while there may be more actors in the market in Mogadishu, the rent-seeking nature puts, on average, a three-month expiry on new entrants – even certain new banks have defaulted. The growth of SMEs has often depended on how far they could collaborate or collude with big business: *'In Mogadishu there is a monopoly of two or three companies (telecoms and finance) that dominate all sectors – and the growth of SMEs is dependent on how far these companies want to let them in.'*[158] There is '*little room for SMEs also due to issues of intellectual property – as real estate associations and banks such as IBS and Premier are investing and developing properties themselves, they are serving as competition for developers [who are taking loans from them]*'.[159] While aid offered a solution to the liquidity issue for smaller businesses, and even some independence from political access, this has not been a key to growth. Tenders may go to the lowest bidder but this often does not benefit SMEs, as transnational companies can offer lower costs. [160] In this way, the private sector became divided between new companies that only did business with NGOs/INGOs and the beneficiaries of public contracting and state patronage (the old economic players and other companies associated with previous regimes).

In Somalia, greater competition over state power and resources (furthered by the system of aid rents) has not translated into genuine competition in the market. Instead, SMEs and small competitors became beholden to political elites, tied to more factionalised spoil politics and segmented into discrete networks. Their ties to systems of political patronage have at times risked destabilising critical security arrangements and political pacts, as allocating patronage to new economic actors has threatened to destabilise distribution across the wider political settlement (e.g. a risk that loomed through Hassan Sheikh's preferential treatment of certain economic actors). In Somaliland, the formation of a discrete economic elite class has seen the reproduction of elite and clan power that has allowed for more organised competition from the bottom up.

157 *Ibid.*

158 *Ibid.*

159 Interview with a diaspora consulting firm, Mogadishu, January 2019.

160 Interview with a director of the World Bank, Nairobi, April 2019.

Box 9 Property boom or bust

In both Somaliland and Somalia, property and land, and property development, have become primary investment avenues for transnational capital. Yet, transnational capital also creates the conditions to re-ignite slumbering ownership conflicts, and the displacement of urbanised IDPs or other socially disadvantaged groups. For example, in Mogadishu, when the civil war started, the land register was destroyed, and consequently there are problems confirming who owns title deeds – for example, the question of inheritance and the diaspora community seeking restitution has led to highly speculative practices and land-related disputes.[161] They may themselves also exploit the weak legal framework surrounding land and property in the city to their own advantage. Complaints have certainly been registered in the Benadir Regional Court against members of the diaspora selling copies from abroad of title deeds to a single property to multiple buyers in Mogadishu.[162] Reports have been also made of diaspora appealing to donors for arbitration in disputes, and of diaspora seeking resolution in Al Shabaab courts.

Somaliland

In ways that are even more pronounced than in the Somali context, businesses in Somaliland have exerted power over the state as its primary benefactors. In contrast to Somalia, the state is not a critical 'aid dispenser' or 'gatekeeper' to the international system, which has minimised rent-seeking practices among SMEs. Diminished aid rents have also given more leverage to conglomerates in dictating the terms of political and economic reform as the primary benefactors of the state. As fewer rents are available through the state, evidence suggests that diminished private sector rent-seeking practices of the private sector may engender more efficient markets relying on some form of value addition rather than capture. On the one hand, reduced rents within the market has engendered greater economic competition among the major conglomerates (reinforcing monopolistic practices, but also generating a push for state-enforced protectionism). On the other hand, the limited economic space and absence of rent seeking has created more organised pressure from SMEs for reforms and in challenges to the power of conglomerates. As one local businessman reported, '*there is an economic slowdown in Somaliland, compared to a few years ago. People are a bit*

161 Rift Valley Institute. 2017. 'Land Matters in Mogadishu: Settlement, ownership and displacement', Rift Valley Institute and Heritage Institute for Policy Studies.

162 *Ibid.*

restless.'[163] The momentum underpinning the pressure of these smaller companies is also motivated by negative public sentiments against the strong political and economic influence from Djibouti.

Following Silanyo's election in 2010, there was increasing visiblity of new transnational business linked to Djibouti with practices that manifested in overt collusion and oligopolistic practices of clan hegemony. Djiboutian politicians and top businessmen held close ties to the ruling Kulmiye coalition party.[164] These relationships remained in place under his successor, Musa Bixi. The role of external actors in an already limited economic space has engendered forms of resistance within the political and economic space over unequal access to political and economic opportunities that has to date been under-researched.

The Djiboutian influence expands across sectors. For instance, several major conglomerates are dependent on Telecom de Djibouti for their connections to the global telecommunications network, while other large corporate actors leverage their connections to Djibouti political elites in order to secure preferential access to contracts from the Somaliland government. The local perception that was repeated by many respondents was that '*Djibouti owns Somaliland and could turn us off at any time.'* [165] This quote relates directly to the telecommunication links but refers more broadly to a sense of being owned by Djibouti. Such regional and transborder cooperation and dominance among top monopolies differs from the context of Somalia. In Somaliland, the visibility and predatory nature of such practices has encouraged forms of resistance within a more limited economic space. How these business actors operate within the political economy of Somaliland is a subject of much discussion. As one respondent explained in reference to two top conglomerates: *'The business community has shown real collaboration – Mohamed aw Said of Somcable (from Djibouti) and Abdirashid Duale of Dahabshiil share land around the National Bank, whereas Guelleh (from Djibouti) is more pragmatic. He is not engaged in politics, he deals with [whomever has power].'*[166] Although there is some variation in how Djiboutian businessmen influence politics in Somaliland and competition among major private actors, it is generally perceived as a pattern of cross-border predation and extraction.

This narrative feeds into a national call among the business community that seeks to oppose forms of external intervention and an elite class of business actors that have disproportionately benefitted from contracts and state resources. In this context, it has been well documented that Dahabshiil, with its links to the Somaliland National

163 Interview with a representative of the Somaliland Chamber of Commerce, Hargeisa, January 2019.

164 International Crisis Group. 2015. 'Somaliland: Strains of Success'. Africa Briefing No. 113, 5 October 2015.

165 Shared perception by businessman and local activist, interview, Hargeisa, February 2019.

166 Interview, parliamentarian, Mogadishu, January 2019.

Movement (SNM) and its offices in Djibouti, has driven opposition to the banking laws and routinely benefitted from politically favourable practices and the selling of public land.[167] Since 2010, Dahabshiil has also benefited from Silanyo's economic strategies towards privatising critical public assets (electricity and port terminals) along with Somcable (fibre-optics). Within Silanyo's government, key representatives of Dahabshiil have dominated in an unprecedented illustration of the dominance of a transnational economic and political elite class.[168] In an attempt to redirect this trend, Musa Bixi Abdi, upon his election in 2016, pushed for a stronger (but not necessarily regulatory) state. Yet, Musa Bixi was susceptible to the same pressures as his predecessors, and although he re-nationalised some ventures, he honoured existing contracts and in a few cases (highly publicised in Somali media) awarded several new contracts to these conglomerates (including one with Somcable to manage security scanning machines at Berbera Port).[169] As a consequence, *'people don't trust the state. This is because among others, the weakness of the state is to be seen in its inability to even reconcile Dahabshiil and Telesom communications systems. It is not able to even negotiate between Dahabshiil and Telesom. Can't talk between a Dahabshiil or a Telesom SIM card.'*[170]

Thus, the Somaliland state is seen to have failed in its principal role as 'mediator' or 'arbitrator'. Regarding SMEs, the distinction between local and transnational (or diaspora-led) SMEs was still prominent, although less so than in Somalia, given the divides created through government contracts. Transnational-led SMEs are considered to be more elitist, as they are generally tied into the higher echelons of government through public contracting, and therefore have an implicit interest in maintaining the political status quo. By contrast, local SMEs have shown more interested in a level playing field and reforms that could improve their competitive position. These reforms would include the introduction of commercial banking to improve access to finance by introducing cheaper loans, competitive regulation, and improved public infrastructure (through Foreign Direct Investment (FDI)) that could lessen their dependence on the major conglomerates. Here they support strengthening of public services and the role of government as a market regulator, recognising that a degree of rule of law would be an important component of an FDI-friendly investment climate. In this regard, the DP World investment in Berbera Port is seen as a potential catalyst, as the company might have the interest and clout to create an opening for the introduction of commercial banking in order to finance its own operations.

167 See International Crisis Group. 2015. 'Somaliland: Strains of Success'. Africa Briefing No. 113, 5 October 2015.

168 Hersi Ali Hassan, the former minister of presidential affairs under Silanyo, had previously been CEO of Somtel; Sacad Ali Shire had worked for Dahabshiil in the UK; Jama, current minister of justice, was also previously a Dahabshiil employee. Interview, businessman, Hargeisa, February 2019.

169 Interview, businessman, Hargeisa, February 2019.

170 Interview with an entrepreneur in construction, Hargeisa, February 2019.

5 Implications for (diaspora-based) private sector development

Somalia's economic recovery has benefitted substantially from the engagement of a range of businesses rooted in both the transnational Somali community and the domestic Somali markets they serve. As their enterprises have grown and expanded into larger conglomerates, many have managed to entrench and protect their position in the market through a mixture of strategic control over key resources and political influence. As a consequence, business and politics have become strongly intertwined through a range of elite networks, allowing corporate actors to have a sizeable impact on developments in governance and leading to unequal socioeconomic developments for those left without the necessary connections. The influential role of these transnational businesses has not been fully recognised by international policy makers, as attention to Somalia's economic developments has been of a mostly technical nature. An influential set of stakeholders and significant interests have therefore not been adequately considered by donors. This chapter seeks to address this issue and thus consider how the influence of corporate actors on socioeconomic development and governance impinges on donors' private sector development (PSD) efforts in general, and diaspora-based PSD efforts in particular.

The private sector's development efforts

Donor engagement in Somalia has revolved around several key strands of programming: good governance/institution building (mainly by the EU/UK/US) aiming to increase: government institutions' capacity, service delivery and authority; public-private partnerships and business environment reform (conducted by the World Bank/ International Finance Corporation (IFC), and many smaller INGOs supporting microfinance); and humanitarian action (mainly resilience-related). As part of National Development Plan Pillar 3 (supporting inclusive and sustainable economic growth), aid support increased for private sector development from USD 20m to USD 31.1m in 2017.[171] The challenge has been to develop a more coherent approach to PSD that might involve more strategic dialogue between the government, private firms and development

171 'Aid Flows in Somalia: Analysis of aid flow data', Aid Coordination Unit of the Office of the Prime Minister, April 2017, 17.

partners, to create both a unified approach and a special coordination arrangement for PSD (e.g. a PSD thematic coordination group), that would bring key actors to the table and feed into other coordination processes.[172] The primary PSD initiatives currently being supported include regulations and institution-building, capacity development, matching funds, and public-private dialogue. The Multi-Partner Fund is leading the regulatory framework, while IFC supports public-private dialogues – although at the same time contemplating larger investments.[173]

The most significant support coming through PSD is through development initiatives (regulatory support, capacity development and matching funds) rather than formal investment chains. In one key example, USAID's GEEL project has supported economic transformation by investing or co-investing in 62 Somali companies, leveraging over USD 22.5m in new private investment, 40% from diaspora-owned enterprises.[174] Other donors are also engaged – for example, the EU through its Outreach Programme 'Partnership for Inclusive Economic Growth' supports the implementation of the value-chain strategies and actions. The Sustainable Employment and Economic Development (SEED) programme, funded by UK the Department for International Development (DFID), works with the Food and Agriculture Organization (FAO) to support agriculture production and export chains. In Somaliland, the Somaliland Development Fund covers private sector development as one of the key priority areas. Similarly, under the Somaliland arrangements in the New Deal, PSG4 on economic foundations include private sector development as the key driver for economic development but has not materialised to date.[175]

172 Manuel, M., McKechnie, A., Wilson, G. and das Pradhan-Blach, R. 2017. *The new deal in Somalia An independent review of the Somali Compact, 2014-2016,* Overseas Development Institute, https://www.odi.org/publications/10786-new-deal-somalia-independent-review-somali-compact-2014-2016 (accessed May 2019).

173 The Bank Group's Somali Core Economic Institutions and Opportunities (SCORE) Program develops regulatory and policy framework for Somali financial institution, to catalyse private investment and job creation across Somalia. Moreover, the Multi-Partner Fund supports Public Financial Management (PFM) reform with the Ministry of Finance.

174 RTI International. *Private Sector-Led Solutions Help Bring Somalia Back into the Global Economy: Working in key business sectors to stabilize Somali society*, USAID/Somalia Growth, Enterprise, Employment, and Livelihoods (GEEL) project, RTI International. https://www.rti.org/impact/private-sector-led-solutions-help-bring-somalia-back-global-economy

175 United Nations Development Programme (UNDP). 2014. *C.2 Project Annual Report: Trade and Private Sector Development,* Somalia, Poverty Reduction & Environment, https://www.undp.org/content/dam/somalia/Reports/AnnualProgressReports-2014/APR%202014%20-%20Trade%20and%20Private%20Sector%20Development%20-%20Narrative%20-%20Final.pdf (accessed 20 May 2019). See also the list of ongoing Somaliland Development Fund projects at https://www.somalilanddevelopmentfund.org/projects-overview.

Critical agendas have been made for mobilising more private finance for small and medium-sized enterprises. Estimates are that investment financing by diasporas could be as much as USD 460m per annum.[176] In Sweden there are two diaspora support programmes offering matched funding for Somali-Swedish diaspora associations working with development and for social entrepreneurship.[177] Kaah Express (KIMS, an MTO) has also explored the possibility of offering customers a diaspora investment product, which would allow remitters to invest a portion of their monthly remittance in Somalia to stimulate economic growth.[178] The World Bank and the EU have also discussed diaspora bonds to fund infrastructure projects and social investments (as have been leveraged in Israel and India) but require additional credit enhancements and investor protections. As of now the strategy for harnessing diaspora investment is diffuse and disjointed, and caught up in turf wars between different branches of government (the investment and commerce ministry, the diaspora agencies and the Chamber of Commerce). All the branches have sought to engage the diaspora communities and harness investment opportunities, and offer land and tax breaks for the diaspora. These have included strategies where advice is provided on how to acquire shares in big corporations or where to invest in property, combined with pressure on the diaspora to invest – '*Why don't you give back, pressure to establish that ownership and maintain it through business, in addition to remittances.*'[179] Most donor-diaspora strategy agencies are uncoordinated, and, for example, the Turkish Diaspora Network is run directly through the PM's office. As a consequence, diaspora investment strategies are prone to co-optation and misuse to serve certain limited economic and political interests, that of conglomerates, clan or the state. In both cases, mistrust of government data and limited access to finances has reinforced practices of network-based strategies. As a result, forms of investment are either channelled into non-innovative sectors – into property development and the services industry that increase tensions within the private sector (between locals and diaspora) – or primarily through family or personal networks. As one government policy adviser in Somalia indicated: *'Right now diaspora really want to invest, but they take their cues from diaspora that came*

176 Manuel, M., McKechnie, A., Wilson, G. and das Pradhan-Blach, R. 2017. *The new deal in Somalia An independent review of the Somali Compact, 2014-2016,* Overseas Development Institute, https://www.odi.org/publications/10786-new-deal-somalia-independent-review-somali-compact-2014-2016 (accessed 20 May 2019).

177 See Government Offices of Sweden: Ministry for Foreign Affairs. 2018. *Increased Swedish and international support for Somalia*, Swedish Foreign Policy Stories, http://www.swemfa.se/2018/10/24/increased-swedish-and-international-support-for-somalia/ (accessed May 2019); and Kleist, N. 2018. *Somali-Swedish diaspora engagement in the Somali region*, openDemocracy, https://www.opendemocracy.net/en/somali-swedish-diaspora-engagement-in-somali-region/ (accessed 20 May 2019).

178 Rachidi, S. 2018. 'Microfinance Institution strives to Stimulate Economic Growth in Somalia', InsideArabia Online, https://insidearabia.com/microfinance-institution-economic-growth-somalia/, (accessed 20 May 2019).

179 Interview, diaspora entrepreneur, Mogadishu, February 2019.

before them, catalysts from their own communities, influential persons. They are not often engaged in broader macro-view and favour low-risk strategies. [Official] information on investments, government data, is not trusted.'[180]

Donor strategies to invest through diaspora engagement need to reflect the intricacies of the political economy of Somalia into which such investments play, and consider how to safeguard the investment from power imbalances in private and public sector economic opportunities, forms of local resentment, and competition-stifling practices. The biggest issue facing SMEs is liquidity, and where aid relations have offered some relief, those come with reputational costs and often limiting scalability. In Mogadishu, loans offered by Dahabshiil (more freely than those offered by Salaama/Hormuud who only give loans to those with shares) were restrictive in both time for repayment and amount. This was explained by one respondent: '*The longer the repayment, the greater the profit, and the easier for diaspora… Here, the most important thing is affordability – the bank can only give 24 months, they can't afford above that. Needs lower interest for credit – for a $130,000 loan from Dahabshiil I paid more than 17% in interest that you have to pay in one year – maximum two years. But Dahabshiil is often preferred to Salama because they actually give the money. Credit from Salaama comes in terms of goods (they buy the goods for you through their own suppliers, no flexibility with this, you don't know quite what you're getting).*'[181] Many members of the SME segment of the business community recommended that donors '*find a way to facilitate lending, provide financing to your host-country diaspora to come either through a government-owned diaspora account or diaspora bonds – they ensure the risk and instil an appetite for business risk.*'[182]

In addition to expanding enterprise resources, there are of course broader concerns about market functioning in weak states, and different strategies need to be used in Somalia and Somaliland in order to prevent reinforcing practices of poor economic and political reforms. Somalia is currently an aid-based business model of competitive rent-seeking while Somaliland's model is business-led protectionism and consolidation of state power and resources by conglomerates. There is a greater record of successful public-private dialogue in Somaliland, but that has not always led to protection of SMEs. In both cases, given the influence of private actors over government policy, donors need to understand how good governance and institution-building and business environment reform efforts relate to businesses interests; how private actors may attempt to influence developments; and how current policies may prove counter to objectives or interests in economic development and market interests.

180 Interview, government policy advisor for diaspora, Mogadishu, January 2019.

181 Interview, business woman, Mogadishu, December 2018.

182 *Ibid.*

One issue has been in procurement policies for public and NGO contracting that favour foreign operators. This a source of particular frustration for local construction companies who often lose out to international or transnational companies: *'Procurement is in the hands of different donors. Parliament just passed a procurement act – it doesn't favour local actors – because the threshold is super low. In works, anything over $200,000 opens up to international bidding, in services over $40,000 opens up to international bidding.'*[183] Such policies in public or NGO contracting that explicitly cater to transnational businesses reinforce an informality gap in the market between new companies engaging in public contracting and old companies remaining out of regulatory institutions. These practices also may prove counterproductive, with high expiration and low expansion rates of new diaspora business, and their stronger likelihood to outsource or engage with corporate actors (recognising them as key stakeholders or powerful spoilers) rather than cooperate with other SMEs or a business association. Their forms of international capital have rarely translated into effective or productive market practices. A more pluralistic economic environment in which SMEs can grow and drive development is not realistic unless the oligopolistic economic structures are challenged. Implementing reforms without changes to current structures risks SMEs becoming victims of predatory practices, given their dependence on the large conglomerates.

As a result, SMEs are a key domestic ally promoting more equitable development within Somali territories, and while this is not a new finding, international practice as well as broader political will has not facilitated a more conducive environment for SMEs. In a clear example, IFC-led PSD faced the constraint of operating in fragile contexts, which means it can only involve companies registered outside the country (or in Mogadishu), thus limiting engagement often to large corporations or business associations where conglomerates are often still dominant. For instance, Dahabshiil has a banking licence in Djibouti, company registration in the UK, and is formally established in Dubai, and is thus an eligible partner. Most SMEs cannot afford to open additional offices or acquire the relevant registrations abroad.

Both cases are in a context of transition and there is a question about whether structures of power (and the strength of transnational business vis-à-vis the state) can be challenged without significant disruptions to political settlements and instability. Yet, in the case of Somaliland, if the state falls too far behind the private sector, it will lose even the limited arbitration role it now has. For Somalia, a heavy-handed push for taxation without sufficient recourse for ensuring participation in the market and issues of liquidity will only further encourage rapid business interventions in the state to facilitate returns and expansion into sectors (moves to control resources). Transnational and international campaigns to 'clean' business practices will exacerbate certain divisions within the private sector that incentivise against collaboration or cooperation

183 Interview, local political activist, Mogadishu, December 2018.

(these include procurement policies). In addition, it aligns business actors more closely to political factions for protection and leverage, which risks reinforcing an informality gap and thus creating a critical misalignment of discursive policies and reform agendas with the realities of informal business practice. Examples of two such cases can be found in boxes 8 and 9.

In the particular case of Somaliland, donors risk misinterpreting political stability for inclusive business practices, reinforcing a system of mutual co-dependence where predatory business practices align with state capture around a single Isaaq sub-clan. The state needs to become capable of challenging the capture of several markets, but is unlikely to do so given the current limited leverage of the state vis-à-vis the private sector. Some kind of 'independent income' for the state may help establish some economic leverage that balances out the leverage of the big companies (although the proceeds should not be so substantial as to render taxes irrelevant). Taxation requires a negotiation of the social contract between state and society. In Somaliland, the population and SMEs in the private sector support this, but the large conglomerates are likely to maintain a role as spoilers. The liberalisation (and recognition) of the banking sector may be the first step in allowing a more diverse economic space to arise, empowering a wider range of economic actors – but the way in which politics unfolds around the financial sector also sends a cautionary tone.

In summary, Somalia and Somaliland offer two different contexts for state building and the role of private sector and transnational business interests within that process. These divergent models outline the need for different private sector development approaches. Efforts to improve the economy and good governance through private sector development is a challenging task in contexts where the private sector remains stronger than the state, and where loopholes can be exploited. Diaspora investment and aid offer some potential for addressing liquidity concerns but neither are a magic bullet and both channels risk reinforcing rent-seeking practice and power differentials. In Somaliland, more support to SMEs is needed to counter the authority and political influence of monopolies and to provide a unique opportunity for economic development, which has occurred with less open access to transnational capital, whereas in Somalia, such support may risk reinforcing rivalrous competition, inefficient market outcomes and conflict.

6 Conclusions and recommendations

The impact of transnational businesses active in Somalia has been considerable. The economic resurgence in the country owes much to the sizeable and pioneering role played by a range of transnational entrepreneurs, and a more limited number of large business conglomerates especially. Their willingness to invest at even the most difficult of times has helped bridge the Somali population through a range of difficult times that saw other actors withdraw, and has even helped push a relatively rapid degree of economic recovery and a widening of available services. The social services these companies have provided have been among some of best available in the region. Over the past decades it was the private sector that ensured the availability of a wide variety of essential goods, that shipped and distributed humanitarian aid for the international community, that pushed for the re-start of container shipping, ensured connectivity to the Somali community abroad, and maintained functioning financial services next to a number of other essential services. In this way, and especially through the transfer of remittances, a few companies have served as a veritable lifeline for the nation.

Regardless of the important social function fulfilled, however, it should be kept in mind that part of the reason that only these companies fulfilled this role was that it allowed them to keep competitors out of the sector. Besides their humanitarian function, the unique position these companies occupied also allowed them to entrench a privileged position within their sector, as well as a number of other unrelated sectors, and allowed them to establish highly favourable relations with political actors. While these companies' strong competitive position has allowed them to rapidly develop a range of new markets, it has also hindered competition and entrenched a status quo from which not everyone benefits. As a specific set of private actors and their clients in the public sector increasingly benefit from the economic resurgence, significant groups within society end up lagging further and further behind. Although a number of initiatives have been launched in the past to stimulate the establishment of SMEs (often from the diaspora), it has become increasingly clear that their ability to compete is severely constrained, either by liquidity constraints or through a requirement to share the benefits of their operations with the same individuals currently benefitting from the predominance of the major business conglomerates. These dynamics thus further feed inequality, especially for those already in precarious positions – and increasing inflation risks putting their livelihoods under further pressure.

The role of the emerging transnational business models has not been fully understood and has rarely been effectively addressed by international policy makers. Over the past decades a peacebuilding paradigm has emerged that puts effective state institutions at the centre of international efforts to rebuild and stabilise post-conflict states. Somalia is a prominent case in point, with most of the international community's effort being focused on strengthening the Transitional Federal Government and the key economic institutions of the central state. At the foundation of this approach is a belief that '*only strong national institutions can ensure that the state is associated with provision of positive services to the population and can be held to account by its citizens*'.[184] Yet in many ways, as this study shows, the Somali territories bring this approach into question, with the emerging conglomerates acting as a stabilising force and managing to provide a degree of governance and public services that responds to the capacity and even to some extent the legitimacy deficit of key governance actors. These actors, as shown, have also become a part of the very governance process by replacing some of the government's functions. Corporate actors are functioning as an effective bulwark against the state predation practices that were in place under Siad Barre. Yet, they have also developed a strong capacity to interfere with some of the priority functions of the existing political institutions: they have the capacity to affect the outcomes of the representative process which is supposed to deliver credible leadership at national and local level and can impact the ability of the existing executive branches to take and implement collective decisions. In short, they have built themselves into the governance system in a way that ensures a high degree of influence without much visibility, and with it also a degree of protection from governance initiatives impinging on their economic interests. Regardless of any normative views that the donor community may hold of such practices, they are important elements of the existing power arrangements in the country and need to be taken into account as such. These actors will be actively involved in institutional reforms, regulatory pushes and taxation drives donors may seek to implement through formal governmental agencies. As such, programmes neglecting to actively manage the business interests affected by them may end up in deadlocked negotiations and procedures, with highly specific or incomplete content reducing its impact, or they may be poorly enforced, if implemented at all.

When it comes to attempts to leverage the diaspora to drive development in Somalia, it should be kept in mind that Somali transnational engagement falls outside of the mainstream analytical and policy framework on engaging diaspora in the development of their countries of origin. The harnessing of remittances by the transitional Somali business elite and leveraging money transfers into the creation of powerful conglomerates sets Somalia apart. This process in fact bears more conceptual

184 Cliffe, S. and Manning, N. 2006. *Building Institutions After Conflict – the International Peace Academy's State-Building Project*, Washington DC: World Bank Group.

similarities to the engagement of large multinationals in fragile states.[185] Regarding smaller initiatives, it should be considered to what extend this engagement with the diaspora presumes a certain level of institutional development in the countries of origin – tax system, access to finance, segments of markets where their skills may be put to use, etc. The best practices focus on skills transfer, labour matching, and removing institutional barriers to diaspora economic engagement in both countries of residency and countries of origin.[186] The challenge in Somalia, however, is in this underdevelopment of even the most basic regulatory infrastructure – especially in the lack of financing beyond what the diaspora can bring in terms of their own savings or shared family capital – and the interest structure that ensures this situation endures. The challenge in Somali regions is therefore how to engage parts of its transnational community in the creation and stabilisation of an *entrepreneurial middle class*. While support to viable SMEs may be a key part of that, the major enabler required to make this an effective strategy is a viable financial and institutional framework in which they could develop. In order to better manage the business interests entrenched in the political and statebuilding processes that donors seek to aid, and thus to improve programme effectiveness and reduce the associated risks, the following recommendations should be kept in mind:

Effective programming in Somalia or Somaliland must take into account and address the interests of the major transnational conglomerates

Donor programming that does not take into account the interests of the major business conglomerates it affects, especially if it affects one of their core markets but also if it affects one of its related entities, risks deadlock, capture or other unintended consequences. Given their economic, social and political influence, the corporations can act as major supporters or spoilers. They are a force that by default neither supports nor challenges the state. Instead, they are powerful and resilient stakeholders largely independent of the state, with positions and interests in a variety of areas – including programming on peacebuilding and institution building. Stakeholder analyses should therefore include them in their mapping, and engagement strategies should actively consider engaging them where prudent and limiting their influence where necessary. This requires an understanding of these companies' intended growth model, as well

185 See Hanekom, D. and Luiz, J. 2017. 'The impact of multinational enterprises on public governance institutions in areas of limited statehood', *Management Decision*, 55(4) https://econrsa.org/system/files/publications/working_papers/working_paper_699.pdf (accessed 29 May 2019).

186 Agunias, D. and Newland, K. 2013. *Developing a Road Map for Engaging Diasporas in Development: A Handbook for Policymakers and Practitioners in Home and Host Countries*, Geneva: International Organization for Migration.

as their current key markets, other interests, and channels of influence. In most cases, it may be prudent to ensure communication with a number of corporate stakeholders, although any engagement strategy should consider what forms of engagements are appropriate to address such a disproportionally influential stakeholder next to a range of other relevant stakeholders. Additionally, given the long-term aims of many governance and statebuilding projects, specific efforts may need to be made to relate these to more immediate commercial objectives. It should also be kept in mind that the conglomerates' legitimacy partially relies on avoiding visible association with the political sphere, instead engaging the political sphere in more covert channels and the public on its own terms through its CSR programme. Bridging this gap may be an essential but difficult step to take.

The development of a formal banking system increasing access to capital is a key step to ensuring more equitable economic development

Profitable business opportunities are readily available in developing markets such as Somalia. Yet in a market mostly supplied through imports, the lack of access to substantial capital (in hard currency) is preventing small-scale start-ups from growing. Given a scarcity of affordable loans, existing SMEs are required to rely solely on organic growth. As the conglomerates captured the main liquidity generating markets and raised entry barriers, liquidity constraints form an artificial limit to the development of the SMEs. This, in turn, particularly limits the emergence of medium-sized enterprises able to compete with the conglomerates, thereby also limiting the demand for a more transparent and level playing field that medium-sized enterprises require to compete with larger competitors. Clientelist ties between private and political actors are thus allowed to persist. In order to overcome this constraint, new sources of funding will need to become available to smaller entrepreneurs. These new sources should be able to cover larger loans, be paid in hard currency (rather than goods), and be provided at competitive rates. Given the lack of strong ties between existing actors providing finance and other large business interests, changes will likely have to come from new entrants into the market that may be able to force an opening for new or foreign commercial banking entities. Opportunities like the entry of DP World in Berbera port might be leveraged to create the space for the introduction of such new entrants, as a sizeable multinational entering the market will most likely need to open up previously closed business networks to ensure access to the services and supplies it needs itself (for example, DP World may need access to international banking to transfer funds between assets and to pay local salaries).

Scaling up selected SMEs may function as a catalyst to create space for further economic development

Ample opportunities are available in the Somali market, and they are frequently seized by local and diaspora SMEs. As noted before, these small enterprises face significant constraints in their operations. Numerous markets do not allow for equal competition, loans allowing a company to scale up are scarcely available, and there are entrenched clientelistic networks seeking to capture the profits of newly established businesses. Additionally, the skills required to scale a business, such as the ability to define a growth strategy, manage larger projects, financial management and marketing skills, are relatively rare. Technical skills are also poorly available due to the relatively weak system of formal education, making it difficult to recruit additional staff (especially given the high salaries paid in the telecommunications sector). While many start-ups might be able to overcome some of these obstacles, few have been able to navigate all of them successfully (save those supported by existing economic elites). Nonetheless, the presence of new and growing enterprises may be a key catalyst to create more space for new entrants in a variety of markets, speed up economic development, which tends to stagnate in monopolistic situations, and provide new avenues for social advancement through new job opportunities. Incubating and/or supporting enterprises that may serve this role may thus be a more effective approach to stimulate economic development than promoting the creation of additional start-ups. Granting scalable businesses the support they require to carve out their own niche, be it through business skills training, running on-the-job vocational training, financing, protection from predatory practices, or support acquiring relevant licences or certification, would help the establishment of such enterprises and grant them the space to develop new markets. While this would not and should not seriously threaten the business models of the major conglomerates, it could establish some boundaries on their influence – creating some space in which other players could compete.

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Annex Research methodology

This study has been conducted in accordance with CRU's political economy analysis framework, thus focusing on power arrangements. By analysing changes in arrangements of power one can understand why decisions are made, what incentives play a role, how alliances form or break, and what narratives dominate. In turn, such understanding is key to identifying feasible approaches to conflict resolution. Examining shifts in arrangements of power enables the simultaneous exploration of the perspectives of those that govern and those that are being governed, as power is always relational. Doing so requires the use of three lenses: 1) the power networks and relationships between conflict actors; 2) the power practices and exchanges between them, and 3) contextual factors, such as institutions and ideology, that affect the power distribution underlying conflict.[187]

This political economy analysis is further specified to the private sector, in order to situate theprivate sector in the deeper context of the political settlement, in which the most significant power and state connections are understood. The framework combines traditional conflict analysis with elements from social network and power analysis, and draws on recent research across a range of disciplines, namely new political economy, new institutional economics, and conflict studies. It thus brings to the surface the politics and power dynamics that may facilitate or hamper proposed interventions in conflict-affected situations. This way it uncovers hidden stakeholders, the practices and exchanges that facilitate the main actors' relation to power, and the written and unwritten rules and structures that form the silent backdrop of these relations. This identification of arrangements of power helps to identify potential spoilers and entry points for action by showing which structures might be amenable to changes and which structures might be used to the policy maker's advantage.

The report supports conflict-sensitive programming, by recognising that '[t]he success of most development efforts, including efforts to strengthen the state and build institutions of public accountability, rises or falls according to the degree to which these efforts are aligned with – or at least do not fundamentally threaten – the interests of powerful national and local actors who are in a position to thwart or co-opt those efforts.'[188] Somalia being a case in point, the analysis recognises that 'many times well-intentioned interventions become ineffective because they reinforce an equilibrium that

187 See Clingendael. 2019. *Our methodology for political-economy analysis*, The Hague: The Clingendael Institute of International relations for further details.

188 Parks, T. and Cole, W. 2010. *Political Settlements: Implications for International Development Policy and Practice*, San Francisco: The Asia Foundation.

sustains the outcome the intervention attempted to change. These situations can arise from interventions that do not take into account the existing power balance.' [189]

Research for this report included desk research, a market analysis, telephone interviews and fieldwork, running between September 2018 and March 2019. Desk research included a literature review of academic and grey literature, supplemented with news sources, business literature and Somali news websites, in order to do an initial scoping of economic developments and market structures in Somalia and Somaliland. The market assessment subsequently concretised the initial scoping of Somali markets by establishing the corporate structures of the major business conglomerates and their related entities across a wide variety of sectors. Following cross-validation with some initial phone interviews, these scoping exercises provided sufficient information to guide the selection of interview respondents during fieldwork, ensuring that key actors, interests and interactions between private, government and clan actors would be covered. Additionally, given that transnational entrepreneurship and the wider Somali community is a multi-sited phenomenon, it also informed the selection of fieldwork sites.[190] As such, the United Kingdom, the United Arab Emirates (especially Dubai) and Somalia were identified as key sites in transnational Somali entrepreneurship. Unfortunately, China had to be excluded due to time considerations, and Mogadishu had to be excluded in light of security considerations. Kenya was initially included but was subsequently dropped, as the focus of the research excluded aid-based businesses, and the business activities in Eastleigh have been extensively explored elsewhere.[191] Fieldwork was conducted by Jos Meester (Dubai and Somaliland) and Ana Uzelac (the United Kingdom and Somaliland), and further supplemented by Claire Elder through phone interviews with Mogadishu-based respondents. Overall, a total number of 49 respondents were interviewed, ranging from SME to MTO owners, investors to consultants, and ministers to government representatives, as well as analysts and INGO representatives. The wide range covered allowed the researchers to thoroughly triangulate information and perspectives through cross-referencing information both between sites and between different professional backgrounds. For further details on interview respondents, see figure 5.

189 World Bank. 2017. *World Development Report 2017: Governance and the Law*, Washington DC: World Bank Group, 27.

190 See Falcon, M. 2016. *Multi-Sited Ethnography. Theory, Praxis and Locality in Contemporary Social Research*, Aldershot: Routledge (especially the publication by Horst, C. in same volume: 'Expanding Sites: The Question of 'Depth' Explored', 119-134) for in-depth considerations regarding multi-sited ethnography and its application in the Somali community.

191 See for instance Carrier, N. 2017. *Little Mogadishu: Eastleigh, Nairobi's Global Somali Hub*, New York: Oxford University Press.

Figure 5 Overview of interviewees

Location	Somali public sector	Somali private sector	Analyst/ Academic/ CSO	International community	Total
Somalia & Somaliland	8	14	2	5	**29**
Europe (UK & Netherlands)	0	0	7	1	**8**
United Arab Emirates	3	6	1	0	**10**
Other	0	0	2	0	**2**
Total	**11**	**20**	**12**	**6**	**49**

Regardless of the efforts undertaken to cover the breadth and depth of Somali transnational entrepreneurship, and efforts to ensure reliable and valid data through triangulation and other efforts, the research was also subject to a number of limitations. As indicated above, not all relevant sites could be covered in the full depth required due to various constraints. It should therefore be kept in mind that additional research in further depth covering stakeholders in Puntland and Chinese suppliers of the Somali market might provide further insights.[192] It should also be kept in mind that given the covert nature of many of the connections under investigation, and the particularistic or clientelistic nature of a number of these relations, participants are likely to be motivated to misrepresent events.

Insights derived from economic developments in Somalia might also inform developments in a number of other areas going through processes of economic recovery in a precarious environment. 'Hard-to-tax' sectors and corporations exist in many other locations, and are especially persistent in those contexts where state authority is limited.[193] Nonetheless, it should be kept in mind that Somali market dynamics are not homogenous across the Somali territories, nor across the transnational community, and are evolving and changing rapidly as the economy develops. While the dynamics covered in this report are likely to be indicative of the Somali business context, and are likely to present in a number of other fragile contexts, they cannot be expected to hold across all Somali communities, business sectors and comparable cases. Dynamics between Somalia and Somaliland vary substantial as a consequence of their distinct clan and historical circumstances, and further deviations can be expected when local political settlements are examined in more depth. As such, insights gained from the economic development patterns in the Somali territories may be informative, but cannot be expected to hold uniformly across the territories nor to be directly comparable to the dynamics in other states. Extrapolations from such dynamics without taking into account the local context may thus obscure important differences.

192 DP World respondents were relatively lightly represented in this study, and not all relevant branches of the company's operations could be reached.

193 Cottarelli, C. 2011. 'Revenue Mobilization in Developing Countries.' International Monetary Fund.