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State fragility in Somaliland and Somalia: A contrast in peace and state building

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About the commission

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Introduction

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The region inhabited by Somali-speaking people covers the northeast tip of Africa. During colonialism, this area was divided between European powers, separating the Somali people into five territories: Italian Somalia (today's Somalia), British Somaliland (today's Somaliland), French Somaliland (today's Djibouti), and notable Somali enclaves in Ethiopia's Ogaden region and Kenya's North Eastern province.

Pan-Somali nationalism long hoped to overcome these colonial divides and unite all Somali peoples in a single nation. Shortly after attaining independence in mid-1960, British Somaliland (hereafter "Somaliland") opted for unification with Somalia, forming the Somali Republic, in what was the first of several attempts to establish a united Somalia. As the lesser of the two union partners, Somaliland was marginalised under the unification venture, prompting civil war. In 1991, after the civil war culminated in the fall of Mohamed Siad Barre's military regime, Somaliland unilaterally declared independence from Somalia.

Since 1991, the state-building trajectories of Somaliland and Somalia have diverged considerably. After a locally-owned and funded, culturally-rooted, bottom-up peacebuilding and state formation process, Somaliland has achieved peace and stability under a functional but relatively weak government that is considered legitimate by its population. Elections have been held regularly and power transferred peacefully between political rivals several times. Despite notable state-building success, almost three decades later Somaliland is yet to be recognised as an independent state by the international community.

In contrast, repeated international efforts to stabilise Somalia and establish a strong centralised system of government have yielded little success and Somalia remains a failed state. Its central government is largely non-functional and has little authority and legitimacy in the country. The country's lawlessness has made it a breeding ground for terrorism and other illegal activities, including smuggling and piracy, and those who profit from these illicit activities have a vested interest in perpetuating Somalia's instability.

Although commonalities undoubtedly exist across the Somali population, including on aspects of traditional governance and customary norms, the colonial division of the Somali people into the five separate territories has brought about differing experiences of colonialism, post-colonial state formation, and governance. This varied experience has changed the respective Somali societies in important ways, and has put them on different growth and development trajectories.

While Somaliland and Somalia differ notably today, they both exhibit all dimensions of state fragility to varying degrees, experiencing ongoing challenges

regarding state legitimacy, security and conflict, state effectiveness, private sector development, and resilience. These dimensions of state fragility are interconnected and compound one another in both states. This paper will examine the various causes and consequences of the drivers of fragility in these states, and will draw lessons, where relevant, for post-conflict peacebuilding and state formation efforts.

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The rise and fall of pan-Somalism

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Somalia is considered to be one of the most ethnically homogenous countries in the world, and internal divisions in Somali society fall along clan and sub-clan lines rather than ethnic lines. The social-political organisation of the Somali people historically had no centralised authority, in large part due to Somalis' traditionally nomadic pastoralist society and fierce independence (Kaplan, 2008). In the absence of a central government, social behaviour has been governed by societal institutions, the politics of clannism and kinship, and customary norms and values (de Waal, 2015; Kaplan, 2008). This societal structure relies heavily on strong social networks, a characteristic that remains true of Somali society today (Clapham, 2017).

The euphoria of pan-Somalism that led to the unification of Somaliland and Somalia was short lived as almost from the Somali Republic's inception, the unification project did not go well. The very different administration systems that Somaliland and Somalia had inherited from their respective colonial powers did not make for an easy merger, and their differing size meant that they were not equal union partners. As the smaller of the unification partners, Somaliland was marginalised and its capital, Hargeisa, was relegated to a provincial headquarters, while Mogadishu became the capital of the Somali Republic (Clapham, 2017). Most high-level government positions went to Somalia's dominant clans, notably the Darood and Hawiye, with Somaliland holding only four out of the 15 cabinet positions in the first unity government (Bulhan, 2008).

A year after unification, a constitutional referendum was held in June 1961 to vote on the country's new constitution. Somalia voted overwhelmingly in favour of the constitution, but Somaliland's majority opposed it in what was viewed as a public statement of Somaliland's dissatisfaction with its treatment under the Somali Republic (Bulhan, 2008). However, Somalia's larger population meant that some 90 percent of the total vote was in favour of the constitution (AED, n.d.). In December 1961, Somaliland army officers attempted a coup, which was quickly quashed (Trunji, 2016). These incidents demonstrated Somaliland's growing discontent with Somali unification.

Despite the difficulties that Somaliland was experiencing under the unification project, shortly after Kenya's independence in 1963, Somalis in Kenya's Northern Frontier District (today's Northeastern Province) began to wage a secessionist battle against the Kenyan government in what became known as the Shifta War (Clapham, 2017). The Kenyan-Somali secessionists wanted the Northern Frontier

District to unify with Somalia. Although the Somali government initially backed the secessionists, after signing a ceasefire deal with the Kenyan government in 1967, it withdrew its support and the war eventually petered out, leaving the Northern Frontier District and its Somali population as part of Kenya (wa Njeri, 2015).

French Somaliland was notably less eager to join the Somali unification project. In a 1967 referendum, French Somaliland opted to maintain its association with France, and in 1977 it become an independent state, Djibouti, rather than join the Somali union which was, at the time, under military rule.

After years of being politically and economically disadvantaged and not having their concerns addressed by Somalia, distrust between Somaliland and Somalia grew and the political environment became increasingly hostile

In 1969, Barre had seized control of the Somali Republic in a military coup. Initially, Barre's regime undertook some popular reforms, including improvements in education, healthcare, and women's rights (Kaplan, 2008). However, over time, the military regime became increasingly oppressive and dismantled all civilian government institutions, including parliament, and suspended the constitution, banned political parties, and imprisoned politicians (Rashid, 2015).

Pursuing lingering pan-Somalism dreams, Barre's socialist military regime invaded Ethiopia in 1977 in an attempt to annex the Somali-dominated Ogaden region. Cold War dynamics influenced the Ogaden War too, with the US supporting Somalia while the USSR backed Ethiopia. The Somali army was eventually driven out by Ethiopia, and Somalia's humiliating defeat tested the legitimacy of Barre's military regime and internal political factions began to challenge his rule.

After years of being politically and economically disadvantaged and not having their concerns addressed by Somalia, distrust between Somaliland and Somalia grew and the political environment became increasingly hostile (Rashid, 2015). Somaliland's grievances culminated in the launch of the Isaaq-dominated Somali National Movement (SNM) in London in 1981. The SNM's goal was to overthrow Barre's military regime and restore Somaliland's sovereignty. Other clan-based movements opposing Barre were also established, including the Somali Salvation Democratic Front (SSDF) in Puntland and the United Somali Congress (USC) in Somalia (Rashid, 2015).

A decade-long civil war against Barre's regime ensued, and government forces waged a violent campaign against Somaliland. Systematic bombing of Hargeisa in 1988 devastated the city and may have killed up to 60,000 people (de Waal, 2015). Many thousands of Somalilanders fled to neighbouring countries, notably Ethiopia, Djibouti, and Yemen. During this civil war, genocide, war crimes, and crimes against humanity were committed by the military regime against the people of Somaliland (Hersi, 2008). The brutality of the civil war cemented Somaliland's hostility toward Mogadishu and led to Somaliland breaking away from the union (Clapham, 2017). With all illusions of pan-Somalism gone upon Barre's fall in 1991, Somaliland's elders and the SNM's central committee decided unilaterally to dissolve the union, and declared Somaliland independent.

Since 1991, Somaliland and Somalia's growth and development paths have diverged considerably as different state formation approaches were pursued in

these states. Today, they serve as informative comparative studies of fragility and state-building, and they offer a number of critical lessons for governments and the international community regarding state-building in fragile states.

The dynamics of state fragility in Somaliland and Somalia differ, but in both states, the dimensions of fragility are interconnected and compound one another. State legitimacy and security and conflict challenges are notably interrelated in the Somali context. These fragility aspects impact the other challenges of fragility, namely state effectiveness, private sector development, and resilience, and are, in turn, also impacted by them. These drivers of state fragility and their interconnection will be explored below, with the experiences of Somaliland and Somalia being compared and contrasted.

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The nexus between state legitimacy, and security and conflict

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There are a number of reasons for the collapse of the Somali state, but colonial governance systems and subsequent post-colonial state formation processes have been a key source of Somalia's conflict and fragility. Here, it is important to bear in mind the unique dynamics of Somali society, particularly its historical lack of centralised political authority and its clan-based governance reliant on consultation and consensual decision-making.

During colonial times, British Somaliland was a protectorate, with British control over the territory being little more than a paper claim. In practice, this meant minimal overt colonial interference or interruption of traditional structures and systems. As a result, traditional institutions remained functional and relatively unimpeded.

In contrast, Somalia's colonisation by the Italians was far more profound. A colonial administration of direct rule was established, the number of Italians living in Somalia rose, and a degree of assimilation of Somalis into Italian culture was pursued. Consequently, traditional Somali structures and systems were disrupted and undermined, and were superseded by a colonial centralised government structure modeled on Italy's system.

Somaliland: Achieving peace and state legitimacy through political compromise

After declaring its independence from Somalia, Somaliland's peacebuilding and state formation efforts were driven by traditional Somali norms of governance, notably consultation and consensual decision-making, and informed by

customary values (Kaplan, 2008). Somaliland's society-led approach allowed for broad participation and bottom-up democratisation, and establishment of locally-relevant government institutions that have achieved a high degree of societal cohesion and state legitimacy (Kaplan, 2008).

At independence, Somaliland installed a SNM government, led by SNM central committee chair Abdirahman Ahmed Ali Tuur. Tuur's government was given a limited mandate to lead the first two years of post-war state reconstruction and was tasked with establishing security within Somaliland's borders, ensuring political accommodation of all clans, rebuilding government institutions, drafting a constitution, revitalising the economy, and restoring basic services (Bradbury, 2008).

By 1993, when the SNM government's mandate ended, ongoing security challenges meant Tuur's government had made little progress with addressing these state-building priorities. At an inter-clan conference held in Borama, Mohamed Ibrahim Egal, a compromise non-SNM candidate, was elected to lead a new civilian government. Egal's government inherited a plethora of challenges: inter-clan conflict and mistrust, disruption of imports and exports (particularly livestock exports), insecurity and lawlessness, dysfunctional government institutions, negligible government revenue, a significant post-war financial crisis, and urban infrastructure challenges (Bradbury, 2008).

Establishing security and law and order was Egal's chief priority. During the security stabilisation process he introduced, there were several incidences of inter-clan conflict. There had been political differences among Somaliland's clans prior to the independence declaration as some had supported Barre's government, while others had supported the SNM. Challenges to Egal's leadership also emerged, coming mainly from armed clan militias loyal to former president Tuur.

A number of inter-clan reconciliation conferences were held throughout Somaliland to address these inter-clan hostilities, to negotiate political settlements between conflicting parties, and to undertake a national dialogue to achieve consensus on what system of political representation should be adopted for the country (Kaplan, 2008). This was a long and uncertain process, aimed at reaching a power-sharing agreement that made peace more profitable for the parties than instability (Clapham, 2017).

With no external assistance reaching Somaliland due to non-recognition of its independence, these conferences were funded by local businessmen and communities. Importantly, no one financing source was dominant (de Waal, 2015). Following traditional consensus-based decision-making, the result of these consultative and participatory conferences was a bottom-up, culturally rooted, locally-owned and funded peacebuilding and state-building process that was considered legitimate by the people of Somaliland. As the process was entirely domestically funded, it also encouraged self-reliance and a distinct Somaliland national identity (Kaplan, 2008). The societal cohesiveness established through this process has created the space needed for political competition to grow (Kaplan, 2008).

The political settlements achieved an enabling environment to start Egal's security stabilisation process, which included disarmament, demobilisation, reintegration of ex-combatants and clan militias, and the formation of a national army and police force. This enabled Egal to establish a monopoly on the

legitimate use of force within Somaliland's borders. Thereafter, his government shifted to focus on rebuilding government institutions and providing basic services.

In addition to the broadly legitimate, inter-clan governance system developed in Somaliland's early years, other factors contributing to Somaliland's state-building success included a relatively homogenous population (the population is about 70 percent Isaaq), a shared fear of Somalia, modest disparities in wealth, and a lack of external interference which strengthened the accountability of leaders to the people of Somaliland (Kaplan, 2008). The political elites also had historical friendships and trust between one another, which discouraged resort to political violence (Philips, 2013).

The nature of Somaliland's political settlement is, however, essentially an agreed division of economic opportunities between business elites. Political and economic inclusivity underpins the fragile and changing balance of power between competing local actors (Philips, 2013). The distribution of economic benefits heavily influences political processes, including elite bargaining.

Aspects of modern state apparatus have been integrated into Somaliland's governance systems in order to overcome some of the more problematic elements of traditional governance, such as clannism (Kaplan, 2008). In 2001, a new democratic constitution was adopted, and a multi-party system replaced the clan-based traditional governance. Since then, the balance of clan interests has been re-oriented by inter-party politics. In an effort to minimise clannism, the new constitution limits the number of political parties to three and requires each party to have broad support in each of Somaliland's six regions, necessitating forging of inter-clan coalitions (Kaplan, 2008). The government's ability to deliver peace and security within Somaliland's borders is a key factor in its persisting legitimacy. Business elites continue to control national politics, however, which has implications for state effectiveness, among other things.

Somalia: Lawlessness and the collapse of the central government

In contrast, the Western-style centralised system of government imposed on Somalia while it was an Italian colony continued in force post-independence. A strong centralised government is completely antithetical to Somalis' traditional political structures and processes, and this sharp disconnect between traditional and centralised governance has created a fragile political, social, and economic environment in post-colonial Somali state formation.

Somalia's post-war peacebuilding and state-building process took a very different route to that of Somaliland. Following the defeat of Barre's military regime, the United Somali Congress (USC) clan-based militia, which had fought alongside the SNM to topple Barre, seized control of Mogadishu. Barre's fall caused the collapse of Somalia's government – the central authority of the Somali state disappeared and state institutions stopped functioning. Political instability and inter-clan armed conflicts engulfed Somalia in the immediate post-war period. The USC splintered into two rival clan militias, led by Ali Mahdi and General Aideed, both from the Hawiye clan. Mahdi was elected president of the

centralised government, but his legitimacy was challenged by Aideed and others, who fought for control over Mogadishu.

In 1992, a war-induced famine transformed the localised Somali conflict into an international crisis. Both the US and the United Nations (UN) were prepared to intervene in Somalia to restore peace and stability and to ensure the delivery of relief supplies to starving Somalis. The UN Security Council imposed an arms embargo on Somalia in 1992 and established the UN Operation in Somalia (UNSOM), which was later expanded to form the Unified Task Force (UNITAF), a US-led humanitarian intervention (CRD, 2008). More than 30,000 troops were deployed to restore law and order, end the famine, and create an enabling environment for humanitarian assistance programmes. UNITAF was dissolved following an externally-sponsored peace process led by Ethiopia, and UNSOM withdrew from Somalia in 1995 after having failed to accomplish its mission. Nevertheless, the international intervention had failed to reconstitute the Somali state and Somalia's conflict continued (CRD, 2008).

The repeated externally-driven and funded attempts to impose a Western-style centralised government on Somalia have not yielded peace, stability, or local legitimacy

Subsequent externally-driven and internationally-funded peace processes were attempted, including in Djibouti (1991 and 2000), Ethiopia (1993 and 1996), and Kenya (2002) (CRD, 2008). These efforts have yielded little success in terms of stabilisation and state formation. The central government has no local legitimacy and only survives because of the protection and support provided by foreign forces; in turn, the government lacks accountability to its own people. Political factions and clan-based militias continue to fight for control. While clan-based militias are seemingly strong enough to dislodge others, they lack the authority and legitimacy needed to maintain their control or transform themselves into effective governance bodies (Clapham, 2017). Some argue that the external funding channeled into Somalia for state-building has had the unintended consequence of incentivising and entrenching clan-based militias (Kaplan, 2008).

The government institutions and services that do exist are concentrated in Mogadishu, with little regional or district-level administrative presence outside the capital. After adopting a federal structure in 2004, the state-building processes of Somalia's states have further increased the dysfunction of the central federal government. Security remains the key challenge, undermining state-building and service delivery efforts. Somalia's insecurity, lawlessness, and the government's lack of control over the country's territory makes it vulnerable to terrorism and other illegal activities, including smuggling and piracy.

What is clear from the divergent outcomes of peacebuilding and state-building in Somaliland and Somalia is that, to achieve local legitimacy and maintain peace and stability, these approaches must be locally-owned, preferably locally-funded, and should incorporate traditional political structures and processes, as done in Somaliland. The repeated externally-driven and funded attempts to impose a Western-style centralised government on Somalia have not yielded peace, stability, or local legitimacy.

Political compromise and conflict: Undermining state effectiveness

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The challenges of state legitimacy and security and conflict in both Somaliland and Somalia have important implications for state effectiveness in these states.

Somaliland: Elite capture of the public sector

Somaliland's government has been deeply shaped by its political settlement, which was the outcome of negotiations between business elites and political leaders. Government institutions are generally operational but fragile, suffering from a lack of technical, political, and financial capacity to implement relevant laws. Government has succeeded in providing peace and security, but basic service delivery beyond this is very limited.

Some notable institution building has taken place, although many institutions remain relatively weak. For example, the National Electoral Commission is one of the more competent institutions in the country, and is viewed as operating inclusively and transparently (Kaplan, 2008). A civil service commission has been established to train civil servants and improve the capability and professionalism of the civil service sector. However, clan leaders continue to hold considerable political power, which impedes modernisation of Somaliland's government institutions and the establishment of a more meritocratic civil service (Kaplan, 2008). There also appears to be some incidence of government institutions being misused for personal financial and political gains, and government lacks the capacity and political will needed to address corruption.

The Somaliland government's two main sources of revenue are tax and

indirect development assistance. Without international recognition, Somaliland cannot receive official development assistance or concessional loans from multilateral financial institutions such as the World Bank and International Monetary Fund (IMF). Although difficult, this situation has ensured a high degree of accountability as taxation is the primary source of government revenues. However, at 7 percent of GDP (2012 estimate), tax revenues are very limited and considerably below the sub-Saharan Africa average of 18 percent (World Bank, 2014).

Business elites are too powerful vis-à-vis the government for proper regulation or taxation, and attempts by government to adopt or enforce taxation laws are vociferously resisted by elites owning large firms. Even if firms paid tax, government lacks the capacity needed to audit them to verify accuracy of tax payments. Dominance by business elites in this manner undermines government's revenue collection potential. Due to larger firms being non-cooperative with taxation, tax revenues are derived mainly from small and medium enterprises that lack the elite influence of larger firms. Harassment and probable over-taxation of smaller firms (in proportion to their contribution to the national economy) hampers firm growth and job creation, and limits formalisation and expansion of industry.

As a result of the difficulties of collecting income tax and constrained capacity to collect other taxes categorised as inland tax, such as property tax and business license fees, only 16 percent of revenue comes from inland tax sources, while 68 percent of revenues comes from customs taxes and fees (Ahmed, 2018). The sizeable share of customs taxes and fees in total government revenues is characteristic of low capacity contexts, where it is often easier for government to use their limited capacity to collect revenues at demarcated border points than in the economy at large. Service industries, such as telecommunications and financial services, which make up a notable share of Somaliland's GDP, tend to import and export few goods and therefore incur minimal customs taxes and fees in addition to being able to circumvent inland tax collection. Instead, revenues that are paid to government by large firms are made on a voluntary basis, likely at levels below what they would be paying if taxes and fees were effectively enforced in a transparent and uniform manner.

Low levels of tax revenue starve the government of the financial resources needed to strengthen government institutions and to fund basic service provision. Maintaining security comes with a high price tag – some 31 percent of government expenditure is spent on the security sector, leaving little funding available for provision of other services (Ahmed, 2018). As a result, almost all other service delivery is privatised including water, sanitation, education, health, and electricity. Similarly, many justice and law and order services, including contract enforcement, protection of property rights, and dispute resolution, are provided privately, based on traditional clan customs (World Bank, 2016).

Delivery of these services by the private sector, often by companies that face little competition, results in Somalilanders having to contend with higher costs and/or lower quality of services and few (if any) alternative providers if they are dissatisfied. Firms' vested interests in service provision may also motivate them to undermine government's ability to deliver basic services, including by not paying tax revenues to the government. It is apparent that reform of the taxation system will require considerable political commitment from the government, which will face strong backlash from business elites.

Somalia: No functioning central government

Somalia's central government has been largely non-functional since 1991. Government institutions are weak and fragile, and the government lacks the financial resources to even pay civil servant salaries, let alone build government institutions. As in Somaliland, basic services are provided by the private sector. Unlike in Somaliland, however, the government has failed to achieve and maintain peace and security within the country's borders. Indeed, al-Shabaab, the main Islamist militant group active in Somalia, managed to expand their territorial control relatively rapidly at least partly because it was able to supply a measure of law and order in the areas under its control, which was appealing to Somali communities after years of chaos (Kaplan, 2008). Where pockets of local-level political stability do exist, this tends to have been achieved through negotiated pacts between local groups (Clapham, 2017).

Given non-recognition of Somaliland's statehood, almost all aid goes to Somalia. In 2016, Somalia received an estimated $1.3 billion in official development assistance, comprising 21 percent of GDP (ACU, 2017). Only 8 percent of this funding went into government's budget spending, with the other 92 percent being spent on numerous off-budget, internationally-managed programmes. Most aid funding is spent on the security sector and stabilisation. Although Somalia's federal states are perceived as being more legitimate than the central government, it's unclear how much funding Mogadishu channels to the states.

Corruption is deeply entrenched, with Somalia ranking as the most corrupt country in the world in 2016 (Transparency International, 2016). The government lacks the political will and capacity to address this scourge, and misuse and mismanagement of public funds have left the Somali population among the poorest people in the world, with half of the population living below the international poverty line (World Bank, 2014).

Insecurity in the country and the government's lack of administrative capacity have both contributed to low tax revenues – Somalia's tax to GDP ratio is a staggeringly low 2.8 percent (World Bank, 2017). Many of the government operations that are undertaken are funded by external actors and, as in Somaliland, the basic services that are available are provided by the private sector and, in many cases, limited to Mogadishu.

Risky business: Private sector development amid insecurity

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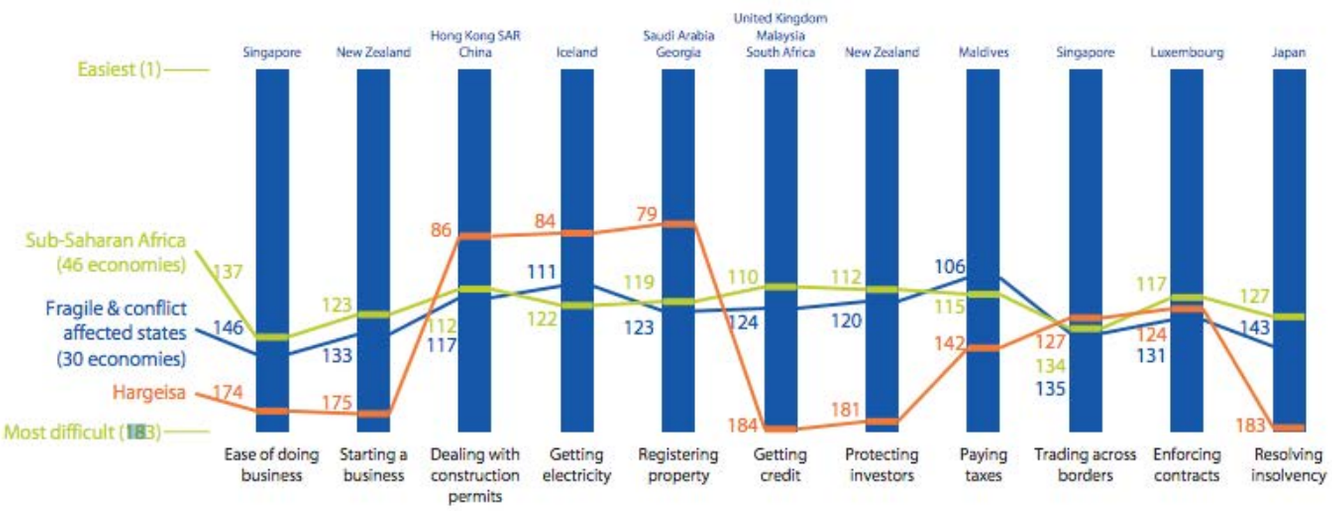
The challenges affecting the private sector in Somaliland and Somalia are broadly similar. The key difference between the two contexts is that Somaliland faces the additional challenge of non-recognition and Somalia has to contend with continued conflict. The lack of reliable data constrains full assessment of the states' private sectors and broader economies.

In both Somaliland and Somalia, the private sector is almost completely informal and unregulated. Both technical capacity and regulatory frameworks are lacking. In Somaliland, the influence that business elites wield over government further limits government's ability to regulate the private sector. In the absence of regulation, however, a vibrant and innovative domestic private sector with an appetite for investment risk has been established.

According to the Doing Business in Hargeisa report (World Bank and IFC, 2012), indicators measuring business regulation and enforcement rank Hargeisa 174 out of 183 economies measured. As can be seen from Figure 1 above, Hargeisa ranks above other fragile and conflict-affected states on several indicators, including on dealing with construction permits, getting electricity, and registering property. On other indicators, however, Hargeisa ranks significantly below other fragile and conflict-affected states, such as on getting credit, protecting investors, and paying taxes. Hargeisa's overall low ranking is due to several factors, including an incomplete legal and regulatory framework and overly burdensome administrative procedures. Additionally, costs in Hargeisa are high (including costs for business registration and tariff rates for water, sewage, and electricity), and there is low compliance with regulations (World Bank, 2006).

Figure 1: Hargeisa's performance on the Doing Business indicators compared with sub-Saharan African economies and fragile and conflict-affected states



Source: World Bank and IFC, 2012

In Somaliland, total GDP is around $1.4 billion (excluding official development assistance) and GDP per capita is $347 (World Bank, 2014). Poverty rates are relatively high at 38 percent in rural areas and 26 percent in urban areas (World Bank, 2014). Pastoralists are dominant in the north, including in Somaliland, whereas agricultural crop production is common in the southern parts of Somalia. Almost a third of Somaliland's GDP is comes from livestock (primarily sheep and camels), 20 percent from retail trade, 8 percent from agriculture, and 6 percent from real estate (World Bank, 2014). The financial sector, one of the largest service industries in the domestic economy, is not accounted for in GDP figures. Both non-banking and formal banking institutions operate in the financial sector, with the formal sector being smaller and less developed. In Somalia, remittances received from the diaspora contribute significantly to GDP (de Waal, 2015).

As mentioned above, basic service delivery in both Somaliland and Somalia is provided primarily by the private sector. Service provision is relatively reliable and efficient for some services, but less so for others. Telecommunications services in both states are among the best and cheapest in Africa, but electricity, water, and sanitation services tend to be off-grid or non-piped solutions and are among the most inefficient and expensive on the continent. Where services are available, they are generally concentrated in the larger urban areas.

Poor service delivery significantly constrains the productivity and competitiveness of firms. Access to finance is another notable constraint to private sector development, and over half of all business owners have indicated that their firm growth is limited by lack of access to finance (World Bank, 2016). In Somaliland, the formal banking sector is nascent and does not offer credit. Where loans are available, they either follow Islamic financial tenets which prohibit charging interest on loans (thereby reducing lenders' incentives to lend) or levy high unregulated interest rates (thereby reducing the attractiveness of borrowing). As with the rest of the private sector, the financial sector is

unregulated, despite the central bank's mandate to do so. Somalia fares little better. In place of a functioning judicial system or contract enforcement bodies, shared reputation among strong Somali social networks is used, and violating business agreements carries a notable reputational cost (de Waal, 2015).

Non-recognition of Somaliland's statehood has had significant negative impacts on its domestic private sector development. Being viewed as part of Somalia means insurance coverage options are either non-existent or extremely expensive, making investments in Somaliland risky and unattractive. Somaliland's first bilateral investment agreement, signed with the United Arab Emirates and Ethiopia for the development of a commercial and military port at Berbera and associated trade corridor, was struck down by Somalia's parliament on the basis that Somaliland lacks the standing to enter into bilateral investment agreements without Mogadishu's approval (AFP, 2018). Notwithstanding Mogadishu's attempt at unde Somaliland's sovereignty, work under the agreement appears to be continuing.

It is thought that both Somaliland and Somalia have potential reserves of oil and gas, gold, uranium, and other valuable minerals. To date, however, there has been little natural resource exploration, due to the high risk posed by capital-heavy, location-specific projects in areas of insecurity. Greater regional trade and integration would also have a positive impact on regional peace and security, including in Somaliland and Somalia. As a result, Somaliland has long sought close trading relationships with regional neighbours, notably Ethiopia, one of the most populous and economically powerful countries in the region. Regional economic inter-dependence will have a significant positive impact on reducing fragility in Somaliland.

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Living on the edge with few safety nets

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As is common in conflict and post-conflict countries, insecurity and economic hardships have contributed to large-scale emigration from both Somaliland and Somalia over the years. Hundreds of thousands fled during the civil war, seeking refuge in neighbouring countries, as well as the Middle East, the US, and Europe (Wasuge, 2018). Since the return to peace and stability in Somaliland, emigration has slowed considerably. Today, migration from Somaliland is driven by high rates of poverty and unemployment: unemployment is estimated at 61.5 percent, with unemployed youth comprising 75 percent of this group (IOM, 2013).

Somalia, with its ongoing instability and conflict, as well as notable poverty and lack of economic opportunities, continues to experience large-scale emigration. Youth unemployment and a lack of legitimate economic opportunities have fueled terrorist and other illicit activities in Somalia, including smuggling and piracy. An estimated 1.5 million refugees from Somalia are thought to be living outside the region, another 1 million elsewhere in the Horn region, and 1.2 million internally displaced people within Somalia (REF, 2017).

In addition to the danger posed by ongoing conflict, Somaliland and Somalia's location in the arid Horn of Africa makes them both extremely vulnerable to drought. The region has suffered multiple acute droughts, most recently last year, when prolonged drought developed into a famine that killed many thousands of people. Droughts also often decimate entire flocks of pastoralists' livestock, destroying livelihoods and wiping out savings, which are generally kept in the form of livestock. With nothing left, countless pastoralists have moved to urban areas, joining growing numbers of people living in abject poverty in informal settlements.

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The only real safety net available to Somalis is remittances sent home from friends and family working in the diaspora, usually through informal money transfer companies such as Dahabshiil. Highly efficient remittance transfer companies have been established, drawing on the strong social networks that tie Somali society together, even in the diaspora (Clapham, 2017). An estimated $1.4 billion is sent to Somaliland and Somalia annually by Somalis in the diaspora (Wasuge, 2018).

Somali state fragility: Regional and international dynamics

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Somalia and its insecurity have more notable impacts on the region and internationally than Somaliland does, and considerably more regional and international intervention has focused on Somalia than on Somaliland. As a result, analysis of regional and international dynamics here is limited to that concerning Somalia.

Regional and international impacts of Somalia's fragility

For more than 25 years, Somalia has been ravaged by inter-clan conflicts, humanitarian crises, external military interventions, and political instability. During this time, hundreds of thousands of Somalis became internally displaced or fled to neighbouring countries or further abroad. The lawlessness and insecurity that has taken root in Somalia has provided fertile ground for terrorism, smuggling, and piracy. Poverty, unemployment, and a lack of legitimate economic opportunities provide further impetus for illicit activities.

Regional countries have been deeply affected by Somalia's insecurity. The large-scale emigration from Somalia has created acute humanitarian challenges in regional countries hosting Somali refugees. In 1991, Dadaab, a refugee camp in northeastern Kenya, was opened to house Somali refugees. Dadaab has since grown considerably, becoming the world's largest refugee camp and, technically, Kenya's third largest city (Throup, 2012). Most of Dadaab's estimated 500,000 inhabitants were born in the camp and have never set foot in Somalia.

Al-Shabaab's terrorist activity has spilled over Somalia's borders, threatening the national security of regional countries. Numerous terrorist attacks have been committed in Kenya's Northeastern Province, with al-Shabaab massacring students, burning villages, and kidnapping and killing people. These atrocities

prompted the Kenyan military to intervene in southern Somalia in 2011 with the goal of fighting al-Shabaab and undertaking counter-terrorism operations inside southern Somalia (Throup, 2012). Al-Shabaab has also retaliated against regional countries for their support of military interventions in Somalia, carrying out terrorist attacks in Uganda and Kenya, most notably an attack on Nairobi's Westgate Mall in September 2013 that killed 71 people.

Smuggling in Somalia is rampant, including of weapons and narcotics, and human trafficking continues to be a significant concern. Although piracy off Somalia's coast and associated kidnappings for ransom have declined since 2010, there have been increasing incidents of piracy in recent months and fears of a resurgence of the crisis. The piracy threat will undoubtedly remain if the causes of piracy are not addressed, notably poverty, a lack of economic opportunities in Somalia, and illegal fishing off the Somali coast that has plundered Somali fish stocks and crippled local livelihoods (Monks, 2018). Also necessary to combat piracy is a strong Somali government that can implement anti-piracy legislation and maintain effective policing and coast guard services (Monks, 2018).

Regional and international interventions and impacts on Somalia

The involvement of regional and international actors Somalia's insecurity has further destabilised the country. After the dramatic failures of interventions by the US and UN in Somalia in the early 1990s, external intervention in Somalia is now primarily led by regional actors, notably the Inter-Governmental Authority for Development (IGAD) and the African Union (AU).

The role of IGAD

IGAD is an eight-country trade bloc in the Horn of Africa, established in 1986 to coordinate efforts to combat famine, food insecurity, and under-development of member states. In a region plagued by conflict, IGAD has played a critical role in post-war political reconstruction in Somalia in recent years (Healy, 2009). Almost all IGAD member states have hosted peace talks in an attempt to reconcile Somalia's warring factions.

However, continual regional insecurity and disagreements between member states has undermined IGAD's mission and left the organisation relatively weak and fragile. IGAD's regional policy interests have been profoundly influenced by the foreign policy priorities of member states, many of whom have direct interests in the conflict given the national security impacts of Somalia's fragility on their countries. At times, IGAD member states have allied themselves with different political factions in Somalia in an effort to influence Somalia's internal politics and prevent insecurity from spilling over into neighbouring countries. This approach has undermined the organisation's ability to function as a regional peacebuilding institution.

After an IGAD-led reconciliation process from 2002 to 2004, the Transitional Federal Government of Somalia was established in Somalia. IGAD was

requested to provide 15,000 troops to assist in reconstructing Somalia's collapsed central government institutions, however a lack of funds and technical assistance to support the deployment of troops undermined these efforts. IGAD's peacebuilding mandate in Somalia was then taken over by the AU's Peace and Security Council.

The role of the AU

In the absence of a capable central government and any government-provided justice and law and order services, several Sharia courts grouped together to form the Islamic Courts Union (ICU), a rival administration to the Transitional Federal Government. Initially the courts were fragmented and were threatened by the various political factions and clan militias in Mogadishu that believed the ICU was harbouring wanted terrorists. However, ICU gradually gained a stronghold in Mogadishu.

In 2006, the Transitional Federal Government requested Ethiopia to intervene to dismantle the ICU. On the pretext of counter-terrorism, Ethiopia invaded Somalia to quash the ICU. The removal of the ICU created a complex and unstable political environment, and much of the Somali population felt that Ethiopia's military intervention had undermined Somalia's sovereignty. Al-Shabaab was formed during this time of chaos and resentment. Once al-Shabaab had been established, it posed a significant regional security threat, both to the region and beyond (Bruton & Williams, 2014).

In March 2007, the African Union Mission in Somalia (AMISOM), the largest ever peace support mission in Africa, was formed. AMISOM's mission was to support and protect Somalia's federal government by defeating al-Shabaab. Despite many thousands of troops having been deployed under AMISOM, al-Shabaab retains significant capabilities to undertake a variety of attacks and is still considered a growing regional security threat (Anzalone, 2018).

Somalia's federal government continues to rely on AMISOM's security force and other externally-provided resources for supporting its institutional functioning and continued control of Mogadishu. The federal government's complete dependence on external resources undermines its domestic legitimacy and government institutions remain weak and ineffective. Al-Shabaab and local administrations control most of Somalia's territory. Despite regional and international security and stabilisation efforts, Somalia remains a collapsed state.

Conclusion

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Post-colonial state formation processes in Somaliland and Somalia have differed considerably. Somaliland has managed to build a central government influenced strongly by traditional political structures and processes and, as a result, has achieved a high degree of local legitimacy. Aspects of modern state institutions have been adopted in more recent years in an effort to address some of the adverse effects of traditional structures, such as clan politics, and to help Somaliland's government move with changing times.

In contrast, the centralised system of government that Somalia inherited was ill-suited for Somali society and has created an unstable political environment for state building. Somalia's conflict and insecurity can be largely attributed to the sharp disconnect between localised traditional structures and post-colonial centralised state institutions.

The experiences of Somaliland and Somalia demonstrate the importance of several key elements for peace to be attained and maintained in the region. First, an internal, bottom-up, culturally-rooted state-building process is needed for Somalia. A locally-financed and locally-appropriate process would be more sustainable and legitimate than the externally-driven processes that have failed to yield results in Somalia. This process should be geared toward promoting societal cohesiveness and a shared national identity, and establishing closer linkages between government and society. Somaliland's experience in this regard could inform this process. There remains an important role for the international community to play in supporting this locally-driven and locally-owned peacebuilding and state formation process – but this support must facilitate local solutions rather than impose foreign governance models.

Second, a meaningful political settlement must be reached between Somaliland and Somalia. Ongoing wrangling over Somaliland's statehood maintains active hostility between the states, and has caused skirmishes over border demarcations and foreign investment opportunities. Territorial contestations between Somaliland and neighbouring Puntland, the semi-autonomous Somali state in northeast Somalia, also need to be resolved (Clapham, 2017). Achieving peace in the region and creating an enabling environment for economic development requires a political solution to be reached between these states.

Third, economic development in both Somaliland and Somalia is vital for achieving peace and overcoming the threats caused by poverty and a lack of economic opportunities, including terrorism and piracy. Key to Somaliland's growth potential is the issue of international non-recognition – without being recognised as an independent and sovereign nation, Somaliland's political and

economic development will remain severely constrained. In turn, without growth opportunities, Somaliland becomes increasingly vulnerable to the conflict and state fragility prevalent in the rest of Somalia.

If Somaliland's sovereignty is to be recognised, however, it is vital that public financial management systems are strengthened to ensure government accountability is retained as government revenue sources diversify to include natural resource and aid revenues. Increased reliance on natural resource and aid revenues has the potential to upset the business-social contract upon which Somaliland's peace and stability depends so these changes will need to be negotiated (de Waal, 2015). Recognition of Somaliland's statehood would undoubtedly have a profound effect on strengthening regional stability, and the international community has a crucial role to play in achieving this.

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