

GLOBAL NETWORKS, FRAGMENTATION, AND THE RISE OF  
TELECOMMUNICATIONS IN STATELESS SOMALIA

by

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Professor Peter Walker

Somalia has not had a recognized government since 1991, a longer period than any country in modern history, but while the political environment remains uncertain, segments of the economy have grown rapidly, particularly telecommunications. This study analyzes the roles of different forms of associations in attracting capital and stimulating demand for this industry arguing that with emigration and political fragmentation, transnational social ties have become integral to economic success in Somalia. At the same time, unequal access to these economic networks has led to spatially uneven development, exacerbating long-standing power disparities within the country. By highlighting the motivations of and relations between the diverse group of actors working in telecommunications in Somalia, this study shows how collaboration and basic survival networks can build a successful modern industry where few might see opportunity.

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This work is dedicated to Zahra Said Nurhussein (1952-2004)

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## CHAPTER I

### INTRODUCTION

#### **A Description of the Problem**

The arrival of the Somali contingent to the International Telecommunication Union's Telecom Africa meeting was surely a shock for the international parties involved. Somalia was, after all, the country where one could only make a telephone call from the Mogadishu post office. After the collapse of the government, telephone service, along with postal service, were no longer. Becoming "another Somalia" remains both a cliché and a fate to be avoided by other struggling countries. And yet Somali representatives dominated the ITU. This country, which no one was quite sure was a country, could send the largest delegations to many workshops and their members offered some of most creative strategies and technologies. Somali businesses did indeed shun meetings in previous years when electronic communication was not a technology that God had wrought on their country. At the start of the 21<sup>st</sup> century, however, *The Economist* could claim "in telecommunications...it has something to teach the world" (The Economist 2005b).

In 2007, the Global Internet Company announced its "2007 Action Plan," which included "A city hot spot... in Mogadishu as part of a wider campaign...Although Wi-Fi technology has been in place...this will add more extensibility and convenience to the existing service as the users will have the chance to surf the net while on the road, office,

and in the home" for US\$10 per month (Global Internet 2007). Not only did southern Somalia remain a de jure and de facto stateless space, but Global Internet announced this plan amid a massive escalation of hostilities precipitated by an invasion from neighboring Ethiopia in late 2006.

The unusual business environment was illustrated in an exchange written by the novelist Nuruddin Farah:

"There is a one-man telephone company I can send for."

"A what?"

"A one-man telephone company!"

Jeebleh remembered that until the late eighties it had been impossible to call Somalia from anywhere because the country boasted the worst telephone network on the entire continent. You just couldn't get through to anyone living here. So how it was possible in civil war Mogadiscio [sic] for a one-man telephone company to allow him to speak to his wife?

"It will cost you four dollars a minute. Shall I send for him?"

Half an hour later, a man came to Jeebleh's room with a brief case full of gadgets, including a telephone linked to a satellite long-distance service.

-from Nuruddin Farah's *Links*

As Farah observes, there is something strange going on in Somalia. Indeed, the International Telecommunications Union estimated exactly zero telephone lines from 1991-93 (ITU 2003). If the country somehow rose to become an exceptional African tiger, that would be remarkable enough, but nothing of the sort has happened. The economy is marked by challenges and opportunities, collaboration and atomization, engagement and isolation. The country remains terrorized both by brutal local warlords and unscrupulous international opportunists. The mass of population remains focused on day-to-day survival. Throughout the hardship, however, a few people prosper. This thesis asks why Somalia's telecommunications operators were able to take advantage of

the situation and how, in the most unforgiving conditions, they turned the industry from one of Africa's most backward to among the most competitive. The answer to this question can be found in pieces all over the world, a unique and unpredictable confluence of events local, global, near and distant, many with little apparent link to Somalia's mobile phone industry.

### **Theoretical Context - An Informal Society**

Few believed that the UN would withdraw from Somalia without establishing a government of some sort, but in 1995 it did just that. Somalis were thus suddenly confronted with a new question: how does one live in the modern world without a state? The politics of Somalia are unique in this regard. The persistence of a stateless country for 15 years is unprecedented in the modern world. Somalia in the 1980s was a rent-seeking state par excellence, where foreign aid constituted as much as 50% of GNP, but economic growth was minimal (Coolidge 1996, 31). The state also dominated industry and was the primary link to the international community. The end of the Cold War combined with the state-centric mindset of major investors meant that the people would have to find a new way of reintegrating into the economy.

The contemporary situation in Somalia shows that the people were well-equipped to meet the challenge. Life without a state turned out to be much like life with a state. The research of Samatar (1994), Mubarak (1997), and Little (2005) demonstrated that state collapse did not necessarily mean political collapse or economic collapse. Rather, there was continuity in many key institutions. By default, however, the situation has led

to a process of *informalization*, or a drift outside of state regulation. The informal economy, often called the second economy or informal sector, encompasses a broad range of activities beyond the knowledge or control of the state. In the years after World War II, it was widely believed that this economy, concentrated then as now in low-income countries, would gradually be incorporated into the official economy through modernization and economic growth. Instead, the informal channels have grown and modernized. Faruk Tabak suggests that since the 1990s, issues relating to the problems attributed to the informal economy lost their urgency, because it was taken for granted, ubiquitous, and integral, elevated from marginal to leading economic status. (Tabak and Crichlow 2000)

The rise of telecommunications adds further complication to studies of informalization, as it is dependent on a complex network of formal and informal institutions in Somalia and abroad. While in Little's study of the cattle trade, Somalia's political situation resembles that of other countries where the state has limited influence, international institutions, which are necessary partners for modern industries, are less nuanced in their perspective. Aware of Somalia's reputation as a political no-man's land, transnationals avoid investment and the IMF and World Bank ignore the country. Thus, the common perception of the political order has concrete effects. It was in this context, locked out of major international capital flows, that Somalis utilized informal networks to forge novel partnerships between formal and informal businesses on all continents, bringing about an unprecedented modernization of some sectors of the economy.

## Thesis Question

Considering the recent history of Somalia, it seems a most unlikely hub for a communications revolution. Why after every conceivable hardship is it home to the cheapest, clearest phone services in Africa (Winter 2004, *The Economist* 2005b)? While this case goes against nearly all accepted wisdom about the importance of a state, as well as the importance of peace, public order, and education, this question has scarcely been broached in Geography or any other discipline. The oversight is not surprising. Until a few years ago, the question would not have made sense. It is an entirely new phenomenon. It may also be short-lived, as violence recently intensified across southern Somalia, particularly Mogadishu, ruining many of the achievements made during the period of "less war" and making local fieldwork difficult. Journalists have given somewhat more attention to this development. The explanations have largely focused on the completely unregulated nature of Somali capitalism, suggested by *The Atlantic* headline, "Ayn Rand comes to Somalia" (Maass, 2001). They also recognize, however, that a complete explanation for Somalia's telecommunications boom has yet to found, as "from a distance it looks like a free-market nirvana after *The Economist's* heart; but closer up it better resembles an armed oligarchy, capable of taking anything it wants at the point of a gun—even a Nokia handset" (*The Economist* 2005b).

In this thesis, I seek to gain a deeper explanation by engaging the themes of informalization and social networks. Informalization refers to the process of moving economic activities outside of state regulation, while social network analysis seeks to understand the nature and origin of relationships between individual actors. I examine

the steps taken by Somali entrepreneurs to start this industry and how the type of governance affects their business models, costs and revenues, rules of collaboration and competition, the role of institutions, and views of consumers. In addition, I examine the ways in which telecommunications is a unique industry, sprouting in a space where others fail.

## **Methods**

Initial research for this project began in 2006 when I consulted the numerous newspaper and business press reports for background information about key firms and organizations involved in the growing telecommunications industry in Somalia. The thriving Somali press had more detailed reports about day to day occurrences in the industry. Later, I conducted a series of interviews with people who have had experience with the industry, including managers and an engineer. Discussions were either by telephone, e-mail, or in-person or some combination of the three. In addition, I collected a number of printed resources from the firms and their trade organization.

Unfortunately, as my research progressed, communications between the USA and Somalia became increasingly difficult. There may have been reluctance among some subjects to discuss the workings of their firms openly due to the controversial closure of al-Barakaat, Somalia's biggest employer and first major telecommunications company, by the United States government in 2001. This move was widely condemned in Somalia and elsewhere. The resulting blockage of remittances is believed to have caused a humanitarian catastrophe. Another potential source of bias is that I only read the



English-language Somali press and restricted my discussions to English-speaking people. I also draw on a fair amount of statistical data, mostly coming from the firms and their trade association, but also from previous academic papers and international agencies. These data are helpful for illustrating general points and trends, but I avoid drawing definitive conclusions from it, as record-keeping in Somalia is notoriously poor and particularly inappropriate for studying informal economies, whose distinguishing features include unwritten, “off-the-books” transactions (see Jamal 1988).

### **Structure of this Thesis**

In the next chapter, I give a description of the historical and geographical context that gave rise to Somalia’s new economy explaining how informal networks eclipsed the state-run economy in late 1980s and 1990s. In the fifteen years since, the country has fragmented and grown more politically diverse, but it still bears the legacy of the earlier era. In the north, two autonomous regions have maintained peace and stability, while the south, divided into numerous fiefdoms lorded over by opportunistic militias have remained chaotic. Ostensibly, these regions have taken independent paths and are economically distinct, though the outcomes in telecommunications do not exactly follow predictable patterns. The key factor in establishing stability and sustained growth was not peace and physical security, but the ability of economic actors to mobilize networks of association. Telecommunications have grown in all regions, building on cross-border trade and informal finance. Thus, Mogadishu, with its violent conditions could outperform safer cities in the north. Interior southern Somalia has been the only lagging

region.

Chapter three theorizes the current economic transition of Somalia, drawing on previous literature on informalization and economic networks. Contemporary debates on the concept of informalization offer one route towards understanding the stateless economy exploring the reasons people use informal channels, the relevance of the formal/informal, as well as changing views of its origin and significance from the modernization perspective to the postmodernist. Studies of economic networks can complement the informalization literature focusing on the nature of social relations in different types of economic organizations and their impact on investment and financial flows.

Chapter four builds on the previous chapters to show why Somalia might be expected to have among the most competitive telecommunications services and follow the strategies and motives of key actors and partnerships behind the establishment of services, from equipment vendors to financiers. New development in Somalia is facilitated by an ethnic Somali diaspora, a group suggested by some to be as many as three million people, compared to an estimated seven million in Somalia (Winter 2004), giving these distant relations an overwhelming impact on the national economy. Somalis worldwide have kept their eyes oriented toward their families and their home country leading this country, so isolated in the community of states, to be among the most global of national economies. I also show numerous ways in which telecommunications became a smiled-upon or privileged sector. Responding to political fragmentation, the telecommunications providers created a regulatory, training, and community organization

in the international political arena, in collaboration with the United Nations, rather than at the state level. This move was practical, as Somalia's telecommunications sector relies heavily on the emigrant community and is seen to have particular organizational advantages from the early partnership between international financial (*hawala*) firms and telecommunications service providers. Many previous handicaps, such as political instability, high costs, lack of capital and lack of an educated population are no longer impediments. Informal networks allowed the Somali operators to search abroad and find capital without foreign investment or typical financial channels and regulation without law.

This thesis calls into question many accepted ideas about aid, economic development and relationships among and between social networks, markets, and modernization. In this case, statelessness, in the conventional sense, does not necessarily mean disorder, suggesting that alternative scales of governance and regulation can be carved out when desired or necessary. Often, however, order and disorder can exist in the same place. This case study also shows different outcomes of foreign aid projects working within or around existing social networks. Similar studies would be worthwhile in other low-income countries, which have experienced comparable levels of informalization. Particularly elucidating would be studies of war-torn societies, where, unlike Somalia, the state often exists in name, but not in fact, e.g. Afghanistan and the Democratic Republic of the Congo.

## CHAPTER II

### SOMALIA'S NEW ECONOMY IN HISTORICAL PERSPECTIVE

The streets of Mogadishu tell the story of a once-great city, reminders of its beauty and industry stand burned and crumbling, bearing marks of wanton destruction. The cash cow, the US \$250 million Jubba Sugar Project factory was dismantled and sold for scrap metal in Kenya for \$1 million. The Parliament building's valuable red bricks serve a new purpose in hundreds of ovens in the city (Menkhaus 2007). At the same time, microwave towers are remaking the skyline and the city's new bedrock, Bakhara Market<sup>1</sup>, offers anything from camels to Kalashnikovs. Near the northern tip of the horn, lies Bossaso, a fishing village transformed by a construction frenzy, financed by a torrent of cattle and seafood passing through the port during the 1990s. The population here increased from 5,000 to 150,000 in eight years (Van Notten 2005 ,148) and wages have risen as well, attracting some of the country's most entrepreneurial citizens.

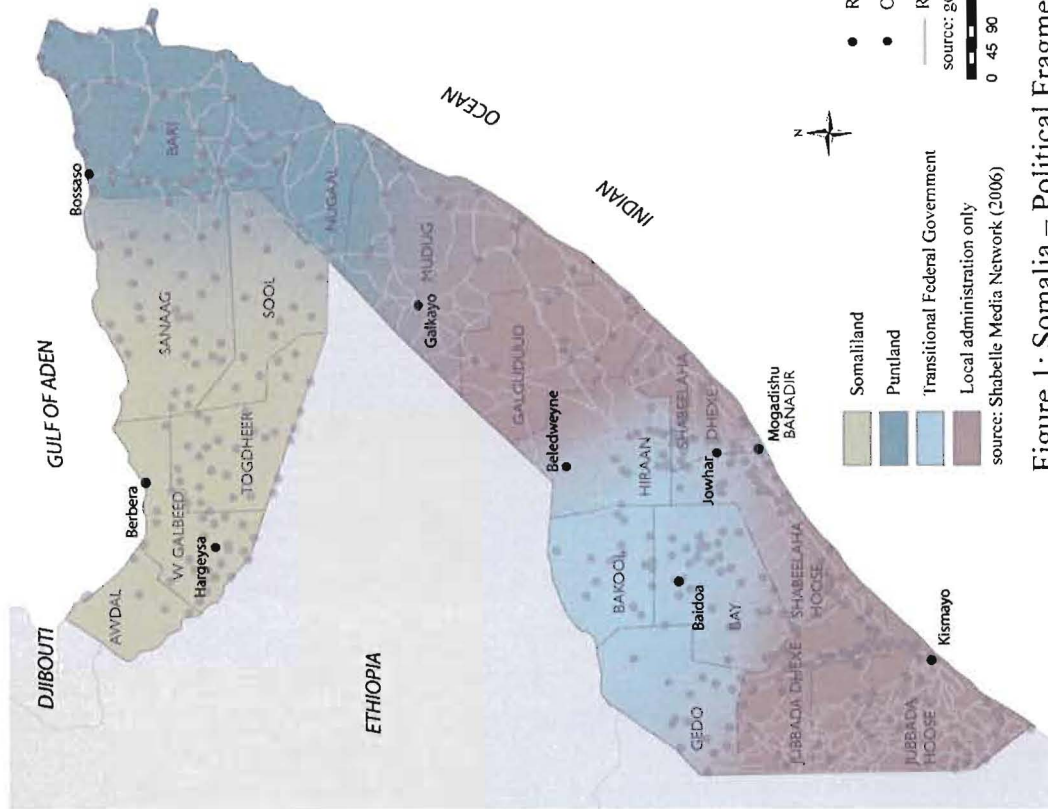
Somalia has experienced a radical localization of politics in recent years (see Figure 1), which is strongly tied to regional economic performance and the established economy of connections. Facing the Gulf of Aden is the former British Somaliland, now the self-proclaimed Republic of Somaliland.<sup>2</sup> While it does not enjoy the fruits of formal

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<sup>1</sup> Burned in October 2007, though also burned three times in the last several years.

<sup>2</sup> The government of Somaliland claims not to be "secessionist" *per se*, but exercising its right to dissolve its federation with southern Somalia, the former Italian Somaliland. They may be technically correct, as Somaliland existed as an independent republic for four days before establishment of the Republic of Somalia in 1960.

# Somalia Political Fragmentation



# GIS Analysis and Cartography by Safy Nurhussein Telecommunications Development

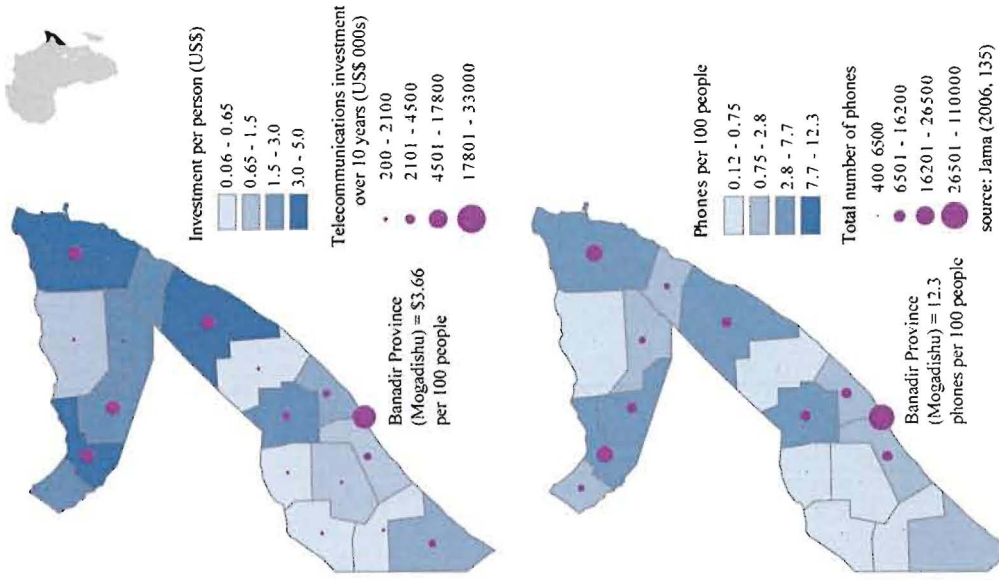


Figure 1: Somalia – Political Fragmentation and Telecommunications Development

recognition from any other countries, it can claim an enviable record of peace and competent, if extremely minimal, governance. Looking toward the Indian Ocean from Galkayo to the Gulf, including Bossaso, is Puntland, formerly a secessionist region, now seeking to become part of federated or confederated Republic of Somalia. It has also been stable for most of the past decade. Both of these regions have increasingly attracted migrants; they have been known less as places for fighting and more as places where money is made. In contrast, the southern part of the country was the site of Somalia's most notorious conflicts and rivalries. It is here that "warlordism," to use the most popular term, was rampant during the past two decades and the current (2006-) war is centered. Even here, large-scale violence largely ended by 1997, despite the lack of any official accord. Though fighting continued throughout the 1990s and early 2000s, battles remained confined to small areas, involving few fighters. Several areas of southern Somalia remained as peaceful as any part of the north. What to many appeared to be a complete dissolution of order obscured the diversity of local governance.

Somalia may not have such alluring commodities as diamonds, coltan, or even much timber, but access to wealth and power is directly linked to control over economic networks, which has historically been based on personal relationships with relationships sometimes more desired than the commodities themselves. This chapter analyzes the changing locus of power and accumulation to explain how diffuse, transnational networks overtook the centralized, neopatrimonial state. The uneven growth of the telecommunications industry since the fall of the state reflects both the legacy of the war

and longstanding power relations between the regions with different types of economic networks predominating in each place.

### **Neopatrimonial Networks from Siad Barre to the Transitional Federal Government**

Siad Barre's coup in 1969 ended what might be considered the liberal era in Somalia's development, marked by a market economy and arguably Africa's first modern democracy. The new regime was influenced by socialism and nationalism. The governing Supreme Revolutionary Council articulated the state's leading role in overall economic development in economy, social life, and culture -- guaranteeing the right to work, the liquidation of illiteracy, corruption, and tribalism (Supreme Revolutionary Council 1969). They followed this declaration with a nationalization of most important industries. In short, says Ahmed Samatar, "in the mid-1970s, the Somali state under the SRC became omnipresent, eliminating most private space" (Samatar 1994, 116). The achievements toward the stated SRC goals were impressive, particularly in health, education, and welfare. The nationalistic sentiments of the regime manifested themselves in a sense of unity and purpose among the Somali people, taking an explosive turn in the Ogaden War of 1977-78. Essentially a nationalist border conflict between Somalia and Ethiopia, it became one of the most notorious battlegrounds of the Cold War with the United States and the USSR openly supporting both countries. The loss in this war severely damaged the SRC's credibility and coincided with an ill-timed decline in prices for Somalia's main exports, particularly livestock and fruits.

Fleeing declining terms of trade for agricultural goods and development policies

that favored the urban economy, rural people flooded Mogadishu raising its population from an estimated 223,000 in 1970 to 1 million in 1980 and slightly less than 2 million in 1990 (UNDP 2001, 158). Debt and public sector expenses also ballooned. The government response to this crisis was largely to abandon its development goals, along with any pretenses about fighting corruption. Widespread privatization followed an IMF-directed Structural Adjustment in the early 1980s; social spending was cut until the state largely extricated itself from services altogether. While in the early 1970s, 11% of the national budget went to education, this share shriveled to 2% by the late 1980s (Marchal 2002, 8), a number many still claim was inflated (see Reno 2003). The lean times in the social sphere, however, contrasted with lavish support for the military. From 40% to 50% of the national budget went to defense and security (Marchal 2000), again a number some claim was deflated.<sup>3</sup> Somalia actually increased military spending after the Ogaden War, maintaining one of the largest standing armies in Africa, a remarkable feat for a country of less than 5 million. With the state reducing its reach through services, it relied increasingly on military coercion and especially a system of favors to make its presence felt.

Under Siad Barre, Somalia also became a neopatrimonial state, marked by the selective use of formal power (e.g. in law, market mechanisms, and violence combined with use of informal clientelism). Centralization of power was carried out with socialist rhetoric, but increasingly in the 1980s, the state coordinated access to wealth through

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<sup>3</sup> Mubarak estimated defense and administration at 90% of total spending in the late 1980s and social services at less than 5 % (Mubarak 1997, 2028-29).



patronage rather than ideology or the official legal code. Former Zaire (now Democratic Republic of the Congo) President Mobutu Sese Seko's statement about his own country applies: "Everything is for sale, everything is bought in our country. And in traffic, holding any slice of public power constitutes a veritable exchange instrument, convertible into illicit acquisition of money or other goods" (Smesler and Swedberg 1994, 432). He could have been offering advice to the civil service. By 1989, wages and salaries of Somalia's once proud bureaucrats declined to less than 3% of their levels in the early 1970s and provided less than 10% of household expenditures (Mubarak 1997, 2028), but resignation was unthinkable, as money was not the end, but rather access to the central government network, from which wealth and power could flow, capillary-like. Taking bribes meant survival, but also kept the system of favors functional. The inherent risk involved in bribe-taking was also an inducement to loyalty.

Meanwhile in the countryside, declines in the price of livestock in the 1980s, sent grain prices and consequently, farmland prices soaring, inducing a land rush. Abdi Samatar wrote about the situation in the Jowhar valley, "riverine land previously used by peasants and pastoralists for grazing and other purposes was carved up by urbanites, many of whom were well connected to the state. For instance, most of the land was expropriated by administrative fiat without attention being paid to those who traditionally used it" (Samatar 1994, 78-79). Of the estimated 1500 rice farmers in the region, nearly three fourths were urban-based, many not farming the land at all (79). Despite a shrinking economy, political power could always be traded and wealth flowed from productive activities, e.g., agriculture, mining, manufacturing, or from commerce to the

governing elites, who could in turn purchase loyalty.

Siad Barre was essentially using increasing amounts of a shrinking national income to sustain a regime declining in popularity ostensibly in part because of a shrinking national income. While these practices may appear as sustainable as a pyramid scheme, they were carried out with a certain logic that allowed them to persist a longer time than they apparently should. Foreign aid passing through the government in the face of a declining national economy had the effect of further centralizing access to wealth; Reno argued it was aid that allowed Barre to switch from "bureaucratic state-building" to a "patronage network rooted in violent control over economic channels (Reno 2003, 18)." In the 1980s, Somalia was Africa's largest recipient of foreign aid on a per capita basis, in some years ranked third worldwide behind perennial winners, Israel and Egypt (Maren 1997, 24). De Waal (2007) suggests foreign aid provided a basis for a "patrimonial system far out of proportion to the productive economy" and made possible such "strategies as assaulting the productive sectors of farming and livestock," however, there must be a semblance of balance between utilization of patrimonial systems and rational-legal ones, or states will collapse into "primary accumulation by violence, i.e. warlordism," which is unsustainable (de Waal 2007). The balance was likely upset when Barre, in a confounding move possibly consistent with some readings of Machiavelli, put General Aideed in charge of Defense and arms acquisitions. Subsequently, Aideed was mysteriously employing a number of unemployed adolescent males off the books who went on to occupy farmland and urban real estate. These boys were known as the *mooryaan* or "dispossessed ones," though the term later became identified with gunmen,

which was what they more clearly resembled. The *mooryan* became a clear embodiment of the subsurface class system of the purportedly egalitarian society (Ahmed 1995). They seized the opportunity to seize for themselves what Barre's network had claimed for his loyalists.

### **Civil war, UNOSOM, and the Price of Maintaining the Status Quo**

Change came in the late 1980s came with a massive rebellion in northern Somalia. This region was overwhelmingly dependent on livestock production, an activity from which the government never successfully collected rents. The regime inflicted brutal collective punishment on the region shocking the world. This behavior at the close of the Cold War induced new parsimony among aid-donors in the USA and Italy. Within a year, Siad Barre could no longer sustain a nationwide patronage system; he was just another warlord. The decline of foreign aid and decentralization of production and state power meant the parasitic Barre patronage network or any attempted facsimile was now untenable and the "locus of primary accumulation switched from the exploitation of sovereign rents (aid, debt, printing banknotes, taxes) to violent asset stripping (looting)" (de Waal 2007). Factories, the Parliament building, and perhaps most poetically the statue of Sayid Muhammed Abdille Hassan, the tenacious leader of the Dervish movement and symbol of Somali nationalism were now another country's scrap metal (Webersik 2006, 1469).

After the abrupt halt of foreign aid, the United Nations Operation in Somalia (UNOSOM) initiated a new wave of foreign influence in the country and a notoriously

profligate administration. In many ways, this influx raised rent-seeking to unprecedented levels. Ports were carved up by competing warlords, all asking for docking fees. The diversion of food aid by warlords became one of the country's main industries.

Menkhaus and Prendergast (1995) argue, "faction leaders ... greatly benefited from rents, security contracts, employment, currency transactions and a variety of other fringe benefits courtesy of the UNOSOM cash cow. One Somali elder remarked, 'UNOSOM came to save us from the warlords; and ended up aligning with them.'" Civilians learned to profiteer as well; many local NGOs emerged to work with the UN. They became known as "pocket NGOs... fronts for factions or businesses formed to secure grants and contracts from international agencies, which had been encouraged to work through 'local counterparts'. When aid began to dry up in 1995, these NGOs disappeared" (Marchal et al 2000).

As foreign generosity appears unlikely in the future, so does the possibility of recreating a centralized neopatrimonial network, but that does not stop a number of people from trying. General Aideed and Ali Mahdi, as well as other leading members of the Barre administration attempted to seize the increasingly undesirable prize of leadership of Somalia expecting the creation of another winner-take-all system. When "traditional" clan elders were invited, clans fragmented into as many subclans as possible to gain new representation, often with barely disguised warlords as their designated "elder" (Little 27). The radically localized administrations, which are the de facto authority in Somalia today, look nothing like the old state. Nor do they resemble a state as generally conceived today. The potential exceptions in Somaliland, and to a lesser

extent Puntland, are broadly representative with a competent, though extremely minimal, administration. Neither of these entities, however, enjoy international recognition. Their revenues are barely high enough to hire tax collectors. Clearly the people had to find other avenues for opportunity.

### **The Other Somalia**

"They're on their own now."

-- General John M. Shalikashvili (Finnegan 1995)

The other Somalia is difficult to specifically locate. It does not fit neatly into any of the administrative or factional divisions that have arisen since the late 1980s, but runs parallel. The town of Galckayo is an excellent place to begin. The north side of this town is in Puntland, while the south side is the administrative capital of the territory of Galmudug. It was here that a local marauder appropriated what looked like easy prey, an idling car at the gas station. Startled, the owner borrowed a stranger's car to chase the thief and force him off the road. He then ran out with his fists raised and ready to mete out what might be called "extra-judicial justice," an oxymoron he could be forgiven for thinking perfectly apt for this government-less country. A quick-thinking bystander thought differently, reached for his mobile phone, and alerted the two parties that a delegation of elders was on their way. Both men acquiesced to leave their fates to the elders' decision (Lombard 2005).

General Siad Barre's government in the 1970s tried to root out this type of informal legal system, believing it to be a barrier to modernization, or perhaps competition for the

government, but today many of Somalia's legal scholars believe it should be preserved. Abdirahman Raghe, program officer in the Somalia office of the UN's War-Torn Societies Project, admits that it is a strange and imperfect code, but "*xeer* (clan-based social contract) is accepted by the people. You cannot deny that... All agreements are reached and all disputes are resolved through consensus. There is no fighting. There is never any fighting" (Lombard 2005).

Some may suspect Raghe tends toward exaggeration, but long before government was established, people could speak of nation bound and governed by kinship and Islamic law. Ahmed Samatar separates kinship into the blood ties and *xeer*, which includes general legal and social practice, reciprocal duties and rights, protection of folkways, and criminal justice. The combination of blood ties and *xeer* embodied in the person of the elder was a foundation of authority (Samatar 1994). The other foundation was the more universalizing Islamic law embodied in the learned and holy, i.e. the sheikh. While these elements did not together combine to form anything similar to a modern state, they did create a "moral commonwealth" and a "political center of gravity" for all Somalis (Samatar 1994). The *diya* principle, which defines compensation, sets stiff penalties for the sake of order. A murderer may have to pay 100 camels to the family of the victim (Little 2003, 16). Despite the attempts of the governments to absorb the people into the formal legal system, Menkhaus found that most of the "law and order Somalia enjoyed prior to the late 1980s – and Somalia was unquestionably one of the safest places in Africa – was a reflection of the social contract more than the capacity of the police. Most Somalis took their disputes to local sheikh or elder for mediation or adjudication rather

than to a court of law” (Menkhaus 2004, 32-33). The same is true in Somalia today in territories considered “safe” and in those considered “dangerous.” To understand the political order today, it is important to remember that collapse of the state was not a sudden event, but a gradual disentanglement that allowed communities long reliant on these traditional institutions to enjoy a degree of continuity and those reliant on the state, to find a substitute.

### **Operationalizing an Economy of Personal Networks**

This combination of kinship and contract forms the most reliable and powerful organizing principle for commerce. Portes’ first paradox of the informal economy is that “the more it approaches the model of the true market, the more it is dependent on social ties for its effective functioning” (Smesler and Swedborg 1994, 430).

The lack of state coercion opens up the possibility for violations of normative expectations and widespread fraud...Trust in informal exchanges is generated by the expectation that fraudulent actions will be penalized by exclusion of the violator from key social networks. To the extent that economic resources flow through such networks, the socially enforced penalty of exclusion can become more threatening, and hence effective, than other types of sanctions (Smesler and Swedberg 1994, 430)."

As the state habitually violated social contracts, it was an unlikely enforcer. Government clientelism created an opening for the informal sector, where institutions already existed based around clan. The informal sector, “provided credit and investment-financing to small producers, since access to the official credit market was granted only to state monopolies and businessmen with political connections. It facilitated the channeling of

remittances by Somalis living abroad and gave private traders access to the foreign exchange” (Mubarak 1997, 2029). In northern Somalia, this exclusion was an important driver of localization and globalization. “Clan based credit systems, or *abbans*, already existed to manage business networks that remained outside Barre’s political grip” (Reno., 24). Much of Somalia’s foreign exchange from livestock, the country’s main export passed through the port at Berbera and was organized through *abbans*, which had major implications for the organization of the economy. “*Abbans* reinforced the power of customary clan authorities, by relying on them for contract enforcement and adjudication. It also connected people to kin outside of Somalia through coordination with locally organized informal remittance systems” (24).

In the illustrious tradition of Mobutu, economic strength can be measured in the political arena and *vice versa*. The ability of Somalis to carve out financial independence from the state through *abbans* allowed them to systematically undermine Barre’s government through their economic power. The north Somalia-based Somali National Movement was founded by members of the Issaq clan and generously financed by the largely Issaq Somali community of the United Kingdom. According to Reno,

The role of clan elders in guaranteeing *abban* transactions of these migrants also ensured that clan elders on the whole exercised greater control over the finances and political processes of this group, compared to others involved in Somalia’s conflicts. Ultimately it had to raise funds through deals with commercial intermediaries within the *abban* system constructed outside of Barre’s control. Dahab Shiil, later one of Somaliland’s largest financial and telecom companies, got its start as an SNM financier. (Reno, 24)

As physical security and economic security were increasingly organized through the clan system, the principles of customary and Islamic law naturally became the basis for



economic life. These principles spread as increasing migration allowed Somalis to build financial bases independent of their own country increasingly linking to places like Minneapolis, Toronto, and Dubai where tens of thousands of Somalis settled and the Somali state had no influence. This group of expatriates had a keen eye pointed toward the homeland. NGOs such as Horn Relief for the Warsangeli Darod in the UAE and Somali Relief and Rehabilitation in Ethiopia and the USA contribute to global integration, but organized largely around clan lines, contribute to localization as well.

In the context of *xeer*, though people may act as individuals, the family remains the basis of law and the most important economic unit. This principle extends to social welfare as suggested by the proverb, “*Nin boqol ari leh reerkiisana xoolo la’ hiyiin waa faqri*” or the man who owns 100 goats, but his relatives have nothing, is poor”<sup>4</sup> (Bradbury et al 2001, 151). Where the family is involved in contract and social welfare, socially enforced penalties can retain an effectiveness that is lost in more legally regulated environments. The reliance on this type of familial contract can potentially cause difficulties in an environment such as Mogadishu where many individuals come into contact with unfamiliar clans, but the principles behind it can lead to spectacular results. Explaining how Somalia’s economy survives, one Somali-Canadian returning to the country says at the Mogadishu airport, ruled by two competing warlords, a man approached from the shantytown and asked if she wanted to buy two coins, an American dollar from 1865, and a 1939 German 5RM for US\$20. Telling him that she did not have

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<sup>4</sup>A similar saying goes, “*Jiirtaa koo gutumaase maay makoo gohaase*’ or you are obliged to help your relatives because they are part of your body (Bradbury et al 2001, 71).”

the money and that he should keep them because they're probably worth thousands, he said that he needed the money right away. Eventually, he gave her the coins and a piece of paper with the phone number of a man he knew in Bossaso and said to pay the man once she gets there. Note that \$20 is an extraordinary sum in Somalia, about a month's wages on average. She explained,

“Trust is the key element that really stimulates the economy... people there ... are able to almost completely trust each other especially in matters such as finances. I think this is because everyone knows who you are and if you try something funny then they can find you. If they cannot find you then they will find your family or sub-clan; basically they will get their money either way. I find that the political situation is not a great factor in determining the level of trust. Mogadishu is the most dangerous place in Somalia yet those two men were able to trust me with their coins without really knowing anything about me.” (Hassan 2006)

Such an atmosphere breeds opportunity. Many of today's businesspeople got their start as profiteers and rent-seekers in the war economy, but have since moved on to productive activities. An important group of businesspeople in all parts of Somalia today were those who worked in the informal economy and seized the opportunity created by the fall of the regime. A closely-linked group are returnees from abroad (Bradbury et al 2001). These last two groups could exploit strong international personal relationships and Somalia's traditional position as a strategic sea, land, and air link between East Africa, Arabia, the Indian Ocean and the Mediterranean. As a result, Somalia has been able to emerge as a regional entrepôt economy, but the situation in the north and south evolved differently.

The stakes in Mogadishu have always been high. The center of political and economic power was hard hit by the loss of government patronage. However, it also

offers the best opportunities for rent-seeking and has attracted multiple warlords offering “tax concessions” and protection to businesspeople of their own clan in exchange for financial support (Bradbury et al 2001, 154). Businesspeople and warlords made a visible split in 1999 citing the failure of faction leaders to deliver economic necessities, such as roads free of checkpoints and armed rogues. This split was in part possible because of the accumulated profits of the businesspeople. Most warlords failed to branch out into productive activities. Businesspeople were therefore able to “purchase” the militias of leading warlords (Menkhaus 2004, 44). The Islamic Courts provided a viable alternative administration that many embraced.<sup>5</sup> The scope of all of these courts, however, has remained limited, focusing on the petty crime of the underclass and reduction of business costs. It has not been able to resolve longstanding disputes, such as ownership of urban real estate and rural farmlands, which remain explosive issues in which clans and elite classes have interests.

Few such disputes existed in the north, where fewer clan fissures existed. The frontiers of Somaliland and Puntland were delineated largely along clan lines. Additionally, the lack of state structures in conjunction with a nomadic pastoral lifestyle governed by customary law prevented land seizures and rent-seeking. De Waal argued that current stability could be attributed to a single class of capitalists, largely livestock traders, exerting “hegemonic control over regional resources. The Republic of Somaliland may be described as a profit-sharing agreement among the dominant

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<sup>5</sup> While the interests of warlords and businesspeople have indeed diverged on a number of issues, it should be remembered that some, such as Osman Ali “Ato” are accomplished in both fields of work.

livestock traders with a constitution appended” (de Waal 2007). While this arrangement has created peace, it has also brought a new degree of co-dependency between the business class and the administration, practically the mirror image of the Mogadishu of old. The state is now the client of business. In 1993, businesspeople in Somaliland loaned the new administration US\$7 million which is being repaid with 2-3% interest through tax exemptions (Bradbury 2001, 156). Somaliland has enjoyed a Constitutional succession of power, but of a government, which only commands a budget of \$20 million, of which 70% goes to militia (Menkhaus 2003, 25). Puntland’s government is even more minimal, but this territory has benefited from its proximity to the prime import markets in the Gulf countries providing for a very busy port. Additionally, it has produced a large number of migrant laborers, an important source of income. Despite its limited reach, however the state may be increasing its coercive power through its alliance with the business class. There are reports of increasing enclosures of pastoral land in Somaliland and Puntland, in clear violation of customary law (Gaani et al 2002).

Somalia’s most problematic region has been the interior south, particularly west of the Shabelle River and Mogadishu. This region has never been particularly poor. In fact, historical accounts marvel at the region’s bounty (Besteman and Cassanelli 2000, 133). It produced much of the country’s food. A common Somali proverb goes, "The drought that hits the south is not serious, but that of the north is terrible” (de Waal 1997, 162). The region’s wealth, however, became its undoing for three reasons. Despite Somalia’s reputation as a homogeneous country where divisions took place on the basis of clan family only, many southerners claim a unique cultural heritage. The people include agro-

pastoralist Somalis as well as various non-Somali people, some indigenous, others formerly enslaved. All rely much more on farming than their northern neighbors. Lacking a tradition of pastoral nomadism, the social order differs as well. The inter-riverine Somalis were divided not only along clan lines, but also on the basis of Sufi order affiliation. Many of the non-Somali people were not part of the clan system at all. Maay, always called a south-Somali dialect, is now recognized as the language of southern Somalia, unintelligible to Maha-speakers in north and central regions. Until 1960, both languages were used in the south including on Radio Mogadishu, but the first government cancelled Mai language programs for the sake of "uniformity" (Mukhtar 1996, 549). In post-independence governments, the bargaining position of southerners progressively deteriorated. Meanwhile, the government, long unable to control the nomadic pastoralist economy, decided the south, long ignored, would be key to its ambitious development plans beginning in 1973-74, when over 100,000 drought stricken pastoralists were resettled in the riverine areas, many in the best lands (550). Subsequent land appropriations, such as those discussed above also took place in this region. The steady marginalization of this region during peacetime became morbidly visible during the war, when the people of the riverine area were repeatedly robbed, too poorly armed and organized to defend themselves and it was here in Somalia's breadbasket that famine was most severe (de Waal 1997). Fighting over territory took place between multiple militias from outside the region. Initially, land was occupied by militias dominated by the Darod clan, then "liberated" by Hawiye-dominated militias. A local villager remarked, "they would say 'we have liberated this house, this land, this farm.' Then they

even took more” (de Waal, 166). At the same time, land occupiers did not see their position as exploitative. One militia leader complains, “It is true some people accuse us, that our clansmen moved to the fertile lands in the south. But did anyone ask why? 30 years of benign neglect by the Somali authorities left our region with not one single development project. It is therefore right that we move to the potentially rich regions” (Center for Research and Dialogue 2004, 80).

The continuing conflict over land in southern Somalia has not allowed the most important wealth-generating activities to return. Banana-growing, for instance, has not been able to re-establish itself. Bananas, long a cash cow for Somalia, grew on plantations in the lower Shabelle river valley. They trace their origin to an earlier era of forceful expropriation by the Italian colonial administration. Ownership shifted multiple times through nationalization and privatization, until the farms were finally destroyed or looted during the 1990s. Webersik finds that initially, “despite the recorded incidents of looting, killing and rape, there is little evidence of specific conflicts over the occupation of land” (Webersik 2005, 87). The crop’s earnings go not to the growers, but to whoever controls the region politically, along with the seaport administration. The banana trade was able to recover through production contracts with two major MNCs operating through local subsidiaries, Dole-Sombana and De Nadai-Somalfruit. In 1997, banana production reached 80% of pre-war production. Eventually, however, disputes arose over taxation and distribution, eventually leading to what the media dubbed, “banana war,” in which “multinational corporations seeking cheaper operating conditions... financed rival political factions...contributing to the continuation of conflict” (81).

Competition between the two companies led to a serious split in the Habr Gedr clan and violence between corporate militias (Webersik 2005, Menkhaus and Prendergast 1995). Even in this extreme case, however, several other factors aligned to end the banana exports including changes in the international trade regime, which hurt the status of Somalia's exports in Europe and natural disasters in 1997. The single most significant factor, however, is a lack of investment. Conflicts over land and water remain strong, discouraging long-term projects. These rural disputes as well as the disputed real estate in Mogadishu continue to impede Southern Somalia's recovery.

## **Summary**

Siad Barre's government set up a familiar model in Somalia, of centralized neo-patrimonial network of patronage, rewarding loyalty and excluding the majority of people. This model was purely parasitic, however, and only barely sustainable without external support. When that support was removed, his state predictably collapsed. Several attempts at recreating the central government followed this familiar path, dominated by warlords, veterans of the previous government, who view power as a privilege rather than a responsibility. Since then, the business class, having established independent financial bases through global productive networks, have emerged as the clear winners in north and central Somalia, as well as the trading towns of the south coast. At the same time, a quiet turnaround is visible in perceptions and in concrete

terms. “Technical,”<sup>6</sup> the hallmarks of Somalia’s lawlessness, may still roam the streets in some parts of the country, but as Menkhaus tells us, the young *mooryaan* at the helm who once “wore t-shirts emblazoned with the slogan ‘I’m the boss’ can no longer make that claim” (Menkhaus 2004, 44). Their line of work ranks far lower than it did in the early 1990s in pay and prestige.

Therefore, there is great potential in a new economic system based on traditional organization. The collapse of the state and mass informalization brought forced liberalization through suspension of subsidies, privatization, and freeing of trade turning Somalia into the *ne plus ultra* of the market ideal, but the market did not destroy older relationships as it has in some countries; rather, people used their social relationships to create markets. The growing sectors more closely resemble what Reno called an institutionalization of a “‘clandestine’ economy under the social control of clan elders.” The importance of clan is that it provides physical security, social welfare, and social and business norms, as well as preventing the sort of opportunism that and predatory behavior Portes warned was inherent in an economy based on self-interest. The disintegration of the state reinforced its importance. Customs such as the *xeer* social contract and a reliable stream of credit and investment kept the economy running efficiently; the degree to which economic activity has been based around social ties, reinforced the requisite trust involved in business relations.

The effects of this economic re-organization have been uneven. Though many

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<sup>6</sup> “Technical” is a popular euphemism that has caught on in Somalia to denote a pickup truck mounted with automatic weapons. They were reputedly hired for security by foreign NGOs during the civil war and billed as “technical expenses.”



working in Somalia feel trust and investment are not strongly tied to the safety or stability of a region given kinship networks (interview 2006), the differing experiences of the regions and industries suggests that only some types of business, with fewer opportunities for rent-seeking, are adapted to the informal types of governance. The rise of Somalia's service economy contrasts with the decline of manufacturing and commercial farming. The interior south, long a marginalized region, is particularly hard hit, as rent-seeking activities continue and land occupation continues to keep people from the places where they had made their living. Food production is consistently below pre-war levels. This problem is emblematic of the growing inequality in post-war Somalia.

## CHAPTER III

### THEORIZING SOMALIA'S ECONOMIC TRASITION

#### Deconstructing a Mogadishu Street Scene

Somalia's economy and culture during the past decade could be defined by a few distinctive traits: localization, internationalization, statelessness, and its curious state of non-peace, non-war. Much of the world got its first glimpse of this seemingly isolated country during the ill-fated UN Operation in Somalia (UNOSOM) of 1992-1995. In the minds of many Americans, the country became defined by televised images, of hunger, of lawlessness, then the oft-repeated footage of bodies of American soldiers dragged through Mogadishu's crowded streets. Though Americans may try to forget that scene, it had enough resonance to be linked to specific policy decisions, such as U.S. President Bill Clinton's public disinterest in the Rwandan genocide. In the following years that apocalyptic image grew increasingly inaccurate. In Somalia, there is a desire to get on with life and memories of the civil war cannot compete in the collective mind with the commodified simulacrum. This truth was on display at the Jan 22, 2002 Mogadishu premiere of the film *Black Hawk Down*, apparently the first outside the English-speaking world. *The New York Times* described the scene: "The Somali Advocacy Center in St. Paul, Minn., called for a boycott, saying the film makes Somalis look like 'savage beasts shooting each other,'" but back in Mogadishu, "All the cinemas...were in competition to get this film," according to the ultimately victorious theatre manager; "a sellout crowd of

200 who paid the equivalent of 10 cents swiftly packed the New Buujimo Shineemo."

Meanwhile, Osman Ali Otto, a well-known warlord, says he has not seen the film himself, but has heard from friends in London that he was portrayed unflatteringly, "When I have seen it, my colleagues and I may sue the producers" (McNeil 2002).

This anecdote can tell us a lot about life in Somalia today. Contemporary economic organization is undoubtedly a legacy of the civil war, but rather than reverting to the primal sort of politics and plunder-based economy that is often visualized, one finds Somalia to be the perfect illustration of Hans Enzensberger's paradoxical characterization of modern civil wars: where "the unprecedented comes into sudden and explosive contact with the atavistic" (Enzensberger 1994, 12). The economy reverted to an earlier state without laws or writing, but simultaneously improved efficiency and expanded trading networks.

Columbia Pictures had no intention of releasing this film in Somalia, but few here seemed to notice. After opening in U.S. cities, the film was likely recorded by an American viewer using a digital handheld camera and transferred to DVD. According to MacNeil, the disc was shipped to a regional distributor and arrived by air from Abu Dhabi. Once in Mogadishu, the local distributor made additional copies before passing one on to the theater manager on the evening of the premiere. Hollywood distributors surely have no record of these transactions, which is understandable considering the marginal role they play in the way most people see movies. Instead, local distributors set up their own trade networks to import the latest service demanded in Mogadishu. No step was officially sanctioned, but aside from the first, none were perceived as illegal.

Somalis, in turn, were happy to enjoy some of the latest movie premieres and at US\$0.10 few complain about how distasteful they may be.

The scene in Mogadishu exhibited telltale signs of an informalized economy, although informality, like pornography, is more easily recognized than defined. Informality has come to be conceptualized in numerous ways. Researchers initially drew a distinction between the formal economy, typically characterized by large, capital-rich firms and a more traditional informal sector. The interaction between these two economies in recent decades, as well as a general recognition of the weaknesses of neatly bounded categories in social science, led to a reevaluation of this approach. Somalia's political and economic transformation since the 1980s may not have been the specific catalyst for this change of perspective, but it presented one of the most problematic cases for defining the opposing economic types. The difference between the formal and informal economy, if it exists, is largely irrelevant. A non-dualistic standpoint focusing on the nature of relationships and their ability to shape economic activity may prove more illuminating. Secondly, the anecdote illustrates the dominant model for Somalia's post-war economy, that of the network. Much of Somalia's rapid economic recovery can be attributed to an unusual convergence; traditional social life and the informational economy of global elites simultaneously shifted toward a complementary network organization. Firms in today's most advanced sectors have adopted models that are decentralized, interdependent, and diffuse, often relying on personal relationships. At the same time, individual connections and favors became commodities in themselves in Somalia, encouraging the development of small enterprises at transnational scales. In

both cases, this organization allows for adaptability and provides a means of coping with uncertainty.

### **Towards a Definition of Informality**

While the concept of the informal sector is arguably as old as the state itself, it became a major subject of scholarly research in the 1970s. During the decades after the World War II, informal work was familiar, but rarely studied; like today, it was concentrated in low-income countries. Unlike today, it was commonly believed to lie outside official accounting due to a limited state apparatus. Economic growth and modernization, it was assumed, would eventually bring about its demise. Instead, the informal economy grew in nearly all countries--often through *informalization* or the process of making casual once formalized relations. The resulting shift in understanding is recognizable in the tone of the studies. While the informal sector was once seen as a vestigial economy, it now takes on an oddly futuristic aura.

The International Labor Organization opened a door for scholarly research of the informal economy with a series of influential studies from 1969-72, contrasting the nature of employment in developing and developed countries. The focus on employment rather than unemployment was one noteworthy change in approach. Their definition of the informal sector was quite different from today's understanding, however, owing to its focus on the nature of the enterprise. It was characterized by "reliance on indigenous resources," "family ownership of enterprise," "small scale of operation," "labour-intensive methods of production and adapted technology," "skills acquired outside the

formal school system," as well as "ease of entry" and "unregulated and competitive markets" (Thomas 1992, 53). Few of these characteristics seem to apply to the Mogadishu example. This informal economy, though typically associated with such activities as street-vending, petty trading, and domestic work, encompasses such a wide variety of activities that new research on the subject not only yielded new definitions, but new approaches to definitions. Today, if you locked ten leading scholars of the informal economy in a parlor for a week, you would find perhaps broken furniture and a few teeth on the floor, but little progress toward a definition. Therefore, contributions to this discussion grew leaner by the year. The 1988 special "informal economy" issue of *Social Justice* attempted nothing like the ILO definition, but agreed on two broad points: "the informal economy is part of the economy at large, which determines its main characteristics and on which it depends; second, it is largely defined by its opposition to state regulation" (Robinson 1988).

The first part of this definition may seem self-evident, but often the formal sector, recognized and nurtured by the governments of low-income countries, is largely a foreign outpost. John Weeks, for example, wrote in 1975 that despite the support of many governments of the time for "import substitution," the foreign technology of the formal sector tended to support "reproduction" rather than "substitution" (Thomas 1992, 55); they created nearly exact replicas of goods from capitalist core countries without consideration for local tastes or inputs. It was the informal sector that genuinely experimented with substitution and consequently produced much of what was locally consumed. This disconnect with the local population goes a long way toward explaining

the inability of the formal economy to expand its market share. "Opposition to state regulation," though seemingly the more straightforward clause has led researchers to different conclusions. DeSoto (1989) suggested that the growth of the informal sector is the result of inefficient legislation and bureaucracy limiting competition and making it difficult for new enterprises to enter the formal market. Using a parallel line of thinking with a somewhat opposing perspective, Tabak stresses the role of established firms, using their position within the world system, in driving informalization. He observes an attempt at restructuring firm relations to regain competitive advantage, particularly during economic downturns (Tabak and Crichlow 2000). One well-known driver is the search for a low-wage, submissive labor force to staff the world's leading firms, especially through subcontracting agreements. While both stress the flexibility of informal production, they see a different interaction with the formal economy.

### **Problematising Informality**

Ever since the informal sector was identified in scholarly literature, skeptics have raised objections to the very concept. In 1978, the journal *World Development* published an issue titled, "The Urban Informal Sector: Critical Perspectives," highlighting many of the theoretical weaknesses in studies of this area. Foremost was the claim that all economic activity could be divided into two exclusive categories. More problematic is the idea that these two sectors are largely independent of each other, when most likely they are continuously interacting and parts of one sector may be created by or dependent on part of another sector (Thomas, 58). It was claimed that the formal and informal

economies can not be distinguished in reality, but only analytically, by setting up ideal versions of each; somewhere on the continuum in between would lie actually existing activities. For Thrift, "these divides have made it impossible to see the world for what it really is: a collection of heterogeneous activities which are constantly in formation" (Clark et al, 2000). At the same time, a number of scholars felt that the distinction was useful if only as a heuristic device (Portes et al 1989).

This exploration of the definitions and characteristics of informality helps us to identify the best approach for analyzing the processes at work in Somalia's economy and changes over time and space. In many ways the economy of Somalia looks much as it did prior to the state collapse of 1988-1991, validating the idea that there exists only one whole economy with more regulated and less regulated elements feeding each other symbiotically. Vali Jamal's offered one of the most incisive examinations of Somalia's economy in the 1970s and 1980s. In the urban areas, "wages had more or less stagnated throughout the 1970s...inflation had doubled in eight years, 1970-8; in consequence the most minimum needs basket cost two-and-a-half to three times what most wage earners earned," yet "shops were full of imported goods, necessities as well as luxuries -- and people were buying them." (Jamal 1987, 212)

An IMF structural adjustment program in the early 1980s brought a typical round of devaluation and demand restraint, but while in many countries austerity measures provoked riots, Somalia experienced only apathy. The government hoped devaluation would allow it to gain control of some of the informal economic activity, but it could not compete. Ironically, Jamal opens his article with the line, "For a number of years now



doom has been forecast over Somalia." He rebuts this line of thinking citing the boom conditions he observed, a boom which "has taken off since the late 1970s -- i.e. precisely since the time that GDP and wage figures depict catastrophe for the urban population" (257). Apparently, few imagined that boom and doom might ride the same horse. As the decade closed, the formal economy, as the wildly inaccurate economic indicators predicted, failed to sustain a basal metabolic rate and withered away.

It would appear that the government of Somalia was largely irrelevant as it lost control of the economy, though the analytic framework of Portes et al. suggest a different scenario. They thought it important to consider why some activities would be "unregulated...in a legal and social environment in which similar activities are regulated," and the nature of the divide, noting the "more the society institutionalizes its power relationships and the more individual actors try to escape this institutionalized logic, the sharper the divide between the two sectors" (Portes et al 1989, 12-13). The collapse of the government in Somalia meant the disappearance of the institutions and legal and social environment in which those formal activities were regulated. It also meant no one would try to escape the institutionalized logic of the formal sector. The informal economy disappeared when it engulfed the formal. Somalia went from the apotheosis of informalization to a country with no informal economy. Can the conclusion of the process of informalization, then, teach us nothing about the subject?

## **Geographies of Economic Networks**

The 1990s, brought new conceptualizations of the global economy, many raiding the human anatomy for metaphors. One of the most common conceptualizations is that of the network, a set of interconnected nodes without a center, where a node can be a computer, a financial institution, or a coca field. Taking his inspiration from modern technologies, Castells (2000a) describes networks as “the new social morphology of our societies,” where the “diffusion of networking logic substantially modifies the operation and outcome of production, experience, power, and culture” (216). The linkages themselves have power, so “for the first time in history, the basic unit of economic organization is not a subject, be it individual (such as the entrepreneur, or the entrepreneurial family) or collective (such as the capitalist class, the corporation, the state) (214).” Network analysis does not ignore the actor. Dicken et al. (2001) argue, “a central component of any such analysis is the existence of differential power relations within an actor-network. Powerful, or active, actors are those who drive networks and make things happen. Their ability to do so depends on their control of key resources (physical, political, economic, social and technological).” Even more important is the qualitative nature of network relationships (93). The other key consideration is how these networks are constructed. Castells and Dicken et al. believe they are products of the culture in which they are constructed and they are embedded in specific spaces. Recent technology, however, allows the actors to become increasingly distant and the spaces non-contiguous. For example, the financial sectors of all global cities can form one network.

As a result of its interdependence, asymmetry, selective inclusiveness, exclusionary segmentation, the network form builds an “extraordinarily variable geometry that tends to dissolve historical economic geography” (Castells 2000a, 106). These patterns are characteristic for the most advanced economic sectors and highly competitive corporations, but reminding us of Enzensberger’s paradox, organizations, communities, and social movements in near diametric opposition in purpose, resources, and technological sophistication adopted the same social morphology. This parallel development was predictable considering its odd lineage. A key characteristic of the network society is decentralization, a characteristic that it owes to new networked technologies. These technologies, in turn, owe their growth to the Defense Department’s Advanced Research Projects Agency Network (ARPANET). Like the decidedly low-tech, insurgent Maoist guerrilla force, it is designed to withstand attack through dispersal and diffusion.

While the idea of the informal economy has not been abandoned *en masse*, network analysis offers a new perspective on regulation, where the state and firms are actors in economic networks and power may be “diffused in a Foucauldian (capillary-like) sense whereby it is always present in all social interactions” (Dicken et al, 94). Networks can expand indefinitely, connecting to new nodes, and consequently new networks without threatening their balance. This gives us a new tool for analyzing Tabak’s thesis. We can examine power relations and regulatory environment of the specific node, which connects the subcontractor to his or her client. Returning to East Africa, one would not see a formal and informal duality, but the ambiguous “half-status”

as Peter Little calls it, where the formal/informal divide may exist, but is essentially meaningless or useless. For example, Little observed a network of traders transporting livestock from officially governmentless Somalia to governed Kenya, where they connect to the formal economy. In the marketplace, they discussed and traded openly and even interacted with the government, entering data into official records; Kenyan officials for their part did not think the trading was illegal or the animals contraband, though officially they were (Little 9). Weapons and drugs smuggled to Kenya occupy a "more illegal" status, while electronics and other consumer items lie somewhere in between on that continuum. Even where the law and administration may be well-developed, the mandate is uneven and the enforcement is largely based on personal judgment. Thus in many countries, including Somalia, there remained a chasm between the formal and informal realms defined not by law or logic, but by the locus and relationships in their economic networks. Thrift and Olds (1996) suggest that a network analysis should offer "a description of how economic forces are galvanized and... how knowledge about these forces is gained" (322). What links people together across time and space? Why are goods, information, and capital channeled through particular nodes? The institutional theorists, long influential in the halls of the World Bank among other places, have suggested that no single variable can explain the massive differences in wealth or economic growth, except the quality of institutions and economic policies. Mancur Olson finds that evidence shows economic performance directly tied to a "structure of incentives," low transaction costs, low risk, and protection of private property (Olson 1996, 21-22). It is not specifically stated that he is referring to state institutions, but strongly hinted.

Such considerations are likely foremost on the minds of investors where the marketplace most resembles the free market ideal, but recent research shows the ways in which economies function socially, success being defined by the ability to construct effective networks of association. In Roberts' analysis, for example,

"The issue is not one of regulation *per se* but of the form of regulation. All markets are regulated... so the issue is the balance between formal regulation based, ultimately, on the state, and informal regulation based on personal relations such as those of kinship, friendship, or co-ethnicity. Personal relations and the cultures that sustain them may, under certain conditions, prove more efficient in regulating economic activities than do formal structures giving those activities that are regulated socially a competitive edge over formally regulated ones" (Roberts 1994, 8).

It is not a question of whether the economy is formal or informal, but whether governance and relationships are. In formal networks, economic knowledge is gained through the marketplace, but in informal relations such as kinship, may have more power in the economy including the formal economy. Interpersonal networks are known to strongly influence actors in many of the most innovative sectors of American capitalism, such as the venture capitalist and technology firms of Silicon Valley. In China, where formal Foreign Direct Investment has surged in recent decades, people complain of a legal system that is "grossly inadequate" for the conduct of any type of business. They find *guanxi* to be a viable alternative, *guanxi* referring to "informal personal relationships based on trust and reciprocity" (Wang 2000, 534). Castells describes the basis of Chinese capitalism in an ideology of entrepreneurial familism based on a historical mistrust of the state, but reminds us that "without a reliable state enforcing property rights, you do not need to be a Confucian in order to place your trust in the kin rather than in a legal contract on paper (Castells 2000a, 194)... When the state did not act to create

markets, families did it on their own, bypassing the state and embedding market mechanisms in socially constructed networks” (197). This ideology and its accompanying social morphology allow particularly strong interconnections in Chinese business networks, which today link ethnic-Chinese businesses from Singapore to Vancouver. With investors and borrowers relying on previously established social relations that formed the core of their informal credit networks, "extended family" business networks have been able to famously outperform rivals despite not enjoying any apparent market advantage (Barnes and Sheppard 2000, 402).

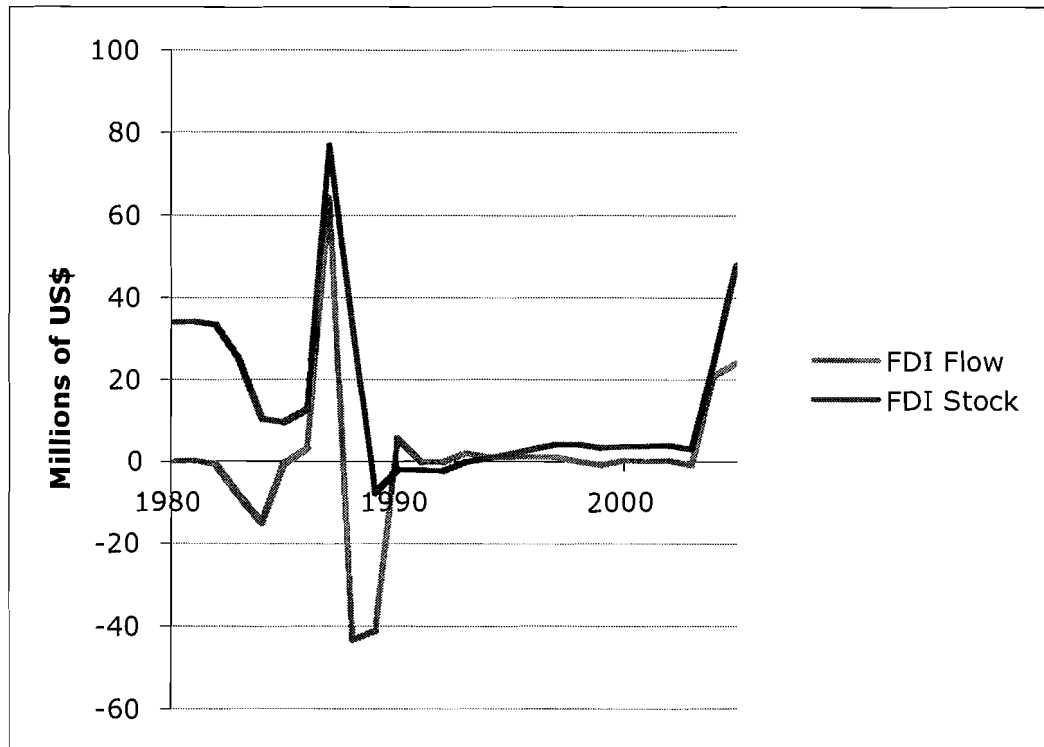
In Somalia, the data may support Olson's claim. Bizarrely, Somalia was listed as the world's most corrupt country in an index created by Transparency International based on "perceptions of public sector corruption” (BBC News 2007). Who works in this "public sector" remains a mystery, but the lack of faith in them should come as no surprise. In the context of this study, "perceptions" is the key word, as perceptions, regardless of accuracy, are what guide investment; FDI plummeted (see Graph 1) to nothing after the outbreak of civil war in 1988, remaining flat through the beginning of the 21st century.<sup>7</sup> Corruption perceptions reflect foreign investors' opinions of the effectiveness of the host country's formal legal system, but they do not capture their view of the quality of informal institutions of a country. As Wang argued, it is much more difficult to obtain knowledge about the informal institutions of a country than it is to form an opinion of the formal ones (Wang 2000, 530) and Roberts suggests, if a state-centric perspective shows the institutions of country to be hopeless, the market is almost

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<sup>7</sup> Again, as Jamal suggested, these figures should be viewed skeptically.

certainly regulated by personal relations, e.g. kinship, friendship, or co-ethnicity

**Graph 1:** Inward FDI stock and flow in Somalia, 1980-2005



source: UN Conference on Trade and Development, 2006

and these markets may be more efficient and cost-effective enjoying flexibility and trust. Additionally networks of association typically have porous boundaries, a vital consideration both when studying telecommunications and for a country that has been largely abandoned by international capital, whether essentially borderless and lacking state regulation like Somalia or under severe trade restrictions like Myanmar, co-winner on Transparency International's corruption index.

The debate over the role of social or kin networks in the economy is not a new one. Goran Hyden argued in 1980 that most of Africa's farmers were not captured by the

state or the market. Therefore, the bulk of the economy, or at least the economy as experienced by most people, was not driven by profit and efficiency, but by kinship and other communal ties, creating what he calls “an economy of affection.” Considering that modernization in nearly every society was accomplished through exploitation of the peasantry, he suggested it is only natural that they would resist (Hyden 1980, 16-17). Thus, “clan networks ... served as the main avenue of insulating Somalis from the full impact of market forces resulting from the complete informalization of the economy” (Medani 2002, 8). From the standpoint of profit-maximizing capitalism, an economy of affection can lead to seemingly irrational behaviors such as those catalogued by Berry (1993).

“The literature is full of examples of farmers who prefer not to register their land rights, even though it is legally and administratively feasible to do so; employers who don't dismiss redundant or unproductive workers; laborers who work without pay, though hiring out is an option; lenders who do not charge interest, and borrowers who pay back more than they owe” (14).

This is not Ayn Rand's economy, but neither is it clear that the economy of affection is in conflict with or a barrier to capitalism as asserted by Hyden. Berry found that since pre-colonial times, African farmers have gained access to productive resources through market transactions and through social relationships and that the behaviors described above were “not simply the results of backwardness or altruism...they reflect people's efforts to keep their options open and to mobilize potential allies and supporters” (14). These social norms and institutions were fluid and dynamic enough to help members survive and to deal with uncertainty, whether natural or market-based. “If access depends on the ability to negotiate, people may be more interested in keeping options open and



strengthening their ability to participate in and influence negotiations rather than acquiring exclusive control over resources and severing connections which are not immediately profitable” (14). Thus, even the free marketers cherished “private property” is not unquestioned. Berry cites Bates’ definition of property rights as “the power to limit the ability of other persons to enjoy ... a material good” (102). In Somalia, where grazing rights are communal, enclosure would destroy social relations between those who share land. This severing of personal relationships also destroys the access of economic actors to resources which might accompany those social relations.

It is important to acknowledge that Hyden was not wrong in his assessment, but fairly accurate. The economy of affection is not motivated by profit-maximization and therefore does not fit perfectly with a market economy. A society that seeks to insulate itself against the market is likely to be inefficient and place where money circulates for access to resources, rather than resources themselves can easily degenerate into widespread bribery and corruption. On the other hand, a market economy driven by non-market-based social relations also opens other opportunities, for instance granting credit and other resources to those who might be denied by the marketplace. In such a case, marketization of relationships would reduce both access to productive resources and, more perversely, entrepreneurialism as well.

## **CHAPTER IV**

### **XEERING THE CALL – CONNECTING TO THE GLOBAL NETWORK**

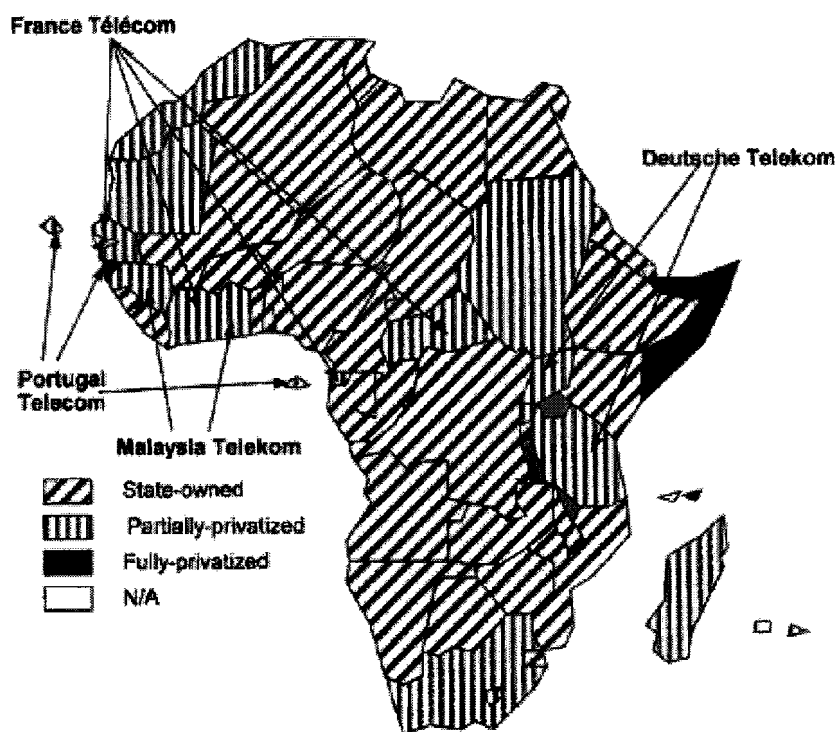
#### **Somalia and Africa's Telecommunications Revolution**

Looking back to the legacy of the state-owned pre-war communication system, one finds little indication of Somalia's future direction. Somalia had about 8,500 operational fixed lines, most of which were in the capital (Somalia Watch 2002). This pattern conforms to the centralized, urban-biased investment of the former regime, but it provided little foundation for future expansion. By the time the civil war started, however, "it was only possible to make international calls from the central post office in Mogadishu. Even this could be achieved only if one had friends in the right places, and could pay heavy bribes to the employees" (Marchal et al 2000). This change conforms to the rise of the asset stripping economy and ferocious privatization. Copper wires were more valuable as one person's scrap than as public infrastructure, if you happened to be that one person. Once stability was restored, a new system had to be created that not only functioned independently of government, but could survive a hostile environment.

Before examining why the Somali business networks succeeded at this task, we should once again consider the formal-informal continuum discussed in the previous chapter. While in many respects daily life in Somalia is not significantly different from life in other countries where the state has a limited reach, important distinctions should be made. The status of telecommunications is among them. The incumbent

telecommunications company is practically a hallmark of the 20<sup>th</sup>-century state. Along with such entities as the radio and television stations and the post office, it is the most visible sign of public authority. Somalia's stateless condition is therefore most identifiable in its privatization of all of these functions along with perhaps the use of violence (see figure 2). This distinction is also significant in that it removed the single most obvious source of capital. The contemporary world economy is notorious for its exclusionary power. Castells writes of the rise of the "fourth world," countries, regions,

**Figure 2 – Incumbent operators in Africa, 2003**



Source: Støvring (2003, 17)

cities, and neighborhoods that are “non-valuable from the perspective of informational

capitalism” under the space of flows (Castells 2000b, 72). As of 2000, there were more telephone lines in Manhattan than in all of sub-Saharan Africa (92), but as Bill Clinton argued, “Bit by bit... the information age is chipping away at barriers –economic, political, and social—that once kept people locked in and ideas locked out” (O Tuathail 2000, 166). Castells concurs. Bill Clinton claimed that using contemporary technology, any individual can now launder money with the keystroke of a computer. This underground economy creates an opening in the world system for the fourth world region willing to take advantage of its position, a process Castells calls perverse integration.

All of Africa has experienced a telecommunications revolution of sorts and nearly all African countries are seeing telephone usage soar. “‘Emerging markets will be wireless-centric, not PC-centric,’ says C. K. Prahalad, a management scholar and author of *The Fortune at the Bottom of the Pyramid*, a book that highlights the collective purchasing power of the world's 4 billion poorest people and urges firms to try to profit from it” (Economist, The 2005a). In response, Nokia is aggressively marketing the cheaper mobile phone. Not available in Western Europe or North America, Nokia is accepting smaller profits in exchange for a larger market share. Ben Soppitt of the GSM Association believes “if vendors want to grow, they'll have to do it with low-cost, lower-margin devices...it's where the future lies” (Fitchard 2006).

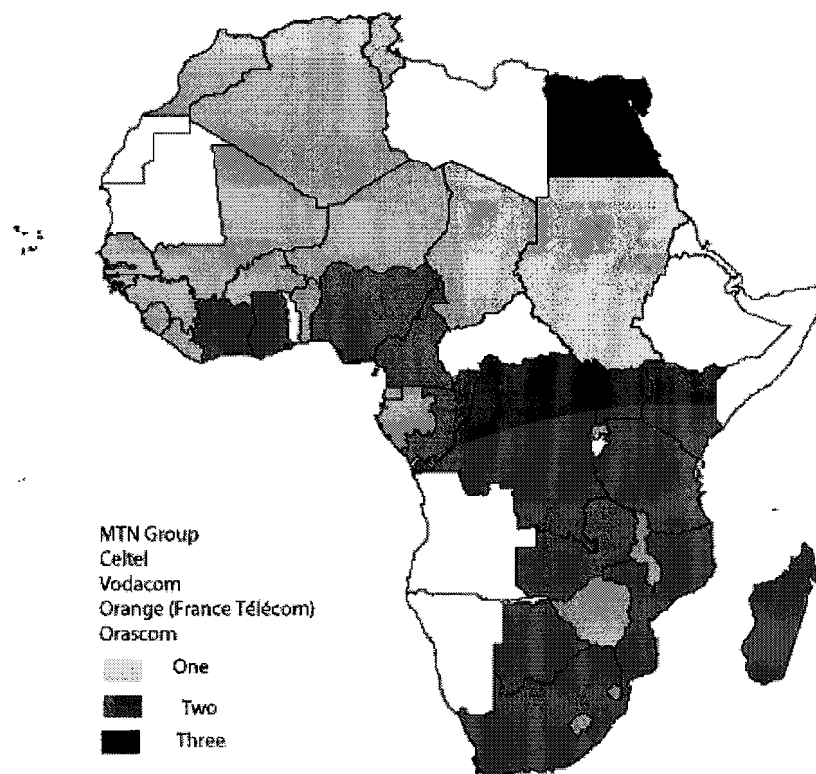
Foreign investment also marched towards its destiny at the bottom of the pyramid. When worldwide deregulation of nationally-oriented telecommunications companies began in earnest in the 1980s and accelerated in the 1990s, they were among the most prominent of the state-run firms and therefore a popular target for privatization. With the

opening of national economies to foreign capital, mobile companies from the global capitalist core initiated a massive spree of foreign investment, introducing the idea of competitive telecommunications, which proved extraordinarily popular. Africa was particularly hungry for mobile phones as many countries were plagued by notoriously poor or non-existent landline services. Although Africa contains most of the world's poorest countries, it was estimated in 1999 that the average cost per fixed line in the region was over US\$4500, more than three times the industry average of US\$1500, making their building and maintenance as well as subscription costs prohibitively expensive (McCormick 2005).

It is also important to note which companies were leading this foreign investment march. The rapid change in the technology of mobile communications led to a reorganization of the industry's corporate landscape. The advanced stages of the mobile phone industry co-evolved with the internet, bringing companies associated with computing into the mobile communication production network which grew increasingly complex and differentiated (Hess & Coe 2006). Research and development was largely in the hands of equipment manufacturers, who often outsourced the actual manufacturing. Service provision, on the other hand, became an open area, such that companies with no history in telecommunications, such as Vodafone and Verizon could become global leaders. Essentially, anyone could start a telecommunications company. The only necessity was startup capital, admittedly a major hurdle. Despite a globalized and internationalized telecommunications industry, actors continue to work through socially embedded national institutions. The growth in mobile communications across Africa,

therefore, has been led by a handful of companies, largely based in Africa (see Figure 3). The South African firms, MTN and Vodacom, are among the largest, as well as Orascom of Egypt. Celtel, a Netherlands-based mobile phone company was set up by the Sudanese-born Mo Ibrahim, who pursues an Africa-centered business plan. He actually expressed particular interest in investing in conflict-ridden countries such as Sierra Leone and DRC.

**Figure 3 – Key Strategic Investors in Africa**



Source: MTN Group (2007), Celtel (2007), Vodacom (2007), Orange (2007), Orascom (2007)

Somehow, like the other investors, he was never lured by the poster child for unfettered markets and trade liberalization. Foreign aid has also been sporadic. For instance, in

1999 Official Development Assistance to Somalia from the World Bank stood at \$0. The UN was somewhat more generous at close to \$24 million (UNDP Somalia 2000, 23), but this total was spread throughout the economy. Large investors were uncertain about the legal system and the legal status of Somalia, so the country's firms were not well positioned to attract capital in the traditional way.

While foreign firms have been repelled by the arcane legal system and the perceived risk, Somalia exploits its position as an entrepôt economy. The telecom industry has flourished symbiotically with growth in cross-border trade, as well as migration and remittances. The strong transnational Somali networks were constructed and reinforced by the global revolution in communications technology, allowing them to remake Somalia's economy. Secondly, the new telecommunications system in Somalia bears the distinctive imprint of its informal, transnational organization. Entry into the market is easy and companies have experimented with a variety of types of services, utilizing different technologies, and embracing, albeit unwillingly, unusually brisk competition. Competing companies have managed to establish new transnational structures for cooperation, if not regulation and much of the power continues to lie with actors outside the country.

### **Modeling Telephone Adoption**

There have been several studies attempting to explain the causes of telecommunications growth from the supply and demand side. Clearly it correlates

somewhat with variables such as wealth, but among statistically similar countries, disparities remain in usage and in the organization of the industry. Sutherland's (2006) study looked at what he perceived as the likely customer base, compared with the operation costs, independent of the government role. He believed the expansion of cellular networks was positively correlated with income, urbanization, population density, and income equality. Literacy rates would also affect usage of features such as text-messaging. Somalia appears to be a loser in every category except perhaps equality about which too little is known; many estimate it is close to average among African countries (Nenova 2004) but with inequality rapidly increasing (Ahmed 2000). A study by Meso et al. (2005) focused on the predictors of demand for mobile communication at the individual level utilizing technology adoption theory and found some correlation with educational level, age, gender, perceived cultural influences as well as the reliability and usefulness of the product. However, the single biggest driver was access, suggesting that people use the product because they can, in a way a profound conclusion, but limited in explanatory power. Meso et al. do go further and say that given a liberalizing telecommunications sector, "wireless technology lends itself to rapid diffusion because of its simple and ubiquitous nature" (135).

Most of this research on mobile phone adoption suffers from vague assumptions about the desirability of the product and the power of demand to create supply in a liberal environment. Several studies established a link between economic growth and telecommunications development through empirical evidence (Saunders, et al 1994), though it is difficult to establish whether they are a cause, a necessary precondition, or an



effect of economic growth. Researchers of the network economy warn us of its tendency towards social exclusion. Capitalists must see the value of a place before they invest. Additionally, on the demand side, given that people would be diverting some of their limited budgets for what is most likely perceived as a luxury item, what do they perceive as the benefit? To answer this question Risa Palm's research is instructive. While focusing only on international calls, she finds telecommunications are closely linked to several other industries even where most calls may be personal. The closest correlations are to trade, migration, and tourism, which go very far toward predicting call volume and call direction (Palm 2002). Palm's article never mentions Somalia, but provides a well-informed guess as to both why people in Somalia might acquire telephones and why providers might establish companies, emphasizing the telecommunications industry's symbiosis with other sectors. Additionally, she shows that primary communication linkages parallel trade linkages. Combined, these observations go a long way towards explaining how the telecommunications industry was actually built.

### **Trade in Somalia**

Re-establishing Somalia's trade links came naturally. The coastal cities have always been important regional ports and most Somalis work in fields connected somehow to the import/export business, e.g. pastoralists, petty traders, or shopkeepers (Bradbury et al 2001, 96). The increase in trade may be the result of a collapse in national production. Bradbury et al suggest, "as the state collapsed the 'national'

economy has been internationalised, a process that started before the war... This role as an entrepôt economy is a natural one, given its extensive coastlines and the role Somalis have long played in the transportation sector in East Africa” (97). The import/export trade is also a growing source of employment and revenue. Popular commodities include sugar, fuel, light electronics, and spare parts. The port of Berbera is particularly important, as the traditional link to the Middle East, sending livestock and often people to Arabia and the Persian Gulf. Since losing sea access, Ethiopia has also relied on Berbera port. There is some evidence of a southern entrepôt economy based around the ports of Mogadishu, Merka, and Kismayo. Webersik reported seeing Brazilian sugar and rice from the UAE in Mogadishu on its way to Kenya, as well as sarongs, which used to be produced in Somalia, but now are imported from Indonesia for US\$2-3 and sell for \$10 (Webersik 2006, 1469). Figures on these southern ports are more difficult to quantify as many have also exploited their position in trades of dubious legality. Somali traders have made significant profits from arbitrage, for instance purchasing duty-free Kenyan cigarettes, shipping them to Somalia and trucking them back to Kenya overland (Menkhaus 2004, 51). The internal trade is also profitable. As a result of the poor roads, the same item could be sold and resold repeatedly with increasing prices farther from the coast (Simons 1995, 136).

Perhaps even more significant than the goods themselves, the growth of trade has also spawned a “dense network of cross-clan business partnerships, in order to enable goods to move safely from Mogadishu across the territory of several clans in southern Somalia, and to monitor prices in Dubai and Nairobi” (Menkhaus 2003, 8). This trading

network made personal connections vital. Among the distinctive features of Somali capitalism is its commodification of connections. Simons argued that the principles of Somali pastoralism persisted in Mogadishu because of the continued uncertainty. A number of alternative economies operated in which it “appeared the commodities circulating in them had been plugged into some of the multivalent roles formerly (if not traditionally occupied) by livestock. The first of these is the economy of connections. The second of these is the economy of money. Like livestock, both connections and money served not just as resources, but as sources of resources” (107).

“In this economy, money greased palms and kept the system functional but was not always important as an end in itself. This is perhaps most clearly demonstrated in accounts of sons giving their fathers half their salaries - salaries that were laughably insignificant in terms of their worth...by and large most fathers did not need these particular and paltry sums when they were presented. Instead these transfers should probably be viewed as symbolic exchanges, in which ties were being reaffirmed and in which respect was being paid.” (117)

Money contributed to the survival of the system, but it was not what made the system. Rather, the most desired possession was knowledge, a social network, which can help an individual cope with uncertainty, one to be tended regularly, but not too regularly. “This is in sharp contrast to the US, where any service can be obtained for the right fee. In Somalia, having money was not as critical as being able to gain access and knowing who to go to in order to gain that access” (118). The principle of the economy of connections is based on the *xeer* customary law of Somalia and manifested in numerous types of economic agreements, such as *qaraan*, a type of clan-based social insurance, as well as customary Somali social welfare. In this case, it proved dynamic enough to adapt seamlessly to the market economy.

### **Remittances – an Industry of Personal Connections**

The expansion of the remittance industry was the logical result of widespread migration and the spread of this culture of connections to distant corners, particularly from migration to wealthier countries. Concerns of a “brain drain” remain, but its an exodus of skilled workers may be counteracted, so long as migrants retain their links to the home country. Indeed with Somalis settled all over the world, it became much easier to attract capital to home country. Many Somalis abroad became intermediaries between global enterprises and Somali firms. Remittances, eventually even dwarfed trade in volume. Nearly two-thirds of national income came to be conducted through *hawala* firms. Although communications have been vital in the expansion of trade and the establishment of Somalia’s entrepôt economy, widespread services were primarily established to facilitate communications between migrants and their families (Ahmed 2000). Initially, *hawala* transactions and any kind of transnational link to Somalia were very difficult as the communications infrastructure was so poor. The collapse of the country in the late 1980s, however, fortuitously coincided with major advances in telecommunications technology, notably the creation of cheap satellite-based telephone systems and later e-mail.

In the 1980s, Vali Jamal noted the importance of remittances when he observed that the GDP of Somalia told us little about the actual national income and suggested that two-fifths of the GNP comes from remittances (Jamal 1988, 239). Most alarming in this finding is that his research was done before the Somali civil war and its resultant mass

emigration. It came even before the founding of the most prominent remittance company Al-Barakaat in 1985. By the late 1990s, studying only Somaliland, widely perceived as a prime labor-exporting region, Ismail Ahmed estimated the mean 6.9 person household remittance income at \$4,170, 64% of total income and four times the amount earned from livestock exports (Ahmed 2000). In 2004, however, this time studying all of Somalia, Ahmed estimated remittances at roughly the same share of income, ten times the value of livestock exports, and concluded Somalia is more dependent on external remittances than any country in the world (Ahmed 2006). Some of his figures seem unrealistically high, but, if nothing else, it reminds us not underestimate the importance of this sector.

The remittance flow to Somalia can be expected to be large based on the size of the diaspora, as well as tradition of kin-based social welfare or “shared poverty” seen in aforementioned proverbs. Additionally, Somali migrants are remarkably skilled and well educated.<sup>8</sup> In Canada, for instance, between 68 % and 83% had been to higher education in their homeland, one quarter to university (Khoser 2003, 49). In comparison, the literacy rate of Somalia is estimated at about 17% (Bradbury et al 2001, 19). The remittance trade in Somalia is strongly embedded within the norms of reciprocity and subclan and familial affiliation. With a nonexistent banking system replacing the former inaccessible banking system, *hawala* firms are the primary means of transfer. If a Somali working in Toronto decides to send \$100 to his cousin in Mogadishu, he would go to the local agent, who calls an office in Mogadishu and tells them to give \$100 minus commission to the designated recipient thus taking on a debt. As money is not physically

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<sup>8</sup> This fact raises a number of questions about the screening process. See Gardner and El Bushra 2000 (109)

sent abroad, *hawala* is much faster than wires through banks, but the trust between all parties must be high. Razavy (2005) finds, “the trust that exists between dealers... acts to secure any debt and allows the debt to stand without legal means of reclamation. An implicit guarantee exists on payments, because the ostracism resulting from broken trust results in what Jost and Sandhu refer to as ‘economic suicide’ for the hawala agent” (286). Thus, while this type of remittance system is common worldwide, Somalis have largely relied on companies oriented toward Somalia and organized around clan. Large *hawala* firms, including Dahab Shiil and formerly al-Barakaat, expanded into other financial services, such as offering savings accounts and small loans utilizing the same system, giving Somalia what is arguably Africa’s most efficient banking system.

Numerous companies compete in the *hawala* trade, with many oriented toward specific parts of Somalia or of the world. All are decentralized, transnational companies anchored in the Somali “business triad” of Dubai, Nairobi, and Somalia (usually Mogadishu, Hargeisa, or Bossaso). Initially, they were associated with clan families as well, but when asked about the number of clients he served, Dahab-Shiil CEO Abdirashad Duale, remarked, “at least every Somali in the Diaspora has engaged our services and the same can be said of the Somalis living in the Horn and East of Africa” (IRIN 2003). *Hawalas* grew through a virtuous cycle, becoming the rare businesses that prospered through moral behavior, or at least the appearance of moral behavior. As the companies rely on trust to gain customers, many have competed to exhibit their virtue, particularly through the *zakat* or payment of the Islamic “poor tax.” Al-Barakaat’s devout founder, Shaykh Ahme Nur Jimale, enjoyed a sterling reputation with his

charitable projects in Mogadishu, with a value estimated in the hundreds of thousands (Bradbury et al 2001). The reliance on a socially regulated economy went a long way toward promoting the behavior required for repairing trust and normality in the country. In light of this fact, the decision by U.S. authorities to freeze the assets of al-Barakaat in November 2001 was very clumsy. It kept money out of the hands of a large number of Somalis, but had little practical effect in fighting terrorism, as the U.S. had much earlier published a list of people associated with al-Qaida. Constantly considering their public image, Somali *hawala* firms were far too cautious to handle people deemed business risks (de Waal 2007).

The leading *hawala* firms suspected communications would be supremely important for the inflow of remittances and thus their own growth, so they invested in their own networks to compete with each other on the basis of speed and efficiency, along with their traditional emphasis on honesty and trust. After acquiring their own satellite telephones, however, the route to further expansion was to link the disparate, decentralized recipients with their kin abroad. *Hawala* companies aggressively sought to expand access to communication within Somalia to make money not only on each remittance transfer, but on each request for a remittance transfer. Were the stakes high? When telephone service first became widely available in Hargeisa in 1996, remittances tripled in the same year (Ahmed 2000, 386). One telephone operator in Somaliland estimates that 80% of his customers are calling relatives overseas to inform them of events in the country and to ask that money be transferred to them. The remainder was split by business people (10%) and international staff from NGOs or other international

agencies (10%) (Marchal et al 2002).

As for the ability of *hawalas* to create a telephone system, little is known about their financial resources and many of them are loath to tell. Given the decentralized nature of the business, it is uncertain if they even know. Most estimate the remittance inflow to Somalia at between \$500 million and \$1 billion per year (Lindley 2005). Standard commissions were about 5% with the largest company, al Barakaat, dragging them down to about 3%<sup>9</sup> (Marchal 2002, 22). Others were forced to follow giving the entire industry a gross revenue of \$15 to \$30 million per year. Thus, as in the 1980s, capital investment was derived principally from recipients of remittances, but as some of the most prominent firms in the country *hawalas* seem to be directing new investment. Since the late 1990s, in addition to the aforementioned charities and public facilities, *hawalas* have invested in numerous projects as the leading shareholder. In Mogadishu, Al-Barakaat founded Betelco (Barakaat Telecom Company) in 1994, as well as a bottling plant and a construction company (Marchal 2002, 20).

It is difficult to trace the destination of the several hundred million dollars that flows through the *hawalas*.<sup>10</sup> According to Perouse de Montclos, it was estimated during the 1980s that two-thirds of remittances were for trade, another 1/3 for assistance, but the proportions today have likely reversed (Khosier 2003, 53). Others have noticed a larger tendency toward investment, particularly among middle-class families. Abdighani Jama

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<sup>9</sup> Since the closure of al-Barakaat in November of 2001, commissions have risen significantly. The companies attribute this to increasing expenses associated with post 9/11/01 transparency requirements. Ahmed (2006) reported commissions as high as 20% .

<sup>10</sup> It is believed that the largest transfers, typically made by businesspeople, are delivered by hand to avoid commissions .



of the Somali Telecom Association estimated that remittance investments, which he stresses are the “only direct investment fund that is available to Somalia,” are about \$375 Million, spread among telecom, fishing, trade, livestock, *hawala*, hospitals, etc. (Jama 2001). Most remittance transfers remain small. More than 90% are under \$200 according to Duale of Dahab Shiil (IRIN 2003), but in the tradition of clan-based credit, many investments are made collectively or through the market. Companies publicly advertise their shares, particularly in the Bakara market where the residents of Mogadishu are most likely to amass (Brons and Shaap 2003, 80-81). Telecommunications has been well known as a miracle sector in Somalia and has the highest number of returnee investors (80). Dividends in the major companies have been very good for the last few years (Personal correspondence 2007a), encouraging sales across all clans, while local shareholders contribute to the success of the business partially by ensuring its physical protection (Brons and Shaap 2003, 93).

In addition to sending money through the *hawala*, migrants have utilized their international connections and experience to bring new technology and transnational links to Somalia. Although operators today often cite price and quality of service as the basis for international partnerships (Golis executive), Somali migrants have a record of working with companies in countries where they have personal connections. Among the earliest were Somali exiles returning from Norway who installed limited satellite-based links in partnership with Norway's Telenor. Later, returnees from the Gulf States and the U.S. set up an “earth-station gateway” in association the U.S.-based Starlight Communications (Bray 2005, 19). The Somali Telecom Group, founded by émigrés in

Maryland, contracted with Interglobe, of Maryland, for installations in Mogadishu (Walley 1997). These partnerships represent a significant change from the past. Despite periodic attempts to make Africa more communications independent, telephone calls across Africa are still typically routed through Europe. Wire connections to Europe have been replaced by satellite connections, but by default still pass through the former colonial ruler. In Somalia, international linkages appear to be a more competitive market, which does much to reduce prices. “The cost of an international link is essentially close to zero,” says Palm, “what supports prices on many of the competitive routes are simply the local interconnection charges at the origin and termination of the call” (Palm 2002, 755).

### **The Imprint of Informalization – Local Identity and Networks-in-a-box**

Some consider the lack of foreign (non-Somali) investment in Somalia an advantage. Local industries are able to utilize knowledge of unofficial regulations, consumer tastes, and conditions to produce appropriate technology, which may be necessary to business success, but not possible if they are out-competed in their infancy by larger firms, which take advantage of economies of scale. While this sort of involuntary protectionism makes the cost at the outset slightly higher, the local companies, utilizing their knowledge of the marketplace, can reduce prices more effectively. There is a popular belief that the mobile phone’s popularity is a direct outgrowth of Somali culture and the traditional informational economy. An executive at

Golis Telecom says, “the rapid spread is mainly due to the culture of the Somalis who pay much attention to gather as much information as possible. They like to know what is going on in their vicinity and around the world as well” (Golis executive 2007). This interest, though some prefer to say obsession, is clearly visible in the passion for radio news from BBC Somali service to the latest favorite, Horn Afrik, established by returnees from Canada in 1999. There has also been a fantastic proliferation of newspapers, despite the noted 17% literacy rate. Among nomads, who constitute a larger percentage of the population in Somalia than in any other country (Jamal 1988), a standard greeting on the trail is “What news?” (Finnegan 1995). Abdighani Jama believes that the population mobility makes it economical to install networks in even the smallest towns, which are typically skipped in more sedentary countries (Jama 2001). As in other countries, rural telecommunications networks in Somalia lag behind urban ones, largely due to a higher cost per customer combined with lower incomes. However, in Somalia they may have a head start from their association with *hawalas*. While only two to five percent of rural families receive remittances from overseas compared to nearly half in urban areas, in accordance with custom, nearly half of urban residents go on to support relatives in pastoral areas, though typically with smaller amounts (Medani 2002, 3-4). The *hawalas* give telecommunications companies a pre-existing structural presence and customer base in these rural areas.

Maren recounted the post-war attempts to create a telecom system suited to the demands of Somalia,

“The first post-war system was installed by David Morris, a multi-millionaire New Zealander who was under contract to supply provisions to

UN troops. What he installed was what might be called "appropriate technology," i.e. it was old, cheap technology. It consisted of a central satellite dish linked to microwave handsets. The system worked, though not very well. The connections were horrible and overseas calls were about \$4 to \$6 a minute. The system lasted about a year. Morris was murdered in April, 1995 and his operation folded. Immediately after that, Somalis moved to install their own systems. Somali investors came up with nearly \$4 million in private money, established strategic alliances with foreign companies, and had state-of-the-art cellular systems operating within months." (Maren 1996)

By the turn of the century, the market was flooded with new operators. More than a dozen companies are reported by Global Insight (2007), though more have disappeared than exist today, some forced out by bankruptcy and others through takeovers. Much of the proliferation can be attributed to new technologies. Because Somali operators are not affiliated with major transnationals, they are unable to purchase expensive, complex, large-scale equipment, but have been able to offer high-quality service contracting with system integrators such as Interwave of Silicon Valley instead of major telecom equipment suppliers. Somali Companies bought \$8 Million worth of Global Standard for Mobile (GSM) equipment from Interwave in 2000 alone (Jama 2001). The size of a PC-tower, these "network in a box" systems are built for operators without experience in engineering or telecommunications and are sold with generators for areas with an unreliable local power supply. Starting costs for a fully-functional GSM business would be less than \$100,000 for a 1,000-subscriber system (Parkes 2002, 12). Expansions could be added seamlessly. Some of the most successful companies, including al-Barakat and the Somali Telecom Group, consortium used Interwave base stations.

The declining costs of technology encouraged a number of operators to enter, and

more often than not, exit the market at the start of the century, particularly after the closure of al-Barakaat in 2001. IRIN reported in 2002, that international calls from Mogadishu, among the cheapest in the world at \$0.80 per minute, were down to \$0.25 (IRIN 2002). These price cuts were largely driven by new entrants to the market trying to expand their customer base. They were not welcomed by existing companies, but were found to be not nearly so damaging as predicted. According to one manager,

“We have tried to avoid price war because of the investment made but with changing technologies, lack of effective administration, lack of a regulatory body and the desire of new entrants with cheap equipment to disrupt the telecom market in their interest forced major companies to engage in the game. We resorted to price variation technique whereas other companies applied lower flat prices for all destinations. The boost in the outgoing minutes balanced lower prices” (personal correspondence 2007b).

Sutherland found that the high degree of concentration in many markets leads competing companies to set prices far above costs, particularly on international calls. Services can sell well at alarmingly high rates and new entrants to the market typically charge similar prices (Sutherland 2006). Essentially, overpriced state monopolies were replaced by overpriced private oligopolies. The main difference now was that the money usually left the country. In a feasibility study on low-cost rural telephony by Engvall and Hesselmark (2004) the researchers note that mobile phone operations in developing countries are highly profitable because they tend to focus on short-term investment in urban markets. Telephony can actually be provided in African countries at a much lower cost than is currently the case. They calculate that companies can remain profitable charging up to one-sixth of prevailing mobile rates, using a model that produces lower

revenue, but higher usage levels.

Competition has been sufficient to push operators to expand services if not always to reduce their prices. They have moved to underserved parts of the country as well as developed specialized niches. The cheapest rates are found by making phone calls in the office of the service provider. Competition has also produced the economies of scope that are characteristic of Somalia's economy. Diversification was seen as an asset when *hawala* traders found telecommunications increased remittances, which increased phone demand. Electricity, as one of the most important and expensive fixed costs, was a promising field for investment. The power supply in nearly all cities of Somalia is unreliable and there are approximately 60 power stations in Mogadishu, with machines of varying size, makes, and state of repair (Marchal 2002, 54). In many cases technology is distressingly "appropriate," e.g. aluminum wires, instead of copper to reduce the incentive to steal. The telecommunications companies have provided themselves reliable service and supplied the excess, sometimes for free (Marchal 2002, 54., Golis 2007). Many foresee further diversification as a future hallmark of Somali business; one local economist predicting, "there will be consolidations in this market in the coming 5-10 yrs and the number of players will be further decimated to a couple of revenue monsters who will eventually morph into diversified conglomerates like the good ol' Al-Barakaat" (personal correspondence 2007a).

By the turn of the century, establishment of mobile operations with foreign technology became cheap and accessible in countries that could never establish widespread fixed-line communication. In fact, Andonova in her empirical study argues

that they can be established in countries with hostile institutional environments because their modules are cheap, mobile, and re-deployable and need only a small number of subscribers before they can operate at an efficient scale (Andonova 2006). Some suggest mobile phone operators even prefer to invest in conflict-ridden countries. Bray believes such areas are attractive because “they are far from ‘mature’ and may scarcely have been touched by competitors...international commercial interest is commonly very limited in the immediate aftermath of conflict (Bray 2005, 9).

Again, this behavior is not common to all types of business. Many industries, such as resource extraction, represent expensive fixed assets and may be targets for rent-seeking, as we will see in Chapter IV. Telecom operators may be compared to the proverbial 500-lb. gorilla. They have shown success setting up operations as soon as or even before conflicts end and reflecting their Maoist guerrilla lineage by readily withstanding fierce attacks. For example, four foreign engineers working for the UK-based Granger telecom were kidnapped and killed in Chechnya in 1998 (Bray 2005, 15).<sup>11</sup> Other companies often base their own decisions to enter a market on the success or failure of telecoms both because they show whether it is possible to work in post-conflict economies and because their services make it easier for other companies to operate. Still, local knowledge and appropriate technology are often the key factors. In Mogadishu, for example, the city was divided when the Somali Telecom Group first installed their lines. "There is no way we can carry cable from the north to the south without sabotage or

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<sup>11</sup> Mobile phones also came to symbolize the romantic life of danger presenting enough of a threat to be banned in India's Kashmir valley for many years (Bray 2005, 15).

having it stolen," contractor Luis George of Interglobe said, which led them to the decision to invest in microwave (Walley 1997). Level 421 Satellite Communications reasoned that telecommunications can only become more important in an uncertain environment. Reflecting on their installation experience:

It is important that people in Somalia understand that you are capable of defending yourself. Right after arrival, the whole team did start quickly with mounting the antenna. After 6 hours of hard work, the system did go live... everybody did his best to get the job done in the minimum time... As the situation in Mogadishu still is instable and shootings by night are happening quite often (as we experienced some hundred meters away), we tried to finish the antenna mounting successfully before it was getting dark... In order to ensure that a bullet does not hit the reflector by mistake, the antenna was positioned right in the middle of the roof (Level 421 Satellite Communication 2004).

In the experience of Ed Resor of Somali Telecom Group, "in isolated cases, systems have gone out due to fighting, but once a system is in place, the equipment is typically safe... If the equipment is paid for by local business, then people respect it as property. But if the equipment is from the United Nations, they feel it is given as a political payoff and they will steal it" (Walley 1997). Similar attitudes are found throughout the world.

Telecommunications fixtures rarely encourage rent-seeking, because are seen as a public service and regardless of their place of origin, typically acquire a local identity. Indeed, few consumer goods appeal to such a variety of lifestyles as the mobile phone. Writing in Sierra Leone, Sesay suggests that the mobile phone is a peace-maker, it seems to bring relief and signal normalcy to a war-weary people (Sesay 2004).



### **Between U.N. Me - The Evolution of Informal Governance**

Somalia lacks a cohesive telecom policy, says Abdighani Jama (Jama 2001). In the boomtown of Bossaso, a manager at Golis remarks, “Law is not sufficient to do business here, but other factors such as clan laws, social status and Shari’a law balance the inefficiency in the enforcement of law and order” (Golis executive 2007). There remains considerable risk in the business, however, particularly in southern Somalia, where a large share of company expenses go to security. In 2004, a businessman from Nationlink of the Somali Telecom Group confronted a local warlord who demanded a fee for permission to build. When the businessman refused to pay, the warlord ordered a halt to construction. The businessman ignored the order and the warlord’s army attacked the site. The businessman’s gunmen defended the location unleashing open confrontation (International Alert 2006, 480).

A “telecom war,” in the tradition of the “banana war” (see Chapter II) never ensued, however. As noted, there are far fewer opportunities to collect rent in the telecommunications industry. Additionally, this industry has built a degree of trust and unity. Abdighani Jama said there were many forces encouraging cooperation. The UNDP, while cautious in its dealings with Somalia since UNOSOM, expressed interest in supporting the telecommunications sector in particular. “The UNDP and ITU brought all the operators together in Dubai and said, ‘we would like to help you but you have to have one office’” (O’Reilly 2003). The Somali businesspeople realized cooperation would have to be done at the global scale, noting the transnational nature of the Somali industry and the lack of availability of some services in Somalia. Additionally, whatever

legitimacy and governance has been established by authorities in Somalia, citizens of the country lack the backing of a sovereign government. The offshore capital of Dubai has the benefit of not being biased in favor of any Somali region, plus it offers access to legal and underwriter services, a large Somali population and several other Somali corporate headquarters. Thanks to the growth of ICT, the structural presence of many of these companies often need not be more than a business registration. The transnationalization of telecommunications follows the transnationalization of *hawalas*. In 2001, the three largest *hawalas*, Barakat, Dahab-Shil, and Amal Express operated 76 offices in Europe, 74 in North America, and 29 in the Middle East (Africa Action, 2001), possibly inducing bias in which industries the UN chose to support. Currently, the areas of UNDP funding are telecom, finance, and livestock. The last of these three employs a majority of Somalis. The other two are perhaps redundant as the financial firms were the main providers of mobile communications.

The Somali Telecommunications Association, founded in 1998, describes itself as a “Somali institution run and managed by Somali professionals in close consultation with industry’s leading product suppliers” (WSP 2004, 49). So far, they have organized the overseas and in-country training of Somali engineers, brought in technical advisers from the International Telecommunications Union, and acted as a quasi-regulatory agency (WSP 2004). They have no enforcement capability. As Jama remarks, trust between the operators is very weak, but improving since the creation of Somali Telecom Association (Jama 2001) and “we still a need to create a telecom regulation agency independent of both the state and the industry to ensure compliance with ethical business practices.” In

an inversion of the social network theory explained by Roberts and Portes, Jama explains, “thus far, only mutual animosity has helped” (Jama 2006). Lack of trust has even prevented companies outside of Mogadishu from interconnecting, so calls to neighbors who subscribe to a different service carry long distance charges, i.e. they are more connected to their kin overseas than they are to their neighbors. Notably, it was only in the most dangerous city of Mogadishu where mutual animosity appears to have yielded concrete results. The STA brought the local operators together to meet with international experts on the costs and benefits of interconnectivity. During the 1990s, Mogadishu businesspeople were not quite independent of local warlords, but as their power grew, they challenged their own sub-clans to set up partnerships where it benefited them. After collaborating on matters such as security, the companies contributed to the purchase of new equipment and the formation of a jointly owned internet company (O’Reilly 2003).

### **Summary**

Somalia’s telecommunications revolution should be seen in the context of a larger technological and economic transformation occurring throughout the developing world. People who never had access to telecommunications are eagerly parting with their limited resources to obtain services. Somalia differs from other cases, however. The legal status of Somalia’s government prevented the route to telecommunications development that was typical of other low-income countries. There were no parties in government or among transnational corporations that could be convinced of the value of investment here, but what acted as an impediment to the entry of foreign operators encouraged

investment among those with social links. The Somali economy of connections makes even unprofitable investments profitable if they strengthen social ties. This commercial code, spatially expanded by a decade of war-induced migration brought a world of new ideas, tastes, and products to Somalia through a diaspora trading network, which turned Somalia into a regional entrepôt economy. Even more important than international trade, however, has been the growth of remittances. The remittance trade has become the main engine of Somalia's growth, providing for the bulk of the country's GDP, investment, and consumption, as well as begetting the country's largest companies. It was for connecting the diaspora and establishing the remittance trade that telecommunications networks could be installed profitably.

The remittance trade created both a steady demand and a group of entrepreneurs with an interest in telecommunications investment. It also created the strongly transnational character of the Somali telecommunications industry that we see today. The large Somali diaspora was responsible for most of the capital invested and the social links that provided new technologies and international service agreements as well as a strong base of consumers needing to communicate with overseas kin. With knowledge of the terrain and a social contract with local communities, telecommunications operators have established the most appropriate technologies. Strategies include not just low-cost and durable systems, but diversification and integration with existing firms creating an economy far more competitive and socially embedded than exists in other African countries. Preferred areas for investment have included areas like electricity, which can stimulate demand for other services. At the same time, businesses may "shop" for the

foreign laws and regulations that best complement their current practices giving birth to the well-known Somali business triad. It is from Somali telecom offices in Nairobi and Dubai that businesspeople connect to foreign partners, as well as UN negotiators. Many previous studies of telecommunications have underestimated the role of the complex social interlinkages that direct the growth of the industry. We come closer to a complete picture by considering the causes of demand and investment spatially and sectorally, as well as the effects of the institutional environment and social relations on the nature of intra-firm and inter-firm relations.

## **CHAPTER V**

### **CONCLUSIONS**

In this thesis, I have sought to bring attention to unexpected changes in the economy of Somalia in recent years. In the country that embodied all of Africa's miseries, war, famine, predatory governance and lack of governance, there are also other forces at work, which have gained less attention. The instigation of violence in Somalia, even at its height, was perpetrated by a small number of people against the majority. The overwhelming desire of the populace to return to normal life was hindered by the domination of the central government by the same armed groups. As a result, numerous dynamic economic sectors and inventive livelihood strategies have arisen in the "unofficial" sphere.

Focusing on telecommunications, this study demonstrates how a survival strategy, borne of necessity, could evolve into an enormously successful industry. In this respect, Somalia's businesspeople have proved remarkably resourceful in finding new applications for old traditions. They established an advanced telecommunications system in a manner that has not been copied elsewhere, built without government or foreign investment. This model has not been and is unlikely to be tried elsewhere as foreign capital rushes into partnerships with nearly every existing telecommunications firm in the developing world. This Somali nomadic pastoralist tradition of trade in personal connections continued and even became more important in the uncertain environment of

Mogadishu, where personal connections became a more desired commodity than money. Money, however, was necessary to keep the connections tended. The links between actors, therefore, remained strong with the expansion of the Somali diaspora, facilitating the growth of both a foreign trade and a remittance industry. The economic value of these trades demanded investment in telecommunications. The new Somali telecommunications industry is, therefore, a global industry with powerful actors working outside the country bringing money and technology, as well as contracting with foreign partners, their relationships governed by customary law.

The telecommunications sector of Somalia is the product of linkages by informal institutions, but is probably not best understood as part of the “informal economy” as it lacks any regulatory body to define it against. The telecommunication sector of Somalia, rather, is regulated by the same customary and Islamic laws which govern the country. It was these same principles that successfully created the country’s markets, a fact now well known in Somalia. The new economy was able to succeed because it focused on productivity, reciprocity, and survival. These same principles allow telecommunications operators to successfully contract with formal entities abroad. The old official economic networks, which warlords are trying to re-establish, were based on a wholly unrealistic economic order, which consumed rather than produced wealth. These networks still rage across much of southern Somalia, where the local groups were unable to build an independent financial base. Few southerners migrated or built government connections. Therefore they were unable to gain important resources. Interestingly, Mogadishu remains the center of Somali industry, despite being afflicted by “network war,” as

warlord and corporate militia vie for control. The warlord threat encouraged the growing cross-clan cooperation among Somali businesspeople and the widespread contempt for kleptocrats is palpable; asking for a translation of a note from the company TelSom, I was handed this response:

"The Somali Telecom company Telsom is looking to hire qualified men (women need not apply) to staff its office in the capital. Since the Ethiopian "mop up" operation has just ended, many former employees have either been killed or have left the city for no apparent reason. Candidates are advised no qualifications or linguistic skills are necessary. The only qualifications are a demonstrable relationship to the president, the honorable Abdillahi Yusuf, and two (2) functioning brain cells. Candidates must be able to count to ten on their own and must submit to a DNA test to prove kinship to the president. There are many positions available and compensation is commensurate with the degree of genetic closeness to the president. All applications accepted but only chosen candidates will be contacted for an interview" (Camel Milk Threads 2007).

Satire has not suffered under hardship.

While the Somali customary institutions have proven themselves to be dynamic and flexible enough to bring lasting peace back to the north, the south offers a difficult lesson in contrast, a microcosm of the problems Somalia faces. The lack of centralized authority created few opportunities for its people and left them vulnerable to attacks by their countrymen. Like Somalia in the world economy, southern Somalia is a fourth world society that has not proven itself to be of value to investors, while simultaneously not developing the coping mechanisms to deal with that marginalization.

The Somali case study offers one possible route for the evolution of traditional social networks in African societies. As Hyden correctly argued, the introduction of the market economy does not necessarily destroy traditional institutions and might, in fact, reinforce them. However, he gave less indication of just how adaptable and dynamic



these institutions can be and how they may interact with the market in a complementary manner. S.M. Tall identified a form of “informal globalization” that “happens bit by bit, through a process of hybridization, one step at a time, through open, flexible social networks” (Tall 2004, 46). This form of globalization has conflicting effects. Like state-led globalization, informal globalization is essentially a market-driven force, but the markets are embedded in and indeed created by existing social institutions. By opening the doors to capital, it has enabled the development of an economy that was left out of the market economy.

At the same time informal globalization has created a situation where, today, Somalia’s biggest weakness is not a lack of investment, but a reliance on remittances, which shifts substantial amounts of power outside of the country, leaving it vulnerable to disruptions. While the remittance trade grew out of economic networking intended to shield people from the full onslaught of marketization, it left them more vulnerable to shocks that individuals, as opposed to states, have absolutely no control over, such as the closure of al-Barakaat. Tall also found from his research in Senegal that technology, encouraged by migration, often strengthens social bonds, but not within the country. “Social networks are energized by the technical networks” (Tall 2004, 46). Again, this push clan networks for economic security led them to look to more financially secure kin abroad, paradoxically connecting many clans more closely to Somali communities overseas than to their own countrymen. It was also very effective at attracting foreign capital. Considering, however, that the flow of money is galvanized by traditional social institutions, which were embraced to protect people from the market, it is uncertain

whether the social networks can survive a generation of migrant acculturation in other countries.

This research fills a gap in the literature about Somalia's post-civil war economy and ongoing research will be needed to determine the continued validity my claims.

Unfortunately, due to the unstable conditions of the past year, data collection remains difficult.

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