

Trade, taxes and tensions in the Somali borderlands

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Trade, taxes and tensions in the Somali borderlands

Tobias Hagmann



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Cover image: A checkpoint in Gabiley/Somaliland en route to Tog'wajale. Finn Stepputat 2015.

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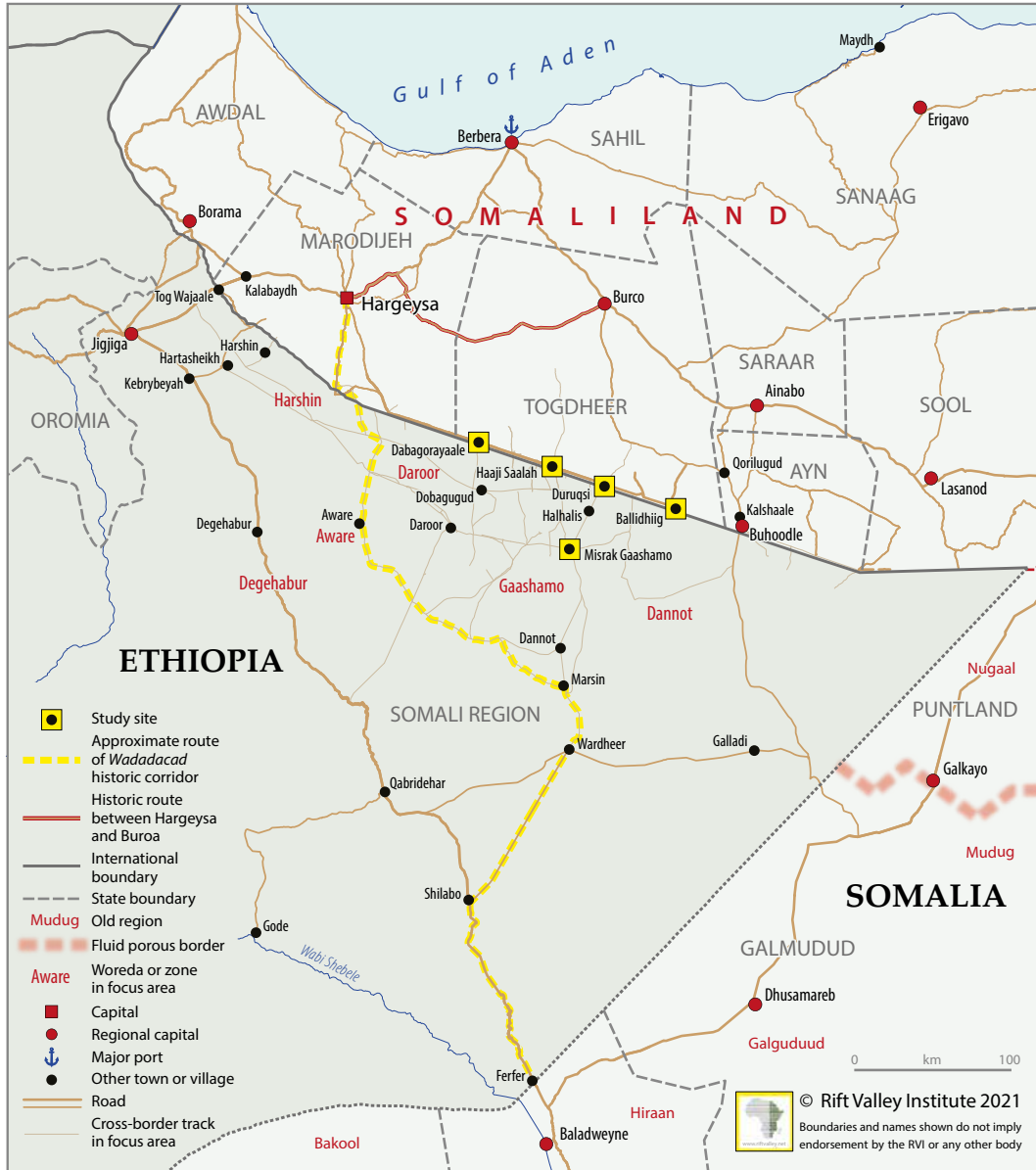
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Map 1: Major trade hubs and corridors in Somaliland and Puntland



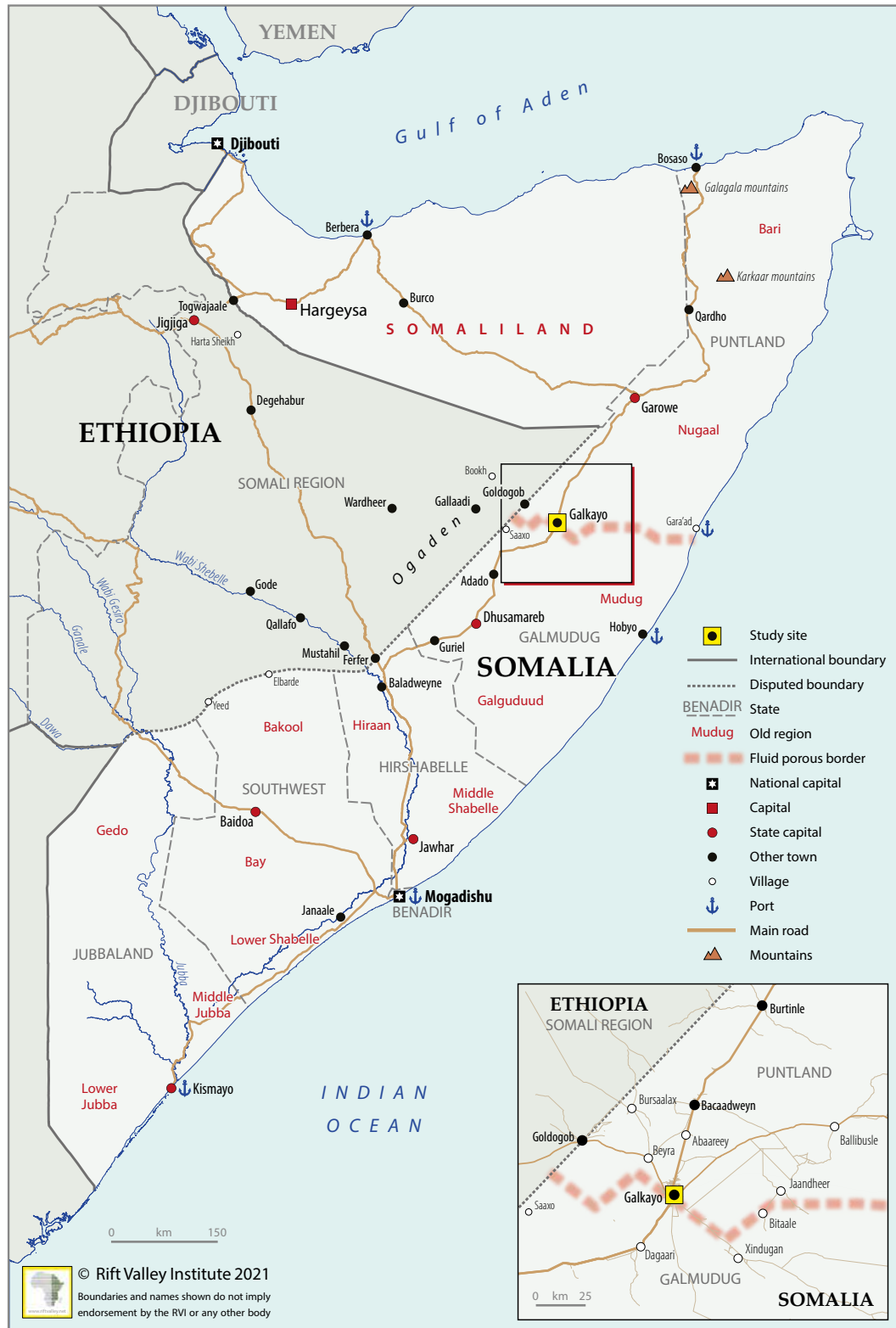
Base map data source: OpenStreetMap
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Map 2: Ethiopia-Somaliland borderlands



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Map 3: Galkayo and its environs



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Executive summary

- Cross-border trade is crucial for ongoing state building in the Somali inhabited Horn of Africa. This is significantly enabled by revenue collection at border crossings, which forms a crucial part of states' finances in this region.
- Cross-border trade is also a key factor in cooperation, and sometimes conflict, between states and the communities that live either side of the borders, or sometimes straddle them in the Somali inhabited region of the Horn of Africa.
- The three case studies of cross-border trading, trade politics and state-making explored in this paper offer important insights into the relationship between trade borders and wider trade and transport corridors. They are: Lasanod—a disputed city on the border between Somaliland and Puntland; Galkayo—a strategic trade hub divided both by competing clan lineages and public administrations, namely Puntland and Galmudug; and the Gaashamo corridor—a series of small trade routes connecting Ethiopia's Somali regional state with Somaliland.
- Competition over trade corridors and trade derived taxes between neighbouring states/public administrations are integral to competitive state-building in the Somali territories. Both conflicts over trade revenues and the accommodation of local economic interests through tax bargaining are recurrent strategies.
- Different types of taxation reflect various forms of (in)formalization and state capacity by the various authorities who do the taxing. These range from simple 'personalized' bargaining processes to more complex and differentiated trade and customs regimes.
- Understanding the broad variety of existing cross-border trade practices involves defying simple dichotomies between formal and informal, legal and illegal, regular and irregular categories.
- In order to progress state building and economic life in the Somali territories, policymakers need to recognize the relationship between cross-border trade and trade corridor dynamics, including the land-sea nexus. They are also advised to harmonize competing corridor development in the Somali territories, including the building of new seaports and other trade related infrastructures.
- Processes of trade formalization creates new winners and losers, requiring a more human-centred approach to cross-border trading that takes into account local commercial interest as much as state agendas.

- There is need for long-term development of a fiscal federalism arrangement—built on commodity trading in the Somali territories. This should enable the redistribution of revenues from main corridors to the margins, thus encouraging more equitable growth.



Trucks wait in central Galkayo. **Photo:** Khalif Abdirahman.

Introduction

Borders are central to cooperation and conflict between communities and states in the Somali inhabited Horn of Africa. Often overlooked because of their peripheral location, borders in the Somali territories are crucial sites of revenue and state-making. The political and economic significance of these borders can hardly be overstated.¹ As in other parts of the region, cross-border commodity trading between Somalia, Somaliland and their neighbours constitutes a lifeline for local livelihoods.² Taxation of cross-border trade is the main source of income for various Somali state entities—whether national or sub-national.³ Trade politics in the Somali borderlands brings to the fore the competitive nature of state-building in the Somali territories. Political and commercial interests influence commodity flows and profits across these trading borders. All of these dynamics shape both cooperative and antagonistic relations across internal and external borders, including between neighbouring state administrations.

Considering how Somali trading borders work not only provides important insights into the relations between trade, taxation and state-building. It also allows for a better grasp of conflicts at the border, as trading borders—in particular checkpoints where various authorities tax goods—are often strongly contested.

While the physical extent of territorial states and aspiring administrations are defined by their borders, as the Somali case shows, they are also largely financed by economic transactions *across* the border. Livestock and commodity trading are most salient for revenue generation and state intervention when they cross state and social or clan boundaries. It is at these border crossings, whether a formal border post, an informal ‘bush’ border or checkpoints along main roads, where state and state-like entities seek to govern and capture revenues from passing goods.⁴

This paper argues that there is a need, and indeed an opportunity, for policy-makers to pay greater attention to trading borders in the Somali territories. Borders are both sites where state-building can be supported and where conflicts, in particular over reve-

1 See for example Edward Thomas, ‘Moving towards markets: cash, commodification and conflict in South Sudan’, Nairobi: Rift Valley Institute, 2019 (<https://riftvalley.net/publication/moving-towards-markets-cash-commodification-and-conflict-south-sudan>)

2 Most food stuffs and consumer goods consumed in Somalia and Somaliland are imported. Food aid and food imports largely surpass local agricultural production. World Bank & FAO, *Rebuilding Resilient and Sustainable Agriculture: Somalia Country Economic Memorandum Vol. I*, Washington DC: World Bank, 2018.

3 Gael Rabbal and Justine Knebelmann, ‘Domestic Resource Mobilization in Somalia’, Washington DC: World Bank, 2021; Sagal Abshir, Khalif Abdirahman and Hannah Stogdon, ‘Tax and the state in Somalia’, Nairobi: Rift Valley Institute, 2020.

4 On different types of trade corridors and border crossings see Gregor Dobler, ‘The green, the grey and the blue: a typology of cross-border trade in Africa’, *Journal of Modern African Studies* 54/1 (2016): 145-169.

nues and trade corridors, can be defused. As federalization and state-building in Somali territories continue, Federal Member States (FMSs) and the unrecognized Republic of Somaliland seek to develop their trade corridors by extending them to new goods and services. These trade corridors, in particular seaports, serve as main sources of public income and bolster the legitimacy of these (sub-)national administrations. Negotiated trade and customs policies, fiscal federalism and economic integration are thus of major concern to avoid state-driven competition over trade revenues at Somali borders. As this paper demonstrates, assisting Somali public administrations to move from antagonistic to more cooperative trade relations is an integral part of state-building. This process starts at the border where commodity trading occurs.

This paper highlights key political dynamics and trends that are at play at Somalia's contested trading borders. First, the paper underscores the growing competition over trade revenues between Somali state entities as is manifest in rival developments of trade corridors. As the case study papers highlight, this competition has produced a fragmented trading landscape as well as shifting trade volumes and corridors, as Somali traders move their goods across multiple administrative and social boundaries marked by different types of regulations.⁵

Second, because the taxation of goods is a main source of revenue, border points and trading hubs have repeatedly been sites of conflict as various interest groups seek to benefit from cross-border trading. Distinct patterns of conflict and cooperation exist, depending on the type of trading border involved.

Third, our case studies demonstrate how a broad range of legal, illegal, formal and informal taxes and fees are levied by state and non-state actors involved in regulating cross-border commodity trading in the Somali territories.

Finally, states and aid organizations typically seek to formalize cross-border trading through customs and other administrative reforms—trying to make them more state-like. As is discussed in the conclusion of this paper, it is vitally important to recognize the plurality of regulations and practices—both formal and informal—that exist at Somali trading borders.

This paper draws on case studies and recent research on cross-border trading, trade politics and state-making in the Somali territories.⁶ The three case studies focus on the following locations. Firstly, Lasanod: a disputed city in an important trade and transport

5 Two basic trading borders can be distinguished: trade borders that are primarily administrative, dividing communities or ethnic groups with a shared collective identity or genealogy (type 1); and trade borders where administrative and social boundaries coincide (type 2).

6 Including the author's research as director of the six years GOVSEA ('Governing economic hubs and flows in Somali East Africa') research programme, which studied the nexus between trading and state formation dynamics in the Somali territories. See (<https://www.diis.dk/en/projects/govsea-governing-economic-hubs-and-flows-in-somali-east-africa>).

corridor that straddles Somaliland and Puntland. Contested state-building projects and supply chains from Berbera and Bosaso ports shape the Lasanod trading border, which is inhabited by the Dulbahante clan family.⁷



An electronics shop in Lasanod city. **Photo:** Ahmed M. Musa.

Secondly, the Gaashaamo corridor—a series of small trade routes connecting Ethiopia’s Somali regional state with Somaliland.⁸ The import and export of goods in the Gaashamo area—situated in Isaaq clan territory divided by an international border—highlights the variety of formal and informal rules applied to cross-border trading.

Thirdly, Galkayo—a strategic trade hub divided both by competing clan lineages and public administrations, namely Puntland and Galmudug.⁹ This case study exemplifies the interplay between violent conflict, competing trade and transport corridors, and the ongoing federalization process in Somalia.

7 Ahmed M. Musa, ‘Lasanod: City at the margins: The politics of borderland trade between Somaliland and Puntland’, London: Rift Valley Institute, October 2021. (<https://riftvalley.net/publication/lasanod-city-margins-politics-borderland-trade-between-somaliland-and-puntland>)

8 Mustafe M. Abdi ‘Regularly irregular: Varieties of informal trading in the Ethiopia-Somaliland borderlands’, Nairobi: Rift Valley Institute, October 2021. (<https://riftvalley.net/publication/regularly-irregular-varieties-informal-trading-ethiopia-somaliland-borderlands>)

9 Khalif Abdirahman, ‘Contested commerce: Revenue and state-making in the Galkayo borderlands’, Nairobi: Rift Valley Institute, November 2021.

From stateless trade to ‘trading states’

Relations between the state and the economy, in particular commodity trading, have evolved considerably since state collapse in 1991.¹⁰ For a long time, economic life in Somalia remained essentially unregulated, leading observers to talk about a ‘stateless economy’.¹¹ Although various forms of taxation—most prominently protection payments—were levied on traded goods by clan militia and other armed actors, national and local governments rarely regulated cross-border trade.¹² The idea of a ‘duty free economy’¹³ in which entrepreneurial Somali traders bought and sold goods unencumbered by state oversight or intervention, gained prominence in the 1990s.

This simplified depiction held some truth in the first decade after state collapse. But it is no longer applicable. Today, both national and sub-national Somali administrative entities devise and implement trade and customs policies, thus shaping cross-border trading dynamics.¹⁴ Somaliland, Puntland and other Federal Member States, but also the Federal Government of Somalia, compete over profits and revenue streams derived from cross-border and regional commodity trading. More seasoned administrations like Somaliland and Puntland have reformed and adapted their customs and trade rules over the years.¹⁵ For example, the Somaliland government publishes a regular trade statistics bulletin while Puntland recently published its customs valuation book.¹⁶

State-building and the federalization of Somalia gradually reconfigured relations between state institutions and traders. Over time the proliferation of local and sub-national administrations led to a fragmented landscape of administrative and clan borders.¹⁷ Each of these administrations, including al-Shabaab, have a claim to commodity flows

10 On the 1990s and livestock trading in southern Somalia in particular see Peter D. Little, *Somalia: Economy without a State*, Bloomington and Oxford: Indiana University Press and James Currey, 2004.

11 Jamil A. Mubarak, ‘The “hidden hand” behind the resilience of the stateless economy of Somalia’, *World Development* 25/12 (1997): 2027–41; Peter T. Leeson, ‘Better off stateless: Somalia before and after government collapse’, *Journal of Comparative Economics* 36/4 (2007): 689–710.

12 An exception is Somaliland, which successfully taxed imports and exports passing through Berbera port early on its formation. Dominik Balthasar, ‘Somaliland’s best kept secret: shrewd politics and war projects as means of state-making’, *Journal of Eastern African Studies* 7/2 (2013): 218–38.

13 Tobias Hagmann, ‘From state collapse to duty free shop: Somalia’s path to modernity’, *African Affairs* 104/416 (2005): 525–535.

14 Ahmed M. Musa, Finn Stepputat, and Tobias Hagmann, ‘Revenues on the hoof: livestock trade, taxation and state-making in the Somali territories’, *Journal of Eastern African Studies* 15/1 (2020): 108–127; Musa, ‘Lasanod’.

15 See the websites of the Republic of Somaliland’s Ministry of Finance Development <https://slmof.org/>; Puntland’s Ministry of Finance <https://mof.pl.so/>; and the Federal Government of Somalia’s Ministry of Finance <https://mof.gov.so/>.

16 See the Somaliland Trade Statistics Bulletins at <https://slmof.org/reports/>. Somaliland customs began using the Single Administrative Document (SAD) for customs declarations in 2016. Puntland published its revised taxation framework in 2014, see Ministry of Finance Puntland, ‘Puntland taxation framework’, revised edition, Garowe: Ministry of Finance, 2014.

17 Musa et al, ‘Revenues on the hoof’.

transiting through ‘their’ territory and across multiple borders.¹⁸ Trade networks connecting major markets and transport hubs thus evolved in parallel to these fragmented ‘trading states’.

The fragmentation of politics and state institutions across the Somali territories produces increased costs for traders and consumers. While trade, business relations and trading networks are integrated and connected, states and politics have a tendency to divide and interrupt these economic relations. This is particularly true where overlapping or competing public authorities—state officials, clan militia, al-Shabaab and others—exist, each of which aim to regulate and tax commodity flows in order to survive.

Post-1991 state-building has affected cross-border trading across the Somali territories in at least three complementary ways. First, it led to the establishment of new boundaries—both de facto and de jure—and in so doing reconfigured relations between sea ports, trade hubs and hinterland markets. Borders have long been recognized as key sites of state-making.¹⁹ It is at the border where one state begins and the other ends. State-making and border-making thus go hand in hand, shaping trade flows and the social relations around which these are organized.²⁰

Second, because the number of state entities at national and sub-national levels increased over time, attempts to maximize trade-derived revenues also increased. While territorial control is a classic state concern, access to and control over major trade routes is arguably even more important.²¹ Taxing bypassing trucks and commodities, whether imported or exported, livestock or consumer goods, is a key source of public revenue in the Somali territories.²² As public administrations proliferated over the past two decades, the taxation of trade flows did as well.²³ But taxation is not only extractive and predatory, it also serves the purpose of creating a bond, however contested, with citizens—a process the literature refers to as a ‘fiscal contract’.²⁴ State entities like Somaliland, which has a longer track record of formal tax collection, are thus partly able

18 Hiraal Institute, ‘A losing game: countering al-Shabaab’s financial system’, Mogadishu: Hiraal Institute, 2020. (<https://hiraalinstitute.org/a-losing-game-countering-al-shababs-financial-system/>)

19 Paul Nugent, *Boundaries, Communities and State-making in West Africa: The Centrality of the Margins*, Cambridge: Cambridge University Press, 2019.

20 Jonathan Goodhand, ‘Fragility and resilience analysis: the political economy of development in borderlands’, in *From Isolation to Integration: The Borderlands of the Horn of Africa*, ed., World Bank, Washington DC: World Bank, 2020, UNDP, ‘Borderlands in Africa: literature overview and key terms’, Nairobi: UNDP, 2020.

21 Peer Schouten, *Roadblock Politics: The Origins of Violence in Central Africa*, Cambridge: Cambridge University Press, 2021.

22 Most tax revenue across the Somali territories is generated from indirect taxation, in particular from taxing trade. Rabbaland and Knebelmann, ‘Domestic Resource Mobilization in Somalia’.

23 Rabbaland and Knebelmann, ‘Domestic Resource Mobilization in Somalia’.

24 Jeffrey T. Timmons, ‘The fiscal contract: states, taxes and public services’, *World Politics* 57/4 (2005): 530-567. This does not mean that citizens like paying taxes. To the contrary, in most parts of the Somali territories taxpayers are reluctant to pay taxes given the little they receive in return in terms of public services.

to expand their public authority by taxing economic transactions. The same applies to the former Islamic Courts Union (ICU) and tax collection by al-Shabaab in the past 15 years.²⁵



A ship docks at Berbera port. **Photo:** Finn Stepputat.

Third, the proliferation of state entities taxing commodity flows across the Somali territories has increased the expectations of businesspeople, traders and the general population that these 'states' will provide security in return for the taxes imposed on them. As the three case studies highlight, the protection of goods, both during storage and transport, is paramount for trading. In the words of an informant of the Galkayo case study 'any Somali person uses any port and region to get his goods from anywhere in the world, considering only two things—cost and security'.²⁶ Whether or not an administration is able to secure roads, to protect transporters from robbers, revenge killings or abusive local officials is thus a good indicator of effective state capacity.²⁷

25 Roland Marchal, 'The rise of a Jihadi movement in a country at war: Harakat al-Shabaab al-Mujaheddin in Somalia', Paris: CNRS, 2011; UNSC (United Nations Security Council); 'Letter Dated 2 October 2018 from the Monitoring Group on Somalia and Eritrea Addressed to the Chair of the Security Council Committee Pursuant to Resolutions 751 (1992) and 1907 (2009) Concerning Somalia and Eritrea', S/2018/1002. New York: United Nations Security Council; Hiraal Institute 'A losing game'.

26 Transcript by Khalif Abdirahman, interview with Puntland government official, Galkayo, 15 March 2021.

27 On the relation between state capacity and taxation see Deborah Bräutigam, Odd-Helge Fjeldstad and Mick Moore, eds., *Taxation and State-building in Developing Countries: Capacity and Consent*, Bergen: Chr. Michelsen Institute, 2008.

Conflicts and cross-border trading

Since the colonial period Somali trading borders have attracted or been the site of regular and significant periods of conflict.²⁸ This is not surprising, given that border points are strategic locations of state-making and revenue generation. Moreover, some of the Somali borderlands have suffered from recurrent insecurity in the past. This has been the case of the Somaliland-Puntland borderlands, the border areas between Puntland and Galmudug and, most prominently, the Kenyan-Somali border, which has been destabilized by the longstanding Al Shabaab insurgency.²⁹ Although the view that Somali borderlands are generally ‘insecure’³⁰ is reductionist, different types of conflict—ranging from economic and political competition to physical violence—have centered on, or taken place in the vicinity of trading borders. To simplify, three types of conflicts can be distinguished: 1) corridor competition; 2) trade border disputes; and 3) borderland insecurity. These conflicts have consequences for commodity flows, public and private profits derived from trading as well as inter-communal relations.

Corridor competition

Trade and transport corridors are dynamic and their economic significance—measured in terms of the volume of goods traded³¹—changes over time. While this has always been the case, a veritable competition between trade corridors has emerged in the Somali territories. State entities and major clan groups compete with each other over the establishment, development and maintenance of trade corridors beneficial to their political and commercial interests. In recent years, this strategic rivalry led to the development of new seaports, the upgrading of connecting roads and the reform of customs procedures. Both the Berbera and the Bosaso corridors, which are discussed in greater details in the three papers, have served as economic lifelines for Somaliland and Puntland.³² From a state-building perspective, the importance of controlling sea and air ports, inland and hinterland markets and, increasingly, dryland ports, cannot be underestimated.³³ It provides public authorities with a constant revenue stream as its officials

28 Daniel K. Thompson, ‘Capital of the imperial borderlands: urbanism, markets, and power on the Ethiopia-British Somaliland boundary, ca. 1890–1935’, *Journal of Eastern African Studies*, 14/3 (2020): 529–552.

29 Markus V. Hoehne, *Between Somaliland and Puntland: Marginalisation, militarisation and conflicting political visions*. London: Rift Valley Institute, 2015; Saferworld, ‘Clans, contention and consensus: federalism and inclusion in Galmudug’, Nairobi: Saferworld, 2020; Ken Menkhaus, ‘Conflict assessment 2014: Northern Kenya and Somaliland’, Copenhagen: Danish Demining Group.

30 World Bank, *From Isolation to Integration: The Borderlands of the Horn of Africa*, Washington DC: World Bank, 2020, 22.

31 The success of a trade corridor or seaport can be measured, for example, by the number of livestock it exports annually. The more livestock is exported, the more commodities will be imported, as the two value chains are interconnected. See Ahmed M. Musa, ‘Analysis of institutional dynamics and their influence on livestock export trade in the Berbera corridor of Somaliland’, PhD thesis, Faculty of Agriculture, University of Nairobi, 2020.

32 Finn Stepputat and Tobias Hagmann, ‘Stepputat, Finn and Tobias Hagmann. ‘Politics of circulation: the makings of the Berbera corridor in Somali East Africa’, *Environment and Planning D* 37/5 (2019): 794–813; Jatin Dua, ‘Bosaso and the Gulf of Aden: changing dynamics of a land-sea network’, Nairobi: Rift Valley Institute, 2020. (<https://riftvalley.net/publication/bosaso-and-gulf-aden-changing-dynamics-land-sea-network>)

33 On the historical importance of ‘gatekeeping’ in the formation of African states see Frederick Cooper, *Africa since 1940. The Past of the Present*, Cambridge: Cambridge University Press, 2002.

regulate and tax the import, export and movement of goods within that corridor, which encompasses a complex interplay between land and sea.³⁴

As the Lasanod case study demonstrates, the competition between Berbera and Bosaso seaports is a case in point. On the one hand, the recent upgrading of Berbera port and investments in the corridor to Ethiopia give Somaliland a clear economic advantage. On the other, increasing insecurity and the lack of standardized road taxation in Puntland mitigate against the success of the Bosaso corridor. The reopening and upgrading of southern ports in Kismayo and Mogadishu,³⁵ as well as the current construction of Hobyo³⁶ and Garacad ports,³⁷ highlight the commercial ambitions of the newly created FMSs. Their aim is not only to have their own sea port, but to increase the volume of goods transiting through their territories. This corridor and seaport competition is likely to reshape the economic importance of particular trade hubs—often capital cities—as well as their political futures, for years to come.

Trade border disputes

Some trading borders have been the site of repeat conflict and clashes between neighbouring administrations. Trade border disputes are driven by competing, overlapping territorial claims as much as attempts to monopolize trade revenues at checkpoints and border crossings. In the Lasanod area, custom points shifted repeatedly as Somaliland, Puntland and (temporarily) the Sool, Sanaag and Cayn (SSC) administration fought over customs revenues. In 2015 and 2016 conflict between Puntland and Galmudug states, which erupted as part of the federalization process, disrupted trade flows in and to the divided city of Galkayo. Although the border between Ethiopia's Somali regional state and Somaliland is largely undisputed, it went through phases of conflict and tension in the past. During the reign of Abdi Mohamed Omar 'Iley', Isaaq traders who dominate trading in the Tog'wajale corridor, were harassed as part of a regional state-led policy of promoting Ogaadeen owned business interests.³⁸

Borderland insecurity

A third type of violent conflict affecting Somali trading borders concerns more diffuse insecurity, resulting from either the presence of armed groups, criminal acts or revenge killings. In areas where government control remains limited, traders and transporters are

34 Jatin Dua, 'Choquepoints and corridors: ordering maritime space in the Western Indian Ocean', Nairobi: Rift Valley Institute, 2021. (<https://riftvalley.net/publication/chokepoints-and-corridors-ordering-maritime-space-western-indian-ocean>)

35 Tobias Hagmann, 'Is the revival of Somali sea ports imminent?', GOVSEA blog, 2016, (<https://govsea.tumblr.com/post/146702121664/is-the-revival-of-somali-ports-imminent>)

36 'Somalia: government to build Hobyo port in the coastal town', *Global Construction Review*, 14 August 2021, (<https://www.globalconstructionreview.com/news/somalia-go-ahead-170m-port-scheme/>)

37 See the website of Garacad seaport: <https://dekadagaracad.com/>

38 Mustafe Mohamed Abdi and Tobias Hagmann, 'Relations between Somali Regional State and Somaliland, 2010 - 2019', Research memo, Conflict Research Program, London School of Economics, February 2020. (<https://www.lse.ac.uk/ideas/Assets/Documents/Conflict-Research-Programme/crp-memos/SRS-Memo-Feb-2020.pdf>)

easy targets of various militias and bandits. The Somali-Kenyan borderlands are a case in point. Following a period of profitable cross-border trading during the mid-1990s-2000s, the long-standing presence of al-Shabaab, ongoing fighting involving AMISOM, and a general sense of lawlessness have affected livestock and commodity trading in the past decade. Insecurity has also plagued the Kenyan side, destabilizing parts of the Northeastern Province.³⁹ Another type of insecurity, which is more privatized, concerns attacks—either looting or killings—motivated by clan feuds. In some parts of the Somali territories, including Puntland, truckers and transporters whose extended families are involved in an ongoing clan conflict are easy targets as they travel outside of their clan ‘home’ territory.

Although corridor competition, trade border disputes and insecurity regularly disrupt commodity trading in the Somali territories, it would be wrong to assume that they are the norm. In many trading borders, cooperation between neighbouring states and communities prevails. Often trading continues across administrative and clan boundaries in spite of latent and open tensions between communities.

39 International Crisis Group, ‘The hidden cost of Al-Shabaab’s campaign in North-eastern Kenya’, Commentary, International Crisis Group, 4 April 2019. (<https://www.crisisgroup.org/africa/horn-africa/kenya/hidden-cost-al-shabaabs-campaign-north-eastern-kenya>)

Creating revenues: taxing commodity flows

As in other fragile states, the percentage of taxes derived from trade as part of the fiscal revenue is much higher in the Somali territories than among neighbouring countries.⁴⁰ Taxing tradable commodities is the main fiscal strategy used by local, regional and national governments in Somalia and Somaliland.⁴¹ In theory, government entities collect two main types of trade derived taxes: tariffs on imports and exports as well as sales taxes when livestock or commodities are being sold in market places. Additionally, they levy a number of what are best described as ‘transit fees’⁴² on goods at different administrative borders and checkpoints along main trade routes. Tax collection takes place both formally and informally, meaning that state officials may tax goods both in line with official rules as well as based on informal rules.⁴³ Somalia’s provisional 2012 constitution recognizes preexisting tax and customs laws, which explains why outdated tax rates, valuation methods and tax categories continue to be applied.⁴⁴ Federal Member States have the right to apply their own tax rates at main seaports, while local governments collect municipal taxes.⁴⁵

Because state institutions struggled for a long time to develop a formal tax base, a common misconception held that much of Somalia’s internationalized economy is untaxed. In reality, multiple taxes and fees—both legal and illegal—are routinely applied to commodity traders transporting and selling livestock and consumer goods. The three studies on the Gaashamo, Lasanod and Galkayo trading borders illustrate this multitude of de facto taxes. Apart from regular customs fees on imports and exports, the studies document the existence of unloading fees, security fees, district development fees—sometimes referred to as garbage collection fee and road usage fees. A host of different authorities, ranging from national ministries to local authorities and security forces, collect these different transit fees in south-central Somalia, Puntland, Somaliland and Ethiopia.⁴⁶ For example, in Somaliland’s Sool region security forces demand an USD 8 security fee for every truck entering Lasanod.⁴⁷ At government manned checkpoints

40 Rabbaland and Knebelmann, ‘Domestic Resource Mobilization in Somalia’, 1.

41 For a comparison of recent fiscal revenues by Somaliland, the Federal Government of Somalia and various Federal Member States see Rabbaland and Knebelmann, ‘Domestic Resource Mobilization in Somalia’, 9.

42 Ahmed M. Musa and Kirstine S. Varming, ‘Raising fiscal revenues: the political economy of Somali taxation’, in Tobias Hagmann & Finn Stepputat, eds., *Trade Makes States: Governing the Greater Somali Economy*, London: Hurst, forthcoming.

43 Sagal Abshir, Khalif Abdirahman and Hannah Stogdon, ‘Tax and the state in Somalia’.

44 Federal Republic of Somalia, *Provisional Constitution*, 1 August 2012, Mogadishu: Federal Republic of Somalia.

45 Rabbaland and Knebelmann, ‘Domestic Resource Mobilization in Somalia’, 5.

46 Musa, Stepputat, and Hagmann, ‘Revenues on the hoof’.

47 For an overview of different taxes and fees collected in Lasanod see Musa ‘Lasanod’, 25.

in south-central Somalia government soldiers collect unofficial taxes, while al-Shabaab imposes road usage and commodity taxes in the areas it controls.⁴⁸

While many of these taxes collected at trade borders and checkpoints along transport routes lack a clearly defined legal basis, are partly arbitrary and often applied inconsistently, they are indicative of varying state capacity. The manner in which goods are taxed, the consistency (or lack thereof) of fees levied, as well as the services that taxpayers obtain in return for their payment reflect taxing authorities' different bureaucratic capacities (see table 1). A most basic form of return is the issuance of a receipt, including by al-Shabaab, which protects traders from double taxation.

The first and most basic form of taxation occurs when truck drivers stop at a checkpoint and negotiate a fee to continue their journey. As the Gaashamo case highlights, the Ethiopian *Liyu* police (or 'special' police)—a government backed paramilitary force—are known to engage in such practices. Interactions between drivers and traders on the one hand and checkpoint militia on the other hand remain essentially unregulated, are not standardized and thus invite both parties to bargain over tax duties in a personalized manner.⁴⁹ Various considerations ranging from the value of the goods transported to the family ties of the trader may influence this bargaining process. A more consistent, but still crude way of taxing commodity flows consists in applying a uniform fee to a given trade volume. This is the second type of trade taxation observed across the Somali territories. The case studies document how some border points collect the same fee for each passing truck.⁵⁰ For example, Puntland's Ministry of Finance applies a standardized sales tax per truck. Local checkpoint fees, which have to be paid for 'opening the rope', i.e. letting trucks pass, also charge per vehicle. This type of transit fee does not take into account the value of commodities transported, but – when applied consistently – at least has the advantage for traders of being predictable.

A third type of commodity taxation reflects goods' actual or estimated value—taxation *ad valorem*. This is of course the universal operating procedure of customs fees on imports and exports in function of a customs valuation book.⁵¹ Somaliland, Puntland and the Federal Government of Somalia all make use of customs valuation books, with Somaliland having the longest experience of implementing and revising its customs tariffs

48 UNSC 'Letter Dated 2 October 2018'; Hiraal Institute 'Losing game'.

49 Tax bargaining obviously also occurs in strong states including in OECD countries. A case in point are tax exemptions on imports, which the Ethiopian government accords to politically savvy businesspeople.

50 This is the case in Puntland whose Ministry of Finance applies a standardized sales tax per truck. Local checkpoint fees, which have to be paid for 'opening the rope', i.e. letting trucks pass, also charge per vehicle.

51 Customs valuation or value books assign monetary value to goods for both import and export and serves as basis for taxation.

over time.⁵² To be effective, customs valuation books must be periodically updated to reflect price fluctuations and the entrance of new commodities on the market. Finally, more complex customs and taxation regimes, which are the norm in most countries around the globe, make use of differentiated tariffs and fees in an attempt to balance the protection of local markets, state needs to generate revenue and the facilitation of international commodity flows.

Table 1: *Varieties of trade taxation in the Somali territories*

TRADE TAXATION	Personalized tax bargains	Taxation by volume	Taxation by value	Complex customs and tax policy
Logic of payment	Arbitrary or negotiated fee	Payment by truck load	Payment based on value and type of goods	Payment based on value, types of goods and route of entry
Level of standardization	Not standardized	Somewhat standardized ⁵³	Standardized	Not standardized, but differentiated
State capacity	Absent to very low	Low	Low to moderate	Moderate to strong
Case study examples	Liyu police at border between Ethiopia's Somali region & Somaliland	Puntland (also Galmudug and Hirshabelle)	Somaliland, Puntland and Mogadishu sea ports	Somaliland customs policy

LOW FORMALIZATION  HIGH FORMALIZATION

The different fiscal strategies captured in table 1 reflect distinct state capacities, ranging from basic personalized ‘fees’ imposed by checkpoint officials to more differentiated and complex customs policies. The taxation of cross-border commodity trading in the

52 See Republic of Somaliland, ‘Customs Valuation Book 2020’, Hargeisa: Ministry of Finance Development, 2020, (<https://slmof.org/wp-content/uploads/2021/04/2020-Customs-Valuation-Book-A4.pdf>); Ministry of Finance Puntland, ‘Puntland taxation framework’ (<https://mof.pl.so/wp-content/uploads/2020/01/Puntland-Taxation-Framework.pdf>). The Somali Federal Parliament passed a revenue act in 2019, but custom duties continue to be based on pre-1991 legislation and directives. For an overview of Ethiopia custom duties see Ethiopian Revenues and Customs Authority, ‘Ethiopia customs guide’, Addis Ababa: ERCA, March 2017. (https://admin.theiguides.org/Media/Documents/Ethiopia_Customs_Guide.pdf)

53 Taxation by volume—typically truck loads—is a more standardized practice in established trade corridors and hubs such as Berbera, Bosaso or Mogadishu ports, but less predictable in other trade borders and routes in the Somali territories.

Somali territories is thus best summarized as a continuum ranging from very basic and informal to more complex and formalized fiscal policy.

The Gaashamo, Lasanod and Galkayo studies illustrate this continuum of trade taxation and taxing authorities' corresponding administrative capacities. When compared to other Federal Member States, Somaliland pursues a more differentiated trade customs strategy. For instance, it allows for fiscal exceptions in the Lasanod area while protecting its crucially important Berbera corridor.⁵⁴ As the Lasanod study highlights, the break-away republic incrementally increased some of its tax levies and almost quadrupled import duties per truck in Lasanod between 2007 and 2021. Yet even Somaliland's trade taxation is fraught with inconsistencies. For example, even though traders may possess a receipt proving prior inspection they may have to repeatedly unload their goods as they pass different inland checkpoints.

The taxation of commodity flows entering or leaving various sub-national entities constitutes a main source of public revenue in the Somali territories. While all local and member state governments tax goods, their fiscal practices vary considerably in terms of how and what they tax as well as in terms of their actual bureaucratic capacities.

⁵⁴ This explains why Somaliland applies a full tax rate to imports of fuel and particular electronic devices such as mobile phones, which are imported from or through Puntland.

Varieties of (in-)formal cross-border trade regulation

As in the rest of the world, cross-border trading in the Somali Horn of Africa is recurrently distinguished between a 'formal' and an 'informal' variant. From a legalistic and state-viewpoint the bulk of everyday commodity trading—as for example in the Gaashamo, Lasanod and Galkayo trade borders—falls into the informal category. However, borderland specialists have for long, and so far with limited success, cautioned against labelling this type of trade as 'informal'.⁵⁵ Our studies highlight that the regulation of cross-border trading across the Somali territories cannot be understood by a dichotomy of formal versus informal. In reality, trade is governed and regulated in a variety of ways, which cut across formal and informal, legal and illegal, regular and irregular categories.⁵⁶



Trucks travel along minor roads in the Gaashamo trade corridor. **Photo:** RVI.

55 Informal and informality evoke images of illegality, immorality and arbitrariness. Given that most commodity trading partly or fully eschews formal rules, while at the same time following certain predictable patterns, this terminology is not adequate. Peter D. Little, Waktole Tiki and Dejene Negassa Debsu, 'Formal or informal, legal or illegal: the ambiguous nature of cross-border livestock trade in the Horn of Africa', *Journal of Borderland Studies* 30/3 (2015): 405-421.

56 While informal trade refers to untaxed trade, illegal trade includes 'drug trafficking, money laundering, human trafficking, livestock rustling, poaching, the arms trade, and trade in high-value minerals', UNDP 'Borderlands in Africa', 7.

For instance, government actors regularly engage in informal—and by their own standards, illegal—trade and customs practices.⁵⁷ Moreover, ‘informal’ trade governance that defies state laws often follows its own patterns and rules. It is often seen by local traders and communities as less arbitrary and therefore more acceptable than state-led or externally imposed trade rules. Instead of considering cross-border trade through the prism of formal versus informal, it is important to consider both the routine or arbitrary nature of the governance of commodity flows as well as their acceptability. Moreover, trade corridors and border crossings are managed quite differently, depending on their geography, local and national state capacities, government agendas and other factors.

State regulation of cross-border trading across international and domestic boundaries involves different government branches and public policies. Among the main regulatory instruments used by state administrations to govern trade are taxes and tariffs, responsibilities and duties, formal trade requirements such as letters of credit, monetary policy,⁵⁸ but also security policy involving national and local armed forces. As the case studies and recent literature on trading in the Somali territories highlight, these different policy fields are rarely harmonized. Informal and at times illegal cross-border trading reflects the absence of integrated policy frameworks that are in tune with local and transnational commodity markets and trading practices.⁵⁹

In the past and present, states aimed to incorporate larger shares of informal cross-border trading into the realm of formal institutions. The attempt to formalize commodity trading by, for example, the Ethiopian government’s customs and trade policies in its Somali inhabited hinterlands,⁶⁰ has to be understood from this vantage point. Trade formalization is an important policy agenda, which is often funded and supported by international donors.⁶¹ While laudable in principle, trade formalization often means imposing state control on borderland economies. At times this occurs to the detriment of local producers, middlemen and consumers. National governments and local borderland inhabitants often have divergent economic interests. While the former seeks to increase its tax base, the latter are in need of affordable commodities and exploit price differentials across borders.⁶²

57 In a recent study on the fiscal practices by the Federal Government of Somalia van den Boogaard and Sentero point out that ‘the government lacks not only capacity but also the will to levy direct taxes or to regulate informal taxes.’, van den Boogaard and Sentero ‘Explaining informal taxation and revenue generation’, 33.

58 In particular the import, use and conversion of foreign currencies.

59 An observation shared by a recent study on gold mining and trading in the Sudan-Ethiopia borderland. Enrico Ille, Mohamed Salah and Tsegaye Birhanu, ‘From dust to dollar: Gold mining and trade in the Sudan-Ethiopia borderland’, Nairobi: Rift Valley Institute, April 2021. (<https://riftvalley.net/publication/dust-dollar-gold-mining-and-trade-sudan-ethiopia-borderland>)

60 Abdurahman Eid, ‘Jostling for trade: the politics of livestock marketing on the Ethiopia – Somaliland border’, Working paper, Institute of Development Studies, 2014.

61 See for example the work done by Trademark East Africa, for instance the establishment of a One Stop Border Post (OSBP) in Moyale. ‘Moyale starts operating as a one stop border crossing point’, *Addis Standard*, June 8, 2021. (<https://addisstandard.com/news-moyale-starts-operating-as-a-one-stop-border-crossing-point/>)

62 Ille, Salah and Birhanu, ‘From dust to dollar’.

Trade formalization in the Somali territories needs to be approached with caution for two reasons. First, existing trade and customs laws and policies are often inadequate, outdated or not in tune with local demands and trade practices on the ground. There is thus a risk that trade formalization, while strengthening state agents, only further contributes to informality as official trade rules remain impractical and thus unimplementable. Second, trade formalization is not merely a technocratic exercise—it is deeply political and creates new winners and losers.⁶³ Given that armed and insurgent groups may exploit popular discontent with state-led trade and customs policies, it is important to formulate policies taking into account local commercial interests.

The importance and indeed resilience of cross-border trading that does not conform with official rules can be seen in the everyday ‘trade tactics’⁶⁴ employed by borderland traders. To keep their goods secure, transport them in time and still make a profit, traders often have to navigate between multiple, often contradictory, formal and informal trade and customs rules. As the Gaashamo, Lasanod and Galkayo studies demonstrate, these everyday trade tactics take on different forms. They range from maintaining good personal relations with particular checkpoint officers in eastern Ethiopia to having two car number plates in the Somaliland-Puntland borderland.⁶⁵ In Galkayo, taxes are included in the transport price so it is the drivers who have to develop good relations with those manning checkpoints.⁶⁶ Unlike Ethiopia, road taxes in the Galkayo area are well known and the business community negotiates any increase in taxation along the corridor, in many cases reversing the administration’s decision.

Rather than assuming that cross-border trading can either be formal or informal, it is important to understand what Olivier de Sardan refers to as ‘practical norms’⁶⁷—routinized informal rules and practices that guide expectations and the behaviour of those involved in commodity trading in the Somali borderlands. This insight constitutes a first step to harmonize, and eventually formalize, trade and customs policies in the Somali territories.

63 While trade formalization benefits the interests of some traders, it works to the disadvantage of others. World Bank, *From Isolation to Integration*, 16.

64 Musa ‘Lasanod’, 31-33.

65 Abdi ‘Regularly Irregular’; Musa ‘Lasanod’.

66 Abdirahman ‘Contested commerce’.

67 Jean-Pierre Olivier de Sardan, ‘Practical norms: informal regulations within public bureaucracies (in Africa and elsewhere)’, in *Real Governance and Practical Norms in Sub-Saharan Africa*, Tom de Hart and Jean-Pierre Olivier de Sardan, eds., London and New York: Routledge, 2015.

Conclusion and policy recommendations

Somali borderlands and cross-border trading play crucial roles in state building and economic life in the Somali territories. Trade borders exemplify the enduring tension between, on the one hand, transnational commodity flows across and within the Somali inhabited economic space and, on the other, state and clan territories that seek to govern and benefit from these flows.⁶⁸ Policymakers need to recognize that trade borders shape public revenues, competition between states, as well as cooperation and conflict between communities. A better understanding of cross-border trading, including their conflict and state-building effects, is of great importance to regional economic integration, public revenues and peaceful coexistence. A main policy objective is to harmonize trade and customs regimes in the Somali territories to generate durable revenue streams for public administrations, which are beneficial to borderland communities and which foster cooperation rather than competition.⁶⁹ To achieve this, policymakers, conflict, governance and economic advisors are advised to focus work efforts on four interrelated issues.

Recognize the dynamic relationship between trade and borders

Interventions need to recognize the dynamic relationship between trade borders (the border point or crossing where commodities are being taxed and inspected), and the broader trade and transport corridor that feed these goods. The latter connects main ports of entries, terminal and bush markets, and various catchment areas from and to which commodities are transported. The relation between trade border and trade corridor is often not immediately visible. But it is crucial for revenue generation, trading dynamics and livelihoods in the borderlands. Failure to take into account these corridor dynamics bears the risk that investments in customs points, sea and dry ports, and other infrastructures become unsustainable once trade corridors shift or decline in economic importance.

Harmonize the development of trade and transport corridors

There is a need to harmonize the development of trade and transport corridors among Somalia's Federal Member States. A certain degree of competition between trade corridors is desirable. But a situation in which economic rivalry between states fuels territorial disputes, and eventually armed conflict and insurgencies, must be avoided. In the gatekeeping logic that animates this trade competition,⁷⁰ sub-national administrations aim to control chokepoints along the coast, major roads and market places, hoping to obtain steady revenue streams. They do so to expand their economic clout and tax

68 In this sense one can talk of an integrated Somali 'commonwealth' crisscrossed by commodity trading and other economic interactions.

69 As outlined by World Bank, *From Isolation to Integration*.

70 Cooper, *Africa since 1940*.

base, which is important as state-building progresses. Yet given the dynamism of Somali commodity trading, and given that all major trade corridors cut across single state or clan territories, a more integrated trade and customs regime needs to be negotiated between Federal Member States, including Somaliland. Similarly, donor investments, in particular trade hubs or corridors—including infrastructure upgrading—should take into account their effects on neighbouring state entities.

Build a more human-centred understanding of trading dynamics

Trade formalization, including customs reforms or One Stop Border Posts, need to be informed by a more human-centered approach to trading dynamics. While technical solutions and bureaucratic improvements are necessary, there is a need to take into account the existing variety of trade governance highlighted in this paper. This means understanding the ‘practical norms’ of cross-border trading,⁷¹ the motivations and tactics by commodity traders as well as the broad spectrum of (in-)formality that exists in the Somali borderlands. While government officials are inclined to assume that they create the revenue levied at major trade gateways, producers, traders and consumers on both sides of the border shoulder the actual labour and financial risk of commodity trading. Formalizing trading in the Somali territories thus requires taking their interests seriously, lest they disrupt trade flows and livelihoods or lead to even greater informality as traders find new ways to circumvent official rules.

Encourage governments to properly develop fiscal federalism in Somalia

In the long-run, this involves negotiating and defining the rights and responsibilities of local governments, Federal Member States and national government(s) in trade matters.⁷² Acting in parallel to the harmonization of trade and transport corridors mentioned above, an agreed upon fiscal federalism not only reduces conflict, but allows to redistribute trade derived revenues. It can potentially encourage governments to facilitate trade flows while redistributing trade derived taxes. These can then be reinvested in localities that are situated at the margins of major trade hubs and corridors. In short, only a fiscal federalism arrangement that takes into account variegated trade interests and bureaucratic capacities by Somali, Ethiopian and Kenyan (and to a lesser degree Djiboutian) governments will overcome the zero-sum competition between political entities over cross-border trade in the Somali territories. Producing more reliable data on trade derived revenues at major trading hubs and border stops is a first step.

71 Olivier de Sardan ‘Practical norms’.

72 See Somali Public Agenda, ‘Fiscal federalism in Somalia: constitutional ambiguity, political economy and options for a workable arrangement’, Mogadishu: Somali Public Agenda, 2021.

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Cross-border trade, and the revenue derived from it, is a crucial contributor to the ongoing state-building projects in the Somali-inhabited regions of the Horn of Africa. This report draws on research carried out under the Rift Valley Institute's Somali Borderlands and Conflict Economies research project in Somaliland, Puntland and Ethiopia's Somali Regional State. The report demonstrates that cross-border trade is a key factor in cooperation, but sometimes conflict, between the states and state-like entities in this region. This trade exists within a broad spectrum between formal and informal, legal and illegal, regular and irregular and often defies easy categorization. Attempting to formalize these processes creates winner and losers. Those involved in this process should take a human-centred approach to cross-border trading that takes into account local commercial interest as much as state agendas.

