Economic factors underlie much of the recent conflict in Somalia. Rival factions continually struggle to control land, natural resources and ports of trade which generate revenue.

Before its collapse in 1990-91, the Siyad Barre regime had used a combination of socialist-style legislation, international military and relief assistance, and political nepotism in an effort to capture the country’s major economic assets and concentrate economic power at the centre.

After 1991 victorious factions competed to take control of urban and rural assets that had enriched the supporters of the old regime. In the south an array of armed militias drawing heavily on recruits from the pastoral clans of central Somalia occupied the homes and shops of town residents, seized key ports and airstrips, and imposed tributary regimes over many of the productive farming districts along and between the Shabelle and Juba rivers.

In Somaliland and Puntland, in contrast, locally based militias recaptured economic assets in their regions and established autonomous governments, which had to develop their own local sources of revenue.

Since the collapse of the state, the quest for economic security – and power – has taken place at local and regional levels. Throughout Somalia countless actors seek access to whatever sources of local revenue are available. Everything has a strong economic component, from the imposition of roadblocks along strategic transport routes, to pirate operations off the northeast coast, and efforts by competing ‘religious’ movements (including Al Shabaab) to seize control of village courts and local police forces.

Despite what is clearly a locally oriented, economically driven quest for security by Somalia’s citizens, international efforts to bring stability to the country have focused on political institutions. National peace conferences have had as their goal the restoration of a functioning central government, on the assumption that effective national governance is a prerequisite for economic recovery.

These efforts have viewed Somalis primarily as political actors who need to be reconciled around the ‘governmental table’. Indeed most Somalis love politics, and the country’s powerbrokers (including many businesspeople) have benefited considerably from the infusion of international aid in support of peace conferences and interim government budgets.

Yet such initiatives have done little to bring economic security to the majority of Somali citizens; in fact they seem to be perpetuating certain patterns of political behavior that hinder the search for peace. There are three primary problems with such an approach:

1. The preoccupation with political representation at the centre has resulted in interminable negotiations over who should sit in government – presumably to help solve future problems – rather than in focused efforts to deal with the array of problems which exist now.
2. Actors who benefit from local extortion rackets or commerce in war materials continue to act as ‘spoilers’ whenever national political negotiations approach consensus on matters of national security or government regulation.
3. Focusing on formulas for political ‘power sharing’ does little to regularize or institutionalize practices which
promote economic security, create belief in the idea of a government that serves the common good, or instill confidence in the international donor community.

Somalis need to be understood as economic as well as political actors. Somalia’s 20th century history provides numerous examples of Somalis’ ability to rebuild local economies even after prolonged periods of war, drought or social dislocation.

The recent success of the Somaliland experiment – however fragile – is instructive. Wherever one stands on the sovereignty issue, most would agree that the north’s initial economic recovery occurred in spite of (or maybe because of?) the fact that the Somaliland state did not have the capacity to intervene very strongly in the private sector. As a result the region succeeded in attracting valuable contributions of money, skills and professional expertise from members of its own diaspora and from a number of NGOs.

The vibrant commerce between Somaliland and eastern Ethiopia, and across Somalia’s border with Kenya, has also brought modest prosperity to many in the transport, hotel, and retail trade sectors. In other words, it appears that in several parts of the Horn of Africa, economic recovery is leading political recovery, despite our intuitive sense that political reconstruction ought to come first.

Evidence suggests that the international donor community, along with most Somali politicians, have their priorities wrong. They have put their intellects and their energies and their resources into finding political solutions first, which is always the most difficult thing for Somalis to achieve; and not enough energy and resources into building on what Somalis do best – that is responding to economic opportunities.

Perhaps we should look for ways to build political consensus on the foundations of economic security, rather than vice versa? One needs not abandon the quest for a viable system of national governance to begin exploring creative opportunities to build stability and peace outside a narrowly political framework. Might Somalia’s economic entrepreneurs – rather than its political ones – be leading the way to stability and security in the region?

**Business, war and peace**

The Somali business community has played an important role in Somalia’s recent troubled history: at some points hindering efforts at reconciliation by financing warlords and their militias; at others working with local activists and NGOs seeking to establish peace. Somali businesspeople have also supported Shari’a courts.

The wealthy and well connected members of the business class have the most influence on policy. There is little doubt that businesspeople bankrolled rival warlords in the early 1990s and facilitated the flow of weapons and other war materiel into the country. At the same time the private sector filled the major void left by the collapse of the national banking and telephone systems by investing in money transfer (hawala) and telecommunications enterprises. They also supported private schools, both for religious and technical education, and helped pay the salaries of security personnel to keep the ports operating.

Businesspeople typically sought accommodation with whatever local political and military forces happened to be ascendant in their spheres of activity at the time, even as they hedged their bets by establishing branch offices and business partnerships outside zones of endemic conflict.

By 2000 many Somali entrepreneurs – often with bases of operation in Dubai, Nairobi, or Dire Dawa – had moved away from profiteering in the ‘war economy’ and had begun to diversify into the service sectors (finance, transport, information technology), the construction industries and the import-export trades involving Somalia’s neighbours.

In a 2007 survey of 41 African countries Somalia ranked 16th in number of mobile phone users and 11th in number of internet users. Some 15 companies operate aviation services in Somalia, using leased aircraft and foreign personnel for maintenance and air traffic services.

The transfer of revenues into Somalia from Somalis overseas has been estimated at $1-1.5 billion annually, and hawala companies now provide an ever-growing range of banking services and have invested in other sectors of the economy. If World Bank figures can be believed, Somalia’s GDP grew from around $1 billion in 1996 to more than $5.5 billion in 2007, with a real growth rate in 2007 of 2.6 per cent. Because virtually all economic activity in Somalia is ‘informal,’ these figures need to be treated with extreme caution. Nonetheless, they suggest that Somalia’s economic actors have been moving toward economic diversification and providing real growth in several sectors of the economy.

Some of the economic innovations in the region are simply the result of necessity, the efforts of Somalis to adapt and survive in an unpredictable political environment. For every success story there are dozens of failures. Small traders constantly disappear from the market, for in the absence of a national security system only the most powerful or well connected businesspeople tend to survive.
Even those commentators such as Peter Little who celebrate the successes of the ‘economy without state’ in Somalia acknowledge that the unregulated economy in the country leaves many vulnerable people behind. Wealthy businesspeople may occasionally fund private schools and universities, but they have little incentive to invest in major infrastructure projects or broad-based social and health services.

Private entrepreneurs also tend to ignore the damage to the natural environment caused by charcoal harvesting or enclosed grazing reserves. And a ‘stateless’ society is unable to provide the kinds of certifications that, for example, can satisfy the health requirements of foreign livestock importers, who frequently impose bans on Somalia’s livestock exports.

At present Somalia’s regional neighbours (Kenya, Ethiopia, Djibouti, and even Uganda and Tanzania) seem to be prospering more from Somali economic enterprise (chiefly through the provisioning of consumer goods and services) than the citizens of Somalia itself, where local predatory practices continue to limit opportunities for entrepreneurs to accumulate productive assets inside the country.

Nonetheless, as national political reconciliation conferences have failed time and again to deliver either results or a sense of hope, Somali businessmen and women have gone ahead in efforts to expand their activities. Defying the tendency toward endless political fragmentation, they have found ways to cooperate with agents in neighboring countries to construct regional networks of finance, real estate investment and retail services across clan and territorial boundaries.

The private sector cannot completely ignore the process of state rebuilding, and most wealthy businesspeople continue to bankroll their own favorites in national political negotiations, thus contributing to the centrifugal forces that prevent lasting political accommodation at the centre. But increasingly it appears that many in the private sector see the establishment of a functioning central government as a ‘sideshow,’ a process from which they do not want to be excluded, but whose success is not at the moment pivotal to the conduct of their businesses.

A new generation of businessmen and women

There are several reasons why the business sector may possess the potential to bring a new dynamic to the Somali situation.

First, along with the old guard, today’s private sector includes talented individuals from the under-40 generation. Somalis often complain that most of the players at national peace conferences are products of or have ties to the older generation of politicians, and that until this older generation is replaced there is little likelihood of substantive progress in peace talks. These younger entrepreneurs realize the necessity of playing by the rules of international business if they are to profit from the global economy in the long run. They may also become catalysts for the development of formal and informal business ‘schools’ within Somalia and in neighbouring countries.

Second, many in the new business classes have studied or trained abroad, have language and technical skills which the older generations lack and have connections with business partners and firms outside Somalia. They are thus better positioned to participate proactively in the wider regional economy, rather than simply relying on clan nepotism or looking for handouts from international donors.

Third, the ‘new’ business sector has greater access to and respect for professionals in the Somali diaspora. Many educated Somalis living overseas have been frustrated by the limited opportunities for input into the peacemaking process at the national level, where they tend to be marginalized unless they are ‘in the service’ of one of the warlords or lead politicos. Their contacts and skills might be put to more effective use if they could partner with private Somali firms operating in the Horn.

At the same time there are many vested economic interests on the scene that are wary of business-driven reforms, and even the ‘new’ entrepreneurs are not fully autonomous in their efforts to promote conditions which facilitate private enterprise.

For example, modern Somali businessmen and women may no longer be prisoners to their clans, but they are still part of them. Even those who have lived abroad for several decades are expected by their relatives to act in ways that at the very least do not harm the interests of the group. These expectations hinder efforts to transmit professional and associational
identities and attitudes to their counterparts in Somalia, and it is still risky for entrepreneurs to operate in country without support from their kinsmen.

Also, the transnational commercial networks that provide inexpensive consumer goods to markets in Somalia, Ethiopia, and Kenya can also be conduits for the flow of weapons and illegal drugs. It should be no surprise if many of the new entrepreneurs still have a hand in the illicit economy even where they are also (or even primarily) engaged in legitimate enterprises.

At present there are few institutional (as opposed to personal) links between members of the entrepreneurial sector and the Transitional Federal Government (TFG), and no formal framework for incorporating the private sector into the peace process. Promoters of political reconstruction must use any leverage they have with the political actors to bring economic, legal, and financial expertise from the private sector into the problem-solving process.

While some enterprises have been launched by Somalis in the diaspora, locally entrenched entrepreneurs may be suspicious of the newcomers. The current transitional government of President Sheikh Sharif Sheikh Ahmed includes many Somali professionals who have lived in the West, but his choices have provoked strong opposition from political and religious leaders with local constituencies who want their own place in the government.

The economic sectors which have benefited most from the absence of state regulation – financial services, telecommunications, and the commerce in consumer goods across national boundaries – have also profited the warlords and spoilers, and have not done much to develop Somalia’s critical infrastructure (roads, power grid, water supplies). The latter can only attract private investment when a stable national government (or regional authority) with reliable security forces at its disposal is in place to ensure their maintenance and protection from extortionists or rent seekers.

The thorny issue of land and property rights in Somalia cannot be resolved by the private sector until there is a government committed to adjudicating the claims of those dispossessed during the 1990s, particularly from the productive farm lands of the inter-river region and the from the most desirable real estate in Mogadishu and other urban centres.

Most of those who lost their assets to the armed militias – including many members of Somalia’s minority groups – have not been able to recover them, and the dispossessed enjoy scant representation in the TFG. None of the leading politicians have advocated publicly for the establishment of a land claims tribunal, chiefly because most of them are themselves beneficiaries of the post-1990 land grab.

While there is reliable (if anecdotal) evidence that the Islamic Courts’ leadership in 2006 succeeded in restoring some unlawfully occupied urban properties to their previous owners, there is no indication that they or their successors had any plans to address claims of rural farmers. This remains the single most volatile economic issue to be confronted by any government that comes to power in Mogadishu.

Peace entrepreneurs?

Given these many obstacles, it may appear that Somalia’s economic entrepreneurs have little chance of altering the current political trajectory in Somalia. However, if the limited economic recovery led by the private sector continues to expand to include more of the region’s inhabitants, more people will find an alternative to the economy of predation and may come to have a stake in the predictable and peaceful flow of goods and services.

If Somalis find better economic security in their markets than in their militias, they are more likely to bring pressure on their leaders to support a regime of law and order. The creation of a peace constituency anchored in an expanding regional economy may take a decade or more, and will require the continued tacit cooperation of the governments of Kenya and Ethiopia.

It may also take some new thinking on the part of international donors and policymakers, who might consider prioritizing projects that promote business training, cooperating with successful entrepreneurs in improving infrastructure in regions where peaceful commerce has emerged, and looking for more effective ways to use the economic expertise of Somalis in the diaspora.

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