Deals, Exchanges and Obligations: Interrogating Tax Morale in Somalia

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Abstract

This dissertation examines how fiscal relations emerge in fragile contexts where the idea of a centralised authority, such as a state, is either suspect or contested. Using the case study of Somalia, it interrogates the factors motivating tax compliance of private sector actors. Such issues are proposed as critical as several of the conditions considered necessary for mobilising revenue, as per standard taxation models, were seemingly absent in Somalia.

After the collapse of the state in 1991, Somalia was 'embroiled in a state of protracted conflict and statelessness'. While political institutions deteriorated, the void left by the absence of a functional state paradoxically unleashed a 'spirit of entrepreneurial innovation and competition' and contributed to the rise of a thriving Telecommunications industry. In the post-transitional era (2012-21), as the country struggled to establish more formal state institutions, taxes paid by the Telecommunications sector steadily increased. While some taxes were paid on a negotiated basis, the overall motivations of the sector were less evident. Specifically, it was unclear why dominant economic players would pay taxes to a state, which, per standard models, had limited authority, legitimacy and capacity to deliver 'reciprocal returns' or collective goods and services.

Employing a qualitative approach, the thesis investigates the validity of three alternative explanations. Specifically, it asks if the fiscal relations that emerged between the state and the Telecommunications industry were an outcome of an elite 'deal' for preferential access to rents and political privilege, a result of a mediated 'exchange' for resolving collective action problems or motivated by an 'obligation' to informal norms and institutions.

By reflecting on these questions, the dissertation aims to contribute to theoretical debates on state-building processes and advocates for rethinking the naturalisation of state-society relations based on the Western experience. Furthermore, by focusing on private sector players, the thesis explores broader questions about the nexus between state and capital. It considers whether the Somali case offers lessons for how 'development bargains' or long-term growth-focused partnerships emerge between the state and large capital. Lastly, in advocating for the possibility of observing tax relations in contexts where various institutions and actors maintain political order, the study adds to the burgeoning body of research preoccupied with interrogating the substance of 'real governance'.

Dedication

For Rads, to whom I owe everything.

Acknowledgements

It took a village to raise this dissertation, which took a life of its own and was nurtured and reared by so many people. My sister, Radhika, to whom I dedicate this dissertation encouraged me to pursue this journey and who believed in me enough to underwrite my dream. Even when the worst happened, and my indomitable sister lost her battle with cancer, the dissertation remained our shared project. It tethered us and kept me going when nothing else seemed to make much sense. So, thank you very much, Rads, for everything you have done and for all that you continue to do.

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List of Acronyms

AIAI al-Ittihad al-Islami

AS al-Shabaab

AMISOM African Union Mission in Somalia

AMLCTF Anti-Money Laundering Standards and Combating the Financing of Terrorism

AQ al-Qaeda

ASWJ Ahulu Suuna Wal Jamal

ATMIS African Transition Mission in Somalia

ASP Application and Services Provider License

CBS Central Bank of Somalia

CIP Communications Infrastructure Provider Licence

CISP Communications Infrastructure and Service Provider License

CSR Corporate Social Responsibility

CR Critical Realism

DJ Damul Jadiid

DARE The Djibouti Africa Regional Express 1

ECF Extended Credit Facility

EFF Extended Fund Facility

EU European Union

EASSy Eastern Africa Submarine System

FCDO Foreign Commonwealth Development Office

FCVs Fragile, Conflict, or Violence-affected States

FFK Farmajo, Fahad and Khaire alliance

FGC Financial Governance Committee

FGS Federal Government of Somali

FMS Federal Member States

FRC Financial Reporting Centre

GDP Gross Domestic Product

GEEL Growth, Enterprise, Employment and Livelihoods programme

G2A Gulf to Africa

HDI Human Development Index

HIPC Heavily Indebted Poor Countries Initiative

HTG Hormuud Telesom and Golis

HPO Hybrid Perspectives of Political Order

ICC Islamic Courts Council

ICT Information and Communications Technology

IDA International Development Association

IFC International Finance Corporation

IGAD Intergovernmental Authority on Development

IPE International Political Economy

IMF International Monetary Fund

ISP Internet Service Provider

ISS Islamic State of Somalia

NCA National Communications Authority

KDF Kenyan Defence Forces

KYC Know Your Customer

MOD Marehan Ogaden and Dulbhante alliance

MNO Mobile Network Operator

MoPIED Ministry of Planning, Investment and Economic Development

MP Members of Parliament

MTO Money Transfer Operator

MVNO Mobile Virtual Network Operator

NDP National Development Plan

NISA National Intelligence and Security Agency

NLF National Leadership Forum

NSF National Salvation Forum

OFAC Office of Foreign Assets Control

PM Prime Minister

PPD Public Private Dialogue

PT Process Tracing

SFG Somali Federal Government (2012-16)

SMP IMF Staff-Monitored Programme

SNA Somali National Army

SOMINVEST Somalia Investment Promotion Office

SNM Somali National Movement

SRC Supreme Revolutionary Council

SRCC Somalia Reconciliation and Restoration Council

SSDF Somali Salvation Democratic Front

SYL Somali Youth League

TCC Tax Compliant Certificate

TNG Transitional National Government (2000-2004)

TFG Transitional Federal Government (2004-2012)

UAE United Arab Emirates

ULF Unified Licensing Framework

UNIDO United Nations Industrial Development Organisation

UNITAF Unified Task Force (1993)

USAID United States Agency for International Development

UNSOM I United Nations Assistance Mission in Somalia (1992-93)

UNSOM II United Nations Assistance Mission in Somalia (1993-95)

USC United Somali Congress

VSAT Very-Small-Aperture Terminal

Glossary

Abaan Precolonial practice of paying individuals from powerful sub-clans, clans and clan families to attach their names to trade caravans to prevent them from being attacked when crossing hostile territory. 170

Ahl-e-Sheikh A faction of the Al-Islah, particularly the followers of Sheikh Mohamed Moallim Hassan, emerged as the Ahl-e-Sheikh religious group. 206

Ahlu Sunna Wal Jamal A moderate Sufi group that emerged as a significant military force following attempts by the US and Ethiopia to fund Somali opposition to the ICC. 206

Al-Ictisam A conservative Salafi organisation that continues to be quite popular among sections of the diaspora. 206

Al-Islah Members of the Muslim Brotherhood and sought a more gradual transformation of Somali society towards a state based on Sharia through the harmonisation of Islamic values, indigenous Somali culture and secular law. 132

Aqil Traditional elders. 88

Damul Jadiid A Salafist religious group which splintered from the Al-Islahgroup. 132

Darod One of the four primary clan families, the Darod are commonly divided into three major groups referred to as Ogaden, Marehan, and Harti. The Harti are composed of the Majerteen, settled mainly in Puntland, and the Dulbahante and Warsangeli, who mainly live within the borders of

Somaliland. Puntland almost entirely overlaps with the Majerteen clan family. The Marehan inhabit South-Central Somalia, where they dominate the Gedo region. The Ogaden can be found in Southern Somalia. Over the last few years, they have gained increased control of Lower and Middle Juba, as well as in Ethiopia and Kenya' . 97

Digil One of the agro-pastoralists clan families who trace their to ancestry one apical or common ancestor (Sab). 99

Dir One of the four primary clan families, the Dir, include groups such as Issa, Gadabursi, and Biymaal. Dir groups live in Somaliland as well as in South-Central Somalia. 97

Diya Represents the smallest social unit (from a few hundred to a few thousand men), bound by close kinship ties, with members taking collective responsibility for their security and that of their group. 88, 97

Gar Dawe Somali word for arbitration. 173

Gumeysi Somali word for subjugation. 106

Hawala Hawala or Xawilaad system is an age-old method of value transfer in the Islamic world, dating back to the 8th Century. In its simplest version, the customer gives money to an agent who contacts a second agent with the instruction to pay the recipient. The value or debt is transferred rather than actual money. 161

Hawiye One of the four primary clan families. The two most important and commonly used sub-divisions are the Habar Gedir and the Abgal. Other critical sub-clan groups are Murosade, Hawadle and Waesli. The Hawiye can be found in central and southern Somalia.. 97

HIPC The World Bank, the International Monetary Fund (IMF) and other multilateral, bilateral and commercial creditors began the Heavily Indebted Poor Countries (HIPC) Initiative in 1996. The program was designed to ensure that the poorest countries in the world are not overwhelmed by unmanageable or unsustainable debt burdens. It reduces the debt of countries meeting strict criteria. 214

Infaaq An emergency fee levied by al-Shabaab ahead of major military advances or when the group's coffers are low. 139

ISP An organization that provides services for accessing, using, managing, or participating in the Internet. 178

Issaq One of the four primary clan families the Isaaq are the primary inhabitants of Somaliland. 97

Khat Khat (also known as "qaad" or "jaad"), is a plant whose leaves and stem tips are chewed for their stimulating effect. Khat is an important cash crop in Somalia. 224

Khidma A service charge levied by al-Shabaab on commercial operations at a rate of ten per cent and on salaries at a rate of five per cent. 139, 277

Masalaxo Somali word for mediation. In mediation, the exact laws and punishments prescribed by xeer are set aside in order to reach a final judgment that satisfies both parties.. 173

MNO Mobile Network Operator is a provider of wireless communications services that owns or controls all the elements necessary to sell and deliver services to an end user. 178

Mooryaan Somali term for those who had plundered and profited from instability during the early years of the civil war. 173

Nabadoon Nabadoon's were introduced by the Siad Barre regime during the 1970's in its effort to control and transform the traditional authorities into proselytes of the regime. 88

Oday Oday or Odayaal is the Somali word for elders. 98

Qaaraan A type of clan insurance paid by all clan members as a mandatory payment for supporting the respondents' particular clan group. 89

Rahanweyn One of the agro-pastoralists clan families who trace their to ancestry one apical or common ancestor (Sab). 99

Sadaqah Is an Islamic voluntary charitable contribution collected through mosques and nationwide networks. 87

Shir An all-clan council or meeting attended by all the adult males of the involved lineages to discuss the issues that need to be addressed. The Shir was the most fundamental institution of governance and democratic participation in Somali pastoral society. 98

Suldaan The highest level of clan elders also known as Issim or Duub. 98

tuk-tuk Somali word for autorickshaws or three wheelers. 140

Ugaas Titled clan elders responsible for selecting members of the electoral college. Other names are also Imams or Wabars. 199

VSAT A very-small-aperture terminal (VSAT) is a two-way satellite ground station with a dish antenna that is used to transmit narrowband data or broadband data. 164

Xeer A set of customary laws that regulate most aspects of social life within and between the Somali clans. 88

Xeer Dhaqan Xeer dhaqan is the social or civil code. It is broken down into categories regulating issues such as theft (tuugo), private property (xoolo), territory (deegan), family (xilo), and hospitality (maamuus). 173

Xeer Gaar Xeer Gaar refers to specialised professional norms that regulated traditional economic production relations for clans and sub-clans, specifically involved in pastoralism and other economic activities. 98

Xeer Guud Xeer Guud applies to the settlement of grievances and disputes between Mag-paying groups. 98

Zakat One of the Five Pillars of Islam refers to a mandatory contribution to help the poor, compulsory for all those that can afford it. 87, 277

Figure 1: Map of Somalia

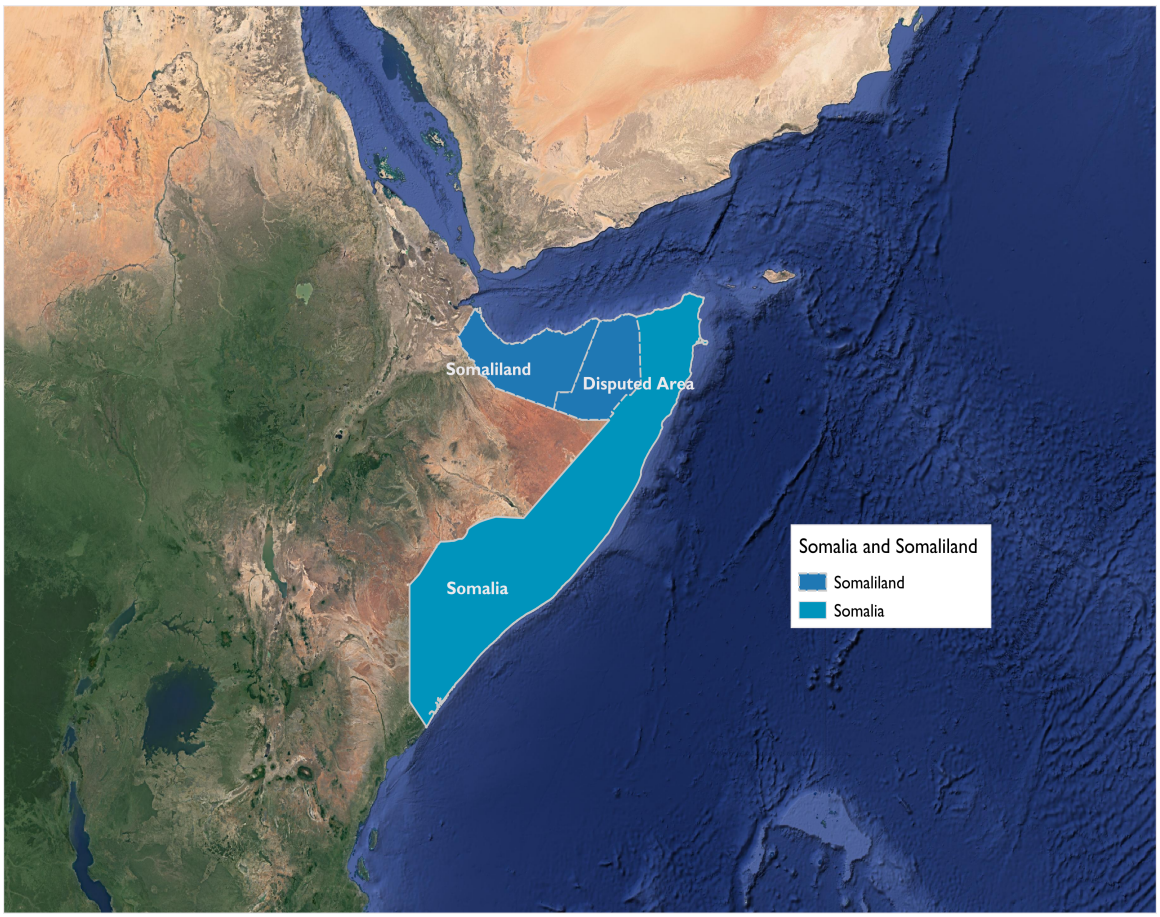
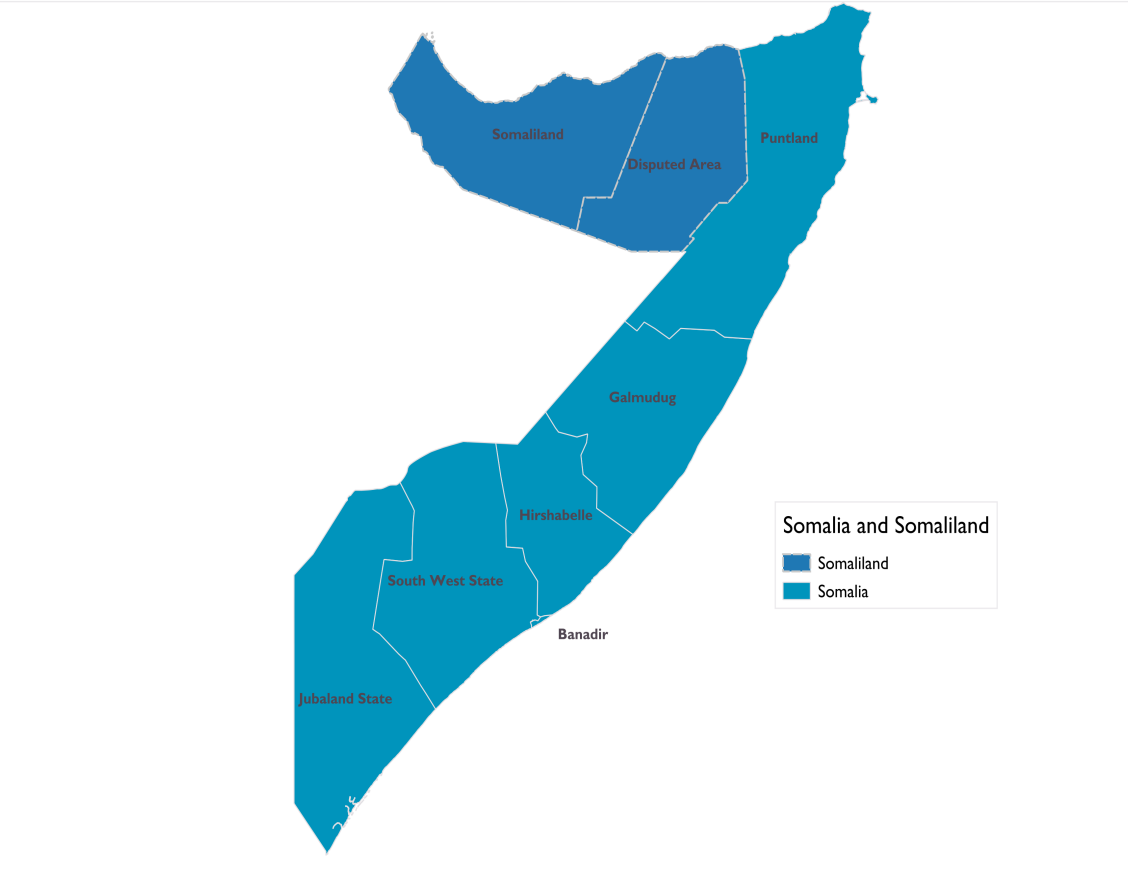


Figure 2: Map of Somalia and Somaliland



Chapter 1

Introduction

1.1 Rule, Revenue and Social Contracts

In February of 2021, I was speaking to Abdi[1]*, a young yet quite experienced Somali government official. As we discussed his work and that of the Ministry, the conversation drifted to the topic of taxation. Abdi pointed out how the government was unable to raise sufficient revenue to fund its most basic activities. Among the core challenges were the state's weak administrative capacity, its inability to deliver services and goods, and the problem of wide-scale insecurity. Considering the nature of the limitations, I enquired about the levels of tax compliance and taxpayers' incentives. Abdi acknowledged that compliance was low but countered that if the government improved its end of the bargain, taxpayers would be willing to uphold theirs – the relationship was fairly straightforward: "Tax is just what states do and what citizens pay to get specific returns from the state. It is all part of the original contract between states and societies."*[2]

Drawing primarily on the Anglo-European experience, much of the literature on taxation has progressed along similar lines – linking rule, revenue and social contracts. In particular, scholars like Schumpeter (1918), Tilly (1985; 1990), Levi (1988) and Bates and Lien (1985), have modelled taxes as part of the initial

[1]Name changed

[2]Interview with Government Official (National Communications Authority - Regulation), ID: 638286-638277-71891460, Date: 2021-02-12

contract for state formation.

Tilly (1985), for instance, describes how it was in 'the pursuit of war that power holders in Europe primarily became involved in extracting resources from the populations over which they had control' (Tilly, 1985, p. 172). To extract resources effectively, rulers invested in the administration and collection of taxes. Since the effective collection of taxes was costly and organisationally complex, investments had to be made not only in tax collection agencies but also in a host of supportive structures – police forces, courts, exchequers, and account keeping agencies (Tilly, 1985; Prichard, 2016). Over time such investments reinforced the project of 'state-making'[3] (Tilly, 1990; Bates, 2001; Tilly, 1985, p. 181).

For Bates and Lien (1985), while power holders' ability to maintain concentrated control over the means of violence was critical to extracting resources in the early stages, coercion could not secure compliance. Mobile asset-owning elites especially were able to evade taxation by threatening market defection (Bates and Lien, 1985; Tilly, 1990). To secure compliance, power holders had to bargain and share authority with these groups (Levi, 1988; Moore, 2004). Such iterated revenue bargains between power holders and taxpayers became the expression of the 'social contract', as imagined by enlightenment thinkers (Gatt and Owen, 2018; Bodea and LeBas, 2016).'Citizens submitted to the authority of majority rule and its associated institutions relinquished certain rights (such as total freedom and self-determination) and paid taxes in exchange for social order, protection of themselves and their property, and political representation'(Sheild Johansson, 2020a, p. 3).

Inspired by such perspectives, state-society relations in general and tax compliance, more specifically, have come to be understood in particular ways. In the first instance, state-society relations are considered to be *contractual*, i.e. they involve an agreement or an 'exchange of undertakings by which each party (state and taxpayers) acquires an obligation to act in a particular way and the right that his fellow contractors will also act in the same way' (Lessnoff, 1990, p. 4). Thus, state and societal relations rest on a binding agreement or an exchange of promises, and taxation functions as the material expression of this contract (Lessnoff, 1990; Makovicky and Smith, 2020; Martin et al., 2009; Gatt and Owen, 2018).

[3]More recently, Prichard (2016) has proposed that the connection between taxation and state-building can take two other forms: Demonstration effects: investments in modernising tax agencies can set new standards for other parts of the public service. Information sharing effects: Data gathered by tax agencies can be a critical input for supporting improved economic policy-making, targeting of services, and law enforcement, among others.

Second, the 'core logic of the social contract involves a *reciprocal relationship between states and citizens*' (Sheild Johansson, 2020a, p. 3). As Sheild Johansson (2020a, p. 3) puts it, 'while expectations of what is entailed in this supposed social contract have varied, the understanding is that public infrastructure, services, and the defence of some human and social rights are provided in return for submission to authority, and taxes paid' (Sheild Johansson, 2020a, p. 3). Taxes are paid in exchange for 'reciprocal returns from the state, and taxpayers, and state actors, therefore, have a unified understanding of the aim of taxes – the creation of an agreed-upon communal world' (Sheild Johansson, 2020a, p. 3).

A third and related assumption is how tax relationships further a 'closer relationship with the state' and reflect *a commitment to the state project* (Sheild Johansson, 2020b, p. 20). Such arguments follow from the philosophical conceptions of the 'social contract as a principal explanation for the justification and legitimacy of political authority' (Lessnoff, 1990, p. 3). For scholars of new fiscal sociology, taxation is the modern expression of this contract: 'as it defines the boundaries and obligations of a political community' (Martin et al., 2009; Hagmann and Stepputat, 2023). Citizens, therefore, demonstrate their commitment to the state and their society as a whole by paying taxes. In this sense, 'taxation is considered the effective pathway to building a collective and national society' (Makovicky and Smith, 2020, p. 6).

While widely regarded in the taxation literature, such accounts, referred to as social contractual or fiscal exchange arguments, offer little expository guidance for modelling tax relations in African countries (Tilly, 1985; Bodea and LeBas, 2016; Gatt and Owen, 2018). As Guyer (1992) and Fjeldstad and Therkildsen (2008) note, state formation and expansion under colonial rule did not involve state-society bargains as in Western Europe. Instead, the history of taxation in Africa was disrupted by colonialism and extensive international interference and was, therefore, more about 'oppression than political accountability or service provision' (Meagher, 2018, p. 3).

In the post-colonial period, as well, access to external aid and the reliance on alternative sources of revenue (e.g. natural resources) had the perverse effect of lowering the incentive for domestic taxation and the need for states to engage in bargains with local populations and be responsive to their interests (Moore, 2004; Tilly, 1985). Thus, as Tilly (1985, p. 169) cautioned, "the Third World of the twentieth century did not greatly resemble Europe of the 16th or 17th century. In no simple sense, then, could the future of Third

World countries be read from the past of European states".

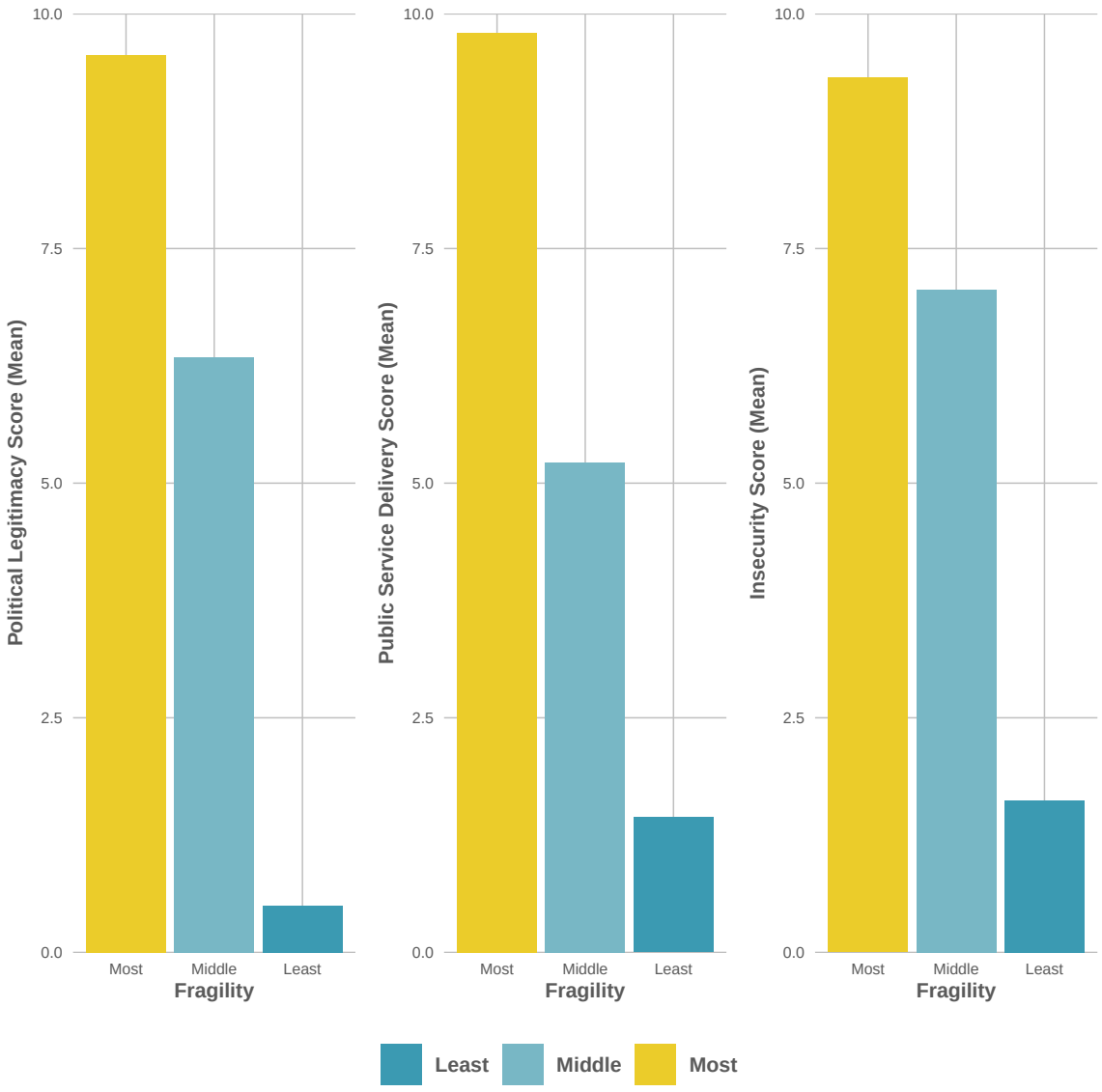
Despite Tilly's urging for different framings to be deployed in explaining the experience of Third World states, limited research has been undertaken to interrogate state-societal relations and the underlying motivations of taxpayers in such contexts (Gatt and Owen, 2018; Kangave et al., 2018; Nugent, 2010). The prevailing research has mainly focused on neo-patrimonial politics (Chabal and Daloz, 1999; Bayart, 2009), the reliance on natural resource rents (Moore, 2004; ROSS, 2004; Herb, 2005; Anderson, 1987) and dependence on external aid, to conclude why social contracts continue to be weak in African states (Eubank, 2012; Collier, 2009).

Commensurately, taxpayer compliance has largely been neglected as the emphasis has been on establishing and measuring the building blocks of effective tax administrations (Dom, 2018; OECD, 2019). Where studied, the focus has been on the compliance of individual taxpayers, with ideas about tax morale then extrapolated onto other groups, such as business elites, whose interests may operate very differently (Dom et al., 2022; OECD, 2019; Alm and McClellan, 2012). Thus, not only is it assumed that tax payments are rooted in a fiscal contract, but the specific terms of the contract are also thought to not differ across groups in society (Wilson and Rosenzweig, 2022).

Gaps within existing research are even more pronounced in the case of fragile contexts, where state capacity is weak and heavily contested (Börzel et al., 2018; Hagmann and Péclard, 2010; Hill, 2005). It is assumed that in such cases, given the 'vacuum of authority' (Rotberg, 2003, p. 9), social contractual perspectives have limited applicability, and there is little scope or need for adopting a different framing of fiscal relationships (Nugent, 2010; Cantens and Raballand, 2021). As Cantens and Raballand (2021, p. 9) argue, 'the common assumption that a modern taxation system relies on a social contract of taxes in exchange of services provided by the state, and a political process of negotiation between the rulers and the people, do not apply as readily to contexts of fragility', which are characterised by low levels of political legitimacy, state capacity and limited monopoly on the use of force (See Figure 1.1 below for further details).

In this thesis, I set out to address this specific lacuna in the existing research by interrogating fiscal relations in contexts of fragility. Specifically, *I ask what are the factors motivating tax compliance of one key set of actors – business elites*. In doing so, I depart from the extant literature and argue that this question merits

Figure 1.1: Mean Fragility Scores Countries Ranked Most-Least Fragile 2012-2021



consideration as it offers crucial insights into state-building processes and calls for rethinking the 'naturalisation of state-society relations' based on the Western experience (Sheild Johansson, 2020a). Moreover, it also provides some much-needed conceptual space to consider more fundamental questions of how power is distributed in a society, which set of actors and institutional forms exercise authority, and what is the role and significance of 'formal institutions of the state', especially for specific groups of societal actors (businesses and capital) (Khan, 2010; Migdal and Schlichte, 2016; Lund, 2016; Roitman, 2005).

I begin this introductory chapter by discussing emerging insights from research explicitly focused on issues of tax compliance issues. I point out that many of the conventional arguments do not help in understanding the motivations of taxpayers in contexts of fragility. In the following section, I build on this insight and demonstrate the limitations of the arguments, especially as they relate to the case of Somalia. I discuss how private sector actors in the telecommunication (Telecom) sector began paying the state a nominal amount in tax despite the challenges faced by the Somali government. Next, I lay out the central argument of my thesis and discuss the underlying motivations of the Telecom actors. I then draw on these insights and consider their implications for Somalia and broader theoretical debates on state-building and state-private sector relations.

1.2 Unpacking Tax Morale and Compliance

In this section, I review the literature on tax compliance and morale and take stock of the principal findings from the African context. I also pay particular attention to the research that discusses the tax morale of businesses and private sector actors.

Tax Compliance as a Function of Enforcement and Facilitation Capacity of States

Drawing on arguments proposed by Tilly (1985) and Olson (1993)[4] on the significance of rulers' monopoly over coercion, several scholars have demonstrated how taxpayers' willingness to pay taxes is conditioned

[4]Olson (1993) argues that states emerge in situations where either one person assumes a monopoly over violence or when power is shared because no one person can emerge as supreme. Olson, unlike Tilly, draws on public choice theory and neo-classical economics.

foremost by the enforcement capacity of states (Santschi, 2018; Dom, 2018; Fjeldstad and Semboja, 2001; Burgess and Stern, 1993).

Beginning with the earliest theorisations on the subject Allingham and Sandmo (1972), modelled tax compliance as a function of 'the tax rate, the probability of detection, and the penalty imposed conditional on the evasion being detected' (cited in (Luttmer and Singhal, 2014, p. 149). Since then, more contemporary research also suggests that compliance is higher when individuals perceive the expected cost of tax evasion to be greater than the cost of tax payment (Castro and Scartascini, 2015). Conversely, states that cannot detect defaulters owing to weak tax administration and enforcement capacities have lower levels of tax compliance (Burgess and Stern, 1993).

Building on such insights, proposals to improve compliance have included tools for monitoring taxpayers and expanding rule-based enforcement efforts to identify evasion and avoidance (Dom et al., 2022). Extensive reform efforts have also been directed at improving the performance of the tax administration and 'expanding audit capacity – while reducing opportunities for taxpayers to engage in tax evasion and avoidance' (Luttmer and Singhal, 2014; Dom, 2018, p. 17). In the African context, semi-autonomous revenue authorities have been created to improve the effectiveness and efficiency of the tax administration[5] (Dom, 2018).

Along with a stronger emphasis on detection and higher penalties, there has also been increasing recognition of how tax compliance is not only a function of 'deliberate evasion' but can result from taxpayer ignorance, an inability to pay or prohibitive transaction costs. Commensurately, in many African states, 'efforts have been directed towards simplifying the tax system, expanding transparency, promoting taxpayer education and creating new points of engagement between taxpayers and officials to increase understanding of tax obligations, and thus ease compliance' (Dom et al., 2022, p. 21).

Relatedly, there has also been an emphasis on the significance of investing in overall levels of economic growth and development to improve the effectiveness and efficiency of the tax administration (Martin et al., 2009; Bird, 2010). For scholars such as Musgrave and Peacock (1958), economic development is vital

[5] The underlying idea being that conventional ministries of finance, which are usually charged with revenue collection, tend to be less effective because they are overly political and dominated by bureaucrats rather than technocrats with expertise in revenue collection.

for expanding the revenue base and increasing the state's capacity for effective revenue mobilisation. 'As countries become richer, their increasing wealth generally is accompanied by the extensive development of the financial structure and increased dependence on formal and productive sectors of the economy' (Bird, 2010, p. 2). These developments make it easier for governments to track, measure, and tax growing income and wealth (Bird, 2010). Furthermore, economic growth is also associated with higher literacy rates, human resource capacities and technological innovation (Bruatigam, 2008). Together these factors are seen as critical for defining the quality of the tax administration and engendering more efficient processes for collecting and monitoring tax revenues.

Emerging evidence from the African context suggests that such interventions have had some impact and contributed towards higher tax compliance. Based on results of the African Barometer Survey, Fjeldstad et al. (2013), find that in Kenya and South Africa, an increase in the perceived difficulties of evading taxes improved the likelihood of compliance of individual taxpayers. In Ethiopia, Ali et al. (2015), based on a quantitative study, find that improvements in tax administration practices increased tax compliance of businesses. Similarly, some recent data from the continent suggests that tax morale may be linked to the perceived difficulty of the tax payment system (OECD, 2019). Drummond et al. (2012), using a panel estimation model covering states in Sub-Saharan Africa, find that economic development was significantly correlated with domestic revenue mobilisation.

While enforcement capacity is critical, contemporary researchers like Luttmer and Singhal (2014) find that tax compliance rates are often higher than the predicted risk of non-compliance. As such, 'there is a wide gap between the risk aversion that would guarantee the rates of tax compliance and the much lower levels of individual risk aversion observed in reality' (Frey and Torgler, 2007, p. 137). Moreover, as Levi (1988) argues, tax compliance tends to be quasi voluntary, as coercion can only go so far. The more 'monitoring and sanctioning the government has to undertake, the more costly coercion becomes' (Timmons, 2005, p. 535). Consequently, there has been an increasing emphasis on non-pecuniary drivers, or more voluntary motivations of compliance – termed 'tax morale' (Luttmer and Singhal, 2014; OECD, 2019; Dom et al., 2022).

Tax Morale as a Function of Reciprocal Returns from the State.

Among the most intuitive of the non-pecuniary drivers of tax compliance, which, as previously discussed, lies at the core of the fiscal contract, is the logic of reciprocity. Specifically, it relates to the idea that taxpayers are motivated to pay taxes if 'they see the tangible results of fiscal revenues put to work in their local environment' (Levi, 1988; Timmons, 2005; Makovicky and Smith, 2020, p. 5). As Levi (1988, p. 53) observes, to engender 'quasi voluntary' compliance, 'rulers must keep their side of the bargain, and the other constituents must uphold their end of the agreement'. Primarily, rulers must ensure the delivery of the valued collective goods since 'positive benefits increase the probability that taxpayers will comply voluntarily without direct coercion' (Fjeldstad and Semboja, 2001, p. 2061). For Fjeldstad and Semboja (2001), while taxpayers cannot always assess the exact value of what they receive from the government in return for taxes paid, they have a general impression and attitudes concerning their own and others' terms of trade with the government. Thus, taxes represent 'one side of a positive social contract', such that taxpayers are willing to pay taxes and uphold their end of the bargain as long as they receive material benefits and are broadly satisfied with the terms of trade with the government (Sheild Johansson, 2020a, p. 3).

Several studies have demonstrated how tax compliance relates to the reciprocal delivery of public goods and services. Based on qualitative fieldwork conducted in Lagos state, Nigeria, Gatt and Owen (2018, p. 1211), find that 'visible public services increased willingness to pay taxes'. Conversely, Fjeldstad and Semboja, in their study of Tanzanian taxpayers, find that tax resistance was correlated with the decline or absence of public services. Based on a large-scale field experiment on tax compliance in Rwanda, Mascagni, Nell and Monkam (2017) further find that the fiscal exchange was a potentially significant driver of compliance of firms when specific types of messaging were used (Emails and SMSs). In more fragile contexts, Dom et al. (2022) also conclude that citizens appreciate the connection between taxation and national development: 70% of respondents in the Democratic Republic of Congo (DRC) supported taxation to fund national development (Dom et al., 2022). More generally, studies conducted by the OECD (2019) across the continent suggest that improved service delivery drives tax morale.

Nevertheless, evidence remains mixed (Fjeldstad et al., 2013). Using survey data from across Nigeria, McCulloch, Moerenhout and Yang et al. (2021) find no correlation between citizens' experience with public

services and their attitude towards taxation. Bodea and Lebas (2016, p. 22) also caution that while individual tax morale can be associated with 'increased satisfaction with how the state administration has spent revenues', this relationship is also conditioned on taxpayer's perception of the availability of community-provided alternatives to state services (club goods). Using public opinion data from urban Nigeria, they find that taxpayers who used and depended on public services had higher levels of tax morale than those with greater access to club goods, which substituted for state provision (Bodea and LeBas, 2016).

Tax Morale as a Function of Structure and Quality of State Institutions.

Several theorists have argued that tax morale is not only contingent on the state's capacity to deliver goods and services but is also intimately linked to the structure and quality of state institutions (Prichard, 2015; Dom, 2018; Moore, 2004). Such arguments dovetail on the idea that there is a 'governance dividend' from taxation, i.e. the process of iterative tax bargains engenders greater accountability, responsiveness and political representation (Dom, 2018). 'On the one hand, a government reliant on tax revenue from citizens will face incentives to be responsive and accountable to those taxpayers to encourage "quasi-voluntary" tax compliance and minimise conflicts over taxation' (Prichard, 2015, p. 4). Citizens forced to pay taxes will 'similarly have a greater interest in how their money is spent' and will be more likely to actively demand public services and expanded representation and accountability from governments (Prichard, 2015). Consequently, if taxes are paid in exchange for representation and accountability of the state, then incentives to pay taxes will be higher in cases where state institutions are responsive, accountable and participatory.

Research in the field is quite varied, with some scholars focusing on the structure of state institutions and others emphasising the quality and trust level in public institutions. For instance, Boix (2001, p. 15) asserts that taxes are higher in democratic regimes versus autocratic regimes, where elections compel politicians to 'match the preferences of the enfranchised'. Similarly, Gerring, Thacker and Moreno (2008) propose that countries with centripetal institutions (those with incentives for voice rather than veto) are more likely to collect higher taxes. Everest-Phillip (2008) and Dom et al. (2022), however, argue that it is the quality of institutions – the capacity, legitimacy, fairness, equity, and accountability of the state, which together influence a citizen's tax morale, i.e. their willingness to pay taxes.

Levi and Sacks (2009) test such contentions and observe that in African countries, higher perceptions of government performance, administrative competence and procedural justice were associated with legitimating beliefs on tax compliance. Similarly, using a panel dataset of 47 African countries Dom (2018) finds that taxation was positively linked with levels of public accountability. D'arcy (2009), using data from the Afrobarometer surveys, also concludes that partiality or unfairness of African states towards specific ethnic groups lowered the probability of tax compliance. Alm and McClellan (2012) focus on the tax morale of firms across 34 countries and test for the effect of low levels of governance on firm compliance. They find that higher levels of corruption and a poorly functioning legal system were associated with lower tax morale.

Despite the mounting evidence, Moore et al. (2018) warn that although 'conflicts over taxation can spur broader governance gains, these connections are far from guaranteed' (Kao et al., 2021; Moore et al., 2018; Prichard, 2015, p. 3). The relationship between tax morale and the quality of governance is frequently indirect, long term and contingent on the specific features of the tax system, the types of taxpayers and the broader political and economic environment. For instance, where governments rely relatively heavily on taxes paid by the poor, they will tend to be responsive to the interests of these taxpayers (higher levels of social spending), compared to if they rely on the taxes paid by the rich (Timmons, 2005). Prichard (2015) highlights that in terms of the context and the broader environment, the link between taxation, accountability and responsiveness is likely to be stronger where governments face revenue pressure and are relatively open, and taxpayers can resist and mobilise for collective action.

Lastly, a few other scholars also point out that the link between tax morale, political accountability, and responsiveness tends to be conditioned by which groups care about gaining political representation and can assert their 'voice' (Kao et al., 2021). This work draws on insights of scholars like Bates and Lien (1985), who maintained that it was 'merchants and industrialists (in the Industrial Revolution)— not ordinary people – who were at the forefront of demands for representation in return for taxation' (Kao et al., 2021, p. 1). In particular, Kao et al. (2021) argue that businesses are more concerned with political representation and adept at asserting their voice. However, these groups tend to be more self-interested, and their underlying motivations need to be modelled quite differently from those of individual taxpayers (Dom et al., 2022).

Tax Morale as a Function of Social Influences and Peer Behaviour

Scholarship has also begun to investigate the role of additional factors not directly related to the functioning of state institutions (taxpayers' horizontal relationship with other taxpayers). In particular, the role of social influences and peer behaviour and how it affects individual tax compliance has been acknowledged (Fjeldstad et al., 2013). As Luttmer and Singhal (2014, p. 158) point out, 'individuals may wish to conform to the behaviour of others, such that peer compliance directly affects the individual's compliance'. Therefore, social relations may deter individuals from engaging in tax evasion for fear of the 'social sanctions imposed once discovered and revealed' (Fjeldstad et al., 2013, p. 4).

Testing for such effects in Tanzania, Fjeldstad and Semboja (2001) find that knowledge of the compliance behaviour of others influenced the taxpayer's perceived probability of detection. Similarly, surveys from Sierra Leone indicate that people were more willing to pay taxes when they perceived that others were paying (Prichard and Jibao, in Kangave et al. (2018). Additionally, emerging research in behavioural economics also finds taxpayers were more likely to comply if they perceived their peers were also complying (Frey and Torgler, 2007; Weber et al., 2014). However, Luttmer and Singhal (2014) and D'Arcy (2009) point out that despite the gaining interest in the influence of social effects and peer behaviours, the evidence base remains inconclusive and conditional on taxpayers' understanding of peer compliance, their valuation of compliance and the nature and depth of peer relations.

A review of the standard literature offers several approaches for conceiving tax morale. However, while quite appealing and plausible in the context of European states, these theories do not account for the experience of more fragile polities. The latter includes settings with low levels of legitimacy, accountability and trust in state institutions (Raballand and Knebelmann, 2021). The state is also able to offer limited returns. Hence, the capacity for fiscal exchange is weak (Cantens and Raballand, 2021; Cloutier et al., 2022; van den Boogaard and Santoro, 2021)[6]. Moreover, states lack enforcement capacity as the state's monopoly over coercion is contested (North et al., 2007). Thus, apart from a handful of studies (Dom, 2018; Weigel, 2020), there is very little research on modelling tax compliance in contexts of fragility.

[6] The role of peer effects also tends to be low as high levels of tax avoidance characterise such contexts.

Another aspect that stands out within the vast body of academic research is the focus on the compliance of individual taxpayers rather than businesses. For Dom et al. (2018), this is an important gap, as the compliance decisions of businesses may operate very differently from those of individual taxpayers. Unlike individual taxpayers, 'firms are likely to be concerned about fairness and equity not primarily owing to ethical reasons but due to concerns about their profitability, the predictability of the business environment and their competitive position' (Dom et al., 2022, p. 28). Alm and McClellan (2012) agree that there are differences but point out that there may also be overlaps in the compliance considerations of firms and individual taxpayers. However, both sets of scholars champion the need for more research to understand the tax compliance considerations of businesses and arrive at evidenced conclusions of how similar or different they are to those of individual taxpayers.

1.3 Case of Somalia

At first glance, Somalia presents an odd case for interrogating fiscal relations, especially of the state and business sectors. For much of its history, the country has been described as a stateless society where 'effective tax collection under a centralised authority has been a persistent challenge', especially from the more profitable sectors of the economy (Menkhaus, 2007a; Raballand and Knebelmann, 2021; van den Boogaard and Isak, 2021, p. 5). Yet, the events that unfolded after the collapse of the government (in 1991) merit consideration as they raise compelling questions on state-society relations and the nature of fiscal relationships in contexts of fragility.

In the years following the ouster of the Barre regime in 1991, the country plunged into a state of protracted conflict, which left in its wake a motley of formal and informal, overlapping systems of public order (Stremlau, 2018; Menkhaus, 2007a). While sections of the business class were deeply affected by the war, the absence of regulatory controls, and predatory and exploitative practices of the Barre regime, alongside the inflow of international aid, allowed some businesses to re-establish their activity (Mubarak, 1997). Business activities were also diversified during this period, and more advanced sectors like Telecom, banking and remittances emerged (Hagmann and Stepputat, 2016; Marchal, 1996; Hansen, 2007). Thus, paradoxically the period following the collapse of the state engendered private sector development and growth and

contributed to the emergence of what Little has dubbed as an "economy without a state"(Mubarak, 1997; Webersik, 2006; Little, 2003, p. 1).

The 'vanishing of "predatory" state institutions, which in many ways was a blessing for the domestic market' (Leeson, 2007; Mubarak, 1997, p.2030), however, did not guarantee market efficiency (Nenova, 2004). Somali businesses continued to pay hefty rents to warlords for their protection, and "monopolies, coordination failures, and limited investments in public goods provisioning precluded efficient market outcomes" (Nenova, 2004, p. 1) Nonetheless, in the proceeding years, the continued development of sections of the domestic private sector raised questions of whether and to what extent the powerful business groups viewed a functioning central government as 'pivotal for their business' (Cassanelli, 2010, p. 43).

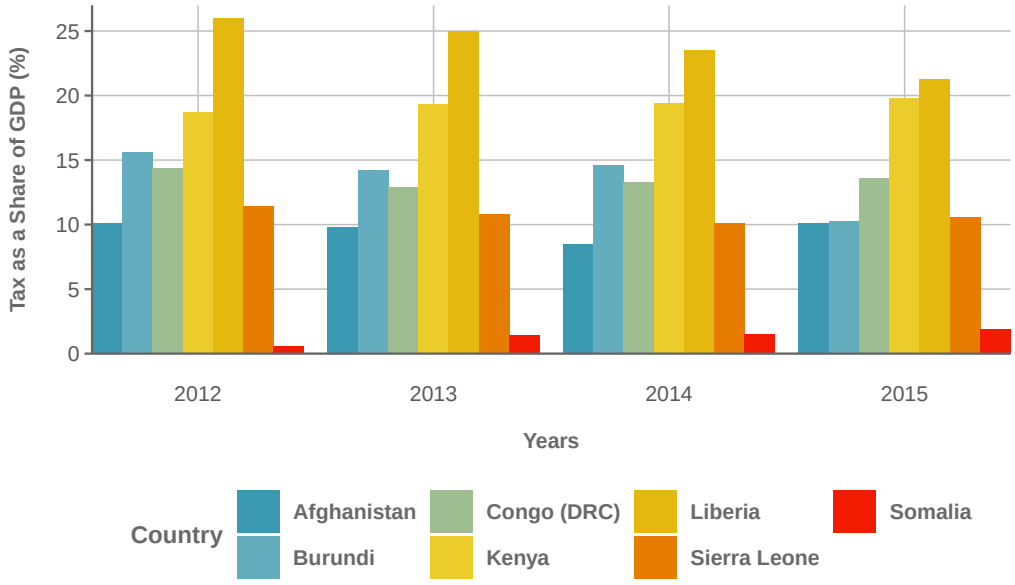
In 2012, following a series of transitional governments, Somalia established its first permanent government (Bryden, 2013). Although ushered in with great fanfare and hope, the Federal Government of Somali (FGS) had among the lowest tax to Gross Domestic Product (GDP) ratio of any country (See Figure 1.2) and struggled to rebuild its capacity (Abshir et al., 2019). The government's authority was also limited to the capital. Even within Mogadishu city, the FGS relied on African Union Mission in Somalia (AMISOM)[7] forces for (its own) security as the al-Shabaab (AS) insurgency proved resilient (Menkhaus, 2017; Bryden, 2013; Hammond, 2013).

The FGS also faced continuing disagreements and conflicts with the governments of the six Federal Member States (FMS) on revenue collection and was effectively reliant on taxes from the capital region (Bryden, 2013). The governance space was further contested by the presence of religious and clan-based institutions, which provided a range of essential public goods and services and engaged in various forms of contributory collections. Under both President Hassan Sheikh and Abdullahi Mohamed "Farmajo", the FGS was racked with several corruption scandals, which were only made more glaring given the limited delivery of basic public goods and services (UN, 2015; World Bank, 2017; Pape, 2017). Somalia, for instance, was ranked among the most fragile states (Fragile, Conflict, or Violence-affected States (FCVs)) (See Figure 1.3) (Fund for Peace, 2021).

Despite the considerable limitations of the FGS, the Telecom sector – one of the most profitable – began

[7] Now called African Transition Mission in Somalia (ATMIS).

Figure 1.2: Tax as a Share of GDP Country Comparison (2012-2015)



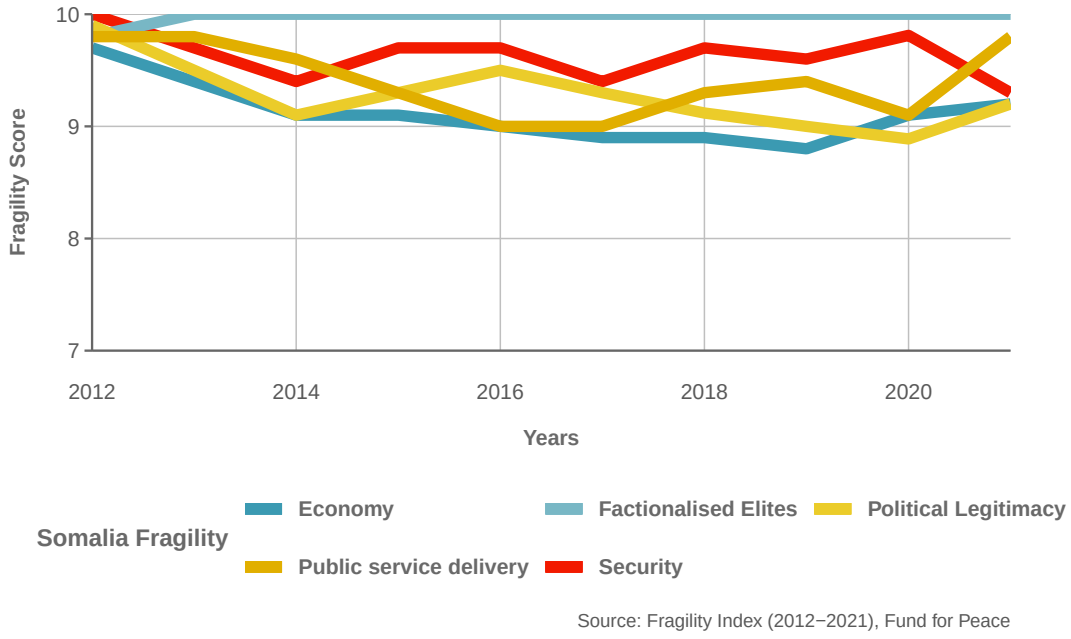
Source:World Bank (2018)

making tax payments (Raballand and Knebelmann, 2021; World Bank, 2017; Lange, 2015). In 2017, the FGS also successfully passed the National Communications Law (2017), which established the legal regulatory and institutional framework for the country's thriving Telecoms sector (FGC, 2017; FGS, 2017). Consequently, the sector's tax contributions increased from US$ 3.9 million (2014) to US$ 42.8 million (2021)[8](Kelly et al., 2021; Abshir et al., 2019).

While some of the taxes paid were still low and paid on a negotiated basis[9], other types of taxes, such as license fee payments, were standardised (Kelly et al., 2021; Abshir et al., 2019). Nevertheless, the overall motivations of the sector were less evident. Specifically, it was unclear why an industry that had emerged as one of the dominant players would pay taxes to a state with limited enforcement capacity, unable to

[8] An increase of 997%.
[9] Rather than assessed on actual revenue earnings (Kelly et al., 2021).

Figure 1.3: Somalia Fragility Scores 2012-2021



Source: Fragility Index (2012–2021), Fund for Peace

deliver even basic public goods, like security and law and order. Moreover, a second question remained whether tax payments affected how the sector came to understand and invest in state institutions. Mainly, did the sector believe that some level of state capacity was 'pivotal for their business' (Cassanelli, 2010, p. 43)? Focusing on prominent domestic players like the Telecom sector also prompted questions on the tax morale of firms and whether a strengthened state apparatus with some revenue capacity was ultimately in the interest of large capital. Did the Somali case, therefore, present lessons for the emergence of 'development bargains' or long-term growth focused partnerships between the state and large capital? (Dercon, 2022) Or was there the possibility for a more nuanced relationship between the state and capital that could be gleaned from the fiscal relations of these actors?

1.4 Central Argument

In reflecting on these questions, my main argument is that multiple and often contending rationalities govern tax morale. Specifically, the Somali case demonstrates how tax morale is deeply embedded in political settlement dynamics and is a product of elite bargaining arrangements. In particular, as Menkhaus (2018) and de Waal et al. (2020) describe; the Somali political settlement could be best described as a limited access order where elites with the potential for violence compromised and supported a fragile state on the condition that they may be entitled to specific returns or rents (Menkhaus, 2018). Within this elite division of spoils, Telecom operators were an important elite group who resisted the enforcement of a rules-based tax system because it would limit their opportunities for 'rent-seeking' (Di John, 2011). Consequently, even as they began to contribute more tax, the underlying motivation was to secure continued access to economic rents. Taxes were paid at low and negotiated rates to ensure that rents and income flows of the sector did not reduce (Di John, 2011). In particular, corporate taxes were paid on a negotiated basis (rather than on a rule-based basis) and were part of a rent-sharing agreement or a 'deal' for preserving some modicum of stability and order (van den Boogaard and Isak, 2021).

Even as the sector resisted a rules-based system when it came to corporate payments, there was a willingness to make other types of tax payments and engage with the state in passing key sector-specific regulations. The motivations governing the tax morale of the sector in this case, as I argue, were driven by the broader structural relationship between the interests of state and capital (van Apeldoorn et al., 2012; van Apeldoorn and de Graaff, 2022). Notably, as the sector transformed, becoming more decentralised, technologically advanced and internationalised, there were specific 'returns' that the sector required from state (Hagmann and Stepputat, 2016; Webersik et al., 2018; Hansen, 2013). The types of returns included collectively desired goods and services, namely, a regulatory environment, infrastructure investments and some security provisioning. Moreover, the state could also offer legitimacy and recognition to Telecom operators, which was necessary to reduce the sector's isolation from global financial markets and improve their prospects for securing lucrative government and international contracts. Additionally, reinforcing the image of a state apparatus was crucial for the sector, which wanted to be part of the broader community of states that could support and defend the interests of capital. In exchange for such returns, which the state was able to

provide by leveraging its symbolic capital and offering a few related material goods, prominent players were willing to pay certain taxes. However, the terms of the exchange were less stable and far from 'reciprocal'.

Despite the increasing relevance of the Somali state, it was one institution among many. Given the contested governance terrain and the multiplicity of tax collection authorities, the tax morale underpinning formal taxes was also influenced by the role and significance of these other institutions and norms. In the Somali case, these institutions, which were embedded in the moral economy, set limits to the processes of capitalist accumulation, mediated perceptions of state authority, and influenced conceptions of formal taxation. For instance, to some degree, clan and kinship registers were mobilised by private sector actors to justify their tax contributions. Taxes were thereby seen within the broader universe of payments that Telecom operators needed to pay to fulfil their responsibilities towards their clan communities and their faith. Operators were also encouraged to make payments to maintain and uphold their corporate reputation. These actors wanted to be seen as players who adhered to prevailing social norms of reciprocity, fairness and interdependence embedded in the moral economy and subscribed to local forms of economic justice. Thus, tax incentives were shaped by the leakages of meaning that drew on various institutional sources, both formal and informal.

1.5 Theoretical Contributions

These arguments suggest the significance of considering tax motivations beyond the social contractual and fiscal exchange paradigms of state–societal relations. In particular, taxpayers tend to understand their fiscal relationship to the state beyond explicitly contractual terms. Indeed, as observed in the Somali case, informal institutions influence taxpayers' understanding of formal taxes. In such instances, *fiscal relations can be understood beyond the framing of an 'exchange' or a contract* – where everything owed has to be paid back; instead, formal tax payments are considered an obligation to the larger communal world (Makovicky and Smith, 2020; Campos, 2016; Graeber, 2011). Moreover, even when fiscal relations based on the logic of exchange are observed, in place of 'one large exchange between the state and citizens, various returns and arrangements inhabit tax exchanges'. The terms of the exchange thereby are not as *reciprocal nor stable* as predicted by social contractual perspectives(Lund, 2016; Sheild Johansson, 2020b, p. 33). Lastly, fiscal

relations can be part of an elite bargain to maintain a modicum of political stability, however fragile. Consequently, *tax payments need not reflect a clear commitment to the state project*. Instead, taxes are paid as part of a 'deal' between elites to ensure privileged access to economic rents (Khan, 2010; Menkhaus, 2018). It is, therefore, critical to study the underlying distribution of power in society to unpack the nature of revenue bargaining arrangements.

Thus, while contractual approaches can serve as what Burnyeat and Sheild Johansson (2022, p. 224) describe as an 'interpretative resource' and have valuable currency. Especially as such perspectives underscore how the legitimacy and accountability of state institutions influence tax morale, such perspectives should not be considered to be the natural and 'ideal basis for conceiving tax relations' (Makovicky and Smith, 2020; Sheild Johansson, 2020b, p. 24). Rather, social contractual perspectives need to be considered as 'just one story: a travelling idea, albeit persistent and far-reaching, yet disconnected from the ethnographic experience and lacking in explanatory power' (Sheild Johansson, 2020a, p. 3). In embracing such an understanding, there is also more conceptual room to study tax relations within the broader African context. These are contexts where taxes have not always been one part of the 'positive social contract' with the state but where alternative conceptions of state-societal relations continue to emerge (Nugent, 2010; Guyer, 1992; Robinson, 2023; Sheild Johansson, 2020a, p. 3).

However, in unpacking the tax relations between the Telecom sector and the state in such ways, I also attempt to make three further contributions. First is how an appreciation of the state beyond Weberian state conceptions can be productive not just for understanding tax relationships but also unpacking the basis of political order and governance (Hagmann and Péclard, 2010; Migdal and Schlichte, 2016; Lund, 2006). As the Somali case demonstrates, the state need not always have a monopoly over the control over violence. Instead, as North et al. (2007) argue in fragile contexts, it is imperative to study how elites, who control a disproportionate amount of power, wealth and access to violence, are incentivised to cooperate and preserve some modicum of order. Bargains around the sharing of taxes can provide a glue to hold together fragile coalitions between elites. Additionally, the state is not a coherent entity; rather, there are ideas and practices which together shape the power of the state. Moreover, as Migdal and Schlichte (2016) have pointed out, the image of the state as a 'dominant, integrated, autonomous entity that controls all rule-making in a territory' can be reinforced even when the material manifestations and actual practices

of the state are known to be weak, as in most instances of fragility (Migdal and Schlichte, 2016, p.16-17). Thus, it is important to study how ideas and practices constitute the state to grasp the basis of tax relations and the maintenance of public order more broadly.

The notion that the state is an autonomous entity external to society also needs to be questioned as a wide range of actors and institutions deliver public services and exercise public authority (Lund, 2006; Bierschenk and de Sardan, 2014; Hagmann and Péclard, 2010; Migdal and Schlichte, 2016, p.4). Thus it is "difficult to ascribe exercised authority to the 'state' as an integrated institution. Instead, public authority becomes the amalgamated result of the exercise of power by various institutions – state, non-state, domestic and external – conjugated with the idea of a state" (Lund, 2006, p. 686). While such institutions can often compete with the state, in several instances, as in the Somali case, they can reconfirm the state's authority and legitimate the state's right to tax (Owen, 2018; Boege et al., 2008; Prichard, 2010; Lund, 2006).

A second and important contribution is to the political settlement literature. In combining international political economy perspectives and hybrid order arguments, this thesis also offers some insights for considering the sources of tension in the distribution of power in Somalia. Specifically, it demonstrates that although the political settlement in Somalia continued to be characterised as a 'limited access order', there were two potential sources of tension. The first emerged from the growing nexus between the state and the sector, which emerged following the transformation of the Telecom industry. As a consequence, there was a concern over whether the status quo of 'preserving only the 'illusion of statehood' rather than investing in state institutions would continue to be a tenable option (in the future). The nature of fiscal exchange relations that emerged reflected this dynamic. The second source of tension stemmed from the role of informal institutions and norms (hybrid arguments). The desire to be seen as actors who were not predatory but compliant with social norms, kinship ties, and religious commitments meant that sector elites were increasingly concerned about the reputational effects of not complying with informal and formal taxes. Thus, the hybrid nature of emerging tax arrangements was partly due to the sector's interest in contributing in some measure to the overall stability of Somali society. The nature of fiscal relations also revealed that these sources of tension were still emergent and that a shift in the dynamics was not yet evident.

Lastly, by considering the tax morale of one prominent private actor, the thesis lends insight into specific

debates on state-building, which have vexed Somali scholars (Menkhaus, 2007a; Hagmann and Stepputat, 2016; Hagmann, 2016) and animated discussions within the developmental literature (Evans, 1995; Kohli, 2004; Dercon, 2022). Notably, the question was what fiscal relations revealed about the sector's commitment to the state project. Unlike predictions made by social contractual perspectives, tax payments did not result in a clear commitment to the state project in the Somali case. Instead, as I demonstrate, even as they were willing to pay some taxes, the sector eschewed the movement towards a rules-based taxation system. These dynamics reveal that although the sector had come to increasingly view the state as relevant, mainly for reasons of profitability and productivity, and was willing to pay certain taxes and strengthen the state's extractive capacity, the sector's commitment to long-term institutional development was less clear.

The sector's limited commitment to long-term institution building was related to the particular pattern of sectoral development. The sector developed and thrived not just in the absence of but because of conditions of acute fragility and the lack of adequate regulatory standards (Iazzolino and Stremlau, 2023). Without more open (or less exclusive) regulations, these actors engaged in monopolistic and anti-competitive practices and emerged as one of the most powerful groups in the country. As a result, these actors were interested in protecting their narrow and parochial interests. They were less concerned with ensuring the institution of less exclusive 'open' arrangements that would be growth-producing (Sam et al., 2014; Pritchett et al., 2017, p. 28).

Consequently, the commitment of such critical elite groups was not oriented towards a development-focused agenda, which was crucial for growth. As development scholars like Evans (1995), Moore (2010) and Dercon (2022, p. 41) have argued – the experience of developing states suggests that growth is most likely achieved when both state and private sector elites are committed to and willing to 'gamble on development' and there is a common understanding of the need for less exclusive institutionalised arrangements. Thus, in the Somali case, a 'developmental bargain' between Somali elites, which was growth-focused but also relied on the capabilities of the state, remained elusive (Dercon, 2022).

1.6 Thesis Structure

- **Chapter 2: Methodology.** The chapter explicates the approach adopted for data collection and analysis. It begins with a review of the objective of the research and the methodology used to interrogate the specific research question. Next, the justification for adopting a primarily qualitative approach using a process-tracing analytical framework is presented. The subsequent two sections discuss the data collection strategy and the approach adopted for data analysis. Specifically, the latter section outlines the epistemological foundations of the process tracing method and how it differs from "variance-based" approaches. Following this, the ontological assumptions are presented. Section four of the Chapter discusses the ethics guiding the research. The concluding section summarises the principal methodological limitations of the study and the measures adopted to mitigate their impact.

- **Chapter 3: Theorising Tax Relations in Fragile Contexts.** This chapter examines the theoretical underpinnings of the research and presents the main hypotheses that guide the analytical investigation. The first section outlines the limitations of more 'conventional' taxation theories. In the following section, an argument is made for drawing on the fragile state literature. The succeeding sections discuss three alternate perspectives – *political settlement and elite bargain perspectives*, *political authority and exchange–based arguments*, and *hybrid arrangements and norms based perspectives*. In the discussion of each perspective, the specific factors or mechanisms emerging from the literature that could explain the main characteristics of tax relations in Somalia are outlined. The chapter concludes with the insight that all three perspectives provide considerable conceptual space to interrogate tax relations between the private sector and the Federal Government of Somalia.

- **Chapter 4: Fiscal History of the Somali State.** The chapter traces the fiscal history of state and private-sector tax relations. It begins with an outline of the experience of centralised institutions and tax relations in the pre-colonial period. The following two sections discuss the transformations of the state-society relations under colonialism and in the civilian era. Specifically, how tax extraction persisted at the interface of the 'gate' and the role that such factors played in engendering the pattern of patronage-based politics which benefited specific businesses. Section five reviews how

the Siad Barre regime continued in the tradition of the civilian government and failed to establish any broad-based revenue bargaining agreement. Following this, the country's descent into a state of protracted conflict and statelessness is considered from the perspective of the relations between different political authorities that emerged to maintain some semblance of order and the class of private sector actors who survived during this period. The chapter concludes with the observation that at the end of the transitional period, the governance context was fairly crowded and formal institutions were among the many competing state projects.

- **Chapter 5: The Return of the 'State': Fiscal Relations in the Post–Transitional Era.** Chapter Five explores whether the newly constituted Somali government was able to raise revenue from the more profitable sectors of the economy. To unpack this question, the chapter reviews the key developments in the constitution of the post-transitional government. It relates such changes to the transformations in the evolution of the private sector. The discussion primarily centres around how such changes impacted the revenue mobilisation capacity of the state. Ultimately, the chapter demonstrates that the Somali state remained weak, lacked legitimacy and enforcement capacity and could not deliver even the most basic public goods and services. Despite these limitations, a set of private sector actors began to pay a nominal tax. At the end of the chapter, the question is posed why the private sector agreed to pay taxes to the FGS, given its limited capacity and authority.

- **Chapter 6: Mavericks or Monopolists: Tracing the Rise of the Telecom Sector in Somalia.** This chapter discusses how the FGS engaged the Telecom industry despite asymmetries and the challenges of domestic revenue mobilisation. In answering why this was the case, the chapter interrogates whether the increases in tax contributions offered some understanding of how the Telecom sector more generally came to relate to state-building processes in the country. Principally, whether the sector considered the success of formal institutions as pivotal to carrying out its business. In doing so, the chapter takes stock of the emergence and evolution of the Telecom sector. Specifically, it details the challenges encountered during the initial years and examines the adaptation strategies employed. The following section traces the sector's evolution. It highlights that although the sector's adaptation strategies were sufficient in the short term, they proved less resilient over time. Nonetheless, the greater concentration and reduced competition within the industry made it challenging to

arrive at a clear conclusion about the sector's ambivalence or support of the 'state project', especially if support for the state meant more regulation and curtailed the monopoly position of these actors. Nevertheless, the chapter finds that the story of the Telecom industry in Somalia questioned, to some degree, the assumption that the sector had evolved to a place where it could completely disengage from the (formal) state project.

- **Chapter 7: Stable Instability: Political Settlement and Elite Bargain Perspectives.** This chapter attempts to answer whether the sector's reduced ambivalence towards formal institutions had a bearing on its tax morale. The chapter begins by presenting some of the salient features of the Somali political settlement. Section two engages with the elite groups that supported and undermined the fragile settlement. Following this, the chapter interrogates the specific structural, institutional, and agency-level mechanisms that contributed to low and negotiated taxes. In the concluding section, the evidence proposed by political settlement and elite bargain perspectives is weighed. It is argued that although such perspectives proffered persuasive reasoning 'necessary' for observing 'low and negotiated tax payments', such explanations were not entirely 'sufficient' and were less attentive to the growth and evolution of the Telecom sector and how such dynamics shaped the sector's relationship with state institutions.

- **Chapter 8: Nexus of State and Capital: Exchange Arguments.** This chapter queries the broader relationship between the state and capital. It assesses if such perspectives offered lessons for the Somali case. In doing so, the chapter begins with an overview of state and capital dynamics to foreground the discussion on Somalia's state and private sector relations. It interrogates some of the concerns raised in the previous chapters on the limitations of political settlement perspectives. In section two, these insights are related to exchange-based arguments, which re-conceptualise social contract perspectives and contend that taxes could be paid for collectively desired returns even in contexts of weak state capacity. In reviewing the evidence, the chapter concludes with the insight that despite the limitations of the Somali government, there continued to be certain returns that the state could offer the sector in exchange for which prominent players were willing to pay a certain amount in taxes. However, even as the state was in certain respects relevant for capital, the competitiveness of the governance arena suggested that informal institutions and norms were also

prevalent and offered legitimating rubrics.

- **Chapter 9: Embedded Elites: Role of Informal Norms and Institutions.** The chapter investigates the role of informal norms and institutions in explaining the sector's willingness to pay taxes to a state that was known to be weak. Section one recapitulates some theoretical debates on the role and significance of informal institutions and norms and the varying ways these institutions were found to strengthen the state's revenue capacity. The following section interrogates the role that these groups and institutions, more specifically, played in encouraging tax compliance of actors in the Telecom sector. In particular, the chapter focuses on the role of clan and religious institutions and informal norms. The chapter concludes that informal norms of community embeddedness, reciprocity, and fairness, influenced corporate reputation and emerged as more likely explanations of tax morale than clan and religious registers. Based on such insights, an argument is made for extending conceptions of tax morale beyond contractarian understandings.

- **Chapter 10: Conclusion.** The concluding chapter weighs the evidence supporting each perspective and reconciles them to outline the broader story emerging from this thesis. The chapter begins with a brief review of the tax relations between the Federal Government and the Telecom sector. The discussion centres around the research findings to explain the sector's tax morale. An argument is made for acknowledging the 'multiple rationalities inhabiting tax relationships'(2020b, p. 34). Specifically, it is proposed that such an approach is essential for meeting the test of 'necessity and sufficiency' and for being attentive to the possibility of the layered rationale that governs tax morale in fragile contexts. The implications of these findings and what they reveal about political settlement dynamics, state-building trajectories and state-society relationships are discussed next. Lastly, drawing on the principal findings, a few policy lessons are also suggested.

Chapter 2

Methodology

2.1 Introduction

To study the evolving fiscal relations between the Telecom players and the Somali federal state, I adopted a qualitative methodological approach using a process-tracing analytical framework. In the following sections, I provide further details of the methodology, data collection strategy, and the analysis process. I also discuss the steps taken to mitigate the difficulties presented by the context's insecurity and fragility and the fieldwork challenges following the declaration of the COVID-19 pandemic (2020). Following this, I briefly lay out the ontological assumptions underpinning the research. Section four of the Chapter clarifies the ethics guiding the research. Lastly, I summarise some methodological limitations of the study and the measures adopted to moderate their impact.

2.2 Research Question

As discussed in the previous chapter 1, taking cognisance of the evolving state-private sector dynamics, this thesis investigates the nature of fiscal relations between Telecom actors and the Somali federal state. More specifically, the question I posed was what were the factors influencing the sector's tax morale, i.e. why was the Telecom sector willing to pay and comply with formal taxes? However, accounting for the nature

of the tax relationship described earlier (see chapter 1), interrogating the tax morale of the Telecom sector raised three interrelated questions:

a) *Why was the sector willing to pay some taxes and fees (even as it avoided others)?*

b) *Why did the payment of certain taxes remain low and negotiated?*

c) *How did the sector fundamentally conceive of formal taxes, and what framings and references informed such conceptions?*

I began by reviewing the theoretical body of work on tax in fragile contexts. Based on the review, three sets of explanations, which conceived of tax relations through distinct framings and emphasised differing motivations of the Telecom sector, were found to be most pertinent. In particular, I tested the applicability of the following sets of explanations:

a) Hypothesis 1: *Tax as a Deal*; Telecom actors were motivated to pay taxes but at low and negotiated rates because tax payments were structured as an elite-level compromise to capture and control privileged access to (economic) rents.

b) Hypothesis 2: *Tax as an exchange*; Telecom actors were motivated to pay certain types of taxes in exchange for collective goods and returns that 'the state' could principally offer large capital – security, public goods, regulations, recognition and legitimacy. However, the terms of the contract were not as stable or reciprocal as conceived by social-contract perspectives.

c) Hypothesis 3: *Tax as an obligation*; Telecom actors were motivated to pay taxes by informal norms and institutions that were intertwined with the state in hybrid arrangements, which not only assisted in tax collection but also influenced and legitimated the state's right to tax.

Before proceeding further, it is essential to discuss a few definitional issues. To begin with, I employed Sheild Johansson's (2020a, p. 1) definition of *formal taxes* as 'the legally legitimated means by which wealth is transferred from individuals and businesses to governments, and then on to targeted areas of public expenditure, such as education and health, infrastructure, and defence'. Based on this definition,

I distinguished *informal taxes* 'as payments that involve non-market transfers of wealth from individuals and businesses, but which are not required or defined by state law and enforced outside of the state legal system' (van den Boogaard and Santoro, 2021, p. 7). Thus, while both state and non-state actors may levy taxes, 'what distinguishes formal taxes from informal payments is whether the taxes have a legal basis and the funds raised are included in the formal public budget' (van den Boogaard and Santoro, 2021, p. 7).

Employing the above definition of formal taxes, I considered both direct and indirect sources of taxation. *Direct taxes* refer to taxes collected directly from a person and business (i.e. they cannot be transferred). In contrast, *Indirect taxes* include sales taxes, license fees and trade taxes, which are collected on transactions and can be shifted from one taxpayer to another (Sheild Johansson, 2020a). Beyond these broad categories, I relied on the tax classification system and the charter of accounts[1] used by the Ministry of Finance and employed in its budget statements (Federal Government of Somalia, 2020; Raballand and Knebelmann, 2021; Federal Government of Somalia, 2022).

Next, I defined *tax morale* as a broad term that captures 'a set of underlying motivations for tax compliance', i.e. what motivates taxpayers to participate in and comply with the tax system (OECD, 2019; Kangave et al., 2018; Luttmer and Singhal, 2014, p. 155). In doing so, I subscribed to definitions proposed by Dom et al. (2022) and Luttmer and Singhal (2014), who define tax morale as all the factors other than enforcement that may drive levels of tax compliance. As previously discussed (see chapter 1), enforcement capacity and the taxpayer's risk aversion to evade do not fully account for tax compliance. There is consequently a need for a broader understanding of the motivations underpinning individual willingness to pay and comply with taxes (Alm and McClellan, 2012; Torgler, 2002). Employing this lens, I engaged with the question of 'why Telecom actors paid taxes' rather than restricting the focus to 'why they did not evade taxes' (Torgler, 2002). Further, given the complexity of tax relationships in the Somali context, the issue of individual willingness also drew attention to why the sector elites were willing to pay certain types of taxes, even as they evaded others. Thus, attentiveness to questions of tax morale offered the conceptual space necessary to investigate the more complicated aspects of the state-Telecom sector dynamics.

Lastly, I interrogated these questions within a *specific time frame – 2012-2021*. My research sought to ex-

[1]The charter of accounts provides a coding structure for the classification and recording of relevant financial information (both flows and stocks) within the financial management and reporting system.

plain the fiscal relationships between the state and the sector in the post-transitional era, which covered the presidency of Hassan Sheikh Mohamud (2012-16) and Abdullahi Mohamed "Farmajo" (2017-2021)[2]. The research question motivated the reasons for selecting this time period – fiscal relationships emerged primarily in the post-transitional era when the first government was formally elected. Prior to this, while private sector actors supported transitional governments (See chapter 4), there was no specific legal basis for such transfers (mostly ad-hoc). Further, even while crucial fiscal laws and regulations remained pending during the post-transition era, updated legal provisions were introduced to establish the Telecom sector's tax liabilities.

2.3 Methodology

I adopted a qualitative approach using a process-tracing analytical framework to test the above statements. A few critical considerations guided my preference for a qualitative methodological design. First, owing to the limited research on tax relations in the Somali context, I was interested in exploring three different sets of hypothesis statements. As such, the approach followed involved 'tracing multiple causes of a particular effect (causes of effects) rather than evaluating the effect of a specific 'cause' across a population of cases' (Gerring, 2010; Illari, 2011; Mahoney and Goertz, 2006, p. 230). The former approach to causality is more suited to a qualitative design, while the latter aligns with a quantitative approach (Bennett and Elman, 2006).

Second, my concern was to evaluate the particularities of the Somali experience and explain a specific outcome (Mahoney and Goertz, 2006). Consequently, I was focused on identifying and assessing the contingent mechanisms underpinning the sector's tax morale (Goertz and Mahoney, 2012a; Mahoney and Goertz, 2006). Thus, unlike large-N quantitative methods, which typically adopt cross-case analysis to estimate causal effects net of all other influences, the objective of my study was to evaluate a specific case (within-case analysis) and make theoretical contributions which could be applied more widely (Goertz and Mahoney, 2012a).

[2]President Farmajo's term was supposed to have ended by 2020, yet he continued to hold office till 2021. A discussion of the events that led up to the delayed elections and Farmajo's attempt to stay in power is included in Chapter chapter 7.

Relatedly, the Somali context was selected primarily because it represented a 'positive' or definite case of the specific outcome of the interest – the sector's willingness to pay certain types of taxes. The emphasis was not to look at the full spectrum of fragile states where such relationships may not exist, as is common with large n-designs, but to examine more closely the factors that explained the Somali case (Goertz and Mahoney, 2012a).

Apart from the conceptual considerations for adopting a qualitative design, there were also two practical reasons why I did not select a mixed-method design involving quantitative data collection. First, owing to the years of instability and conflict, Somalia's statistical infrastructure was considerably compromised, and there existed a low repository of reliable statistical data (Pape, 2017). Even in the post-transitional era, the federal government had not played a very active role in producing publicly available knowledge and 'most local universities established after the war did not have functional research centres and rarely commissioned academic studies' (Wasuge et al., 2021, p. 1). Consequently, quantitative analysis based on secondary data would have been quite challenging. Implementing primary-level data collection was also difficult, given the insecurity of the context. During fieldwork and data collection (2020-22), Somalia was ranked among the top five countries most affected by terrorism and conflict (Institute for Economics and Peace, 2019, 2020, 2022). The prospect for primary data collection became even more formidable following the Covid-19 Pandemic when international travel was severely restricted.

2.3.1 Data Collection Strategy

The strategy for qualitative data collection initially included face-to-face qualitative interviews and secondary data collation. After the declaration of the COVID-19 Pandemic (2020), the primary data collection strategy was modified, and a multi-sited approach was followed.

During the first year of the Pandemic (2020), when most countries had closed their borders, and within-country travel was highly restricted, I conducted most of my interviews online on Microsoft Teams[3]. To identify participants, I developed an initial sampling frame of key actors in the Telecom sector, the federal government and representatives from international and national development organisations. Once I had

[3]The University's preferred platform.

a relatively sizeable list, I contacted the participants through email and WhatsApp. Mindful that levels of access and comfort with online-based communication mediums were quite varied, especially in the case of government and private sector officials; I began interviewing representatives of international development organisations and researchers within national organisations. Focusing on this set of respondents was helpful because they were able to provide contextual information on the state-building process and the dynamics of private sector development. Moreover, they also recommended and introduced me to their contacts, and I was able to identify additional participants through the snowball method[4].

At this stage, I also spoke with Information and Communications Technology (ICT) experts to gain a deeper understanding of the Telecom sector. These insights were extremely useful when interviewing sector representatives who were hesitant to speak about fiscal matters but were quite open to discussing technical issues related to sectoral advancement and progress. With this group of respondents, I broached political revenue and tax-related questions at a later stage when some level of rapport had been built. Given the growing scrutiny of the Telecom operators following the implementation of the National Communications Act, I avoided any questions related to market share and profit margins as a general rule. Observing such sensitivities helped to engender comfort and encouraged respondents to open up and engage in more sensitive discussions on fiscal issues and state-society relations.

By 2021, when some COVID-19 restrictions were lifted, I conducted in-country interviews with the assistance of Somali research partners. I used the generous grant provided by the Africa Oxford Initiative (Afox) to work with two partners with considerable research experience and knowledge of the sector. The research partners helped to diversify the sampling frame and the list of interviewees. In particular, they arranged for interviews with government officials and Telecom sector representatives. They also translated the interview questions into Somali, enabling access to primarily Somali-speaking respondents. However, even in cases when the interviews were conducted in English, they assisted in navigating the conversation with more sensitive interlocutors. They also offered background knowledge and helped in locating the interview responses within broader discourses and histories.

In 2022, as Somalia continued to be classified as a high-risk country for foreigners[5]; I once more amended

[4]A non-probability sampling technique where existing study subjects recruit future subjects from among their acquaintances.
[5]The University's insurance provider was unwilling to sanction fieldwork travel to any counties classified as high-risk by Foreign

my fieldwork strategy and travelled to Nairobi, Kenya, for fieldwork. The choice of Kenya as a field site was motivated by the significant population of Somali's (Carrier and Lochery, 2013), especially Somali business people who spent considerable time travelling to and from the Country. Previous studies with such groups (Ahmad, 2015; Carrier and Elliott, 2018) have also been conducted in Nairobi. Moreover, Nairobi also afforded access to Somali government officials and international and national development experts. Somali government officials frequently travelled to Nairobi to attend meetings with international development organisations and foreign governments, many of whom were either based or headquartered in the city[6].

During my trip to Nairobi, I focused my efforts on interviewing the more hard-to-reach respondents within the private sector. I worked with the initial sampling frame and slowly expanded the list based on references and LinkedIn searches. Additionally, I connected with a few individuals in international development organisations who had become more closely involved in the debt relief process and could offer more recent insights on the financial situation of the FGS. Lastly, I contacted individuals I had interviewed previously to verify and check the emerging insights from my research.

In total, my sampling frame included 345 potential respondents. Of these, 240 people were contacted, and interviews were completed with 110 respondents[7]. *I conducted 96 extended interviews and 14 shorter interviews* with key private sector actors in the Telecom and related sectors, federal (FGS) and state officials (FMS), representatives from international and national development organisations, Telecom experts and academics (See Table 2.1 for further details).

Secondary Data Collection

I also compiled secondary data to complement and triangulate the qualitative interviews. Data relating to public finance, and the private sector development, particularly the Telecom sector, was collected based on publicly available sources. Revenue and fiscal data, for instance, was based on budget statements and reports of the Ministry of Finance (at the Federal level), Ministry of Planning, Investment and Economic

Commonwealth Development Office (FCDO). See University's Travel Insurance Policy page for more details.

[6] Nairobi is the UN's official headquarters in Africa.

[7] There were five respondents whose contact details could not be traced and, therefore, contact could not be established.

Development (MoPIED), Ministry of Communication, Office of the Accountant General, and the National Communications Authority. However, given the considerable challenges of effective public finance management and reporting, this information was also cross-checked with the reports published by the World Bank (Somalia Economic Update Reports) and International Monetary Fund (IMF) Staff Monitoring reports. Information from several sources was combined to compile longitudinal tax data. Historical fiscal data were also collated from the World Bank, and IMF reports and the work of scholars such as Purohit (1990), Mubarak (1997) and Mehmet (1971).

Moreover, given the growing international effort to invest in private sector development to promote inclusive economic growth in Somalia, the reports of donor organisations and multilateral and unilateral agencies were consulted to understand the general state of the Somali economy. In particular, United States Agency for International Development (USAID)'s Growth, Enterprise, Employment and Livelihoods programme (GEEL), United Nations Industrial Development Organisation (UNIDO)'s Somalia Productive Sectors Development Programme, and the European Union (EU) private sector development programmes which were at the forefront of these initiatives were studied.

Additionally, while there were several challenges of data collection and publication (see Section 3), including the de-facto privatisation of the knowledge and data produced by the aid industry (Wasuge et al., 2021), efforts were made to ensure a balanced representation of research emerging out of the country and authored by Somali academics. Reports of Somali research organisations and policy institutes like the Heritage Institute for Policy, Somali Public Agenda and Hiraal Institute, which published widely on political economy developments, were consulted.

Alongside, research papers and reports emerging from academic groups interested in broader questions of taxation and governance were also studied. These included groups like the GOVSEA – Governing Economic Hubs and Flows in Somali East Africa programme at the Danish Institute for International Studies, studying the state effects of economic hubs and flows[8], the Conflict Research Programme at the London School of Economic, which had a vast repository of information related to the political economy of violence in Somalia and the tax research published by International Centre for Tax and Development.

[8]The compendium of research has been recently published as an edited volume Hagmann and Stepputat, 2023 'Trade Makes States: Governing the Greater Somali Economy'.

Table 2.1: Interviewee Profile

Demographic	Experts	Government	Government (Int.)	Non-Govt	Private Sector	Research Org	Other	Total
Location								
Kenya	0	1	1	23	4	4	1	34
Other	5	1	0	12	0	1	1	20
Somalia	0	22	0	6	14	0	2	44
Somaliland	0	0	0	1	2	0	0	3
United Kingdom	2	0	1	5	0	0	1	9
Total	7	24	2	47	20	5	5	110
Age								
23 - 27 years	0	1	0	0	0	0	0	1
28 - 32 years	0	2	0	2	2	0	0	6
33 - 37 years	2	7	0	15	6	4	1	35
38 - 42 years	0	5	0	9	7	0	1	22
43 - 47 years	2	2	0	4	1	0	0	9
48 - 52 years	1	1	2	8	2	0	0	14
53 - 57 years	1	4	0	2	1	1	1	10
58 - 62 years	1	2	0	7	0	0	0	10
68 years and Above	0	0	0	0	1	0	0	1
No response	0	0	0	0	0	0	2	2
total	7	24	2	47	20	5	5	110
Gender								
Female	3	2	0	17	0	1	0	23
Male	4	22	2	30	20	4	4	86
Other	0	0	0	0	0	0	1	1

2.3.2 Strategy for Data Analysis

The strategy for data analysis was based on the Process Tracing (PT) approach. The PT method is a within-case method of tracing the process linking a 'cause (or conjunction of causes) with an outcome' (Bennett and Elman, 2006; Beach and Pedersen, 2019; Gerring, 2008, p. 163). The added value of this method is that it enables strong causal inferences to be made about how 'a cause' is linked to a specific 'outcome' (Beach and Rohlfing, 2018, p. 7). Moreover, the method also helps to adjudicate among alternative causes or explanations. As Bennett (2010, p. 179) notes, the objective of the method is to 'uncover the observable implications of hypothesised explanations, to assess if the events fit those predicted by the hypothesised process rather than an alternative theory'.

Two further factors recommended this method. The first relates to the specific approach to causation. In particular, PT views causation as a process involving the mechanisms and capacities that lead from a cause to an effect (Bennett and Elman, 2006). This view of causation differs from Neo-Humean approaches, where causation is established through constant conjunction and correlations, such as in large-n regression analysis (Bennett and Elman, 2006, p.457). In tracing the diagnostic intervening steps in a hypothesised causal process, the method provides inferential leverage on two problems that usually emerge in establishing causality. Careful process tracing focused on the sequencing 'helps to address the problem of establishing causal direction: if X and Y are correlated, did X cause Y, or did Y cause X?' (Bennett, 2010, p. 180). Further, the method is also useful in addressing concerns of spurious causal relations. 'Identifying the sequences and mechanisms in the unfolding of a hypothesised causal process allows researchers to uncover variables that may have caused both X and Y' (Bennett, 2010, p. 180).

Second, the method takes a very different approach to the probative value of the evidence, which guards against some of the critiques levelled against small n-designs (by quantitative scholars) (Khan Mohmand et al., 2017). Bennett (2010), for instance, asserts that criticisms of infinite regress – 'on account of the exceedingly fine-grained level of detailed analysis involved in PT' (King et al., 1994, p. 86), or the degree of freedom problem – the number of cases lesser than the number of variables, do not apply to this method in the same way because all information is not considered to be of equal probative value. 'It is possible for one piece of evidence to support one explanation and invalidate another, while at the same time, numerous

other pieces of evidence might not discriminate among explanations at all' (Bennett, 2010, p. 180). "What matters is, therefore, not the amount of evidence, but its contribution to confirming a causal process and adjudicating among alternative hypotheses" (Bennett, 2010, p. 180).

Noting the many advantages, I applied the process tracing method to explain the pathway or the 'causal mechanisms' linking the proposed causes, i.e. hypothesis of tax morale with the outcome – tax payments. While the term mechanism has been variously defined in the literature[9], in my study, I understood mechanisms as the process by which one variable influences the other, in other words, 'how X produces Y' (Gerring, 2010, p. 1502). 'Mechanisms were, therefore, not causes but processes that linked the causes with the outcome in a productive relationship' (Beach and Pedersen, 2019, p. 3).

However, conscious of the contested nature of the term and the importance of providing a thick and systematic description, I followed Beach's (2019, p. 2) advice and began with 'soaking and probing the empirics of the case'. I reviewed the underlying literature 'to gain clues about the potential explanations' that could link a cause to the outcome (Beach and Pedersen, 2019, p. 2). Based on this analysis, I identified three hypothetical explanations (see Section 2). Following this, I deconstructed each explanation further into its constituent parts to uncover the activities or entities involved in each part of the process (Beach and Pedersen, 2019). (See chapter 3 for more details).

Following this, I focused the analysis on gathering and triangulating the diagnostic pieces of evidence used to substantiate rival explanations, with the ultimate goal of explaining the outcome (Beach and Rohlfing, 2018, p. 8). More concretely, I drew on specific tests based on set-theory and Bayesian epistemologies to assess the evidence and determine ways to confirm or eliminate potential explanations. In the first case, applying the logic of set theory[10] I assessed whether the evidence underpinning a causal explanation passed the test of necessity (and) or sufficiency (Collier, 2011; Mahoney and Goertz, 2006; Goertz and Mahoney, 2012a,b).

[9] Bennett (2010, p.178) defines mechanisms as 'the pathway or process by which an effect is produced, or a purpose is accomplished'. In contrast, Hedström (2008, p. 320) describes the concept as the "constellation of entities and activities that are organised such that they regularly bring about a particular type of outcome".

[10] Set theory is a crucial assumption of qualitative research, which treats concepts as sets of categories in which cases have membership. The hypothesised relations between two or more concepts can therefore be conceived of in logical terms using the idea of necessity and(or) sufficiency - or super-set and subset.

In testing for 'necessity', I tried to establish the relevance of a particular hypothesis, i.e. did the cause and outcome occur in the ways posited by the hypothesis under investigation? (e.g. were low taxes a condition or a feature of elite bargains) (Collier, 2011). Alternatively, I considered a given causal explanation to have passed the sufficiency test if there was decisive evidence in favour of the hypothesis (e.g. was some tax payment explained by relations of exchange). However, appreciating that there were multiple causal paths to a specific outcome (equifinality) and that all three hypothesis statements may be applicable, I adopted the INUS approach (Mahoney and Goertz, 2006). I considered a causal claim to be 'conjunctural' in nature – neither individually necessary nor sufficient (Mahoney and Goertz, 2006). Instead, a combination of causes was sufficient to explain the outcome (Mahoney and Goertz, 2006, p. 237).

I also drew on Bayesian logic to assess the strength of the empirical evidence underlying mechanistic explanations. The Bayesian view is based on the notion that 'science is about using new evidence to update our confidence in causal theories' (Beach and Pedersen, 2019, p. 172). Thus, in applying the framework to the mechanistic explanations, I first assessed whether the prior theoretical and empirical information was considerable and suggested that the underlying theory was valid. If prior information was substantial, I gave more weight to evidence that was 'new' (uncertain) and if alternative explanations for the evidence (inconsistent with the theory) could not be found. If, on the other hand, prior information was limited, then I considered even 'less surprising' (likely) data that was incompatible with an alternative approach to be informative. In my analysis, I also provided theoretical and case-specific arguments and situated the justifications within the broader context to avoid over-interpreting a given piece of evidence (Beach and Rohlfing, 2018).

2.3.3 Coding and Analysis

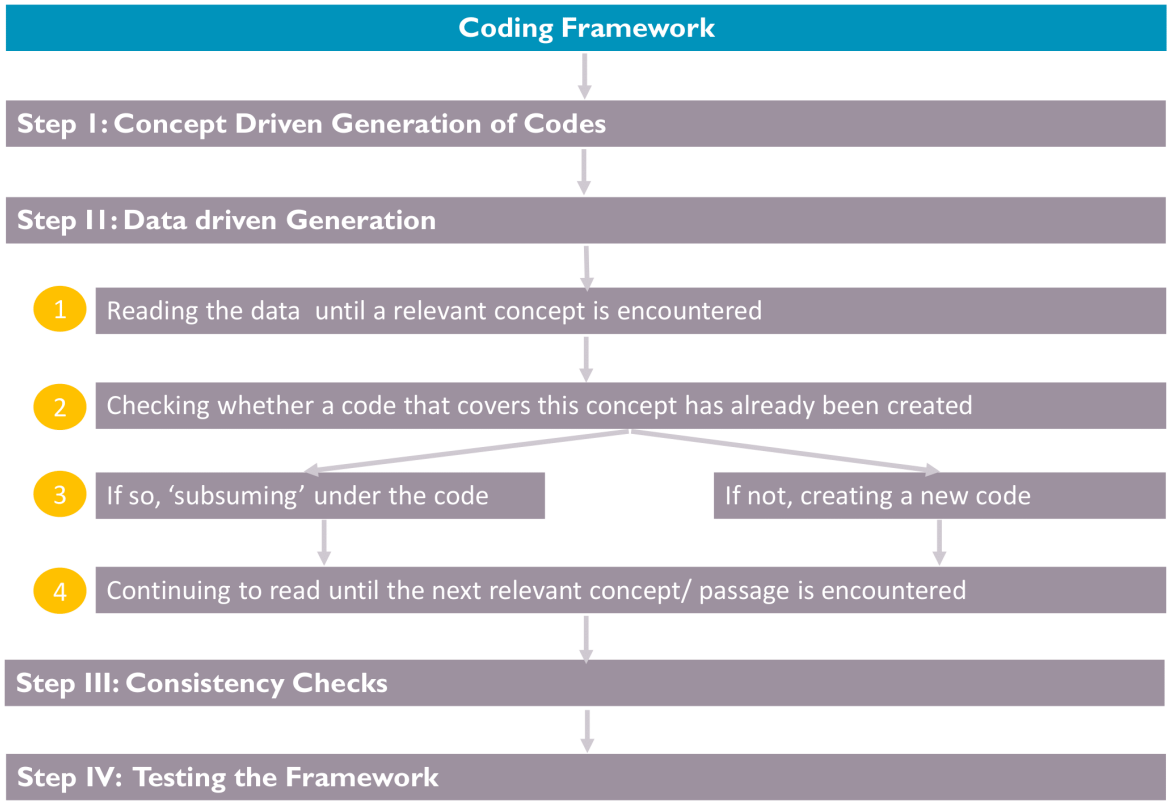
Following Hardy, Harley and Phillips' (2004) recommendation, I coded the data using content and discourse analysis. Although the two techniques emerge from different philosophical traditions – discourse-based analysis highlights the precarious nature of meaning and focuses on exploring its shifting and contested nature (social-constructivist). In contrast, the content analysis technique assumes the consistency of meaning and systematically describes the meaning of qualitative data (positivist). Nonetheless, I attempted

to combine elements of the two techniques as mutually supportive and complementary (Schreier, 2014; Hardy et al., 2004; Laffey and Weldes, 2004).

As a first step, I developed a Coding Framework to divide the data into a smaller number of dimensions (codes) 'to help manage, shape and make sense of the information' (Gerring, 2017, p. 19). The codes were initially constructed based on 'previous knowledge' (concept-driven generation), including literature, theory, prior research, logic, and the interview guide (Schreier, 2014, p. 11). I later revised the Framework based on the empirical data (data-driven generation) by following the process of subsumption and checked if the codes were comprehensive (Schreier, 2014). Next, I conducted consistency checks to strengthen the reliability and quality of the Framework. Segments of the interview material were coded twice to assess if the assignment of material to codes was systematic. I tested the Framework again on the empirical data to modify shortcomings before carrying out the primary analysis (Schreier, 2014). *In total, 51 primary and 393 sub-codes were developed as part of the Coding Framework* (Figure 2.1 provides a graphic depiction of the steps followed)

Once the Coding Framework was finalised, I transcribed the interviews and uploaded them onto the JISC Online Survey, the University's recommended platform. The transcribed interviews were subsequently downloaded and then coded in NVivo software, where the Framework was saved. I then began analysing the data using NVivo software. I conducted frequency checks and examined patterns and concurrences across codes to determine the nature of the relationship between the coded data. Following this, I grouped the related coded data into thematic codes. The creation of these thematic codes facilitated the analysis process as it made it easier to grapple with and systematically study the data.

Figure 2.1: Steps Taken in the Development of the Coding Framework



To ensure that the analysis subscribed to some of the core principles of discourse analysis, I adopted an interpretative approach to content analysis. Recognising that "discourses include the content and construction of meaning and the organisation of knowledge in a particular realm which manifest in both linguistic and non-linguistic practices," I attempted to capture how interviewees constructed meaning and justified their activities (Crawford, 2004, p. 16). For instance, I was mindful of the language used by the sector representatives in describing their tax liabilities and the meaning they ascribed to formal taxes. I also paid attention to Somali government officials asserting the role and significance of the FGS, despite the considerable weaknesses of the government. Additionally, acknowledging the importance of the context in the construction of meaning (Hardy et al., 2004), I unpacked and located the data within the relevant historical and social settings. Lastly, my analysis strategy was also attentive to the "the ideological labour and the effects of particular structures of meanings-in-use, for the distribution of power and resources" (Laffey and Weldes, 2004, p. 29). Specifically, to counter the tendency to compare 'African real types with European ideal types', I attempted to ensure that the voices of Somali scholars and actors were equally represented (Basedau, 2020, p. 198). More generally, in the theoretical and empirical analysis, I sought to combine a diversity of viewpoints instead of taking as given Western perspectives (Basedau, 2020).

2.3.4 Ontological Assumptions

Before delving any further, the ontological approach underpinning this research is worth noting. A qualitative process tracing method closely resembles the Critical Realism (CR) approach to ontology. Unlike the realists who assume the existence of an objective reality that can be known, the critical realists argue that the 'world exists independently of our knowledge of it' (Sayer, 2000, p. 2). The domain of the 'real is thereby distinct from the domain of the empirical' (Archer et al., 1998, p. xii). Furthermore, ontology can be divided into three strata or domains, consisting of the *real*, the *actual* and the *empirical* (Bhaskar, 1998). The *empirical* domain represents the concrete level of research, whereas the *actual* and *real* domains require an abstract level of study. The social phenomenon, which can be observed or measured as events, falls within the *empirical* domain (e.g. tax payments made by the Telecoms sector in Somalia). The *actual* domain includes the various events and their interactions that are not necessarily observed and which occur independently of the researcher's observations of them (e.g. the motivations underpinning the Telecoms

sector's willingness to pay tax) (Azizi, 2017). Lastly, the *real* is the 'realm of objects, and their structures' (e.g. political and institutional structures determining the distribution of elite power) (Sayer, 2000, p. 3).

In distinguishing between the *real* and the *actual*, the CR approach also adopts a similar causation model to the PT framework. Specifically, it calls for rejecting the standard Humean or 'successionist' approach, 'which views causality as produced through regularities among sequences of events' (Sayer, 2000, p. 4). In contrast, the CR approach sees events (*empirical*) as a function of generative mechanisms produced by abstract structures (Sayer, 2000). It identifies causal mechanisms and how they work and discovers if they have been activated and under what conditions (the domain of the *actual*). Further, such an approach explains why a specific mechanism exists by drawing attention to the structure or object which possesses that mechanism or power (the domain of the *real*). Similarly, PT assumes that mechanisms cannot be directly observed. However, even if perfect certainty cannot be achieved, the PT method emphasises the need for formulating a hypothesis about the activation (*actual*) and existence (*real*)' of mechanisms and identifying the 'empirical fingerprints' that can increase or decrease the level of confidence in the hypothesis (Beach and Pedersen, 2019, p. 187).

Additionally, critical realists stress the significance of a within-case approach to research design, which is further compatible with qualitative process tracing frameworks. The approach emphasises an 'intensive' focus where a single case or a small number of cases are studied to offer a causal explanation of the production of certain objects or events (Sayer, 2000). Lastly, the CR approach also acknowledges that social phenomena are intrinsically (subjectively) meaningful, and meaning cannot always be measured and counted. Social reality is, therefore, 'only partly text-like' (Sayer, 2000, p. 9). In this sense, the approach is also consistent with discourse-focused analysis.

2.4 Research Ethics

The challenges of conducting research in fragile contexts like Somalia raised several ethical concerns. As Cronin-Furman and Lake (2018) and Campbell (2017) note, areas characterised by high levels of insecurity, contested authority and weak state capacity, pose a series of unique risks, which make it more difficult

to obtain informed consent, maintain confidentiality and ensure that principles of 'do-no harm' are upheld. In a bid to mitigate these risks, I attempted to centre my research on three key principles – cultural sensitivity and empathy, privacy and informed consent and beneficence (or do-no-harm)', which I applied consistently during various stages of the research process – data collection, storage and reporting (Idris, 2019; Khan Mohmand et al., 2017, p. 27).

Data Collection. In keeping with standard qualitative research practices, participant autonomy was respected. I obtained informed consent before each interview and shared an Information Sheet with all potential participants to ensure they understood the expected level of commitment (Campbell, 2017). The Information Sheet included details of the purpose of the study, research methods, funding organisation and institution, possible benefits of the study, steps taken to avoid harm, and the degree of anonymity and confidentiality afforded to research participants. However, in explaining the purpose of my research, I described the objectives quite broadly to minimise the risk of socially appropriate responses. In this sense, I followed what Fine would call "a shallow cover": I was open about the role and general objectives but vague about the particular goals of the research (Armytage 2018, p. 85 cited in (Varming, 2019a). For instance, I emphasised different aspects of the research question when interacting with government officials and explaining my research to the private sector representatives. In the case of government officials, I emphasised the state's role more prominently. When interviewing private sector representatives, I underlined the role of the private sector.

To ensure that the details in the information sheet were clearly understood, participants were asked to sign consent forms affirming their agreement to participate in the study. Participants were also allowed to withdraw their consent anytime during the interview without justification. Moreover, acknowledging that participants may have an insufficient understanding of what they were consenting to at the beginning of the research process, I ascertained and confirmed consent at every step – at the start and time of audio recording, during the interview, and when using and referencing shared data (e.g., perspectives, opinions, reports) (Khan Mohmand et al., 2017). While most participants consented to the interview, a few (two) agreed to participate in the research but withdrew their consent to be recorded at a later stage. In both instances, I respected the requests made and deleted the recordings.

In designing the research, I was also mindful of the challenges of obtaining genuine informed consent, given the level of mistrust that pervades interpersonal interactions in fragile and conflict environments and the asymmetric power relations between the researcher and the subject. Consequently, following Sieber's (1993) advice, I made efforts to ensure that communication with research participants was kept open and respectful of the autonomy and dignity of the participants and was not one-sided or extractive (cited in Campbell 2017). Respondents were also debriefed on the nature of findings, the value of the research and the likely plan for dissemination (Campbell, 2017). Moreover, contextual knowledge and understanding were leveraged to build trust with the respondents. For instance, by emphasising my experience of spending considerable time in Somalia, which most Western scholars find difficult to access, I distinguished myself as a researcher with demonstrable and long-term interests in the country.

Further, given the nature of the context, I strove to uphold the principles of do-no-harm. As Thomson (2013, p. 153) argues, "the ethical imperative of 'do-no-harm' is intensified in challenging contexts where the research environment is politically polarised, armed actors are sometimes present, and the local population lives under constant surveillance" (cited in Campbell 2017). I adopted a line of questioning that was culturally sensitive, empathetic and beneficent (Khan Mohmand et al., 2017). I initially piloted and tested the questionnaire with a small group of advisors. The advisors were recruited from my network and included development professionals and academics who were familiar with the Somali context and had experience in qualitative research. Based on their feedback, I made revisions to the questionnaire. For example, the sections related to the civil war period were amended to be less invasive. During the interview, I offered advance notice and asked participants (especially those who had witnessed it first-hand) if they were comfortable discussing this particular topic.

Data Storage. To ensure the confidentiality and privacy of respondents, information collected, including personal data, identifiers, and interview responses, were stored on a secure platform. As mentioned, I transcribed and stored the interview data on the JISC Survey, a secure platform. All data downloaded was then stored using the University's cloud computing services with sufficient guarantees for data protection. However, I separated sensitive personal data from the interview responses to further guarantee the confidentiality of the respondents.

Data analysis and reporting. In reporting the findings from the study, the privacy of respondents was respected. I anonymised the data to reduce the risk of re-identification of research participants. I also assigned Unique Identification Numbers to each participant. When quoting directly, I used generic classifications (Government official, private sector representative, Telecom representative) and identification numbers. I avoided any information that could be used to identify individual respondents, such as gender, position, and socio-demographic characteristics.

Research Partnerships. This research would not have been possible without the expertise and assistance of Abdirisak Ahmed Said and Abdullahi Bihi Hussein. Both Abdirizak and Abullahi provided invaluable support in identifying survey participants, setting up and conducting the interviews with participants from Somalia and contributing to the analysis. The researchers signed separate contracts with clear Terms of Reference in keeping with the principles of do-no-harm (Cronin-Furman and Lake, 2018). Researchers were also compensated according to the University's prescribed rate. Moreover, acknowledging that more needed to be done to encourage research partners to share intellectual ownership, I approached the researchers to gauge their interest in writing a joint paper. One researcher, in particular, has expressed an interest and in the coming months, we will be working on drafting a joint paper.

2.5 Methodological Limitations

As with all studies, this research suffers from a few methodological limitations. The first significant constraint briefly touched on is the problem of **generalisation**. Qualitative process tracing methods are designed for observing causal processes within a particular case (Bennett, 2010; Bennett and Elman, 2006) and are less suitable for making generalised statements (external validity) (Beach and Pedersen, 2019). As previously observed, process tracing methods help explain why a particular case has a specific outcome (cause-of-effects). A singular case or a few specific cases are usually sufficient for explaining outcomes of interest. The approach is less appropriate for estimating the effect of some treatment of interest (effects-of-causes) across a population of cases. To make generalisations about several cases, large-N quantitative designs are most suitable (Mahoney and Goertz, 2006).

However, the narrower scope for generalisation also stems from differing assumptions that underpin the two methods (Mahoney and Goertz, 2006). While quantitative studies assume that a large number of observations are necessary for increasing the explanatory power of the underlying theoretical model, for qualitative methods, 'causal heterogeneity is the norm for large populations' (Mahoney and Goertz, 2006, p. 237). 'As the population size increases, even modestly, the potential for specific causal relationships to be missing from or miss-specified in their theories increases dramatically' (Mahoney and Goertz, 2006, p. 238). Thus, the addition of each case to the analysis calls for substantial modifications to the theoretical model, even if the model works perfectly well for the original cases analysed (Mahoney and Goertz, 2006). Therefore, a different theory may be needed to explain the additional case.

Thereby, even as generalised statements could not be made by following this approach, the value of the methodological design was that it proffered a convincing explanation of the mechanisms underpinning the tax incentives of large Telecom actors in Somalia. Furthermore, in offering such explanations and testing different hypothesis statements, the attempt was to make theoretical contributions, which could be applied to additional cases with similar causal characteristics (Beach and Pedersen, 2019).

A second and equally important constraint was the **limited access to fieldwork** within Somalia which affected the quality of the data. First, because data and information were rarely updated online, it was difficult to identify potential interviewees without visiting the field site. For instance, while most Telecom providers had an online presence, their websites did not include specific personnel or employee-related information.[11] Government websites were comparatively more exhaustive; still, the information was often outdated, and details of personnel below the level of Minister were also generally unavailable. Thus, relying on online databases to develop a sampling frame was more challenging. Second, online interviews were also tricky because most interviewees were based in Somalia and could not access a stable internet connection. In particular, 4G coverage was restricted to a few key cities, and without broadband access, the speed and stability of the connection was relatively poor and inconsistent. Furthermore, online interviews made it challenging to build rapport with the participants and gather cues and contextual information (Solarino and Aguinis, 2021).

[11] Telecom providers also did not disclose any financial data.

However, as Crater et al. (2021, p. 717) note, with the COVID-19 pandemic driving much of everyday life into virtual worlds, 'online qualitative research opened up a world of options for accessing participants and creating new types of data. Specifically, I could access groups of elite informants with tighter time constraints (Solarino and Aguinis, 2021). Additionally, I developed more innovative strategies for field-based data collection. I adopted a multi-sited strategy involving fieldwork in Somalia (with the help of researchers) and Nairobi (details included in Section 3.1). The combined approach helped to broaden the sampling frame and allowed for deeper and richer conversations.

Third, this study **focused on the FGS rather than the FMS** and is limited to the private sector's relationship with the federal government, which is a narrower framing. However, I followed this approach deliberately owing to several reasons: First, despite the passage of the Revenue Act, which provided the legal basis for the federal government to work with FMSs to harmonise revenue, the assignment of tax responsibilities had not been clearly defined (at the time of writing) (World Bank, 2022b). Therefore, specific provisions regarding revenue sharing and assignments related to the Telecom sector were missing. Second, the FGS collected significantly more tax than the states (except for Somaliland). Taxes, such as income and corporate taxes, were mainly levied and collected at the FGS level[12]. Third, while there was a push to engage more deeply with the FMSs, the donor efforts to improve public financial management and fiscal capacity were focused on the FGS, which was also the principal benefactor of foreign funding and external aid (Raballand and Knebelmann, 2021). Fourth, the FGS defined the regulatory rules for the Telecom sector. The National Communications Authority, a federal body, was tasked with regulating the industry. From an expediency point of view, it was also easier to focus on the FGS because the fiscal information and the capacity level were higher at the FGS level than among the FMSs (World Bank, 2022b). Lastly, unlike other studies (Hagmann, 2016; Musa et al., 2021; Varming, 2020), my research did not include Somaliland. Despite the lack of international recognition, Somaliland remained a semi-autonomous political entity. Moreover, the fiscal relationship between the private sector and the Somaliland state was long-standing and governed by different dynamics, which created grounds for further preclusion (Eubank, 2012; Musa and Horst, 2019).

[12] In 2018, Galmudug and Hirshabelle, for instance, did not collect any revenue-related taxes, and Jubaland, South-west and Puntland collected only minimal amounts (Raballand and Knebelmann, 2021).

Lastly, my **positionality** also impinged and defined the research process. The 'methodological approach was mediated by my situatedness – gender, race, affiliation, personal experiences, preferences, and the theoretical, political and ideological stances,' (Berger, 2015, p. 220). As a researcher who had previously worked on governance and state-building in East Africa, I was attentive to the negative stereotypes and attitudes that governed the discourse of African politics (Basedau, 2020). In particular, as Mamdani (1996), Mkandawire (2015) and Wai (2012, p. 31) have noted – 'African states and societies have been pathologised as the deviant other of western states and are mostly understood as aberrant political formations, dysfunctional and failed entities and, criminal enterprises'. To counter and address some of the 'negativism that dominates the African studies' (Basedau, 2020, p. 198), I was drawn to questions that sought to offer a more nuanced account – beyond just the narrative of state failure. This perspective encouraged my interest in the private sector, particularly the Telecom sector, which was widely touted as a success story. Understanding the emergent fiscal relations between the private sector and the state presented a fascinating problem as it provided various productive avenues for interrogation – what did such nascent relations reveal about the relationship between the state and private sector? Did it offer more general lessons for economic (capitalist) development pathways, and did the theoretical insights provide valuable starting points for understanding other similar contexts?

Furthermore, I was also mindful of my positionality as a non-Somali and non-African scholar. Some Somali respondents perceived me as an outsider, limiting my access and making rapport more difficult. I also likely missed specific cues because I was not fluent in Somali, and much was lost in translation[13]. However, as an outsider, interlocutors felt the need to provide further details as they assumed I lacked contextual knowledge. I was also perceived as less biased, especially by private sector individuals who were more forthcoming in offering details about their businesses. Further, as Savvides et al. (2014, p. 413 cited in Berger 2015) note, the 'insider/outsider status was quite fluid'. My previous work experience in the region meant that some government officials and development professionals treated me as less of an outsider and 'gave me a certain amount of insider credit' (Varming, 2019a, p. 85). These interlocutors were open to sharing sensitive details and discussing their perspectives. However, conversely, they presupposed that I had a considerable contextual understanding. Therefore, when conversing with these actors, I had to probe the

[13] My research partners helped with the translation.

responses to capture some of the details mentioned.

Thus, even as my positionality affected the research process, it also afforded certain advantages, which likely also reinforced the credibility of my study. As Berger (2015, p. 221) notes, 'the credibility of the research is significantly enhanced if researchers account for how their values, beliefs, knowledge, and biases both assist and hinder the research'.

In the remaining sections of this thesis, I discuss the main findings that emerged following the application of this methodological design. I begin by elaborating on the thesis's theoretical underpinnings, which are laid out in the next chapter.

Chapter 3

Theorising Tax Relations in Fragile Contexts

3.1 Introduction

In the introductory chapter, I argued how the standard literature on taxation offers many possible insights for conceiving tax relationships and interrogating the underlying motivations of taxpayers. Together these perspectives suggest that taxpayers are motivated to pay taxes when states have a monopoly over coercion (Tilly, 1985) and can enforce compliance (Allingham and Sandmo, 1972). There is an underlying social contract wherein taxes are exchanged for the delivery of valued collective goods (Levi, 1988; Timmons, 2005; Fjeldstad and Semboja, 2001) and political institutions are accountable, fair, equitable and legitimate (Dincecco, 2013; Everest-Phillips, 2008; Boix, 2001; Dom et al., 2022).

While quite appealing and plausible in the context of Western states, these expositions do not seem to account for the experience of more fragile polities other than to term them as the 'deviant other' of Western societies (Hagmann and Péclard, 2010; Hill, 2005, p. 140). The latter include settings where: no one actor has a monopoly over coercion, the social contract is weak and formal institutions cannot deliver public goods effectively and accountably (Börzel et al., 2018; Cantens and Raballand, 2021).

In part, the lacuna stems from a preoccupation with the 'ideal-typical notions of the state' (Hagmann and Péclard, 2010, p. 2). The standard accounts of taxation subscribe to a Westphalian view of the state as an autonomous, coherent and rational entity. As Schlichte (2005) eloquently describes:

> [State] as a monopolist of legitimate physical violence, as an autonomous bureaucratic apparatus, as the embodiment of popular sovereignty, and as a spatially and territorially coherent entity (cited in Hagmann and Péclard 2010, p. 6).

The challenge with such conceptualisations is that they tend to privilege and exalt Western models of state-building (Hill, 2005; Young, 1994) and assume that all states eventually converge to the Westphalian notions of statehood (Hagmann and Péclard, 2010). States that do not subscribe to these ideals are considered to have 'failed not by what they are, but by what they are not; namely successful compared to western states' (Hill, 2005, p. 148). Furthermore, they presume that where state authority is weak or has collapsed, there is 'a total vacuum of authority' or a 'black hole into which a failed polity has fallen' (Zartman, 2007; Hagmann and Péclard, 2010; Rotberg, 2003, p. 9).

In failing to consider the set of alternative institutions and actors that step in to perform the core functions of the state, there is limited scope, within these perspectives, for examining the patterns of 'empirical statehood' (Hagmann and Stepputat, 2023, p. 8) – how is political order maintained (Hagmann and Péclard, 2010), which set of actors and institutional forms exercise authority (Cheng, 2018; Hagmann and Péclard, 2010; Raeymaekers et al., 2008; Risse, 2018; Hoffman and Kirk, 2013) and what are the systems for institutionalising and legitimising rule (Lund, 2006, 2016; Hoffmann et al., 2016).

Inspired by the need to provide a more grounded analysis, a plethora of alternative approaches have been proposed to imagine the exercise of power and authority in contexts of 'limited statehood' (Hoffman and Kirk, 2013; Hagmann and Péclard, 2010, p. 3). Despite considerable variations in the proposed arguments, such perspectives differ significantly from standard theorisations and offer valuable starting points for conceiving tax relationships in fragile contexts like Somalia.

First, they question the claim that states have a monopoly over the means of coercion. In most societies, historical and contemporary, North and colleagues (2013; 2007, p. 7) argue that 'violence potential is

spread throughout the population rather than concentrated'. States, therefore, do not enjoy uncontested sovereignty but face competition from groups and actors with sufficient access to violence (Cheng et al., 2018).

Second, they tend to move away from the binary interpretation of states and societies. Theorists like Migdal and Schlichte (2016) reject the idea that states are external to society and question the 'narrow focus on formal institutions' (Hagmann and Péclard, 2010, p. 4). In place, they underscore the wide range of actors and groups involved in 'doing the state' both in cooperation and competition (Lund, 2006; Bierschenk and de Sardan, 2014; Hagmann and Péclard, 2010; Migdal and Schlichte, 2016, p.4).

Third, they interrogate the 'coherency' of the state concept. For these scholars, the state is not the sum total of the practices of formal institutions and bureaucrats but is also produced through ideas, imagery, symbols and discourses (Sharma and Gupta, 2009). Therefore, engaging with the imaginaries of the state idea and its material manifestations is critical to grasp the dynamics of state processes (Migdal and Schlichte, 2016; Mitchell, 2009).

Lastly, they are concerned with how states, like other public authorities, assert their legitimacy. 'State authority is not a given, but it is something that both state and non-state actors must legitimise to appear acceptable to those they govern' (Hagmann and Péclard, 2010; Hoffman and Kirk, 2013; Börzel et al., 2018; Abrams, 1988, p. 76). As Hagmann and Péclard (2010) describe, public authorities seek to transform coercive power (Macht) into domination (Herrschaft) — a type of authority that is based on obedience and recognition (Weber et al., 2012) and disciplinary power – the authority to design, monitor, shape, and control the behaviour of individuals (Foucault et al., 1991). In legitimising their authority, state and non-state actors make use of a range of material resources (coercion, gathering and control of knowledge, accumulation and distribution of resources through rent sharing) and symbolic repertoires rooted in the idea and imagery of the state as well as customary, traditional, local norms (Hansen and Stepputat, 2001; Hoffman and Kirk, 2013). However, even in fragile contexts, output legitimacy continues to matter. Public authorities seek to legitimise their authority by delivering (to some degree) collectively binding rules and goods and services (Börzel et al., 2018).

Based on this literature, three perspectives conceive of tax relations in places of 'limited statehood', often

termed 'failed states' [1]. These include; *political settlement and elite bargain perspectives*, *political authority and exchange-based arguments*, and *hybrid arrangements and norms-based perspectives*. Although related, these perspectives are preoccupied with different questions and begin from varying starting points. In the following sections, I begin by outlining the core argument of each perspective and focus specifically on the key differences related to taxation. Next, I aim to identify the processes or 'mechanisms' which help with understanding the principal characteristics of tax relations in the Somali context. Furthermore, as my interest is principally in understanding private sector actors' tax morale, I focus on state-private sector relations.

3.2 Political Settlement and Elite Bargain Perspectives

Key Idea: In fragile contexts, tax payments are structured as an elite compromise and are part of the elite bargains to ensure privileged access to rents. Tax evasion, tax reduction and negotiated payments are likely to emerge as the norm as such arrangements maximise the power and position of elites.

Elite bargain and political settlement perspectives propose that to understand tax relations and the prevalence of low and negotiated tax rates, the uncontested sovereignty of the state needs to be questioned, and "states need to be seen as founded upon a historically determined balance of power between contending groups and classes" (North et al., 2007, 2013; Di John, 2011, p. 12). These perspectives, thereby, cohere around the first two claims proposed by alternate state theories – violence potential is dispersed rather than concentrated, and the state is not a single autonomous actor.

For North and colleagues (2007; 2013), who are mainly concerned with the first set of assumptions, the task of theory is to explain rather than assume that the state has a monopoly on violence. In fragile contexts, elites, who control a disproportionate amount of power, wealth and access to violence, 'need to be incentivised to cooperate and compete peacefully rather than fight' (North et al., 2007, p. 7). The principal solution to the problem of endemic violence is the creation of a 'limited access order', where limits are placed on access to valuable resources (land, labour and capital) or activities (such as contract enforce-

[1] 'Failed states, include countries where areas of limited statehood cover the entire territory, as well as encompass most policy areas, most of the time' (Börzel et al., 2018, p. 5).

ment, property-rights enforcement, enforcement of taxation) (North et al., 2007; Di John, 2011, p. 6). The restricted use and control over resources and organisational forms produce 'rents' for elites and disincentivises them from fighting each other (North et al., 2007). Thus, in contexts of limited statehood, where no one actor has a monopoly over violence, elite bargains based on "preferential access to political privilege and economic opportunities (rents) – can provide the glue to hold together fragile coalitions between elites and preserve public order" (Cheng et al., 2018, p. 2).

Building on North et al.'s insight that 'the nature of the elite bargain structure the distribution of rents' (Pritchett et al., 2017, p. 18), Khan (2010) argues the basis of political order also depends on the distribution of power and the nature of institutions. 'Power' within this framework is defined as 'holding power' – 'how long a particular organisation can hold out in actual or potential conflicts against other organisations or the state' (Khan, 2010, p. 20). For Khan (2010; 2018), holding power is partly a product of income and wealth but is also contingent on historically rooted capacities of different groups to organise.

Further, the distribution of power in society affects the nature of institutions, i.e. the rules for making decisions. The group with greater holding power is also in a position to 'contest, obstruct and oppose rules that go against their interests and constrain the enforceability of institutions' (Khan, 2010, p. 18). For instance, greater holding power of ruling groups would imply stronger enforcement of certain rules and regulations than if ruling groups had less relative holding power than those opposed to the rules (Behuria et al., 2017).

Institutions can be classified into two main categories, *formal institutions* – codified, 'impersonally' defined rules enforced by state agencies, and *informal institutions* – non-codified, personalised rules enforced by third-party actors who may formally be within the state but whose operations, in any case, rely on the mobilisation of informal power (Khan, 2010, p. 9-10). For example, the systematic and impersonal implementation of tax laws represents a formal institution. In contrast, the selective application of tax laws to benefit specific groups is an example of an informal institution.

However, there is an interdependent relationship between institutions and power; institutions create distributional advantages and influence the distribution of power (Khan, 2010). In fragile situations where formal institutions cannot adapt sufficiently to distribute benefits in line with the distribution of holding

power, the only way a stable compromise can emerge is through appropriate informal institutions. Thus, a stable compromise, which Khan (2010) terms a political settlement, emerges when –

> The distribution of benefits is consistent with the distribution of power in society, and the economic and political outcomes are sustainable over time (Khan, 2010, p.1).

As such, elite bargains are likely to be stable if there is correspondence between the distribution of power and institutions (political settlements) (Khan, 2010; Hagmann, 2016). However, elite bargains as the 'conscious and calculated behaviour of elites' that confer and confirm distributional advantages, in turn, also cumulatively shape and change the overarching political settlement (Cheng et al., 2018, p. 11). Therefore, an interdependent and interrelated relationship exists between elite bargains and political settlements.

While the models proposed by North et al. (2007; 2013) and Khan (2010; 2018) help explain how political order emerges in fragile contexts, they do not directly answer the central question of the nature of tax relations. To engage with the specific question of taxes, Di John (2011) proposes the need to tease out some of the implications of the concepts proposed.

For Di John (2011), an implication of the elite bargain argument is the significance of rents for preserving order. Rents within the framework are described as unearned income or excess returns from the restricted use of assets or activities (North et al., 2007). One of the most 'potent' forms of rent creation is the privileged access to activities associated with the working of state institutions; examples of such activities include the (selective) enforcement of tax laws and regulations (North et al., 2007). This is because taxes represent a type of cost, and elites, like other economic actors, seek to maximise their incomes and reduce costs (North et al., 2013; Khan and Sundaram, 2000). If taxes are not enforced and kept (artificially) low, elite incomes are likely to be higher than they would have been if implementation was consistent and higher tax rates were enforced. For example, if the actual tax rate is 20% and elites pay only 5% tax, then the balance of 15% of unpaid taxes constitutes an unearned income (or rent). Taxes, therefore, reduce the rents and income flows of elites, whose interests are aligned towards resisting enforcement of (rule-based) tax collection and tax increases (Di John, 2011). Thereby, when powerful business groups become privileged insiders and possess rents relative to those who are excluded, 'tax exemptions, low tax rates, negotiated/personalised rates, and the systematic toleration of tax evasion' can become standard features of the state's extractive regime

(Di John, 2011; van den Boogaard and Isak, 2021, p. 12).

The salience of rents raises the question of whether all types of 'rents are always bad' and associated with tax evasion and reduced taxes (Khan and Sundaram, 2000, p. 66). For Khan and his colleague (2000, p. 33), while there are many problematic types of rents, some rents may be useful. Even in the case of monopoly rents created by government protectionism to favour specific elite groups, 'there may be genuine economies of scale in these industries, and super-profits may create incentives for greater investment'. The effects of rents, thereby, need to be understood by scrutinising the dynamics of the underlying political settlement.

Recent research from the developing world attests to such trends. Moore (2010) and Hickey (2012) demonstrate how along with preserving order, rent-sharing agreements between political and economic elites can reduce the risk of doing business – compensate for weak property rights and contract enforcement, enhance investments – and even contribute to the development of legitimate public authority. Dercon (2022, p.44–48) similarly argues that rent-sharing agreements between elites or what he terms 'economic deals' can be structured in ways consistent with economic (take-off) growth.

Thus, in place of referring to the term rents as one big pejorative category and assuming that elite bargains around rent sharing lead to reduced taxes and limited tax enforcement (Bates, 2008; Ross, 2001; de Waal, 2015), it is critical to consider the constellation of factors that can give rise to such conditions. Research in the field has begun to combine the political settlement and fiscal contract theory to offer a series of more cogent analyses of the specific bargains that contribute to rent-seeking fiscal relations[2]. I join such efforts and apply Cheng, Goodhand and Meehan's (2018) analysis to consider how structural factors, institutional frameworks and the agency and power of the elites contribute to elite bargains and political settlements that lead to low and negotiated tax rates.

[2] The recent research in the field includes the work of the Political Settlements and Revenue Bargains in Africa Research Programme, based at Aarhus University and led by Anne Mette Kjær.

3.2.1 Structural Factors

Among the most oft-considered structural factor is the *nature of the economy*. As Khan (2010) argues, whichever mode of production dominates the economy, the owners of such modes of production will have the greatest holding power. For instance, if there is a dominance of capitalist profits, the owners of these modes will have greater holding power (Khan, 2010, p. 50)[3]. Any attempt to raise taxes from the dominant groups, which would impinge on their privileges, would invite resistance and could be potentially destabilising.

Pritchett et al. (2017) further this insight and offer a more dynamic theory that accounts for the diversity of economic actors, including the role of the Telecom sector. Specifically, they argue that an essential intervening variable in explaining elite bargaining arrangements is the deal-making process observed in most fragile and developing country contexts (compared to rule-making processes that characterise most developed countries). Deals, which they term personalised action between two or more entities, vary by the distribution of holding power of elites and the structure of economic opportunities.

Holding power can be horizontally concentrated (power is concentrated in one dominant political group or dispersed across several groups) or vertically distributed, which refers to the relative power of higher compared to lower factions within the ruling coalition, i.e. the legitimacy of the ruling elite[4] (Behuria et al., 2017; Pritchett et al., 2017; Khan, 2010, p. 65). The structure of economic opportunity or rent space can be classified based on whether inward or outward-facing firms dominate the economy. Unlike outward-facing firms, which earn rents through the sale of natural resources at lower prices (or subsidies), inward-facing firms, termed powerbrokers, generally operate within regulated industries that cater to the domestic market (e.g. Telecom, power, and oil) and seek closer alliances with the political elites to establish their monopoly position and earn rents through such alliances. 'Powerbrokers, therefore, benefit from the murkiness of red tape and uneven enforcement, and prefer barriers to entry over-regulated competition' (Pritchett et al., 2017, p. 23).[5]

[3] Khan (2010, p. 50) terms such settlements as capitalist settlements, when holding power based on the profits of productive asset owners with formal rights is sufficient to sustain their underlying rights.

[4] Legitimacy is understood as whether other authorities will act to confirm the decisions of a given authority, i.e. enforcement capacity (Behuria et al., 2017).

[5] Pritchett et al. (2017) also classify firms operating in competitive industries as Magicians (outward) and workhorses (inward).

The distribution of holding power and the rent space has implications for the type of tax deals observed between economic actors and political elites. The deals environment varies across two dimensions: 'whether deals, once negotiated, are honoured (ordered vs disordered); and whether deals are widely available or limited to certain elites (open vs closed)' (Pritchett et al., 2017, p. 27). If power is horizontally dispersed (i.e. elites cannot resist any challenge to their control over political institutions) and vertically differentiated (dominant elites have limited enforcement capacity), then the political settlement will be more competitive (Pritchett et al., 2017, p. 17). The more dominant group of political elites will be unable to enforce their policy preferences and resist the policies that align with the interests of other groups (e.g. clients).

In such cases, if powerbrokers also have considerable 'holding power', i.e. these groups are a source of political financing for the ruling coalition, and the ruling coalition cannot operate without the support of such entrepreneurs on account of their economic position[6] (Whitfield et al., 2015); such groups will use their power to 'create rents for themselves' (Khan, 2010, p. 70). The deals space will then likely be *closed*, i.e. tax rates are lower for those in powerbroker industries and *disordered* – deals are not honoured but subject to routine negotiation[7].

In the Somali context, one reason proposed for the continuing trend of "negotiated and low taxes" paid by Telecom operators was the dispersed power of political elites (horizontal dispersion), the low legitimacy of the state (vertical distribution) and the asymmetric distribution of power in favour of the operators (powerbrokers) (Abshir et al., 2020). Telecom operators controlled a significant stake in the country's economy (Ministry of Post, Telecommunication and Technology, 2019) and held greater 'holding power' than political elites. The latter were a more dispersed group who could not enforce policies and ensure consistent enforcement of tax laws (van den Boogaard and Isak, 2021; Meester et al., 2019).

A second structural factor proposed is the *role of international interventions* and the commensurate inflow of foreign aid in fragile contexts. The role of international aid in reducing the state's incentives for domestic tax mobilisation has been studied widely, with more recent research refuting the existence of a

However, while such firms may still earn rents, such rents come from competitive strategies undertaken for the firm to make a better product at a higher margin, such as brand differentiation and locational advantages.

[6] Defined in terms of their relative importance to the economy, in terms of providing incomes for a significant percentage of the population; their relative importance as a source of government revenue and(or) foreign exchange (Whitfield et al., 2015).

[7] Conversely, if power is vertically and horizontally concentrated in a few elites and holding power of powerbrokers is low, then tax arrangements may be open – tax rates are enforced and ordered (deals are honoured and not subject to negotiation).

direct relationship (Di John, 2011; International Monetary Fund, 2012). Hagmann (2016), however, reframes such debates and argues that a key intervening variable that may explain the link is the tendency of *elite extraversion*. Using Bayart's (2000) framing, Hagmann defines *elite extraversion* as –

> A process by which groups or individuals employ their dependent relationship with the external world to appropriate resources and authority (Hagmann, 2016, p. 10).

Basing his analysis principally on the Somali case, Hagmann (2016) argues that a peaceful political settlement has been undermined by extraversion tendencies that have encouraged local and national elites (with greater holding power) to favour the creation of 'de jure' formal institutions to actual state formation. The influence and role of external actors and the constant inflow of resources as part of stabilisation and state-building interventions generated an incentive structure that motivated Somali elites to view state formation as an exercise in gaining access to external rents and resources (Hagmann, 2016). In a similar vein, Menkhaus (2014, p. 169) notes how "large flows of state-building aid inadvertently fuelled the very impulse to de-institutionalise the state that the aid was setting out to fix".

From a taxation standpoint, the tendency of extraversion implies that while elites may engage in some tax bargaining, the underlying motivations are not guided by a desire to support the development of functional formal institutions but are rather influenced by the need to appropriate and gain access to external resources and finance. In the past, Le Sage (2002) noted how the Somali business community was willing to pay taxes and invest in the state because they hoped for future returns in the form of international aid and access to international contracts. More recently, Abshir et al. (2019) also conclude that the private sector's interest in paying tax and helping the FGS meet its domestic revenue targets set by the Highly Indebted Poor Countries Debt Relief Programme (HIPC) [8], was explained by elite extraversion – private sector actors were motivated by a 'need to unlock larger amounts of international funding and access to private sector financing instruments rather than by a desire for improved state capacity and fiscal self-sufficiency' (Gundel, 2020; Abshir et al., 2019, p. 47).

Thus, following Hagmann's (2016) assessment, when entrenched groups of elites are motivated by a logic

[8] The HIPC Initiative was launched in 1996 by the International Monetary Fund (IMF) and World Bank, to ensure that no poor country faces a debt burden it cannot manage. To be granted Debt relief, countries must meet certain criteria, commit to poverty reduction through policy changes, and demonstrate good fiscal and monetary discipline over time.

of extraversion, elite bargains can result in a system of taxation whereby elites pay the least amount of tax that is possible to access external rents.

3.2.2 Institutions

Borrowing from Khan (2010), but also Acemoglu and Robinson (2008), a second key factor is the *nature of the institutional framework*. In most fragile contexts, the productive sector governed by formal institutions, e.g., market regulation, contract enforcement and property rights, is generally 'small or non-existent' (Khan, 2010, p. 59). The distribution of benefits from formal institutions, therefore, does not reflect the broad distribution of power. Instead, it is the emergence of significant informal institutions that allow benefits to be captured by powerful groups (Khan, 2010, p. 26). Consequently, where formal institutions are weak and considered a threat to elite interests, elites will seek to subvert them and instead engage in informal deal-making in sharing political privileges and economic resources (Khan, 2010).

In the Somali case, the years of statelessness gave rise to a situation whereby the holding power of elites was rooted in highly fragmented structures of traditional, clan-based authority and personalised relationships rather than in any centralised formal apparatus (Menkhaus, 2007a). Consequently, the lack of 'fit' between formal institutions and the underlying political settlement, for Menkhaus (2018), De Waal (2018) and others (van den Boogaard and Isak, 2021; Hagmann and Stepputat, 2016) meant that while Somali private-sector elites considered some version of the state to be critical, such interests were balanced by a desire to prevent the state from becoming too strong and or dominant. Elites were thereby reluctant to make formalised tax payments, which would strengthen state capacity. Instead, they preferred informal arrangements (or closed deal-making), where they paid some amount but not the total amount of tax (i.e. negotiated tax rates).

Institutions can also impact elite bargaining via *informal networks of patron-client relations*. As Khan(2010, p. 10) observes, informal institutions like accumulation through patron-client networks are examples of arrangements through which powerful groups create economic benefits for themselves and their clients. Versions of this analysis relate to the abundant literature on neo-patrimonialism, which has emerged as the "convenient, all-purpose, and ubiquitous moniker for African governance" (Mkandawire, 2015, p. 563).

For Bayart (2009), Cooper (2002), Chabal and Daloz (1999), and Bratton and van De Walle (1997), most African states, can be characterised as

> Hybrid regimes that consist of, on the one hand, an exterior modern, formal, rational-legal state-like apparatus (the "neo"), and on the other hand, a patrimonial spoils network in which centralised elites mobilise political support by using their public position to distribute jobs, rent-seeking opportunities, and resources as personal favours to their clients – organised along ethnic lines (tribe, clan, linguistic, community) (deGrassi, 2008, p. 107).

As per this framing, patrons are compelled to maintain their legitimacy by distributing public resources to benefit their clients, including by charging lower taxes to their co-ethnics (Mkandawire, 2015). Tendler, for instance, describes such practices as the 'devil's deal', whereby politicians make a deal not to tax their clients (small businesses) in exchange for their votes (Tendler, 2002, p. 1). Menkhaus (2018, p. 3) similarly describes 'the political settlement under-girding the Federal Government as a limited access order, a division of spoils, where elites organised largely on clan lines controlled and diverted financial flows to and through the rentier state' to their co-ethnics and clients.

Several critiques have, however, been levelled against the neo-patrimonialism perspective for its limited explanatory power, 'in part because it is invoked as both the cause and the effect of a dysfunctional politics' (Wai, 2012; deGrassi, 2008; Mkandawire, 2015; Nugent, 2010, p. 42). For Behuria et al. (2017) and Whitfield et al. (2015), a further problem with such perspectives is that they do not explain the variations in political practices and institutional arrangements. To account for such variations, such scholars advocate for analysing how the 'distribution of power in society shapes specific forms of clientelist politics and, in turn, how the organisation of patron-client networks affects the ability of ruling elites to change institutions governing the distribution of economic benefits in society' (Whitfield et al., 2015, p. 13).

Tax scholars also advocate for a similar position to account for the diverse outcomes of informal patron-client arrangements on tax relations. Kasara, for instance, (2007) cautions that while the impact of patron-client networks can be significant, it is also crucial to study the specifics of how patronage is distributed across groups to understand the impact of these dynamics on tax relations. Similarly, Hassan and Prichard (2016) find that informal institutional arrangements can ensure low yet reasonably predictable tax rates

while serving as conduits for targeted rent-seeking and patronage politics. Together such perspectives advocate the need for studying the fit between institutions and holding power and how such institutions are organised to more fully grasp their impact on tax relationships.

3.2.3 Agency

Lastly, while structure and institutions are significant, they are not all-encompassing. The *power, influence, interests and motivations of the elites* also underpin the nature of elite bargaining arrangements and the distribution of power in society (Dercon, 2022; Cheng et al., 2018) Along with the role that institutions play in distributing advantages, Cheng et al. (2018) and Behuria et al. (2017) assert that holding power is founded upon a range of factors. In particular, elites may derive their power from mobilising groups, exercising control over valuable resources, asserting their ideological, religious or nationalist identity, and mediating interfaces between the domestic and global economies, e.g., controlling investment and aid inflows (Cheng et al., 2018). Together, these abilities determine whether elites will impose costs on others, absorb costs inflicted on them, and ultimately prevail in a conflict (Khan, 2010). The 'greater the costs a group can impose on others, the greater the likelihood that other groups will abandon their attempts to get preferred outcomes' (Khan, 2010, p. 6). Similarly, the more likely a group can absorb costs, the longer it can survive, and the more likely it is to "win" (Khan, 2010, p. 6).

In contexts where the potential for violence is diffused (as in most fragile contexts) and political relationships are volatile, the holding power of elites tends not to have a fixed quality and can rapidly change (Cheng et al., 2018). The dominant group of elites cannot assert their power and 'hold out' and prevail for long periods against other actors. For Behuria (2020) and (Cheng et al., 2018, p, 33), the diffusion and temporal and changing nature of power implies that elites work with shorter time frames and engage in 'spot bargaining' agreements for rent sharing. Such agreements are more unstable and give rise to what Pritchett et al. (2017, p. 25) describe as 'disordered deals', i.e., deals that are not honoured.

Bates (2008) makes a similar observation. He argues that the extent to which rulers operate with shorter time frames and are willing to discount the future has broader implications for the maintenance of political order as it determines whether elites will revert to tactics of 'predation versus protection'. 'Political elites

who are impatient, greedy, or insecure will discount the future payoffs that accrue along the path of play, and they will also discount the penalties that follow an opportunistic deviation. They will, therefore, find the prospect of predation more attractive than if they were patient, prosperous, or secure.' (Bates, 2008, p. 20)

De Waal (2015; 2018; 2020), observes these dynamics in the Somali case and notes that elite bargaining arrangements tended to be personalised, transactional and turbulent. The holding power of the elites was constantly shifting and adapting. Consequently, political elites could only survive by engaging in 'predatory tactics' – marketised transactions of distributing political rents in exchange for the loyalty of other elites (de Waal et al., 2020). Given the shorter time horizons, elites were also unwilling to engage in long-term bargaining arrangements around taxes, which also explained why negotiated deal-making emerged as the norm in Somalia.

Thus, a more expansive reading of elite bargaining and political settlement perspectives offers a critical lens to understand how extractive capacities come to be organised in fragile contexts such as Somalia. They emphasise that in contexts where the monopoly over violence is dispersed, elite bargaining arrangements in sharing economic rents, including those produced by tax exemptions, tax reductions, tax negotiations, and tax evasion, provide a powerful glue to maintain stability. In contrast to the social-contractual perspectives, they demonstrate how tax morale may not emerge from a commitment to the 'state project' but can be motivated by the desire to secure continued access to economic rents, which may serve to weaken formal state institutions.

A specific combination of structural, institution and agency-related factors influence the dynamics of tax bargaining. The structural factors of deal-making processes and elite extraversion tendencies help explain why elite preferences may not support investments in formal state-building processes and why consequently, elites favour 'disordered deal-making, where tax payments are low and subject to routine negotiation.

Additionally, institutions also matter; in cases where the source of holding power is rooted in informal institutions, patronage politics may dominate. Elites will be motivated to keep taxes low and ensure tax policies benefit their clients (tax avoidance). The institutional fit and whether formal institutions are weak

and considered a threat to elite interests can also encourage limited investment in the state's fiscal capacity. In such situations, informal tax arrangements may emerge as the best compromise.

Lastly, the holding power of the elites is also crucial. In contexts where there is a diffusion of power, elites engage in 'spot bargaining' agreements for rent sharing. Consequently, tax bargaining agreements are more likely to be short-term and informal (negotiated deal-making).

Such perspectives illustrate the incidence and preference for low and negotiated tax rates. However, they stop short of providing a more expansive justification for tax morale, 'why' elites would be inclined to pay even a modicum amount of tax to a weak and inefficient state. To some extent, structural factors, such as extraversion, explain this tendency, especially if elites make tax payments to capture external rents. However, they do not go far enough. To reflect on this question more deeply, I turn to a different set of arguments that question the assumption of the state as a coherent entity.

3.3 Public Authorities and Exchange-Based Arguments

Key Idea: Taxes are paid in exchange for collectively desired returns. However, the exchange terms are neither reciprocal nor stable, given the state's weakened capacity. Nevertheless, public authorities (including formal state institutions) can assert this right because they can draw on the state's 'idea' and 'practices' and the historically defined registers of authority.

Among the commonly proposed motivations of tax morale is the idea that taxes are paid in exchange for collective goods and services. For social contract and fiscal exchange theorists, taxes are part of one large reciprocal exchange – 'members of society pay taxes in return for the delivery of comprehensive public goods and services, some level of political representation and the enforcement of social rights' (Sheild Johansson, 2020b,a, p. 3). In assuming that taxes necessarily involve a reciprocal relationship between the state and society (Sheild Johansson, 2020a), such perspectives raise questions on the productivity of conceiving taxes as an exchange in contexts of fragility where the state's capacity to deliver collective returns is low and 'shaky' (Migdal and Schlichte, 2016, p. 16).

Recent anthropological research on fiscal exchanges (Makovicky and Smith, 2020; Sheild Johansson, 2020b; Burnyeat and Sheild Johansson, 2022), and emerging insights from the fragile state experience ('public authority from the below perspectives' or perspectives of 'empirical statehood') (Hoffman and Kirk, 2013; Hagmann and Péclard, 2010), question key assumptions regarding the 'coherency of the state' and the 'notion that state authority is given rather than legitimated' and discuss how *taxes may be exchanged for some collective returns* but that such relations are markedly different from contractarian models (Lund, 2006; Hoffman and Kirk, 2013).

To unpack how these dynamics may come to bear, scholars like Hagmann and Péclard (2010) and Migdal and Schlichte (2016, p. 12) question the notion of the state as a 'coherent' entity and instead distinguish the 'idea' of the state from its materiality or processes. The state is then re-defined as a –

> A field of power that is marked by the use and threat of force but is 1) shaped by the image of a coherent, controlling organisation in a territory, which is a representation of the people bounded by that territory, and 2) the actual practices involving those staffing its multiple parts and those they engage in their roles as state officials (Migdal and Schlichte, 2016, p. 15).

The deployment of such framing offers several conceptual tools for understanding the dynamics of fragile states. **First**, it does not presuppose any 'necessary unity' or coherence between the idea and practices of the state (Migdal and Schlichte, 2016, p. 15). The image of the state as a 'dominant, integrated, autonomous entity that controls all rule-making in a territory' is fortified or undermined by the actual practices of the state (Migdal and Schlichte, 2016, p.16–17). The practices of the state refer to the diverse, multiple actions of state actors and the myriad responses and interactions of state officials with non-state actors (Migdal and Schlichte, 2016, p.16-17). The routine practices of bureaucrats, public school teachers and administrators acting in the state's name can reproduce the state's boundaries and strengthen (or weaken) the image (Bierschenk and de Sardan, 2014). For instance, if the state cannot deliver on its promises and is weak and inefficient, as in more fragile contexts, the practices can undermine the state's idea (Migdal and Schlichte, 2016).

Second, it underscores how both the image and practices of the state involve power – 'inducing people to think and behave in ways that they would otherwise not do, and particularly using the most direct induce-

ment of all, violence' (Migdal and Schlichte, 2016, p. 15). Indeed, state power is institutionalised through a dynamic process that derives from the interaction and tension between the image and the everyday practices of the state. Multiple actors, both state and non–state, compete to exercise power, and the process, sites and spaces where this struggle takes place constitute the 'field of power' (Bourdieu et al., 1994). Within the field, the struggle for power is to ensure that the 'state law or some other implicit code becomes the routine basis upon which people act in ways that do not require the raw power and coercion by the state' (i.e. domination and disciplinary power) (Migdal and Schlichte, 2016). 'The extent to which a field becomes one of state domination, therefore, varies considerably both within a country and from one state to another and is likely to be more 'shaky' in areas of fragility' (Migdal and Schlichte, 2016, p. 16).

Third, and fundamentally, this perspective acknowledges that there may be various actors and institutions that deliver public services and exercise public authority and are involved in 'doing the state' (Migdal and Schlichte, 2016, p. 14) Therefore, it is "difficult to ascribe exercised authority to the 'state' as a coherent institution. Instead, public authority becomes the amalgamated result of the exercise of power by a variety of institutions – state, non-state, domestic and external – that are conjugated with the idea of a state" (Lund, 2006, p. 686).

Several scholars (Makovicky and Smith, 2020; Lund, 2006; Sheild Johansson, 2020b,a; Hagmann and Péclard, 2010) draw on these concepts and relate them to tax relationships in more fragile contexts. For Lund (2006), the diversity of public authorities calls into question the pervasive notion of the 'a priori link between taxation and the ideal-typical image of the nation-state' (Lund, 2006, p. 695). In places where the central government's authority is weak or limited, a broader definition of taxation emerges – as a form of revenue collected in the name of a 'common good by a public authority' (Lund, 2006, p.695). Public authorities conjugated with the idea of the state levy and collect taxes in exchange for public services.

Makovicky and Smith (2020) and (Sheild Johansson, 2020b) (2020a, p. 3) 'raise the question of whether the social contract and taxes have to go together at all'. They argue that if taxes are effectively decoupled from the state, and multiple public authorities engage in tax collection in the name of a common good or service, taxation cannot be viewed as a reciprocal exchange between state and society 'alone' (Lund, 2006). The fiscal landscape is made more complex, and rather than "one large exchange between the state and its

citizens," each individual tax needs to be scrutinised "for its particular exchange power" (Sheild Johansson, 2020b; Makovicky and Smith, 2020, p.33).

To be attentive to such possibilities, Sheild Johansson (2020b) suggests moving away from liberal notions of reciprocity, 'whereby individuals consider their relationship with the state from the perspective of a 'fair deal' (p. 24). Instead, she suggests the need for considering the various returns and arrangements that 'inhabit tax exchanges', which may not always be seen as fair or reciprocal. For instance, drawing on the Bolivian context, she demonstrates how instead of services or representation, taxes were paid to secure a degree of independence and security from the state (Willmott, 2020; Sheild Johansson, 2020b, p. 32). Moreover, even when taxes are paid in return for valued goods and services from the state, 'mutual returns' may not be the expectation. As Foged (2019, p. 88) also finds in the context of Senegal, 'what matters is what people expect and what they perceive to get; they might be satisfied with the state's provision of public goods if they sense that the state is actually making an effort, even if the quantity and quality are not satisfactory'. "The meaning applied to taxation, therefore, differs from what has usually been assumed within the fiscal contract theory; taxes are not paid to get something in return but for other reasons, and therefore, taxation does not always create an expectation of getting something in return" (Foged, 2019, p. 289).

Further, if the state is conceived of as a field of power, then as Bourdieu (1994) suggests, the exchange power of public authorities (or the type of return they can offer) may rest on their ability to exercise power over the state. The state, for Bourdieu (1994, p. 4), is the 'culmination of a process of concentration of different species of capital'. Thereby, even if state domination may be shaky in contexts of fragility, the control over the state and the 'capital granting power of the state' is the central axis along which the struggle for power takes place (Bourdieu et al., 1994, p. 4). Public authorities, thus, seek to assert their authority to collect taxes by reinforcing the state's 'idea' and 'practices'. However, since the state's idea and practices can run counter to each other, it is possible that even when practices undermine the state's capacity, the reification of the state as a dominant, integrated, autonomous entity that exercises control can continue in tandem. As Migdal and Schlichte (2016, p. 35) poignantly note, in fragile contexts such as Somalia, "it is possible that the image of the state can persist through long periods in which practices contradict that image".

For Marxist and political economy scholars like Polanyi (1957), 'the significance of the capital granting power of the state' (Bourdieu et al., 1994, p. 4) has a deeper resonance, especially for understanding why the private sector would be willing to pay taxes to weak state institutions. As van Apeldoorn et al. (2012, p. 473) suggest, 'the state—despite appearances to the contrary is essential for the reproduction of the capitalist system, even in its most liberal mode'. Drawing on discussions into the emergence of a market society, they propose that the structural linkage between state and capital extends beyond the guarantee of property rights and the performance of other functions of 'minimal state' to include four complimentary and overlapping roles. These include market creation, correction, direction, and protection of the external interests of domestic capitalists (van Apeldoorn et al., 2012; van Apeldoorn and de Graaff, 2022). While states vary in their capacity to perform these functions, for these scholars, the critical takeaway is that the 'power of the states and the power of markets cannot be seen as opposites, nor can they be subtracted from each other' (van Apeldoorn and de Graaff, 2022, p. 308). Thus, even if the state is materially weak, there may be specific junctures where the state would come to be important for the development of capital.

Together, these perspectives suggest that in contexts where state institutions are weak, the 'idea of the state' has a strong pedigree, especially for capitalist development. Formal state institutions use and deploy 'state imaginaries and practices' to raise taxes (2016). Nevertheless, output legitimacy continues to matter, and public authorities need to provide some collectively desired returns in exchange for taxes (Börzel et al., 2018). However, due to the contested nature of power, the emerging exchange arrangements are not as reciprocal nor quite as stable as predicted by social contractual perspectives. In the next section, I discuss the nature of such exchange relationships.

3.3.1 Valuable Rights and Entitlements

Lund (2016) observes that the assertion of the authority to collect taxes is not just an economic dynamic for public authorities; it also entails the process of recognition of authority and citizenship of the populace. This relates to his broader observation that the state is 'not a finished product' but is always in the making (Lund, 2016, p. 1199). Political authority is reproduced through the processes of successfully defining and enforcing the rights of community membership and the right to access essential resources (right to prop-

erty) (Lund, 2016). 'In exchange for valuable property rights and other entitlements, people 'recognise' the political power of the institution through the payment of tax' (Lund, 2016, p. 1206). Tax payments are, therefore, a route through which taxpayers 'document their citizenship' and also 'make their claims thicker and more provable' (Goodfellow and Owen, 2020, p. 32). Therefore, the power to tax serves as an acknowledgement and legitimation of the authority of public authorities and can serve as the basis of a contract between public authorities and communities (Hoffmann et al., 2016). Lund (2016), however, cautions that the terms of such contracts can be contentious, non-consensual and subject to renegotiation. Thus, 'they [the tax exchanges] do not necessarily involve a continuous or stable recognition of the legitimacy of the contractual terms' (Lund, 2016, p. 1206).

Varming (2019b, p. 23) and Musa et al., (2021), apply Lund's (2016) framing to the Somali territories and describe the significance of taxation in determining 'how the state comes into being and how it comes to be regarded as the one exclusive authority able to legitimately govern a specific territory'. Musa et al., (2021, p. 114), find that the 'contest over territories, resources, and people that could be taxed led to a proliferation of local administrative units and boundaries over time'. These authorities used 'signs, discourses and technologies of taxation associated with the state to assert their authority by issuing receipts for taxes paid' (Musa et al., 2021, p. 110). Taxpayers, such as traders and business people, entered into mutually binding relationships with the administrative units by acknowledging their right to collect taxes, accounting for the issued receipts and adding the taxes paid to the price of their products. Thus, public authorities claimed statehood through taxation and the 'categorisation of taxable public spaces' (Varming, 2019a, p. 9). In turn, traders also constituted their position as subjects of the state through practices involving the payment and negotiation of taxes (Varming, 2019a,b, p. 9).

3.3.2 Upholding the Image of the State and Imagined Community

Another prominent logic is how public authorities (state and non-state) mobilise the 'language of stateness' to assert their right to tax (Hoffmann et al., 2016; Musa et al., 2021). The 'language of stateness' builds on Migdal and Schlichte's (2016) concept of the state and refers to the 'historically contingent practices of governance' (Hoffmann et al., 2016, p. 1436) that are connected to the ideas of the state through 'sym-

bolic languages – public signs, rituals, spectacles, which together reproduce the imagination of the state as that specific authoritative centre of society, capable of issuing what Bourdieu calls the "last judgment" ' (Hansen and Stepputat, 2001, p. 8). Drawing on the case of another fragile context, Hoffman et al.(2016, p. 1436) observe how armed groups consciously or subconsciously deployed the 'language of stateness' to justify taxes as required payments for the defence of the Congolese nation-state and to a given local customary community.

> "Taxation was framed as a key contribution to restoring the state's authority. It was also an important element in creating an elaborate administrative framework built on the model of the defunct Congolese state". (Hoffmann et al., 2016, p. 1447).

For communities long exposed to insecurity and conflict, the image of the territorially bounded imagined community was evocative because it drew on historical registers of authority and was part of the colonial language of stateness. Simply put, it was by invoking images of an imagined community (nation-state and chiefdom) and purporting to defend the interests of such a community that armed groups were able to assert their authority and impose taxes, often without providing reciprocal 'tangible services and goods in return' (Hoffmann et al., 2016, p. 1450). Thus, defending and upholding the idea of the state and the imagined community was a collectively desired return for which communities were willing to pay taxes.

In the Somali context, Mursal (2018, p. 20) and Varming (2019b) similarly conclude that the years of statelessness engendered the idea of the state as a positive expression of authority – 'the image of a self-reliant and neutral state reigned supreme in Somali discourse'. Such historical registers of authority were subsequently deployed to justify and legitimise the state's right to tax, even in cases where the state's capacity to collect said taxes was weaker than that of non-state actors. For example, local traders and businessmen in Mogadishu accepted the state's claim to raise revenue in the sense that it was almost coterminous with the state – "where there was a tax, there was a state", despite the autonomous way the business groups regulated the marketplace (2018, p. 19). For Varming, (2019b; 2019a, p. 134) 'such dynamics demonstrated the importance of the concept of the image of the state and the way citizens symbolically constructed the state and their place in it'.

3.3.3 Public Goods and Services

Lastly, a few other scholars argue that the omnipresence of the state's authority to tax can be attributed to the sheer demand for public goods and services needed for resolving collective action problems. Trefon (2009) finds that even in fragile contexts, certain services require specific administrative or technical actions that only the state can fulfil. Thus, 'people reinforced the state in these areas, helping it reproduce itself, even when it was known to be weak or corrupt (Trefon, 2009, p. 12).

Similarly, Titeca and de Herdt (2011) also note that the 'public' provisioning of services continues, even when the services are delivered by a variety of actors. In DRC, for instance, all actors involved in delivering education services continued to expect the state to provide such services (Titeca and de Herdt, 2011). In other words, the idea of the state as the final actor responsible for this service was not challenged. It was rather reinforced, conferring upon the state a high degree of symbolic power – 'to entrench further the reality that defines as valuable the practices that are the basis of legitimacy' (Titeca and de Herdt, 2011, p. 218). Kauppinen (2020, p. 53), drawing on her research in Ghana, also concludes that despite the limitations of African states, 'citizens have a desire for the state to act as a competent provider of public services' and such considerations need to be included within models of taxation.

In the Somali context, the business community has been accused of undermining political stability at various points (Menkhaus, 2007a). However, the picture is far more complex as private sector actors have also invested in state-building and have been willing to finance, support and comply with formal institutions and other forms of public authority (Hagmann and Stepputat, 2016; Marchal et al., 2002; Le Sage, 2002). Phillips (2012), for instance, finds that in Somaliland, 'despite the private sector's attempts to ward off increased taxation proposed by the government, such actors (especially in the Telecom sector) were unwilling to entirely marginalise the calls of some within the government for more formalised tax payments. This was because private sector actors thought maintaining peace was necessary for business and that the government needed tax to maintain peace' (Phillips, 2012, p. 66). Thus, 'maintaining peace outweighed all other political and economic calculations' (Phillips, 2012, p. 66). Similarly, Ahmad (2015) points out that the Somali business community lent their support to the Sharia courts (considered to be one of the most stable public authorities in the post-civil war period) and paid taxes not out of any ideological commitment

but because the price of 'security' was too high. Thus the exigencies of business and the need to carry out economic activities in a stable environment encouraged the business community to invest in and pay taxes to the Sharia courts (Ahmad, 2015).

Overall, these perspectives suggest a different interpretation of the fiscal exchange argument. They propose that by moving away from Weberian ideals of the state as a coherent, autonomous and authoritative entity, it is possible to conceive of tax relationships even in the most fragile contexts. Taxes can be exchanged for collective returns. Nevertheless, the terms of the exchange are not reciprocal nor as stable as predicted by social contract perspectives. Instead, public authorities with limited capacity to deliver collective goods legitimate their right to collect taxes by evoking and deploying the language of stateness and historical registers of authority. Taxpayers, in turn, are inspired by these state imaginaries and modes of rule and expect certain returns.

The literature identifies three sets of exchanges that are particularly significant in Somali literature. The first relates to how taxes can serve as payments for recognising property rights and citizenship. Because rights and public authority are co-produced, people agree to pay taxes as part of a loose contract for the recognition of their rights by public authorities. Hoffman et al. (2016), along with others, build on this insight and add that public authorities assert their claim to tax by invoking historical registers of authority. By recalling the image of an imagined state and community, public authorities can assert their legitimacy to tax, even without providing tangible services and goods. Lastly, the sheer demand for public services can also motivate tax payments. As demonstrated by Trefon (2009) and Titeca and de Herdt (2011), taxpayers can often reinforce the idea of the state and increase the state's symbolic power even in instances where the material manifestations are known to be weak.

Thus, the *Public authorities and exchange-based arguments* underscore how the language of stateness has veritable purchase in legitimising the public authorities' right to tax. While they acknowledge formal state institutions as just a type of public authority, these perspectives do not explore in detail the specific role of other actors and institutions (informal). Specifically, they seem less preoccupied with legitimating rubrics disassociated with the state idea or its practices. To explore the role of other institutions and actors and how they may contribute to the legitimacy of the state's right to tax, I engage with an alternate set of arguments

that centrally challenge the assumption of the state-society binary.

3.4 Hybrid Orders and Norms-based Approaches

Key Idea: Tax payments are motivated by informal norms and institutions that are intertwined with the state in hybrid arrangements, which not only assist in tax collection but also influence and legitimise the state's right to tax.

A third set of perspectives extend the argument proposed by exchange-based theorists and argues that just as local institutions draw on the state idea by adopting the "language and practices of states to bolster their legitimacy, there are leakages of meaning that flow in the opposite direction" (Lund, 2006, p. 691). In fragile contexts, they propose that informal institutions (traditional, customary, and other non-state institutions)[9] not only coexist but also overlap and intertwine with formal institutions and increase the legitimacy of state institutions and enable them to raise taxes (Lund, 2006; Boege et al., 2008).

In contending with how non-state institutions come to legitimate the state's authority, these perspectives crucially question the assumption of a line separating state and societal institutions (Migdal and Schlichte, 2016). To use Corrigan and Sayer's (1985, p. 7) expression, the line separating the state and "its other, the social identities, practices, and allegiances that states are formed against"(cited in Hansen and Stepputat 2001). For Mitchell (2009) and Gupta and Sharma (2009, p. 9), who disagree with such perspectives, the 'line' between the state and society is neither given nor is it ordained by the rational prowess of the state but is itself an 'effect of power'. Therefore, 'rather than searching for a definition that will fix the boundary, the state needs to be seen within (and not automatically distinct from) other institutional forms.

Furthermore, Guyer (2000) argues that there is also a need to question the dichotomy of the state as rational and societies (especially African societies) as governed by irrational belief, superstition, and a primordial sense of selective interest. Especially since, as Kraushaar and Lambach (2009, p. 4) observe, terms such as 'rational and irrational, 'modern and customary', are not definitional elements of institutions but

[9] Customary traditional structures include extended families, clans, tribes, religious brotherhoods, and village communities. In contrast, traditional authorities can range from village elders, headmen, clan chiefs, healers, religious leaders, etc. Non-state institutions, in turn, include warlords, vigilante groups, extralegal groups etc. (Boege et al., 2008; Meagher, 2012).

are rather normative categories with limited empirical validity. 'There are formal institutions firmly rooted in tradition (such as legalised chieftaincy systems). Likewise, informal institutions constantly evolve and sometimes have only a dubious claim to tradition' (Kraushaar and Lambach, 2009, p. 4–5). For Gupta and Sharma (2009, p. 9), once we begin to question the state-society binary, it becomes possible to unpack and study the 'operation of power in a dis-aggregated manner and de-emphasise the state as the ultimate seat of power' and rational prowess.

Moving beyond the state and society's binary distinctions and adopting a state-in-society approach also allows for studying the different models of rule and governance (Raeymaekers et al., 2008). Boege et al. (2008) posit that regions of fragile statehood are places where systems of Hybrid Perspectives of Political Order (HPO) exist –

> Where diverse and competing claims to power and logics of order coexist, overlap and intertwine, namely the logic of the 'formal' state, of traditional 'informal' societal order, and of globalisation and associated social fragmentation (which is present in various forms: ethnic, tribal, religious…) (Boege et al., 2008, p. 10).

The state, therefore, does not come to assume its vertical position as the supreme authority; it has to share authority, legitimacy, and capacity with other structures – for example, the council of elders (Gurti) in Somaliland. The task for examining the processes by which rule is coordinated and consolidated becomes that of analysing state practices through a 'diverse set of logics or institutions providing guidelines of appropriate action, backed up by sanctions (material and social)' (Hoffman and Kirk, 2013, p. 18).

In this sense, contrary to theories of clientelism and neo-patrimonialism (See Section 2), theorists of hybridity tend to see informal governance practices as 'functional' rather than corrupt or disordered (Hoffman and Kirk, 2013, p. 18). Furthermore, unlike institutionalist economists like North et al., (North et al., 2007), they do not retain a dualistic understanding and treat formal and informal spheres as distinct. Instead, their interest is in the 'intermingling and interpenetration of the norms and institutions of the formal state on the one hand and the norms and institutions of the informal (traditional, customary) sphere on the other' (Kraushaar and Lambach, 2009, p. 5). Indeed, some theorists go a step further and contend that most governance is hybrid, especially in post-colonial states. As Owen(2018, p. 10) argues, 'it is most pro-

ductive to dissolve the informal-formal binary completely and enlarge the middle category where things are somehow formal, somehow informal, and assume this to the be the basis of understanding of itself'.

For fiscal scholars, the prevalence of hybrid arrangements in fragile contexts has implications for understanding tax relationships (van den Boogaard, 2020; Prichard and Van Den Boogaard, 2017). *First, hybrid arrangements can effectively facilitate the state's institutional capacity to collect taxes and legitimise the state's authority to tax.* Olken ad Singhal (2011) find that hybrid tax arrangements can help resolve tax collection problems such as non-compliance and tax evasion. Decentralised public authorities who exercise greater control over local communities tend to be in a better position to enforce compliance (sanction non-compliance) than centralised authorities (such as the state) and also to identify taxable incomes (Olken and Singhal, 2011; van den Boogaard and Santoro, 2021).

For Lund (2006, p. 692) and Cleaver (2001), the significance of hybrid institutions for tax collection relates to how 'acts of public authority (including raising revenue) seem to fare better when they can institutionalise practices by building off existing socio-cultural arrangements'. Thus, just as local institutions draw on the state concept, "ideas of tradition, identity and locality may equally convey legitimacy to what are essentially emerging institutions"(Lund, 2006, p. 691). Guyer (1992) observes such dynamics more closely and discusses how, unlike their Western counterparts, African states did not experience the historical sequence linking taxation to representation. Faced with this situation, she argues that aspiring politicians and governments historically relied on chiefs and other traditional authorities to legitimate claims over tax collection.

Boege and others (2008) suggest the salience of these arrangements is related to the greater legitimacy of informal institutions, especially in contexts where state authority is mediated or limited. If the state does not have sufficient reach and ability to deliver essential services, people do not perceive themselves as 'citizens' (Boege et al., 2008, p. 9). In such contexts, informal institutions (kin group, tribe, village) take precedence over the state (Boege et al., 2008). However, the incorporation of informal institutions such as chiefs and other traditional authorities for tax collection can conversely undermine the authority of state institutions.

For van den Boogaard (2020, p. 41), a significant factor that mediates the relationship (of how informal institutions legitimise the state's authority to tax) is whether informal taxation authorities are 'convergent',

i.e. they supplement essential public goods and services that are key to the state's governing legitimacy. Distinguishing processes of governing capacity or authority from state capacity, she notes that although informality is usually seen as detrimental to long-term state-building processes, "where informal taxing actors converge with the state and where the state is weak, but present, in providing public goods, informal tax authorities can boost state legitimacy, bolster and extend state capacity, and contribute to partnership models of statehood and state-building" (van den Boogaard, 2020, p. 43).

A second way hybrid arrangements can bolster tax compliance is through the working of informal norms. For researchers studying informal social norms[10], their significance in engendering tax compliance and morale stems from how such norms are implicated in the underlying moral economy. Some of this analysis can be traced back to the concept of practical norms, developed by de Herdt and de Sardan (2015), who describe them as the actual practices of state employees, which do not always follow the official and legal norms or rules. Prichard and Van Den Boogaard (2017, p. 14) suggest that 'especially in cases of weak institutions, rigid formal institutions are ill-suited to deal with the variability and unpredictability inherent in precarious local economic realities'. In such contexts, informal norms of fairness, reciprocity, and interdependence practised by tax collectors can soften some of the bluntness of formal tax instruments and enhance the progressiveness and legitimacy of the state's tax system. Similarly, Titeca and Herdt (2010, p. 590) and Mizes and Cirolia (2018) also find that the authority of state institutions is strengthened when government officials are considerate of the economic concerns of the population and subscribe to practical norms that differ from legal regulations (e.g. by independently lowering taxes).

Correspondingly, groups of taxpayers are also concerned about adherence to such norms. Economic historians and management scholars observe that for firms concerned with their overall reputation, social norms can check corporate tax aggressiveness (Dyreng et al., 2016). Specifically, cultural and social norms are crucial to a firm's reputation; 'pressures to gain legitimacy and support prompt at least symbolic confirmation of societal ethicality' (Agarwal, 2017 cited in Baudot et al. 2019, p. 199). Firms, thereby, 'refrain from engaging in overly aggressive tax avoidance behaviours and, thus, pay their fair share of taxes to avoid a negative reputation' (Baudot et al., 2019, p.199). Therefore, in place of an exchange-driven logic, where

[10] 'A rule of behaviour which individuals conform to on condition that they believe that (a) most people in their reference network conform to it and (b) that most people in their reference network believe they ought to conform to it' (Bicchieri, 2017, p. 35).

taxes are the price for access to goods and services, the role of non-pecuniary drivers – kinship, religiosity, moral obligations of reciprocity (Weber et al., 2014) is more prominent.

The significance of hybrid arrangements notwithstanding, clear differences exist in how 'informal' institutions augment the state's authority and capacity for taxation. In the following sections, I attempt to offer a more contextually rooted understanding and discuss some of the most salient institutions in the Somali context. I highlight how such institutions have evolved to contribute to the state's authority and capacity to collect taxes.

3.4.1 Religious Institutions

As an overwhelmingly Muslim-majority country, religion has always played a prominent role in Somali discourse and practice. During the regime of Siad Barre, religious institutions were considered a threat to the project of scientific socialism.[11] After the fall of the government, significant hybridisation took place between business elites and religious authorities (Varming, 2019b). For businesses, the reliance on religious institutions arose from a need to ensure a stable and secure business environment. Consequently, there was a resurgence of religious identity and organisations motivated by a combination of economic interests and a genuine upsurge in religious awareness (Ahmad, 2015; Marchal and Sheikh, 2015).

> 'Islamic charities in South Somalia behaved as a consolidated institution in a stateless environment, in part due to the ability of the religious authorities to collect funds through the well-formulated religious obligations of mandatory *Zakat*[12] *Sadaqah*[13], combined with the trust they enjoyed from the population' (in Varming, 2019b, p. 13).

Given their prominence and also their capacity to collect informal taxes, Varming (2019b) finds that hybridised modes of revenue collection (combining state and religious authorities) served to reassert and legitimise the image of a state as a powerful and self-reliant entity and reinforced the 'state's prerogative

[11] The regime was openly hostile to any assertions of Islamic political agendas and exerted direct control over all mosques and Imams (Marchal and Sheikh, 2015; Varming, 2019b).
[12] Zakat has a clear and simple formula for payment (2.5 per cent of accumulated wealth)(Abshir et al., 2019).
[13] Is an Islamic voluntary charitable contribution collected through mosques and nationwide networks (van den Boogaard and Santoro, 2021).

to tax' (Varming, 2019b, p. 16). She argues that religious authorities were considered to have greater legitimacy than the state. Therefore, to compensate for the "lack of trust" in the state, religious authorities were involved in hybrid arrangements (Varming, 2019b, p. 13).

Examples from other related contexts suggest that religious registers of morality and piety can often also convince citizens of the need to pay 'formal' tax. In South Sudan, taxpayers made sense of the formal state practices of social-service taxes by associating them with 'informal spiritual practices, norms and institutions, which in turn partly explained the seemingly passive endurance of tax payment in a context of generalised poverty' (Santschi, 2018, p. 15). Similarly, Kauppinen (2020, p. 50) highlights how, using the trope that "Good Christians pay taxes", the Ghanaian state conflated religious piety with fiscal obedience. Consequently, she underscores the significance of paying attention to the 'distinct transactional modes, including tithes and other religious levies, that shape popular concepts of and attitudes towards formal taxation' (Kauppinen, 2020, p. 41).

3.4.2 Clan Institutions

Alongside religion, another fundamental institution of Somali political and economic life is the clan system – a segmentary patrilineal system of kinship (Lewis, 1988; Gundel and Dharbaxo, 2006; Bakonyi and Stuvøy, 2005)[14]. From a local governance and revenue-raising standpoint, the most salient clan institution was that of the *Diya or Mag*-paying group (blood compensation), 'representing the smallest social unit (from a few hundred to a few thousand men), bound by close kinship ties, with members taking collective responsibility for their security and that of their group' (Lewis, 1988; Gundel, 2009; van den Boogaard and Santoro, 2021, p. 19). Clan elders *Aqil* and *Nabadoon*, who were head of the Diya paying group and functioned as decision-makers, judges and conflict mediators, 'gained greater importance in political life and development with the collapse of the state' (Leonard and Samantar, 2011; Renders and Terlinden, 2010; Gundel and Dharbaxo, 2006, iv).

In particular, there were a range of payments and contributions collected by clan elders to manage local governance and conflicts, underpinned by customary laws, or *Xeer* (Jordan, 2016; Abshir et al., 2019, 2020).

[14] In the following sections of this thesis, I discuss the evolution of clan institutions (Bakonyi, 2009; Samatar, 1992) in more detail.

The most common types of payments included, *Qaaraan*, a type of clan insurance paid by all clan members as a mandatory payment in case of an incident such as loss of property or life and Diya payments or blood compensation payments paid as financial compensation when an individual was killed, wounded or in some cases where there was a loss of property (Jordan, 2016). Diya payments reflected a form of communal burden sharing that contributed to stability and peace and was levied only within clans. Qaaraan, on the other hand, was a general 'welfare tax' that was negotiable and could be levied outside of a specific clan group (van den Boogaard and Santoro, 2021).

In the years following the institution of the federal government, kinship-based 'informal' tax collection served to legitimate the authority of formal state institutions. van den Boogaard and Santoro (2021) find that despite a high prevalence of informal tax payments, taxpayers attributed outcomes from informal payments to the formal institutions (district government), regardless of whether they were involved in such provisioning[15]. Across South-Central Somalia, other studies also note hybrid cases of tax collection involving clan elders. In several locations, when citizens refused to pay taxes or payments to the local administration, clan elders were called upon to broker the negotiations and raise revenue for the local administration.(Jordan, 2016; Abshir et al., 2019, 2020).

van den Boogaard and Santoro (2021, p. 35), attribute the involvement of clan elders in hybrid tax arrangements to the greater trustworthiness and legitimacy of such institutions – 'the only group to possess legitimacy across the broad spectrum of Somali society'. Furthermore, payments made to clan elders were considered a social obligation required or requested to fulfil collective responsibilities rather than to provide direct access to goods or services (van den Boogaard and Santoro, 2021). The underpinning logic was to maintain good standing and avoid any social sanction that would preclude clan members from receiving reciprocal support from the community in the future (van den Boogaard and Santoro, 2021).

3.4.3 Informal Norms

Lastly, recent research demonstrates the significance of informal norms and institutions in Somali society. Specifically, how these norms 'interacted with official rules and generated the dynamic "practical" norms

[15] Informal revenue generation corresponded to a 12% increase in tax morale towards the district government.

that defined the system of taxation experienced by taxpayers' (Prichard and Van Den Boogaard, 2017, p. 8). For instance, Campos (2016, p. 4) finds that tax collectors in Somaliland who subscribed to informal norms and conceived of tax relations as interdependent or 'communistic' in place of a relationship based on exchange were better able to facilitate tax collection. The key difference was that in place of viewing tax as 'something that was owed' and was, in principle, a relationship between equals, 'taxpayers were taken according to their specific circumstances and unique solvency problems' such that enforcement was suspended to obtain adherence at a future date (Graeber, 2011; Campos, 2016, p. 22).

Meester et al. (2019) also note the significance of these norms, especially for businesses. They find that business groups 'continued to see themselves as part of a community – and beholden to it, for better or worse (Meester et al., 2019, p. 27). Consequently, 'there was a willingness among sections of the private sector to contribute to the state budget without the expectation of a specific return – whether you call it taxes, charities, or Corporate Social Responsibility (CSR), whenever the government needed help, they could call the private sector and ask for the money' (Meester et al., 2019, p. 42).

Departing from traditional tax theories, the hybrid perspectives question the vertical line separating the state from society and argue that "just as ideas of state and icons of modernity may be drawn upon by non-state actors, opposite ideas of tradition, identity and locality may equally convey legitimacy to what are essentially emerging institutions" (Lund, 2006, p. 691). In most contexts, particularly fragile situations, hybrid arrangements prevail such that non-state actors provide services and practices of authority, including tax collection. Unlike exchange-based theories, HPO perspectives conceive the legitimacy of state authority around taxation – to be partly contingent upon norms and informal institutions rather than the language of stateness and historical registers of authority.

HPO perspectives also encourage the need for conceiving fiscal relations beyond the logic of exchange to interrogate the role of informal norms and institutions in engendering tax compliance and taxpayers' perceptions of the state and its legitimacy. In this respect, 'paying taxes is not only a ritual of citizenship' (Makovicky and Smith, 2020, p. 1) as the state may not serve as the sole referential point mediating perceptions of how taxpayers come to understand and engage with formal taxes. Instead, taxes exist within a broader universe of transactions that bring about communality and interdependence with state and non-

state institutions (Makovicky and Smith, 2020, p. 13). In the Somali context, religious and clan institutions, considered more legitimate and trustworthy than the state, have been known to engender compliance and motivate tax payments. Relatedly, informal norms have also been found to encourage tax compliance by inspiring feelings of reciprocity and community.

Despite their persuasive appeal, theorists of hybridity tend to emphasise the positive role of 'informal' institutions and are less sensitive to instances wherein hybrid institutions can undermine state legitimacy (Renders and Terlinden, 2010). As Meagher (2012, p. 1080) argues, 'the incorporation of locally powerful non-state actors into formal governance arrangements may intensify rather than address the 'hollowing' out of the state' that has so alarmed commentators on state failure'. Specifically, 'uncritical references to the embeddedness of non-state forms of order' presumes that such forms of authority are legitimate irrespective of the specific constellation of actors, institutional histories and economic and political pressures shaping particular non-state orders (Meagher, 2012, p. 1078).

3.5 Conclusion

The literature emerging from the fragile state experience addresses many limitations associated with more 'conventional' taxation theories, which tend to miss the fiscal realities of such contexts other than to claim that they are not 'European enough'. By questioning the fundamental conceptions of the 'state', these theories encourage a more empirical approach to the study of the maintenance of political order in contexts of fragility. They advocate for the possibility of observing tax relations in contexts where political order is maintained by an assemblage of institutions and actors – who do not exercise a monopoly over coercion and have limited authority and resources to govern hierarchically and effectively. In such situations, in place of reciprocal exchanges between citizens and the state, underpinned by the state's coercive capacity, legitimacy and ability to deliver goods and services, the motivations of taxpayers need to be modelled differently.

The *political settlement and elite bargaining* literature posits that tax payments are structured as an elite compromise. As such, the incentive to pay tax may not emerge from a straightforward commitment to the

'state project' as envisaged by contractual perspectives. In fragile situations, stability and order are possible when a dominant elite coalition is guaranteed access to privileged rents. This is the basis of the underlying elite bargain, which is an agreement that determines how power is distributed among powerful groups. One of the most 'potent' ways elites can be encouraged to cooperate is if rent-sharing agreements involve selective or limited enforcement of tax policies. The structural, institutional, and holding power of elites together shape the bargains that are ultimately agreed upon by elites and determine their commitment and contribution to the state's extractive capacity (the capacity to raise taxes).

Theories of *exchange and public authorities* resolve some of the gaps in understanding left unaddressed by the literature on elite bargains and political settlements – namely, explaining why taxpayers would be motivated to pay some amount of tax. They question the notion of the state as a coherent entity and argue that to grasp the basis of tax relations and the maintenance of public order more broadly, it is critical to acknowledge how ideas and practices come to constitute the state. In particular, they propose that what characterises most fragile contexts is an assortment of public authorities that exercise the "actual authority of state institutions". Public authorities, of which the state (formal institutions) is just one, exercise their right to collect taxes by offering collectively desired returns that flow from the legitimacy of the state's idea and material practices. However, because formal institutions are weak, the terms of the exchange are not always reciprocal, stable or consensual (as predicted by contractual perspectives). Three sets of exchanges are particularly significant and find resonance in Somali literature. The first relates to how taxes can serve as payments for recognising property rights and citizenship. The second follows from Hoffman et al.'s (2016) point regarding how public authorities draw upon the language of stateness to assert their legitimacy to tax in exchange for upholding a specific vision of the state and imagined community. Lastly, the sheer demand for public goods and services motivates tax payments. Taxpayers can reinforce the idea of the state and increase the state's symbolic power even in instances where the material manifestations are known to be weak.

Similar to exchange-based perspectives, theorists of *hybridity* agree that what characterises fragile states is a variety of institutions and authorities. However, they contest the claim that public authorities are largely legitimated through references to the notion of the state. Instead, they propose that legitimacy is partly contingent upon norms and institutions that have long been present in society. Combined and coalesced

with formal state institutions, 'informal' institutions and norms help legitimate the state's right to tax. In the Somali context, religious and clan institutions were involved in hybrid arrangements aimed at engendering tax compliance. Relatedly, norms embedded more broadly in society – reciprocity, fairness and civic cooperation have also been crucial in legitimising the state's authority to tax. However, what distinguishes hybrid arrangements from exchange-based perspectives is the logic underpinning the taxpayer's motivations is not a return or an exchange but 'communistic' reasoning of inter-relationship and interdependence. Thus, hybrid perspectives demonstrate how informal norms and institutions may mediate taxpayers' understanding of formal taxes and, as such, make room for other forms of rationalities (beyond contractarian models).

These perspectives provide considerable conceptual space to discuss and interrogate tax relations between the private sector and the Federal Government of Somalia. In succeeding chapters, I examine how the story unfolding from my research weighs up against the proposed arguments. I follow this strategy intentionally because, methodologically, a process-tracing approach necessitates exploring different lines of reasoning to establish causality.

Chapter 4

Fiscal History of the Somali State

4.1 Introduction

For much of its history, Somalia has been described as a stateless society where 'effective tax collection under a centralised authority has been a persistent challenge' (van den Boogaard and Isak, 2021, p. 5). From this perspective, the fiscal history of the Somali State would be of little value and should not be exhaustively interrogated. In this chapter, I set about to do just this and trace the fiscal history of the Country. I argue that tracing Somalia's fiscal trajectory is a critical and worthy endeavour because, as I also demonstrate, centralised institutions were not wholly absent in the Somali territories (Mamdani, 1996). The legacy of the pre-colonial and post-colonial states left a strong impression in the minds of the Somali business class after 'state collapse' and defined conceptions of the state in the post-transitional era. Moreover, the state was not the only form of public authority, and non-formal institutions conjugated with the state emerged to govern parts of the country and engaged in tax collection. The encounters with the state and other public authorities shaped the tax motivations of the business class, who contemplated the importance of investing in the 'state' project at different junctures. Thus, only by delving into and taking stock of history is it possible to appreciate the nature of tax relations in the post-transitional period (2012 onward).

In tracing the fiscal history of tax relations and detailing how state and non-state public authorities have

developed their extractive capacities, I pay particular heed to the developments made in new fiscal sociology on the importance of rooting tax relationships within their historical, political and sociological moors (Martin et al., 2009). Bearing in mind these considerations, this chapter is organised as follows: I begin by outlining the experience of centralised institutions and nascent tax relations during the pre-colonial period. I then assess how colonialism transformed state-society relations and introduced a wholly different experience of authority. Following this, I interrogate colonialism's role in setting the tenor of the post-colonial state's extractive capacity. Specifically, how tax extraction persisted at the interface of the 'gate' and the role that such factors played in engendering the pattern of patronage-based politics which benefited specific businesses. Next, I argue how the regime of Siad Barre continued in the tradition of the civilian government and did not expand the country's tax base, persisting with the trend of relying primarily on indirect taxes and foreign aid. The private sector that emerged during this period saw the state as an obstacle to growth and had reduced motivation to pay taxes.

After the fall of the regime, I describe how the country's southern regions descended into a state of protracted conflict and 'statelessness'. However, even in this situation, it was not as if there was an absolute vacuum of authority. Nevertheless, the initial years of the war were the worst for business. Businesses survived by paying taxes and protection payments to the warlords. The international interventions that followed boosted business opportunities and reinforced the link between businesses and warlords. Consequently, both groups had a reduced impetuous for investing in conflict-de-escalation and state-building.

In the concluding section of this Chapter, I detail how following the withdrawal of the United Nations Assistance Mission in Somalia (1993-95) (UNSOM II), the changes in the nature of business in many ways spurred a process of dewarlordisation. Simultaneously, during this period, the international community attempted to resurrect formal state structures and supported the development of two transitional governments. Initially, sections of the business community came out to support the first transitional government, but its 'paper status' and close relationship with a few business groups reduced its revenue-raising potential. The failure of the Transitional National Government (2000-2004) (TNG) veered the business community towards the Islamic Courts Council (ICC), which had a long-standing reputation for securing peace and law and order. However, this experiment lasted only a short time as the ICC was overthrown and replaced by another transitional government. The new transition government also struggled to expand its

authority for centralised tax collection to vast parts of the southern regions, which came under the militant group AS.

4.2 Precolonial

> "Power is a treasure that should be guarded wisely and prudently.
>
> The man who uses it against people unjustly will soon lose it".
>
> Somali Proverb — Qaaje-Gurey of Bureo (in Cassanelli (1982))

The Somali people trace their lineage to the eastern Cushitic peoples (or Hamitic groups), who began migrating northwards from an area on the present-day Ethiopia-Kenya border to the Somali peninsula around the fifth century BC (Lyons and Samatar, 1995; Bradbury, 2008; Lewis, 1988). The peninsula's occupation up to the Red Sea brought these groups into direct contact with Muslim Arab and Persian merchants (Lewis, 1988). However, it was not till the arrival of Muslim patriarchs – Sheikh Issaq and Sheikh Darood sometime between the 10-13th centuries that a rapid process of proselytisation began (Bradbury, 2008). By the 12th century, as the population spread southwards and westwards, a distinct set of characteristics — common language, descent, faith, and mode of livelihood, typically associated with the Somali people, took form (Bradbury, 2008).

The semi-arid ecology of the region was the progenitor of the largely subsistence-based pastoral economy, the dominant mode of production up until colonial rule [1] (Marchal, 1996; Samatar, 1992; Lewis, 1988). In the northern regions, the economic structure, which was geared towards production for use ('communitarian pastoralism')[2] rather than exchange, negated the development of centralised state institutions (Samatar, 1992, p. 632). All adult members were engaged in communitarian pastoralism, and as such, there was no class-based system of institutionalised hierarchy, although 'gender-based exploitation was a characteristic feature' (Samatar, 1992, p. 632). Furthermore, 'the migration of the production units (livestock)

[1] The economy was subsistence-based, but not self-sufficient and pastoral Somalis bartered and traded with the coastal regions and the grain-producing societies of eastern Ethiopia (Ahmad, 2017; Samatar, 1985; Marchal, 1996).

[2] A social system in which the production of use-values predominates, unlike 'peripheral capitalist pastoralism', which involves the creation of exchange-values.

and the continuous shift in alliances reduced the development of stable territorial groups and established administrative, political and economic institutions' (Samatar, 1985, p. 45-46). Without centralised institutions, a distinctive structure of order characterised by three core elements emerged: the lineage system, the system of customary laws and the traditional authorities or juridical-political structures (Gundel and Dharbaxo, 2006; Gundel, 2009).

4.2.1 Lineage Structure

Somali society was based on a vertically oriented segmentary lineage system in which individuals took their positions according to patrilineal descent traced through the male line (Gundel and Dharbaxo, 2006; Gundel, 2009; Lewis, 1988). The system was differentiated into the upper unit of the clan (spanning 20 generations), which tended to have some territorial exclusiveness following their regular seasonal movement for pasture but remained without a system of centralised administration (Gundel, 2009). From its earliest representations, the clan system was suggested to consist of three to four prominent clan families[3] — *Darod*, *Hawiye*, *Dir* and *Issaq*[4], who traced their descent (real or invented) to a common forefather [5] (Gundel, 2009). The most distinct descent group within the clan was the 'primary lineage', or Diya[6] (Samatar, 1985, p. 46). As previously discussed, the Diya-paying group, consisting of 4-8 generations of lineages, formed the primary and most stable political and jural unit in the Somali pastoral society and was the main sub-division for protection, social security and insurance (Gundel and Dharbaxo, 2006).

4.2.2 Customary Laws

The social and political relations of the Mag paying groups were defined based on customary laws or Xeer (Gundel and Dharbaxo, 2006). The Xeer formed the basis of social order and has often been described as comparable to the Western political notion of a 'social contract' (among kinship groups)(Bradbury, 2008, p. 17). However, the critical difference was that in the case of Xeer, the 'contract' was among kinship

[3]The leading clan families continue to be prevalent.
[4]See Glossary for more details of the major clan groupings.
[5]Samaal purportedly descended from the Arab clan of the Qurayshi through Aqil ibn Abi Talib (c.580 – 670 or 683), who is considered to be a cousin of the prophet Muhammad (Gundel, 2009).
[6]Also known as Mag-paying group.

groups rather than between the state and citizens. The Xeer, therefore, did not eliminate strife (in the Hobbesian sense) but offered workable ways of dealing with disputes and conflicts (Lyons and Samatar, 1995)[7]. The arrival of Islam reinforced the inclusive dimension of Xeer and provided a common framework for organising social and economic life (Ahmad, 2017, p. 10):

> "By infusing a new moral language into the culture and requiring all believers to see one another as members of a large fraternity, committed to doing and earning good in this world to secure salvation in the next life, the faith offered Somalis an additional way to expand and strengthen old models of behaviour".

In the absence of centralised coercive machinery, the underpinning economic structure gave Xeer its staying power (Samatar, 1992). 'In conjunction with Islam, the absolute necessity of relying on one's labour/livestock rather than exploiting others prevented and restrained centrifugal tendencies within the lineage system' (Samatar, 1992, p. 61).

4.2.3 Juridico-political Authority

While clan groups lacked any official political leadership, at every level of segmentation, lineages were led by their elders — *Oday, or Odayaal* (Gundel and Dharbaxo, 2006; Gundel, 2009). The highest level of elders, the *Suldaan*, *Issim or Duub*, represented the corporate unit of the clan and its relative territorial exclusiveness (Gundel and Dharbaxo, 2006). Lewis (1988) describes these groups of elders as the most important arbiters, mediators and peacemakers in inter and intra-clan relations. Disputes between individuals of the same Diya-group were taken before an open council — *Shir*, of the concerned elders (Gundel and Dharbaxo, 2006). The Shir was the most fundamental institution of governance and democratic participation in Somali pastoral society (Samatar, 1985). There were no formal positions attached to the Shirs and no specific meeting time except when explicitly agreed (Samatar, 1985).

[7] It is commonly agreed that there are two broad categories of Xeer Guud and Gaar. Xeer Guud applies to the settlement of grievances and disputes between Mag-paying groups. Xeer Gaar refers to specialised professional norms that regulated traditional economic production relations for clans and sub-clans, specifically involved in pastoralism and other economic activities (Puntland Development Research Center, 2003).

The combination of these features of traditional order contributed to the conception of pre-colonial Somali society as a stateless, egalitarian, pastoralist democracy (Samatar, 1992, 1985; Lewis, 1988). Since clan groups were subsistence-based, it was felt that situations of differential wealth and power were largely avoided. The Diya-paying groups, the most fundamental political entities, mediated conflicts based on the Xeer. There were also no centralised leaders, only elders who represented various levels of political segmentation and gathered in a Shir to settle problems of the political units. Moreover, as everyone was a member of the production unit, it was argued that no tribute payments or other forms of surplus extraction, such as taxes, existed (Samatar, 1985).

Several scholars, however, complicate this image of an egalitarian, consensus-based stateless society. Besteman (1996) argues that in contrast to the northern nomadic society, there was greater stratification of the agro-pastoralists. The agro-pastoralists traced their ancestry to one apical ancestor (*Sab*) and were composed of primarily two main clans — *Digil* and *Rahanweyn* (Besteman, 1996; Lewis, 1988). Three classes of landholders were recognised — 'putative descendants of the original groups, long-standing accretions and finally recently adopted clients' (Lewis, 1988, p. 13). Moreover, in southern Somalia, where agro-pastoralists were based, 'lineage ties were often secondary to village membership in managing daily affairs' (Besteman, 1996, p. 584). For instance, whole villages could function as Diya-paying groups (Besteman, 1996).

There were also status distinctions between clans based on their ancestry. The main categories were "nobles" and "commoners" (Besteman, 1996, p.584). The four main Samaal clans were considered lineally pure because they could trace their ancestry to the (mythical) founding member of the clan (Besteman, 1996). In contrast, the agro-pastoralist clans were deemed impure because of their practice of adopting outsiders and the perception that they showed racial evidence of intermarriage with the Bantus. The Bantus traced their lineage to enslaved people imported from East Africa during the 19th century (Besteman, 1996). The agro-pastoralists' greater dependency on the 'lower-status' occupation of cultivation[8] and their distinctive dialect, called *may-may*, also contributed to their commoner status (Besteman, 1996). In addition to these inter-and intra-clan status distinctions, Somali society included several other groups that were not part of the clan system [9] (Besteman, 1996). Thus, the segmentary lineage model was complicated by inter and

[8] Pastoralism was considered to be a high-status occupation.

[9] Examples include non-Somali farmers whose ancestors had probably arrived there before (13th century) the pastoralist Somali dominance of the Horn.

intra-clan distinctions, shifting lineage or clan membership practices and groups that were outside the clan system altogether.

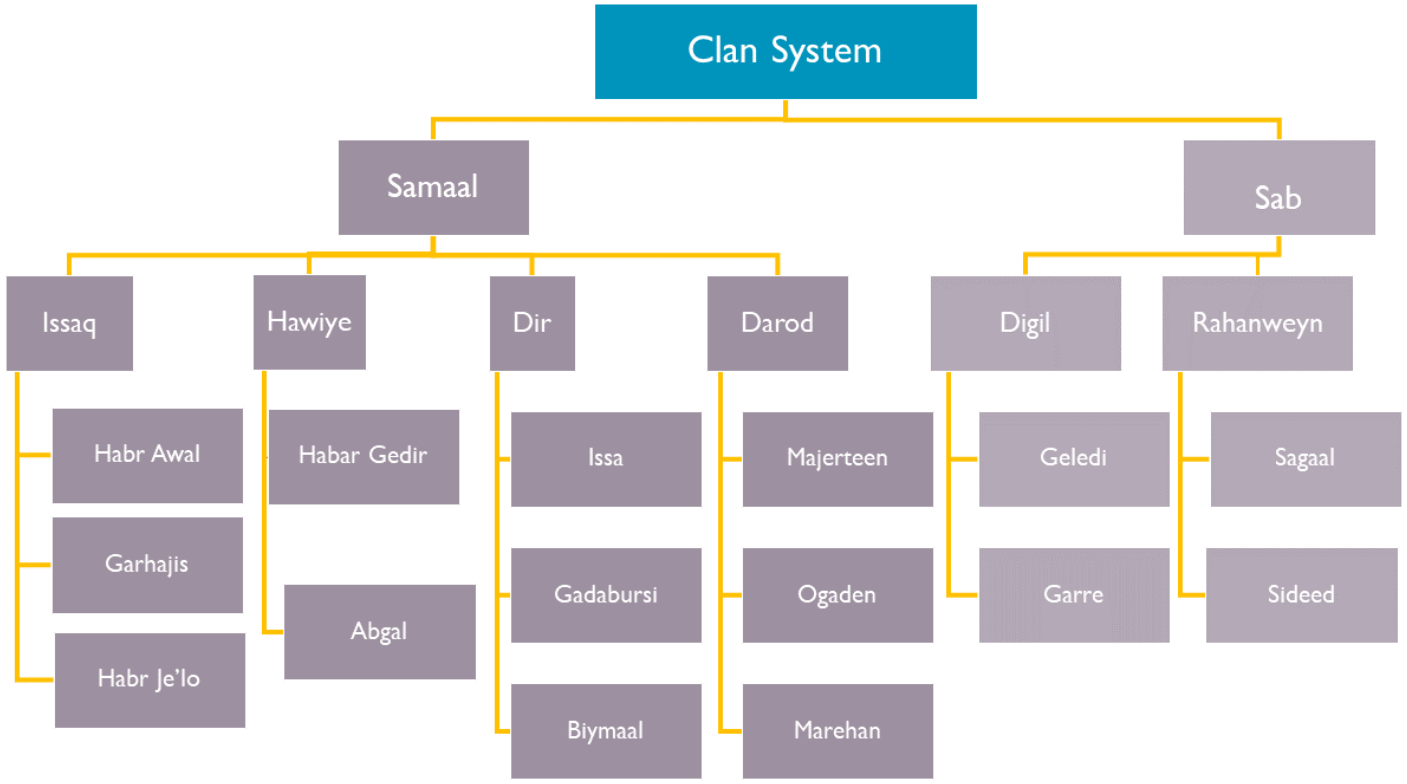
Further, while centralised institutions were not integral to the clan system, they were not wholly missing, supporting the claim that 'Somali society and state structures were not necessarily inimical' (Bradbury, 2008, p. 16). For instance, Lewis (1988) acknowledged that although centralised governance was not a feature of the hinterlands, it was experienced in the coastal regions of Zeyla and Berbera in the north and Mogadishu, Merca and Brava in the south: "It was on the coast that any degree of centralised government was established and maintained, however irregularly and over some time" (Bradbury, 2008, p. 30).

Contemporary scholars, such as Ingriis (2018, p. 60), go a step further and assert that 'against western models of the nation-states it is erroneously assumed that pre-colonial Somalis were a stateless society. Such readings overlook the rise of pastoral sultanates' (Bradbury, 2008; Laitin and Samatar, 1987). Examples include the Ajuraan[10] and Geledi Sultanates [11] that represented a level of clan authority above and beyond that of clan elders (Cassanelli, 1982; Varming, 2019a; Luling, 2006).[12] The Ajuraan Sultanate, for instance, was able to rule because it dominated the central nodes of pastoral activity through a 'network of agnatic and affinal ties that linked the leading lineages of the region' (Cassanelli, 1982, p. 102).

Tribute payments and the collection of taxes were common under the Somali sultanates. The term Ajuraan stemmed from the Arabic word — *Ajara*, which meant "to tax" (Cassanelli, 1982, p. 92). 'The Ajuraan sultanate collected tributes in the form of Durra and Bun (coffee beans roasted in butter) from the cultivators who farmed the alluvial land along the Lower Shabelle River (in South-East Somalia)' (Cassanelli, 1982, p. 92). The Sultanate also incorporated groups of riverine cultivators that were settled at various places along the Shabelle River from Qallaafo in the north to Torre in the south-east, near Baraawe [13] (Cassanelli, 1982). In exchange for supplying grain and labour to the dominant pastoral stratum in the region, the cultivators received the latter's patronage and "protection" (Cassanelli, 1982, p. 92).

[10] The Ajuraan Sultanate was a Somali empire in medieval times whose domain extended to much of Southern and Eastern Somalia. Hawiye-related clans formed the core of the polity.
[11] The Geledi Sultanate was the Rahanweyn Kingdom ruled by the Geledi, which held sway over the Juba and Shabelle rivers in the interior and the Benadir coast.
[12] There were other types of Sultanates in the north of the country — e.g. Majerteen Sultanate.
[13] A town in present-day Lower Shabelle.

Figure 4.1: Important Clan Groups



Similarly, the Sultans of the Geledi received tribute in the form of grain and sesame, but they did not own lands or herds (Varming, 2019a). While the tribute was called *Sako*, recalling the religious duty of Zakat[14], "whoever did not bring the sultan his tribute was not considered loyal to him" (Luling, 2002, p. 178). The Geledi Sultans were also known to collect tolls from the extensive caravan trade passing through their area and extracted a significant share of the customs revenues from Baraawe port (Luling, 2002; Varming, 2019a).

Returning to the old Somali proverb at the beginning of this chapter, the experience of the Ajuraan sultanate, in particular, left an indelible imprint on the Somali psyche. 'The Ajuraan Sultanate combined all the elements of pastoral power [15], such that the long-lived and effective rule of the theocratic dynasty would not be repeated in the history of Southern Somalia' (Cassanelli, 1982, p. 112). The Sultanate ended by the 17th century, and by popular accounts, it declined because its 'tyranny became insupportable' (Cassanelli, 1982, p. 94). 'The preservation of the Ajuraan legend nevertheless reminded Somalis of the dangers of autocratic rule', an impression which was further reinforced as the Somali territories became the subject of European imperialistic ambitions (Cassanelli, 1982, p. 95).

4.3 Colonial Period 1886-1960

By the tail end of the 19th century, Britain, Italy and France had subdivided the territory inhabited by Somalis among themselves. The pastoral north was brought under British colonial rule (current Somaliland in the North-west) (1886-1960), and part of the region came under the permanent French administration (present-day Djibouti). The agricultural agro-pastoral and pastoralist southern area east of the Jubba River came under Italian rule (1889-1960) (Besteman, 1996; Lewis, 1988). In 1925, Britain ceded to Italy much of the Somali-inhabited territory west of the Jubba River, drawing a boundary between Italian Somalia and British Kenya's Somali-inhabited North-West Frontier District (Lewis, 1988). The introduction of colonial rule accelerated what was an embryonic nation but with the added effect of integrating the Somali people 'territorially, politically, and economically into an international political system constructed on the basis

[14] Zakat is a compulsory charitable contribution.
[15] The Geledi lacked the theocratic superstructure and administrative hierarchy.

of nation states'. (Bradbury, 2008, 2003, p. 10). Thus, as in other contexts, the lasting legacy of colonialism was the creation of a 'modern' nation-state with a hierarchical and centralised system of government (Bradbury, 2003, p. 10).

Even as the process of establishing a centralised and hierarchical system of government varied between the British and the Italian colonies, in both regions, the primary interest was more strategic than economic (Marchal, 1996). Herbst (2014, p. 82), points out that such motivations were by no means unique and reflected a 'general ambivalence with which the Europeans colonised Africa '[16]. In their occupation of Somaliland, the British were interested in securing the supply of meat for their garrison at Aden and protecting the trade routes to their colony in India (Lewis, 1988; Marchal, 1996; Prunier, 2010). Consequently, they made limited investments in developing the economy and expanding their authority to the interiors of the country, preferring instead to 'rule on the cheap' (Lewis, 1988; Herbst, 2014, p. 94)[17]. The Italians, in contrast, saw the colonisation of Somalia as a means of enrichment and survival for their newly formed nation-state, suffering from poverty and over-population (Prunier, 2010). Yet, the Italian state's limited means led the colonial administration to 'essentially continue a distant, neglectful and at times violent mode of rule' (Varming, 2019a, p. 54)[18].

Furthermore, to maintain control over the territory without expending resources, the colonial authorities relied upon systems of indirect rule (Hoehne, 2016). An implicit contract emerged between local 'traditional' leaders whereby they led their communities in complying with the state's writ, and the colonial powers, in turn, protected these authorities. Mamdani (1996, p. 48) who has extensively documented such arrangements in other parts of the continent, asserts the lack of accountability of such structures, which were not constrained by checks of 'peers or people'. However, Mohamed (2007) notes that in Somalia, the structures of indirect rule were not only unaccountable, but they were also not representative as the colonial powers miscalculated their authority. Colonial administrators assumed that the traditional sys-

[16] Such ambivalence was enshrined into policy during the Berlin Conference (1884-85), where colonial powers agreed that the costs of extending rule were exceptionally high since Africa represented a vast and unknown continent. This later became known as the 'Hinterland Theory (Herbst, 2014, p. 71).

[17] However, the British were forced to move inland during the Dervish Uprising. But the pace of colonial expansion remained slow (Bradbury, 2008).

[18] The rule became a bit more direct after World War I when the fascist regime started its 'second conquest' of Somalia (Prunier, 2010).

tem was tribal and that traditional elders (Aqil's) could be transformed into chiefs, even as they lacked the necessary influence and credibility (Mohamed, 2007).

The traditional authority of these structures was also undermined. Especially in Italian Somalia, clan elders were reduced to 'mere decorative figures'(Prunier, 2010, p. 42). Furthermore, the kinship system was employed as a technology of power (Kapteijns, 2013). Since the colonial administration insisted on ruling the Somalis as clans, the kinship groups began competing against each other (Kapteijns, 2013). Thus, even if kinship had been a dominant principle of political and social organisation — colonial anthropology relied too heavily on the genealogical table without recognising that the kinship system was not just based on lineage but also rooted in the system of Xeer (Mohamed, 2007). 'Without understanding the form and content of the Xeer system, one could hardly make sense of the kinship system' and the basis of political order in Somalia (Mohamed, 2007, p. 241).

The imposition of the colonial state on the old Somali order eroded traditional forms of economic activity, specifically practices of communitarian pastoralism. These changes, in turn, had far-reaching repercussions on the role and significance of Xeer (Samatar, 1992). In particular, one of the enduring legacies of the colonial administration was the commercialisation of pastoralism and peasant agriculture, even as the state neglected the sector and few investments were made in productive enterprises (Marchal, 1996). World War II and the Italian-Ethiopian War further enhanced commercial exchanges and contributed to the development of an indigenous business class dominated by import-export traders and livestock brokers (Marchal, 1996). What was characteristic of such developments was that although commercial trading was not new to the Somali territories, during the colonial period, there was an expansion in the class of middlemen and traders divorced from production. In 1941, traders represented approximately 4-5% of the population, a much higher percentage than in pre-colonial times (Marchal, 1996).

As a consequence of such changes pastoral sector was rapidly commercialised and integrated with the international economy despite limited state investments[19] (Marchal, 1996). Simultaneously, the growth of commercial and trade activity also led to rapid urbanisation. Mogadishu's population, for instance, doubled between 1930-1940. Thus the largely rural communitarian social order based on the production of

[19] There were some investments in veterinary programmes.

livestock and governed by the tenets of Xeer was 'superseded by an economy in which the competition of access to commodities, the consumption of objects beyond one's productive capabilities, and the accumulation of wealth in the urban centres emerged as paramount' (Samatar, 1992, p. 632-633).

The limited investments in the economy, combined with the reliance on indirect rather than direct rule, influenced tax collection practices (Moore et al., 2018). Since the objective was not to extend the colonial rule to the interiors of the country, both colonies were essentially what Cooper (2002, p. 5) describes as 'gatekeeping states' 'that stood astride the intersection of the colonial territory and the outside world'. They collected taxes and earned revenue from exercising control over the 'gate' itself rather than by 'broadcasting power inwards' (controlling the hinterlands) (Herbst, 2014, p. 23). Simply put, revenue was extracted at the ports and trade routes via customs and excise taxes rather than via direct taxation (Abshir et al., 2019; Varming, 2019a). For example, in the case of the Italian colony, indirect taxes constituted about 73% of the state's locally generated revenue between 1950-58 Ahmad (2017); Samatar (1985). In the British protectorate, indirect taxes, mainly in customs duties, accounted for 80% of local revenues during the same period (Abshir et al., 2019). The preference for indirect taxation was that ' it allowed the imperial powers an easy way to extract revenues without having to bother with the difficult task of bargaining or developing a protection-taxation relationship with their citizens' (Ahmad, 2017, p. 102).

The undermining of the customary systems of Xeer and the lack of investments in revenue bargaining also fermented a resistance to colonial tax collection schemes, even among the new class of local business groups – traders and merchants (Varming, 2019a). One such narrative account of how traders and exporters rejected colonial taxes is captured by Abshir et al. (2019, p. 13-14):

> In 1956, the exports from Bosaso port were livestock, ghee and woven containers for dates known as 'faylaki'. The new trustee government taxed these woven items, and the women weavers protested in the city. Thousands of women surrounded the governor's palace. Both the Italian governor and the new Barwani governor addressed the crowd through a megaphone. The Italian spoke first. He explained that the money would be used for schools and salaries for the police. Then the Barwani governor spoke next. But the protesters were not satisfied. They got angry, closed in around the jeep, and toppled the Italian governor, who

fell into the crowd.

Thus, colonial taxation came to be seen as a form of subjugation (*Gumeysi*) — administered by an unwanted foreign power which forced the local population to pay for that subjugation (Abshir et al., 2019, p. 13). Willmott (2020) contends that such expressions of discontent were experienced by colonised people elsewhere who similarly rejected colonial taxes as 'representing a preposterous offer of having to pay for one's subjugation' (cited in Sheild Johansson, 2020a, p. 4).

4.4 Civilian Government 1960-69

In 1960, Somalia gained independence, and the northern colony (British Somaliland) and the southern colony (Italian Somalia) were unified into one nation[20]. Unlike other African states, which were grappling with questions of nationhood, the existence of the Somali nation was not in doubt in Somalia. Laitin and Samatar (1987, p. 29-30) attribute this to the 'fervent sense of belonging to a distinct national community with a common heritage, and the widespread belief that all Somalis descend from a common founding father'.[21] In spite of the advantages of shared commonality and sense of nationhood, the dismemberment of the nation under colonialism was a ready-made cause for internal conflict and a source of external aggression (Markakis et al., 2021).[22]

One issue that immediately came to the fore was the nature of the reunification of the northern and southern regions of the country (Lyons and Samatar, 1995). Despite the differences in composition and the patterns of colonial governance, the country opted for a united government[23]. Politicians from the South took the lion's share of positions in the new government, including the presidency and prime ministership and two–thirds of the senior cabinet posts (Bradbury, 2008). The marginalisation of the northern

[20] In 1950, Somalia became a Trust territory of the United Nations, and Italy was appointed the provisional administering authority.

[21] The Digil and the Rahanweyn, who did not trace their genealogy directly to Samaale, readily identified themselves as Somalis. Furthermore, even if ethnicity may have divided Somalis, Islam unified them under the umbrella of a non-tribal mystical association.

[22] The republic had reunited only two regions that colonialism had dismembered — Somalia and Somaliland. The other three regions with significant Somali population went to Kenya, Ethiopia and Djibouti.

[23] Despite the similarity in functions, the administrative staff of the two regions operated under different traditions and languages (Lewis, 1988).

region politicians became a source of discontent, and in 1961, a small group of junior officers tried to take over major northern towns. The revolt was quickly quelled. The episode, however, stoked tensions that resurfaced and ultimately contributed to the de-facto secession of Somaliland thirty years later (Markakis et al., 2021; Bradbury, 2008).

Table 4.1: Sectoral Allocation of Resources of the First Five Year Plan (1963-67)

Sector	% of Expenditure
Agriculture	17.8
Irrigation	6.4
Industry	15.7
Tourism	0.1
Transport	29.3
Post and Telecom	1.4
Housing and Settlement	8.2
Education	6.5
Health and veterinary	3.0
Social welfare and community development	0.4
Information	0.7
Statistics	0.4
Survey, investigation and research	2.9
Banking and credit	5.4

Source: Samatar (1985, p. 174)

The other major challenge for the country was the economy — 'although colonialism bequeathed Somalia the political accoutrements of a modern nation-state it did not provide it with an economy to sustain it' (Laitin and Samatar, 1987; Bradbury, 2003, p. 34). At independence, the Somali economy was at 'near subsistence level, and the new state lacked the administrative capacity to collect taxes from subsistence herders and farmers' (Laitin and Samatar, 1984; Marchal, 1996, p. 17). The state could rely on customs taxes from international trade, but these tariffs failed to meet the needs of a government with ambitious developmental goals (Metz, 1992; Marchal, 1996, p. 17). For instance, for the first five-year plan, the government prioritised the modernisation of agriculture, transport and industrial production even as the economy was primarily reliant on traditional agriculture and pastoralism and had limited productive capacity to fund such capital-intensive efforts (See Table Table 4.1 for details of the Sector Allocations under the First Plan)

(Samatar, 1985).

To fund its development plans, Somalia relied on foreign aid, which accounted for a large proportion of the government's revenue receipts (Marchal, 1996; Mehmet, 1971). Over the course of the decade, Somali leaders 'procured more international aid per capita than any other country in Africa'. Only 12.5% of the total expenditure was raised from domestic sources in 1968 (See Table 4.2) (Mehmet, 1971; Laitin and Samatar, 1984, p. 62). Thus 'from the very beginning the postcolonial state was not able to meet its recurrent fiscal and long term development needs from local resources' (Samatar, 1985, p. 158).

Table 4.2: Sources of Development Finance, 1963-92

Source	% of Expenditure
Foreign	85.1
USSR	20.4
USA	17.2
EEC	12.9
World Bank	11.5
United Nations	7.5
Federal Republic of Germany	6.5
Italy	3.7
China	2.1
Saudi Arabia	0.8
Other	2.5
Somali	14.9

Source: Mehmet (1971, p. 37)

The stagnation of the Somali economy and the inflow of large amounts of foreign aid control contributed to the impression of the state as a 'spoil'. Control over state resources emerged as the primary means for aggrandisement and gaining access to resources and economic opportunities. Samatar (1992; 1985, p.634), in particular, notes how the 'competitive and Xeer-less nature of the postcolonial state made state revenues, including foreign assistance, the bone of contention in a stagnant economy. Similarly, Kapteijins (2013, p. 77) concludes that 'given that the post-independence state was a gate-keeping state, which controlled what was practically, the only gate by which wealth would flow into and out of the country, access to state patronage emerged as a crucial political and economic resource'. There was a limited commitment among

state officials to forge a new 'social contract' that would set out terms of the exchange between the state — community, and the individual. Consequently, as Ahmad (2017, p. 102) observes: "The governing institutions inherited from the colonial era perpetuated the system of indirect taxation, keeping the state weak and separated from its citizenry".

Within such a system, 'the primary way to access funds was to become an elected political representative or even better a minister, and this explained the increase in the number of parties and candidates (Samatar, 1992, p. 634). For instance, during the country's first election in 1964, 18 political parties contested for electoral seats amid accusations of corruption and fraud (Lyons and Samatar, 1995). In the face of growing political competition, politicians and political parties increasingly relied upon the support of their lineage groups (who could serve as a concrete voting block). Consequently, an elaborate system of patronage emerged that linked the political office holders to clans-people in intricate and reciprocal relationships – in return for their electoral support, politicians guaranteed their lineage groups access to state patronage (de Waal, 2015). However, the fragmentation of national politics and the mobilisation of clan allegiances did not spell a resurgence of traditional particularism. 'The moral force of Xeer and the material constraining conditions of the household were not operative in this new dispensation' (Samatar, 1992, p. 634). The reliance on clan-allegiances, therefore, had little to do with tradition (Samatar, 1992).

Apart from their clan groups, politicians relied on a cluster of business people to support their political ambitions. Generally, the business groups were from the same clan lineage as the politicians who invested in political campaigns in return for access to public contracts or other opportunities (Marchal, 1996). By the 1960s, the urban economy had expanded and was dominated by a class of traders from the Majerteen and Issaq clans. The 1960s were, in fact, described as the 'Majerteen era', with Issaq's controlling the main activity — livestock trade (Marchal, 1996). These groups were among the most politically well-connected and were known to use their contacts with the political class for loans and access to captive markets (Marchal, 1996). The economy thereby came to be dominated by what Pritchett et al. (2017) describe as rentier firms (trade-based) that sought a closer relationship with the political elite to win lucrative contracts. Such inter-linkages, combined with the state's reduced extractive capacity, explained to some degree why 'graduated income tax or the flat 20% tax on company profits were low and remained so' (Reyner, 1960, p. 252).

By 1969, the country's electoral rules changed from proportional representation to a winner takes all strategy that was seen to suit the ruling party (Lyons and Samatar, 1995). The revised election laws reduced the representation of many lineage groups (Lyons and Samatar, 1995). However, although the Somali Youth League (SYL), the main political party, monopolised the assembly, their large numbers greatly exacerbated the problems of party disciple (Lewis, 1988). This encouraged Prime Minister, Igals' government to rely even more heavily on funds to reward elected members. According to Marchal (1996, p. 18), PM Igal was notorious for relying on 'political corruption for survival at a stage never known before'.

Meanwhile, the economy continued to flounder. Despite attempts and investments in infrastructure and livestock development, the country could not overcome its dependence on foreign assistance enough to meet its current budget deficit (Metz, 1992). Even with the rise of a strong trading class, the urban economy was so small that the government's ability to generate financial resources through taxation was limited (Mubarak, 1997, 1996). The 'endless search and competition for resources swiftly transformed what seemed to many political commentators of the time to be a promising democratic society into a nepotistic and corrupt single party state' (Samatar, 1992, p. 635).

4.5 Barre Regime 1969 -1991

The general discontentment that began to simmer as democracy lapsed into a state of 'commercialised anarchy' created the opportunity for a military takeover (Lewis, 1988, p. 206). In 1969, President Sharmarke was assassinated by one of his police guards. Following this, the civilian government was overthrown in a coup d'etat led by General Siad Barre[24] (Lewis, 1988; Metz, 1992).

In the initial years (1970-1980), the Barre regime sought to revolutionise Somali society and adopted a policy of scientific socialism. As a consequence, large parts of the economy were nationalised, including banks, insurance companies, wholesale businesses and agricultural land suited for cash crops (Webersik, 2006).

The government relied on trade and customs taxes to fund its economic plan. The government's method of domestic revenue mobilisation, as such, 'did not change much during this period, and neither were

[24] Somalia came under the control of the Supreme Revolutionary Council (SRC).

attempts made to update existing tax' codes.[25] Further, although tax revenues increased throughout the 1970s and 1980s, their contribution to the state's total expenditure remained low, with customs tax accounting for more than 50% of total tax revenues (Purohit, 1990).

Immersed in the socialist project, the regime took its toughest political stance on the issue of clan solidarity. Clannism was denounced as the most significant impediment to national unity and consecrated a disease obstructing not only the development of Somalia but of the Third World, more generally (Lewis, 1988). To end the 'scourge' of kinship relations, traditional headsmen (Aqil) were replaced by reliable local dignitaries known as peacekeepers (Nabadoon), appointed by Mogadishu to represent the government's interests (Lewis, 1988). Community identification rather than lineage identification was also forcefully advocated (Metz, 1992).

Despite the outward attacks on kinship relations, the regime was nonetheless based on a delicate clan balance involving a select number of clan groups. The formula was based on a clan alliance that came to be known as MOD ((M)arehan patrilineage of the president, (O)gaden for the lineage of his mother and (D)ulbhante, for the patrilineage of his son-in-law) (Lewis, 1988). For Lewis (1988, p. 222), the 'Marehan Ogaden and Dulbhante alliance (MOD) constellation represented an apt formula that provided the president with a power base which offered external as well as internal security'. Compagnon (1995, p. 470), however, clarifies that while the clan-based MOD alliance was the basis of the Barre regime, Barre's rule became increasingly personalised: "what began as a military dictatorship evolved into 'sultanic rule', a regime of the ruler, his closest relatives, and patrimonial servants who controlled and abused national resources for personal gain (Compagnon, 1995, p. 470 cited in Kapteijns 2013).

Consequently, socio-economic distinctions based on access to and control over government resources grew in the 1980s and resulted in the emergence of a 'prominent class of urban political elites' (Besteman, 1996, p. 585). Such groups included bureaucrats, civil servants, and those well connected with the government (Besteman, 1996). Barre's 'policies, therefore, only served to reduce clan authority but not clan consciousness' (Cassanelli, 2000). Thus the urban-based elites' struggle for personal enrichment through access to resources came to be known as 'clannism' although it bore little resemblance to traditional lineage and

[25]Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021

village-mediated interaction (Samatar, 1992, p. 639).

During the second phase of Barre's rule, the regime became more extroverted and turned its attention to pan-Somalism (Lewis, 1988). Following the assumption of power, the military had acknowledged their abiding commitment to liberating those parts of the Somali nation that still languished under 'foreign rule' – Djibouti, Ogaden in Ethiopia and the North Eastern Region of Kenya (Lewis, 1988). However, it was not till the mid-70s that precipitous events in the region emboldened the regime. The deposition of the Ethiopian emperor in 1974 encouraged hopes of the liberation of the Ogaden region (Lewis, 1988; Metz, 1992). In 1978, Somalia officially entered the war to support Ogaden nationalists who wanted to free Ogaden from Ethiopian control. But without the support of their Russian allies[26], Somali hopes for a victory were soon defeated (Besteman, 1996).

The embittering military defeat galvanised the resistance to the regime and spurred the creation of clan-based opposition groups. The most prominent of the clan-based opposition groups included the Somali National Movement (SNM) (Issaq clans in the north), the Somali Salvation Democratic Front (SSDF) (Majerteen clan members in the North East) and later, the United Somali Congress (USC) (Hawiye clans in Mogadishu) (Lewis, 1988). In 1978, the resentment gave way to an aborted coup (Lyons and Samatar, 1995) led by Majerteen colonels, in a pattern that would later be repeated against the Issaq in the northern regions[27]; the regime launched vicious communal reprisal against the Majerteen clan.

The failed Ogaden campaign, combined with a drought in 1974, weakened an already stressed economy and led to the ballooning of public sector expenditure. During the late 1970s and 1980s, the economy began to suffer from poor public financial management owing mainly to an extensive yet unproductive public investment programme that privileged defence and staff salaries over economic and social services (Mubarak, 1997). Tax revenues as a share of the GDP declined sharply from 12% 1975-76 to 9% in 1977-84 and 3% of the GDP in 1988-89 (See Figure 4.2).

Government expenditure, however, continued to increase during the same period and was approximately

[26] In 1977, following a declaration of mutual collaboration in Moscow, Ethiopia's President Mengistu secured military support from Cuba and Russia (Lewis, 1988, p. 233).

[27] In 1988, the SNM attempted to capture towns in the north of the county, The regime responded by unleashing its full military might and the capital of the Northern region was mercilessly bombarded. The government regained control over the north in 1991 but only briefly before the state eventually collapsed (Lewis, 1988).

25% of GDP (1985-89), leading to an overall deficit of 22% of the GDP in 1988 (Mubarak, 1996). By the late 1980s, the combined government recurrent expenditure on economic and social services declined sharply to less than 1% of GDP (See Table 4.3). As the economy faltered, the Barre regime was encouraged to liberalise and move away from the socialist development model. Siad Barre's Russian advisors were replaced by World Bank and IMF structural adjustment programmes in the 1980s (Hagmann and Stepputat, 2016). These programmes were also unsuccessful, and the economy began to unwind:

> 'Public service delivery and utilities, which had been modest from the beginning, further decayed in the 1980s. The results were power shortages, electricity blackouts, deteriorating health and sanitation services, and a decline in education, road maintenance and water supply. In parallel, corruption smuggling and the black marketing of goods, services, and currencies also became entrenched in the 1980s (Mubarak, 1997, 2028).

Table 4.3: Percent Composition of Ordinary Expenditure

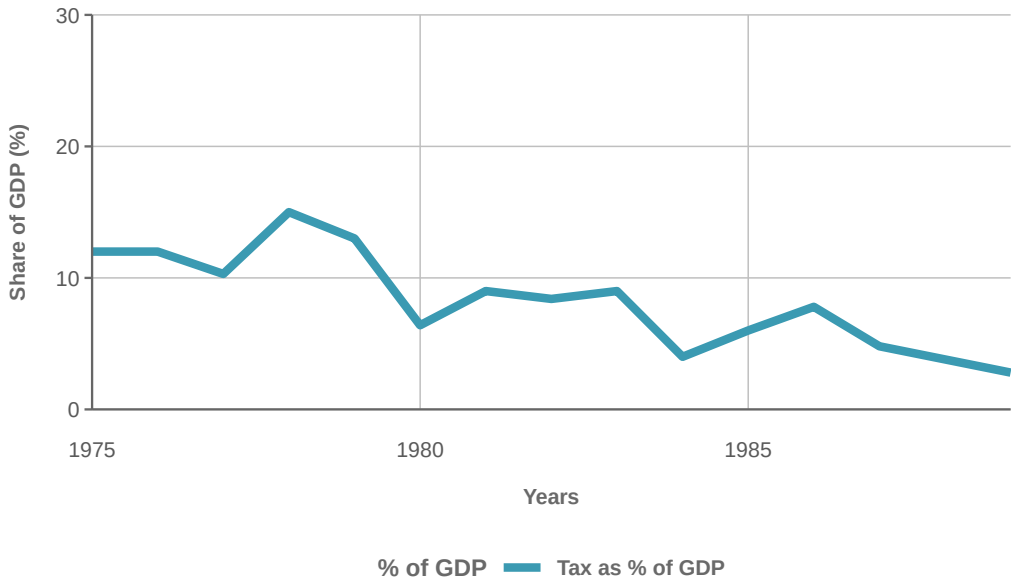
Expenditure Items	1970-74	1975-79	1980-82	1983-88
Total	100	100	100	100
Defense and Public Administration	59.5	60.8	78.0	86.8
of which defense	22.6	29.1	28.7	28.8
Economic services	15.4	17.3	9.6	6.3
of which agriculture	3.6	5.6	2.9	2.1
Social services	25.1	21.9	12.4	7.0

Source: Mubarak (1996)

As the formal economy declined, a parallel informal economy grew (Elder, 2022; Hagmann and Stepputat, 2023).[28] For private players, state intervention came to be seen as an obstacle to economic recovery and prosperity, and progressively more and more business transactions were conducted in the informal sector (Hagmann, 2016; Mubarak, 1997; Webersik, 2006). The private sector emerged as the largest urban labour market employer. It was already the largest rural employer accounting for '80% of the population, 70% of the labour force and 65% of GDP at factor cost' (Mubarak, 1997, p. 2029). As state institutions

[28] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-67593610, Date: 23-11-2020

Figure 4.2: Tax Revenue as a Share of GDP



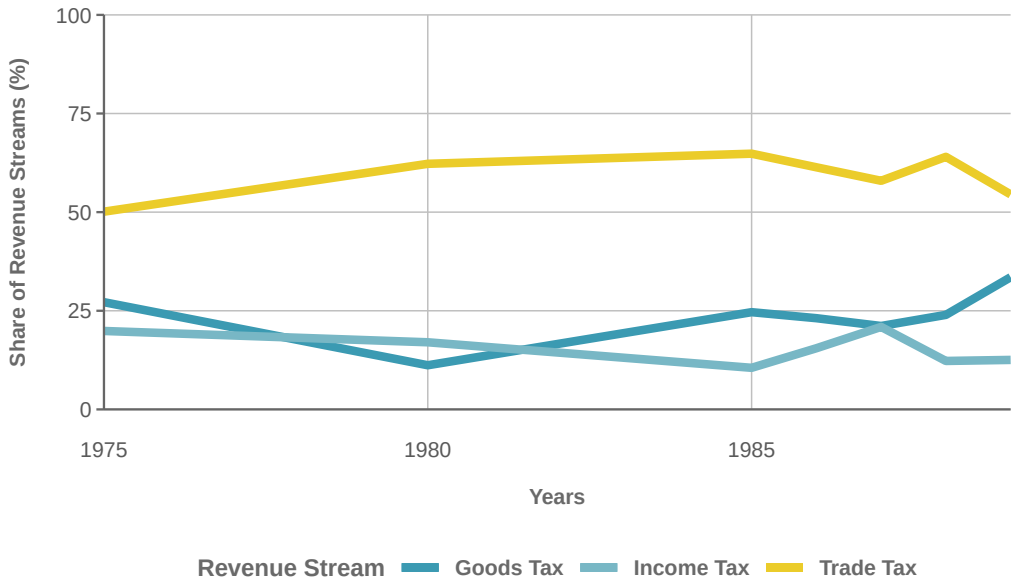
Source: Figures are calculated from secondary sources – Purohit, 1989 and Mubarak, 1996

failed, private sector activity also expanded to the provision of a range of public services, including health, education and financial services. By the second half of the 1980s, 'local markets were thriving in sharp contrast to the public sector' (Mubarak, 1997, p. 2029). Despite its pervasiveness, the informal economy was less productive as it was primarily based on trade and relied on a quick turnover of capital funded by the remittances from Somali migrants (Jamal, 1988; Lindley, 2009).

The large-scale informalisation became a product and a cause for state failure (Marchal, 1996; Webersik, 2006). As the increasing corruption meant that the state came to be seen as a danger to business activity:

> 'The economic policies of the government, including the embezzlement of national resources, the use of state assets to reward the loyalty of kinsmen close to the regime and the repression of the private sector initiatives, combined with a brutal security apparatus, and rampant

Figure 4.3: Trends in Tax Proportions 1975-89



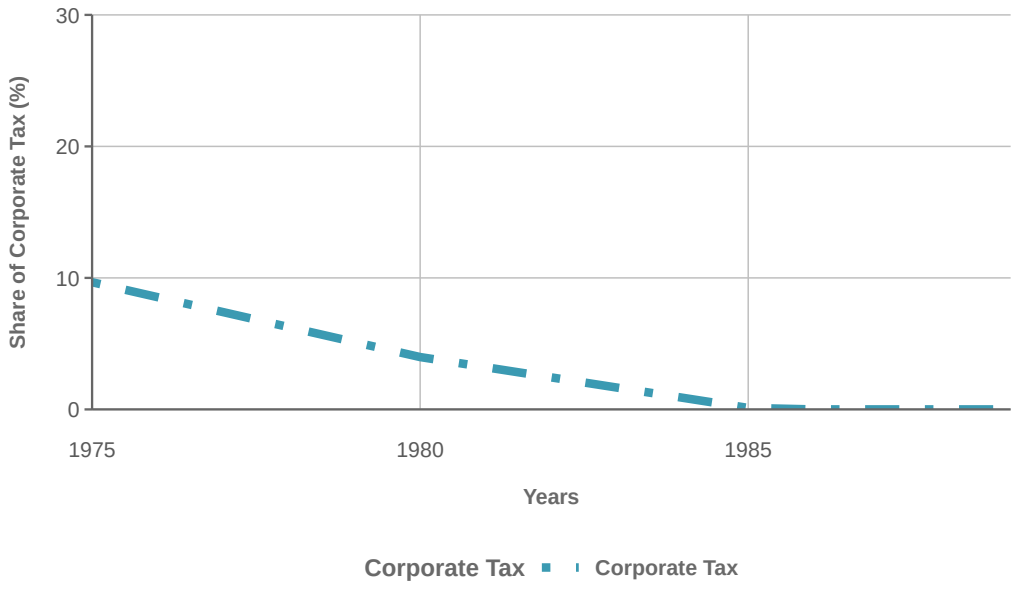
Source: Purohit, 1989

> corruption, planted seeds of mistrust in the business class against government institutions' (Webersik, 2006, p. 1465)

As a consequence, private sector actors were not keen to get the 'state back in': 'the problems such actors had to cope with were numerous, but they belonged to a universe that they could understand and handle without government interference' (Marchal, 1996, p. 41).

Furthermore, 'traditional opposition to taxation became even more acute' (Marchal, 1996, p. 41). The low tax morale was further reduced when the regime neither consulted nor educated the sector about tax payments (Mubarak, 1996). The government's declining authority also meant that traders and businesses had to pay bribes to 'everybody' without any protection from the state (Marchal, 1996). Moreover, the sector's resistance to the regime's economic policies also contributed to a decline in tax revenues from

Figure 4.4: Trends in Corporate Tax 1975-89



Source: Purohit, 1989

income, profit and capital gains, which reduced from 20% of the total revenues in 1975 to approximately 13% in 1989 (Purohit, 1990) (See Figure 4.3).

Resultantly, the share of corporate taxes, which was already low (9%), fell dramatically to less than .11% by 1985 and was effectively nill by 1989 (Purohit, 1990). The limited transparency and corruption of the system also reduced faith among ordinary citizens (Marchal, 1996). By the mid-1980s, '100% of Somalia's development budget and 50% of its recurrent budget was funded by foreign aid' (Leeson, 2007; UNDP, 2001, p. 694), as tax revenues declined to 3% of the GDP (1989). Thus, by the end of the decade, 'Somalia had yet to emerge as a self-financed state'.[29]

The declining state of the economy, combined with the rising tide of opposition and movements of re-

[29] Interview with Senior Somali Expert (Regional Think-Tank), ID: 638287-638278-67077439, Date: 02-11-2020

sistance, ultimately contributed to the collapse of the state (Lyons and Samatar, 1995). The opposition to Barre's manipulation of clan affinities and targeting certain clans ironically took the form of clan-based insurgencies. However, de Waal (2015) offers a more nuanced interpretation and suggests that it was not just clan-based opposition or patronage politics alone. Instead, the growth of the informal economy meant that the control over state resources no longer represented the main pathway for accumulation (de Waal, 2015). Consequently, appropriation of public finances and state corruption did not secure loyalty as they did in the past. The regime, therefore, was 'priced out' as it could no longer afford to pay the cost of loyalty (de Waal, 2015, p. 112).

4.6 Civil-war 1991-1993

In 1991, the Hawiye-dominated USC, which had begun mobilising armed opposition in the central regions, captured the capital of Mogadishu. Following the city's capture, the thirty-plus years of autocratic rule ended as General Barre fled the country (Amber "Oker", 2008). In the central and northeast regions of the country, the Somali National Movement gained control and proclaimed the former British colony the independent Somaliland Republic (Lyons and Samatar, 1995). In North-Eastern Somalia, the Somali Salvation Democratic Front SSDF achieved rough stability and later (1998) declared itself as the semi-independent state of Puntland.

In Mogadishu, a struggle for control began between the two sections of the Hawiye-dominated United Somali Congress USC, headed by Ali Mahdi Mohammed (Abgal subclan) and General Farah Aideed (Haber Gedir subclan), respectively (Menkhaus et al., 2007). Following this infighting within the USC, 'warfare broke out, and south-central Somalia fell into heavily armed, violent lawlessness' (Menkhaus et al., 2007, p. 36). Some 25,000 people were estimated to have been killed in Mogadishu alone between 1991-1992 (Bradbury, 2008). The social order at this time was characterised as a 'warlord system': 'a weakly institutionalised system of order, whose main characteristics were the proliferation of violent groups, ranging, between large scale gangster-ism at the lower end and a quasi-insurgent movement at the upper end' (2005, p. 372). However, the warlord system was embedded in the social fabric of clans, and these ties distinguished the warlords from regular looters and bandits (Bakonyi and Stuvøy, 2005).

The 'ensuing civil war and the total collapse of the state also prompted the revitalisation of the role of traditional institutions' (Gundel and Dharbaxo, 2006, p. 27). The application of Xeer resurfaced, and there was a renewed interest in clan institutions (Gundel and Dharbaxo, 2006). However, especially in the South-Central regions, the faction leaders continued many of the practices of the previous regime, such as manipulation of traditional leaders to further their ends: Militia leaders offered clan elders payments and bribes to win them over to their side (Gundel and Dharbaxo, 2006; Lewis, 1988; Leonard, 2013). Clan boundaries were also strengthened and hardened during the guerilla war, which was fought along clan lines and pitted clan groups against each other (Bakonyi, 2009; Kapteijns, 2013).

The 'devolution of war into descending levels of clan lineage' (Menkhaus, 2003, p. 410), went on to structure the claims to power and profit (Bakonyi, 2009). Bakonyi (2009, p. 436), however, asserts that the years of politicisation of the clan system had contributed to its evolution into what could be best described as a 'social figuration, a network of interdependent relations and actions between people, emerging from and being structured by the everyday practical and political activities of a broad range of actors'. 'The clan, therefore, existed through how people used it to organise and order their social lives' (Bakonyi, 2009, p. 436).

The period of fighting was also the worst for business, which suffered immensely."Most of Somalia's public infrastructure, including state buildings, small industries, parastatals and public utilities such as electricity, water or telephone lines, were ransacked and destroyed in this period" (Mubarak, 1997; Hagmann and Stepputat, 2023, p. 26). During the initial months of the civil war, businesses collapsed, and many pre-war business families fled to escape the infighting (Hansen, 2007). The only exception was the livestock sector, which managed to survive because of its relative autonomy from government services (Little, 2003). The Mogadishu business life was in low gear during this time and revolved around trade and the import of necessities. Marchal (1996) estimates that 70-80% of the business class was engaged in trade during the early years of the civil war.

Nevertheless, the end of the Barre regime opened up the space for a new class of traders, investors and producers of consumer goods who capitalised on tax and regulation-free opportunities (Ahmad, 2017; Hagmann, 2016; Hagmann and Stepputat, 2023). In Mogadishu, the business groups that benefited were

from Hawiye clan groups, as those aligned with the regime (MOD alliance) fled the capital (Webersik, 2006). However, such businesses could only survive by entangling themselves in a system of protection payments with the warlords (Hansen, 2007). For instance, 'businessmen paid the warlords for the protection of their goods, and the clan militias secured the safe passage of the transport-vehicles through the numerous checkpoints and roadblocks' (Bakonyi and Stuvøy, 2005, p. 367). In this sense, then, warlords performed what Tilly (1985, p. 182) has dubbed as the 'protection' function of the state – eliminating or neutralizing the enemies of their clients. But far from being at the mercy of the warlords (who lacked a monopoly over the concentrated means of coercion), the business class were among their most powerful patrons (Bradbury, 2008). Nevertheless, as 'there were no juridical regulations or guarantees to ensure cooperation, trust between business groups and warlords was established based on joint affiliation to a particular clan' (Bakonyi and Stuvøy, 2005; Marchal, 1996, p. 368).

During the initial years of the civil war, the regional powers stepped in to help mediate the conflict. With the international community absorbed with the First Gulf War (1990-91), the responsibility for resolving the conflict fell to regional powers who took the initial lead by bringing warring factions onto a single platform. Between June-July 1991, two conferences were held in Djibouti, both of which confirmed the appointment of Ali Mahdi as interim President(Menkhaus et al., 2007). These efforts were not successful[30] and the next round of reconciliation efforts saw an increasing role of international actors (Menkhaus et al., 2007). Following the worsening humanitarian situation, the UN launched its first peacekeeping mission – United Nations Assistance Mission in Somalia (1992-93) (UNSOM I), with a mandate to 'help facilitate the delivery of humanitarian assistance and oversee a ceasefire agreement that had been signed by the principal factions in Somalia's civil war' (Williams, 2015a, p. 409). However, UNSOM I was unable to perform its mandate and was supplemented by the Unified Task Force (1993) (UNITAF), partly because of an offer made by the US to organise and lead an operation and ensure the delivery of humanitarian assistance (Williams, 2015a). With the withdrawal of UNITAF in 1993, UNSOM I was replaced by a much larger UNSOM II mission (Williams, 2015b).

The intervention by the UN in 1992 and 1993 created opportunities for business. First, fighting was con-

[30] General Aideed rejected the appointment of Mahdi and the accord reached also did not receive robust international support and was consequently considered by many experts as a missed opportunity.

siderably reduced at the start of the UN engagement. Second, Mogadishu port was reopened, facilitating the transport of goods (Hansen, 2007). Lastly, but significantly, 'UNSOM II purchased services and increased the demand for goods and services in Mogadishu' (Hansen, 2007, p. 41). As one prominent trader from Mogadishu explained: "UNSOM brought heavy investments and money. There were contracts for everything; without UNSOM, the business community could not make any money" (Ahmad, 2017, p. 105).

The stability provided by UNSOM and increased demand for goods and services changed the nature of business. The export sector re-emerged, the banana trade restarted, and charcoal exports increased. More advanced sectors also blossomed — petrol importers re-emerged, and small plants started to operate (Hansen, 2007). New sectors such as money transfer and telecommunications companies also emerged to fill some of the gaps left by the weakened banking and financial sector (Cassanelli, 2010). For example, in 1994, Al Barakat launched the telecommunication companies, expanding from money transfer to Telecoms. As before, the private sector also stepped in to provide certain public services — private schools, both for religious and technical education (Leeson, 2007).

While the pace of private sector growth was impressive, some of the gains were also facilitated by the absence of regulation and oversight, as one Former Government official explained:

> In 1991, when the Civil War broke out, the government-controlled 99% of the economy. The private sector had only 1%. The government essentially never allowed the private sector to thrive because it believed in scientific socialism. In the absence of a government, the private sector took matters into their hands. They were able to thrive under the circumstances where they faced virtually no regulatory oversight and other governmental oversight. They could do all kinds of things without any oversight from the government. But more importantly, they filled the gap for products and services.[31]

Opportunities created by UNSOM II also solidified the business-warlord alliance. In particular, Ahmad (2012) describes how businesses and warlords conspired to create fake NGOs to acquire cash and free re-

[31]Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021

sources from the international community. However, more perniciously, for the warlords, the 'marriage of convenience with the business groups' allowed them to finance their operations and made them less reliant on rents extracted from the domestic population (Ahmad, 2012, p. 326). This situation further perpetuated the state of civil war; 'in a failed state the taxation-protection relationship could have restrained the violence of warlords and created pockets of political order' (Ahmad, 2012, p. 316).

By 1993, the UN had pressured the Somali armed factions to sign a new accord in Addis Ababa. However, the agreement, which called for establishing a Transitional National Council, collapsed, and additional efforts to develop a new government also failed (Menkhaus et al., 2007). Following this, UNSOM II also withdrew from Somalia, leaving the country politically much the same — a country at war with itself and lacking a central government' (Williams, 2015b, p. 439). With the withdrawal of UNSOM II, warlord revenues decreased, and the economy, particularly in Mogadishu, was once more at risk of collapse (Yusuf, 2006; Hansen, 2007).

4.7 Islamic Courts Council (ICC) and Transitional Governments 1994-2011

After UNSOM II withdrew, private-sector actors began to resist the warlords. This happened for various reasons: first, there was a change in the nature of business and a departure from the early years of civil war when the 'pursuit of economic interests strictly hinged on military protection by one's own clan lineage' (Hagmann and Stepputat, 2016, p. 19). Major financial companies from other parts of Somalia and different clan backgrounds began to re-invest in war-torn Mogadishu-partly in collaboration with the warlords (Hagmann and Stepputat, 2016; Hansen, 2007). For instance, some big financial houses, such as Dahabshiil Express, re-established their franchises in Somalia in 1995-97 (Hagmann and Stepputat, 2023). Furthermore, to benefit from what Menkhaus (2007a) described as the 'world's largest duty-free shop, businesses had the incentive to work across clan territories to move goods and capital.'(Hagmann and Stepputat, 2016, p. 19). Thus, 'decentralised multi-clan franchises and cross-clan business arrangements increasingly replaced parochial economic logic' (Hagmann, 2016, p. 19).

Second, as revenues from aid reduced, warlords had less money to pay their lieutenants, and this instigated factionalism (Hansen, 2007). In turn, the reduced military strength of the warlords also meant that they now had less to offer the business sector. In response to the warlords' diminished influence and geographical reach, businesses invested in their private security (Hagmann and Stepputat, 2016). But although they became increasingly independent, businesses could not fully protect themselves, and insecurity remained a persisting challenge (Hansen, 2007).

These changes conspired to reduce support for the warlords, but the real break came with the emergence of the Islamic Courts. The Islamic or Sharia courts had existed in Mogadishu since 1994 and were not so much an 'Islamic imperative as a response to the need for some means of upholding law and order' (Barnes and Hassan, 2007, p. 152). For instance, the Islamic agenda was not 'programmatic, and there were no expert Islamic judges, nor adherence to any specific school of Islamic law' (Barnes and Hassan, 2007). In the initial years (1994-95) of their establishment, the courts kept their distance from the warlords and private armies of local businesses (Ahmad, 2017). They focused on improving law and order in local neighbourhoods of Mogadishu (Marchal and Sheikh, 2015; Barnes and Hassan, 2007). However, by 1998, the better-known business people became involved in setting up the courts (Marchal and Sheikh, 2015). In 2000 the various 'independent Islamic Courts of south Mogadishu formed a Joint Islamic Courts Council (ICC)' with Sheikh Hassan Mohammed Addeh (from Habar Gedir, a sub-clan of Hawiye) and the Chairman of the Ifka Halane Court as its head [32] (Barnes and Hassan, 2007, p.153).

The momentum of the ICC was slowed for a time by the institution of the Transitional National Government (TNG) (2000-2004) during the Arta Conference in 2000 [33] (Barnes and Hassan, 2007). The emphasis during this phase of mediation was to broker an elite-level compromises. However, unlike the previous phases, attempts were made to include a broader representation of groups (Sahgal, 2016). The political compromises were also directed at developing the basic rubrics of state institutions (Sahgal, 2016). The Arta conference produced the 4.5 formula — a system of fixed proportional representation (Menkhaus et al., 2007). The formula allocated an equal number of seats to each of the four main families (Darood, Dir, Hawiye, and Digital-Mirifle), and the remaining seats (.5) were apportioned among 'minority groups,

[32] The Courts (or Joint Courts) extended their influence outside Mogadishu, in Lower Shabelle and the port city of Marka, where Habar Gedir influence was relatively uncontested.

[33] The TNG was constituted during the Arta conference that took place in Djibouti

which included the Bantus, Benadiris and low caste groups (Menkhaus, 2007a; Menkhaus et al., 2007). Despite such strides, the Arta accord did not produce a government of unity and conflicts over representation continued (Menkhaus et al., 2007). 'Clan factions that felt under-represented formed an Ethiopian-backed opposition group, Somalia Reconciliation and Restoration Council (SRCC), which blocked the TNG's ability to expand its authority (Menkhaus et al., 2007, p. 37).

The process of de-warlordization began in earnest when the business community came out to support the ICC. In 1999 the Mogadishu businessmen collectively 'refused to pay taxes to warlords and brought their militias out from under them — retaining control of some and vesting the management of many others in local sharia courts' (Menkhaus, 2003; Collins, 2009, p. 417). Menkhaus (2003, p. 416) describes this as a singular moment because it meant that the business community realised that 'war was essentially bad for business'. For businesses, Sharia courts offered security across clan divides and territories, which made them a cheaper alternative to engaging with multiple warlord protection rackets or maintaining personal security details (Ahmad, 2015; Hagmann and Stepputat, 2016). 'Islamic identities and institutions provided the business community with a valuable mechanism for mitigating the lack of trust between the clans, making businesses easier and more profitable' (Ahmad, 2017, p. 115). By 2006, 70 to 75% of the Mogadishu business community had voluntarily contributed resources to the Islamic courts (Ahmad, 2015, p. 101-102). Ahmad (2017, p. 125), describes in detail how taxation, far more than ideology, helped to propel the ICU to power':

> There was a regular budget paid by the business community and the clans to the ICU. At first, it was only restricted to a particular area and clan. Every clan took money to their court. Then upon centralisation, taxes and fees were given at the district level. There was a committee of 65 elders who collected these payments. Initially, these contributions were voluntary, but when the ICU took over the whole city, there was no more need for voluntary contributions, and a more stable taxation system emerged (Ahmad, 2017, p. 133).

For businesses, the growing emancipation from the warlords and clan factions also translated into an interest in the political process. Mogadishu business people who had grown frustrated with the high cost of business began to play a more active role in politics and invested in the Arta process (Webersik, 2006;

Le Sage, 2002). The investments, however, did not pay off because the TNG could not exercise effective control and was, for the most part, a 'paper state' that was unable to challenge the authority of the warlords[34](Menkhaus, 2003, p. 418). "The business community, therefore, found itself footing the bill for the TNG while also paying protection payments to the warlords. These double charges were extremely irksome" (Ahmad, 2017, p. 132). Certain members of the business community nevertheless benefited from the new government. 'The TNG rested on a unique and powerful relationship between key Mogadishu businessmen, nearly all drawn from the Hawiye community'(Le Sage, 2002, p. 137). Some business people provided transport and housing to former transitional national assembly members. These symbiotic relations made it difficult to intervene in business activities to raise public revenue: "The TNG was, in essence, a piece of paper on a fish hook, thrown into international waters to lure foreign aid which could then be diverted into appropriate pockets (Menkhaus, 2003, p. 418)".

There is considerable debate[35] on the interests of the big businesses during this time. Menkhaus (2003) suggests that while some in the business class came to have a stake in a stable society, they still believed that a reconstructed Somali state would reduce profits. For business people operating the private beach port facilities at El Ma'an in north Mogadishu, for instance, the government's reopening of the main Mogadishu seaport was bound to hurt their business. Menkhaus (2003, p. 419) terms such attitudes as 'bounded rationality', a willingness to seek sub-optimal outcomes rather than face the risks a revived state would entail. Webersik (2006) agrees with Menkhaus (2003, p. 419) to some extent but points out that the business class being quite diverse, some sections came to view the state as being 'good' for business. He describes how Somali businesses argued: 'It would be good for business to have a state. There were a lot of overhead costs, which cut into the profit margins of businesses. Thus, some businesses preferred to pay taxes and to leave the rest to the government' (Chairman of the Somali Business Council cited in (Webersik, 2006, p. 1477).

With the TNG weakening and increasingly irrelevant, a new transitional government was formed. Following two years of intensive negotiation in Kenya, the Transitional Federal Government (2004-2012) (TFG) replaced the TNG in 2004 (Menkhaus, 2007b; Menkhaus et al., 2007). A parliament of 275 members based

[34] The TNG was also vehemently opposed by the clan warlords who were excluded from the process and were unwilling to relinquish their economic and military control. These warlords formed a military alliance called the SRCC, which challenged the legitimacy of the TNG (Menkhaus, 2003; Ahmad, 2017).

[35] These debates will be explored in detail in the following sections of this thesis.

on the 4.5 formula elected Abdullahi Yusuf[36] as President (Menkhaus, 2007b). However, by the time the TFG returned from Kenya, it had already split into two factions: one led by the President and the other by the Prime Minister (PM) (Menkhaus, 2007b). This created further confusion and uncertainty, which 'exasperated the business class who actively sought an alternative to warlord rule' (Ahmad, 2017, p. 118). With the support of the business sector and the broader community behind them and a well-funded and motivated militia, the ICC took a stand against the warlord alliance (Ahmad, 2017). Within a short period, the ICC achieved the impossible in uniting Mogadishu for the first time in 16 years and re-establishing peace and security in the city (Barnes and Hassan, 2007, p. 154).

> The courts undertook significant and highly symbolic public actions in their first few months. Roadblocks were removed, and even the ubiquitous piles of rubbish that had blighted the city for a decade or more were cleared. The main Mogadishu airport and seaport were reopened and rehabilitated for the first time in a decade. The ICC also implemented a tax system and quality control regulations. This performance of legitimacy stood in stark contrast to the weakness and the inefficiency of the previous transitional governments (Barnes and Hassan, 2007, p. 154).

Owing to these efforts, the Courts also established centralised political and military control across clan divisions in most of southern Somalia (Ahmad, 2017). By September, the ICC controlled land from the border areas with Puntland (north) to the Kenyan border in the south (Ahmad, 2017; Barnes and Hassan, 2007). However, the growing influence of the Courts threatened the Transitional Federal Government in Baidoa and unnerved their principal backer Ethiopia, who was concerned by the Eritrean involvement in the ICC (Amber "Oker", 2008). The US government was also convinced that non-Somali terror suspects were sheltered by elements connected to the courts[37] (Menkhaus, 2002). With the backing of the US and the Ethiopians, the TFG in 2006 launched a fresh offensive against the Islamic Courts. The ensuing battle resulted in the defeat of the ICC and restored the control of south-central in the hands of the TFG (Amber "Oker", 2008; Menkhaus, 2002).

[36] President Yusuf was a member of the Mijerteen/Darood clan, President of the autonomous state of Puntland, and a close ally of Ethiopia.

[37] Such suspicions grew following the terrorist bombings of the US Embassies in Nairobi, Kenya and Dar es Salaam, Tanzania in August 1998 and spiked following the 9/11 terrorist attacks.

The interference of the Ethiopian military encouraged the splintering of the ICC. It led to the ascendance of AS ("the youth"), a more radical wing of the ICC[38] (Amber "Oker", 2008; Hansen, 2013; Marchal and Sheikh, 2015). The Ethiopian occupation further "transformed the group from a small, relatively unimportant part of a more moderate Islamic movement into the most powerful and radical armed faction in the country" (Wise, 2011, p. 4). Menkhaus (2007a), contends that by this time, the business community grew frustrated with the hard-line elements of the ICC who had failed to reach a peace deal with the Transitional Government, which could have prevented a confrontation with the Ethiopian military. A prolonged urban insurgency was something that they wished to avoid as it would risk damaging the many millions of dollars of fixed investment in real estate and business (Menkhaus, 2007a).

By 2009, the Ethiopian forces withdrew, and the vacuum was filled by regional forces of the African Union AMISOM, which had the mandate of supporting the transitional government (Sahgal, 2016; Menkhaus, 2017). Following this, a new President — Sheikh Sharif Ahmed (the former head of the ICU) and Prime Minister Sharmarke of the TFG, were appointed. However, political infighting soon erupted, which led to the resignation of PM Sharmarke (Secretary General, 2011). Taking advantage of the weakened position of the TFG, AS assumed control over large swathes of the country, including the capital. The group also strengthened ties with al-Qaeda (AQ), becoming the 'only self-proclaimed AQ ally controlling large territories' (Hansen, 2013, p. 72)[39]. By 2011, AMISOM forces managed to push back the AS from the Capital (Marchal, 2009; Wise, 2011; Hansen, 2013). But, despite ASs withdrawal from Mogadishu, the group continued to control and de-facto govern parts of central and southern Somalia. Thus, by the end of the transition period (2012), formal state institutions (TNG and TFG) had yet to exercise control outside the capital region and deliver 'an economically viable and politically stable state' (Webersik, 2014, p. 278).

[38] AS was the original militia of the ICU, which was formed to reduce the dependence of the courts on the security provided by the business community. Many of the members of the movement were aligned to the (al-Ittihad al-Islami (AIAI)), a militant Salafi group (Marchal, 2009).

[39] In 2012 AS formerly pledged allegiance to the AQ (Hansen, 2013; Wise, 2011).

4.8 Conclusion

A brief consideration of the nation's history reveals some startling trends in how fiscal relationships have evolved between the state and private sectors. In the first instance, the review highlights how, unlike presumptions of Somalia as a traditionally stateless society, pre-colonial history offers a few starting points for understanding public authority and tax extraction practices. The experience of authority — especially of the Ajuraan Sultanate — reminded Somalis of the danger of autocratic rule, which was a perception that was reinforced during colonialism and became more vivid under the authoritarian regime of Siad Barre. Second, following colonial rule, the Somali state did not forge a 'new social contract' that would become the basis of a revenue bargaining agreement. The state remained consigned to its gate-keeping function and relied on customs and excise taxes rather than direct taxation. Third, the political and institutional accountability of the state was undermined by the system of clan-based clientelism. The Somali state's tax extraction capacity was increasingly weakened, such that by the time the state collapsed, the Somali state was yet to be fiscally self-sufficient. Fourth, after the state collapse, multiple public authorities emerged to fill in the vacuum. However, international efforts to stabilise the country were directed at building state institutions 'from above' and did not take stock of the emerging forms of political authority. The lack of 'governance from below' perspectives meant that state authority remained contested, first by the ICC and then by the AS. Like the TNG, the TFG was also unable to assert its authority, and the extractive capacities of both governments consequently remained considerably weak.

Fifth, the Somali state's critical characteristics interacted with and defined the private sector's tax motivations. Colonialism was economically disruptive, and the extraction of taxes at the interface of the 'gate' engendered a pattern of patronage-based politics to the benefit of certain clans and businesses. In the civilian era, Mogadishu emerged as a hub for business activity, and certain sections of the business class sought a closer relationship with the state. The business class's rent-seeking behaviour thereby contributed to the low rates of tax collection during this period. The Barre regimes' socialist policies and mismanagement of the economy distanced it from sections of the business class, which retreated from the formal economy and invested in the informal economy. The business class, in turn, began to see the regime as disruptive to economic development, and the aversion to taxation became even more acute.

Sixth, The business class had undergone significant evolution following state collapse, which achieved what structural adjustment had failed to bring about – 'privatisation of the economy' (Hagmann, 2005). The changes in the nature of business encouraged an interest in stability and public order. The business sector was willing to financially support public authorities that could meet their needs and interests. However, formal state institutions were among the many competing state projects, and contestations arose as to whether the private sector saw state-building and peace-building as compatible objectives. At the end of the transition period in August 2012, there remained the critical question of how the newly constituted Somali government would raise revenue, especially from the more profitable sectors of the economy.

Chapter 5

The Return of the 'State': Tracing Fiscal Relations in the Post- Transitional Era

5.1 Introduction

In the previous chapter, I discussed how the Somali state (post-independence) could not raise sufficient funds through taxes and struggled to achieve financial self-sufficiency. Despite the legacy of aversion to autocratic authority, successive post-independence governments did not invest in broad-based revenue bargaining agreements (Ahmad, 2017). They instead continued the colonial tradition of relying on indirect as opposed to direct sources of taxation. The business class vacillated in its engagement with the 'state project', supporting both formal (TFG) and informal forms (ICC Courts) of political authority during the civil war and in the intervening period thereafter. As the mandate of the TFG came to an end in 2011, international partners keen to terminate the 'endless transition' compelled a change in the composition of the government (Menkhaus, 2017, p. 135).

The proceeding few years (2012-2021) witnessed the emergence of two 'post-transitional' governments. Although ushered in with much fanfare, both governments were also riddled with similar problems as their predecessors. Their authority was limited to the capital, and even within Mogadishu city, they relied on

AMISOM forces for their security (Menkhaus, 2017; Bryden, 2013; Hammond, 2013). Revenue mobilisation, a priority for both 'post-transitional' governments, was made more challenging due to their limited authority and de-jure status (FGC, 2017). Concomitantly, the changes in the nature of business, which had begun to take shape during the previous period, created further opportunities for investment and professionalisation (Hagmann and Stepputat, 2016). Further, the lack of governmental regulation encouraged cartelistic behaviour and gave rise to a few large monopoly firms (World Bank, 2021a). Such transformations once more raised the question of the private sector's willingness to contribute to the state-building project and whether this commitment would be demonstrated through greater tax payments.

In the following sections of this chapter, I lay out some of these dynamics. I demonstrate the critical developments in the institution of the post-transitional government and relate them to the transformations in the private sector. I then investigate how such changes impacted the revenue mobilisation capacity of the state. Ultimately, I demonstrate that despite assertions, the Somali state remained weak, lacked legitimacy and enforcement capacity and could not deliver even the most basic public goods and services. Despite these limitations, a set of private sector actors began to pay the state some tax, albeit on a negotiated basis. Consequently, corporate tax payments and fees steadily increased during this period. In the concluding section, I ask why this was the case and structure the succeeding sections of my thesis to answer this very question.

5.2 Somalia Rising? Somali Federal Government (2012-2016)

In August of 2012, after over 20 years of conflict and a decade or more of 'ineffectual transitional authorities', the period of transition finally came to an end (Bryden, 2013, p. 1). Somalia adopted a Provisional Constitution, and a month later, the country's first post-transitional government — the Somali Federal Government (2012-16) (SFG), was instituted under the Presidency of Hassan Sheikh Mohamud (Ramsbotham and Wennmann, 2014). The beginning of the end of the transition came following a series of consultations (known as the 'Road Map') held in 2012 with representatives of the TFG, the semi-autonomous region of Puntland, the administration of Galmudug and the anti-Al Shabaab Sufi militant outfit — Ahulu Suuna Wal Jamal (ASWJ) (Bryden, 2013). The meetings culminated in a complex selection process whereby 135

traditional clan leaders selected 825 constituent assembly delegates (Bryden, 2013; Menkhaus, 2017). Members of the constituent assembly then appointed a 275-person parliament, which ultimately elected the president (Menkhaus, 2017).

From the start, the SFG was riddled with several inherent contradictions. The 'Road Map' leading to the establishment of the SFG was rushed such that 'international donors compelled the TFG leadership to hold an election to a post-transitional government — even though none of the transitional tasks had been completed' (Menkhaus, 2017, p. 135-136). Among the salient transitional tasks was the adoption of a permanent constitution and universal direct elections. Instead, the SFG was instituted based on a provisional constitution, and the new president was selected by a system of indirect elections that once more relied on the controversial 4.5 formula. The formula, as stated previously (See chapter 4), discriminated against Somalia's minority clans, granting them only half the rights of representation of the majority clans (Hammond, 2013). The SFG also enjoyed de–jure sovereignty across Somalia but only exercised de–facto authority over Mogadishu, owing primarily to the presence of the AMISOM security forces (Bryden, 2013; Chonka and Healy, 2021). Furthermore, fundamental questions regarding the legitimacy of the structure of the 'state project' and its institutional fit remained pending[1]:

> The federal government [was] not a logical solution to [the problem of] governance [in the country]. There were a number of improvements from the days of the transitional governments. However, the federal government was not a natural flow from society. The experience of the Siad Barre regime was not the best, and Somali culture was not receptive to centralised systems. It had much flatter hierarchies, and the idea of a single federal government would not come from that naturally. What did come from the society was the ICC. The SFG [in contrast] was a product of the efforts of the international community.[2]

Despite these concerns, the SFG's institution was met with much fanfare, and the country was recognised as on a different path from the morass of the TFG period. This was for several reasons. First, President Hassan Sheikh Mohamud was seen as a more genuine leader: a peace activist and educator with 'no real

[1]Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-66721332, Date: 26-10-2020
[2]Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

ties to the militias and corrupt political cartels that dominated Somali politics' (BBC, 2012; Menkhaus, 2017, p. 136). His main source of backing came from an Islamist movement known as *Damul Jadiid*, or "New Blood," a breakaway group of *Al-Islah*, a larger Islamic network of business-people and civic leaders (Menkhaus, 2018). The newly constituted Parliament — chosen for the first time by a process based in Somalia was also perceived to consist of 'representatives of a higher calibre' Third, within days following the take-over of power, President Mohamud took the initiative to articulate a Six-Pillar Strategy to restore peace and security, which differed markedly from the agendas of the previous administrations in its coherence and pragmatism (Bryden, 2013). The combination of these features, 'underpinned by an improved security situation, the return of tens and thousands of residents to their homes, the inflow of investment and the gradual restoration of a sense of normalcy', generated a powerful 'Somalia Rising' narrative (Chonka and Healy, 2021, p. 67). As one senior international government representative recounted: "There was a real sense that Somalia was on the up [and] a consensus of getting the country back on its feet".[3]

Over time, however, many of the internal contradictions that plagued the SFG began to unravel. Chief among these was the SFG's centralist re-interpretation of the federal system enshrined in the Provisional Federal Constitution[4] (Bryden, 2013). This attitude positioned the government 'increasingly at odds with other Somali authorities (e.g. Puntland and Jubaland), which had been instrumental in laying down its foundations' (Bryden, 2013, p. 6). Concerns around the centrist tendencies were mainly brought to bear during the negotiations around the unification of the three regions of Lower Juba, Middle Juba and Gedo into a single interim regional authority — Jubaland[5] (Sahgal, 2016). In August 2013, following a period of a standoff between the SFG and the Jubaland administration, the federal government ultimately signed a peace agreement with Jubaland, which 'people saw as a success, and the central government saw as a massive failure'.[6]

[3]Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-67097488, Date: 03-11-2020

[4]However, the provisional constitution was rather ambiguous, especially on the Federal question. The ultimate responsibility for determining the number and boundaries of FMS was assigned to the lower house of Parliament, which was to establish an independent Boundaries and Federation Commission. This commission, which should have been established within sixty days of the formation of the government, was not established until July 2015 (Bryden, 2013).

[5]The SFG viewed the Jubaland initiative as unconstitutional and an imposition on local inhabitants by their leaders, as it was not led through a bottom-up process (CEWERU, 2013).

[6]Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-67211617, Date: 09-11-2020

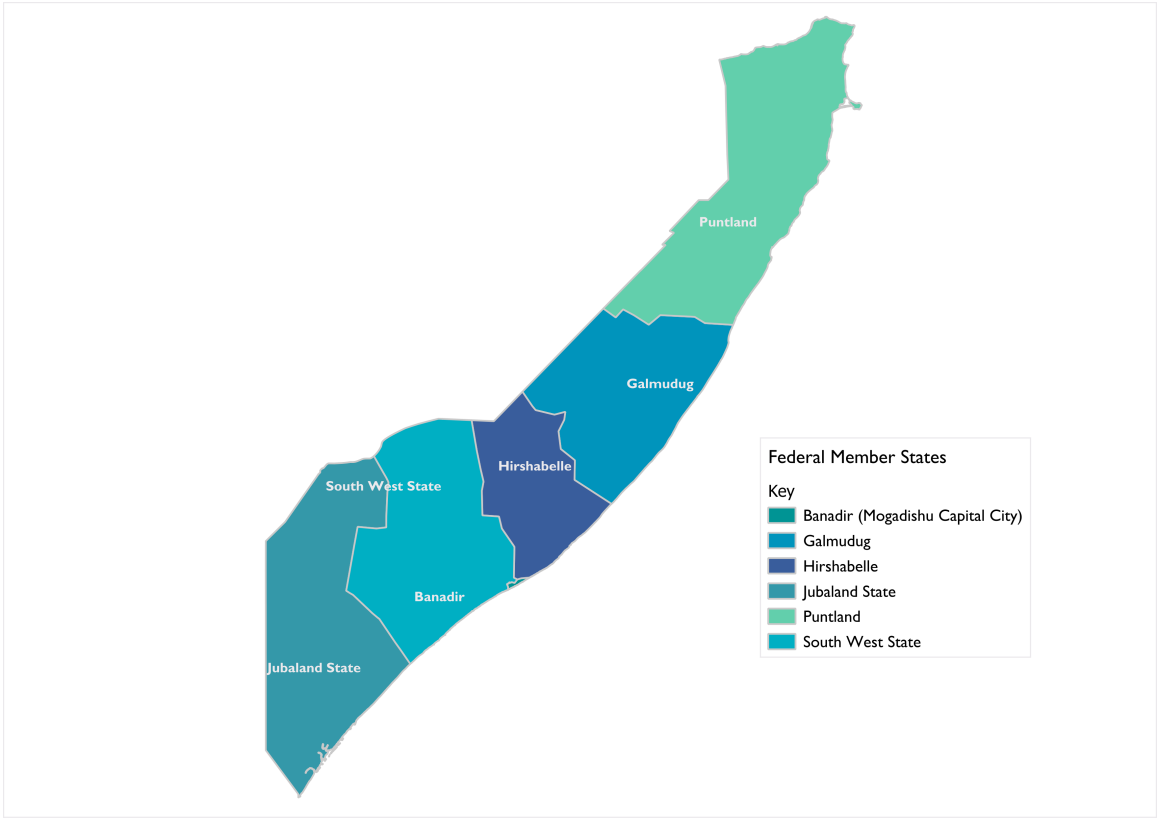
Following the creation of the regional government of Jubaland, three other Federal Member States were ratified — South West State, Galmudug and Hirshabelle (Sahgal, 2016; CEWERU, 2013) (See Figure 5.1). By 2016, however, experts contended that Hassan Sheikh seemed to shed his centralist tendencies as 'he found out that if we wanted to do anything outside the very small perimeter of Villa Somalia [Presidential Palace], he would need to form a negotiated settlements with key elites from elsewhere — Jubaland and Puntland in particular and then progressively from Galmudug, Hirshabelle and South-West, (probably in that order)'.[7] These processes led to the creation of a National Leadership Forum (NLF), which brought together the FGS and FMSs to promote shared views on the country's successful transition to democracy (Menkhaus, 2017). While representing a step forward, the NLF 'was still an extremely narrow settlement[8] that was tested over time'.[9]

[7] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-65801919, Date: 01-10-2020

[8] The NLF was also a "non-constitutional body" and had no legal basis for claiming authority to shape the indirect elections. However, the NLF drafted agreements on the electoral process (Menkhaus, 2017).

[9] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-65801919, Date: 01-10-2020

Figure 5.1: Map of Federal Member States



5.2.1 Private Sector Development: Nascent Reconstruction of Economic Financial Infrastructure

As the SFG grappled with asserting its authority, the institution of a post-transitional government was nevertheless accompanied by opportunities for profit and investment. The return of the diaspora who brought with them skills and networks led to further internationalisation of trade.[10] The expectations of greater stability also encouraged more significant investments beyond East Africa and the Middle East. Somali businesses became increasingly multinational with registered offices in multiple countries (Hagmann and Stepputat, 2016, 2023, p. 28). Following the changes that began in the mid-2000s when there was a growth of cross-clan partnerships and the institution of multi-clan shareholder companies that 'maximised capital available for investments, minimised clan-related conflicts and increased access to new markets' (Hagmann and Stepputat, 2016, p. 20-21)."Business people's relations with kinship institutions became progressively more distanced as an emphasis on a culture of business and shared Islamic identity challenged the previous dominance of familial ties" (Marchal et al., 2002; Hagmann and Stepputat, 2016, p. 21). The cumulative effects of these developments resulted in the 'nascent reconstruction of Somalia's economic and financial infrastructure that was most notable in the Telecom, remittances, banking and transport (cargo, logistics, aviation) sectors' (Hagmann and Stepputat, 2016, p. 21)

Businesses, however, remained ambivalent towards state reconstruction (Hagmann and Stepputat, 2016, 2023). On the one hand, Somali companies were willing to comply with local and international regulations. For instance, in the remittance sector, as Money Transfer Operator (MTO) moved from pre-existing trust networks to due diligence, Know Your Customer (KYC) codes of conduct and the adoption of Anti-Money Laundering Standards and Combating the Financing of Terrorism (AMLCTF) became more prevalent (Iazzolino and Stremlau, 2023). However,"not everybody bought into that model of the state-building that was being supported. There were a lot of powerful interests and groups which flourished in the war economy who did not see an urgency in changing the framework. It was never quite clear who was on board and who wasn't".[11]

[10] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-66961070, Date: 29-10-2020

[11] Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020

Despite the hesitancy of private sector actors, SFG officials consciously engaged the sector early on and brought them on board. In doing so, attempts were made to adopt a more conciliatory and cooperative approach and improve levels of 'trust' between government and private sector stakeholders (Federal Government of Somalia, 2017, p. 1). One senior Somali government official, for instance, related the efforts that were made to engage sections of the private sector in the drafting of the National Development Plan (NDP) 2015-16, the country's first economic policy document in thirty years, in the following way:

> Because the implementation of the development plan would largely fall on the private sector [as] they controlled the economy in such a dominant way, we at the Ministry made efforts to engage the sector early on. This allowed us [the government] to improve the relationship with the private sector.[12]

The NDP plan consequently prioritised creating an enabling environment for private sector development by reducing the cost of trade, improving access to finance, inputs: technical and managerial skills, and technology (MPIED, 2017). In a nutshell, "allowing the private sector to continue dominating the economy and even helping them to improve [and become more profitable]".[13] Furthermore, the outcome of NDP discussions led to the formation of a public-private dialogue forum to support economic development, create space for structured engagement in promoting growth and improve trust between the government and private sector (Federal Government of Somalia, 2017). The dialogue process recognised that a key ingredient for improving economic development was involving private sector actors in discussions on regulatory standards – 'when the private sector has input into policy design, the business community develops a sense of reform policy ownership, making policies more likely to succeed in practice' (Federal Government of Somalia, 2017, p. 1).

Experts[14], however, argued that similarity in clan-backgrounds rather than any ideological affinity explained why the SFG engaged the larger businesses in the Telecom, banking, remittance, transport sectors and also

[12]Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021

[13]Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021

[14]Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

progressively the natural resource sectors (oil, gas, fishery)[15]. Owing to his Hawiye background, President Hassan Sheikh was uniquely placed to be closer to key business groups and individuals within Mogadishu, many of whom were also Hawiye (Meester et al., 2019).[16]

5.2.2 Domestic Revenue Mobilisation: Halting Progress in Engaging Private Sector

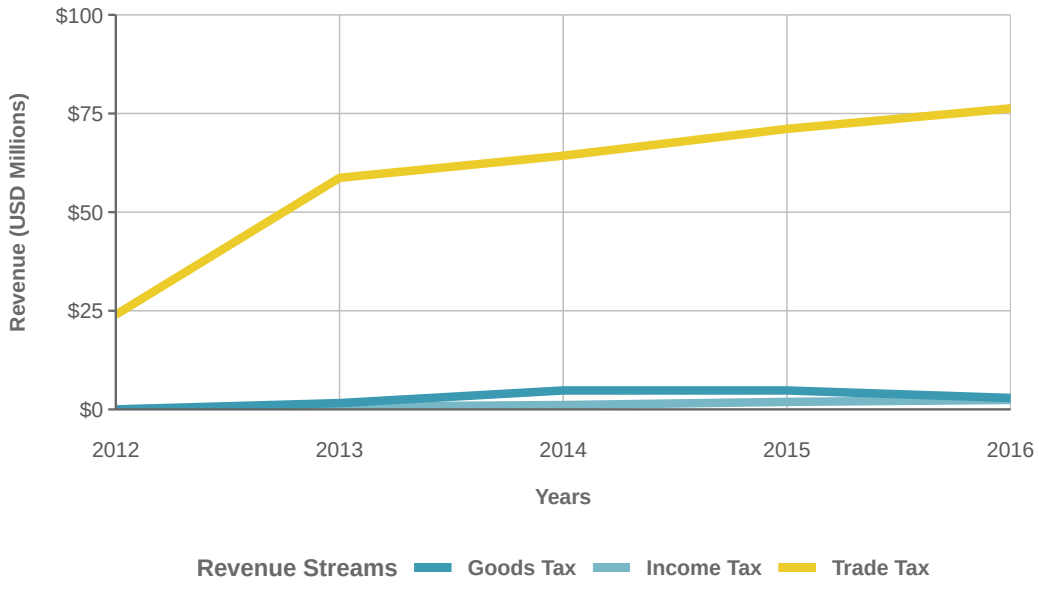
Partly owing to the overtures made to engage the private sector and faced with increasing pressure from the international community to re-establish systems, the SFG made significant strides in improving domestic revenue collections. Revenue collections rose by approximately 273% between 2012-16, rising from US$ 30.2 million in 2014 to US$ 112.7 million in 2016.[17] The increase was driven mainly by tax revenue which contributed an average of 82% in 2012-2016.[18] Moreover, while customs and international trade taxes.[19] accounted for a significant proportion (79% in 2012 and 68% in 2016) of domestic revenues, private sector actors began to pay a certain amount in taxes. Direct income tax, including income from corporate taxes, which was approximately nil at the beginning of 2012, increased by 243% and was approximately 3% of tax revenue (US$ 2.4 million in 2016) (See Figure 5.2).[20]

Additionally, the government introduced some key policy reforms and changes to improve financial governance. Most notably, the SFG passed the Procurement Act and Anti Money Laundering Act, which tightened systems for government procurement and brought the country in line with international financial standards (FGC, 2017). The Ministry of Finance also consolidated the government's bank accounts, automated its financial management system, and established electronic payments for civil service and police personnel (FGC, 2017).

Nonetheless, the SFG's capacity to raise sufficient revenue to fund expenditure remained a persisting challenge. SFGs revenue covered only around 82% (US$ 112.7 million in 2016) of a small federal expenditure

[15] There was a push towards the privatisation of the natural resource sector predominantly in the maritime and extractives space. However, many of these companies were foreign, unlike those in the telecommunications, banking, remittance, and logistics sectors, which tended to be more Somali-owned or owned by the Somali diaspora.
[16] These dynamics will be explored in greater detail in the Chapter chapter 7.
[17] Authors calculations, based on the following data sources — International Monetary Fund (2020); World Bank (2018c).
[18] Authors calculations, based on the following data sources — International Monetary Fund (2020); World Bank (2018c).
[19] FGSs primary source of customs duties collected at the Mogadishu port and Mogadishu Aden Adde airport (MPIED, 2017).
[20] Authors calculations, based on the following data sources —International Monetary Fund (2020); World Bank (2018c, 2021b).

Figure 5.2: Revenue Trends 2012-2016



Source: – International Monetary Fund (2020); World Bank (2018)

budget (US$ 137 million in 2016) with the remainder funded by external grants and aid (World Bank, 2017). Several structural constraints contributed to the low levels of revenue mobilisation. First, there were few services that the SFG could offer in return for tax payments. Somalia's total tax as a share of GDP was one of the lowest (4.1% of GDP in 2016) even among the least developed countries, in (See Figure 1.2 in chapter 1) (World Bank, 2018c). The SFG lacked the resources to undertake major programs or investment projects, and consequently, the country lagged behind most low-income African countries in availability and access to basic infrastructure. As per World Bank estimates, by 2017, 'only 58% and 10% of Somalis had access to an adequate water source and sanitation services, respectively, compared to an average 69% and 25% in low-income Sub-Saharan countries' (Pape, 2017, p. 7).

Second, as the SFG's authority was restricted to Mogadishu, the government could not collect taxes outside

the capital as these were still areas dominated by AS (Hiraal Institute, 2018; Abshir et al., 2019). The Hiraal Institute (2018) estimated that the group's annual revenues were equivalent to US$ 27 million and expenditures were US$ 25.6 million in 2018. The group collected a range of taxes, 'checkpoint taxes' along major trade routes, 'Zakat' or religious tax, forcible donations from businesses, '*Khidma* or service charges levied on commercial operations, and '*Infaaq*' – an emergency fund levied ahead of major military advances or when the group's coffers were low (Ahmad et al., 2022; Abshir et al., 2019). A UN representative described the group's robust capacity for revenue generation in the following way:

> AS had a catchment area south of Dhursamareb (Galmudug) of taxing farms, livestock markets and [vehicles] in transit. It was, therefore, very likely that because of their geographical reach, AS were generating more revenue than the government.[21]

Further, despite changes in the nature of business and the growth of telecom and money transfer companies, the country had a narrow revenue base (World Bank, 2018b, 2017; Collier, 2009). As in the past, Somalia's GDP growth continued to be urban-based, consumption-driven and fueled by remittances and donor support (World Bank, 2018b). Economic growth was insufficient to reduce poverty — between 2013-2017, the real GDP estimates grew by an average of 2.5 per annum, while the population grew by 2.9 per annum. 'The per-capita GDP was just over US$ 500, making Somalia among the poorest countries in the world' (World Bank, 2018b, p. 12).

There were also many legal and administrative challenges. Public financial management capacity was generally low, and there was a lack of modern collection processes, logistics and bookkeeping procedures (World Bank, 2017).[22] Added to this was the dated legal framework for collecting taxes:

> The legal references used or applied were dated. The Sales Tax was enacted in 1984, the Direct Tax law in 1966, the Road Tax law in 1965, and the Excise Duty law in 1985. These laws were enacted when the world was not as modernised and a socialist government ruled the country. The economy has changed since then. These laws did not have the characteristics that were

[21] Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-71718021, Date: 08-02-2021
[22] A single tariff system has yet to be implemented in key ports and airports of the country (World Bank, 2022c).

> needed. There was a big legal gap; even when big business activities were happening, there was no law to tax. The sales tax did not, for instance, cover the Telecom companies in Somalia.[23]

Lastly, critics argued that the inherent asymmetry between the state and the private sector meant that the sector's contributions were much lower than their earnings (Abshir et al., 2019; van den Boogaard and Isak, 2021; Raballand and Knebelmann, 2021). Thus, while ten tax brackets existed under the annual corporate profit tax legislation, in practice, lump-sum amounts were negotiated between the companies and the administration (Raballand and Knebelmann, 2021). While the absolute amounts of income and profit tax contributions had increased, the amounts paid were proportionally minuscule compared to the earnings of the large-scale economic actors. Smaller economic actors like tuk-tuk drivers or market vendors paid proportionally higher amounts of tax (Abshir et al., 2019). For instance, according to a 2015 World Bank study, while under a peaceful and fair fiscal framework, the Telecom sector would have contributed between US$ 81 million and US$119 million per year to the public coffers, in reality, they only contributed 6% of the amount (Lange, 2015; World Bank, 2023). In the best-case scenario, Abshir et al. (2019) noted that tax payments were used to cover the recurring shortfalls of the current government, while in the 'less savoury circumstances, they were used to curry political favour and finance political campaigns' (Abshir et al., 2019, p. 44).

As his term came to an end, President Hassan Sheikh's government was racked with graft and corruption scandals owing partly to the president's close relationship with the private sector (Ahmad, 2017; Meester et al., 2019; Majid et al., 2021). In her study with the business community, Ahmed (2017) noted that wealthy business elites won powerful new contracts from the government and the donor community during the initial post-transition years. Similarly, the UN Monitoring Report concluded that for "Somalia's political and business elite, the capture and of state resources in urban centres of power took precedence over the consolidation of an effective form of governance and the expansion of public services" (UN, 2015, p. 11). Notably, several financial irregularities emerged in the sale of fishing licenses and off-shore oil blocks to private foreign companies UN (2015). In 2015, several Somali lawmakers filed a motion to Parliament to dismiss President Hassan Sheikh, accusing him of abuse of office (Sheikh, 2017). The motion ultimately failed,

[23] Interview with Senior Government Official (Ministry of Finance - Domestic Revenue Mobilisation), ID: 638286-638277-66943378, Date: 29-10-2020

but it sullied much of the enthusiasm surrounding the new government (Webersik et al., 2018; Menkhaus, 2017).

Thus, although some advancements were made during the four years of Hassan Sheikh's government, significant challenges remained. Efforts were made to mobilise greater revenue, especially from more prominent private sector actors, who contributed increasing amounts of corporate tax. The government also announced a Six-Pillar strategy and a National Development Plan (2017) to coordinate its activities. Moreover, progress was also achieved on the issue of Federalism. Three additional FMS (Jubaland, South-West State, Galmudug) were created (Majid et al., 2021), and by 2016 the government had come around to productively engaging the member states. Nevertheless, the SFG government did not complete the critical task of ratifying the constitution. It also replicated many of the pathologies of the TFG and was unable to raise sufficient amounts of revenue to fund core activities (Menkhaus, 2017). Several structural factors impeded the government's progress on the revenue front. Among these were limited enforcement capacity, poor financial management, low legitimacy, and the asymmetrical position of the State vis-a-vis the private sector.

Table 5.1: Tax Revenue, 2012-20 (USD millions)

Revenue Stream	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Domestic Revenue	30.2	75.8	84.3	114.3	112.7	142.6	183.4	229.7	211.3	229.6
Tax revenue	25.3	65.1	73.8	82.4	88.6	112	138.9	154.8	139.5	162.8
Tax on Income, profit	0	0.7	1.1	1.9	2.4	3.4	8.6	11.7	16.2	15.8
Tax on Goods and services	0	1.6	4.8	4.8	2.9	8.9	22.1	25	21.3	23.4
Taxes on International Trade	24	58.7	64.3	71.1	76.3	92.8	100.3	107	91.1	109
Other taxes	1.3	4.0	3.6	4.5	7.0	6.9	7.9	11.1	11	14.6
Domestic loan and grants	0	6.6	0	0	0	0	0	0	0	0
Non tax revenue	0	4.1	10.5	31.9	24.1	30.6	44.5	74.9	71.7	66.8
Of which spectrum fees	0	0	0	0	0	0	0	8.7	1.7	0
External Grants	4.9	41.7	61	26.9	58.4	125.9	92.8	108.1	295.6	147
Revenue and Grants	35.1	117.4	145.3	141.2	171.1	268.5	276.2	337.8	506.8	376.5

Source: World Bank (2021b, 2018c); International Monetary Fund (2020, 2022) *FY 2021 is the extended term of office of President Abdullahi Mohamed.

5.3 A 'Technocratic Turn': Federal Government of Somalia (2017-2020)

On the 17th of February 2017, following the mandate of the provisional constitution, there was a peaceful transfer of power, and the incumbent President Hassan Sheikh Mohamud was replaced by President Abdullahi Mohamed "Farmajo" (Menkhaus, 2017; Webersik et al., 2018). Initially, the expectation was that the political transition would be based on a model of direct elections. However, when it became clear that key milestones for direct elections, including the constitution's ratification and demarcation of district boundaries, were not met, an indirect selection mechanism was adopted (Crouch and Njagi, 2017; UNSOM, 2016). As per this mechanism, the two houses of Parliament jointly elected the President[24] Seats in the 275-member Lower House were distributed based on the 4.5 formula (UNSOM, 2016). However, the size of the electorate was expanded, and 135 traditional elders who represented clans across Somalia appointed 14,025 delegates to serve in the 51-member electoral colleges (See Figure 5.3 for details).

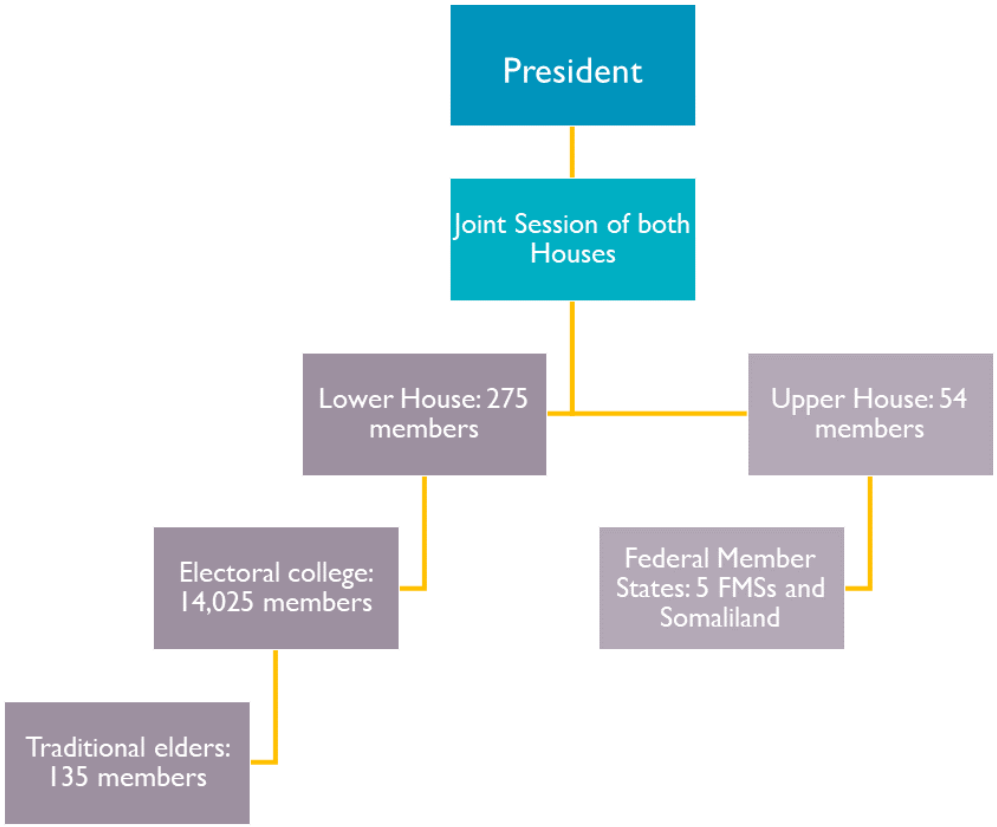
The election of President Farmajo[25] represented a significant milestone as he was not favoured to win. For one, unlike his predecessor, President Farmajo was a political 'outsider' who immigrated to the US after the fall of the regime (Leithead, 2017). His only political experience was a brief stint as PM (2010-11) under the TFG government, when he 'earned a reputation for reducing corruption and improving governmental accountability' (Menkhaus, 2018, p. 141). Farmajo's technocratic image and anti-corruption plank were also thought to be insufficient against the aggressive vote-buying tactics that President Hassan Sheikh reportedly engaged in to secure his seat[26]. Third, and quite significantly, President Farmajo was a member of the Marehan (sub-clan of Darod), unlike the two presidents before him, who were Hawiye (Majid et al., 2021). In a country where clan backgrounds mattered, the election of a Darod from the northern regions of Somalia was entirely unexpected. It signalled a 'vote for even greater change' (Leithead, 2017, p. 1).

[24] Unlike the 2012 model when a single house appointed the President.

[25] President Mohamed is referred to by his nickname Farmajo because of his love of cheese. I will use his nickname throughout this thesis because it is how he is most commonly referred to in Somalia.

[26] During the 2017 elections, anti-corruption groups accused parliamentarians of selling their votes — particularly to Mohamud, who allegedly used government funds to buy them (Majid et al., 2021).

Figure 5.3: Election Process



It is worth noting that the domination of the Hawiye in Somali politics was not completely overturned. President Farmajo appointed Hassan Ali Khaire as his Prime Minister, a member of the Murosade clan (sub-clan of Hawiye). The appointment of PM Khaire was seen by many as a compromise between the two sub-clan families of Hawiye — Habar Gidir and Abgal, which had been in intense competition since the fall of the regime of Siad Barre (Webersik et al., 2018).

The election of a new and promising set of political leaders was widely seen as a significant victory for the country (Menkhaus, 2017). Furthermore, 'the second straight peaceful transfer of power from a losing incumbent to a winning candidate suggested that some rules of the game were soaking into the fragile elite political settlement in Somalia' (Menkhaus, 2017, p. 142). Consequently, when the election was declared in favour of President Farmajo, hundreds and thousands thronged the streets, and celebratory gunfire punctuated the Mogadishu night sky (Leithead, 2017).

Despite all the enthusiasm and support, the new leadership faced many challenges, including fostering inclusive growth and development, resolving fiscal governance challenges, rebuilding state institutions and security forces, containing the threat of AS and addressing the reconciliation challenges with the FMS (Webersik et al., 2018). While the problems were equally formidable, I focus primarily on how the government responded to economic development and fiscal governance challenges in the following sections, as these relate most closely to understanding the fiscal dynamics between the private sector and the state.

5.3.1 Private Sector Development: 'The Missing Middle'

Economic growth and development prospects remained low in the first few years of the post-transitional period, but there were some pockets of hope. Thanks to a sustained period of political and institutional progress, the economy of Somalia began to recover steadily. By 2019 the real GDP grew by 2.9% and was on par with population growth. In 2020, owing to several shocks — flooding, locust infestation, drought and the Covid-19 pandemic, the (real) GDP declined by .3% (equivalent to 2013 levels) (World Bank, 2021b; International Monetary Fund, 2022). This decrease was smaller than expected (World Bank, 2020b), and the country bounced back and grew by 2.9% in 2021 (World Bank, 2021b). However, the growth pattern remained consumption-driven and dependent on imports and remittances (Kelly et al., 2021). Moreover,

while livestock (43.4%) and agriculture (4.6%) together accounted for a significant share of the GDP, the main drivers of growth were in retail, transport, finance, Telecom and construction sectors (MPIED, 2019).

Nevertheless, within these areas of growth, there were concerns that the weak regulatory environment and the lack of formal finance and infrastructure had enabled anti-competitive practices. In the absence of robust regulations and institutions that could support private sector development, there was a greater risk of cartelistic behaviours that could impede the growth of new entrants or small and medium-sized enterprises (Pritchett et al., 2017; World Bank, 2021a). For example, in the case of the Telecom, financial, transport and energy sectors[27], 'there were only a few firms that managed and supplied the majority of business operations and thereby enjoyed a monopoly position' (World Bank, 2021a, p. 19). A senior Government official summarised the challenges of the uneven growth of the private sector in the following way:

> The private sector was very informal. They struggled with informality; there was a lack of formal financing and regulation. There was a ceiling on how far you[companies] could grow. You either had massive monopolies or small enterprises (Small and Medium Enterprises). There were no MSEs (Medium-Sized Enterprises). The largest companies were in the Telecom and banking sectors which created their providers along the value chain. However, it was not all negative; it just required time for all of these sectors to evolve.[28]

Development experts, however, were more cautious and emphasised that:

> The important thing to understand about the growth of the private sector was that it was not homogeneous and that, in many ways, Somalia fitted the profile of a typical Least Developed Country. Namely, there was a "missing middle" in firm size – on the one hand, the economy was largely informal. There were low barriers to entry and low value-added, subsistence-based micro-enterprises dominated the economy and employed most people. Then there were the very large enterprises — large conglomerates, which were transnational enterprises that were

[27] There was a steady expansion of energy access over the five years (2012-17) with private sector players supplying more than 90% of power in urban and peri-urban areas using local private mini-grids.

[28] Interview with Former Government Official (Ministry of Finance), ID: 638287-638278-67785756, Date: 23-11-2020

> Somali owned. These [included companies like] Hormuud (Telecom) and Dahabshiil (Remittance/Banking). This tier was small and very powerful.[29]

5.3.2 Domestic Revenue Mobilisation: Steady Improvements in Engaging Private Sector

Alongside the economic challenges was the problem of mobilising revenue. In 2017, domestic taxes and other grants funded more than half (53%) of the total budget. Furthermore, as one governance expert put it, there were continuing challenges to revenue mobilisation, including – 'legitimacy of the state and the state actor, significant capacity gaps, high instances of corruption, lack of service delivery, and a limited history of tax payment'.[30] Such challenges, specifically the state's legitimacy and the weak administrative structure, have been extensively discussed in the previous section. Added to these troubles was the growing concern that FGS was only one among the several tax-levying authorities in the country. For instance, there were payments and contributions collected by clan elders and religious leaders to manage local governance and conflicts (van den Boogaard and Santoro, 2021). Together these taxes constituted a significant share of the total tax burden. A study conducted in the Gedo region of Jubaland found a high prevalence of informal taxation and revenue generation, with '71% of respondents reporting having paid at least one informal tax or fee in the previous year' (van den Boogaard and Santoro, 2021, p. 26).

Second, among the considerable challenges of federalism that remained was the need for defining the fiscal framework and the tax assignments of the federal states (Federal Government of Somalia, 2020). Without this clarity, FMSs collected taxes in their jurisdiction without oversight or coherency of tax assignments (Musa et al., 2021; World Bank, 2022b). Unsurprisingly, this gave rise to considerable variation in the revenue generation capacity of the FMS's (van den Boogaard and Isak, 2021). Total consolidated revenues of Somalia amounted to US$31 per capita (2018), 'but this ranged from US$0.4 per capita in a state like Galmudug, compared with US$74 per capita at the FGS level' (mainly from taxes collected in Mogadishu) (Raballand and Knebelmann, 2021, p. 11).

Additionally, AS continued to levy taxes across the country and diversified its sources, specifically targeting

[29] Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-72103485, Date: 22-02-2021
[30] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-74606672, Date: 01-04-2021

Somali business people for extortion. The group was known to impose a '2.5-5% tax on the properties of local business people inside and outside its territory, destroying the businesses of those who refused to pay' (Levy and Yusuf, 2021, p. 1175). Disturbingly, owing to their centralised systems and better levels of the organisation, AS offered, in some cases, a more accountable and predictable system of taxation (UN, 2020). Experts suggested that some groups preferred to use AS transit points because they were guaranteed not to be taxed multiple times:

> Truck drivers and transport operators preferred to go through the AS route rather than the government route because at least then [they] knew what [they] would get. They would be taxed a certain amount and be issued a receipt. If there were wayward tax collectors, the group would punish them. Whereas if [the Truck drivers] went through regular routes, [they] would face Somali National Army (SNA) checkpoints, which would most likely overcharge them. [There was] much uncertainty going through this official route.[31]

To address these challenges, the Farmajo administration, built on the successes of the previous regime but also consistent with its technocratic image, adopted a more robust approach to improving fiscal governance issues. The FGS kept up the trend of increasing domestic revenue by introducing new tax handles, including 'the introduction of a sales tax on Telecom and hotels, the removal of income tax exemptions for parliamentarians, and the imposition of sales tax on all airline services, including a collection of arrears on landing fees' (MPIED, 2019, p. 282). Consequently, the domestic revenue increased by 48%[32] during this period (2017-21). While lower than the previous period, the increase was much higher in absolute numbers — domestic revenue was US$ 211.3 million in 2020 while in 2016 it was US$ 112.7 million USD[33]. Moreover, while trade taxes still accounted for a significant share of the revenue, their share as a proportion of total domestic revenue decreased from 65% in 2017 to 43% in 2020 (See Figure 5.4). The share of taxes on income and profits (which in absolute numbers was still quite low[34]) grew steadily, increasing from 2% to

[31] Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-71718021, Date: 08-02-2021

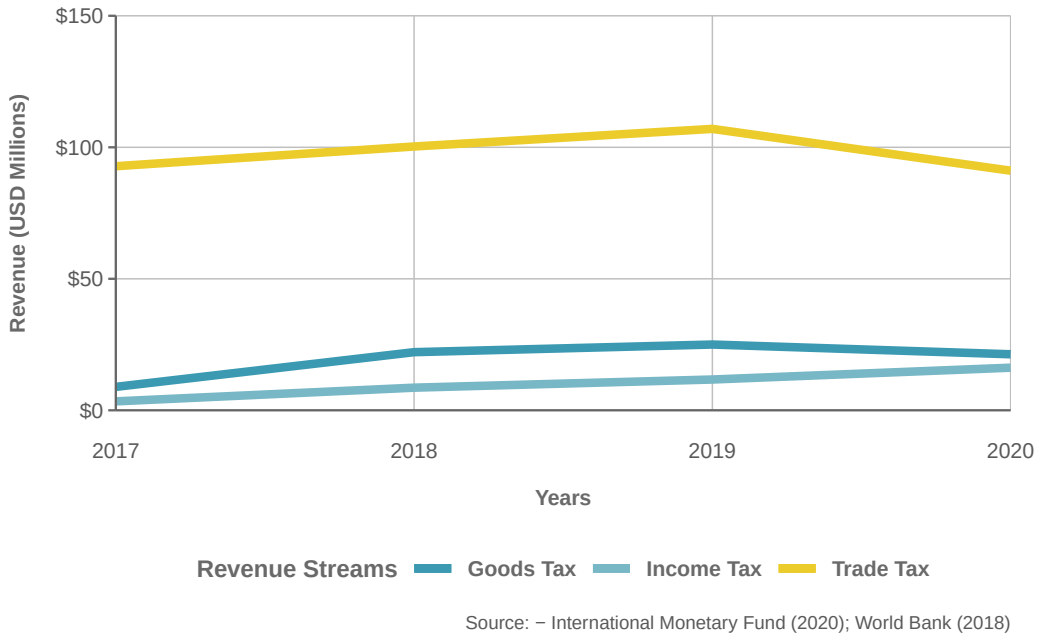
[32] Authors calculations, Source Data:World Bank (2018c, 2021b); International Monetary Fund (2020)

[33] Authors calculations, Source Data: World Bank (2018c, 2021b); International Monetary Fund (2020)

[34] It is worth recalling that during the regime of Siad Barre, the share of income tax was around 20%, and the share of corporate tax within that had steadily declined to nill by the time the regime fell in 1991. The government, therefore, faced an uphill task in mobilising revenue from these groups.

8% over the same period[35].

Figure 5.4: Revenue Trends 2017-2020



Source: – International Monetary Fund (2020); World Bank (2018)

Furthermore, the government also made efforts to improve expenditure patterns to underscore the legitimacy of the state project. There was an increase in the proportion of the recurrent budget that came to be funded by domestic revenue (See Figure 5.5). Total domestic revenue, which in 2017 covered 60% per cent of the recurrent expenditure (leaving over one-third of the recurrent budget to be financed through donor support), covered 73% of the recurrent expenditure in 2019[36]. Additionally, there were improvements in expenditure patterns, capital spending, which was non-existent in 2013-2014, grew in 2016, rising to 4% of total expenditure and was projected to grow to 12% of spending in 2021 [37] (MPIED, 2019). The FGS also

[35] Authors calculations, Source Data: World Bank (2018c, 2021b); International Monetary Fund (2020)

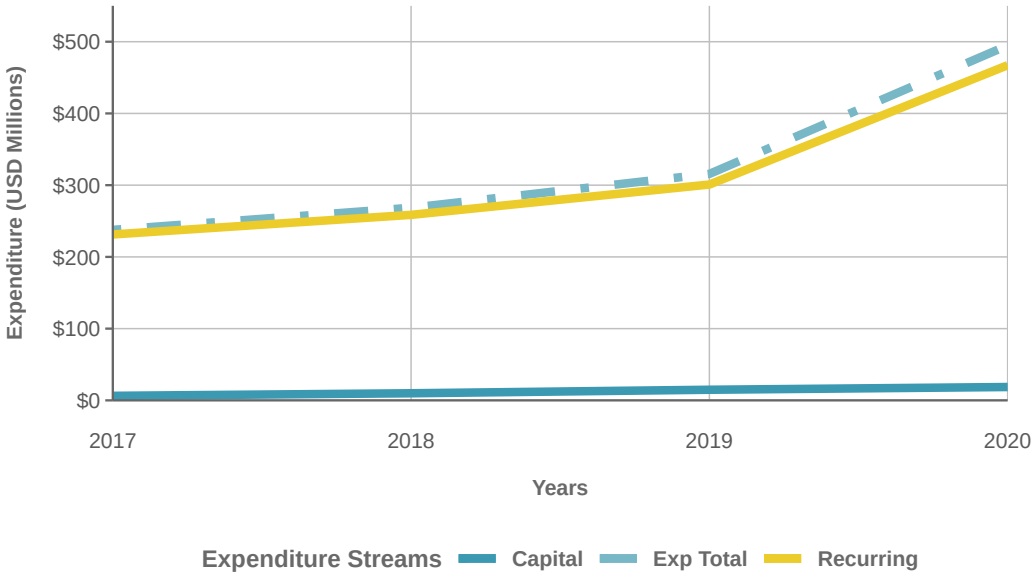
[36] In 2020, the improvements in revenue/expenditure estimates were affected by the COVID 19 pandemic. Authors calculations, Source Data: World Bank (2021b); International Monetary Fund (2020).

[37] Owing to the pandemic, even as the absolute spending increased the government was unable to spend the budgeted amount

accomplished a key election promise — i.e. paying salaries of security personnel through direct bank payments and regularising SNA's ration contracts through competitive re-tendering (FGC, 2017). This was an important milestone, as one key government official noted:

> If you remember, the military did not receive their salaries for several months during Hassan Sheikh's time. The Parliament also did not get their salaries. However, when this government came to power, they paid all the salaries for civil servants and health workers. Because of the way the government began to manage things, people came to trust them.[38]

Figure 5.5: Expenditure Trends 2017-2020



Source: – : World Bank (2021); International Monetary Fund (2020)

and the projected growth was only 3% (capital spending/total expenditure).

[38] Interview with Senior Government Official (Ministry of Planning Investment and Economic Development - Planning), ID: 638286-638277-76308750, Date: 15-04-2021

To reduce corruption and clarify the legal framework, the government enacted the Somalia Revenue Administration Act in December 2019 (Raballand and Knebelmann, 2021). The Act enabled the modernisation of tax administration and provided a legal basis for the federal government to work with the member states to harmonise tax policies across the country. It called for laws governing the major taxes (including taxes on international trade) to be made at the Federal level and 'for the Ministry of Finance to be responsible for the administration and the implementation of the revenue laws' (Raballand and Knebelmann, 2021, p. 7). Crucially, the Act also included expanding sales-tax collection to the six official federal states[39] (Raballand and Knebelmann, 2021).

The progress made on the fiscal federalism front was, however, undermined by the administration's centralist tendencies and the 'government's apparent backtracking on commitments to devolve power to the regions' (UN, 2017, p. 6). The Farmajo government was also accused of undoing much of the progress made by the National Leadership Forum. The problem, as one expert explained, boiled down to the differences in opinion on where power lay within the federal-state system:

> The current administration came [in] with the vision to centralise power within the Federal Government. They saw the lack of concentration of power as Somalia's weakness — if you do not have a strong federal government, nothing can move, and no policy decisions can be made because it (the government) will be left constantly negotiating with member states. They [FGS] sought to change that relationship, but unfortunately, how they went about it was quite heavy-handed. Essentially, it meant leadership replacement in as many of the member states. Federal interference in regional elections happened in Southwest, Galmudug and Hirshabelle. The only places where they failed were Puntland and Jubaland, and these were also the states where there had been the highest tension.[40]

[39] Although the Law did not stipulate which level of government would administer or retain any given tax.
[40] Interview with Senior Conflict Expert (International Organisation), ID: 638287-638278-71293521, Date: 01-02-2021

Debt Relief Process

The FGS's somewhat contradictory stance towards FMSs — supporting fiscal reforms while continuing to engage in centralist tendencies, experts[41] pointed out was explained by the debt relief process. The overwhelming incentive for passing financial reforms was to raise greater revenue and unlock additional external financing under the debt relief programme (Heavily Indebted Poor Countries Initiative (HIPC)) rather than to devolve power to the member states (van den Boogaard and Isak, 2021). The debt relief effort began in May 2016, during the previous administration, when Somalia agreed to implement specific reforms — including clarifying revenue-sharing arrangements with FMSs — needed for bringing the country closer to reducing its debt burden and normalising relations with external financial institutions[42]. Further, it was the Farmajo government that took over the mantel and was commended for its 'strong commitment to implement policies and reforms' under the IMF Staff-Monitored Programme (SMP), which was tasked with assessing the country's eligibility for debt relief (FGC, 2017, p. 18). However, for some, rather than a strong desire to improve revenue mobilisation and strengthen the federal structure, the Framajo government attempted to "use the debt relief process to fund a centralised state-based essentially on external rents".[43]

While contestations continued on the motivations underpinning the government's revenue mobilisation efforts, the FGS nevertheless sought to improve the collection of private-sector taxes. Specifically, efforts were made to replace the system of negotiated tax arrangements by 'anchoring revenue to the tax base and economic performance' (International Monetary Fund, 2019, p. 17). Further, while curtailing the threat of AS continued to be a challenge, the government attempted to crack down on business groups known to make protection payments to the terror group. In December 2020, Trade Minister Khalif Omar announced the dissolution of the Somali Chamber of Commerce, a collective of 150 members from different industries (including Telecom and information technology) who represented the interests of the private sector in Somalia (Khalif, 2021). The decision to dissolve the Chamber came following reports[44] that the

[41] Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020

[42] Qualifying for debt relief would unlock additional external financing, as FGS would be able to access concessional loans from multilateral and bilateral lenders (FGC, 2017).

[43] Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020

[44] The claim was made following a report by the Hiraal Institute of protection payments made by members to the terror group.

group's members were making 'illegal tax' payments to AS (Khalif, 2021). The decision for dissolution was ultimately rescinded, but there was increasing pressure on the business community to distance itself from AS. Other 'key moves in this direction included the annulment of contracts of 17 private companies that handled public services (i.e. immigration services for visas, logistics) to reassert direct government control over several revenue-generating services (including taxation)' (Meester et al., 2019, p. 55). In addition, the administration introduced a 5% value-added tax on imports through the Port of Mogadishu and taxed the companies in the heavily fortified Halane camp (the base of the African Union Mission and the United Nations) (Meester et al., 2019).

Thus, unlike the previous regime, the Farmajo government adopted an alternative approach, intending to engage the private sector by projecting its authority and using the tools and means at its disposal to assert control and relay the message that the 'government was here to stay'.

> The stronger the government got, the [more the] private sector would be willing to cooperate with us. Before, the government was weak, and the sector could bribe people in the government, which would let them off. However, they [the private sector] realised that the government was here to stay. The government was not going anywhere. Having a government was necessary for this sector. They got used to not having a government for so long that adjusting was hard.[45]

Observers pointed out that the Farmajo government was well poised to enforce compliance from the private sector. Unlike his predecessors, President Farmajo shied away from courting the business community, partially in response to the fallout of the corruption claims surrounding the Hassan Sheikh government (Meester et al., 2019). 'This was part political tact and part political need. Farmajo was not of the Hawiye clan (who make up the greatest part of the business community in Mogadishu), which meant that cracking down on the influence of business elites through more stringent regulation and taxation was also critical to political survival and the consolidation of power' (Meester et al., 2019, p. 58).

However, the movement towards an assessment-based taxation system of the private sector proved chal-

[45] Interview with Government Official (Ministry of Communication and Technology - Policy), ID: 638286-638277-71883645, Date: 10-02-2021

lenging, especially among large taxpayers. 'Business taxation relied mainly on negotiations between firms and the government. Tax liabilities were thereby determined through a bargaining process and only weakly depended on the official tax base' (Raballand and Knebelmann, 2021, p. 19).

Despite all such challenges, the government successfully engaged one specific sector — Telecom. After almost 12 years of effort, the Somali government managed to pass a law regulating the industry. The new Parliament passed the National Communications Law (2017), one of the few sector laws approved in Somalia (Kelly et al., 2021). The law established the legal regulatory and institutional framework for the country's thriving Telecoms sector and established the National Communications Authority (NCA) to oversee the regulation (FGC, 2017). While contentious issues, such as licenses and taxes payable, were postponed to the implementation stage, tax contributions of the sector, nevertheless, increased from US$ 3.9 million (2014) to US$ 42.8 million in 2021[46] (Kelly et al., 2021; Abshir et al., 2019; Raballand and Knebelmann, 2021). In 2017, the sector also agreed to pay payroll taxes and their sales tax obligations retroactively (Abshir et al., 2019). The amount paid was higher[47] than the initial target set by the World Bank and the target set by the FGS. However, it was less than what experts had projected the sector could potentially contribute (almost twice the amount)[48] (Kelly et al., 2021; International Monetary Fund, 2019; Lange, 2015). (See Table 5.2 for more details)

[46] Some of these taxes — such as corporate taxes continued to be negotiated while license fee payments were made more standardised.

[47] Telecom revenue contributions include tax (corporate) and non-tax (fees) payments making it difficult to compare Telecom sectors contribution with other sectors.

[48] Assuming penetration rates from 22% to 52% and average revenue per user of $2.50 and $8.00 per month and the highest rates of corporate tax contributions (30%), Indirect tax rate of 15%, the sector's total tax contribution was projected at US$81 million (Lange, 2015).

Table 5.2: Taxes Paid by Private Sector Actors

Type of Tax	Level of Payment
Corporate Tax	The legal basis for corporate taxes was the 1966 Direct Tax Law (Raballand and Knebelmann, 2021). The tax rate ranged from 9-30 % on annual income, the lowest rate starting at US$ 2,400, and the highest rate applicable for profits over US$ 30,000 (Abshir et al., 2019). The income slabs included in the law, however, were not updated (at the time of writing), and the Communications law (2017) did not include provisions on taxes but postponed such issues to a later stage (Abshir et al., 2019). In practice and without updated legislation, companies 'voluntarily paid a presumptive tax' (World Bank, 2018c, p. 24). Tax liabilities were, therefore, negotiated and determined through a bargaining process instead of being assessed on earned income. The budget documents did not provide a breakdown of the corporate tax contributions of the different sectors.
Income taxes	In 2017, the Appropriations Bill endorsed the tax code rate for sales and income tax (International Monetary Fund, 2019). Following this, income taxes, previously mainly collected from public sector employees, were extended to employees of a subset of sectors in 2017-18. Taxes were collected for four tax brackets (0, 6, 12, 18%). In 2017, the FGS managed to bring the employees of Telecom and electricity companies into the tax net.(Raballand and Knebelmann, 2021). The income tax contributions of the different sectors, like corporate taxes, were aggregated in the budget documents. It was, therefore, difficult to assess the breakdown of the income tax contributions of the different sectors.
Licenses	Article 41 of the Communications Law assigned the NCA the authority to issue licenses for the provision and operation of communications services in the country. In 2020, NCA developed a Unified Licensing Framework (National Communications Authority, 2020). The NCA set the Telecom operator license fees at $280,000 (275,000 one time for 20 years for a Communications Infrastructure and Service Provider License (CISP) license (purchased by Mobile Network Operator (MNO)s) and $5000 for the application). Between 2019 - 2021, the license fees paid by the sector increased from 8.7 to 12.6 million (World Bank, 2021b). However, these payments did not include fees for spectrum licenses, which the NCA had yet to issue in 2023.
Indirect Taxes	Following the passing of the Appropriations Bill, a 15% sales tax was imposed in 2017 on goods at the point of import, and a sales tax on hotels, tickets and consumer water (Raballand and Knebelmann, 2021; International Telecommunication Union, 2018). Telecom companies started paying sales taxes based on self-reported sales figures (Abshir et al., 2019). While breakdowns of tax contributions were unavailable, Lange (2015) estimated that a 15% tax rate would yield around US$1.4 million in sales tax. Telecom companies also paid a customs tax on imported Telecom equipment, which was approximately 3.9% of the total import value (lower than the 12.2% charged by other fragile competitors). Furthermore, Telecom operators did not pay any taxes on mobile money despite the high rates of transactions (US$1.2 billion reportedly circulated monthly) (Altai Consulting, 2017).

5.4 Conclusion

A question that remained at the end of chapter 4 was how the post-transitional governments would go about the task of raising revenue from the more profitable sectors of the economy. In this chapter, I have argued that the SFG and FGS governments tried to mobilise revenue from the private sector, which was a priority for both administrations. The Hassan Sheikh government endeavoured to engage the industry and used clan relations to forge proximity with sections of the private sector. In contrast, the Farmajo government attempted to project a technocratic image and distanced itself from the sector. However, mobilising revenue and moving away from a negotiated tax arrangement proved challenging. Both governments found themselves in an asymmetrical position relative to larger companies – who argued that the Somali state could not meet the needs of the private sector or offer a coherent legal or administrative framework for taxation.

Nevertheless, one set of large companies in the Telecom sector did relent. As a consequence of these efforts, the FGS passed the National Communications Law after almost 12 years of struggle. The question that remains is, why? Specifically, why did the Telecom sector relent and agree to pay some tax (even as it avoided others), given the challenges of fiscal governance and the post-transitional government's weak capacity and legitimacy? To answer this question, it is critical to understand the specificities of the sector and gain an appreciation of its trajectory and development. In the following chapter, I discuss some of the critical characteristics of the industry, the factors that led to its engagement with the post-transitional governments, the passing of the Telecom Law and the increasing revenue contributions that followed.

Chapter 6

Mavericks or Monopolists: Tracing the Rise of the Telecoms Sector in Somalia

6.1 Introduction

In the last few chapters, I have discussed how the private sector grew after the collapse of formal state institutions. The growth was concentrated in the Telecom, banking, remittance, energy and transport sectors of the economy, dominated by a few large companies. In comparison, formal state institutions, which emerged in 2012, struggled to assert their de-jure authority and deliver basic services, including security and law and order. These differences contributed to 'asymmetry between the administration's capacity and the weight of a small number of large private companies from specific sectors' (Raballand and Knebelmann, 2021, p. 21). Despite such asymmetries and the challenges of domestic revenue mobilisation, the FGS engaged one primary sector – the Telecom industry (See chapter 5). After nearly 12 years of failed discussions, the National Communications Law was passed, and the tax contributions made by the sector, albeit low[1], steadily increased.

The question left unanswered, and which I now return to, was why the FGS was able to engage and

[1] Absolute amounts of taxes paid were still low and paid on a negotiated basis (Raballand and Knebelmann, 2021).

mobilise revenue from the Telecom sector. Interrogating this question raises a broader consideration of whether the increases in tax contributions offer some understanding of how the Telecom sector more generally came to relate to state-building processes in the country, as is commonly assumed by contractual perspectives. Namely, the ambivalence of the past had been eschewed in favour of increased investment in the state project.

In this chapter, I propose the importance of taking stock of the emergence and evolution of the Telecom sector to answer this second question. In particular, I explain how the industry emerged in a context where formal rules and institutions were largely missing. This was a significant development because, in many ways, the emergence of the Telecom industry in Somalia challenged some of the prevailing models of private sector development. Specifically, the growing influence of the view that state institutions were crucial for creating an enabling environment for private sector development, i.e. private sector development was best secured by a strong state capable of instituting a regulatory environment, overcoming such obstacles as capital scarcity, technological backwardness, rigidities in labour markets, and confronting the overwhelming power of foreign corporations and competitive producers elsewhere, investing in public services, upholding law and order and securing institutions of private property (Dincecco, 2017; Acemoglu and Robinson, 2008; Evans, 1995; Kohli, 2004).

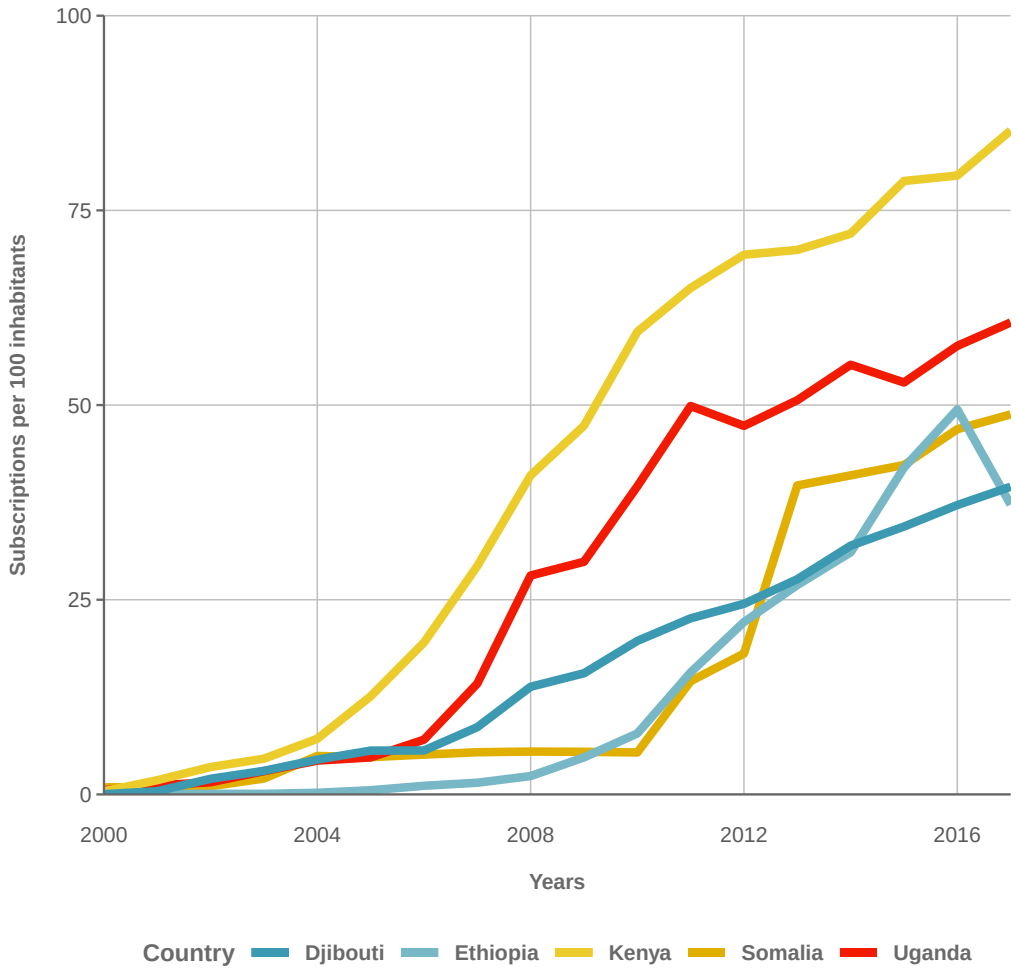
In contrast to these perspectives, the trajectory of Telecom in Somalia demonstrates how a capital-intensive industry survived and emerged as one of the fastest-growing sectors of the economy in an environment almost devoid of state regulation (Iazzolino and Stremlau, 2023). By 2014, the industry had contributed 11% to the country's GDP and was among the largest employers (MPIED, 2019). Despite the lack of regulatory or fiscal certainty, Somalia's actual growth trajectory of unique mobile subscribers (32.8% in 2020) exceeded those of Djibouti and Ethiopia (more stable neighbouring countries) (World Bank, 2023) (See Figure 6.1). The sector also offered one of the most affordable calling rates and cheap data services in Africa[2] and was distinguished for being Somali-led, unlike the rest of the region; dominated by multi-national conglomerates[3] (Stremlau and Osman, 2015). Somalia also emerged as a leader in mobile money transactions – ap-

[2]Somalia was among the cheapest country in Africa to purchase a GB of mobile data, and the seventh cheapest country in the world (Kelly et al., 2021).

[3]Investments in the industry were led by Somalis in the diaspora and Somalia (See Figure 6.2). The rest of the region was dominated by global conglomerates (Stremlau and Osman, 2015).

proximately 155 million transactions, worth US$2.7 billion, were recorded monthly in 2018. Mobile money also superseded the use of cash; over 70% of adult Somalis used mobile money services regularly (Pénicaud and McGrath, 2013; Altai Consulting, 2017; World Bank, 2018c).

Figure 6.1: Mobile Subscription Ownership of Somalia and Neighbouring Countries



Source: International Telecom Union, 2020

Despite its many strengths, the Telecom industry gained notoriety for its unbridled growth and engagement in cartelistic and monopolistic practices (Meester et al., 2019). Specifically, the sector was accused of engaging in anti-competitive practices, including price-fixing, market segmentation and capitalising on its competitive advantage. Such practices drastically altered the character of the Telecom market and the economy more generally (Collins, 2009; Meester et al., 2019). From a reasonably competitive industry, the Telecom market came to be dominated by a single player that operated different entities in the three regions (Somaliland, Puntland and South-Central), a second player with strengths in one specific region and a few smaller players with relatively less market share (World Bank, 2018a). Furthermore, the sector was designated 'a spoiler' and accused of consistently undermining the development of formal state institutions. Critics contended that despite increases in tax contributions, the sector was hesitant (or unwilling) to move away from a negotiated tax arrangement (Kelly et al., 2021; Raballand and Knebelmann, 2021).

The combination of these two quite different tendencies - maverick and spoiler- suggests that tracing the sector's trajectory offers a starting point for discerning how the industry came to view and invest in the state project. For instance, if the sector was able to grow in the absence of formal institutions, then this would suggest that sector leads considered the process of 'state-building' to be a 'sideshow'; effectively, "a process from which they did not want to be excluded, but whose success was not pivotal to the conduct of their business" (Cassanelli, 2010, p. 43). As discussed previously (chapter 4), the increasing in-formalisation of the private sector in the last few years before state collapse attested to the sector's ability to cope without a state and its hesitancy with getting the 'state back in' (Marchal, 1996; Menkhaus, 2003). Moreover, if adaptation strategies had served to reinforce the monopoly position of sector leads, it would also mean that the sector leads would eschew the state attempts at greater regulation and perhaps not seek to strengthen state capacity and increase tax contributions. During the era of the TNG government, Menkhaus (2003) noted how businesses sought to keep the state weak as they believed that a reconstructed Somali state would reduce profits (See chapter 4). Thus, one possibility worth considering is that the Telecom sector's increased tax contributions in the post-transition era were not intended to strengthen the state project but were motivated by a wholly different rationale.

To reflect on these questions, I begin with a historical overview of the sector and trace the factors that facilitated its emergence. Next, I highlight some of the challenges encountered during the initial years and

examine the adaptation strategies employed to meet these challenges. In section five, I trace the sector's evolution and highlight some pending constraints. In the concluding section, I assess whether the sector's growth trajectory offered insight into its commitment to state institutions or whether the sector had evolved to a point where the 'success of formal institutions was not pivotal to its business' (Cassanelli, 2010, p. 43).

6.2 'The Start of Everything': History of Telecom in Somalia

Before 1991, the Telecom sector was nationally owned and operated as a state monopoly.[4] At the time; mobile networks had not yet been introduced. Somalia had only 8,500 fixed lines, most of which were located in Mogadishu (World Bank, 2023). After the fall of the government, private sector actors stepped in and took advantage of the 'radical liberalisation of the economy', establishing a host of businesses in the remittance, banking and Telecom sectors (Lindley, 2005; Webersik, 2006, p. 1465). In Mogadishu, many of the business groups that benefited were primarily from the Hawiye clan as groups aligned with the regime fled the capital city (Webersik, 2006; Kapteijns, 2013). [5] It was these groups that were also credited with taking the first steps in establishing the Telecom industry.[6] Nevertheless, the trajectory of the sectors' development was far from straightforward. In the following few paragraphs, I tease out how the demand and supply side dynamics contributed to the growth of the Telecom sector in Somalia.

In the 1990s, when the civil war broke out, there was an increasing need for money transfer services (Lindley, 2009). However, as Lindley (2009; 2005) explains, it was around this time that the trade-based method of remitting funds (Franca Valuta)[7] proved to be too slow and unreliable and came to be replaced by the *Hawala* or *Xawilaad* system (in Somali). The Xawilaad system was an age-old method of value transfer in the Islamic world, dating back to the 8th century (Lindley, 2009; Iazzolino and Stremlau, 2023). In the Somali context, 'the system involved a customer giving money to a Hawala agent, who then contracted a second agent with the instructions to pay the recipient' (Lindley, 2009, p. 522). The debt was later set-

[4] Interview with Retired Telecom Official, ID: 638286-638277-65324819, Date: 2020-09-17
[5] See chapter 4
[6] Interview with Senior Somali Expert (Regional Think-Tank), ID: 638287-638278-67077439, Date: 02-11-2020
[7] The system involved a migrant transferring funds to traders, usually of the same clan, who exported goods to Somalia, paying the migrants' families from the proceeds of their sales.

tled via reverse transactions. In this way, only the value of debt was initially transferred rather than an exchange of actual money (Lindley, 2009, 2005). The system was based on trust and facilitated by the intimate nature of clan relations (Carrier and Elliott, 2018; Lindley, 2005). To communicate with one another and relay payment information, Hawala agents relied on high-frequency radios, which formerly only the military and police were authorised to use (Lindley, 2005, 2009).

Over the 1990s, the Hawala operators were incorporated into large money transfer enterprises run by livestock and goods traders (Lindley, 2005, 2009). This system enabled the delivery of money to a broader range of locations than was previously possible. It ensured a centralised process for consolidating and settling debts (Lindley, 2009)[8]. The first few such companies to be established were Al Barakat (1987), Dhabshiil (1988) and Amal Group (1997) (Lindley, 2009). As the remittance companies rapidly incorporated new technologies to relay payment information, such as mobile and satellite phones, the need for facilitating swifter communication emerged as paramount (Lindley, 2009). Thus as Lindley observes, it was the 'substantial profits from the money transfer sector that helped fund Somalia's Telecom revolution' (Lindley, 2009, p. 523).

All major Telecom Telecom players (in 2022) – Hormuud, Telesom, Golis (HTG)[9], Somtel and Amtel (Amal Group), traced their roots back to the remittance sector (See Table 6.1) The HTG group was the oldest of the three and emerged after the collapse of the Al Barakat company (Iazzolino, 2015). In 2001, Al Barakat and its Telecom arm were designated as a terrorist organisation after the company's owner Ali Ahmed Nur Jim'ale was accused of having links with AQ (Lindley, 2009).[10] By 2002, three new companies emerged – Hormuud in South Central Somalia, Telesom in Somaliland and Golis in Puntland, 'built on Al Barakat's old Telecommunication facilities, both its former premises and its technology, and in former strongholds' (Iazzolino, 2015, p. 21).

However, Collins (2009) asserts that while the growth of the sector was linked to the remittance business, the demand for Telecom also emerged from a need to connect with family and friends living abroad who

[8] Typically, having received a payment for a named recipient in Somalia (over the counter or by bank transfer), the 'receiving' agent forwarded instructions to a central clearing house which then relayed instructions to the relevant local agent to pay the receiver (Lindley, 2005).

[9] These companies are part of one large franchise called the Hormuud Telesom and Golis (HTG) group.

[10] In the wake of the 9/11 attacks, the US government blacklisted 62 individuals and organisations for their alleged connections to AQ, including the owner of Al Barakat – Ali Ahmed Nur Jim'ale (a Hawiye from the Habar Gedir sub-clan) (Iazzolino, 2015).

Table 6.1: Year of Establishment and Status of Major Players in the Telecom Sector

Founded	Name of Mobile Network Operator	Status in 2022
1994	Barakaat Telecommunications	Not Operational (HTG in 2003)
1994	Olympic Somalia	Not Operational
1997	Nation Link	Operational (low market share)
1998	Somtel	Operational
2002	NetExchnage	Not Operational
2002	TeleExchange	Not Operational
2003	Hormuud-Telesom and Golis (HTG)	Operational
2004	Somaphone	Not Operational
2012	Somlink	Operational
2020	Amtel	Operational

Source: World Bank (2023); National Communications Authority (2022)

were in a position to lend assistance to Somalis living in the country. The sector's emergence, therefore, also reflected a 'deeper desire held by all Somalis to repair and maintain social networks and safety nets that could insure them and their families against a future that remained unpredictable' (Collins, 2009, p. 215). As explained by a Telecom operator interviewed for this study:

> After the collapse of the government, there was a vacuum in terms of leadership, business and everything. People faced many problems when they fled the country to Europe and Asia. There were no public services that we [the sector] were receiving from the government. There was no support! People began to look to their families for support. They used radio systems to find their families in Kenya, Ethiopia, or Europe, which sometimes worked. For us business people, we thought we had to find a better way of communication. One that allowed our people to speak privately and separately. This was not possible with the radio because you just talked about general things. You could not talk about anything specific [unlike when you have a telephone]. This was the start of everything.[11]

In addition to the demand side factors, the rise of the Telecom industry was also facilitated by technological improvements and the advantageous Telecom accounting and settlement regime. Specifically, the

[11]Interview with Senior Telecom Representative (MNO), ID: 633591-633582-78957269, Date: 28-05-2021

technology known as Very-Small-Aperture Terminal (VSAT)[12] was affordable and enabled operators to recoup their upfront costs quickly. Moreover, 'it also allowed the industry to develop on a radically decentralised scale, where clan embedded controls for protecting private property, enforcing controls and resolving disputes were at their strongest (Collins, 2009, p. 60). Finally, VSAT required very little in terms of pre-existing infrastructure.[13] The technology could be powered by solar panels - 'an attribute that was particularly salient in a country whose meagre power grid had been destroyed during the civil war' (Collins, 2009, p. 61).

Furthermore, the system of international Telecom accounting and settlements regime favoured developing countries like Somalia that received more calls than they originated and were thereby net beneficiaries (Collins, 2009; de Waal, 2015). Aware of the potential rental income from this disparity, Somali entrepreneurs negotiated advantageous accounting rate agreements with European and American carriers. These favourable terms, consequently, provided operators with their primary source of revenue and further incentivised the supply of Telecom services. (de Waal, 2015).

Thus, even within the context of state collapse, several factors combined to produce precipitous conditions for the emergence of the industry. The needs of the remittance business and the demand for connection and support, along with the supply side factors – the availability of cheap and decentralised technology and the favourable accounting and settlements regime, combined to facilitate the development of the industry.

6.3 'When there was no light': Challenges Encountered in the Aftermath of State Collapse

Notwithstanding the serendipitous alignment of demand and supply-side factors, the prolonged conflict and the widespread looting and destruction of property did not make for a business-friendly environment (see chapter 4). Consequently, operators faced considerable challenges in establishing their business (Yusuf, 2006). The primary difficulties included large-scale insecurity and violence, limited availability of

[12] VSAT is a two-way satellite ground station with a dish antenna.
[13] Interview with ICT Expert (Multilateral Organisation), ID: 639281-639272-68801218, Date: 08-12-2020

infrastructure, technological capacity and know-how and the lack of access to financial, legal infrastructure and contract enforcement mechanisms.

While many such challenges affected private sector activity across sectors, they were particularly salient for a capital-intensive business such as Telecom. Within the broader regional contexts, privatisation of the Telecom industry was mainly facilitated by foreign investments and large multi-national companies[14]. Very few domestic operators had the necessary capital to invest in the business (Minges, 1998).[15] In contrast, in Somalia, foreign multi-national companies were hesitant to invest in the country (World Bank, 2023). Telecom operators, therefore, had to find alternate solutions to address the various challenges of setting up a complex business while managing a highly precarious security situation.

By the late 1990s, the power of the warlords, which began to wane, led to increasing factionalisation and internecine conflict. For the Telecom providers, *insecurity was a particular challenge* due to substantial investments in physical infrastructure. In the words of one Telecom operator: 'Back when we started, many different warlords were controlling different parts. We needed a more stable environment to operate our business. However, we had to make do.'[16] Further, following initial reliance on VSAT technology, terrestrial wireless installations were deployed to facilitate connectivity (World Bank, 2023). Unlike VSAT, terrestrial installations represented the first significant Telecom infrastructure investment, which needed to be protected from warlords and militias: "Generally speaking, Telecom infrastructure; is very vulnerable. It relies on towers in rural areas, often away from the main roads. As a result, it is relatively easy to attack with very little interference".[17]

Apart from the protection of infrastructure, there were also concerns related to the personal security of employees: "The most significant expenditure was security – physical security for our people and infrastructure. That accounted for 60% of our expenditure."[18] More generally, the lack of law and order was also a challenge for facilitating economic transactions and encouraging investment (Dincecco, 2013; Col-

[14] Before late 1990, the Telecommunications industry in most African countries was nationally owned. However, privatisation was facilitated mainly by large multi-national companies interested in purchasing national Telecommunication operators (Minges, 1998; Noll and Shirley, 2002).
[15] Interview with Telecom Expert, ID: 755678-755669-78830861, Date: 26-05-2021
[16] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021
[17] Interview with ICT Expert (Multilateral Organisation), ID: 639281-639272-68801218, Date: 08-12-2020
[18] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021

lier, 1999). The general insecurity increased the cost of specifying, negotiating and enforcing contracts underlying the economic exchange (North, 1981). Private businesses, for instance, lacked the incentive to engage in long-term business arrangements because the risks were significant and the security situation was unstable.

Another devastating impact of the ensuing civil war was the *destruction of basic infrastructure, public resources and human development capacity*. By 1998, the UNDP's Human Development Report found that even the most basic infrastructure facilities, such as roads, electricity, piped water, and drainage, were either destroyed or in a state of deterioration. The result was an increase in the cost of production, especially as most public goods had to be privately funded (Collier, 1999; Dincecco, 2013; Hoffmann and Lange, 2016). The lack of Telecom-specific equipment, including mobile handsets, added to these fundamental challenges. Additionally, the years of civil war had adversely impacted the country's education system. Somalia held one of the lowest ranks on the UNDP's Human Development Index (HDI) (1998), with adult literacy ranging between 14-17%. The low levels of education translated into limited in-country technical expertise and sector-specific knowledge. [19]

The general insecurity and lack of centralised authority also meant that there was *limited enforcement of property rights and legal guarantees*. 'With no government to enforce deals, there were consequently few formal guarantees for contracts agreed upon between businesses' (Ahmad, 2017, p. 113). For instance, there were no property rights or commercial laws dictating terms of contracting, company constitution, or foreign investment (Nenova, 2004). The absence of a legal system securing the right to property or upholding contacts considerably increased the risk of productive investments. 'Poorly enforced property rights created a wedge between the marginal product of capital and the rate of return that investors could privately appropriate, increasing the level of risk and reducing their incentive to invest' (Svensson, 1998, p. 1318). For the Telecom sector, in particular, the lack of contract enforcement mechanisms made it more challenging to raise capital.'Like other businesses, the Telecom operators also wanted stability and some rule of law that guaranteed property rights and ensured [their investments]. Without these guarantees, the level of risk the sector had to be willing to live with was reasonably high'.[20]

[19] Interview with Private Sector Development Expert (International Organisation), ID: 639281-639272-67082913, Date: 03-11-2020
[20] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-66721332, Date: 26-10-2020

Relatedly, *centralised regulatory agencies were absent*. For a sector like Telecom, which in most countries is heavily regulated, the absence of regulatory systems or bodies was a particular problem (See Table 6.2)[21] (Matheson and Petit, 2020). In the absence of a formal government, there was no regulatory body or licensing agency to regulate the use of particular frequencies and ensure that interference in mobile communication was limited.

> Even after some licensing was introduced, providing internet services in Mogadishu was difficult because there was no regulation. When we first began using the 6GHZ, few companies used that frequency. However, one day, the other companies all began using the same frequency, and there was a lot of interference on our network. After that, we had no option but to change our frequency again to 5GHZ.[22]

Table 6.2: Spectrum Regulations

Importance of Spectrum Regulations
Mobile communication relies on the wireless flow of information using the radio spectrum, which is part of the natural environment and is a public resource. Unlike other public resources, the spectrum is not exhaustible; when a portion of the radio spectrum is not used, it is immediately renewed. However, the main issue with spectrum usage is that if many operators use the same frequency, it can reduce transmission quality. To ensure limited interference, the radio spectrum is divided into frequency bands allocated to specific services by the International Telecommunication Union, a United Nations agency. In most countries, national regulators abide by these conventions and usually control access to spectrum through a licensing framework, granting Telecom operators the exclusive rights to use certain frequency bands in particular areas and at specific times. These rights are then protected such that if any other entity uses this licensed frequency band or causes interference, it can be compelled to stop.

Source: GSMA (2017, 2012)

Without a regulator, there was no regulation to prevent monopoly concentration and indiscriminate competition (Matheson and Petit, 2020; Katz and Jung, 2021). In the early years, the problem of indiscriminate competition was quite rampant (Collins, 2009). After the fall of Al Barakat, several firms entered Somalia's mobile Telecom market, offering exceedingly low rates in an attempt to establish a foothold and attract Al

[21] However, it is imperative to note that the industry also benefited from the lack of strong regulation, but during the initial years regulatory mechanism would have been necessary to resolve the coordination problems.

[22] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-74522775, Date: 31-03-2021

Barakat's former customers (Collins, 2009).[23] Two newcomers – NetExchange and TeleAtlantic – 'epitomised this strategy'(Collins, 2009, p. 144). Together these companies halved the going rate for international calls to $0.40 and $0.35 per minute, respectively (Collins, 2009). While customers benefited from the low rates, the price wars discouraged investment as 'all firms were forced to operate at a loss to stay competitive in the hope others would be forced out before them' (Collins, 2009, p. 145).

Lastly, despite the innovations in the industry, the fixed cost of establishing a cell phone network was quite substantial (Matheson and Petit, 2020). In Somalia, as in other contexts, one of the lasting effects of the civil war was the *gradual loss of capital stock* due to destruction, dis-saving and capital flight (Collier, 1999). Further, as Hoffman and Lange (2016) point out that in fragile states such as Somalia, the lack of finance was not only a technical bottleneck that arose from the destruction and displacement of capital and labour but was also a result of the limited institutions of trust and legal guarantees. Hence the lack of centralised accountable governance structures also limited access to finance. Following the collapse of the Central Bank in 1991, for instance, the banking sector that emerged after the state collapse was largely unregulated, fairly risk-averse and mainly catered to the import/export sector, where loan repayments were more easily recoverable.[24]

There were also no correspondent banking services[25], which were critical for moving finances internationally (Nenova, 2004). Consequently, operators had to open offices abroad and use foreign banks to pay foreign partners for goods imported. This was an expensive undertaking and required investments of time and money.[26]

Somali Telecom operators, thereby, encountered a range of challenges in the industry's early years. Some of the most crucial concerns included: general insecurity, limited infrastructure and skilled labour shortages, a lack of legal and regulatory systems and the scarcity of finance and capital. These challenges were particularly salient given the industry's capital-intensive nature, which at the regional level had been initially

[23] Interview with Senior Telecom Representative (Telecom Association), ID: 639281-639272-101270064, Date: 31-10-2022

[24] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[25] An arrangement whereby one bank (correspondent) holds deposits owned by other banks (respondents) and provides those banks with payment and other services (Lindley and Mosley, 2014).

[26] Nenova(2004) estimates that opening an office in Dubai cost US$5,600-10,600 and took several months.

supported by state investments and later by muti-national conglomerates (foreign capital). In the context of these challenges, how did the Telecom sector develop in Somalia without formal institutions? The following section outlines some primary strategies adopted by the sector to meet the challenges encountered.

6.4 'Making Do': How the Sector Adapted

Despite the difficult conditions and the challenges presented by the lack of formal institutions and centralising structures, the Telecom sector persisted and thrived. As discussed in the introductory section, the strategies and coping mechanisms employed by the sector are critical for discerning the sector's trajectory but also offer lessons for understanding how economic exchanges were made possible in markets plagued by high-risk, mistrust and the absence of formal state and regulatory institutions (Hoffmann and Lange, 2016; Rasmussen and Varming, 2016; Little, 2003; Hagmann and Stepputat, 2023). Especially the role that informal institutions, social relations, and networks can play in helping businesses adapt to instability (Keels, 2019; Iazzolino and Stremlau, 2023; Carrier and Elliott, 2018). Furthermore, engaging with the role of non-state arrangements is also crucial for appreciating the resultant impact of such systems. As Meagher (2010, p. 4) underscores, a reliance on traditional social networks and institutions, for instance, can hamper growth and competitive behaviour and lead to 'dysfunctional outcomes'.

In the following few sections, I lay out some of the patterns of what Twijnstra (2014, p. 32) has dubbed the patterns of 'real economic governance'. Namely, I trace how Telecom sector actors 'regulated and legitimised economic activity, transactions, secured access to protection and organised collective action' (Twijnstra, 2014, p. 32). In doing so, I also seek to speak to the rich literature on 'enclaves' of global capital and present a contrasting case of how domestic capital survived in a context of limited statehood (Ferguson, 2006; Hagmann and Stepputat, 2023).

6.4.1 Security Arrangements: Clan Control

Somalia's Telecom sector relied heavily on the clan system and associated institutions as substitutes for the centralised bureaucratic controls. While scholars agree that the clan system did not have a fixed, immutable

meaning (Majid et al., 2021; Bakonyi, 2009), what gave this system a sense of stability was the institution of Xeer and the 'way in which it was used to provide a precise definition for diffuse ties of descent' (Lewis, 1988; Collins, 2009, p. 53). Further, although processes of state formation and state collapse had undoubtedly weakened Xeer (as previously discussed (chapter 4), there were nevertheless certain aspects which persisted and were adapted for regulating economic relations. In particular, the 'Xeer' provided a body of laws for regulating economic transactions and prescriptions for social insurance. Individuals and groups were, thereby, compelled to accept the liability for others at different levels of clan aggregates, the most significant of which was the Diya paying group (Collins, 2009).

The role and significance of clan institutions were especially evidenced in how Telecom operators sought to address the problem of insecurity. To guarantee the protection of towers, business interests were tied to clan interests via lineage affiliation of firm ownership. The practice was rooted in the pre-colonial institution of *Abaan*, where ' traders crossing hostile clan territories paid powerful clan families to attach their names to trade caravans to prevent them from being attacked' (UNDP, 2001, p.148-149). By framing the Telecom business and property as attached to specific clans, 'any attack or theft was elevated to the status of a 'clan matter', which effectively extended the liability for such acts from the offending individual to the various clan-based interest groups to whom they were attached' (UNDP, 2001; Collins, 2009, p. 95).

Additionally, to ensure the general security of their employees and operations, Telecom operators also invested in hiring private guards from among their kinsmen.[27] As previously argued (chapter 4), when businesses began to distance themselves from the warlords, they also sought to buy out warlords' militia, who were recruited along clan lines (Hansen, 2007; Lindley, 2005). However, along with relying on kinship, Telecom operators also turned to local sharia courts for protection (Ahmad, 2017; Majid et al., 2021). They supported various types of institutions and leaders who could guarantee, among other things, their security (Majid et al., 2021).

[27] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-74903809, Date: 05-04-2021

6.4.2 Capital Conundrum: Multi-Clan Share Holder Structures

One of the significant innovations where clan affiliations also played an integral role was the strategy employed to raise capital. During the initial years of their formation, Telecom companies strategically expanded into new regional markets by procuring local partners and agents from dominant clan groups and offering them shares and the opportunity to invest in their company (Ahmad, 2017). In the absence of a financial trading floor or stock market, shares in these networks were traded through Money Transfer (MTO) companies (or remittance companies): "Initially, the company announced a public issue, selling shares to the public to raise capital and opened an account in the clan's MTO as a place to collect the money raised".[28]

Along with raising money through the clan system, some companies also adopted a franchise model, 'expanding their investments but respecting that markets across territories (Puntland - Somaliland and South-Central) had their own local dynamics' (Lochery, 2015, p. 262). Apart from raising capital and securing investment, these strategies shielded companies from conflict by ensuring community buy-in and support (Kazmi and Loyaan, 2019). Hormuud Group (HTG), the leading Telecom operator, was a pioneer in this space: Beginning with almost 250 shareholders, by 2020, the company claimed to have expanded to nearly 12,000 plus shareholders (Telecom Review, 2020).[29] The company's success and ability to expand were attributed to its dispersed ownership structure and the use of the franchise system. In the words of a senior government official:

> To understand the growth and development of the Telecom sector, you first need to understand the clan system. For example, Hormuud is owned by Ali Ahmed Nur Jim'ale from Mogadishu. Jim'ale went to Bosasso (Puntland), where he gave shares to people. He then moved to Hargeisa (Somaliland) and did the same thing – gave shares to people from that region. He did this so that his business could survive because of the clan dynamics.[30]

However, while building cross-clan partnerships was necessary, often those allowed to buy the shares were

[28] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-68989523, Date: 07-12-2020
[29] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-68989523, Date: 07-12-2020
[30] Interview with Senior Government Official (Ministry of Planning Investment and Economic Development - Planning), ID: 638286-638277-76308750, Date: 15-04-2021

influential clan leaders and representatives of other prominent groups (e.g. religious and economically powerful groups) (Iazzolino, 2015). The more political influence a clan had, the more likely it was that 'influential business people from that clan would be invited to join the company as shareholders' (Hared et al., 2014, p. 418). By inviting powerful business people in the respective clan or sub clan to join the company, operators could ensure that influential groups had a stake in the company's continued functioning and survival (Hared et al., 2014). Additionally, the fact that preference was given to the clan members of the founder meant that the Telecom operators were perceived as having a well-defined clan identity, usually that of the main shareholder (Iazzolino, 2015). For instance, since Jima'le, a Hawiye (Habar Gedir sub-clan), had a significant stake in each of the subsidiaries, Telesom, Golis and Hormuud, the HTG group was considered to be dominated by the Hawiye. Similarly, Somtel, owned by the Dahabshiil group, was headed by Abdirashid Duale from the Issaq clan (Habar Je'lo sub-clan) and was considered to be an Issaq-dominated entity.[31]

Moreover, the Telecom sector attracted both local and international (diaspora) investors 'who were willing to take the risk and invest in the country'.[32] The presence of diaspora investors, for Meester et al. (2019), speaks to the transnational nature of the Somali business community and their unprecedented influence in the economic and political dynamics of the Somali region. However, the Telecom operators I spoke to acknowledged the presence of diaspora investors but maintained that most of the shareholders were, in fact, 'native' Somalis.[33] The lack of publicly available information on the list of shareholders makes it challenging to verify such claims. Nevertheless, it is worth noting that the principal heads of the Telecom companies had dual nationalities. Jima'le, for instance, held dual nationality and operated out of Djibouti.

6.4.3 Contract Enforcement: 'Informal' Institutions and Norms

To resolve the problem of contract enforcement, customary and religious institutions and relations of trust were relied upon by Telecom operators (Nenova, 2004; Center for Global Communication Studies, 2014). For instance, the operators used traditional customary institutions of Xeer to settle disputes (Center for

[31] Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021
[32] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-70725921, Date: 25-01-2021
[33] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-70725921, Date: 25-01-2021

Global Communication Studies, 2014). As mentioned previously, Xeer 'contained precise guidance on resolving disputes by explicitly vesting mediation (*Masalaxo*) and adjudicative (*Gar Dawe*) authority in clan elders at various aggregates within the clan system and providing a typology of laws based on precedents (Xeer Dhaqan)'(Collins, 2009, p. 104). The principles and many of the practices contained in this living institution – including 'between-group' culpability and clan elder authority – continued to figure centrally in how contemporary commercial disputes were resolved.[34]

Islamic legal systems were also employed to settle disputes, as previously observed in the role played by the ICC (Ahmad, 2017). But more importantly, Islamic credentials and identity were used to establish trustworthiness and credibility in business transactions. The most established businesses, for instance, adopted a *Salafi* approach to Islam and developed strong ties to the Gulf business network (Ahmad, 2017). Marchal and Sheikh (2015, p. 147) argue that the inclination to endorse a Salafi understanding of Islam was a very rational choice: 'By showing their religiosity, they intended to prove that they were no longer part of the *Mooryaan* – those who had plundered and profited from instability'. Over time the religious credentials of these actors also translated into multi-million dollar loans from Gulf partners, with no enforcement mechanisms for repayment (Marchal and Sheikh, 2015). Moreover, the assertion of the Islamic identity proved critical for transcending narrow clan identities and served as an overarching ethic in guiding business relations:

> There was an understanding of fairness and fair game and what was legitimate. It was not a stretch to say that the Islamic background helped them [the operators] to maintain discipline and good faith and transact with one another.[35]

However, while clan and Islamic credentials engendered trust and facilitated economic transactions, relations of trust were not a prerequisite for trusting behaviour. Instead, as Carrier and Elliot (2018, p. 20) point out, 'acts of trusting themselves worked to produce trust, even when they did not eliminate deceit and mistrust'. In other words, 'trust was a normative discourse that created a moral code which (ideally, at least) promoted mutuality in trade' (Carrier and Elliott, 2018, p. 20):

[34]Interview with Senior Government Official (Ministry of Finance - Policy), ID: 638286-638277-69292696, Date: 10-01-2021
[35]Interview with Senior Government Official (National Bureau of Statistics), ID: 638286-638277-82409534, Date: 12-08-2021

> It was very evident that within the business community, trust was the key asset. Meeting with the businesses, you quickly realised who was considered trustworthy. Companies needed to maintain a good name in the community. If someone did not pay back an obligation – they would not be trusted. This was different from the relationship between civil society and the government – where cheating was the norm. For these businesses, it was essential to trust and to be perceived as trustworthy.[36]

6.4.4 (Self)Regulation and Inter-firm Cooperation

Without a centralised regulatory body, the Telecom companies resorted increasingly to self-regulation, which took various forms. Following the rise of the HTG group, there was a desire among the remaining players to avoid a return to the destructive competition of 2002 (See Section 6.3). This encouraged a degree of cooperation, which could be described as collusion and cartelism as it involved price-fixing that created barriers to entry, especially for smaller firms. However, Hansen (2007) and Collins (2009) argue that the initial impulse arose more out of a necessity to reduce transaction costs rather than to hinder competition. Setting up a business was so difficult, and the costs of running it were so high that only those with access to capital or trust networks could set up such a business (Hansen, 2007).

Many Telecom operators also attempted to resolve common interconnection and spectrum allocation concerns. In 2005, the players introduced an interconnection agreement to ensure that customers within one network could communicate with others on another network. The deal, albeit short-lived, provided some relief in controlling prices and lowering the barriers to entry. Another attempt was made in 2014, but this deal, similarly, did not last (World Bank, 2023).[37] Spectrum allocations, i.e. the allocations of specific spectrum bands to particular companies, were also based on 'in-house workarounds.[38] Operators described the 'beauty of the system' of self-regulation, which involved a series of unwritten agreements and understanding that abided by suggested benchmarks on spectrum fees[39]. According to a Telecom expert, the model,

[36] Interview with Senior Conflict Expert (International Organisation), ID: 638287-638278-79480600, Date: 09-06-2021

[37] In September 2022, the NCA issued a regulation on interconnection, but at the time of writing, the regulations were yet to be implemented.

[38] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-80548046, Date: 29-06-2021

[39] A recent World Bank study found that the expected benchmarks had been broadly followed in the negotiations over spectrum fees (Lange, 2020).

while ad hoc, worked because:

> Hormuud, as the biggest operator, had taken that coordinating role. They were the ones who allocated the spectrum to the operators – they told each operator which spectrum to use. They did it to coordinate among themselves. They split up the spectrum and the numbering plan and decided who used which area and network code. They did that with some reasonable success. Some small operators, however, did not ask anyone. They just started using some frequency, which then interfered with other networks. This reduced the quality. But we found that while there was some overlap, they did reasonably well in carrying out the allocations.[40]

6.4.5 Privatisation of Public Services

Lastly, in adapting to the lack of infrastructure, the Telecom operators opted for various technical solutions that could be privately funded. For instance, a compelling reason for the expansion of wireless technology was that the physical infrastructure needed for wireless networks was more consolidated and was, therefore, far easier to protect than landline infrastructure (Collins, 2009). Moreover, due to the post-independence governments' low levels of investment in landline networks, Telecom companies did not have to spend much time focusing on the sunk cost of infrastructure. They could digitise easily.[41] Consequently, 'the nodal nature of wireless network technologies not only allowed Somali firms to "'leapfrog" past inferior and more expensive landline technology but past much of the institutional burden, costs and risks associated with protecting that technology' (Collins, 2009, p. 137).

Along with relying on technological solutions, Telecom operators invested in basic services. Even the most basic services were privately provided in the initial years following the collapse. A World Bank study found that following state collapse, private entities moved in to provide basic infrastructure and institutions, such as electricity, water and transportation (Nenova, 2004). Telecom operators, for instance, invested in a range of businesses such as electricity and transportation, which later became a point of tension in their

[40] Interview with Senior Telecom Expert, ID: 639281-639272-66401804, Date: 26-10-2020

[41] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-66961070, Date: 29-10-2020

relationship with the Federal Government, as described by one international expert:

> So what the Somalis have done is privatise government functions. This was one of the great tensions between the government and the private sector. For instance, they privatised the country's official domain name and many government functions, such as electricity and transport. The private sector wanted a road; they raised a million dollars to build it. That was what they called a public-private partnership![42]

Thus, similar to Ferguson's (2006, p. 208) claim regarding the 'lack of natural affinity between nation states-legal order and an attractive environment for investment' – the Telecom sector in Somalia was able to emerge in an insecure environment and the absence of any formal institutions. However, unlike Ferguson's analysis of global capital in mineral-rich industries, domestic capitalists in the Telecom sector were firmly embedded in the Somali market (Iazzolino and Stremlau, 2023). They relied on the practices of 'real economic governance' to 'cut out the overhead of a national level societal project' (Twijnstra, 2014; Ferguson, 2006, p. 208). Specifically, they relied on traditional and religious institutions and trust-based relations to protect their property, ensure the security of their employees and guarantee contracts and agreements. They also developed innovative models and used the same institutions to raise capital and establish franchises in different regional markets.

Furthermore, they devised various strategies to self-regulate the sector to address the lack of regulation. These strategies, while quite successful, nevertheless gave rise to several problematic outcomes, such as monopolistic and cartelistic practices (Meagher, 2010). Lastly, the reliance on technological solutions helped address the infrastructural constraints; even so, the sector had to invest in some public goods and services. While quite significant for meeting the sector's constraints, this strategy also affected the Telecom market. In the next section, I discuss the impact of these strategies and how they structured the Telecom sector and private sector development, more generally.

[42] Interview with Private Sector Development Expert (Independent), ID: 639281-639272-67559301, Date: 17-11-2020

6.5 'Janus Faced': Evolution of the Sector

The Telecom sector experienced considerable changes when more formalised institutions emerged (post-transitional governments). For an industry that struggled to establish itself, the institution of formal state structures should have represented a positive step forward, even if those institutions were relatively weak and nascent. However, for this to be the case, the adaptation strategies and the alternate systems of economic governance should have proved insufficient, especially for the sector leads. This section explores these dynamics and draws a link between the adaptation strategies and their outcomes for the sector's evolution. I focus on four key aspects: the level of competition, the growth of services like mobile money, the type of professionalisation and the model of expansion. I then trace the extent to which these strategies were sufficient and highlight the specific concerns around infrastructure, security, and isolation from global financial markets.

6.5.1 Reduced Competition

In the years following the development of the Telecom industry, one of the most significant changes that occurred was in the level of competition. In general, as a capital-intensive industry, the Telecom sector is not considered highly competitive, as moderate levels of competition are necessary to ensure an appropriate level of innovation and investment[43]. Moreover, since marginal costs tend to be relatively high in the Telecom industry, there is an incentive to operate at greater economies of scale and thereby, "the bigger players will naturally become bigger and bigger to reduce their costs, smaller players will then face difficulty in competing with the bigger players, especially if there is no regulation".[44] Furthermore, if there are only a few players and little regulation, there is a greater tendency toward oligopoly and collusion[45], as "[players] realise there is no point in getting into a big fight with each other because they will only hurt

[43] This relates to the inverted U model proposed by Aghion and colleagues (2005), who found that competition encourages innovation but only up to an optimal point, after which, with increasing competitive intensity, the incentive to invest and innovate begins to diminish (Katz and Jung, 2021).

[44] Interview with Senior Private Sector Development Expert (Multilateral Organisation), ID: 639281-639272-76153101, Date: 13-04-2021

[45] This refers to the essential tension of markets characterised by 'small-number rivalry': for industries with large firms and high costs, each firm is tempted to compete aggressively to increase its market share, but if all firms do so, they all suffer. Actors in these kinds of markets, therefore, have strong incentives to collude (Shapiro, 1989, p. 333).

their margins".[46]

Bearing in mind these core characteristics of the sector, the strategies of inter-firm cooperation that initially limited destructive competition and lowered transaction costs nonetheless encouraged anti-competitive behaviour. By the 2000s, the MNO sector was dominated by a few players with significant market power, which created barriers to entry for new businesses and limited the growth of smaller firms (Kazmi and Loyaan, 2019): There was always this big consortium of Hormuud and the sister companies (Telesom and Golis), but at the time [early 2000s], there were other competitors that were also very strong. [Over time,] some of the key operators disappeared".[47] The HTG group model of respecting the zonal logic of the market, in particular, effectively worked to segment the market by creating aligned entities that did not compete with one another.[48]

Moreover, the failure of the interconnectivity agreements between the operators, except between the HTG group and Somlink and Somtel, exacerbated the problem as it led to further segmentation. While customers who subscribed to the Hormuud network could communicate with others using the Telesom or Golis network, they could not speak with Somtel subscribers. The National Communication Law included provisions for adopting rules and guidelines for voice connections between licensed operators. However, they were yet to be implemented (at the time of writing) (Ministry of Post, Telecommunication and Technology, 2019).

There was considerably more competition in the market for internet-related services. There were several Mobile Virtual Network Operator (MVNO) or Internet Service Provider (ISP).[49] ISPs competed with the MNOs, who also provided internet services. There were approximately ten major ISP players, but the licensed providers included – SOON, SOMCAST, SAHAL and Somaliwireless.[50] However, even within this market, there were problems of competition because the MNOs could service bigger clients such as businesses. At the same time, smaller ISPs had to depend on household connections:

[46] Interview with Senior Private Sector Development Expert (Multilateral Organisation), ID: 639281-639272-76153101, Date: 13-04-2021

[47] Interview with Telecom Expert (Multilateral Organisation), ID: 639281-639272-69536914, Date: 27-01-2021

[48] Interview with Development Expert (Multilateral Organisation), ID: 638287-638278-72530625, Date: 16-02-2021

[49] ISP's purchase bandwidth, resell it, and provide a range of services including internet access, internet transit, domain name registration, web hosting, and use-net service, etc.

[50] This is as per NCA website, accessed on 2023-05-15.

> After the [introduction of the] optical fibre network, many internet service companies emerged – at some point, there were 18 companies, but Hormuud had the capital. They could take them out because of the monopoly position they enjoyed. [Hormuud] started providing cheaper services, which small companies could not compete with. Many companies went out of business [as a result].[51]

There was also the issue that Dalkom, the sole wholesale provider of international fibre bandwidth in the Mogadishu market, had a retail arm. The ISP called SOON was Dalkom's retail business (Lange, 2020). This invited the risk of anti-competitive pricing as it meant that the company selling broadband to other ISPs also competed with them in providing internet services to the end-users. [52]

6.5.2 Inter-linkages between Mobile Money, Remittances and Banks

Inspired by their regional counterparts, Somali Telecom companies introduced mobile money to the market in the late 2000s. Over the next ten years, Somalia emerged as one of the most active mobile money markets, as digital payments became the 'primary financial instrument' in the country (Altai Consulting, 2017). Among the factors that propelled the adoption of mobile money was the depreciation of the local currency[53] and the limited availability of traditional banking and savings facilities. For instance, the penetration rate of banking services was meagre, 16% in 2017 compared to the 70% of adults who used mobile money services (Altai Consulting, 2017).

Like the broader mobile network sector, the mobile money market was dominated by the leading MNOs, including Hormuud, Golis and Telesom (HTG group) and Somtel (Dhabshiil group)[54] (Altai Consulting, 2017). Over time, the innovations in the mobile money space extended to collaboration between these MNOs and their subsidiary remittance companies and banks (Altai Consulting, 2017; Iazzolino, 2015; Hiraal Institute, 2019). This was primarily because subsidiary banks and remittance companies saw an 'in-

[51] Interview with Government Official (Ministry of Communication and Technology - Policy), ID: 638286-638277-71883645, Date: 10-02-2021

[52] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-70935685, Date: 25-01-2021

[53] There had been no official injection of currency into the Somali economy since the collapse of the Siad Barre regime in 1991; there have, however, been several private printings by business people and militia leaders (Little, 2021).

[54] Amtel, which had low mobile penetration rates, also had a small slice of the mobile money sector market.

tegration with the mobile money as a significant tool that could help to create a financial infrastructure that had not been present' (Altai Consulting, 2017, p. 8). For example, Salaam Bank, one of the oldest banks in the country owned by the Hormuud group, was interconnected with the companies' mobile money platform. The interconnection greatly benefited Salaam Bank's customers, who were able to move money from their bank account to their mobile account EVC+ (Hormuud's mobile money platform in south-central).[55] Similarly, the popularity of mobile money was also attributed to helping Taaj – a money remittance company owned by Hormuud – 'achieve astronomical growth' (Hiraal Institute, 2019, p. 6).

These inter-linkages between Telecom companies, banks and remittance companies, while quite commendable in facilitating transactions, 'also created specific lock-on effects that served to effectively crowd out competition'.[56] This was owing to the absence of strong centralised regulations, which could place limits on anti-competitive practices.[57] Instead, the continued self-regulation of the industry meant that companies like the Hormuud group, who were dominant in the Telecom market, could exercise significant influence within the banking and remittance business. New competitors, therefore, found it more challenging to enter and compete in these related markets if they lacked Telecom infrastructure. For instance, one of the main reasons why the Amal group set up Amtel was to compete in the market for mobile money and to strengthen its core businesses, i.e. banking and remittance:

> We invested in Telecom, which was not necessarily our core sector, because of the lack of a strong government. In South [central], they [the big Telecom operators] blocked other companies from accessing their mobile banking systems. So, for instance, Telesom did not allow Dahabshiil customers to use Zaad – Telesom's mobile money platform. The system created conditions where every bank would have a remittance company, and a remittance company would create a Telecom company to get customers. Everyone was creating these small ecosystems.[58]

Moreover, the business's high profitability made mobile money services particularly attractive. One, be-

[55] Interview with Senior Banking Representative, ID: 633591-633582-82784210, Date: 24-08-2021
[56] Interview with ICT Expert (Multilateral Organisation), ID: 639281-639272-68801218, Date: 08-12-2020
[57] The mobile banking sector is regulated by the Central Bank, which developed a mobile money regulation only in 2019.
[58] Interview with Senior Banking Representative, ID: 633591-633582-77480353, Date: 25-05-2021

cause mobile money was not taxed, and two, only a quarter of the funds received were cashed out immediately (Altai Consulting, 2017). This second aspect created a large 'float' of cash for the Telecom operators, which given the lack of regulation, could be used for various purposes, including funding other businesses. The Mobile Money Regulation (2019) introduced some consumer protection rules (GSMA, 2021). Still, it 'did not include provisions requiring entities that offered mobile money services to maintain 100% of their e-money liabilities in liquid assets or provide deposit insurance protection to each mobile money account' (GSMA, 2021, p. 8). This was unlike other countries where mobile banking service providers were required to maintain liquid assets equivalent to the total value of customer funds (GSMA, 2021; Altai Consulting, 2017).

6.5.3 Conglomerate Model of Expansion

The interlinkages between Telecom, mobile money, banking and remittance providers attested to the broader trend regarding the rise of conglomerate industries: "The Telecom operators did not just do business related to Telecom. They had a sister arm that did the financing and other things. It was, therefore, not possible to look at one value chain. Because they [the operators] tended to spread their tentacles across sectors".[59] By the late 2000s, Telecom companies had expanded to a wide variety of markets, 'often unrelated to their core business (e.g., rice, cars, electricity, hotels, construction property)' (Meester et al., 2019, p. 5). For instance, Hormuud was the majority shareholder in Salaam Bank, Al Buruuj Construction and Banadir Electricity Company (Majid et al., 2021). Likewise, Dahabshiil owned Somtel Dahabshiil Homes and was the majority stakeholder in SomPower (Meester et al., 2019). In the words of one senior policy official:

> If Hormuud was doing Telecom, it was also in banking, energy, and agriculture. Hormuud was just taking over the whole country because there was no regulation restricting them from going into other sectors. It was difficult for small companies to break into a sector because they could not compete with Hormuud.[60]

[59] Interview with Senior Private Sector Development Expert (Bilateral Organisation), ID: 639281-639272-73699765, Date: 24-03-2021

[60] Interview with Senior Government Official (Ministry of Planning Investment and Economic Development - Planning), ID:

Along with the limited regulation, one of the crucial factors that explained the rise of conglomerate businesses was the restricted access to finance and capital. Similar trends have also been noted in other developing countries where firms often engaged in activities that had 'no conceivable synergies or economies of scale when problems of weak governance plagued the flow of capital' (Dixit, 2009, p. 12). Within the African context, especially, Behuria (2022) has argued that conglomerates or 'Diverse Business Groups', were the predominant form of organisation because this model provided a framework for capital mobility between activities.

As discussed previously, access to credit and capital was a critical problem affecting Somalia's private sector actors. Small and medium players were significantly affected, while more prominent actors could find alternative solutions (USAID Somalia, 2021). The larger Telecom operators, in particular, initially established the multi-clan shareholder structure to resolve the problem of financial constraints. However, with the expansion of the services, they were able to leverage the liquidity offered by the mobile money business. These companies strategically invested in sectors linked to their value chain, such as electricity and construction, but expanded progressively to unrelated industries, taking advantage of the significant profits and economies of scale they enjoyed.[61] 'The overall size and turnover of a company across its markets, therefore, was a key competitive criterion that allowed the Telecom sector to rapidly capture market shares in other profitable markets and to maintain a favourable political environment to protect it' (Meester et al., 2019, p. 34).

6.5.4 Professionalisation

Despite all the limitations and constraints of the Telecom market, the sector also became progressively professionalised.[62] As Lochery (2015, p. 256) puts it, 'far from remaining multi-national companies with a kiosk mentality, many of the top companies focused on acquiring the latest technology optimising their customer service and explaining their contributions to the broader community'. In keeping with such changes, there was also a growing diversification of staff and the inclusion of more diaspora members ed-

638286-638277-76308750, Date: 15-04-2021

[61] Interview with Private Sector Development Expert (Independent), ID: 639281-639272-67559301, Date: 17-11-2020

[62] Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020

ucated in the West [63].

However, this turn towards professionalisation was often a meld of cosmopolitan, business, Islamic ethics and clan relationships (Lochery, 2015). An analysis of management practices in these companies found that 'while many respondents repeatedly spoke about desirable business approaches, such as 'good governance, transparency, justice and meritocratic hiring practices', they were undermined by the reality that customary (kinship and religion) relations had continued to be salient in business relationships even when these relations seemed unfair to those schooled in 'rational business management' (Noor and Walsh, 2020, p. 6). Recruitment, thereby, remained clan-based to ensure the protection of property and interests (Hared et al., 2014). Moreover, in the absence of strong regulations and legal recourse, clan affiliation served as an important script for judging the trustworthiness of employees and also resolving the disputes that emerged (Iazzolino and Stremlau, 2023). Thus, pre-existing systems of governance based on clan and religious ethics were not entirely replaced by alternate or 'secular' standards, mainly because the insecurity and the absence of the rule of law were not sufficiently addressed (Noor and Walsh, 2020).

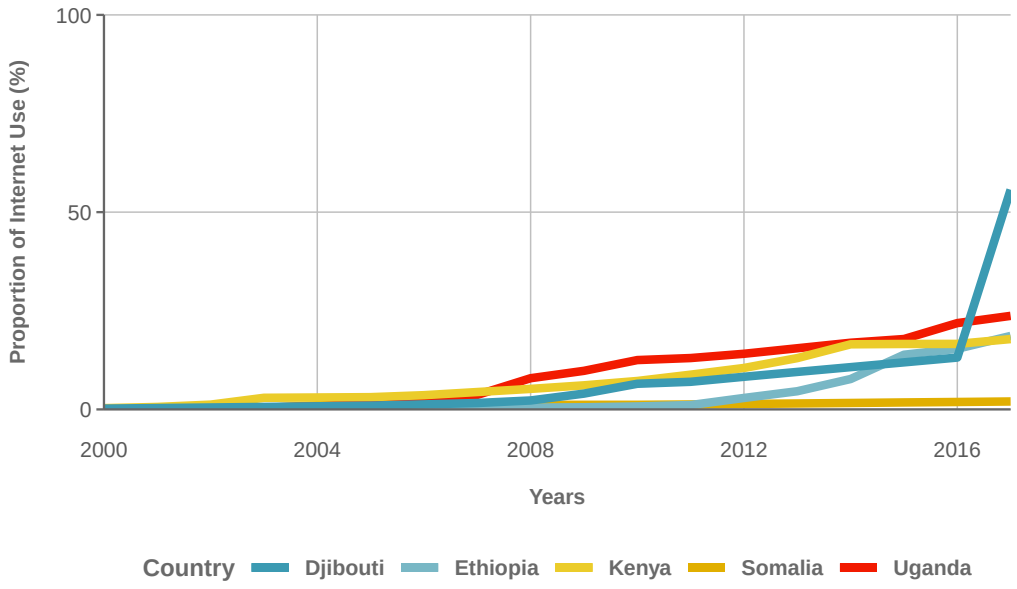
6.5.5 Persisting Infrastructure Challenges

Although the Telecom companies had come to dominate the sector and large sections of the economy, the industry still had to contend with certain constraints. Among the most critical concerns was the expansion of broadband infrastructure to facilitate access to Internet services. While Somalia's mobile telephony market was relatively well developed with a penetration rate of about 60%, the internet sector remained underdeveloped[64], with less than 10% of the population having broadband access, one of the lowest rates in the world (Albany, 2017; World Bank, 2022a) (See Figure 6.2). Inadequate broadband access was one of the primary reasons for the poor performance of Somalia's internet sector. Starting in 2012, when many Telecom Operators began offering 3G services, international connectivity was provided almost entirely by satellite using VSAT. The reliance on VSAT led to an under-supply of international bandwidth and slow and unreliable internet connections (International Telecommunication Union, 2018).

[63] Interview with Senior Banking Representative (Bank), ID: 633591-633582-77480353, Date: 25-05-2021

[64] Although official data was limited, industry consultations suggested that 3G and 4G mobile broadband coverage was limited to urban areas only (World Bank, 2022a).

Figure 6.2: Proportion of Population Using Internet in Somalia and Neighbouring Countries



Source: International Telecom Union, 2020

In 2014, the landing of the Eastern Africa Submarine System (EASSy) cable ended Somalia's dependency on expensive satellite connectivity for internet access (International Telecommunication Union, 2018).[65] Four years later, the Gulf to Africa (G2A) cable landed in the country to connect the northern cities of Berbera (Somaliland) and Bossaso (Puntland) to Salalah in Oman. Golis operated the cable in Puntland, but by 2020 it was yet to be operational in Somaliland (Lange, 2020). In 2020, a reduced version of the The Djibouti Africa Regional Express 1 (DARE) cable, which was initially designed to connect Berbera, Bosaso and Mogadishu to Djibouti, Yemen, Kenya and Tanzania, was established (Lange, 2020).

Despite these improvements, the main impediment to expanding access to internet broadband was the lack of national-backbone infrastructure, which could connect the international bandwidth from submarine

[65] The EASSy cable system is owned and operated by a group of 16 African (92%) and international (8%) Telecom operators and service providers, including Dalkom, which also operated the landing cable (Albany, 2017).

cables to the population centres around the country (Lange, 2020; World Bank, 2022a). The absence of a robust backbone network prevented the distribution of international capacity across Somalia through long-distance fibre – 'subsequently creating a fragmented market with uneven network coverage, quality, limited redundancy, and market competition' (World Bank, 2022a, p. 65). Insecurity in large parts of the country prevented the completion of a north-south terrestrial fibre link, a west-east connection between the semi-autonomous regions of Somaliland and Puntland, and fibre routes to the Kenyan border.

For Telecom operators, the lack of national-backbone access translated into a considerable loss of commercial opportunities, 'between two-thirds and three-quarters of their potential market for broadband services remained untapped' (Albany, 2017, p. 12). The existing international connectivity was also made vulnerable owing to a lack of redundancy in the infrastructure. The two existing landing stations in Mogadishu (EASSy) and Bosaso (G2A) were not able to back each other up because there was no terrestrial fibre connection between them (Lange, 2020).

Crucially, the situation was problematic because a resolution to the situation was unlikely in the foreseeable future without significant investments and improvements in the law and order situation. Furthermore, even with the improvements in the security situation, the estimated cost of a national backbone was projected to be US$ 67-100 million (Albany, 2017). Experts pointed out that the private sector needed the government's support to attract this level of investment as Private-Public partnerships (PPPs) were the most appropriate model for developing the national backbone (Albany, 2017). Additionally, it was argued that the government could help reduce costs by promoting the parallel deployment of linear infrastructure. It could also use shared infrastructure as part of public works, for example, through 'dig once' policies, by offering space for additional ducts in new pipeline buildings or during road construction (World Bank, 2022a, p. 67).

6.5.6 Security Concerns

The ongoing military conflict between the FGS and AS undermined the country's overall security situation and affected the Telecom sector in specific ways. As discussed previously, insecurity was a significant reason

for the limited broadband connectivity.[66] Additionally, both AS and government/AMISOM forces were accused of interfering and damaging the infrastructure and activities of mobile network operators to gain strategic advantage (Lange, 2020; Hiraal Institute, 2019). In early January 2014, AS banned internet access in the areas it controlled, threatening to attack operators that did not comply. The operators were forced to shut down internet services in the central and southern regions of Somalia (World Bank, 2023). Later that same year, AS once more shut down Hormuud's services in the Dinsoor and Ufurow districts of the Bay region (World Bank, 2023). Following this, when the security situation improved, and AMISOM forces captured key locations in the central regions, attacks increased around the border areas. For instance, in 2019, the Hormuud tower in the border village of Caws-Quran was attacked approximately 12 times (Lange, 2020).

The costs of maintaining the security of the infrastructure and rebuilding it were considerable. Operators noted that arranging security at every tower was massively expensive, and the cost of rebuilding a tower could range between US$10,000-100,000 (Lange, 2020). Furthermore, there was also an increasing threat to Telecom staff. As mentioned in the previous chapter, AS had begun targeting Somali businesses extorting lump-sum taxes from business-people (Levy and Yusuf, 2021). This threat was particularly felt by Telecom operators whose officials were attacked if they refused to pay the group. The threat escalated with the emergence of the Islamic State of Somalia (ISS), which competed with the AS for control over taxable populations. According to the UN Panel of Experts on Somalia (UN, 2019), by November of that year (2018), eleven employees of Hormuud were reportedly killed in Mogadishu by gunmen affiliated with ISS and AS.

Concerns around piracy also adversely impacted commercial operations. 'In 2008, following numerous incidents by Somali pirates operating in the shipping lanes leading to and from the Suez Canal, shippers from around the globe requested a blockade to protect cargo vessels' (World Bank, 2023, p. 94). In response, the UN issued four resolutions (1816, 1838, 1846, and 1851) in 2008 to facilitate an international response to piracy off the Horn of Africa. Although the situation improved considerably over the next ten years, piracy concerns significantly delayed Somalia's access to international broadband connectivity. For instance, the laying of the branch of the EASSy submarine cable into Mogadishu could only be carried out

[66] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-71142446, Date: 28-01-2021

with support from the French navy and under circumstances of extreme secrecy (World Bank, 2023).

6.5.7 Isolation from Global Financial Systems

The lack of correspondence banking services also significantly hindered the Somali Telecom businesses. Considered a high-risk jurisdiction, Somalia had been isolated from the global financial system since the fall of the Barre regime (Lindley and Mosley, 2014). Without correspondent banking services, it was not possible for companies to electronically transfer funds into or outside the country (Lindley and Mosley, 2014). As one expert explained, the country's international isolation had massive effects: "Remittance flows were vulnerable, and trade finance was relatively inefficient and costly. It meant a lower appetite for investment and international investment. It was also not possible to trace money coming into and out of the country as readily as would have been possible if there was formal banking".[67]

The lead operators developed several workarounds to resolve the lack of correspondence banking services, including setting-up banks and offices in other countries. The financial system was therefore bifurcated such that the companies maintained some liquidity in Somalia and had capital reserves outside the country.[68] They kept the two systems balanced as far as possible. One of the ways they did this was by using their remittance businesses and banking networks based outside of the country to secure international liquidity (Lindley and Mosley, 2014). Dahabshiil, for instance, relied on the flow of funds from around the world (the UK, USA and EU) into Dubai, where they had a clearinghouse (Lindley and Mosley, 2014). The clearinghouse acted as a store of liquidity for international financing. For instance, remittance payments made abroad were paid to Dhabshiil agents, who then transferred money to an account held by Dahabshiil in a foreign country. Since there were no correspondent banking services, funds would be transferred in tranches from Dahabshiil's Bank in the foreign country to its Dubai clearinghouse. The clearinghouse would later pay Somali traders to purchase imports, replenishing the local agent's funds in Somalia. Like the Hawala system, transactions would be completed without any movement of funds between Somalia and Dubai.[69]

[67] Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021
[68] Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021
[69] Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021

Such workarounds were expensive and were neither very secure nor sustainable. In the past, international banks had closed the accounts of some Somali remittance companies and their agents, citing legal and regulatory weaknesses contributing to the risk of money laundering and possible financing of terrorism (International Monetary Fund, 2019). In 2013, for instance, leading UK banks shut the accounts of 250 small and medium-sized businesses as part of a broader suite of de-risking initiatives. Dahabshiil Money Transfer agency was among the businesses whose accounts were affected (Lindley, 2009).[70] Given the interlinkages between MTO's MNOs and Banks, this had a knock-on effect on other businesses. Specifically, the integration of mobile money payments with remittances and bank accounts meant that any effects suffered by one sector also affected the related sectors. Moreover, the ambitions for growth and expansion of the Telecom business were also constrained:"The inability to make international transfers, and the lack of credibility stood against them and made it harder for them to expand to other markets."[71]

Overall, many adaptation strategies introduced to mitigate and overcome the absence of an enabling environment' impacted the sector's trajectory. The reliance on self-regulation mechanisms and multi-clan shareholder structures reduced competition, especially among the MNOs. The absence of regulation alongside the rise of mobile money also created a 'lock-on effect' between the banking, Telecom and remittance businesses and further 'un-levelled' the playing field (World Bank, 2023). Moreover, the ability of the sector to raise finances and the large profit margins encouraged the expansion of Telecom operators to other industries unrelated to their core business. Alongside, there were moves towards greater professionalisation. However, these were also balanced by the continuing relevance of traditional and Islamic institutions. Notwithstanding these changes, specific concerns continued and constrained the sector's development and expansion into other markets. These included constraints of security, infrastructure and isolation from global markets.

[70] However, Dhabshiil won an injunction against Barclays.
[71] Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021

6.6 Conclusion

In this chapter, I discussed the history of the Telecom sector in an attempt to address the broader question of why actors in the sector made specific tax contributions to the FGS. In the introduction, I proposed that to answer this question; it was worth taking stock of how the Telecom sector evolved because it could help shed some insight into the industry's view of formal institutions and whether sector leads considered their growth to be contingent on the 'state' project. I argued that if the sector's development trajectory challenged conventional state-centric development models and the adaptation strategies proved sufficient, tax contributions might not reflect an increased commitment to the state project or idea. If this were the case, it would give further credence to the political settlement, hybrid order, and norms-based perspectives and argue against the reasoning proposed by exchange-based perspectives. It would also suggest that Telecom operators would not be interested in exchanging taxes for collective goods and services from the state.

The experience of the Somali Telecom sector suggested a more complex picture. The development of the industry was attributed to several factors, including demand factors such as the difficulties of the remittance business, the felt desire for connection and support during times of uncertainty, and supply factors such as technological improvements and advantageous accounting systems. However, these factors were insufficient as there were considerable challenges of insecurity, lack of capital, regulation and infrastructure. While many of the factors were not specific to the industry, they were made more pronounced in the case of the Telecom sector, given the complexity of the industry and the capital investments required.

Faced with such challenges, sector leads introduced innovative strategies, including relying on traditional and Islamic institutions to address problems such as security and lack of finance. Furthermore, they devised various strategies to self-regulate the sector to address the lack of regulation. The reliance on technological solutions also helped manage the infrastructural constraints, as did the investments in public goods and services. These strategies further supported claims made by Ferguson (2006) regarding the possibility for capital investments to be institutionalised in ways that cut out the overhead of a national state. They also confirmed how it was not just global capital but domestic capital that institutions of real economic governance could facilitate. Thus, even without formal centralised institutions, economic transactions and relations were facilitated by different actors and groups that emerged to regulate and legitimise economic

activity and organise collective action.

Nevertheless, the adaptation strategies impacted the industry in specific ways, and the outcomes were not equitable. It led to greater concentration and reduced competition to the benefit of sector leads, particularly the HTG group. Moreover, there were also greater inter-linkages between banking, MTO and MNOs, which also crowded out the competition. In many ways, then sector leads were able to accumulate considerable economic power (not just despite) but because of conditions of acute fragility and lack of effective regulation. At the same time, the industry continued to face challenges that previous adaptation strategies could not resolve. The combination of these two features suggested that while specific sector leads (HTG group) had benefited from the lack of formal institutions and regulations, the adaptation strategies were not sufficient even for these groups. In particular, the leading Telecom operators could not overcome the challenges of limited infrastructure capacity, persisting security challenges and isolation from global finance. A clear conclusion of the sector's ambivalence or support of the 'state project' could not be established.

Thus, the story of the Telecom industry in Somalia questions, to some degree, the assumption that the sector had evolved to a place where it could well afford to disengage from the state project. While scholars (Little, 2003) have widely recognised the differences in the effects of state collapse for urban versus rural-based industries, such as livestock, which survived due to their relative autonomy from the Barre regime. There was an implication that state collapse had represented just another 'risk' that more urban-centric industries would learn to cope with – 'while conflict disrupted commerce, it became just another risk element for which traders, producers and consumers had to adjust to' (Little, 2003, p. 132). However, the significant growth of the Telecom sector and the constraints experienced in realising some of the ambitions meant that 'in-house workarounds' proved less adequate over time.

Returning to the original question, these findings suggest that Telecom operators, on their part, may have been incentivised to pay taxes to the state if it meant that they could expect certain goods and services in return, e.g. security and infrastructure. Given the state's weakened capacity, the question was whether they would accept less stable and reciprocal terms of exchange. Equally, it was possible that considering the monopolistic interests of the sector leads, negotiated tax payments may have been paid as part of a rent-

sharing agreement to maintain the status quo, i.e. their dominance. Furthermore, the increasing reliance on customary and religious institutions attested to the continuing relevance of 'informal' institutions and norms, which also could have been mobilised to increase tax contributions.

To assess which case was most applicable, I interrogate the arguments proposed by all three views to help discern the motivations underpinning the sector's tax contributions in the following few chapters.

Chapter 7

Stable Instability: Political Settlement and Elite Bargain Perspectives

7.1 Introduction

In the preceding few chapters, I have traced the evolution of the Telecom sector following the state's collapse and discussed the emergence of formal state institutions in the post-transitional period (2012-2020). A review of the fiscal relations between the private sector and the Federal state (FGS) indicates how, despite low levels of domestic revenue mobilisation, tax contributions of the Telecom sector steadily increased during the successive governments of President Sheikh and Farmajo. I argued that although tax contributions continued to be low and based on negotiated rates, the reported increase represented a compelling case for unpacking fiscal relations in fragile contexts. Specifically, I questioned the sectors' motivations to pay taxes to a state with limited authority, legitimacy and capacity to offer public goods or services.

In this chapter, I attempt to answer this question more squarely by investigating a line of reasoning that has received considerable scholarly attention, especially in explaining the *low, presumptive and negotiated corporate taxes* paid by the Telecom sector in Somalia. In the theoretical chapter (chapter 3), I referred to such arguments as Elite Bargain and Political Settlement Perspectives. Broadly, these perspectives ar-

gue that tax payments in fragile contexts are structured as a compromise to ensure that elites are allowed privileged access to rents (Khan, 2010; North et al., 2007; Di John, 2011).

In the following sections, I explore how such perspectives apply to the Somali case. I begin by presenting some of the core features of the Somali political order and discuss the different elite groups that have played a crucial role in supporting (and undermining) the fragile settlement. Thereafter, I delve into the specific structural, institutional and agency-level mechanisms which could explain how the nature of the political settlement and elite relationships contributed to low and negotiated rates of corporate taxes. In the concluding section, I weigh the evidence proposed by political settlement and elite bargain perspectives and consider whether the explanations meet the criteria of 'necessity and sufficiency'. Using the language of Set Theory, I define explanations as meeting the criterion of 'necessity' if they affirm the relevance of a particular hypothesis and explanations that meet the 'sufficiency' criterion as confirming a hypothesis even if they do not eliminate rival hypotheses (see Methodology chapter). In doing so, I pay attention to the differences in the narratives of my interlocutors and attempt to take seriously Webner's (2004, p. 7-8) invitation to assume an 'informed yet critical understanding of elite behaviour'.

I find that although political settlement and elite bargaining perspectives proffered persuasive reasoning 'necessary' for observing 'low and negotiated corporate tax payments', such explanations were not entirely 'sufficient' in explaining why the sector elites were willing to pay other types of taxes – e.g. license fees. While emphasising changes in the political and institutional structure, the causal mechanisms consistent with such perspectives were less attentive to the growth and evolution of the Telecom sector and how such dynamics shaped the sector's relationship with state institutions. Together with the varying discourses and 'meanings in use', these insights suggested a broader story of the relationship between state and capital that could offer an overarching thematic for exploring tax relations in fragile contexts. The latter is a theme that I explore in detail in chapter 8.

7.2 Elite Division of Spoils: Nature of the Political Settlement in Somalia

The Somali political settlement has been variously described as a 'limited access order' or a fragile coalition of elites responsible for the country's high rates of episodic violence and chronic political crisis (North et al., 2007; Majid et al., 2021, p. 11). Menkhaus (2018, p. 3), in particular, has referred to the political settlement in Somalia as an 'elite division of spoils in which rival political cartels controlled and diverted financial flows to and through the rentier state'. Correspondingly, de Waal (2015, p. 119) defined it as 'a donor-security cartel designed to distribute rents broadly enough to buy in everyone except those designated as terrorists or pirates'. More recently, Ahmad et al. (2022, p. 3) have described the 'political bargaining arena in Somalia as exclusively occupied by elites, who each jockey for a share of external resources for private gain'. Similarly, my interlocutors, especially representatives of international organisations and academic institutes, made references to the Somali political settlement as 'a fragile, half-formed elite compromise that was sustained through international support'.[1]

Specific themes emerged as significant in the description of the nature of the political settlement in Somalia. **The potential for violence was distributed among elites owing to the state's limited monopoly over the means of coercion.** Nevertheless, the existential threat posed by AS had encouraged rival elites to forge a reluctant compromise (Menkhaus, 2018): 'There was a sense that everyone [all elites] should be in the tent because if they were not in the tent, there was a fear that AS would get stronger or worse still, they [the elites] would be compelled to join the group".[2] However, this cooperation was sustained by elites enjoying privileged access to state resources (rents) and 'copious amounts of foreign aid flowing through the Federal state' (Menkhaus, 2018, p. 25). Thus, like its predecessors, the FGS continued to serve as an instrument for elite accumulation and domination, "enriching and empowering those who controlled it and exploiting and oppressing the rest' (Menkhaus, 2003, p. 409).

Several types of rents were generated through the control of institutions and structures at the Federal level but also at the member state level (FMS) and via the control over municipalities, well-positioned

[1] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-66721332, Date: 26-10-2020, Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-74606672, Date: 01-04-2021

[2] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-67593610, Date: 23-11-2020

ministries, seaports, airports, and other such public resources (Majid et al., 2021). The privileged access to external finance and the routine siphoning of aid money were among the most significant sources of rent.[3] Experts, however, distinguished 'on-the-book support' or budgetary support provided by the US, EU and other bilateral and multilateral donor institutions from the type of factional support that was provided by countries in the Middle East. The latter was unaccounted for and was used to fund political campaigns of Members of Parliament (MP) and government officials in exchange for access to oil, port and airport development projects.[4]

Government contracts and concessions also offered rent-seeking opportunities. Experts in the Financial Governance Committee (FGC), a high-level advisory panel comprising government and international representatives, noted several 'inconsistencies' in how concessions were awarded to manage infrastructure assets and deliver government services.[5] Reports of the FGC similarly found that 'government contracts were awarded without a competitive tendering process. Instead, they resulted from direct negotiations between FGS agencies and contractors, often instigated by the contractors themselves' (FGC, 2017, p. 14). Observers also noted that amendments to the Procurement Law (2015) had made little difference: "Despite all the technical reforms and the changes to the procurement law, contracts were still given to people that were preferred".[6]

Lastly, and quite significantly from the perspective of this study, payments from industry or commerce in exchange for preferential treatment represented a critical source of rental income.'Low and negotiated taxes from Telecom, finance, port, and construction companies served as a key component of the political (discretionary funds) budget and also as a type of in-kind loan provided in exchange for tax breaks' (Majid et al., 2021, p. 21). Some financial experts went so far as to point out that the considerable discretionary power exercised by the Ministry of Finance in taxing elites amounted to little more than 'simple-rent seeking' (van den Boogaard and Isak, 2021, p. 20).

The distribution of rents among elites depended on the relative power accorded by specific in-

[3]Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-69550831, Date: 14-01-2021
[4]Interview with ICT Expert (Independent), ID: 638287-638278-66054701, Date: 07-10-2020
[5]Interview with Senior Advisor to Government (Finance Governance Committee), ID: 638286-638277-72609532, Date: 17-02-2021
[6]Interview with Former Government Official (Ministry of Finance), ID: 638287-638278-67785756, Date: 23-11-2020

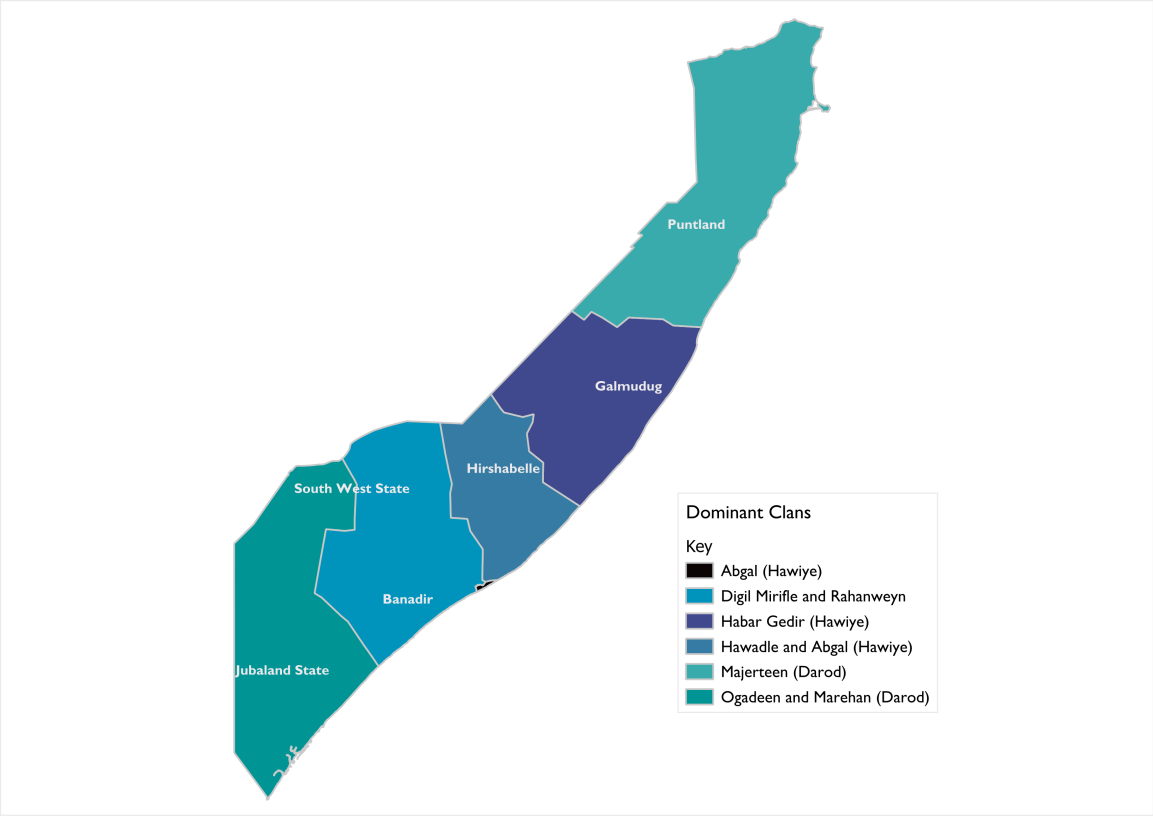
stitutions. Clan-based institutions were identified as among the most significant in determining the distribution of power between elites (Menkhaus, 2018; Majid et al., 2021). Following the Arta conference, clan identities were more formally recognised at the federal level under the fixed proportional representation, known as the "4.5 formula".[7] However, along with serving as a basis for the allocation of seats in Parliament, the formula became profoundly entrenched and was used to assess the legitimacy of cabinet appointments and all other aspects of governance (Majid et al., 2021; Webersik et al., 2018; Hagmann, 2016).[8] Nevertheless, most interlocutors agreed that the distribution along clan lines maintained a balance of power and avoided the problem of creating a [different] set of winners and losers[9]:

> It was unfortunate, but it was just the agreement that we came to. The clan system was used to maintain a balance of power. It was a way of having representation. The hypothesis was that you would not be encouraged to disturb the peace if your clan was represented. It would ensure a clear representation across clan lines. On the flip side, it became systemic across the whole government.[10]

Power-sharing arrangements at the FMS level also reflected the respective politically and militarily dominant clan units as the 4.5 system became a precedent for federal state formation.[11] The intersection of the 4.5 formula and the territorial settlement (in which the boundaries of each FMS contain majority and minority clan units) had notably resulted in an agreement whereby dominant clans in each member state enjoyed a monopoly on resources (Majid et al., 2021; Menkhaus, 2018; Hoehne, 2016). In particular,' the interests of the various elites were appeased by the division of critical positions and the state capital between representatives of the dominant clan units' (Majid et al., 2021, p. 20). For instance, Galmudug was dominated by the *Habar Gedir* (Hawiye), Puntland by *Majerteen* (Darod), and Jubaland was considered to be an *Ogadeen and Marehan* (Darod) project (For more details, see Figure 7.1).

[7]Interview with Senior Somali Expert (Regional Think-Tank), ID: 638287-638278-67077439, Date: 02-11-2020
[8]Interview with Former Government Official (Ministry of Finance), ID: 638287-638278-67785756, Date: 23-11-2020
[9]Interview with Senior Conflict Expert (International Organisation), ID: 638287-638278-71293521, Date: 01-02-2021
[10]Interview with Former Government Official (Ministry of Finance), ID: 638287-638278-67785756, Date: 23-11-2020
[11]Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-67593610, Date: 23-11-2020

Figure 7.1: Map of Dominant Clans per FMS



However, the fragile clan-based divisions within the FMS were undermined by the increasing interference from the Federal Government under President Farmajo (See chapter 5). Between 2018-20, the FGS curtailed opposition and supported challengers to the sitting regional state presidents in an attempt to install compliant leaders in the Members States (FMS) (Anzalone and Hansen, 2019; Heritage Institute, 2021). In South-West State, for instance, the FGS used intimidation and bribery to influence the results of the elections (Rashid, 2019; Anzalone and Hansen, 2019). The FGS's preferred candidate – Abdiaziz Hassan Mohamed (Laftagareen)[12] prevailed in the elections following the arrest and detention[13] of the opposition candidate Muktar Robow, a former AS leader. While both men belonged to the Digil clan, Robow belonged to the most prominent and influential sub-clan (*Leysan* clan) (Rashid, 2019). Robow's arrest and

[12] Laftagreen, was the Minister of Telecom and Post in Farmajo's cabinet.

[13] The Federal Government delayed the polls three times. When none of these tactics worked, they finally arrested Robow with the assistance of the Ethiopian forces.

detention alienated a sizable clan constituency and upended the fragile balance in the State (Rashid, 2019).

Despite the overwhelming role of the clan system, Somali politics could not be reduced to clan identities alone. As Ahmad et al. (2022, p. 4) posit – clan was not the only 'ordering principle'. For one, clan identities were mutable categories deployed tactically as 'a multipurpose, culturally constructed resource' (See chapter 4 for details) (Majid and Abdirahman, 2021; Majid et al., 2021, p. 34). Additionally, 'there were diverse sources of power and authority', including control over capital and finance (Majid et al., 2021, p. 5-6). The diverse sources of power contributed to the instability of the political settlement as it meant that there was no fixed group of elites (Majid et al., 2021). Public authority was therefore exercised by unstable alliances of elites, held together by monetised transactions (de Waal, 2020; de Waal et al., 2020, p. 2):

> There was a bewildering array of different business groups and political elites. The lines of funding intersected the two groups such that nothing was quite stable about the Somali system. There was no stable settlement to it. The patterns of bargaining were short-term and monetised. Mostly, the way it was monetised consisted of off-budget (public budget) financing and kickbacks.[14]

There was also a shared commitment to maintain a weak rule of law and undermine the development of formal institutions (van den Boogaard and Isak, 2021; de Waal, 2015; Hagmann, 2016; Menkhaus, 2018). For instance, the 2018 UN monitoring report mentioned how for Somalia's political and business elite, the capture of state resources took precedence over the consolidation of an effective form of governance and the expansion of public services (UN, 2018). For Menkhaus (2018), it was not just that the elites viewed the state as an instrument of accumulation, but that peace-building became de-conflicted from state-building. 'Political cartels embraced state-building as a lucrative project, but not necessarily as a desirable outcome' (Menkhaus, 2018, p. 4). Similarly, their powerful business allies and backers sought a predictable security environment but not a fully revived state capable of regulating and taxing them' (Menkhaus, 2018, p. 4). Consequently, the status quo of 'a highly fragile state that was unable

[14]Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020

to impose the rule of law and provide basic security but continued to attract large quantities of foreign aid and other sovereign rents – served elite interests reasonably well' (Menkhaus, 2018, p. 4).

7.2.1 'Those with Power': Elites Groups

Before delving any further, it is essential to consider the groups of elites who were critical to the evolving political settlement. In chapter 3, elites were described as a small group within a social hierarchy who who could be identified by their superior political, economic and ideological capital (Hagmann, 2016). As Dercon (2022, p. 41) puts it – 'those with power and influence to drive decision making about the economy and the society'.

Theoretically, if the required statistical and survey data were available, it would be possible to measure aspects of elite power to identify and classify the elites within Somali society. However, because of the years of conflict and instability, most national-level statistics had been destroyed, and empirical data was largely lacking (Hagmann, 2016). Classifying elites was also complex because 'elite groups wore multiple hats – 'as elders, business-people, politicians, and religious leaders' (Hagmann, 2016, p. 29). Placing such groups into strict categories based on the type of power they principally exercised was, thereby, challenging. Despite such constraints, the following functional elite groups emerged from my research.

Political Elites

Among the political elites, **clan authorities** were the most critical. While clan structures had always been predominant in Somali politics, with the institution of the 4.5 formula, the political significance of clan authorities was further entrenched.[15] The selection process for political candidates was based on the 4.5 formula, which apportioned seats based on the primary lineage groups. As previously discussed (See chapter 5), clan elders selected members of the electoral college who chose Members of Parliament, who ultimately elected the President. Specifically, it was titled clan leaders, referred to as *Ugaas, Imams or Wabars*, who enjoyed the final say in the selection process of candidates appointed to the electoral college and, in some instances, those contesting in the parliamentary and presidential elections (Saferworld, 2020). Thus,

[15]Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-74151911, Date: 11-03-2021

as one political economy expert put it:

> Even before state collapse and colonialism, Somalia was structured along clan lines. There was an evident structure within the clans that would make the decisions and provide the basic services we normally associate with a state. Clans dominated different parts of the country and controlled access to these services and resources. In 2012, when a peace agreement allowed for a federal-state project, key powerful clans came together and said, "Okay, let us reach an agreement". The 4.5 formula apportioned power to the most powerful clans, and they were the ones who controlled the state.[16]

Experts noted that while the 4.5 formula ensured some stability by guaranteeing that top figures in each lineage group would enjoy a seat at the table; the system was far from inclusive. The beneficiaries were limited to a small network of elites who competed intensely to secure political office and the rents that flowed from it (Menkhaus, 2018). For one, the 4.5 formula apportioned power to the most powerful clans to the preclusion of minority clan groups (e.g. Bantus) who were accorded one-half the representation, as well as other social-economic minorities (women[17] and youth[18]).

> The significance of the 4.5 was to keep some sense of consensus in national politics. It came in with the TNG; since then, they have been trying to reform this system to make it more inclusive. However, the problem was that no one wanted to do a census to determine the actual clan representation. It was hugely disadvantageous to the minority clans. But it was something that people agreed to, and it was an interim measure for holding elections even if it did not represent the interest of minorities and other disadvantaged groups.[19]

Furthermore, the 4.5 system did not guarantee representation to all clans and sub-clans within the prominent clan families. The formula, therefore, served the interest of clan authorities at the level of primary

[16] Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-74151911, Date: 11-03-2021

[17] Women tended to be excluded entirely from customary governance structures and also formal state structures. There were some positive developments during the 2022 elections a third of parliamentary seats were to be reserved for female lawmakers (Saferworld, 2020).

[18] Young people were constrained in running for political office owing to challenges associated with accessing hierarchical clan structures (Saferworld, 2020).

[19] Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-71718021, Date: 08-02-2021

lineage and 'largely ignored the sub-clan and sub-sub clan (Diya) groupings and the kind of contextual specificity with which these identities were summoned and politically deployed'.[20] Consequently, the 4.5 system essentially effaced the sub-sub-clan differences and inequalities even as clan authorities within the major sub-clans were the ones with the greatest political sway and representation. This was partly an outcome of the historical juncture when the issue of 4.5 emerged: 'At the time, there was a very classic argument of thinking of Somalia as a federalist [country] and conceptualising the civil war as an internecine conflict among clan units at the highest degrees of aggregation'.[21]

Apart from clan leaders, the end of the transitional period and the institution of the federal system of government also gave rise to a group of **domestic political elites** who drew power from political office. As running for political office once more became a lucrative project[22], many former warlords, ministers, MPs and key players in the Islamic Courts converged and contented for political representation. Despite the considerable fluidity within their ranks, interviewees suggested looking at the close allies of President Hassan Sheikh and President Farmajo to unpack some of the alliances that helped to maintain the power and position of these actors and their role within the overarching political settlement.

Among President Hassan Sheikh's (2012-2016)[23] closest allies were cabinet members aligned to the religious group – Damul Jadiid (DJ) (these groups will be discussed in the later sections) and those with similar clan backgrounds or party affiliations (Peace and Development Party). Close allies included the Minister of Justice, Farah Sheikh Abdulkadir, and the Minister of Finance, Mohamed Ibrahim 'Fargeti'. Minister Abdulkadir was influential in bringing President Sheikh closer to the Qatari government. Minister 'Fargeti', in turn, was responsible for forging concessional deals with several companies, including contracts for the management of the Mogadishu Port (Albayrak Turizm Insaat Ticaret AS), Airport (Favori LLC) and the collection of road taxes (Smart Company) (UN, 2016). The dealings of both these actors purportedly provided a significant source of political finance to the President and helped fund his election campaign (UN, 2016). Other influential actors included Ministers of Interior and Federalism, Abdirisak Omar Mohamed 'Odawa' and Abdirahman Mohamed Hussein. Minister 'Odawa', in particular, was the

[20] Interview with Somali Expert (Regional Think Tank), ID: 638287-638278-68685164, Date: 05-01-2021
[21] Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020
[22] Similar to the post-independence era.
[23] President Sheikh returned to office in 2022, defeating President Farmajo. Since this period is beyond the scope of this study, only President Sheikh's initial term of office is discussed.

President's chief negotiator in brokering deals with the FMS leaders.[24] In particular, President Sheikh enjoyed close relations with political elites at the FMS level, including Former Presidents of Galmudug, Abdikarim Guled, South West State, Sharif Hassan 'Kingmaker', and the Former Speaker of Hirshabelle, Sheikh Osman Barre (Majid et al., 2021).

President Farmajo's (2017-2022) leadership style was no less politicised. His inner circle, or the 'ruling cabal' as it was referred to, consisted of PM Hassan Kahire and Fahad Yasin (Majid et al., 2021, p. 4). PM Khaire had initially been part of the Hassan Sheikh camp. However, as a testament to the shifting alliances in Somali politics, he was appointed to the PM's post to restore clan balance and ensure representation of Hawiye interests within Farmajo's administration (Webersik et al., 2018). The other important figure, Fahad Yasin, was the head of the National Intelligence and Security Agency (NISA) and was 'instrumental in bringing Qatari money to Farmajo's camp' (Majid et al., 2021, p. 21).

Like his predecessor, President Farmajo envisioned a more centralised state apparatus. However, unlike President Sheikh, who seemed to shed his centralist tendencies, President Farmajo and his ruling cabal remained focused on concentrating power at the Federal level. Using a combination of strong-arm tactics and widespread vote-buying, the Farmajo, Fahad and Khaire alliance (FFK) alliance was successful in installing compliant leaders in Hirshabelle (Ali Abdullahi Hussein), Galmudug (Ahmed Abdi Kariye ('QoorQoor'), and South-West state (Abdiaziz Laftagareen) (Majid et al., 2021). As a result, the FFK enjoyed close relations with the presidents of these regions. However, the alliance's interference[25] in the FMS elections placed the FGS at loggerheads with the former Puntland President Abdiweli Mohamed Ali Gaas and President Ahmed Mohamed Islam, "Madobe" of Jubaland (Majid et al., 2021).[26]

The FFK alliance crumbled with the ouster of PM Hassan Khaire, and the events that followed critically affected the stability of the political settlement (Heritage Institute, 2021). The PM's official ouster came after the loss of a no-confidence motion in Parliament. Observers noted that Kahire's removal was related

[24] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[25] President Hassan Sheikh also engaged in vote-buying tactics to influence the results of the FMS elections (Abukar, 2016). However, with respect to the use of violence and the scale of the vote-buying operations, the Farmajo government far outpaced its predecessor. In Hirshabelle alone, more than a US$ 100,000 was paid to ensure that the top five positions went to the favoured candidates (Majid et al., 2021, p. 45).

[26] Matters especially came to a head during the 2020 Federal state elections.

to the tussle for power with the President, who was firmly set on extending his term of office.[27] Farmajo clashed with leaders at the FMS level, opposition candidates and cabinet members in his attempt to retain his position. After replacing PM Khaire, Farmajo appointed Mohamed Hussein Roble, a political outsider, to the post of PM. While initially, PM Roble appeared to toe Farmajo's line, relations between the two also soon soured during the period leading up to the elections (2021-22) (Heritage Institute, 2022).[28]

In early 2021, the opposition groups became more organised. After his removal from office, Hassan Khaire joined the opposition candidates, including former President Hassan Sheikh and Sheikh Sharif and former parliamentary and Cabinet officials – Speaker Sharif Hassan Sheikh Aden, Finance Minister Hussein Abdi Halane and Interior Minister Abdikarim Guled (Garowe Online, 2021). The opposition groups rallied around a new political alliance – the National Salvation Forum (NSF), which criticised the President for extending his term of office and deploying the Somali National Army into opposition-controlled neighbourhoods of the capital (Heritage Institute, 2021). The political situation improved slightly when the Lower House of Parliament voted to restore the election agreement reached in 2020 and annulled the bill extending the term of the executive and legislative arms of the federal government (UN News, 2021). However, President Farmajo faced an increasingly united and determined opposition by this time, even as his inner circle shrank and diminished in influence.

Given their long involvement in the country's domestic politics, **external actors** emerged as another critical elite group. Along with funding and directing humanitarian development and reconstruction, external actors had shaped and partaken in elite bargains in Somalia (Hagmann, 2016). Western donors and multilateral organisations, in particular, supported the political settlement materially through foreign grants and aid, which were an essential source of public revenue (See chapter 5 for details). Additionally, they had also been influential in promoting the ideals and vision of the Federal government as a top-down, cen-

[27] During the first round of talks, the FGS and FMS agreed on an outline of an indirect electoral modality modelled after the 2016 elections. President Farmajo was upset by these changes and 'felt that PM Khaire had conspired against him and strong-armed him into a political deal that scuttled his One Person One Vote ambition and ultimately damaged his electoral prospects' (Heritage Institute, 2021, p. 6).

[28] The two leaders first clashed in April 2021 when Mr Farmajo extended his term in office, resulting in a stand-off between troops loyal to the two men in Mogadishu. In September, the pair clashed again when Mr Farmajo stripped Mr Roble of his power to hire and fire officials but later reinstated them after the PM attempted to fire Fahad Yassin (BBC, 2021). There were two further clashes in 2022 following the ouster of the AU envoy and the money seized from UAE.

tralised state apparatus (Menkhaus, 2007a).[29] While there were differences in the interests of these actors, they broadly tended to support processes of state formation, the rule of law and the protection of human rights (Webersik et al., 2018). Interlocutors observed that the federal state existed as such because it had been 'mid-wife'd' by the international community.[30] Nevertheless, there was also an acknowledgement that the efforts of the international community created unified external pressure on Somali elites not to defect from the elite bargain (Menkhaus, 2018, p. 4).

Beginning from the transitional era, **Regional players** also supported the Somali peace-building processes (See chapter 4). They played a leading role in AMISOM forces, which were integral to maintaining the authority of the FGS. However, in some cases, regional actors pursuing their interests were known to have undermined the stability of the settlement. In particular, Ethiopia had exercised considerable veto power in Somali politics, primarily influenced by its self-defined security concerns. Ethiopian backing for the TNG against the ICC undermined the hard-fought stability and was seen by many Somalis elites as a 'politically motivated invasion of their land' (Webersik et al., 2018, p. 28). However, following the election of PM Abiy Ahmed, 'there was a fundamental realignment of Ethiopia, away from supporting FMS (specifically Jubaland) to aligning support for the Federal government'.[31]

Similarly, Kenyan involvement in Somalia was also driven by the deteriorating security situation along its border. Since 2011, when Kenya officially became involved in Somali affairs, its interests included establishing a 'buffer zone' in the neighbouring state of Jubaland and supporting President Madobe against the FGS (ICG, 2012).

Other regional actors, mainly from the Middle East, including UAE, Turkey, Qatar, Saudi Arabia, and Egypt[32] had similarly actively contributed to both stabilisation and conflict in Somalia. Turkey, for instance, had invested significant amounts in infrastructure, humanitarian aid and commercial projects to win a political ally and secure business opportunities for Turkish interests (Webersik et al., 2018). How-

[29] This vision of the state stands in opposition to other models suggested by theorists such as Menkhaus(2007a) who have advocated for a mediated state that harmonises state authority with local systems.

[30] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-66721332, Date: 26-10-2020

[31] Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-71718021, Date: 08-02-2021

[32] It should be mentioned that Gulf state interest in Somalia stemmed from broader strategic agendas, mainly related to maritime security, investment in long-term food security, tackling the influence of Iran and the development of humanitarian and development sectors (Mosley et al., 2021).

ever, following the 2017 Gulf Crisis[33] Somalia became a proxy ground for strategic rivalries, which served to deepen Federal – FMS antagonisms and threatened the stability of the fragile settlement.[34] Farmajo's administration, for instance, received support from Qatar and Turkey. In contrast, the United Arab Emirates (UAE) supported regional governments in Puntland, Somaliland and Galmudug (former government) (Majid et al., 2021).[35] In the words of one senior expert:

> [In the case of] Qatar, the fundamental issue that led to the blockade with the Gulf Cooperation Council (GCC), Saudi Arabia and UAE deepened factional politics and rivalry in Somalia. The UAE and Qatar essentially had different objectives. Qatar had less influence in the Horn region. Ethiopia, Sudan, and Eritrea, which were all closer to GCC. Somalia was [therefore] an area where Qatar could exercise some influence. The way they did this was by backing Farmajo both materially and financially. In turn, Farmajo leveraged such support in his relations with the FMSs.[36]

Lastly, interviewees emphasised that discussions about critical political elite groups were incomplete without considering the role of **AS**. As mentioned in the previous chapters, members of the AS were recruited from among the Islamic Courts and were aligned to the Salafi religious group AIAI (Marchal, 2009; Amber "Oker", 2008; Hansen, 2013; Marchal and Sheikh, 2015). By 2012 the group emerged as one of the country's most powerful internal actors, which sought to overthrow the Somali Federal Government and establish a society based on Sharia Law (Ahmad et al., 2022). The emerging political settlement undergirding the establishment of the FGS was, therefore, designed in opposition to AS (Majid and Abdirahman, 2021). However, AS's capacity to tax virtually all areas of the economy (including Telecom) and its ability to impart justice in a 'fair, efficient and enforceable' manner meant that the group made its elite bargain with political actors and was described by some as a 'mafia-style protection racket' (Ahmad et al., 2022; Majid et al., 2021, p. 46). Thus, even as the group was initially in opposition to the federal system, 'it in-

[33] In 2017, Saudi Arabia, the United Arab Emirates (UAE), Bahrain, and Egypt cut ties with Qatar, claiming Doha's regional policies were fueling extremism and terrorism. (Asmar and Hasaj, 2020).
[34] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-67097488, Date: 03-11-2020
[35] Interview with ICT Expert (Independent), ID: 638287-638278-66054701, Date: 07-10-2020; Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-69550831, Date: 14-01-2021
[36] Interview with Senior Conflict Expert (International Organisation), ID: 638287-638278-71293521, Date: 01-02-2021

creasingly took a more ambiguous position – both colluding and contending against the FGS (political elites within the government), the exact position of which varied according to context' (Majid et al., 2021, p. 46).

Religious Elites

Given the long history of Islam in the country, religious groups also played a pivotal role in supporting and undermining the fragile political settlement. For some, the continuing influence of these groups raised essential questions about the role of Islam in the Somali state and politics. Specifically, if the struggle was between the 'Islamists (AS) and secularists (SFG/FGS), as the international community routinely observed, or if the contest was between which school of Islam would come to dominate the state' (Rashid, 2019, p. 1).

Since, 1950's the two leading schools of Islam that dominated the country were *Salafism and Sufism*, with the latter perceived as representing traditional Islam[37]. However, even within these groups, several different factions came to jockey for power, including *Al-Ictisam (Salafist)*, *Al-Islah (Salafist)*, *Damul Jadiid* (*Salafist – Ikwhanism*, the Muslim Brotherhood-based religious philosophy), *Ahl-e-Sheikh* (Salafist – Ikwhanism) and *Ahlu Sunna Wal Jamal* (ASWJ) (Sufi) (Hansen et al., 2022). All five groups at different points gained ascendancy and played an influential role in Somali politics; however, in the post-transition era, the contest was mainly between Damul Jadiid, Ahl-e-Sheikh, Ahlu Sunna Wal Jamal (ASWJ) and to some degree Al-Ictisam.

The Damul Jadiid (DJ) gained prominence when President Hassan Sheikh came to power. The group's ideology had a bearing on undermining the balance of power between the federal government and member states (FMS). Moreover, DJ's close relations with the Middle East also distanced the FGS from Intergovernmental Authority on Development (IGAD) and the African Union towards the wider Arab and Muslim world (Bryden, 2013). In contrast, Ahl-e-sheikh's influence rose with its criticism of Presidents Hassan Sheikh, who was considered too close to the business community. The group's members called for limiting the business community's influence and more decisive state action in the economy (Counter Extremism Project,

[37] Sufi orders have been active in Somalia since the 1800s while Salafists were the more recent movement to arrive in Somalia (1950s) (Marchal and Sheikh, 2015; Hansen et al., 2022).

nd).

However, the Ahlu Sunna Wal Jamal (ASWJ) was the most politically active group. The ASWJ were a significant actor in Galmudug and exercised considerable influence in Mogadishu politics, especially during the presidency of Sharif Sheikh Ahmed (2009 – 12) (Hansen et al., 2022). The group was also one of the most active opponents of AS, both militarily and ideologically (Hansen et al., 2022; Ingiriis, 2022). Under President 'Farmaajo', ASWJ increasingly engaged in campaigns aimed at reducing the influence of Sunni groups such as Al-Ictisam, who, despite lacking broad-scale support, continued to be influential, especially among the diaspora communities (Hansen et al., 2022).

Economic Elites

The religious elites were also interlinked with another class of elites who dominated the economy – **business groups**. By 2012, observers noted that these groups had emerged as a dominant 'political force in the political settlement' (Herring et al., 2020; Hagmann, 2016, p. 32). As seen earlier chapter 4, the interests of this class had evolved considerably in keeping with the changes in the nature of the private sector. From the trade-based rentier firms closely entangled with political elites (civilian regime), the business community became increasingly disenchanted with the state and operated autonomously as part of the informal sector during the Siad Barre era. The period of the civil war saw the growth of a new class of businesses, many of whom were from the Hawiye clan, as the clan groups aligned with the regime (Marehan Ogaden and Dulbhante alliance alliance) fled the capital. These groups capitalised on tax and regulation-free opportunities and survived by developing symbiotic relations with the warlords and clan factions. However, the need for greater stability and the emergence of more advanced sectors, such as Telecom, encouraged the business community to emancipate themselves from the class of warlords. During the next decade, the business class bankrolled peace-building conferences – the 2000 Arta conference, and invested in public authorities such as the Islamic Courts and supported candidates running for federal elections from 2012 (Hagmann, 2016; Majid et al., 2021).

Following the end of the transitional period, business groups (especially those in the more profitable sectors of the economy, such as Telecom, banking, and remittances) strengthened their ties with the politicians

to enable their access to decision-making processes.[38] Consequently, experts observed that it was not very easy to "draw a line between the two because there was a very high level of state capture by these enterprises".[39] Basic governance was also notably dependent on private actors who provided essential services through both 'for-profit and not-for charitable channels' (van den Boogaard and Isak, 2021, p. 24). Thus, businesses, as prominent actors in the political settlement, were among crucial groups interested in shaping state institutions to their will and interest – "businesses had been hurt by insecurity and thus did not want open conflict or the total absence of the state. They instead sought to limit the state's authority by blocking higher taxes and greater regulation (Hagmann, 2016; de Waal, 2015; van den Boogaard and Isak, 2021, p. 21)

The other crucial elite group were members of the **Somali diaspora**, who also played a significant role in the economic aspects of the country and its politics. As previously observed, many of the actors within the business community were diaspora. Thus, even as the Telecom sector was anchored in the specifics of the Somali economic realities, it was led by actors with dual nationalities who operated across various jurisdictions (Meester et al., 2019). Owing to their considerable economic power, diaspora groups were known to pursue their interests, which at times were supportive of Somalia's political system and at other opportunities seemed to undermine it (Webersik et al., 2018; Sheikh and Healy, 2009). For instance, such groups were well represented in the Somali political system and overlapped with critical religious groups (especially the Al-Ictisam, as argued previously). President Farmajo's Cabinet was distinguished for being dominated by diaspora elites. Diaspora groups also funded local peace-building and state-building initiatives, especially at the FMS level. Apart from the annual flow of US $2 billion in remittances, they invested in education, healthcare, public infrastructure and private enterprise (Hammond, 2013; Webersik et al., 2018). At the same time, the interests of the diaspora community did not always align with those of domestic actors and constituencies. Transnational business actors sought to tailor regulatory institutions to their advantage (Meester et al., 2019). They appeared less interested in developing state institutions (these dynamics will be explored in greater detail in the following sections). Diaspora representatives also seemed divorced from their constituents' realities and experiences and were seen as monopolising positions within Somali politics and administration (Meester et al., 2019; Webersik et al., 2018).

[38] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-74606672, Date: 01-04-2021
[39] Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-72103485, Date: 22-02-2021

Thus, taking stock of the elite groups and the nature of the Somali political settlement offers some rich insights, which help to foreground the discussion on the tax motivations of business actors. Specifically, the insights reveal how the political settlement undergirding the FGS represented a limited access order, where elites with the potential for violence compromised and supported a fragile state on the condition that they may be entitled to specific returns or rents. Elites within this framework were defined based on various criteria, including political capital (clan groups, domestic political elites, external actors), ideology (religious groups), and economic influence (such as business and diaspora) actors. Business groups, in particular, reportedly supported the state apparatus to the extent that formal institutions did not undermine their interests. The payment of 'low and negotiated taxes' fit within this framing as it meant that such groups paid a nominal amount in taxes and contributed in some measure to state capacity. Still, tax payments favoured the interests of businesses as they were not assessed formally and transparently, nor were they indexed on profit margins. The taxes paid by the Telecom sector, a significant player in the business sector of Somalia, were deemed as subscribing to this broader trend.

The question that remained was how did such dynamics play out? Specifically, was the sector's role as a power broker salient, or were institutional factors such as the role of informal institutions also influential in determining such arrangements? Equally, did such arrangements boil down to the agency of a few sector elites who negotiated favourable tax terms? In the following sections, I explore these factors in greater detail and attempt to identify the specific circumstances, actors and entities involved.

7.3 Asymmetric Positioning of Powerbrokers

The political settlement literature, discussed in the theoretical sections of this thesis, specifies how the structure of the economy interacts with the distribution of political power and determines the nature of elite bargaining. Based on the analysis presented in the previous section, political power within the *Somali political settlement could be defined as horizontally dispersed and vertically differentiated*. Various elite groups exercised power such that there was no single dominant group of elites (horizontally dispersed), and the legitimacy of the ruling coalition was considerably contested (low vertical power). In the words of one senior expert, 'Somalia was locked into this stable equilibrium where there were different groups with

various sources of power, who deployed violence to protect their rights. The majority of the population was, however, excluded from power and access to resources'.[40]

Within this settlement, *the Somali Telecom sector represented a 'powerbroker industry'*, which was domestically focused, subject to regulatory rents, and had considerable 'holding power (see chapter 6). In the words of one private sector expert: 'The biggest players were in the Telecom sector. In many countries, business runs politics, but in Somalia, it was probably more so.'[41] As observed in the previous chapter, the Telecom sector generated revenues equivalent to 11% of Somalia's GDP in 2014 and was among the largest employers (MPIED, 2019). While updated figures were not available, experts estimated that the sector earned approximately US$ 160-220 million in revenue, which was considerable and aligned with industry standards for the region[42] (Lange, 2015).

Among the most pivotal actors in the sector were players such as Hormuud, Golis, Telesom (HTG group), Somtel (Dhabshiil group), and Dalkom.[43] These actors were seen to possess greater power on account of their dominance over the economy (see chapter 4). They controlled major sectors of the economy – banking, finance and foreign exchange (via control over the remittance industry)[44] and core infrastructure facilities and resources (Telecom infrastructure and infrastructure in related industries over which they also exercised some control, such as electricity) (van den Boogaard and Isak, 2021; Majid and Abdirahman, 2021; Meester et al., 2019; Iazzolino and Stremlau, 2023). In the words of a private sector expert:"The big Telecom companies essentially called the shots in Somalia because they were the most prominent businesses and folks could not do without them – mobile money payments, remittances, infrastructure, all depended on these companies".[45] Consequently, by some estimates the amount of economic power these companies had was considerably greater than even the government: According to World Bank studies, the FGS's budget was considerably lower (approximately US$ 268.5 million in 2017), compared to the $ 1.2 billion

[40] Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-74151911, Date: 11-03-2021
[41] Interview with Private Sector Development Expert (International Organisation), ID: 639281-639272-67082913, Date: 03-11-2020
[42] A report by Mckinsey and Company pegged average revenue for the Middle East and Africa region as US$ 384 million (2010-15). Note that the average included more advanced economies (Boniecki et al., 2016).
[43] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-70935685, Date: 25-01-2021
[44] Interview with Development Expert (Multilateral Organisation), ID: 638287-638278-72530625, Date: 16-02-2021
[45] Interview with Private Sector Development Expert, ID: 639281-639272-67082913, Date: 2020-11-03

which was circulating in Somalia's mobile money ecosystem every month (Altai Consulting, 2017).[46]

Similar to Pritchett et al.'s (2017) argument, *the asymmetric positioning of the sector leads explained the nature of tax deals.* Specifically, these groups could strike tax deals that were 'disordered' and heavily favoured their interests because of the economic power they wielded. In the absence of a dominant coalition of political elites who could put up any resistance to the sector's interest in avoiding high taxes and regulations, the types of tax deals that were determined were 'low' (closed) and 'negotiated' (disordered) (van den Boogaard and Isak, 2021; de Waal, 2015; Hagmann, 2016; Menkhaus, 2018). As one senior governance advisor explained: 'The businesses had so much power and wealth to control the sector of the economy, and thereby I think tax agreements would always have a been a negotiation'.[47] Tax payments, in this sense, were considered essentially a 'gift as the sector broadly decided how much they would pay each year'.[48] Similarly, a revenue expert described the tax negotiation process in the following way – "Operators paid some amount [of tax] to the government. They just told the government how much they were willing and able to pay for the spectrum. In Somalia, the government was totally at the mercy of the operators. All they could do was take the 'deal' given; the amount fluctuated, and there were no set rules and fees."[49]

In particular, *corporate and income tax contributions tended to be opaque and less ordered than other tax contributions.* By structure and design, indirect taxes were less subject to arbitrary payment because these were often levied at the ports and were more easily standardised (See chapter 5). As explained by one financial expert:"tax agreements between these companies remained very much negotiated. The Ministry of Finance asked Hormuud to pay a certain monthly amount, and Hormuud negotiated on that basis. Post-facto that got divided into different (income) tax brackets. So, although on the income statement, it would say that a certain amount was paid towards corporate taxes and employer contributions – in actual fact, it was pretty ad hoc".[50] Government officials also maintained that the problem was that 'they had no way of knowing the income earned by the Telecom companies as they did not audit their statements

[46] More than 63% of mobile money users did not withdraw nor transfer all the money out of the account straight away once a transfer was received, but instead transferred the money over time as and when needed, enabling the further circulation of mobile money (Altai Consulting, 2017).

[47] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-66721332, Date: 26-10-2020

[48] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[49] Interview with Senior Telecom Expert, ID: 639281-639272-66401804, Date: 26-10-2020

[50] Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021

regularly'.[51] Especially in the case of the bigger players, the Ministry of Finance had little purview over the profits and incomes earned.[52] As one Ministry official observed:"The, smaller players (ISPs/MVNOs) showed their books. However, the government still did not know if the books were real. However, others like Hormuud, for instance, did not even show their books. We had no way of knowing how much they earned. The whole system of checks and balances was not very strong".[53]

Interviewees maintained that *the closed and disordered nature of tax payments' gave rise to rents and rent-seeking opportunities.* 'The low negotiated taxes ensured that sector leads, in particular, did not pay income and corporate taxes according to their earnings'.[54] As per Khan's (2000) framing, the amount they could save by paying taxes at reduced rates constituted an unearned income or 'rent'. Additionally, the prevalence of informal negotiated payments encouraged rent-seeking from front-line officials and political elites who took their 'cut' of the taxes that were paid or charged lower taxes in return for off-the-book payments (Raballand and Knebelmann, 2021). For instance, a recent study found high rates of corruption among tax collectors, such that following the automation of the revenue collection system (which involved cutting out the front-line tax collectors from the collection process), revenue levels increased substantially (Raballand and Knebelmann, 2021).

Thus, a salient explanation offered for the nature of tax deals was the powerbroker status of the industry. In a political settlement context where power was horizontally distributed and vertically differentiated, actors in the sector occupied an asymmetric position on account of the considerable dominance they exercised over the economy. They had greater 'holding power' than even political elites, which allowed them to determine tax deals that were closed and disordered (specifically for corporate and income tax payments).

7.4 Elite Extraversion

The asymmetric positioning of the sector was related to another structural factor, which more closely explained why tax collections (including principally corporate and income tax), albeit low, had increased

[51]Interview with Senior Government Official (Ministry of Finance - Policy), ID: 638286-638277-69292696, Date: 10-01-2021
[52]Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-70935685, Date: 25-01-2021
[53]Interview with Senior Government Official (Ministry of Finance - Policy), ID: 638286-638277-69292696, Date: 10-01-2021
[54]Interview with Senior Telecom Expert, ID: 639281-639272-66401804, Date: 26-10-2020

(2012-2020). Specifically, the role of external actors within the Somali political settlement was highlighted as a significant factor. Interviewees argued that monetised transactions and payoffs had always been a feature of relations between political and business elites during the Siad Barre government and the period thereafter (See chapter 4). Consequently, it was essential to explain why Telecom actors, given their strong positioning, would opt to make more formalised tax payments that would bring them within the state's fiscal ambit. As one international observer noted:

> The issue of the elite tax bargains makes some sense but not much sense because they [the Telecom actors] could have just as easily directly paid the politicians. There was enough of that happening already. There was also the issue that if the state got more powerful, it would tax more. Moreover, I could see how companies would want a state to be weak and ineffective. A more persuasive reason was probably that paying some tax was one way to get a weak state while getting the 'internationals'[external donors] off their back.[55]

Multiple interviewees offered such explanations of what Hagmann (2016, p. 26) has described as elite extraversion – 'the conversion of dependence on foreign funds and international recognition into resources and authority' (See chapter 3). Representatives of international and bilateral organisations, in particular, argued that *business-political elites looked to instrumentalise external sources of revenue or rents for domestic political and financial advantage*.[56]

> It was not that Somali elites did not want a state to emerge. They did not want a functional system in place. Many wanted a state that would function on their terms in ways that suited them. That was where there was a push and pull. The international engagement was a way to institutionalise the government's role and support for the state and give it a more institutionalised facade.[57]

[55] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-67097488, Date: 03-11-2020

[56] Interview with Senior Development Expert (Somali NGO), ID: 638287-638278-69275840, Date: 15-01-2021; Interview with Private Sector Expert, ID: Interview with Senior Private Sector Development Expert (Bilateral Organisation), ID: 639281-639272-73699765, Date: 24-03-2021

[57] Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020

Further, interlocutors argued that *business elites, particularly those in the Telecom sector, preferred the institution of formal institutions to actual state formation* (Hagmann, 2016). They were, thereby, willing to pay some taxes and maintain the 'illusion of a state' (Hagmann, 2016, p. 44) or 'juridical statehood' to use Robert Jackson's (1992) terminology, if it meant they would gain privileged access to external finance.

> It was very logical that they would fund a state structure to the extent that it matched their interest. It was a bit of a trade-off; on the one hand, it had to look like a state or a tax bill, but on the other hand, the right interest had to be translated. In the areas where there was a reason for companies to invest, it would have to look like a tax bill".[58]

Observers also noted that elite extraversion was not new in Somalia and that the previous regime of Siad Barre and the transitional governments had followed similar strategies to court more significant foreign aid and investment without investing in efforts to mobilise revenues domestically (See chapter 4 for details). However, the *HIPC Debt relief process offered a more proximate explanation for why elites in the Telecom sector made increased tax contributions* in the post-transitional era. As mentioned previously (see chapter 5), one of the reasons proposed for why the Farmajo government was concerned with improving revenue mobilisation and strengthening the federal structure was to unlock additional external financing (Abshir et al., 2020). In particular, if Somalia met its domestic revenue targets and improved its public financial management systems[59] and reached the end stage of the debt relief process – 'Completion Point', it would then be entitled to concessional loans from multilateral and bilateral lenders.[60]

Participation in the debt relief process (HIPC) and the achievement of intermediary milestones alone had increased the country's access to external finances. In 2020, when the country passed the Decision Point milestone, the Executive Board of the International Monetary Fund (IMF) approved US$395.5 million to support the FGS's reform agenda and catalyse concessional donor financing (International Monetary Fund, 2020).[61] Additionally, the African Development Bank granted the FGS US$7.7 million in May 2020

[58] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[59] Apart from domestic revenue mobilisation, there were several other macro-economic benchmarks that the country had to fulfil.

[60] Interview with Public Finance Specialist (Multilateral Organisation), ID: 638287-638278-101191014, Date: 28-10-2022

[61] The amount was approved under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Somalia.

for improving their revenue systems and instituting a more efficient method of tax collection (Gundel, 2020). Given the substantial inflow of international development assistance, there was an incentive for both political and economic elites to invest in revenue-raising efforts with the hope that once the country reached the completion point, they could unlock even more foreign funding. Thus, while "debt relief was a moral good in itself, it also served as a tool for elite extraversion".[62] In the words of an international governance expert:

> I think the HIPC process could distract from (domestic) revenue mobilisation. The government was more interested in reaching the HIPC completion point and unlocking the flow of money from IDA (International Development Association) than in raising revenue from domestic sources in the short to medium term. Therefore, it was true that they were willing to access what they could through external assistance and to pursue reforms that unlocked International Development Association (IDA) rather than reforms that could mean collecting more tax from businesses and the private sector.[63]

Experts also noted that the *higher tax contributions of the Telecom sector were also part of the efforts to support the narrative or the 'story that the capacity of formal state institutions had improved'*.[64] In particular, the discourse around 'how the FGS's strong policy commitment had helped strengthen public financial management, improve governance, and enhance macroeconomic stability' (International Monetary Fund, 2020, p. 1). However, the reality was far messier: "There was an agreement between the government and the private sector. The FM had to meet the IMF targets, and the Ministry often did that through windfall payments. This was not a stable or regular flow of revenue. It was not a structured, transparent type of revenue payment. It was just enough to tick the box for the IMF progress to move in the right direction".[65]

Other actors also suspected the extent to which taxes were paid into the treasury – "I heard many rumours that to get to debt relief, the FGS asked friendly private sector actors to wire money into their account – to enable them to say that they had met their target. Then afterwards, they [the government] wired it

[62] Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020
[63] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-74606672, Date: 01-04-2021
[64] Interview with Senior Conflict Expert (International Organisation), ID: 638287-638278-71293521, Date: 01-02-2021
[65] Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020

back to the person. The question such rumours raised was how much of the improvement was real and how much of it was a mutually beneficial agreement".[66] Similar claims have also been made by experts like Gundel (2020, p. 6), who noted that 'revenue increases were largely fabricated, and the IMF had no means to verify the budget'. However, representatives of the Financial Governance Committee maintained that while problems with the public finance management system continued, there were significant checks in place to prevent such 'brazen misappropriations'.[67]

Despite such differing positions on whether revenue payments had 'actually' increased, there was nevertheless significant consensus that the tactics of elite extraversion related to the debt relief process provided a more specific explanation. They shed greater insight into why taxes were low and negotiated and why Telecom actors were incentivised to make such payments in a context where monetised transactions were the norm.

7.5 Institutional Fit

Structural factors, such as the powerbroker status of Telecom actors and external state-building interventions, also interacted with the institutional context to explain low and negotiated tax rates. For one, as seen previously, *the power of the elites was deeply rooted in informal institutions*. Elites in the Telecom sector were no exception (See chapter 6). They relied on a mix of religious and clan-based institutions to regulate and legitimise economic activity. The reliance on informal institutions and structures also meant that attempts at greater formalisation were likely to be resisted, especially if they changed the distribution of benefits. More so if, as previously observed, efforts at building formal institutions were seen to be externally sponsored (Hagmann, 2016). In Khan's (2010) terminology, despite claims made towards formalisation, power brokers, like Telecom sector elites, were likely to prefer informal arrangements, which secured their distributional advantage and enabled different forms of rent capture.

Attempts at formalisation were resisted because formal institutions were institutionally incompatible with

[66] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[67] Interview with Senior Advisor to Government (Finance Governance Committee), ID: 638286-638277-72609532, Date: 17-02-2021

the distribution of power. Interviewees closely observed this dynamic during the passage of the Communications Law and in the events relating to the establishment of the NCA. Specifically, how despite the institution of the Act, the government was unable to upend the trend of low and informal corporate tax payments by sector leads.[68] As discussed in chapter 5, the National Communications Law was passed in 2017 after 12 years of discussion and debate. The extended time it took to promulgate the Law was attributed to 'push back' from the sector, which sought to 'influence ministers appointed to oversee the sector and lobbied presidents and prime ministers' (Kelly et al., 2021; Abshir et al., 2019, p. 60). According to government and international experts, "the Telecom sector feared the potential consequences of governmental oversight and regulation" (Abshir et al., 2019, p. 60). In particular, they were concerned about the increased costs of regulation, taxation and greater competition from foreign companies (Hiraal Institute, 2019). As expressed by a senior private sector specialist:

> It took a long time to get buy-in from the companies, who perceived the Law as threatening their current business model. They used all the means possible – lobbied in the parliament and the government to stop the process. They were concerned that regulation would affect many aspects. Interconnection would mean more competition, and spectrum would entail higher costs and taxes. All spheres of their business would be affected by this Law.[69]

Sector leads also expressed a more profound discomfort with how regulations would disrupt the informal arrangements that had thus far facilitated the industry's expansion and growth. As one sector representative put it:"what were the problems the government was trying to address? There were no issues. They [the government] did not need to create problems where they did not exist just to demonstrate their control. The sector had performed and survived not because of but despite the lack of regulations".[70] Such concerns were indicative of what Khan (2010), Moore (Moore and Unsworth, 2010) and Hickey (2012) have described as the trade-off between growth and stability. Operators explained that while they were not against (formal rules) regulation, they had concerns about the effect such reforms would have on the

[68] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-67593610, Date: 23-11-2020; Interview with ICT Expert (Independent), ID: 638287-638278-66054701, Date: 07-10-2020

[69] Interview with Senior Private Sector Development Expert (Multilateral Organisation), ID: 639281-639272-73538050, Date: 17-03-2021

[70] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021

"creation of an enabling environment where investors felt secure".[71] In the words of the same sector representative:

> Because operators existed for a long time, the legitimacy of our business came not only from the progress we had made but also from the fact that the market remained stable and there were no disruptions. If you looked at the level of competition, we [the Somali Telecom market] were number seven globally for cheap data services. Voice calling was also more affordable than in all our neighbouring states. In terms of mobile financial services, we did exceptionally well. Compared to other well-developed African states, like South Africa, we were far more advanced than they were. Again what this showed was that regulation was not necessary for success. Regulations were needed to address problems in the sector. If you wanted to ensure the systems and programmes in place were proper and scrutinised, then regulation was necessary. There was room for regulation, and the industry acknowledged this. We [the industry] had done well, so we asked the government not to disrupt existing structures; instead, we asked them to come up with something new that would enable us to move forward and move further.[72]

Despite all such roadblocks, by 2017, the new FGS administration with unity of purpose proved harder to influence, and the NCA was finally passed. However, sector leads, specifically Hormuud, had also changed 'course' and engaged in negotiations about the content of the legislation rather than blocking it at the parliamentary level. Experts pointed out that the main reason why the sector leads ultimately relented and engaged with the FGS was that it became too expensive to fight the legislation rather than to influence or undermine it from the inside: "when it becomes too expensive to fight it – you take it over from inside".[73]

Consequently, *the final version of the Law, specifically the section on taxation, was considerably 'diluted'*. Initial drafts of the Law that contained specific provisions on taxation, such as Article 63, which called for communication companies to pay corporate income tax to the Ministry of Finance and also discharge

[71] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021
[72] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021
[73] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-67593610, Date: 23-11-2020

income tax on behalf of their employees, and Article 23 40(5), which obligated license holders to provide information to the regulatory authority, were ultimately not included in the final version of the Law (FGS, 2017). The only provision included was Article 6(5), which empowered the NCA to issue licenses and 'propose' taxes for the management of frequencies, the partition of accounts, coordination and monitoring of networks and communication services. Telecom experts who engaged in the dialogue process noted that an important reason why the Law was ultimately passed was that the tax provisions were watered down:

> The original version of the Law was diluted. This was the version that called for taxes to be paid. Because of the changes, the Telecom industry allowed the Law to be passed. The version that passed was a sufficient dilution. Hormuud was not interested in paying taxes compared to the other operators because it was still a one-way cost. There were no longer-term benefits that they would get until the federal government started offering them law and order and security.[74]

Moreover, experts emphasised that *the capacity of the NCA to implement even their 'diluted' responsibilities vis-a-vis taxation was resisted by the sector*. The granting of licenses was compromised because the industry leads insisted on being represented by the Board of Directors. Of the nine members, three were representatives of the industry. In fact, all three were representatives of the Hormuud Group (HTG): The composition of the Board of the NCA was the clearest example of elite capture. Hormuud, Telesom and Golis were represented on the Board of the Regulator (NCA). As representatives of the Board, they determined what the regulator could and could not do.[75]

The *matters came to a head in 2019 when the NCA proposed a new licensing regime* to 'simplify the licensing process and ensure a more conducive environment for market growth and socio-economic development of the country'(National Communications Authority, 2020). In February 2020, the NCA adopted the Unified Licensing Framework (ULF) following several revisions proposed by the sector (World Bank, 2020a). However, soon after the passage of the ULF, the Telecom operators complained to the Minister of Communications Abdi Ashur Hassan that the industry needed to be adequately consulted and requested

[74]Interview with ICT Expert (Independent), ID: 638287-638278-66054701, Date: 07-10-2020
[75]Interview with Telecom Expert (Multilateral Organisation), ID: 639281-639272-69536914, Date: 27-01-2021

that the Board intervene. As per the Law, however, the Board lacked the necessary jurisdiction to act in such matters, and as such, the industry's request was not considered by the NCA. Initially, the ensuing struggle resulted in the resignation of the NCA Director-General, Abdi Sheikh Ahmad. However, following Minister Ashur Hassan's removal from office[76], NCA Director-General Abdi Sheikh was appointed as the new Minister (a timeline of events that led up to this can be found in Table 7.1). The ULF framework was finalised and approved by July 2020, when the sector finally agreed. By October 2021, there were seven licensed operators (National Communications Authority, 2022).

Despite the passage of the legislation and the ULF, the main issue of the Spectrum license remained pending. By the end of 2021, the NCA was yet to issue the more fiscally lucrative spectrum licenses: "The FGS did not have much leverage – unless the operators needed access to additional spectrum and were willing to recognise the NCA's authority to issue spectrum licenses. In most countries, the operators were assigned a limited amount of spectrum. In Somalia, the operators did not wait. They just used it at will and continued to do so even after the passing of the Law".[77] Another major issue was taxes on mobile money payments. In 2019 the Central Bank issued licenses under the new Mobile Money Regulation. Despite the passage of such regulations, there were no specific provisions for taxes on mobile transactions related to safeguarding funds and deposit insurance [78]: "Mobile money was the golden goose.[The sector] wanted the government to stay far away from Mobile Money. However, beyond that, they were happy to negotiate. They were willing to talk endlessly about negotiated taxes as long as the government did not touch mobile money."[79]

In sum, the lack of institutional fit also explained the nature of tax payments. In particular, it helped explain why the Telecom actors so assiduously resisted the government's attempts to introduce formalised tax payments and why they preferred informal and negotiated corporate tax payments.

[76] He was removed by the President because he was perceived as being too close to the sector leads.
[77] Interview with Senior Telecom Representative (MNO), ID: 639281-639272-65772622, Date: 30-09-2020
[78] There was also little headway made on interconnection agreements, which would have undermined the monopoly of HTG group.
[79] Interview with ICT Expert (Multilateral Organisation), ID: 639281-639272-68801218, Date: 08-12-2020

Table 7.1: Timeline of Events Leading up to the Implementation of the ULF

October 2019	In 2019, the NCA, as a first step in regulating the sector, the NCA proposed a new licensing regime to simplify the licensing process and provide a more conducive environment for market growth and improvement of the socio-economic development of the country.
December 2019	Private sector filed comments on the proposed ULF.
February 2020	NCA adopted the ULF with several revisions proposed by the private sector.
March 2020	Telecom operators sent a letter to the Minister alleging that the NCA's ULF decision did not comply with the Communications Law. They contended that the NCA failed to consult on the ULF properly and that the Board, not the General Manager, needed to take action. The Communications Law, however, did not give the Minister any authority to review NCA decisions.
April 2020	The MPTT Minister wrote to the NCA General Manager and Telecom operators to schedule a meeting with the NCA and operators on June 15 to discuss the Telecom operators' claims about the ULF.
May 2020	NCA General Manager wrote to Telecom operators to inform them that they should ask the NCA, not the Minister, to review the NCA's decision on the ULF.
May 2020	NCA issued licenses to the Telecom operators according to the adopted ULF.
June 2020	The Minister met with Telecom operators and took the position that the NCA Board, not the General Manager (GM), had the power to act on behalf of the NCA. The Minister's intervention ignored Article 7 of the Communications Law, which stated that the NCA was independent in carrying out its duties and that there should be no interference from other Government institutions, such as the Ministry of Post, Telecommunications and Technology.
July 2020	The ULF was finally approved, and the types of permits included under the new ULF: Communications Infrastructure Provider Licence (CIP), Application and Services Provider License (ASP), and CISP

7.6 Inter-elite Dynamics

In the theoretical chapter, I discussed two other mechanisms – Neo-patrimonialism arguments and the agency power of elites, which were also considered necessary in explaining tax relations. However, interviewees linked these two causal mechanisms. In particular, experts pointed out that *political and economic elites were bound by clientelist relations, which were clan-based but also personalised and monetised*. As such, a considerable source of holding power of these elites was thereby linked to how 'well networked they were in patron-client relations' with political elites and the extent to which they could leverage these relations (Khan, 2010, p. 70).

Some clan-based dynamics have been previously discussed in chapter 5. In particular, *President Hassan Sheikh was closer to the business community due to his sub-clan background*: "President Hassan Shiekh allied himself with powerful business elites in the banking, telecommunication and financial sectors. Relations within the Telecom sector probably ran through several Habar Gedir allies and the Abgal and *Waesli* subclans.[80] However, experts observed that the affinity extended beyond political elites simply creating an enabling environment for business that effectively led to the 'continuation of their domination over the economy'.[81] The close clan relations also went a long way in explaining why the sector both agreed to pay some tax but also only at low and negotiated rates – "Mogadishu business elite for the federal government, especially from a tax perspective – *Abgal and Habar Gedir*– were the pivotal ones that the government needed to get buy-in from to build a revenue base. They were the ones that the government ultimately was able to convince".[82] Moreover, the extent of kickbacks and the scale of corruption were related to the low taxes paid by business patrons.[83] Principally, in return for receiving preferential treatment for the payment of low taxes, Hassan Sheikh's government was accused of earning kickbacks, especially from the dealings of Finance Minister 'Fargeti' (UN, 2016).

President Farmajo did not court the business community in the same way, as there were differences in

[80] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[81] Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021

[82] Interview with Somali Expert (Regional Think Tank), ID: 638287-638278-68685164, Date: 05-01-2021

[83] Interview with Senior Private Sector Development Expert (Multilateral Organisation), ID: 639281-639272-73538050, Date: 17-03-2021

the arrangement of patron-client networks (Kasara, 2007). The Farmajo's government relied on external sources of patronage and political finance – including from Qatar, Ethiopia, Turkey, and close diaspora patrons as a critical tactic to control the influence of business elites and demand higher tax payments (even as they could not resist negotiated tax arrangements). In the words of one expert –

> The significant change was the rumoured Qatari funding for Farmajo that gave him a bit of clout. Equally, the security arena panned out with PM Aby coming to power in Ethiopia. His support for Farmajo again shifted the scales slightly. It allowed Farmajo to be more assertive and strengthened his position in the political marketplace.[84]

Moreover, the differences in clan backgrounds between President Farmajo (*Darod-Marehan*) and the business elites (*Hawiye – Abgal and Habar Gedir*) allowed the government to distance itself from such groups (See chapter 5). Yet, the appointment of PM Khaire (a Hawiye) was one way in which kinship-based patron-client networks were somewhat maintained (See section 7.2.1). According to some experts, it was the close relations between PM Hassan Khaire and Minister of Communications Ashur Hassan and the head of the Hormuud, Ahmed Mohamed Yusuf, which ultimately contributed to the passage of the NCA law:

> The World Bank and International Finance Corporation (IFC) claimed that the Public-private dialogue was important in passing the Act. They [IFC] claimed to have created the dialogue, but there was always a dialogue – they just formalised it. The likely scenario was that the PM just called the operators and asked them to make the contributions — I do not think these other processes had much to do with it. There was also a personal [clan] connection between PM Khaire, Minister Ashur, and the Head of Hormuud. This was what made Hormuud pay the tax. This was also why they could put pressure on the operators.[85]

However, interviewees also acknowledged that *power within the Somali political settlement was highly diverse*. The sources of power that cut across clan, ethnic, religious, economic and political lines meant that

[84] Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020
[85] Interview with Telecom Expert (Multilateral Organisation), ID: 639281-639272-69536914, Date: 27-01-2021

the everyday business of politics and governance continued to be far messier. It involved many actors, including clan elders, armed militia, businesspersons and foreign actors, with the precise configuration of actors dependent on context (Majid et al., 2021). Consequently, the holding power of elites tended not to have a fixed quality and was subject to rapid change."The patterns of bargaining were very short-term. The relationships were predicated on a particular power calculus. The relationships disintegrated rapidly, and there was no expectation that they would continue beyond one or two transactions".[86]

Within this complex political terrain, *to establish their monopoly position and to gain preferential treatment, Telecom operators provided financing for the political elites*: 'Businesses regularly bankrolled politicians from different clans and backgrounds to secure their interests. Instead of paying taxes; telecommunication companies secured their advantageous position by channelling voluntary contributions to the financing of political campaigns, enabling government officials to divert funds, offering high-level positions to government officials on their boards and buying the votes of Members of Parliament'.[87] Similarly, other experts also noted how deep these patron-client networks ran and the significant holding power of the Telecom sector[88]:

> Across Somalia, these Telecom companies sponsored politicians. They sponsored MPs to contest and win elections so that they had their representatives. This was because they were more than business actors. They had much stake in the economy and the politics they wanted to protect. The only way to protect their interests was to have representatives in the parliament. That was why they kept sponsoring MPs to ensure that at least they had representation. Also, when there was a motion of policy-making, they flashed money so that they could influence the policymakers".[89]

Moreover, what was particularly striking was that politicians also had businesses, and *there was often no distinction between the business and political elites*.'People who had positions in government had their businesses and NGOs. These things were not distinct. Take the story, *Khat*. There were two primary sources

[86]Interview with Conflict Expert (International Organisation), ID: 638287-638278-68996981, Date: 07-12-2020
[87]Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021
[88]Interview with Private Sector Representative (Other Sectors), ID: 633591-633582-100808143, Date: 18-10-2022
[89]Interview with Academic, ID: 638287-638278-69668473, Date: 13-01-2021

of Khat – Kenya and Ethiopia. When President Farmajo banned Khat from Kenya, Ethiopia became the primary source. Farmajo then positioned his family and relatives as key players in the Khat business. So you can see how politics played together for business'.[90] Similarly, Hassan Sheikh had many business interests, including aid and port construction contracts and oil exploration interests, such that "people in the government were the same as those who owned the businesses. There was a revolving door between the top politicians and the businesses".[91]

The diverse sources of power, however, meant that *opportunities for stable bargains were limited because elites operated with shorter time horizons*:

> Because an awful lot of the time, the revenue was used for patronage and to buy loyalty and votes. The aim was to maintain power in the short term rather than invest the revenue into state structures and institutions, which would develop over the long run. You had this problem of the capture of tax revenue, which led to a vicious cycle of the political elites being unable to raise taxes because people did not want to pay [to a state that could not deliver]. However, because they [the politicians] still wanted to stay in power, they had to find alternate ways to raise money to secure their position and [secure the loyalty of other elites].[92]

Informal taxation from the sector, therefore, served as an important source of political finance and an essential means for securing political power (Majid et al., 2021). Experts noted that such observations aligned with the political marketplace arguments of how political elites survived by distributing rents from tax cuts and informal tax payments in exchange for the loyalty of other elites.[93]

Thus, sector and political elite groups were embedded in highly networked clientelist relationships rooted in shared kinship, political financing needs and investment and business interests. However, given the distributed nature of elite groups (horizontal differentiation), relations between elites were neither very stable nor fixed. Consequently, elites (political and Telecom sector) were incentivised to engage in spot bargaining around taxes, which to some degree, explained the low and negotiated rates of corporate taxes

[90] Interview with Senior Conflict Expert (International Organisation), ID: 638287-638278-79480600, Date: 09-06-2021
[91] Interview with Former Government Official (Ministry of Finance), ID: 638287-638278-67785756, Date: 23-11-2020
[92] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-66721332, Date: 26-10-2020
[93] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-74606672, Date: 01-04-2021

paid by Telecom actors.

7.7 Conclusion

To recapitulate, the political settlement and elite bargain perspectives offer some persuasive reasoning regarding the causal mechanisms underpinning the low and negotiated rates of corporate and income taxes paid by Telecom actors. Expressly, they point to the 'necessary conditions for observing such tax relations'. In particular, the combination of the sectors' powerbroker status and considerable economic holding power within a political settlement where political elites lacked legitimacy (vertical) and were horizontally dispersed allowed the sector to negotiate tax deals that were closed and disordered. Experts also maintained that the debt relief process and the opportunity to earn greater rents offered an incentive for Telecom actors to pay some corporate tax to sustain the image of a formal state. However, even as the sector was willing to pay some tax, the lack of fit between formal and informal institutions meant that efforts at formalising the corporate tax rates under the National Communications Law were resisted, and informal tax arrangements continued to be preferred. Lastly, the interrelationships and close networks between the business and political elites also facilitated the brokering of low and disordered corporate tax deals.

The compelling nature of the evidence supportive of the elite bargaining and political settlement arguments suggested that an alternate set of causal claims may offer little explanatory value, and thereby the underlying hypothesis met the criterion of 'sufficiency'. My interviews with the international experts demonstrated strong messaging to this effect. However, stepping away and listening to the words of Somali interviewees (government and private sector), I was struck by the differences in their narratives. While acknowledging the fragility of the political settlement and the rent-seeking interests of Somali elites, their explanations of tax payments paid more attention to the evolution and growth of the Telecom sector. They argued that an essential basis for why the Telecom actors could assume an asymmetric position was because the industry had evolved independently from formal institutions. However, as the sector grew and faced newer challenges and formal institutions became more institutionalised, there was likely to be a re-scaling of power – to some extent, this was already taking place with the sector beginning to pay some tax. In the words of one expert:"The status quo was not sustainable because the sector had changed and

the government too would likely gain more power. The FGS was going to start exercising sovereignty as a government. That was going to happen and was inevitable. They (the private sector) would get a lot done through bribes. However, not everything".[94] Thus, unlike international experts, who considered business elites to be interested in the state project to the extent to which they could earn rent, Somali interlocutors asserted that there was scope for a more complex relationship.

To some extent, the underlying discourse of such statements reflected an element of posturing, i.e. a desire to project a less politicised image of the country and perhaps in line with the tendency of elite extraversion and 'appropriation' of the rhetoric of statehood. In deploying the language of the state and arguing that state institutions were getting stronger, Somali elites were attempting to maintain the illusion of a more profound elite commitment to state institutions than what existed (Hagmann, 2016). However, heeding Mkandawire (2015) and Behuria's (2022, p. 4) caution of how 'neo-patrimonialism and public choice intellectual trends have contributed to pessimism about the rent-seeking nature of African capitalists and discouraged the study of domestic capitalists and their relations with state institutions', I was encouraged to pay closer attention to claims made by Somali interlocutors.

Particularly, as Behuria (2017) and Doshi and Ranganathan (2019, p. 439) point out, 'the problem is that the preoccupation with the rent-seeking nature of African capitalists ignores how the experience of capitalist transformation in western states attests to the close and 'entangled' relations between state and capital'. 'In all countries, capitalists accumulated their initial wealth through close links with ruling elites and political organisations' (Whitfield et al., 2015, p. 15). Much of this analysis traces back to Marxist theories of primitive accumulation and the 'original' sin of capital – 'processes of politically driven accumulation in the context of capitalist transformation' (Harvey, 2005; Whitfield et al., 2015, p.1 5). However, for Harvey (2005) and Barkan (2013, p. 4), 'public and private power have always bled into each other, and the two are, in fact, 'ontologically linked'. They, therefore, go a step further than Marxists in arguing that there is no such 'original sin' but 'a continuous role and persistence of the predatory practices of primitive accumulation within the long history and geography of capital accumulation' (Harvey, 2005, p. 144).

Political settlement theorists like Khan (2010) and Whitefield et al. (2015) are cognizant of how capitalist

[94] Interview with Senior Development Expert (Somali NGO), ID: 638287-638278-69275840, Date: 15-01-2021

accumulation is more generally sustained through a nexus between state and capital and the central role that state institutions play in facilitating capitalist transformation. Yet, what seems to be missing from the analysis is when and how 'mutual interests' between state and capital develop. For instance, Whitefield et al. (2015, p. 24) assume that 'capitalists almost always have an interest in working with the ruling class'. However, in contexts where capital has survived without state institutions, it is important to explain the evolution of domestic capitalists to understand their relations with state institutions and ruling elites. Thus, in accounting for Ferguson's observation of how 'capital investment can be institutionalised in ways that make it possible to cut the overhead of the state', the task is to explicate the moment and junctures when and how capital needs the state. Doing so can offer critical insights into the broader set of relations, including the nature of fiscal relationships.

Taking into account such considerations, the explanations offered by political settlement and elite bargaining perspectives, while extensive, did not sufficiently capture the tax morale of the sector. In particular, they did not contend with the characteristics and development of the sector and the implications of such changes in defining interactions with the state. In the Somali case, these questions were more pertinent because even though the sector was unwilling to meet corporate tax obligations, it engaged with the state and made other types of tax payments. In the next chapter, I seek to centre the conversation back to the interests of the economic elites and question whether internal changes in the evolution and growth of the sector had a bearing on how it came to relate and also 'invest' in the state project.

Chapter 8

Nexus of State and Capital: Exchange Perspectives

8.1 Introduction

In May of 2021, as the pandemic raged on and international travel remained a distant dream, my fieldwork was restricted to online interviews and discussions with key stakeholders. Occasions for observation were rare, and so when I heard that the Ministry of Planning (MoPIED) was organising an investor briefing for the Telecom sector, I leapt at the opportunity and wrangled an invite.

As I waited to be let into the virtual world, I contemplated the purpose of the meeting. In past interviews, I was repeatedly reminded of the FGS's limited capacity and authority, especially related to the sector. Some experts had gone so far as to assert that the government had little to offer. Any such encounter between the private sector and the state, they insisted, would tantamount to little more than a performative exercise – a piece of theatre directed (for) at external audiences but which bore little likeness to the everyday dynamics between the FGS and the Telecom sector.

Nevertheless, as the list of participants grew and names popped up all over the screen, I recognised some industry representatives among the list. Their attendance was scarcely surprising, but what happened next was more

so. The government representatives from the Ministry of Planning, Communications, Somalia Investment Promotion Office (SOMINVEST) and NCA began by making impassioned presentations highlighting the promise of growth and the reasons to invest in the country. Following the slew of official presentations, the virtual platform unexpectedly yielded to the Head of Corporate Affairs for Hormuud Telecom and the CEO of Dalkom Somalia. In their presentations, the Telecom sector representatives echoed a similar promise of how the country was poised to 'leapfrog to a tech-led, knowledge-based economy if investments were made in basic infrastructure, domestic manufacturing industries, and knowledge networks' (Hormuud, 2021)[1].

At the end of the presentations, the meeting opened up to questions, and government and ICT representatives took turns responding to the various queries raised. The whole affair was rather skillfully managed, and the 'performance' so convincing that a new investor would likely have walked away with the impression that 'the insecurity and fragility of the context had little bearing on restraining the 'sheer industry' of the sector; led by innovative and dynamic players and a supportive and investment-friendly central government (Hormuud, 2021).

Despite my initial scepticism as I logged out of the meeting, I left with a slightly different impression.

Notwithstanding the overarching narrative of a weak government and a strong sector, it seemed there were platforms where the government and sector came together for a common cause. While the shadow of clientelist and rent-seeking relations loomed, something larger seemed afoot. I wondered whether there was space for a broader alliance between the state and private sector forged on a different axis. If so, were there specific leverage points – like investment promotion, which even a weak Somali state could partake in, and did they have a bearing on fiscal relations?

In this chapter, I set out to explore this specific question. In doing so, I delve into the state and capital dynamics to foreground the discussion on state and private sector relations in Somalia. In particular, I interrogate some of the concerns raised in the previous chapter on political settlement perspectives. Namely, how such perspectives were helpful in understanding inter-elite dynamics but tended to do less well in explaining the evolution and growth of the private sector and what such changes could mean for the sector's relationship with the state.

[1]The quote is from the presentation made during the briefing. The page number of the slide is 47.

In subsequent sections, I use the insights emerging from this work and relate them to the models of tax relationships. In particular, I draw on the exchange-based arguments, which re-conceptualise social contract perspectives by contending that even in contexts of weak state capacity, taxes can be paid in exchange for collectively desired returns (Trefon, 2009). However, as argued in the theoretical chapter, given the context's fragility, the exchange terms may not always be reciprocal or stable (Lund, 2016; Sheild Johansson, 2020b). Nevertheless, formal state institutions can assert this right by drawing on the 'state's idea' and practices.

In my conclusion, I weigh the evidence and identify whether the arguments offer a 'sufficient' understanding of the dimensions underpinning the sector's tax motivations. I find that the exchange-based arguments proffered an additional layer of explanation of the Telecom sector's tax morale. Specifically, they provided a better understanding of why sector leads, in particular, paid certain types of taxes – e.g. license payments – and accepted regulatory controls, even as they rejected attempts to formalise and increase the levels of corporate tax payments. However, despite the state's relevance for capital, the competitiveness of the governance arena suggested that informal institutions and norms may have also been prevalent and offered legitimating rubrics. I elaborate on this insight in the final empirical section of this thesis and discuss the extent to which informal institutions overlapped and intertwined with formal state institutions, legitimated the state's right to tax, and had a bearing on the Telecom sector's tax morale.

8.2 State and Capital Nexus

In the previous chapter, drawing on the work of Behuria (2022), Whitfield et al. (2015) and Doshi and Ranganathan (2019), I argued that the entangled and rent-seeking relations between political and economic elites were perhaps also part of a larger dynamic of the close relations between the state and capital. Thus, it was not only that sector and political elites were linked owing to close clan partnerships, personalised relationships and a shared desire to appropriate rents, but there was the possibility of a more intrinsic and structural linkage between the development of 'capital' and state institutions (Doshi and Ranganathan, 2019; Harvey, 2005). Such relations were more likely to be observed as the sector evolved and faced specific challenges, which could be resolved with the help of state intervention. I now turn to some critical

arguments in the political economy and development studies literature to take stock of how close linkages between state and capital, more generally, are thought to emerge.

The state's role in capitalist development has been approached from various perspectives. The Developmental State literature discussed earlier (chapter 6), which rose to prominence in the late 20th century, attributed the 'successful catch-up and development experiences of Northeast Asian countries' (e.g. Japan, Singapore, Hong Kong, South Korea, Taiwan) to a strong interventionist state (Johnson, 1982; Evans, 1995; Behuria, 2020, p. 349). In his seminal work, Evans (1995) identified four prominent roles played by the state, including enforcing rules and laws (custodian role), delivering public goods (demiurge role), encouraging the private sector into more challenging kinds of production (midwifery) and assisting the entrepreneurial groups in meeting challenges encountered (husbandry). Similarly, Kohli (2004) underscored the significance of state-business relations in industrial development, highlighting how states that were able to perform such roles were those that had sufficient capacity[2] but were also "embedded" in a dense network of ties to societal allies (e.g. in the private sector) with 'transformational goals' (Kohli, 2004; Evans, 1995, p. 219).

More recently, drawing on theories of Marxist political economy, scholars like van Apeldoorn et al. (2012) go a step further and offer a more cohesive and structural explanation of the nexus between state and capital as part of a more 'generalised set of social relationships and a broader system of economic production' (Bernat and Whyte, 2017, p. 75). As discussed in chapter 3, they underscore how state power cannot be abstracted from the private power of capital, defined as the processes of capital accumulation and circulation that are hegemonic and dominant in shaping the material, social, and intellectual basis for social life (Harvey, 2014, p. 24)."The capitalist state, therefore, depends upon successful and sustained capital accumulation, both to finance its activities and for the legitimacy of its power" (van Apeldoorn and de Graaff, 2022, p. 309). Conversely, 'the state—despite appearances to the contrary is also essential for the reproduction of the capitalist system, even in its most liberal mode' (van Apeldoorn et al., 2012, p. 473). Thus, while acknowledging some of the similar roles and functions of the state as proposed by the Developmental State literature, International Political Economy (IPE) perspectives present a more nuanced conceptualisation

[2]Includes the political organisation of the state as well as its bureaucratic capabilities (Kohli, 2004).

that allows for studying the changing dynamics of state-business relations[3](van Apeldoorn et al., 2012; van Apeldoorn and de Graaff, 2022). In particular, they emphasise four particular roles:

The first is the state's role in **market creation**, which includes the institutional structures and political conditions necessary to re-establish and generally ensure the effective functioning of the market, including the market for labour, land and money (van Apeldoorn et al., 2012). While markets pre-exist capitalism, 'the latter system involves what Polanyi (1957, p. 1) called the subordination of 'the substance of society itself to the law of the market', 'a process historically brought about by the state' (van Apeldoorn and de Graaff, 2022, p. 310). The idea of the self-regulating market is, therefore, described as a utopia – as 'the state has always played an essential role in establishing capitalism and creating the institutional preconditions needed for capitalist markets to arise and develop' (Polanyi, 1957, p. 68). For Harvey (2005), market-creating preconditions entail the 'inclusive' institutional structures of law, private property, security, contract and regulatory standards (what Evans (1995) describes as the custodial role of the state), supply of collective goods (the demiurge role of the state) along with the arrangements for the acquisition and the privatisation of assets, i.e. primitive accumulation.

In the neo-liberal era, Hilger (2012) argues that to support the myth of spontaneous market creation, the significance of the state in correcting the natural phenomena that hamper competition (e.g. the creation of monopolies or price instability) is even more pronounced. He proposes that rather than calling for a rollback of the state, neo-liberalism requires a 'strong state' that can engender pure competition (Hilgers, 2012, p. 81). Thus, as Mazzucato (2019, p. 232) notes, 'the government, therefore, did not distort the market but created the market; the road to the free market was opened and kept open by an enormous increase in continuous and centrally organised controlled interventionism'.

Along with creating the ideal market conditions, the state also supports capital by mitigating and correcting (**market correction**) some of the destructive social effects of capitalist development, which ultimately 'function to avoid capitalism's collapse under the weight of its contradictions' (van Apeldoorn et al., 2012, p. 475). Polanyi (1957, p. 76) previously referred to such activities as the 'double movement': "while on the one hand, markets spread all over the face of the globe, and the number of goods involved grew to unbe-

[3]In particular, these perspectives do not only focus on mutuality and reciprocity but also demonstrate how the state corrects for some of the destructive effects of capital development to sustain the overall system of capitalist accumulation.

lievable proportions, on the other hand, a network of measures and policies were integrated into powerful institutions designed to check the action of the market relative to labour, land, and money". More recent examples of market correction include redistribution of income via progressive taxation, social policies associated with welfare and efforts directed at de-commodification, i.e. the conversion of private goods to public goods (van Apeldoorn and de Graaff, 2022).

Additionally, the state can take on a more direct role in market correction by directing and supervising capital accumulation (**market direction**). In such instances, the state plays a role in directing processes of capitalist accumulation: 'Seeking to foster, guide and direct capital accumulation by taking up a role of its own as an agent of capital accumulation' (Polanyi, 1957; van Apeldoorn et al., 2012, p. 475). As Evans (1995, p. 13) notes, 'in place of substituting itself for private producers, the state tries to assist in the emergence of new entrepreneurial groups or to induce existing groups to venture into more challenging kinds of production'. A variety of techniques and policies may be utilised, such as erecting a "greenhouse" of tariffs to protect infant sectors from external competition, introducing subsidies and incentives as well as setting up state organisations to take over risky complementary tasks, such as research and development (Evans, 1995, p. 13).

Lastly, the state can also represent the **external interests of 'domestic' capital**, 'ranging from direct commercial support to domestic firms (import levies, export subsidies, conditionalities imposed on aid recipients, etc.), the practice of economic diplomacy to the forceful protection and promotion of business interests abroad (application of military power)' (van Apeldoorn et al., 2012, p. 474). Although for some, this role of the state overlaps with the other three roles, for van Apeldoorn and de Graaff (2022), it needs to be distinguished as it involves the 'state serving as the protector of 'its' capital on the world market'. As Tilly (1985, p. 175) also previously noted, 'one of the core activities of states is to protect merchants and capitalists by protecting them against 'outside competitors'. Further, the external role of the state also relates to Cox's (1987) observation that despite the shift towards globalisation, the hegemony of the nation-state continues, and the state remains a crucial arbiter and guarantor of capital (cited in van Apeldoorn et al. 2012).

Alongside, IPE perspectives acknowledge that there are various institutional arrangements through which capital is governed – what Twijnstra (2014) has described as the patterns of 'real economic governance'. In

the words of Harvey, 'molecular processes of capital accumulation create their networks and frameworks of operation over space in innumerable ways, using kinship, diaspora networks, religious and ethnic bonding, and linguistic codes as means to produce' (Harvey, 2005, p. 90-91). Nevertheless, they maintain that "the preferred condition for capitalist activity is a bourgeois state in which market institutions and rules of the contract are legally guaranteed, and where frameworks of regulation are constructed to contain class conflict and to arbitrate between the claims of different factions of capital" (Harvey, 2005, p. 91). Formal state institutions, therefore, serve a particular function for capitalist development and are necessary for capitalism's growth and survival.

Thus, despite detailed expositions, IPE perspectives tend to subscribe to what Hagmann and Péclard (2010, p. 2) describe as the 'Weberian ideal-typical notions of a state'. In particular, there is an implicit assumption of a state with a monopoly over the means of coercion and sufficient capacity to correct market imperfections, play a more direct role in capital accumulation and serve and defend the interests of domestic capital on a world stage. As argued previously (chapter 3), such notions of the state tend to be conceptually problematic and empirically constrained as they rarely map onto the experiences of fragile contexts like Somalia.

Taking into account such considerations, the pending question was whether the nexus between state-capital contingent on a particular conception of the state. If absent, would it mean abandoning the whole project of observing state and capitalist relations in contexts of fragility? Moreover, could such perspectives be appropriate in fragile situations where private sector development was still relatively emergent? In the next section, I apply the IPE perspectives to the Somali case and investigate if, despite the fragility of the context, the state, both materially and ideologically, continued to be relevant for capital.

8.2.1 State and Capital in Fragile Contexts

Before delving into the state-capitalist nexus in the Somali case, I reprise and consider how 'capitalist' framings came to be relevant, given the private sector's relative nascency and the continuing challenges to capitalist accumulation (Nenova, 2004). As discussed in chapter 4, the ideological commitment to a capitalist development model stemmed from the historical experience of state authority and the concern with avoid-

ing the pitfalls of the past. Namely, it was during the socialist government of Siad Barre (1970s) that private sector actors became particularly disenchanted with state intervention in the economy. The disenchantment was further cemented when it became clear that attempts by the state to liberalise the economy (in the mid-1980s) had also failed. The collapse of the Barre regime in 1991 not only reinforced the notion that the ultimate path to development was capitalist but confirmed that private sector development could survive and thrive in the absence of the state (Hagmann, 2005, p. 535). While market failures abounded, 'the vanishing of state institutions' (Mubarak, 1996, p. 2030) was widely touted as "unleashing free market capitalism" and achieving what 'structural adjustment had failed to bring about – privatisation of the economy' (Hagmann, 2005, p. 535).

The accreditation of the post-war economy to the deregulated and laissez-faire liberal markets (Musa and Horst, 2019) was also linked to the triumph of the neo-liberal order following the collapse of the Soviet Union (Wiegratz, 2019; Chitonge, 2018). The resultant impact was that even as capitalist relations reminiscent of the Western paradigm – the separation of the 'direct producer' from the means of production – continued to be absent, 'there was plenty of capitalist investment and surplus extraction' going on in Somalia (Goodfellow and Owen, 2020, p. 257). Thus, similar to broader regional trends, Somalia shared many of the features of capitalism that emerged in the African context – 'a concentration of power and control in a few corporations, highly unequal distribution of resources and wealth, and the exploitation of the majority by the capitalist class (internal contradictions)' (Chitonge, 2018, p. 161).

However, even as laissez-faire models imbued private sector understandings in Somalia, the nascent reconstruction and expansion of Somalia's economic and financial infrastructure in a business context that was increasingly globalised and internationalised gave rise to a new set of challenges which could not be easily overcome through a 'free market approach' (Hagmann, 2005). In this context, a gradual shift from 'state avoidance' to a tentative acknowledgement of the state's role in capitalist accumulation emerged (Hagmann and Stepputat, 2016, p. 21). Specifically, several interlocutors acknowledged that while the current Somali government 'did not look like the UK', the 'state' was 'necessary' for private sector development. Similar to the framing of IPE scholars, private sector actors described how the state was crucial for creating the institutional and political preconditions necessary for 'market creation':

> The government sets up the intuitions that help the private sector grow. We [the sector] need an environment with dynamic and up-to-date regulations. Companies need to be innovative, and the government supports and helps the investments, particularly foreign ones.[4]
>
> We cannot survive without the government – we need it to engage other countries. If we want to join GSMA[5], we have to get a letter from the Ministry. We need the government to be part of the institution's dialogues and platforms. Earlier, the sector was accorded the special case, and the Somali Telecom Association was recognised, but this can no longer continue.[6]

Similarly, public sector specialists noted that although the Telecom sector had prospered in the absence of formal state institutions, "In the long run, it would be in the private sector's interest to have a state. Because the state would bring about stability, access to international markets, and investment, which [all] businesses need".[7]

In the theoretical section of this thesis (see chapter 3), I proposed that a different definition of the state concept was needed to accommodate the state's strong pedigree with the context's fragility. In particular, I argued that, like Bourdieu (1994, p. 4), it was imperative to imagine the state as 'a culmination of a process of concentration of different species of capital' – including primarily economic capital. Because the state represented a concentration of capital, it possessed meta capital granting power over other species of capital and their holders. Therefore, the state was a field of power, where holders of the different species of capital competed for power over the state and the 'statist capital' granting power over the different types of capital and their reproduction. Thus, even if the state domination was shaky, such as in contexts of fragility, control over the state and its capital-granting power was the central axis along which the struggle for power took place.

Furthermore, as Migdal and Schlichte (2016, p. 15) have also stressed, the state's power was shaped by the 'image' of a coherent and controlling organisation and territory and the actual 'practices' involving those staffing its multiple quarters. However, the image and practices of the state could run counter to

[4] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-78491856, Date: 20-05-2021
[5] The GSMA is a global organisation unifying the mobile ecosystem to discover, develop and deliver innovation foundational to positive business environments and societal change.
[6] Interview with Senior Telecom Representative (Telecom Association), ID: 639281-639272-101270064, Date: 31-10-2022
[7] Interview with Public Finance Specialist (International Organisation), ID: 638287-638278-65701286, Date: 28-09-2020

one another. If the state had limited capacity, the reification of the state as a dominant and integrated autonomous entity could continue. Thus, even in contexts of fragility, where the state was not a coherent entity with a monopoly over the means of coercion, there was conceptual room to imagine how the state idea could be relevant for capital. Further, the state's 'symbolic or ideational' benefits also had a material dimension, i.e., states, even in these contexts, needed to perform specific functions. However, the benefits for capital likely resided in the symbolic and legitimation work these material practices generated.

Moreover, because the state was critical for capital (as argued by IPE perspectives), it would suggest that private sector actors could conceivably associate with the state project and come to invest in it by paying taxes and contributing to its extractive capacity. Indeed, interviewees observed that the FGS continued had some bargaining power, and most spoke of tax payments as a form of 'exchange' between the FGS and the Telecom sector.

> The state had some bargaining power. That is partly what the international community gave the state. We [the international community] gave the state some legitimacy, formality, financing and the ability to have some security and stability. We also told them that we are investing in the state long-term. The state could, therefore, set the tax rate, and they could provide some services in return.[8]

> There was a need to know and provide something. The tax would likely increase when the government provided something. They [the sector] expected that something [some services] would be provided. This varied by the type of goods, but they needed to see something. Private or club goods either were okay.[9]

At the same time, observers also noted that the nature of the bargains was not stable or entirely reciprocal as predicted by social-contract perspectives. In the words of one private sector representative:"The company, like any other taxpayer, expected accountability and transparency from the political establishment. However, did we get this in return? That was the question".[10] Similarly, a former UN official observed that the government's ability to tax was dependent on its capacity to deliver services:

[8]Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-66721332, Date: 26-10-2020
[9]Interview with Public Finance Specialist (International Organisation), ID: 638287-638278-65701286, Date: 28-09-2020
[10]Interview with Senior Telecom Representative (MNO), ID: 633591-633582-70725921, Date: 25-01-2021

> There was a limit to how much they (FGS) could tax if they did not provide services and security. They did not have a fundamental social contract. They could tax businesses and state infrastructure they controlled, but there was a limit that they were probably hitting.[11]

To reconcile how taxes could be paid as an exchange, despite the contract's extremely weak terms, I explore the relevance of three underlying mechanisms in the next section. Specifically, I interrogate whether taxes were exchanged for recognition of the legitimacy of the sector both internally but also externally (external interest of domestic capital), for collectively desired goods and services, such as basic infrastructure, regulation and security (market creation) or for a sense of belonging to a state and imagined community. This last point detracts from the political economy literature, which emphasises the more material ways the state-capital nexus may manifest. However, as Bourdieu (1994) and Migdal and Schlichte (2016) point out, the image of the state is also critical in shaping the 'field of power' exercised by the state. Therefore, preserving this image may be salient for the capital–granting power of the state.

8.3 Collective Goods and Services

In the theoretical section, one of the essential insights proposed by Trefon (2009) was how certain services require specific administrative and technical actions that only the state can fulfil, even in cases where the state's capacity is notably weak. Thus, taxpayers tend to reinforce the state in these areas, helping it reproduce itself (Trefon, 2009, p. 12). Taxes are, therefore, paid in exchange for specific goods and services requiring state intervention.

In the Somali case, peace and stability were essential collective returns. Several scholars have noted the significance of peace and security for business and how the business class had 'come to have a stake in a stable society that could offer skilled labour, law and order, credit schemes and low transaction costs' (Webersik, 2006, p. 1477). Nevertheless, while businesses desired peace and stability, there were some concerns if formal state institutions were necessary for economic growth (Menkhaus, 2007a). For interlocutors subscribing to a political settlement and elite bargain perspectives, state-building had become de-conflicted

[11] Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-71718021, Date: 08-02-2021

from peace-building; i.e. while the private sector preferred some level of peace, the 'state' was a lucrative project but not a desired outcome (Menkhaus, 2007a).

Previously (chapter 6), I discussed how, although the Telecom sector emerged in the absence of formal state institutions, as it grew and evolved, certain collectively desired goods and services, such as security, infrastructure and an enabling environment for investment, could no longer be provided through private interventions alone. Such findings relate to observations within the broader field of development economics on the state's role in economic transformation (Evans, 1995; Kohli, 2004; Behuria, 2020; Whitfield et al., 2015) and the assertions made by IPE scholars who identify the more structural ways in which the state has contributed to 'establishing capitalism and creating the institutional preconditions needed for capitalist markets to arise and develop' (Polanyi, 1957, p. 68). The question I later posed (chapter 6) was whether a fragile state like Somalia could provide such returns and whether such explanations underlaid the sector's tax morale.

In my interviews with Telecom operators, there were repeated references to 'returns' from the state, which suggested that the state was both lucrative and desired by Telecom actors. The specific returns mentioned included a stable regulatory requirement, infrastructure investments, and the protection of Telecom assets and personnel. In the following sections, I elaborate on these returns and discuss how they relate to the incentive for increased tax contributions.

8.3.1 Stable Regulatory Environment

Despite the considerable sway the lead actors in the Telecom sector came to exercise in drafting the NCA legislation, among both government and private sector interviewees, there was an assertion that the *sector had evolved to a place where some level of regulation was necessary*. In the words of one NCA representative:

> The operators had been operating for many years without any oversight. They had reached a point where anything more they wanted to do and any innovations they wanted would require some level of governance. Because we had so many operators coming up all the time who all wanted to use spectrum. So if they [Telecom sector operators] wanted to use spec-

> trum, they would want someone to organise that for them because they could not do it alone. Anything they wanted to do from now on would need government support. Previously, the Ministry did give clearances, but there was no coordination of spectrum, and it was used on a first-come, first-serve basis.[12]

While spectrum coordination was a challenge, the operators had developed alternative arrangements, as previously discussed (See chapter 6). Hormuud, in particular, had played a leading role in determining the spectrum allocation among the different operators. While workable, the system was not optimal. The Internet Service Providers (ISPs) struggled to reduce the interference on their networks and desired greater regulation to level the playing field. For Mobile Network Operators (MNOs) like Hormuud, the risk of spectrum interference was less problematic. Instead, a more pressing *reason for regulation was the need for an enabling environment for investment*.

The specific link between regulations and investments has been borne out in research and resonates with the IPE perspectives, which point out that rather than 'strangling' or constraining capital, regulatory standards are necessary for market creation. Specifically, by facilitating competition and creating a more predictable operating environment, regulations encourage greater innovation (Aghion et al., 2005), lower transaction costs (North, 1981) and create opportunities for greater investment. Based on a cross-country study, Katz and Jung (2021) find that regulatory and institutional frameworks have been linked to positive and significant increases in Telecom investment.[13]

In the Somali context, the *link between regulation and investment became more pronounced during the Public Private Dialogue (PPD)* process for the institution of the NCA. During these dialogues, government and the World Bank representatives emphasised the significance of regulations in widening the scope of investment opportunities for the sector and ensuring access to international markets. The PPD Concept Note (2017, p. 4-5), also mentioned 'how along with the legal force of the law to settle disputes and interconnection agreements, regulations would improve investment opportunities for the sector and

[12] Interview with Government Official (National Communications Authority - Interconnection), ID: 638286-638277-73977930, Date: 10-03-2021

[13] For instance, after two years of implementation of a universal licensing framework – similar to the one adopted in Somalia – mobile investment on average increased by 10%, network coverage improved by over 9%, prices reduced by over 5% and mobile penetration rose by over 2%.

strengthen their ability to negotiate mobile roaming agreements[14] with international carriers'. Both were difficult without internationally accepted licenses issued by a formal regulatory authority (Federal Government of Somalia, 2017). In the words of one senior NCA official:'The law would benefit operators and allow them to make agreements with other countries, such as Kenya, Rwanda and Ethiopia, establish interconnection agreements with carriers in these countries and expand their market access'.[15]

Interlocutors also contended that sector leads agreed that licenses would ensure greater 'certainty' for their investments.[16] Since, Telecom require a large amount of irreversible and risky investment, a level of certainty was needed to increase the rate of return that investors could appropriate (Svensson, 1998). "What licensing does is that it says that this operator has met these terms and allows them to provide this service. However, it also signals to investors that these are legitimate businesses, and this gives confidence to local and foreign investors".[17] NCA officials, in particular, emphasised that although the Telecom operators had been operating in a reasonably uncertain environment and had benefited from the lack of regulation, the absence of formal regulations had constrained their capacity to raise capital and promote investment. As experts explained:

> Regulation would reduce the level of uncertainty and encourage investment. It was a considerable risk to invest millions of dollars and not have certainty. By issuing licenses, investors would be ready to make longer-term investments because they could be assured that the company was a recognised entity.[18]

Moreover, some international experts also made an *explicit connection between the increase in tax payments by the Telecom actors and the need for greater regulations*. For instance, experts stressed that the private sector was convinced of the need for the regulation and the commensurate tax increases which would

[14] International roaming is a service, which allows a mobile user to continue to use their mobile phone while visiting another country. The service is facilitated by an agreement between the Home Operator and the visiting country operator (GSMA, 2012).

[15] Interview with Senior Government Official (Ministry of Communications and Technology - Public Infrastructure), ID: 638286-638277-74501691, Date: 30-03-2021

[16] Interview with Senior Government Official (National Communications Authority - Regulation), ID: 638286-638277-72707291, Date: 05-03-2021

[17] Interview with Telecom Expert (International Organisation), ID: 639281-639272-73333840, Date: 16-03-2021

[18] Interview with Senior Government Official (National Communications Authority - Operations), ID: 638286-638277-83340182, Date: 10-09-2021

follow because of the benefits of regulation. Thus, even as they resisted the movement towards a formalised and assessed corporate taxation system, they agreed to pay some tax (and regulatory fees) because of the (prospective) returns they could expect from regulations. As one expert explained:

> They needed to reassure international donors and investors with regulation. The payment of this taxation was related to the enormous capital challenge. Because, again, while the capital raised through Hawala companies could meet the demands and needs of households when it came to significant investments, there was a need to go a step further. There was a need to reassure international investors that they could put money in Somalia. The regulation was, therefore, a necessary interface with the rest of the world.[19]

Telecom representatives also agreed that legal certainty from the state was essential for encouraging investment, especially for larger local and international projects. During the PPD (2017), for instance, private sector actors acknowledged that without these laws and regulations, foreign investment would be more difficult.[20] Similarly, Somali political economy analysts reflected that the Telecom actors they spoke to agreed that "the sector, as a whole, would gain access to finance if there was a regulatory financial body. Because they [the sector] did not have a government that could set these frameworks, they were limited in their role".[21]

Along with encouraging foreign investments, Telecom representatives asserted that domestic providers also needed certainty to invest in larger projects, like the national backbone and the optical fibre network.

> You needed significant investment for investments in larger projects such as fibre optics, where we spent millions of dollars. That hardship would not fall on one investor if greater legal certainty existed. Before the regulations, investors did not know their rights or had no government institution to protect them. Consequently, investors were not willing to invest. Legal certainty was crucial. Companies needed to know what rights they had and what protections

[19] Interview with Academic, ID: 638287-638278-78095464, Date: 14-05-2021
[20] Interview with Senior Private Sector Development Expert (Multilateral Organisation), ID: 639281-639272-73538050, Date: 17-03-2021
[21] Interview with Senior Conflict Expert (Bilateral Organisation), ID: 638287-638278-100874768, Date: 20-10-2022

they had, and these protections needed to be real.[22]

Nevertheless, while legal certainty was seen as necessary for some of the smaller players, for larger operators, the Somali state's considerable weaknesses in guaranteeing such certainty, combined with their active resistance to stronger regulatory standards (the independence of the NCA and spectrum licensing), suggested another latent rationale. Specifically, *regulatory licenses also lent a degree of formality which could be leveraged to improve competitiveness in international markets*.[23] Telecom licenses had specific value in international markets because they signalled legitimacy for Telecom businesses. In doing so, they also created differentiation in status and therefore increased the value for some businesses making them more competitive internationally, e.g. for roaming agreements (but also domestically). The increased competitiveness could then be leveraged to mobilise investments from foreign players, like international organisations, which were more likely to collaborate with established and licensed businesses.[24] Thereby, the particular leverage regulatory licenses offered to larger players was not only legal certainty but the extent to which the licenses could strengthen the competitiveness of their businesses on an international stage.

Thus, regulatory standards and licenses issued under the NCA were collective goods in exchange for which the sector was willing to pay some taxes. For the smaller players, the regulations were more significant for ensuring coordination and levelling the playing field. Among the larger operators who benefited from maintaining a monopoly position, the regulations were critical for encouraging foreign and domestic investment, establishing agreements with foreign carriers around international roaming and increasing the competitiveness of their businesses. However, while the sector was willing to pay some types of tax, given the political economy dynamics, the movement towards an assessed corporate and income tax system proved difficult. In the words of one Telecom expert – "[for the sector], the advantages of having a license outweighed the advantages of paying a negotiated tax, but the payment of a negotiated tax outweighed the advantage of paying an assessed tax".[25]

[22] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021
[23] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021
[24] Interview with Senior Private Sector Development Expert (Multilateral Organisation), ID: 639281-639272-73538050, Date: 17-03-2021
[25] Interview with ICT Expert (Multilateral Organisation), ID: 639281-639272-68801218, Date: 08-12-2020

8.3.2 Infrastructure Investment

Another essential type of collective return identified by interlocutors was infrastructure, both public goods and (Telecom) sector-specific goods. As previously discussed, as an 'infrastructure-heavy industry', the *sector required a range of public goods*– including transport networks, electricity, and technical and educational institutes, to name a few. The sector also faced specific constraints from the limited availability of sector-specific goods – primarily a national backbone network– necessary for expanding broadband connectivity. At the same time, most interlocutors admitted that, in general, the capacity of the Somali state to deliver specific public goods was relatively limited. However, similar to Trefon's (2009) point, they noted that the sheer demand for goods was relatively high. Furthermore, if the government completed the debt relief process, the prospects for improvements in the delivery of specific infrastructure goods would be higher (van den Boogaard and Isak, 2021), and together these factors could explain the sector's incentive to pay taxes.

Private sector specialists especially observed that *even though there were considerable returns to investment, the cost of doing business was very high* in Somalia.[26] Consequently, "on the part of the private sector, there was a reckoning of having a state and the economy. If they did not pay taxes, then the government would not have the revenue to grow and develop the type of [human and infrastructural] capital needed to develop the sector".[27] Thus, as 'dysfunctional as it was, a dialogue emerged between the private sector and the state'.[28]

Observers also noted that one reason for the lack of financial investment was that Somalia had been disqualified from certain types of international financial assistance after the country had defaulted on outstanding facilities and commitments to various sovereign creditors and international agencies (World Bank, 2023). The completion of the HIPC debt relief process, which would increase the country's access to concessional loans from multilateral and bilateral lenders, would allow the government to increase its spending on public infrastructure.[29] As one senior public finance official explained:

[26] Interview with Telecom Expert (International Organisation), ID: 639281-639272-74159571, Date: 28-03-2021
[27] Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-72103485, Date: 22-02-2021
[28] Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-72103485, Date: 22-02-2021
[29] Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020

> Till now, the World Bank and AFDB have been relying on donor funding and giving smaller amounts to the government. However, with the HIPC process, they [the FGS] could access concessional financing through the International Development Association (IDA) and other sources explicitly meant for fragile countries. The government would then be better positioned to finance larger infrastructure projects they did not have the money to finance earlier. Then as the government became better and bigger, they would be able to gain access to larger loans – needed for funding capital-intensive projects.[30]

World Bank officials also noted that following the *achievement of the decision point, access to donor financing had increased,* and while most of the expenditure was directed towards social spending on health, education, and cash transfers[31] (World Bank, 2021a), there were several other large projects in the pipeline directed at improving the delivery of services.[32] As previously noted in chapter 5, capital expenditure, while non-existent in 2013-14, steadily increased to account for 4% of total expenses in 2020-21. Similarly, Telecom sector representatives were hopeful that the government's ability to invest in large projects would substantially increase following the completion of the debt relief process:

> The HIPC decision point would provide access to funding and allow the government to undertake big infrastructure projects to jump-start the economy. The FGS could then access these new funds offered by development finance institutions like the World Bank and IMF. In the next two to five years, we would see a government that could access these funds and the US$ 9 billion dollars from the African Development Bank for infrastructure spending. This was very good news![33]

Moreover, the sector, which had not received any significant aid for most of the duration of the conflict, including promised African Development Bank assistance (World Bank, 2023), expected that following the *HIPC process, opportunities for investment in sector-specific infrastructure* would also improve. For instance,

[30] Interview with Former Government Official (Ministry of Finance), ID: 638287-638278-67785756, Date: 23-11-2020
[31] Expenditure on these social benefits accounted for 13% of total FGS spending in 2020.
[32] Interview with Public Finance Specialist (Multilateral Organisation), ID: 638287-638278-101191014, Date: 28-10-2022; Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-101308422, Date: 01-11-2022
[33] Interview with Senior Banking Representative, ID: 633591-633582-77480353, Date: 25-05-2021

Telecom experts acknowledged that the companies could not develop a national backbone for broadband without funding from the government and the international community: 'Alot of investment was required to bring the submarine to the landing station and create a national backbone; there were huge investments involved. So even if Hormuud was a big company, they could not fund the network on their own'.[34] Moreover, the government was only likely to have access to such funding following the conclusion of the HIPC process (Albany, 2017). Similarly, it was understood that international financial institutions would only back such an initiative once the country completed the process and there were stronger guarantees regarding the Somali government's stability and overall macroeconomic position.

> The only way the companies could build the infrastructure would be with the government's intervention. A public-private partnership was the only option. Moreover, there was much potential if the national backbone was developed. Somalia could become a hub for the region owing to its long coastline. It could sell broadband access to landlocked countries like Ethiopia. Somali Telecom companies could, therefore, really benefit if they worked well with and empowered the government.[35]

International observers remarked that the *sector's willingness to pay taxes was evidence of its interest in ensuring that the FGS could meet the HIPC benchmarks* and access the financing needed to fund infrastructure projects. Thus, even as maintaining the 'illusion of the state' was possibly a crucial dynamic that underlaid the sector's incentive, the sector had nevertheless shown incredible solidarity in helping the government raise the required amount of domestic revenue, which was no small feat.

> I was always surprised when the government needed to commit to the World Bank to show that it was doing its part and raising taxes and meeting the requirements of the HIPC; it always managed to raise the right amount of money. Somalia has been, in many ways, a poster child for achieving the HIPC decision and making payments. Many other countries have

[34] Interview with Telecom Expert (Multilateral Organisation), ID: 639281-639272-69536914, Date: 27-01-2021

[35] Interview with Government Official (National Communications Authority - Regulation), ID: 638286-638277-82611225, Date: 23-08-2021, Interview with Senior Telecom Representative (Telecom Association), ID: 639281-639272-101270064, Date: 31-10-2022

> failed and have not achieved what they wanted to achieve. Somalis, in contrast, had completed the decision point and were now entitled to borrow from the World Bank and other organisations. They were back on the side of the international community, and the private sector very much cooperated with the government in achieving the HIPC status.[36]

Indeed, the IMF staff monitoring programme (overseeing the debt relief process) noted that *although corporate tax payments continued to be negotiated, the sector had come forward and helped the government meet its revenue shortfall* (FGC, 2019). In 2019, the Telecom license fees earned the government US$ 8.7 million (World Bank, 2021b), 'and contributed to an underlying positive trend of boosting domestic revenues' (Kelly et al., 2021). Moreover, as previously discussed, while some saw such payments as 'windfall payments that were irregular and unstable' [37] and only served as tactics of elite extraversion (see Chapter 7), Financial Governance Committee representatives pointed out that license payments were known to be lumpier and frequently used to meet budgetary shortfalls:

> The crucial thing to understand was that any country facing a cash crunch problem could be forgiven for looking for solutions, whether those solutions were for meetings, quarterly benchmarks or salary payments. Asking these companies to make these payments to meet the shortfall in the budget was common. I do not think this money was a temporary loan then. The expenditure procedure through the Central Bank and the government were quite clear. I have not been made aware of large payments entering the consolidated funds and then going back out in an irregular manner".[38]

Thus, along with a regulatory environment, the possibility for more significant infrastructure investments also offered a type of 'return' in exchange for which the sector was willing to pay certain taxes. Observers noted that the sheer demand for public goods like roads, power, and sector-specific infrastructure could explain why Telecom actors were encouraged to make tax contributions. Moreover, the impulse for these

[36] Interview with ICT Expert (Multilateral Organisation), ID: 639281-639272-68801218, Date: 08-12-2020
[37] Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020
[38] Interview with Senior Advisor to Government (Finance Governance Committee), ID: 638286-638277-72609532, Date: 17-02-2021

payments was likely driven by the prospect that the government's access to funding would increase with the completion of the debt relief process. Thus, while the sector was set to benefit from the tactics of elite extraversion, there was also the possibility that the returns would accrue in the form of infrastructure improvements (which would undoubtedly benefit the larger players).

8.3.3 Security

In the chapter where I trace the fiscal history of the Somali state, I noted how the private sector had, at various stages, supported different types of public authorities to secure a modicum of stability. Telecom actors were among the critical actors who supported such efforts. As Ahmed (2015) has noted, they agreed to pay taxes to the ICC primarily as a calculated strategy to create a more stable environment for business. Once the ICC fell, Telecom businesses invested in developing a vast private security apparatus to protect their assets. However, maintaining a private security apparatus was expensive and insufficient to resolve the various types of threats experienced. Interlocutors pointed out that sector leads were encouraged to pay taxes to the government due to the continuing security challenges. However, as with the other forms of collective returns, there was a recognition that while their capacity was nevertheless weak, backed by AMISOM forces, the FGS was a counterweight to the threat posed by AS. Moreover, because the FGS was the internationally recognised authority, there were specific steps that only the government could take to protect the sector's interests.

For instance, observers reflected that the *sector had begun paying taxes to the FGS because of the security problems and the common security challenges they experienced*.[39] International experts suggested that even the larger actors – like Hormuud also experienced such challenges. They had begun to pay taxes even before the Telecom Law was instituted because of the insecurity of the context and the specific threat posed by AS:

> The business actors supported the government but did so to the extent that it coincided with their interests. For instance, Hormuud began paying taxes to the FGS even before the Tele-

[39] Interview with Senior Government Official (Ministry of Communication and Technology - ICT), ID: 638286-638277-82855115, Date: 26-08-2021

> com Bill. There was much support between the two. They did so because Hormuud struggled a lot with AS and saw the government as one of the best ways to deal with the threat.[40]

In particular, *the types of security challenges that the government could play a role in addressing included protecting Telecom masts from being attacked by AS*, but also AMISOM Forces.[41] As previously noted, the insecurity of the context meant that the operators had reduced access to basic infrastructure and suffered high costs associated with damages to their lines and disruption of their networks. The cost of rebuilding a tower could range between US$10,000-100,000, and the repair could take up to two months, causing loss of revenue and hardship to the local population who were cut off from the network (Lange, 2020). In the words of one expert:

> The story that I have heard is that Hormuud struggled with AS's presence. They saw the federal government as a way of dealing with that. They were willing to fund the government to establish security in the areas where they were operating. They wanted the government to be stronger to address the security situation. AS had been destroying their antennas or shutting down their antennas, and they were hoping for a way out.[42]

Similarly, government experts noted that the *Telecom operators were also concerned about AMISOM forces destroying their masts* and lobbied for the government to take action on their behalf.[43] In January of 2022, Telecom towers were reportedly destroyed by military airstrikes in the Juba region. This incident was preceded by a previous attack (2019) on Hormuud cell towers in the Gedo region by the Kenyan Defence Forces (KDF) serving under AMISOM (Dahir, 2019; UN, 2019). In response to these attacks, the Ministry of Defense issued a strongly worded statement condemning the violence and expressing its disappointment for the harm done to the company for the loss of its business (Xinhua News, 2022). According to reports, the government also investigated the military airstrikes. It raised the matter with the AMISOM authorities and the Kenyan government, whose forces were among those implicated in the attacks.

[40] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[41] Interview with Telecom Expert (Multilateral Organisation), ID: 639281-639272-69536914, Date: 27-01-2021

[42] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[43] Interview with Senior Government Official (Ministry of Finance - Policy), ID: 638286-638277-69292696, Date: 10-01-2021

However, tax experts argued that *even as the sector was willing to pay some tax, the terms of the fiscal contract were not stable*. 'The tax payments were an outcome of a process of bargaining. The bargain was that the sector did not pay the full tax. Both parties agreed upon the amount. However, the dynamics were subject to change. If the security situation improved, the companies would likely engage in further negotiations with the state'.[44] Bargains of this nature were not only likely because the sector held an 'asymmetric position' but also because the capacity of the state was considerably weak. There was less certainty that the state would be able to serve as a 'credible counterweight to the AS', especially in the short term:

> At the same time, there was probably the idea of buying into [the state], but they were also practical. They wanted to see more from the government. With a lot of taxes, it is also a leap of faith. Because it is a social safety net and bargain. In Somalia, people were less willing to take that leap of faith. But, I think the important part was that it was a negotiation, and for the sector, it was not a significant proportion of their earnings, and thus they were willing to take a leap of faith.[45]

Therefore, a third important form of return in exchange for which the sector was likely encouraged to pay some tax was the insecurity of the context. While the government, as previously argued, did not have the authority or the capacity to counter the threat posed by AS directly, the backing of the international community and the AMISOM forces lent the FGS some credibility and offered a few points of leverage, which the sector was willing to invest in by taking a 'leap of faith'. Specifically, for a sector struggling with the cost of maintaining its private security apparatus, there was an interest in 'outsourcing some of the security provisioning to the FGS'. The FGS could potentially serve as a counterweight to the threat posed by AS. Moreover, the FGS could negotiate directly with the international community. It could, therefore, create the type of clamour needed for raising the ante on attacks launched by AS and, at times, the AMISOM forces.

To recapitulate, similar to the view espoused by exchange-based perspectives, there were certain goods and services that Telecom actors could expect from an even weak state like the FGS. Specifically, the type of

[44] Interview with Public Finance Specialist (International Organisation), ID: 638287-638278-65701286, Date: 28-09-2020
[45] Interview with Somali Expert (Regional Think Tank), ID: 638287-638278-67992513, Date: 26-11-2020

returns that the private sector actors were most interested in were those necessary for 'market creation' and creating an enabling environment for investment and the protection of capital. The Somali state was, to a limited extent, in a position to provide some of these goods. In particular, the FGS could leverage the ideological credibility afforded to states (formal licenses and regulatory standards) and perform specific (material) functions, instituting regulations, achieving HIPC status, opening up the avenues for infrastructure investment, and serving as a counterweight to AS and AMISOM. In the context of these returns, there was an incentive for the sector to begin making certain payments to the state even as it actively staved off efforts to increase other forms of tax contributions.

8.4 Legitimacy and Recognition

Respondents asserted that the relationship between the state and capital was mediated by the sector's need for greater legitimacy and recognition and the desire for goods and services necessary for market creation. As previously observed, the Somali Telecom sector, 'far from remaining multi-national companies with a kiosk mentality, had become increasingly professionalised and globalised' (Lochery, 2015, p. 256). Moreover, there was a deepening recognition that there were dividends to be earned from complying with technical standards or regulatory requirements by foreign countries and international organisations (Hagmann and Péclard, 2010). Thus as observers noted, even as key stakeholders resisted the need for greater regulation and state control, 'the sector was approaching the limits of what could be sustained in the absence of any formal regulation' (Turner, Steve and Kelly, Tim, shed).

While self-regulation – moving away from trust networks to due diligence networks and codes of conduct, had been the industry's preferred option, there was a growing acknowledgement that more centralised regulations were needed. One of the main problems caused by the lack of national government was the difficulty with engaging with international trade and financial institutions (Leonard and Ramsay, 2013). Moreover, it was argued that operators also needed to be seen as legitimate businesses to prevent their operations from being shut down or disrupted, as had happened with the remittance businesses in the past (Iazzolino and Stremlau, 2023) (also see chapter 6).

To be considered legitimate and recognised entities, observers noted that the sector required some level of state support: "Whether it was a weak government or a strong government; the government had the legitimate authority to recognise the private companies and the business actors within the territories that it controls".[46]

Similarly, one of the points raised during the PPD process was how strengthening state-sponsored regulatory and banking standards would not only improve investment opportunities (as argued previously) but would also mean greater legitimacy for the sector, which had struggled in the face of a lack of access to global financial markets and commercial banking infrastructure.

Thus, similar to IPE perspectives, the state was described as playing a role as a server and protector of capital on the world stage. However, given the weaknesses of the Somali state, which could not protect capital in all the ways predicted by the IPE literature (securing a competitive position in external markets), the state as an ideological entity continued to possess significant currency. Thereby, juridical statehood held some sway even if the Somali state was materially weak. For instance, the state could leverage some of this symbolic capital (Bourdieu et al., 1994) and institute policies and regulations that could commercially support firms and help them access international markets. Consequently, it was argued that actors in the Telecom sector would have been willing to pay taxes in exchange for returns related to greater legitimacy and recognition (Lund, 2016):

> Let us also not undermine symbolism. Both the private sector and the government wanted to be seen as legitimate actors. That was where the symbolism came from. No one wanted to be illegitimate. These actors were increasingly seen as legitimate. The symbolism still mattered as much as a degree from a reputed institute mattered.[47]

In the next section, I tease out some of these dynamics and explore the specific mechanisms that offer a greater justification for the emergence of such relationships.

[46] Interview with Academic, ID: 638287-638278-69668473, Date: 13-01-2021
[47] Interview with Former Government Official (Ministry of Finance), ID: 638287-638278-67785756, Date: 23-11-2020

8.4.1 Reduced Isolation from Global Financial Institutions

One of the most *important concerns for the sector was the isolation from global financial institutions*. In previous chapters, I have discussed how the lack of correspondent banking services impeded the sector, significantly limiting its access to credit and financial liquidity. In my interviews, the significance of correspondent banking services was reiterated, with experts pointing out that "the likes of Hormuud were more interested in international financing and accessing correspondent banking because the volumes were significant. These companies had massive balance sheets, and they were not just concerned with getting money but moving money around".[48]

The problem of the country's *isolation from international finance was a result of the inability to meet the prerequisites and protocols required by international financial institutions*. After the collapse of the banking sector in 1991, the country was left without a Central Bank responsible for regulating credit, supervising and licensing banking, and instituting monetary policies. Some progress was made with the revival of the Central Bank of Somalia (CBS) in 2011. However, the bottlenecks continued, and the financial sector struggled to comply with international standards. Specifically, there remained concerns over financial integrity and the country's ability to meet the requirements of the AMLCTF agenda, principally 'owing to the lack of trusted means of identification needed for meeting Know Your Customer protocols' (World Bank, 2022a, p. 18). Without a robust and verifiable government-recognised identification, KYC protocols were time-consuming, operationally demanding, expensive, inefficient, and unreliable (World Bank, 2022a).

For the Telecom companies implicated in the financial sector through their mobile money transactions and commercial banks, the *acceptance of higher regulatory standards and practices was necessary to secure access to correspondence banking services* and ensure the legitimacy of their various businesses. Specifically, interlocutors within the government argued that the sector leads seemed to have bought into the 'framework' of the need for a government:

> They bought into this entire framework where they say, 'OK, fine, we need government now.

[48] Interview with Senior Private Sector Development Expert (Bilateral Organisation), ID: 639281-639272-73699765, Date: 24-03-2021

> Even if the government becomes strong and comes in with regulations, we would be fine with it. These changes were acceptable. We can no longer be insulated because the larger project was to be better connected with the globalised world. [To be better connected], we had to be willing to accept conditions at some level'.
>
> The big companies were, therefore, betting on a good relationship with the government. They had accepted and internalised the idea that the federal government and the Member States were not only strong, but they were also the legitimate authorities of a country and that they needed them for engaging with the rest of the world to legitimise their activities.[49]

Government representatives also pointed out that one of the key ways in which companies demonstrated their acceptance of the role of the government in regulation and legitimated the FGS's authority was the enthusiasm and the speed with which they had applied for licenses for commercial banks and mobile money transactions. By 2018, the CBS had licensed five new banks, and by May of 2022, this number had more than doubled to include 13 Banks (MPIED, 2019). Similarly, following the passage of the Mobile Money Regulation, all the major Telecom operators – Hormuud, Somtel and SomLink, had registered with the CBS and purchased licenses.

> In 2015, most banks in Somalia avoided obtaining a license from the Central Bank. However, when they saw the strengthening of the Central Bank, many rushed to obtain the license before it was too late. They began cooperating with the central government and even the banks in Somaliland. There was a broad acceptance of the government's legitimacy and the need to cooperate with the government to survive and thrive in their business.[50]

Moreover, experts emphasised that it was not just that the companies showed enthusiasm and complied with certain types of governmental regulation (even as they avoided others, e.g. interconnection regulations). The *preoccupation with appearing more legitimate also ran deeper and was demonstrated in the need*

[49] Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021

[50] Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021

to appear more credible, 'compliant, professional, proper and appropriate' (Foreman et al., 2012). The turn towards a more professional approach has been touched on previously (See chapter 6).

Alongside such changes, the operators also desired greater legitimacy (at least the appearance) and to be seen as complying with global standards. In doing so, they wanted to be assessed as meeting the 'identity criteria associated with their kind of organisation' (Barnett et al., 2006, p. 33). As Foreman, Whetten, and Mackey (2012) have emphasised, an organisation's legitimacy represents a judgement regarding its appropriateness within the socially constructed system of norms, values, beliefs, and definitions. To be considered members of the global financial system, Telecom operators needed to meet specific criteria and standards aligning with and confirming their similarity and isomorphism to other organisations. For instance, a Senior Policy advisor noted how the 'Telecom operators had begun to apply for ISO certification and appointed international auditors to meet the push for proper accountability from international and local investors (Total Telecom, 2020, p. 1).[51]

Other experts also agreed with such assessments. They argued that *acceptance of the regulations and the norms were important for securing the sector's legitimacy and reducing the threat of international sanctions*: "At some point if the industry remained unregulated, remittances could also be completely cut off if there were no proper Know Your Customer policies. This was a big threat in Somalia. The industry had no choice but to go in the direction [of improving their legitimacy]".[52]

Similarly, experts from the UN concurred and suggested that for all the dominance they exercised over the domestic economy,' the sector was less able to control the extent to which the international community expected accountability and stronger systems. There was nothing that they could do to counter the threat of sanctions from Office of Foreign Assets Control (OFAC)[53]. If OFAC sanctioned them, they could no longer operate using US dollars. That was the big stick. They, therefore, needed to do the bare minimum to prevent the big sanctions from being implemented'.[54]

The *threat of sanctions emerged as a key concern following the release of the UN Panel of Experts Report*

[51] Interview with Senior Government Official (Ministry of Commerce - Policy), ID: 638286-638277-76215156, Date: 13-05-2021
[52] Interview with Telecom Expert (Multilateral Organisation), ID: 639281-639272-69536914, Date: 27-01-2021
[53] The Office of Foreign Assets Control of the US Department of the Treasury administers and enforces economic and trade sanctions based on US foreign policy and national security goals.
[54] Interview with Senior Somali Expert (Multilateral Organisation), ID: 638287-638278-69550831, Date: 14-01-2021

(2020) The UN Report found that the AS utilised formal banking systems to facilitate the storage and onward transfer of its finances. One of the leading banking institutions identified as storing and transferring 'taxation money' collected by the group was Salaam Bank, owned by the Hormuud Group. Specifically, the Report found that the Bank held large cash deposits that exceeded the $10,000 limit that would have required the Salaam Bank to report the amounts to the country's Financial Reporting Centre (FRC) – responsible for investigating suspicious financial activity. Financial experts[55] highlighted how following the release of the Report, the Hormuud group was considerably concerned about the threat of sanctions and the ripple effects on the company's credibility and its standing in financial markets. The threat was even more pronounced given the company's history and the role that sanctions played in destroying its predecessor – Al Barakat:

> It was challenging for the sector to get money from abroad; normally, they had to use these convoluted pathways that went through Djibouti. But these pathways were constantly changing and realigning. The banking sector was desperate to gain access to correspondence banking. They, therefore, wanted a stronger banking system and to show the world that the banking sector was clean and the banking system was open for businesses. For instance, when I spoke to the new head of the Chamber of Commerce, who told me that when the Report came out that AS held accounts in Salaam Bank, it shook the banking federation. Salaam Bank, in particular, refuted the claims and immediately agreed to comply with regulations.[56]

Tax payments were considered part of this equation; by recognising and supporting the government and accepting to some degree the regulations that went along with it, the sector gained legitimacy for its business. As relayed by a senior governance expert, 'though they [the sector] were not getting much at the time, there was still a recognition that they had hit a ceiling of what they could achieve within Somalia under the current system of laws and regulation. They would need a state to pass specific laws to integrate better with the international financial systems to go any further. That was the key driver for paying taxes such as license fees so they could be better regulated and expand their business within Somalia, but also globally'.[57]

[55] Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021
[56] Interview with Economic Development Expert (Multilateral Organisation), ID: 638287-638278-74151911, Date: 11-03-2021
[57] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-67097488, Date: 03-11-2020

Telecom operators interviewed for this study also concurred with such assessments. They explained that the most significant support the government could provide the sector was to lend it credibility, especially concerning its relations with foreign players and institutions. As previously argued, legitimacy in international markets represented a vital 'return', in exchange for which the sector was willing to pay some tax:

> I would say that the biggest support that the government gave us, and it was quite evident – the government freely admitted that it could not do much in terms of helping companies build up, offer them bonds or loans, financial support – was to be the regulatory authority and to be the 'Government'. For example, if I led a fit-for-purpose company – my character report would need to be provided to the regulatory agency in other countries. The Central Bank of Somalia was able to support this endeavour. It could demonstrate regulatory relations with other institutions and be able to vouch for Somali companies. We could also get support from Somali embassies and the like worldwide. So those kinds of things were quite helpful and championed the private sector.[58]

Thus, isolation from global finance was a metaphorical 'thorn in the side' of the sector, which restricted access to correspondent banking services, made them particularly vulnerable to sanctions, and reduced the credibility of their business. To overcome such limitations, experts emphasised that the sector had arrived at a stage where it was willing to make some concessions. It was willing to acknowledge the need for regulations and 'legitimate' the state in this endeavour through higher tax payments (Lund, 2006) if it meant that it would gain some legitimacy in return. Thereby, another underlying motivation for paying certain types of taxes was the sector's acknowledgement that the state served as an essential protector of capital on the world stage and that it was only by leveraging the state's legitimacy that the sector's legitimacy could also be improved in turn.

[58] Interview with Senior Banking Representative, ID: 633591-633582-77480353, Date: 25-05-2021

8.4.2 Access to Government and International Contracts

Alongside the isolation from global markets, the steady expansion of the domestic markets and the slow but growing relevance of government contracts also meant that the sector became concerned about its particular positioning. Specifically, there was a *concern with appearing credible and bidding for government contracts and tenders* funded by international organisations and NGOs.

As seen previously, *while the overall government spending was low, procurement by the government steadily increased* from 2016-2021. The World Bank's economic report (2020b) on the country noted, in particular, how expenditure on goods and services by the government increased from US$ 64 million (2016) to US$ 183.1 million (2021)[59]. Similarly, the Report emphasised a more significant push toward increasing government spending. For instance, the National Development Plan (2020-24) included an 'ambitious domestic spending agenda with pillars on security and the rule of law, but also economic development, and social development, which were recognised as essential priorities (World Bank, 2020b, p. 31).

Alongside expanding outlays of public expenditure, there was also an increasing emphasis on ensuring stricter procurement practices and enabling line ministries to manage procurement processes per best practices (World Bank, 2020b). Much of this push and concern for legitimacy by the Telecom actors, therefore, emerged following greater scrutiny of the tendering and procurement processes by the FGC, the IMF and the World Bank as part of the debt relief process (FGC, 2019).

For instance, the FGC reviewed several contracting agreements between 2013-18 and recommended that the government take specific steps to improve the contracting and procurement processes in line with the amended Procurement Act (FGC, 2020). Similarly, the IMF benchmarks insisted that procurement guidelines laid down in the Act be followed in awarding contracts (FGC, 2020). One of the principal provisions of the Act called for stricter guidelines to be followed when considering tenders from suppliers, including debarring suppliers for the 'non-settlement of tax obligations after assessment by the Commissioner of Income Tax, or the evasion of tax by any means' (FGS, 2016, p. 23). Moreover, the Act (Article 157) also specified that one of the critical issues to be considered during the contract negotiations was the

[59] The expenditure on goods and services incorporated a range of expenses including security expenses which continued to constitute a significant share

tax obligations of the bidding firms. Thus, the settlement of tax obligations was emphasised as an essential criterion for assessing the credibility and legitimacy of the bidders (FGS, 2016, p. 83).

For Senior government officials, *the procurement of government contracts had begun to play an important role in enforcing tax payments*:

> The tax certificate became necessary. We asked all the NGOs and governments to use the tax certificates. For instance, a tax certificate was required to apply for any government project. Only companies showing their tax compliance certificate could apply for government contracts. The companies were, therefore, paying taxes because they could get projects and investments from governmental and non-governmental agencies. The Tax Compliant Certificate (TCC) was beneficial. We encouraged all investors to ask for the taxpayer certificate.[60]

Similarly, Telecom operators reported that it became important to demonstrate their TCC when applying for contracts. Moreover, achieving tax compliance status and being considered a legitimate supplier was also reason enough for making tax contributions:

> We have been paying taxes because if we wanted to get a project from the World Bank or the Government, we would be asked if we had paid taxes. [If we had not] then we would have to pay all the taxes that were pending. They [the Finance Ministry] asked us to pay two types of taxes. One was the income tax, where they asked for your income statement and then based it on that; the other tax was license fees.[61]

Nevertheless, *despite the TCC serving as a possible reason for tax contributions, government officials also suggested there were challenges to compliance*. Mainly while they could track contributions related to licenses and sales tax to a certain degree, the prospect of tracking corporate tax payments was lower.

> If they provided services to the government, they had to show that they had previously paid taxes. Otherwise, they would not be awarded government contracts. They could also be

[60] Interview with Senior Government Official (Ministry of Finance - Inland Revenue), ID: 638286-638277-67076681, Date: 02-11-2020

[61] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-80548046, Date: 29-06-2021

> audited. But to audit, we needed access to their systems. There was not 100% taxation on [income taxes]. But we were doing well compared to the previous years.[62]

Thus, while access to internal markets and government tenders represented an opportunity, the FGS's ability to enforce tax compliance was considerably limited. Further, given the small size of the overall pie of government contracts, the 'collective good or return' associated with securing a government contract was also not likely sufficient for larger players. Moreover, the sector leads did not abide by all the regulations and standards as they managed to secure low and negotiated tax deals, especially for corporate tax payments. In this context, *a more pressing reason that compelled the sector leads was the concern with appearing legitimate and 'appropriate'* (Foreman et al., 2012). Telecom operators, thereby, wanted to be seen as credible suppliers willing to play by the changing rules of the game. This, even as they decidedly held all the cards and could secure legitimacy by paying only certain types of taxes.

The state's role as a protector of international and domestic capital explained the sector's interest in supporting and strengthening the state. For the sector, which had been isolated from international finance and faced new challenges on the domestic front, the desire for credibility and recognition was another motivating reason for making specific tax payments to the state. Therefore, in exchange for recognising the legitimacy of the state project to some degree and paying certain taxes, the sector could gain some legitimacy of its own in return. However, the need for legitimacy was balanced. While the sector was willing to make certain concessions, there was also the acknowledgement that the state's capacity to offer legitimacy only extended so far and that the sector held an asymmetric position and could, therefore, determine the nature of tax bargaining arrangements.

8.5 Uphold the Image of the State

Interlocutors insisted that despite the considerable weaknesses of the SFG and FGS governments, *the state as a concept had not lost all its relevance*. As Varming (2019a, p.5) puts it, there was little doubt that the

[62] Interview with Senior Government Official (Ministry of Communication and Technology - E-Governance), ID: 638286-638277-82748286, Date: 23-08-2021

state 'was one of the competing projects. Nevertheless, it held a prioritised status within an international state-centred system and the imaginations and expectations of local state actors and subjects. Similarly, Mursal (2019, p. 41) notes that despite the history of violence, the 'exteriority' of the state was not a settled concept. Instead, the idea of the state continued to be a recurrent framing that people used to make claims of political power.

Experts, for instance, highlighted how 'although people had gotten used to the low equilibrium'[63], statelessness did not appear to be a solution which appealed to many Somalis (Markakis et al., 2021). There were visible clamours for statehood and symbols of the state, similar to what Hansen and Stepputat (Hansen and Stepputat, 2001, p.8) have described as the 'language of the stateness' – 'public signs, rituals and spectacles, which together reproduce the image of the state as that specific authoritative centre of society capable of issuing the last judgement'. As one governance expert noted: 'Initially, I thought they just wanted the national theatre, national sports complex, etc. because they wanted to procure lucrative contracts, but the more I engaged, the more I could see that people rallied around these aspects'.[64] It was challenging not to belong to a state in a world of nation-states (Jackson, 1992; Abukar Mursal, 2019). 'People wanted travel documents, a recognised jurisdiction to be creditworthy and to engage in other than illegal or informal kinds of business. They wanted to extend these activities beyond Somalia and Somali networks'.[65]

Private sector actors, such as those in the *Telecom sector, were not immune from the desire for state institutions*. Within the broader African context, Behuria (2022) finds that large private sector actors are more likely to be concerned with the economy as a whole. Elder (2022, p. 11) similarly notes that in Somalia, the interests of the large Somali capitalists, like those in the Telecom sector, had aligned more closely with the state over time. She argues that these actors had developed mutual interests around national growth, the projection of 'clean' alliances, and the expansion of state authority (and security). Similarly, Government officials interviewed for this study noted how the sector was keen for 'progressive modern statehood and wanted to be free from the chaos of statelessness'.[66]

The state was therefore seen as a remedy for the violence that riddled Somali society (Mursal, 2018; Abukar Mur-

[63] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-65801919, Date: 01-10-2020
[64] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-65801919, Date: 01-10-2020
[65] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-65801919, Date: 01-10-2020
[66] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-70725921, Date: 25-01-2021

sal, 2019). Moreover, officials acknowledged that despite the sector's reservations about the actual performance of state institutions, the companies did not want to be seen as 'pariahs who rejected peace and state-building'.[67] Therefore, the image of the state invoked was very much the vision of a formal and strong entity that could overcome the political crisis that plagued the country and could also serve as an arbiter and defender of capital – internally but also on the world stage:

> I think people were sincere about state-building. The weakness and capacity issues were coming from the government. The private sector was booming – the real estate sector was booming. If you came to Mogadishu, you would see. The private sector was hungry, and they needed and wanted the state. Earlier, the industry did not have anyone, but since 2012 they had some state representation.[68]
>
> They have been paying this tax since 2007. They paid it because of their interest in rebuilding their country. Paying tax was one of the duties you needed to perform. Also, if they did not pay, the government would be unable to function. The business people could try to escape and use alternative ways to avoid tax, but most were ready to pay.[69]

Actors in the Telecom sector also agreed with some of these characterisations. They emphasised that they were willing to invest in state institutions because 'although no one liked authority, especially businesses, which could operate the way they liked, there was a general understanding that a strong government was important for securing a well-managed environment in the Telecom sector'.[70] However, there was a discrepancy in how sector leads understood the meaning of a 'strong' state. In particular, drawing on historical registers of authority, they emphasised that for them, the 'image' of a strong was unlike that of the Barre regime, which was considered authoritarian, socialist and interventionist. Instead, *the state that was desired was one that aided capital development and did not constrain it*. This was a neo-liberal vision, 'a mode of governance that embraced the idea of the self-regulating free market, with its attendant values of

[67] Interview with Senior Government Official (Ministry of Information Culture & Tourism), ID: 638286-638277-72487677, Date: 05-03-2021

[68] Interview with Senior Government Official (Ministry of Information Culture & Tourism), ID: 638286-638277-72487677, Date: 05-03-2021

[69] Interview with Senior Government Official (Ministry of Communications and Technology - Public Infrastructure), ID: 638286-638277-74501691, Date: 30-03-2021

[70] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-71142446, Date: 28-01-2021

competition and self-interest' (Ganti, 2014, p. 80 cited in Bowles 2022), where the primary role of the state was to stimulate growth (GDP) and create opportunities for capital accumulation (Bowles, 2022; Hilgers, 2012; Harvey, 2005).

Relaying this conception of the state, sector leads spoke of how 'the private sector had developed at an unprecedented rate. Before the civil war, there was the reign of Siad Barre, who ruled the country for thirty years and did not do much to support the sector. Now, 25 years later, the state was catching up. That idea that the state was growing was good if the state was behind the private sector'.[71] In this sense, *the type of relationship that the sector sought with the state was more in line with the approach adopted by Hassan Sheikh's government* (2012-16) rather than Farmajo's (2017-20) style of governance, which proved to be more adversarial and interventionist (See chapter 5).[72]

Government officials also acknowledged this difference. They emphasised how "the interventionist model of state-planning would be met with resistance.[73] Some astute observers went so far as to note that as long as the sector was the 'older sibling' in the relationship with the state, they would control the level of state intervention:

> In the first 20 years, they [the sector] had gotten away with having a family-run set-up that was not professional. However, to grow, they needed to get more professionalised. Conversely, the government needed to be more transparent, less corrupt and more rule-based. If the government practised good governance, convincing the sector to toe the line would be straightforward. However, if the government tried to follow an extractive and short-term strategy, the private sector would adapt and easily navigate the situation. They had enough resources, understanding and networks to live with the government and pursue their interest. They collaborated when they had to. They were the older sibling; they had been there before the government. If the government became stronger, the sector would comply. If the government remained weak, they would carry on. That was also just normal. Overall, they

[71]Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72209812, Date: 23-02-2021

[72]Interview with Former Senior Government Official (Ministry of Planning Investment and Economic Development), ID: 638286-638277-80506697, Date: 29-06-2021; Interview with Senior Somali Expert (Somali Think-Tank), ID: 638287-638278-100869449, Date: 20-10-2022

[73]Interview with Senior Government Official (National Bureau of Statistics), ID: 638286-638277-82409534, Date: 12-08-2021

would prefer a laissez-faire approach.

Despite how they conceptualised the state's role, officials and sector leads insisted that *tax contributions were part of the exercise to 're(create) or uphold the image of the state'*.[74] As Varming (2019a, p. 3) observes, 'taxation plays a vital role in shaping statehood's material, symbolic and experiential limits'. In the words of Telecom representatives:

> As someone who has worked on the law and has worked with the companies, Hormuud wanted the [Communications] law because they wanted a progressive and modern statehood in Somalia. They did not want to stay in the chaotic and terror state for a prolonged period. I think they needed some state. These people were also tired of the civil war and 30 years without a state. They wanted some balance. They wanted to help the government and wanted to make a positive impact. They were the only companies that had paid the license fees and taxes to the NCA. Because they thought it was the right thing to do, it may not satisfy many stakeholders, including the World Bank. However, there is a saying – every little helps. This was the motto that they were working with. They were saying let us do something to move the country forward.[75]

However, while the growing strength of the government was seen as a desirable change, there was also the acknowledgement that there were limitations to the government's effectiveness and concerns regarding the level of contribution needed to match the capacity constraints. Specifically, *sector leads repeated how they had complied with certain types of taxes but were concerned with increasing corporate tax contributions* because they considered the (non-negotiated) tax rates to be 'excessive'.

> The majority of the companies pay a tax. But, frankly speaking, we have a problem with corporate tax. Because you know they have increased it – it is very high (30%). We had told them [the government] that since everything was new, let us start with something small and slowly build up. They responded that the neighbouring states' tax rates were higher. We

[74] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72209812, Date: 23-02-2021
[75] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-70725921, Date: 25-01-2021

> said these places were very safe, and the government in these areas provided security to the companies. So if the Somali government could ensure our security, we would pay. That was the discussion that we were having with the government.[76]

For academic experts consulted, the *sector's hesitancy was not entirely new as it spoke to the compulsions of 'real politics'.* While the image of a strong 'formal' state was important for capital – 'who needed a government that could be seen to be licensing them, providing them with some level of infrastructure, and ensuring a level of reliability and protection against uncertainty, there was also the recognition that there were many types of public authorities and forms of empirical statehood, and the FGS represented only one such effort'.[77] 'The private sector was situated between the actors – the FGS and the AS. Their tax contributions to these different forms of 'empirical statehood, thereby to some extent reflected the state-building capacity of these different projects'.[78] Thus, unlike the government, the sector was more sensitive to these different projects: It engaged with and was willing to invest to a certain degree in formal state institutions whilst also taking cognisance of the currently limited capacity of the FGS.

Overall, similar to claims made by other academics, my interlocutors concluded a strong pedigree of the state concept. Despite the weakness and the inefficiencies of the material limitations of the FGS, private sector actors were engaged in upholding the image of the state. For those within the government, the state's image corresponded to the version of a 'strong state'. Actors within the Telecom sector saw a much more constrained role for the government, which included a state apparatus that could support and encourage the interest of capital but did not impose or intervene in the economy. Drawing on historical registers of state authority, any state-interventionist model encapsulated by the Barre regime and attempted by the Farmajo government was eschewed. Additionally, the sector was willing to pay some tax if its specific vision of the state was accommodated and if there was an understanding that the project of a formal state did not threaten their interests. Furthermore, given the reasonably competitive governance arena, sector leads argued that other competing actors also had to be contended with, and tax contributions to the FGS had to be calibrated accordingly.

[76] Interview with Senior Banking Representative, ID: 633591-633582-82784210, Date: 24-08-2021
[77] Interview with Academic, ID: 755678-755669-78832614, Date: 26-05-2021
[78] Interview with Academic, ID: 755678-755669-78832614, Date: 26-05-2021

8.6 Conclusion

At the beginning of this chapter, I signalled that I intended to query the broader relationship between state and capital and assess if it provided any lessons for the Somali case and for understanding tax relations between the Telecom sector and the FGS. In reviewing the impressions of key government and Telecom sector elites, I found that despite the limitations of the Somali government, there continued to be certain returns that the state could offer the sector, in exchange for which prominent players were motivated to make specific forms of tax contributions.

The types of returns included collectively desired goods and services, namely, a regulatory environment, infrastructure investments and some security provisioning. Moreover, the government could also offer legitimacy and recognition to Telecom operators, which were critical for reducing their isolation from global financial markets and improving their prospects for securing lucrative government and international contracts. Additionally, reinforcing the image of a state apparatus also became increasingly pivotal for the sector, which wanted to be part of the broader community of states that could support and defend the interests of capital.

I found that even a weak state could offer such returns because, as Varming (2019a) and Mursal (2018; 2019) propose, the 'state concept' retained a certain pedigree in Somalia. The stateless era had not resulted in the 'exteriority of the concept' (Abukar Mursal, 2019, p. 41). Indeed, there was a circulation of the concept of the state. For capital, particularly members of the Telecom sector, the state concept continued to hold meaning, primarily because of the particular ways the state could support capitalist development. Specifically, as described by IPE experts, the state and capitalist development were intertwined and ontologically linked.

The Telecom actors in Somalia had managed to evolve without significant state support. However, as the sector grew larger and became more professionalised and globalised, it sought 'returns' that state institutions could principally provide. Notably, the types of returns desired were necessary for creating an enabling environment for investment and development, securing the interests within internal markets ('market creation') and protecting capital on the world stage (external interests of 'domestic' capital). The Somali state provided some of these returns by leveraging the ideological credibility afforded to state institutions

but also performing related material functions, such as achieving HIPC status, serving as a counterweight to AS and AMISOM, and instituting specific regulations to improve access to international markets and investment opportunities.

As a consequence of these efforts and expected returns, but also motivated by the need to uphold a specific image of the state, Telecom sector actors were willing to make certain tax contributions. Specifically, the sector was willing to move towards what Pritchett et al. (2017) would call ordered deal-making for particular types of payments – regulatory fees for licenses and sales taxes. However, the sector was unwilling to pay ordered, formalised and assessed corporate tax contributions. As detailed in the previous chapter, corporate tax contributions continued to be low and negotiated because of the considerable holding power and the 'powerbroker' status of the Telecom elites. These actors were interested in ensuring they could earn considerable rents and that their 'bottom line' was unaffected. Consequently, corporate tax deals which earned the sector considerable rents tended to be closed and disordered.

Thus, alongside an explanation for the low, closed and disordered tax deals, the exchange perspectives offer a more specific understanding of why operators were willing to pay certain taxes even as they avoided others. In causal terms, therefore, taking into account the exchange-based arguments bolsters the sufficiency of the explanation offered by political settlement perspectives as it suggests that there may be more than one logic underpinning the tax morale of private sector actors.[79]

Such perspectives also underscore the importance of taking the evolution and growth of capital seriously and applying the frameworks suggested by development and IPE scholars to uncover some of these dynamics. In particular, appreciating how despite capital's capacity to survive in the absence of state institutions, there are certain junctures when capital requires state institutions and protection. Thus, even as Telecom actors viewed the state as a lucrative project on account of the rents they could earn from constraining access to state resources and activities, they also, to some extent, saw it as a desirable outcome because of the specific ways in which state institution could aid the development of the sector. As Harvey (2004) describes,' state power cannot be subtracted from the private power of capital'.

However, even as the state came to be relevant to capital, the Somali case also demonstrates how the state

[79] The concluding chapter will further expand on these ideas

was only one actor in a competitive governance arena (Musa and Horst, 2019). Thus, while formal state institutions were critical, they were not all-encompassing. Informal institutions and actors co-existed and overlapped with formal institutions in Somalia. In some cases, informal actors and institutions, such as the AS, undermined the legitimacy and authority of the formal state institutions. However, there were other instances where these same institutions bolstered the state's authority (Varming, 2019b).

In the next chapter, I engage with the informal institutions and norms intertwined with the state and assess whether these 'hybrid arrangements' influenced the sector's motivation to pay tax by legitimising the state's right to tax.

Chapter 9

Embedded Elites: Role of Informal Norms and Institutions

9.1 Introduction

In the past few chapters, I have engaged with two contrasting perspectives to understand the tax motivations of Telecom actors in Somalia. In chapter 7, I argued that given the nature of the Somali political settlement, tax payments were, to some degree, part of an elite bargain to ensure privileged access to rents. While such explanations were 'necessary' and helped to explain why corporate tax payments were low and negotiated, I proposed that they were 'insufficient'. Especially if the incentives of domestic capitalists were considered beyond narrow 'rent-seeking and comprador frameworks' (Elder, 2022; Behuria, 2022, p. 3).

In the preceding chapter, I attempted to take such invitations seriously. I demonstrated the broader set of interests of domestic capitalists and the shifting terrain of their interactions with formal state institutions. In particular, I argued that the ontological link between the state and capitalism was also evident in the Somali context. Thus, while Telecom actors still eschewed an interventionist state model, they realised that there were certain returns that state institutions could principally provide. Even a weak Somali state could offer the Telecom sector, albeit to a limited degree, specific returns such as securing their interests within

internal markets ('market creation') and protecting their business on the world stage (external interests of 'domestic' capital). In exchange for such returns, sector leads invested in state institutions and were willing to pay certain taxes.

In this chapter, I take this analysis a step further. I draw on Adebanwi's (2017, p. 3) contention of the limits to the 'economic-institutional reality of capitalism' or as Polanyi (1957, p. 71) terms it 'the subordination of 'the substance of society itself to the laws of the market'. In Africa, Adebanwi (2017, p. 3) argues capitalism has not succeeded in becoming the 'universal form of economic life: the nature of economic transactions on the Continent, since contact with the Europeans in the 15th century, has creatively challenged the bid to entirely subsume or soak up life in the processes of production and consumption'. Thus, while there are continuities in how capital seeks to maintain its dominance through entangled interactions with the state (as argued inchapter 8), there are also local forms of economic arrangements, which are underpinned by varying rationalities. As Guyer (2007) puts it, 'the Western (abstract) construction of rationality – particularly within neo-liberal orthodoxy, ignores Africa's rationality and fails to capture the 'range and texture of economic and social life on the Continent' (cited in (Adebanwi, 2017). However, in engaging with the different rationalities, there is a need, as Roitman urges (2007, p. 156), to move beyond binary 'logics' and apprehend the intertwining of the capitalist logic with the 'alternative forms of rationality and valuation that are developing in areas of constant crisis' (Geschiere et al., 2007, p. 38).

The task is especially more pressing in contexts of fragility, such as Somalia. As previously argued, following the period of civil war, the state was among the many institutions that guided economic transactions and governed the exercise of political authority. As Meagher (2012, p. 1075) posits, 'the retreat of the state was paralleled by the growing role of a range of traditional authorities and non-state actors, including businessmen, militias and warlords; leading to new arrangements for the 'management of business, local security, public services and resources'. In some cases, these 'informal' arrangements emerged to undermine the state's authority. However, in other instances, they conversely offered legitimating rubrics that reinforced the authority of state institutions and confirmed their right to tax (Boege et al., 2008; van den Boogaard, 2020; Lund, 2006). Specifically, the intertwining of informal institutions with formal state structures in hybrid arrangements was found to reinforce and 'boost state legitimacy, bolster and extend state capacity, and contribute to "partnership" models of statehood and state building (van den Boogaard, 2020, p. 43).

In the following sections, I seek to unpack how informal institutions and norms could have offered legitimating rubrics and encouraged the tax morale of actors in the Telecom sector. In particular, I seek to understand why the sector was motivated to pay taxes and why payments continued to be low and negotiated. I begin by recapitulating some theoretical debates on the role and significance of informal institutions and norms and how these institutions strengthen the state's revenue capacity. Specifically, I draw on findings discussed in previous chapters on the different types of norms and institutions present in Somalia and how they have encouraged tax collection and legitimated the state's right to collect taxes. I also briefly explore groups that have undermined the state's right to tax. I proceed to relate the findings from my research on the role that these groups and institutions, more specifically, have played in encouraging tax compliance of actors in the Telecom sector. I focus principally on the role of clan and religious institutions and informal norms.

In the chapter's concluding section, I find that although within the literature, the role of kinship and religious institutions has been quite prominent, my findings suggest that informal forms of community embeddedness, reciprocity, and fairness, influenced corporate reputation and emerged as more concrete explanations for the sectors tax morale. However, sector leads also strategically deployed religious and kinship registers to reduce their tax burden and strengthen their negotiating position. Thus, the tax morale underpinning formal taxes was guided by the taxpayer's relationship with the state and mediated by their engagement with informal norms and institutions.

9.2 Unpacking Hybrid Arrangements

To summarise some of the previous arguments, one of the critical contributions of the hybrid governance perspectives was their questioning of the line separating informal and formal institutions. Such perspectives were especially salient for the African context, where the persistence of informal arrangements alongside formal arrangements was considered problematic and in defiance of modernist expectations. As Ferguson (2007, p. 72) argues, 'post-colonial scholars assumed that the modern state system rooted in formal logic would naturally replace what they imagined to be Africa's traditional in-docility and disorder'. When this did not happen, African societies were dubbed neo-patrimonial (Bayart, 2009; Chabal and Daloz,

1999), clientelistic and 'irrational' (Mkandawire, 2015, p. 566).

The problem, in particular, was that the continuing significance of indigenous informal structures and norms was deemed to have infiltrated and undermined the functioning of formal institutions and was seen as posing a threat to modern state building and the rational bureaucratic order (van den Boogaard, 2020; Kraushaar and Lambach, 2009). 'Africa had somehow managed to combine features of tradition and modernity into a debilitating witch's brew' (Mkandawire, 2015, p. 566) that had led to the 'criminalisation of the state and stymied its development into a full-blown modern, rational-bureaucracy and capitalist economy' (Wai, 2012, p. 31). A clearer line was, therefore, needed to separate the state from society and to strengthen and enhance the capacities of state actors in line with Western models of statehood (Wai, 2012). Thereby 'while African history was reduced to and interpreted as an imperfect recurrence of, or deviation from earlier patterns or stages in the evolution of European societies, its future was also only to be valid if modelled on the trajectory of the evolution of Western societies (Wai, 2012, p. 33).

A substantive reckoning of these perspectives began following the conceptual work of scholars like Hansen and Stepputat (2001), Sharma and Gupta (2009), and Migdal and Schlichte (2016), who argued that the line separating the formal from the informal was an effect of power. As discussed previously, Gupta and Sharma (2009, p. 10) maintained that 'rather than searching for a definition that would fix the boundary, the state needed to be seen within other institutional forms. The task before academics was to unpack and study the operation of power in a 'dis-aggregated manner and de-emphasise the state as the ultimate seat of power' (Sharma and Gupta, 2009). Concurrently, there was also a need to question the rationality of formal institutions, especially since what was termed as irrational was a practical and rational way of responding to uncertainty and marginality of the neo-liberal order and resisting the economic-institutional reality of (Western) capitalism (Hyden, 2006a; Adebanwi, 2017; Scott, 1998; Titeca and Herdt, 2010).

For researchers studying fragile states, the questioning of the 'state-society divide' was particularly constructive. Most notably because it provided the opportunity to move beyond the 'pathological and teleological approach to the analysis of political order in Africa, in which organisational systems were not judged by what they were but by what they were not, and to engage instead with alternative systems of order' (Kraushaar and Lambach, 2009; Meagher, 2012, p. 1074). Specifically, fragile contexts came to be

seen as places where there was not a vacuum of authority; instead, these were places where political order was maintained by various institutions and actors that transcended the formal and informal divide. For Kraushaar and Lambach (2009, p. 4) and Boege et al. (Boege et al., 2008), the intermingling and interpenetration of the norms and institutions of formal state on the one hand and the norms and institutions of the informal (traditional, customary and non-state), constituted hybrid models of statehood, that were not 'deviant' but represented a new kind of political order in their own right.

Furthermore, in de-emphasising the 'legal rationality' of the state as the only source of order, these perspectives also encouraged the apprehension of 'alternative forms of rationality and valuation' tied to local notions of economic justice (Geschiere et al., 2007, p. 38). The latter is what Scott (1998) describes as the moral economy and what Kinyanjui (2013, p. 150) refers to as 'African institutional norms of sharing, reciprocity, loyalty, and altruism'. Thus, compared to the abstract versions of rationality associated with rational choice theory, which presumed self-interest maximisation as the primary incentive guiding economic relationships, rationality came to be understood as embedded in social relations and cultural conventions. 'Individual behaviour and choice in these economies were fully rational, albeit in a given context' (Hyden, 2006b, p. 2).

For scholars interested in taxation questions, acknowledging that informal institutions and norms were intertwined with the state in hybrid arrangements was also incredibly productive. As Owen (2018, p. 5) suggests, such perspectives allowed for observing how 'states engaged in reconstructing formal taxation system have at times found it impossible to operate the formal system except with the assistance of non-state actors as intermediaries in more institutionalised arrangements of hybrid governance'. Consequently, informal actors and institutions did not always work to undermine the state but also, at times, could emerge to legitimate the state and reinforce state capacity (van den Boogaard, 2020). Specifically, hybrid tax collection arrangements could help resolve problems such as non-compliance and tax evasion because decentralised public authorities who exercised greater control over local communities tended to be in a better position to enforce compliance than the state (Olken and Singhal, 2011).

For Boege and others (2008), the salience of these arrangements stemmed from the greater legitimacy of informal institutions, especially in contexts where state authority was mediated or limited. If the state lacked

sufficient reach and ability to deliver essential services, people did not perceive themselves as 'citizens'. In such contexts, the informal institutions and norms (kin group, tribe, village) took precedence over the state (Boege et al., 2008). The increased legitimacy of such institutions impacted tax relations. In place of an exchange-driven logic, where taxes were paid in 'exchange for' or were the 'price of' (Roitman, 2005) access to goods and services, the role of kinship, religious status, moral obligations and reciprocity (Weber et al., 2014), associated with these informal institutions become more prominent.

Therefore, rather than subsuming tax transactions within the logic of an 'exchange', taxes, it was argued, were part of a broader universe of payments embedded in a communistic obligation of interdependence and interrelationship (Campos, 2016; Graeber, 2011; Kauppinen, 2020). The progressiveness and legitimacy of the formal tax system were thereby enhanced if tax collectors subscribed to these values and norms and took into account, for instance, the individual circumstances of taxpayers (Prichard and Van Den Boogaard, 2017). Similarly, as previously discussed (See chapter 3), adherence to informal norms and values was also a concern for taxpayers, especially large corporates whose reputation was tied to 'societal ethicality' (Agarwal, 2017 in Baudot et al., 2019, p. 199).

In summary, the gaining acknowledgement of the view that informal institutions played a significant role in governance and that the 'state was consequently only one actor among others' also drew attention to how such structures could complement and confirm the authority of the state order (Boege et al., 2008). Specifically, in the area of tax payment and tax collection, hybrid arrangements could work to legitimise the state and reinforce state capacity. The reasons related to the proximity of informal structures and institutions and their higher levels of legitimacy (especially compared to formal state institutions) in more fragile contexts. Further, informal norms adopted by tax collectors, which were considerate of the underlying moral economy, were more likely to engender compliance from taxpayers. Similarly, such norms could also compel taxpayers, especially more prominent corporate players, who were concerned with how they were perceived in the wider society.

9.2.1 Somali Context and Role of Hybrid Arrangements

Among the fragile states, Somalia represents one of the most important contexts for studying hybrid arrangements (Kraushaar and Lambach, 2009; Boege et al., 2008; Renders and Terlinden, 2010). As previously noted (in chapter 4 and chapter 5), informal institutions had been influential since colonial times and became even more salient after the state collapsed (Varming, 2019b). During the civil war, clan institutions were the primary guarantors of physical security and material survival. Religious institutions like the ICC offered critical governance services in south-central Somalia. Such institutions also played a significant role in coordinating economic transactions. As Hagmann (2005, p. 535) notes, 'following state collapse, a specific Somali modernity emerged in which extremely effective globally operating money transfer companies and free market capitalism co-existed with blood compensation, based on time-consuming negotiations between family elders and Sharia courts'.

Along with delivering specific public goods and services and coordinating economic transactions, one of the ways in which these institutions legitimised and made claims to public authority was by levying taxes. Thus, as Lund (2016) notes, public revenue — in cash or kind — not only constituted a significant economic dynamic for public authorities; it also entailed processes of recognition of their authority and the membership of the populace.'Taxation was one of the state-like functions which non-formal governance actors took on in their attempt to consolidate, institutionalise and gain legitimacy and acceptance; in this, taxation had both material and symbolic value' (Owen, 2018, p. 5). Consequently, 'with the collapse of the state in 1991, there was both a rise of localised authorities and further institutionalisation of systems of informal revenue collection and self-reliance' (van den Boogaard and Santoro, 2021, p. 18).

More recently as well, these institutions and norms came to play a prominent role in ordering society. Consequently, there was a high prevalence of informal tax collection, especially by clan elders and religious leaders: 'Qaaraan, Diya and religious contributions were among the most common types of payments paid' (van den Boogaard and Santoro, 2021; Abshir et al., 2019). In regions of southern Somalia, as previously noted (chapter 3), rates of informal tax payments were as high as 71% and constituted a significant tax burden: 'There were religious taxes that people paid to the mosque and payments to local clans and groups

that controlled access to key roads and transport corridors'.[1]

Groups such as AS also collected taxes and used whatever means were available to them.[2] The group collected a range of taxes, including 'checkpoint taxes' along major trade routes, Zakat or religious tax, forcible donations from businesses, Khidma or service charges levied on commercial operations, and Infaaq – an emergency fund levied ahead of major military advances or when the group's coffers were low (Ahmad et al., 2022; Abshir et al., 2019) (For details see chapter 5).

While informal payments, especially to AS, undermined the state's capacity to collect revenue (Ahmad et al., 2022), informal institutions and norms were found to support formal state structures. In certain instances, such institutions bolstered the state's legitimacy[3] or right to collect taxes. In the theoretical chapter, I outlined two fundamental ways hybrid arrangements have been found to facilitate tax collection and legitimate the state's right to tax.

The first (*Type 1*), as Varming (2019b) and Olken and Singhal (2011) point out, have involved non-state authorities, such as clan or religious authorities in tax collection arrangements. An example was the cyclone relief efforts in Puntland, where the state collaborated with the *Ulama* to collect and manage funds for emergency relief and rebuilding efforts (Varming, 2019b). A second way (*Type 2*) was if formal tax payments were justified using religious and customary registers or social norms. Van den Boogaard and Santoro (2021) find that kinship registers were used to promote formal tax payments, especially following the involvement of clan elders. Moreover, informal tax payments to clan and religious authorities were often conflated with formal tax payments. Taxpayers in their study were found to attribute outcomes for taxes paid to informal authorities to formal authorities, even when the latter had not been involved in delivering the outcomes. Additionally, Campos (2016, p. 4) underscores the significance of social norms of interdependence and 'communistic' relationships and how such norms, when practised by tax collectors, facilitated the process of tax collection. Lastly, as Meester et al. (2019) explain, for large businesses concerned with maintaining a 'good' reputation in their community, social norms embedded in the moral

[1]Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020; Interview with Somali Expert (Regional Think Tank), ID: 638287-638278-67992513, Date: 26-11-2020

[2]Interview with Financial Expert (Bilateral Organisation), ID: 638287-638278-75106495, Date: 06-04-2021

[3]van den Boogaard (2020), defines state's legitimacy when it comes to taxation explicitly from the perspective of tax morale. Tax morale, in this sense, captures the extent to which taxpayers believe governments always have the right to collect taxes.

economy could also serve as a check on corporate tax aggressiveness.

To appreciate how such norms and institutions could be mobilised and conflated with formal taxation, Makovicky and Smith (2020) suggest that formal taxes need to be seen within a broader 'universe of transfers'. Thus, taxpayers were not only concerned about being seen as 'citizens' but also were conscious of fulfilling obligations to their clan, religious community and the wider society. The deployment or attribution of customary religious or social registers to formal institutions by state or non-state institutions could thereby facilitate formal tax collection. As Varming (2019b, p. 3) puts it, traditional tax-bargaining was not the only avenue for state authorities 'to (re)create an image of the state able to manage and support locally acceptable tax claims'. 'Ideological practices and narratives could be worked and reworked through hybridised arrangements; (re)appropriating or mimicking historical state repertoires and drawing on important forms of identification, such as religion and clan, to strengthen the state's legitimacy to collect taxes' (Varming, 2019b, p. 3).

In summary, Somalia is among the contexts where informal structures have worked to legitimate and extend formal tax collection and the revenue authority of state institutions. Specifically, kinship, religious institutions, and informal norms have helped order society and guided tax relations. Given their significance, the question remains: Did such institutions motivate the tax compliance of large private sector actors? In the following sections, I specifically interrogate this question and ask if these institutions and structures were also implicated in engendering tax compliance of Telecom actors.

9.3 Clan Institutions

In the post-transition period, *clan institutions remained a cornerstone of Somali society and were pivotal for maintaining accountability and protection of communities* (Menkhaus, 2007a). As previously observed, among the most important of these institutions were 'socio-cultural practices of blood-money (Diya), the custom of contract among clan lineage groups (Xeer) and the framework of politicised identities, namely the clan unit system, which emerged from the organisation of political violence and territorial control in the post-independence period' (Menkhaus, 2007a, p. 87). Together these institutions played an essential

role in governing and providing essential public services, including conflict resolution, security provisioning, social welfare and emergency relief.[4]

For *businesses, such as in the Telecom sector, these institutions served as substitutes for the centralised bureaucratic controls and contract mechanisms*. The Xeer, in particular, offered a framework for regulating economic transactions and resolving disputes. Recruitment was also based on clan affiliation to protect property and interests. During the early years of the development of the sector, the kinship practices of Aban were resurrected to address the problem of insecurity (See chapter 6).

The relevance of such institutions continued in the post-transitional era. Operators reported paying compensation to local clans to secure their property. For instance, 'Telecom operators paid taxes to local clans for setting up Telecom masts in their area'.[5] Similarly, they also made contributions and covered the costs of community development projects, like community halls, schools and roads, which were collected by clan elders (van den Boogaard and Santoro, 2021). These contributions were seen as a type of 'Qaaraan', which as a general 'welfare tax', could be levied outside of a specific clan group[6] (van den Boogaard and Santoro, 2021) (See chapter 3).

Given the significance of clan institutions and kinship payments, respondents directly linked the *clan-based considerations as motivating tax payments by Telecom actors*. A few respondents observed how rent-seeking interests, as such, were not the only logic at work in Somalia – 'rather these interests were constrained by informal norms and institutions' (Majid et al., 2021, p. 34). In the words of a private sector expert who studied Somali firm behaviour:

> The fact that they started to pay was not self-interest and pure business interest alone. The issue of clan and customs – the level of the authority of those customary institutions – and the interest of not wanting to go back to the period of statelessness perhaps motivated these actors to invest in the state. The thinking probably was that 'we need to put our house in order.' The authority of customs guided them to pay taxes in the absence of other enforcement

[4] Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020; Interview with Somali Expert (Regional Think Tank), ID: 638287-638278-67992513, Date: 26-11-2020

[5] Interview with Senior Governance Specialist (Bilateral Organisation), ID: 638287-638278-65801919, Date: 01-10-2020; Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020

[6] Unlike Diya payments which constituted a form of communal burden sharing and were levied only within clans.

> mechanisms. These customary authorities and considerations may have to some extent, contributed because these were the underlying systems of how people acted and behaved – in their personal life – but also perhaps in how they related to the state.[7]

However, clan considerations influenced tax morale via *Type 2 hybrid arrangements*, i.e. *taxpayers considered contributions to the state as part of their clan obligations*. Instances where clan elders or institutions were involved in hybrid arrangements with the state –(Type 1 forms of hybrid arrangements) – did not receive specific mention. Instead, the reasons given were related to the importance of clan contributions and how they were often conflated with official taxes, such that contributions made to formal institutions were seen as fulfilling clan obligations. As previously discussed, payments made to clan elders were considered a social obligation to fulfil collective responsibilities, maintain good standing within the community, and avoid any social sanction (Jordan, 2016; van den Boogaard and Santoro, 2021). Thus, quite similar to van den Boogaard and Santoro's (2020) finding, taxpayers blurred the boundaries between formal and informal payments, conflating clan-based contributions with formal tax payments and outcomes, and this explained the persuasive appeal of customary registers.

Despite the limited references to the direct involvement of clan structures, clan elders reportedly mediated relations between state and private sector actors. Respondents made references to how 'because of the moral authority that the clan elders exercised, they often acted as intermediaries, especially in the case of conflicts between the government and the private sector'.[8] Experts relayed the case of Somaliland when clan elders had played a role in the mediating conflict between the SNM and the *Ilse Muse clan* on collecting taxes from the Berbera Port and hinted at how similar relations could also be imagined in South-Central Somalia (Eubank, 2012). As explained by a senior international governance expert:

> In Somaliland – the Berbera port was originally captured by clan interests, and it was only with the involvement of clan elders that the issue between the SNM and the Ilse Muse clan was ultimately resolved. This was also true of the Mogadishu port and everywhere else. The Somaliland regime got the deal with the clan controlling the port and got the private sector

[7] Interview with Private Sector Development Expert (International Organisation), ID: 639281-639272-67082913, Date: 03-11-2020
[8] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

> to support the deal. So then it seems it is possible that if the incentives were right, there was a way to encourage the sector to pay tax.[9]

Such contentions echo the work of Eubank (2012) and Musa and Horst (2019), who point out how the engagement of clan elders ultimately became the basis of a broader revenue bargaining agreement and led to the creation of new state institutions in Somaliland. In the case of South-Central Somalia, as well, given how entrenched clan authorities were in the political structure and their involvement in the selection of Members of Parliament and the President, Herring et al. (2020) describe how hybridity was officially built into the political system. Respondents also argued that as influential elites, clan elders lobbied the government on the sector's behalf and arguably contributed to reducing the company's tax burden (instead of increasing their willingness to pay taxes).[10]

Thus, while there were overlaps and inter-linkages at an elite level between the clan backgrounds of political and private sector elites (as argued in Chapter chapter 7), clan-based institutions were also more directly involved in lobbying on behalf of the sector. For instance, interconnection agreements between Telesom and Somtel were stalled when Telesom employees involved traditional clan elders to lobby against the regulation (Musa and Horst, 2019). Following pressure from clan elders, the interconnection agreement was stymied in Somaliland; similarly, little progress was made in Somalia.[11]

However, along with leveraging similarity in clan backgrounds and clan affinities, *another reason why clan elders become involved in lobbying was that the actors in the Telecom sector directly invested in their local communities and clans* (Musa and Horst, 2019; Lochery, 2015; Meester et al., 2019). According to a study published by the Center for Global Communication Studies (2014), a crucial way in which the sector was able to hinder progress, especially around taxes and regulations, was by maintaining, to the extent possible, a 'positive image in the eyes of the community' (Center for Global Communication Studies, 2014, p. 7-8).'For the public, this meant a Telecom sector that fulfilled some of the roles of the government and, in doing so, curbed public pressure to institute more formalised policies' (Center for Global Communication Studies, 2014, p. 7-8). Therefore, rather than a stable, fixed, immutable 'repository of precepts and

[9]Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020
[10]Interview with Former Country Director for Somalia (Bilateral Organisation), ID: 638287-638278-66322362, Date: 20-10-2020
[11]Interconnection agreements remained pending in Somalia till the first quarter of 2023 when they were finally signed.

practices', there were processual and performative ways of becoming a kin – 'kinship by doing' (Norman, 2022; Carsten, 2020, p. 321). Efforts by the private sector to support their local communities and fulfil their clan obligations constituted 'kinship by doing', where kinship ties were maintained not only by affective bonds but also by material expressions (Carsten, 2020).

Along with the payment of clan-based taxes, *Telecom operators also used their CSR departments to perform 'kinship' and fulfil their responsibilities to the clan communities*. Each of the major operators had a separate CSR department, which was well-funded and allocated a substantial amount of funds for humanitarian and development assistance (Kazmi and Loyaan, 2019).[12] While most of the projects funded under CSR were meant to be community projects with a developmental focus based on requests from the community, in practice, the disbursement of funds was more targeted.[13] Community requests often arose in the form of clan elders making direct requests for funding at the branch office (Meester et al., 2019). 'The direct nature of the delivery of CSR services allowed companies to develop their social contract with the local clan community. The Telecom actors then leveraged such relations in their discussions with the government on regulations' (Meester et al., 2019, p. 38). Thus to defend their market power and stave off attempts at increased regulation, 'a tie based on a family or lineage connection was not enough: Somali companies had to actively contribute to reconstruction, peace, and development' (Lochery, 2015, p. 369). As observed by a private sector development expert:

> The actors in the Telecom sector knew clan elders had veto power within the government [on account of the role they play in selecting MPs]. So they gave them money to ensure they stayed on their side when a law came up or issues of taxation and regulation were being discussed. On the other hand, they also wanted to ensure that everyone coming into the area knew who they were and the work they had done for the area and were sympathetic to the company. For instance, they provided free electricity and light bulbs to specific communities. They used their CSR contributions as leverage. But at the same time, the CSR contributions were also a response to statelessness.[14]

[12] The funds often equalled corporate Zakat contributions (10% of net income).
[13] Interview with ICT Expert (Multilateral Organisation), ID: 639281-639272-68801218, Date: 08-12-2020
[14] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

Thereby, even as clan-based institutions and considerations were seen as playing a role in motivating the tax morale of Telecom operators, there was also the recognition that such arrangements did not always create opportunities for more inclusive institutions. Specifically, in deploying their clan and CSR contributions in strategic ways – investing in clan communities and 'performing kinship', Telecom operators gained the support of clan institutions and actors. Operators then leveraged the relationships with clan institutions to reduce their tax burden and strengthen their negotiating position. Therefore, as Prichard and Van Den Boogaard (2017) and Meagher (2012) have observed, even as hybridised arrangements improved outcomes and yielded greater cooperation, they also legitimised and reinforced existing inequities and power imbalances.

9.4 Religious Institutions

Along with clan institutions, *religious institutions and structures were also pivotal to ordering Somali social and economic life*. As discussed previously (chapter 4), "religious identity and organisations were critical in dealing with the insecurity and the unpredictability during the civil war" (Varming, 2019b, p. 13). Business groups, in particular, turned to Islam to build trust, lower costs, and increase access to markets (Ahmad, 2017). For Marchal (1996) and Ahmad (2017), without a state guaranteeing contracts and exchanges, Islam provided a crucial source of social capital that reduced uncertainty and encouraged cross-clan business partnerships and access to markets in profitable Gulf states.

The Telecom sector was among the core businesses that adopted an 'Islamic framework', such that by '2000, all major operators relied on religious institutions to manage business relations and used religious identity as a mechanism for working across clan lines and engendering high levels of trust' (Ahmad, 2017, p. 111). Consequently, maintaining a 'good religious standing' emerged as a pressing concern for the Telecom sector.

During my interviews, interlocutors insisted that *one of the primary ways businesses maintained their religious standing was through their CSR initiatives*. Along with fulfilling kinship commitments, CSR initiatives also helped to meet the religious obligations of businesses. In the words of a senior representative

of a Somali private sector association: "Another motivating reason why these actors contributed to CSR was that even 'they' had to be able to look God in the eye".[15] For instance, representatives from the Amal group (parent company of Amtel) claimed that 20-25% of their profits as part of Zakat (religious obligations) went to charitable work.[16] Similarly, representatives from Somtel reported that they dedicated 10% of their profits towards Zakat payments, which were used for funding hospitals, schools, and community facilities (Meester et al., 2019). While representatives from Hormuud were unwilling to provide an exact estimate of their Zakat contributions, they maintained that the company supported different programmes, such as schools, health care centres and hospitals and routinely contributed to humanitarian relief efforts.[17] In 2022, Hormuud's Salaam Foundation reportedly pledged US $2 million towards famine relief (Yusuf, Ahmed Mohamed, 2022).

The concerns with *religious standing and the need to be seen as pious actors, however, extended beyond narrow instrumentalist interests* with leveraging Islamic credentials for facilitating business transactions and corporate gain (Hansen et al., 2022; Carrier and Lochery, 2013; Hagmann and Stepputat, 2016). Across the spectrum, respondents noted how 'these organisations were big on religion and providing services as part of their obligations'.[18] Similarly, a senior member of the National Communications Authority mentioned how Telecom actors, who were among the biggest companies, felt compelled to do their part and help their 'Muslim brethren': 'They were Muslims and from the same religion [as everyone else in the country]. One of the core pillars of Islam was that even if you [only] had one dollar, you had to contribute to charity.[19] Thus, as Kazmi and Loyaan (2019, p. 506) note,' large Somali businesses, such as those in the Telecom sector, viewed CSR contribution as a part of their religious duty and belief in 'quiet giving', which stemmed from a broader desire to be seen as apolitical and socially responsible organisations'.

For a few select respondents, *the concern with their religious standing and piousness also explained the level of tax contributions made by actors in the Telecom sector*. While instances of hybridised arrangements involving

[15] Interview with Senior Banking Representative, ID: 633591-633582-83453637, Date: 14-09-2021
[16] Interview with Senior Banking Representative, ID: 633591-633582-77480353, Date: 25-05-2021
[17] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-68989523, Date: 07-12-2020
[18] Interview with Government Official (Ministry of Communication and Technology - Policy), ID: 638286-638277-71883645, Date: 10-02-2021
[19] Interview with Senior Government Official (Ministry of Communications and Technology - Public Infrastructure), ID: 638286-638277-74501691, Date: 30-03-2021

specific religious institutions and actors (*Type 1 arrangements*) were not related, respondents alluded to how religious registers were drawn upon to engender tax compliance (*Type 2 arrangements*). As explained by a private sector development specialist:

> 'The Somali case is unique – it is unlike other countries. Religion and customs hold the people, including the private sector. These elites will therefore be making this type of lump sum tax payment because these concerns influence them. Religion plays a bit of a part, and custom also plays a part.[20]

Thus, quite similar to observations made by Santschi (2018) and Kauppinen (2020), taxpayers made sense of formal state practices by associating them with informal spiritual, and religious practices and norms. Consequently, taxes fell within a broader universe of payments. Religious registers like customary institutions had 'generative potency' in shaping popular conceptions of taxation (Kauppinen, 2020, p. 42).

However, even as they strove hard to display their Islamic credentials by conflating tax contributions and CSR initiatives with their religious responsibilities, *Telecom actors interpreted their duties in specific ways*. International experts reflected how 'Zakat was used to fulfil whatever obligation the sector leads felt for their fellow Somali. They used this system of patronage rather than formal taxation'.[21] For these actors, the distinguishing feature was that current tax contributions continued to be low and that CSR initiatives were small and targeted. Thus even as they sought to give back to their Somali community through taxes and CSR initiatives, they felt that these payments needed to be 'enough' to maintain a modicum of stability. Senior Public Finance specialists specifically argued that in continuing to direct funds to CSR initiatives and paying low and negotiated taxes, the idea was to maintain some level of stability in the society by supporting the state's governing authority, but there was less of a concern with supporting the development of state institutions. As also relayed by a tax researcher with intimate knowledge of the context:

> This dual-track policy maintained a certain balance of power and ensured the [political] settlement did not crumble. It ensured that the regime would stay in power. For one, the taxes

[20] Interview with Private Sector Development Expert (International Organisation), ID: 639281-639272-67082913, Date: 03-11-2020

[21] Interview with Public Finance Specialist (International Organisation), ID: 638287-638278-65701286, Date:28-09-2020

> kept the bureaucracy working, and CSR contributions perhaps relieved some pressure on the government to provide services. It allowed the political regime to govern. Nevertheless, this was different from the state's institutional capacity. It did not build state capacity; by that, I mean building state institutions and bureaucratic capacity to monitor taxpayers. None of that was happening because they were not collecting enough tax. It was a low-value stable outcome.[22]

Thus, religious identity and structures continued to be influential and provided a source of social capital that reduced uncertainty and encouraged cross-clan business partnerships. After the fall of the ICC, Salafi Islamic beliefs and lifestyle became more widespread (Marchal and Sheikh, 2015), and business groups displayed their economic credentials and commitment by investing in CSR initiatives. Therefore, along with benefiting specific clan communities, CSR initiatives became a way of fulfilling religious obligations. Formal sector taxes were also considered to emerge from a similar commitment to religious norms and practices and fell within a broader universe of payments. However, despite how compelling religious obligations were for Telecom actors, tax contributions remained low. Thus, while religious registers may have compelled formal tax contributions and increased the state's revenue capability to some degree, they did little to reinforce its long-term institutional capacity.

9.5 Informal Norms

Lastly, while the literature on hybridised arrangements within the Somali context has primarily focused on religious and customary institutions, the role of informal norms embedded in the moral economy has been less emphasised. Nevertheless, emerging research in the broader field highlights the significance of such norms in encouraging tax compliance (Campos, 2016; Prichard and Van Den Boogaard, 2017). Economic historians and management scholars also point out how such norms affect the corporate reputation and can discourage firms from engaging in 'aggressive tax behaviour' (Baudot et al., 2019; Dyreng et al., 2016). Likewise, in my interviews, *the theme of informal norms and institutions emerged as quite prominent*.

[22] Interview with Academic, ID: 755678-755669-98627156, Date: 13-05-2021

Multiple interviewees, for instance, noted how *businesses, especially those in the Telecom sector, were socially embedded,* and entrepreneurship had an essential social function independent of the 'enterprises' bottom line' (Meester et al., 2019, p. 26). 'Large conglomerates continued to see themselves as part of a community and beholden to it for better or worse' (Meester et al., 2019, p. 27). Similar to Dyreng et al.'s (2016) and Baudot et al.'s (2019) observation of how a firm's reputation is tied to meeting socially constructed standards within the cultural system, private sector experts highlighted how actors in the sector cared about their perception in the wider community.[23]

One reason for this, as Olegario and Mckenna (2013, p. 645) argue, is that although corporate reputation matters to firms in all contexts, it takes on increasing significance in underdeveloped and poorly regulated markets where the costs of gathering information are high. In such contexts, reputation, defined as 'collective judgments of a corporation based on assessments of specific aspects, including social contribution' (Foreman et al., 2012, p. 34) – functions as a signal to encourage exchange among parties (consumers and other firms) or caution against it (Olegario and McKenna, 2013). In the Somali case, given the weak regulatory environment, 'corporate reputation, therefore, came to matter very much to Somali firms'.[24] Firms like those in the Telecom sector were concerned with fulfilling certain financial and performance obligations and exemplifying cultural fitness and conformity to local norms (Olegario and McKenna, 2013). As explained by a private sector representative:

> We need to be seen as socially responsible when it comes to business. Otherwise, we would not survive. We would not be seen as a responsible company, a national company, or an entity working for the public interest. Our image would not be good in public, and we would lose business because of that.[25]

Among the critical *social norms and standards emphasised were norms of reciprocity, fairness and interdependence*, which were intrinsically linked to the moral economy. Kinyanjui (2013), as previously discussed, views such norms as part of the African indigenous social-economic order (Prichard and Van

[23] Interview with Private Sector Development Expert (International Organisation), ID: 638287-638278-68572078, Date: 04-01-2021

[24] Interview with Academic, ID: 755678-755669-98627156, Date: 13-05-2021

[25] Interview with Senior Banking Representative, ID: 633591-633582-82735717, Date: 23-08-2021

Den Boogaard, 2017). Within the Somali context, however, respondents attributed the development of these norms to the country's specific historical and cultural context and to 'local understandings of economic justice' (Scott, 1998). For instance, owing to the long history of civil war and economic hardship, there was an acknowledgement of how 'accumulation was a sin that had to be mitigated by the business people'.[26]

The *'moral norm of reciprocity'* (Gouldner, 1960) was thereby empirically framed as the obligation on businesses to 'repay' what they earned to society, especially in return for the use of public resources or in instances where they had profited at the 'community's' expense. In the words of a former Government Minister:

> When the Somali government fell, the Telecom operators took over the infrastructure that belonged to the Somali people. This was the property that belonged to the Somali people. So if someone came along and took property that belonged to the whole country and made a lot of money from that investment, then the argument that they alone built something did not hold. There was then an onus on these groups to give something back to the wider public.[27]

The *'fairness' of the reciprocal exchange* was defined in terms of the value of the repayment as directly 'proportional' to the intensity of the community's needs and firm's social power – the resources and capacities of private sector actors[28] (Gouldner, 1960). Thereby, Telecom businesses which had accumulated large profits were expected to redistribute their earnings and mitigate the 'selfish effects of finance'.[29] The close customary and religious bonds also contributed to a larger ethos of *community interdependence* and interlinkage. As such, the firm's survival depended on the community's and the stability of the wider society. The following quotes exemplify the underpinning rationale guiding such norms:

> Fairness: The country was in a dire situation, and their responsibility was to help. If you

[26] Interview with Academic, ID: 638287-638278-78095464, Date: 14-05-2021
[27] Interview with Former Senior Government Official (Ministry of Communications and Technology), ID: 638286-638277-65324819, Date: 17-09-2020
[28] According to Davis (1960), the social power of a firm is based on an assessment of the firm's revenue. Firms with greater social power had higher levels of accountability to society (in (Baudot et al., 2019).
[29] Interview with Academic, ID: 638287-638278-78095464, Date: 14-05-2021

were the only one with water, everyone expected you to give water [to help the others]. They [the operators] were expected to help because they had the resources, and they had resources everywhere.[30]

Community Interdependence: Even though Hormuud was a private entity, the company operated or delivered services and benefits; the philosophy was that "we do well if the community does well, we do badly if the community does badly". The idea that you could be wealthy and create millions of dollars when those around you had nothing was unacceptable to us. The philosophy overall was a company that looked outward and inwards and identified with the community – success was with the community, as was failure.[31]

Additionally, many of the Somali interlocutors contended that *tax responsibilities were also tied to social responsibilities and adherence to social norms.* [32] Such that the reputational effects of being perceived as actors who had not adhered to the social norms and paid their 'fair share' may have also served as an underlying motivation and encouraged tax payments. Government officials, in particular, reflected that 'because the Telecom actors took what belonged to the community, they probably paid taxes out of sheer embarrassment' and a need to fulfil their reciprocal obligations to the community.[33] 'As long as the sector was using national resources, like spectrum and numbering, which were publicly owned, they were required to pay some taxes in return for the use of such resources'.[34] Other experts also agreed and argued that having a clean reputation had become more prominent in recent times as the sector had also grown and become more global:

The companies had a social responsibility to contribute, and in making such contributions, they also sought to enhance their legitimacy. It goes back to social responsibility. They needed the public to have an excellent reputation and to thrive. It took work to repair a reputation. This was why they needed to get out there, seem active [by paying taxes] and come out to

[30] Interview with Senior Somali Expert (Somali Think-Tank), ID: 638287-638278-68014827, Date: 27-11-2020
[31] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021
[32] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72209812, Date: 23-02-2021
[33] Interview with Former Senior Government Official (Ministry of Communications and Technology), ID: 638286-638277-65324819, Date: 17-09-2020
[34] Interview with Government Official (National Communications Authority - Regulation), ID: 638286-638277-82611225, Date: 23-08-2021

> clear their name. This was something that they would not have done 20 years ago. Their customer base was global, and they had higher standards to abide by.[35]

Similar arguments have been made in the broader literature. For instance, Christensen and Murphy (2004) assert that the level of taxes paid by businesses has attendant reputational effects. Since the payment of taxes is the most fundamental way private and corporate citizens engage with society. Consequently, firms that follow aggressive tax strategies and avoid taxes can suffer reputational effects if they appear to shirk their social obligations and responsibilities (Baudot et al., 2019; Dyreng et al., 2016). In the Somali case, similarly, experts observed that 'the moral imperative of taxation was to distribute the private flood of money'. [36] 'There was this sense that if people had some money, they had to pay and contribute to the government or the authorities. Taxation stemmed from a sense of moral obligation and social duty.[37]

The adherence to social norms was particularly applicable to Telecom companies, who came under the scanner owing to the 'perceived' inflationary effects of mobile money. As Iazzolino notes (2015, p. 36), while there were no econometric studies linking mobile money to inflation, there was a perception that such systems 'propped up prices'. The perception was related to the prevalence of the US Dollar as the preferred currency on mobile money platforms as opposed to the Somali shilling, especially in urban areas. Somalis who earned in Somali shillings were disadvantaged because they could not make larger purchases (usually computed in dollar values). Therefore, the argument that was made by sections of the government[38] was that the Telecom sector should pay tax because inflation was an 'indirect tax on the community, and it was therefore only 'fair' that the industry should also make (reciprocal) repayments back to the community'.[39]

Alongside this, during the HIPC process in Somalia, one of the compelling arguments made for increasing tax contributions was for the sector to demonstrate its commitment to the broader Somali community (norm of community interdependence). It was also pointed out that tax contributions would help support state structures that were weak but were still crucial for maintaining some semblance of stability (norm of

[35] Interview with Senior Conflict Expert (Bilateral Organisation), ID: 638287-638278-100874768, Date: 20-10-2022
[36] Interview with Academic, ID: 638287-638278-78095464, Date: 14-05-2021
[37] Interview with Public Finance Specialist (International Organisation), ID: 638287-638278-65701286, Date: 28-09-2020
[38] Primarily in Somaliland.
[39] Interview with Academic, ID: 638287-638278-78095464, Date: 14-05-2021

fairness).[40]

The Telecom operators, to some degree, agreed with the assessments made by Government officials and experts. They *conflated taxation with their social responsibilities and viewed it as an obligation that could enhance their legitimacy*. In the words of a senior Telecom sector representative:

> I saw it as an obligation to pay taxes. We operated and made money from the country; therefore, we should be able to give something in return for the environment in which we operated. We believed in being responsible in the way we did our business. We needed to do business in a morally and ethically right way. I think that was one of the motivations for taxes. We did all this because we believed that we should be doing business in a morally and ethically right way. We needed to do this in a way that subscribed to our values of integrity.[41]

Others also similarly related how by paying taxes and adhering to local norms of reciprocity and interdependence, the companies could assert their legitimacy and ensure the security of their business. Communities would support businesses with a 'good' reputation and protect their assets if they perceived them as socially responsible. As relayed by a senior Telecom representative:

> There were two ways in which we were paying taxes [we were paying taxes to the government and also paying money to AS]. It was 'inconvenient', but it came down to the fact and common sense that if the successful companies did not pay anything, then where would their legitimacy come from? Thus, for security and ability to deliver services and the need to demonstrate our legitimacy, we contributed to the state and the community.[42]

However, *contributions made to the broader community to fulfil their religious and clan obligations were also seen as part of the tax bargaining arrangements for these actors*. As noted by Makovicky and Smith (2020, p. 13) 'rather than a singular kind of payment establishing their relationship with the state, (formal) taxes were considered one of several types of payment that led to communality and interdependence with social,

[40] Interview with Somali Expert (Regional Think Tank), ID: 638287-638278-67992513, Date: 26-11-2020
[41] Interview with Senior Telecom Representative (MVNO), ID: 633591-633582-71142446, Date: 28-01-2021
[42] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-72815443, Date: 08-03-2021

religious, and state institutions'. The reputational gain from making informal tax payments strengthened the bargaining position of the sector: 'They were able to tell the state see, we are doing all these positive things that you [the state] were supposed to be doing. Moreover, if we are making such contributions and delivering where the state was failing, these investments should be included in bargains around formal taxes and computations of the sector's total tax burden'.[43] As summarised by a Telecom sector representative:

> In general, there was a wrong perception out there that big companies like (Somtel) Dahabshiil did not pay their taxes or did not pay a fair share. However, I assure you that Dahabshiil has always been compliant regarding taxes. When you account for the CSR and contributions to clan and religious groups – we were paying five times more than what we were paying in taxes. Moreover, by contributing to CSR, we also saw the results of our work, tangible items like a school or a hospital. However, if the government did not have the capability or even the systems to ensure the funds went to the right place, why should we divert funds to the government? [44]

As such, for these actors, contributions made towards CSR initiatives, clan and religious contributions, were part of the transfers they made to the Somali state and society and needed to be counted in assessing the sector's overall tax burden.

Thus, informal norms influenced tax morale, especially reciprocity, fairness and interdependence. Tax payments were considered an obligation to some degree, but these were balanced by the broader societal contributions. In this sense, even as the language of repayment was used, taxes were not subsumed entirely within the language of an 'exchange', 'where everything owed had to be paid back, cancelled out, or squared off' (Campos, 2016, p. 20).

[43] Interview with Academic, ID: 755678-755669-98627156, Date: 13-05-2021; Interview with Senior Conflict Expert (Bilateral Organisation), ID: 638287-638278-100874768, Date: 20-10-2022

[44] Interview with Senior Telecom Representative (MNO), ID: 633591-633582-78491856, Date: 20-05-2021

9.6 Conclusion

To conclude, the findings discussed previously underscore the significance of informal norms and institutions in Somali society. Since 'state collapse', religious and clan-based institutions and social norms embedded in the moral economy have been vital in preserving some form of order and delivering essential public goods and services. Given the limited authority of the FGS in the post-transitional era, the state has had to share authority with these other structures and institutions, which continue to deliver essential governance tasks and regulate economic transactions. Consequently, hybrid arrangements involving the intertwining of formal and informal state institutions and structures have emerged to preserve 'state order' and legitimate the state's authority and capacity for tax collection.

In my research, these institutions and norms were also found to influence the tax morale of the Telecom actors. However, unlike the observations made by Varming (2019a), Boogaard and Santoro (2021) and Jordan (2016), I did not come across specific instances of *Type 1* hybrid institutional arrangements. Instead, I note how kinship and religious registers were, to some degree, mobilised by private sector actors to justify their tax contributions (*Type 2*). Taxes were within the broader universe of payments that private sector actors needed to pay to fulfil their responsibilities towards their clan communities and their faith. In this sense, tax payments were, to some degree, as much a moral obligation as payments to clans and religious institutions.

Along with the obligation to their religion and clan, Telecom actors were also concerned with upholding a particular reputation. Specifically, these actors wanted to be seen as players who adhered to prevailing social norms of reciprocity, fairness and interdependence embedded in the moral economy and subscribed to local forms of economic justice. Given the overall economic insecurity of the country, these players who had done considerably well and profited by using public resources felt obligated to redistribute their wealth. Taxes were considered to facilitate this redistribution, especially if they were paid in line with the community's needs and took cognisance of the interlinked and interdependent nature of social relations. In this sense, the motivation to pay taxes also stemmed from an obligation to uphold social norms.

Nevertheless, even as these norms were compelling, there were limits to how far sector leads were willing to go in acknowledging the extent of their obligations. Specifically, some interlocutors contended that

actors in the Telecom sector lobbied clan leaders to ensure they received favourable treatment from the government. These inter-clan linkages were similar to those suggested by political settlement perspectives. Still, the key difference was that relations were also forged based on the sector's contributions to the clan community and the 'performance of kinship'. Along with payments to clan groups, funding for specific projects in given clan communities as part of CSR initiatives contributed towards kinship obligations. Similarly, other interlocutors reflected that CSR contributions were central to the sector's tax bargaining strategy. Because of such contributions, the industry considered they had met their religious duties and subscribed to prevailing social norms and standards, calling for the redistribution of the wealth earned. Thus, even as they were willing to pay a certain amount in taxes to strengthen the state's revenue-earning capacity and maintain a modicum of stability, the concern with building its long-term institutional capacity was less apparent.

These findings demonstrate that hybridity worked to reinforce the power imbalance between the sector and the FGS. Therefore, quite similar to van den Boogaard (van den Boogaard, 2020), my research finds that the relationship between hybridised arrangements and state capacity is mediated. The sector's willingness to make tax contributions strengthened some of the state's revenue-earning capacity. Still, the institutional effects were limited, as some taxes continued to be paid on a negotiated basis. Hybridity, therefore, did not lead to effective forms of order but instead represented a shift to 'unaccountable forms of control' (2012, p. 1097).

Nevertheless, my findings also relate to Kauppinen (2020) and Sheild Johansson (2020a, p. 7) contention of how taxes co-exist within a broader universe of monetary transfers which offer 'a contextual evaluation of formal taxes'. In Somalia, the sector leads made various 'tax-like' payments and CSR contributions and interpreted such investments within 'communistic' frameworks and local notions of economic justice (Campos, 2016, p. 16). Likewise, to some degree, they viewed formal taxes within similar farmings and deemed such payments an obligation to a larger communal world. Therefore, emic understandings of formal taxes were informed by a broader universe of payments; underpinned by informal norms and institutions.

Where, then, do these insights leave us?

To some degree, they offer a greater understanding of the factors that may have compelled and motivated tax payments and why they continued to be low and negotiated. However, these reasons do not appear to be sufficient on their own; for one, they do not help us appreciate why the sector was able to strike highly favourable tax deals (low and negotiated), especially for corporate taxes, and why the state accepted such arrangements (political settlement arguments). Moreover, hybridity arguments do not explain why the sector was willing to pay certain taxes even as they avoided others (exchange perspectives). However, when combined with the other two previously discussed arguments, the value of this perspective is more concretely observed.

Specifically, hybrid arguments captured the embedded nature of the Telecom elites, whose rationalities were also shaped by the peculiarities of the Somali context. The limited capacity of the FGS in a highly complex governance arena pointed to the continuing role of non-state institutions and norms, which exercised considerable influence and mediated conceptions of formal institutions. Thus, the tax morale of Telecom actors towards formal taxes was not only informed by their relations with the state but was also shaped by informal norms and institutions. Together these findings suggested the need to consider 'logics' beyond exchange and rent-seeking frameworks (Campos, 2016). As one interlocutor put it, 'actors in the Telecom sector were not alienated elites or "Martians"; they were like other Somalis who were just as compelled by the needs and interests of their community – be it clan, religion, or broader societal norms and 'ethics'.[45]

[45] Interview with Senior Somali Expert (Somali Think-Tank), ID: 638287-638278-68014827, Date: 27-11-2020

Chapter 10

Conclusion

10.1 Introduction

In October 2022, I was in Nairobi for a round of interviews when I met Jess, an Information and Communication Technology (ICT) specialist who worked closely with the Somali government. This was my third meeting with Jess, who, over the years, had been among the more generous and obliging respondents. While we waited for our coffees to arrive, Jess turned to her phone and noticed she had received a communique from the National Communications Authority. She asked if I had heard of this latest announcement, which mentioned an agreement with the Telecom sector on spectrum pricing, allocations and interconnections. I was surprised by the news. I had heard that efforts were underway, but the discussions had been long and laborious as the Telecom sector had repeatedly attempted to scuttle any real progress. I asked Jess what she made of such statements. In her usual candour, she explained that while news of an agreement was good, the self-congratulatory attitude of the NCA and the international community (which had already begun to herald such regulations as a success) was premature. The sector, she pointed out, had always found ways to circumvent the law, and this time most likely was no different:

Every time we seek to implement the regulations, they always seem to say the same thing – leave

us to sort it out; something similar will likely happen in this case as well. There is some merit to the sector's claim, of course. The sector has made remarkable progress through self-regulation alone – Somalia has one of the lowest prices in the world, even without real competition. The operators fix the lines and ensure the network keeps going whenever the lines break down. You can either conclude that everything should be left to the market or that some level of regulation is needed to address the poor outcomes stemming from market imperfections. The question is, will they [the sector] allow the regulations to be ultimately implemented? Or will the system of elite compromise stymie any real progress? I honestly do not know the answer.

Once Jess left, I kept thinking about her observation and reflected on whether my research and findings could help in any way to answer some of these wider questions. In this last chapter, I summarise my research journey and reflect on my primary question. I then delve into the main empirical contributions of my thesis and consider the implications of my findings. I ask if they help shed further insight into these concerns as they relate to the Somali case and broader debates in the field.

10.2 Summary of the Research Question

I centred this thesis on a simple question, what motivates and underpins tax morale? Or, more simply, why do people pay taxes? I argued that this question was particularly complex in a context like Somalia where, given the country's fragility, standard taxation models proffered limited explanatory value as they tended to make certain implicit assumptions about the state. Primarily, they viewed the state as an 'autonomous, coherent and rational entity with a monopoly over the means of coercion' (Hagmann and Péclard, 2010, p. 6). States that did not subscribe to these ideals were considered to have 'failed not by what they were, but by what they were not', namely successful compared to western states' (Hill, 2005, p. 148).

As a paradigmatic case of state failure, the Somali state scarcely met the criteria laid down by the standard approaches. The Federal Government (FGS) struggled to assert its authority, lacked monopoly over coercion, enjoyed limited legitimacy, and could not deliver on its basic commitments (Raballand and Knebelmann, 2021). Despite such limitations, the Somali Government did engage one primary sector – the Tele-

com sector. After almost 12 years of negotiations, the FGS passed a law regulating the industry. The National Communications Law (2017) was one of the few sector laws approved in Somalia (Kelly et al., 2021) that established the legal regulatory and institutional framework for the country's thriving Telecoms sector (FGC, 2017). While contentious issues, such as spectrum licenses, were postponed, the sector's tax contributions increased from US$ 3.9 million (2014) to US$ 42.8 million in 2021 (Kelly et al., 2021). Although corporate tax payments continued to be paid on a negotiated basis, license fee payments were standardised with the approval of the Universal Licensing Framework, and the sector also agreed to meet its sales tax obligations (Abshir et al., 2019). However, even as the amount contributed in taxes was higher than the initial target set by the World Bank and the FGS, it was less than what experts had projected the sector could potentially contribute (almost twice the amount). Specifically, corporate tax contributions were significantly lower than industry standards and the sector's (presumed) profit margins (Kelly et al., 2021; International Monetary Fund, 2019; Lange, 2015).

Given the nature of fiscal relations, I argued that it was important to ask three different but interrelated questions to understand the motivations underpinning the sector's tax morale, including:

a) *Why was the sector willing to pay some taxes and fees (even as it avoided others)?*

b) *Why did the payment of certain taxes remain low and negotiated?*

c) *How did the sector fundamentally conceive of formal taxes, and what framings and references informed such conceptions?*

Following a review of the standard taxation literature, I concluded that to answer these questions, there was a need to adopt alternative perspectives rooted in the experience of fragile states. Specifically, the perspectives that offered considerable conceptual room for exploration were those that did not take the 'ideal-typical' image of the state as their starting point. These included the *political settlement and elite bargain perspectives*, which question the idea that the state had a monopoly over the means of coercion and argue that violence potential is distributed among various elite groups, especially in fragile states (North et al., 2007). One of the significant ways in which elites can be incentivised to cooperate and compete peacefully is if rent-sharing agreements involve the selected or the limited enforcement of taxes. Thus, low and ne-

gotiated taxes are likely to emerge as the norm as such arrangements maximise the power and position of elites (Di John, 2011; North et al., 2007; Khan, 2010). While such perspectives have been exhaustively discussed in the literature (Menkhaus, 2018; de Waal, 2015; de Waal et al., 2020; Majid et al., 2021), the specific mechanisms that explain such relations, especially as they relate to tax incentives remain under-theorised (Kjær, Anne Mette, 2022). Taking cognisance of these gaps, I drew on Khan (2010), Cheng et al. (2018) and Pritchett et al.'s (2017) insights to identify the role of structural, institutional and agency-level factors contributing to low and negotiated taxes in Somalia.

A second set of arguments suggests how taxes can be exchanged for collective returns even in instances of weak state capacity (Sheild Johansson, 2020b; Makovicky and Smith, 2020; Lund, 2006). By questioning the coherency of the state concept, they propose that formal state institutions with limited capacity to deliver can continue to legitimate their right to collect taxes by evoking and deploying the symbolic armoury and imageries of the state and offering limited material returns that only the state can principally offer large capital. Specifically, these returns relate to the intertwined nature of the state and capitalist relations (van Apeldoorn et al., 2012; Harvey, 2005; Polanyi, 1957). As van Apeldoorn and de Graaff (2022, p. 472) argue, 'the state, despite appearances to the contrary, is necessary for the reproduction of capital'. Three types of returns are described as particularly significant – recognition and legitimacy of businesses, delivery of public goods and services, and juridical statehood (i.e. upholding the image of an imagined state and community). Nevertheless, what differentiates such perspectives from standard contractual models is that even as tax motivations are conceived as an exchange, the contractual terms are contentious, subject to renegotiation, and not part of 'one large reciprocal relationship' (Makovicky and Smith, 2020; Lund, 2006; Sheild Johansson, 2020b, p. 33).

A third set of perspectives draw on the considerable work done within the space of hybrid governance and question the line separating the state from society and the presumption that the state is the ultimate seat of rationality (Migdal and Schlichte, 2016; Sharma and Gupta, 2009). Instead, these perspectives argue that the legitimacy and authority of the state can also be reinforced by informal institutions and structures (Lund, 2006). Especially in fragile contexts where formal state institutions do not assume a vertical position as the supreme authority; but share authority, legitimacy, and capacity with other structures and institutions (Boege et al., 2008; Kraushaar and Lambach, 2009). These other institutional forms, more-

over, not only coexist but also overlap and increase the legitimacy of formal state institutions, enabling them to raise taxes (Lund, 2006; Boege et al., 2008). In the Somali context, religious and clan institutions, considered more legitimate and trustworthy than the state, have been found to engender compliance and motivate tax payments (Varming, 2019a; van den Boogaard and Santoro, 2021). Additionally, scholars such as Prichard and Boogaard (2017) also point out that in the context of the precarity of the local economic realities, as in most situations of fragility, informal norms of fairness, reciprocity, and interdependence take on increasing significance. The progressiveness and legitimacy of the formal tax system are enhanced if tax collectors subscribe to these values and norms (Prichard and Van Den Boogaard, 2017). Similarly, adherence to informal norms and values is also a concern for taxpayers, especially large corporates whose reputation is tied to 'societal ethicality' (Agarwal, 2017 in Baudot et al., 2019, p. 199).

In contending with these different perspectives and assessing their relevance to the Somali case, I adopted a primarily qualitative approach based on a PT framework – 'a method of tracing the process linking a cause (or conjunction of causes) with an outcome' (Bennett and Elman, 2006; Beach and Pedersen, 2019; Gerring, 2008, p. 163). The advantage of using a PT framework was that it helped in identifying the specific causal mechanisms underpinning each perspective (hypothesis). During the data analysis process, I traced the incidence and presence of these conditions. Furthermore, since PT is grounded in set theory, I evaluated the evidence supporting a particular perspective (or hypothesis statement) on whether it met specific tests. Specifically, I evaluated the findings based on whether they met the test of 'necessity and sufficiency'. In applying the 'necessity' test, I assessed whether the information gathered affirmed the relevance of a particular hypothesis statement even if it did not confirm it entirely (Collier, 2011). Alternatively, I considered a given causal explanation to have passed the sufficiency test if there was decisive evidence in favour of the hypothesis (Collier, 2011). However, appreciating that there were multiple causal paths to a specific outcome, and therefore, a causal claim could be considered neither individually necessary nor individually sufficient, I adopted the INUS approach and considered the applicability of all three hypothesis statements (Mahoney and Goertz, 2006).

10.3 Empirical Findings

In adopting this methodological approach, I found that 'multiple logics inhabited tax relations' (2020b, p. 34). However, to understand the significance of these logics, I recapitulate a few relevant insights emerging from my research.

Historical registers of authority continued to shape current conceptions of the state and fiscal relationships. Drawing on the work of scholars like Guyer (1992), Roitman (2005), and Meagher (2018), I noted how accounting for the history of taxes and the way such payments had been conceived through time was crucial for understanding current fiscal relationships (Sheild Johansson, 2020b). I found that pre-colonial Somali history provided several starting points for understanding centralised forms of public authority and tax extraction practices.

Specifically, Somali history attested to various centralised institutional systems — including pastoral dynasties and coastal city-states (Cassanelli, 1982). The collective memory of these various forms of centralised governance influenced perceptions of public authority and, in particular, reminded Somalis of 'the dangers of autocratic rule' (Cassanelli, 1982, p. 95). The pre-colonial discourses associated with centralised authority were reconfirmed during colonialism, described as a 'distant, neglectful and violent mode of rule' – became more vivid under the authoritarian regime of Siad Barre and continued to shape understandings of the role of the state in the post-transitional period (Cassanelli, 1982; Varming, 2019a, p. 54).

Relatedly, taking stock of historical trends underscored how colonisation also introduced new technologies of power and authority that transformed state-society relations and set the tenor of the post-colonial state's extractive capacity. Specifically, the extraction of taxes at the interface of the 'gate' engendered a pattern of patronage-based politics to benefit certain clans and businesses (Cooper, 2002, p. 5). The civilian government's inability to expand beyond the confines of a 'gate-keeping state' meant that access to state patronage emerged as a crucial political and economic resource (Cooper, 2002, p. 5). Sections of the business consequently sought a closer relationship with the state to benefit from such arrangements. During this period, the business class's close relations and rent-seeking behaviour contributed to low levels of domestic revenue mobilisation. Contrastingly, the Barre regimes' socialist policies and mismanagement of the economy distanced it from sections of the business class, which retreated from the formal economy. In

this context, the historical seeds of distrust with state authority were more firmly set as the business class began to see the regime as disruptive to economic development. The aversion to taxation became even more acute.

Private sector development in Somalia challenged conventional state-centric development models. The initial years following the ouster of the Barre government in 1991 further entrenched the sector's disengagement from state institutions, as sections of the private sector managed to thrive despite the collapse of formal state institutions. When the country plunged into a period of civil war, a motley of formal and informal, overlapping systems of public order (re)emerged (Stremlau, 2018). While sections of the business class were deeply affected by the war, the precarious stability associated with such institutions, combined with the absence of regulatory controls and the inflow of international aid, allowed some businesses to re-establish their activity (Hagmann and Stepputat, 2016; Nenova, 2004). Business activities were diversified during this period, and more advanced sectors like Telecom, banking and remittances emerged (Hagmann and Stepputat, 2016; Marchal, 1996; Hansen, 2007).

However, the changes in the nature of business encouraged an interest in stability and public order. During this period, the business sector began investing in public authorities who could offer a more conducive operating environment for trade and commerce (Menkhaus, 2003; Ahmad, 2015). Mogadishu business people who had grown frustrated with the high cost of business (mainly due to the insecurity of the context) began to play a more active role in politics and invested in the transitional governments (Webersik, 2006). However, by the late 1990s, exasperated with the ineffectiveness of the transitional governments, Mogadishu business elites redirected their support to the ICC, whom they saw as offering security across clan divides and territories (Ahmad, 2015, 2017). The sectors varying stratagems to preserve stability (involving investments in formal and informal public authorities) raised questions regarding whether the business class viewed state-building and peace-building as compatible objectives. As Menkhaus (2003, p. 419) argued, "for Mogadishu businessmen who made their fortunes in a setting of complete state collapse, the transition to an environment of state governance – even a paper state – proved too risky to accept".

The FGS' struggle to mobilise revenue resulted in contending strategies to engage the sector. By 2012, as the last transitional government completed its term, there remained the crucial question of how the

newly appointed FGS would raise revenue. Specifically, the central question was how the state would raise taxes from the more profitable sectors of the economy, which had emerged before the institution of formal institutions. I demonstrated that while raising revenue was a priority for both governments, the strategy employed by the Hassan Sheikh and Farmajo governments differed. The differences in the approach raised further questions about how the sector would relate to the state project. The Hassan Sheikh government (2012-16) endeavoured to engage the industry and used clan relations to forge proximity with the sections of the private sector (Meester et al., 2019). Several structural factors, however, impeded the Hassan Sheikh government's progress on the revenue front. Among these were the limited capacity for enforcement, poor financial management, high rates of corruption, and the dominant position of the private sector vis-a-vis the state (Abshir et al., 2019; Ahmad, 2015; Majid and Abdirahman, 2021; World Bank, 2017).

Conscious of the low legitimacy of the previous government, the Farmajo government attempted to project a 'cleaner and more technocratic image' (Webersik et al., 2018). In trying to convey this image, the government also distanced itself from the sector. It invested in efforts to mobilise greater revenue – introducing newer tax handles, VAT and Sales Tax, and also cracking down on business groups known to make protection payments to the terror group) (Meester et al., 2019; World Bank, 2018c, 2021b; International Monetary Fund, 2020). Thus, unlike its predecessor, the Farmajo government intended to engage the private sector by projecting its authority and using the tools and means at its disposal to assert control and relay the message that the 'government was here to stay. The government was also able to engage the Telecoms sector and capitalise on the progress made by the Hassan Sheikh government. Consequently, tax payments steadily increased during this period. However, moving away from a negotiated tax arrangement, especially for corporate tax payments, was similarly challenging (Raballand and Knebelmann, 2021).

The sector's evolution had a bearing on its relationship with state institutions. To understand why the state was able to engage the sector to some degree, I proposed that it was also essential to pay attention to the changes in the nature of the Telecom business. Specifically, I suggested that the changes in the Telecom sector could help shed some insight into the industry's view of formal institutions and whether sector leads had come to consider their growth as contingent on the 'state project'. To quote Menkhaus (2003, p. 419), had the state proved to be a 'less risky concept'?

In tracing the sector's growth, I found that the evolution of the Telecom sector challenged conventional state-centric development models and supported Ferguson's (2006, p. 208) contention that capital investments could be institutionalised in ways that 'cut out the overhead of a national state'. However, the adaptation strategies adopted to circumvent regulatory institutions and governance arrangements proved less resilient over time. In particular, the leading Telecom operators could not overcome the challenges of limited infrastructure capacity, persisting security challenges and isolation from global finance. Thus, in the post-transitional phase, as nascent formal institutions were being institutionalised, the earlier claim of the sector's ambivalence to the state project was less settled. Consequently, there was a need for a more updated understanding of how the sector had come to engage with and invest in formal institutions. I proposed that one of the most explicit indications of this was the response to efforts by the government to regulate and tax the sector.

10.3.1 Tax Relations as a Deal

In unpacking the tax motivations and incentives of the sector, I argued that the nature of the elite bargain and political settlement in Somalia – a limited access order or an elite division of spoils, meant that low and negotiated tax payments were part of a rent sharing agreement or a 'deal' to secure privileged access to resources and opportunities. While such insights were consistent with the prevailing research in the field, I also demonstrated how it was corporate taxes, in particular, where such relations were more closely observed. Additionally, I identified the constellation of structural, institutional agency-level factors that helped to establish the reasons for low and negotiated tax payments and the sector's resistance to a rules-based system. Specifically, the Telecom sector was a powerbroker industry with considerable economic (holding) power. This positioning within a political settlement context where the power of political elites was horizontally dispersed and vertically distributed (low legitimacy of the state) made it possible for the sector to determine tax deals that heavily favoured their interest, i.e. taxes were low and disordered (negotiated).

The sheer level of external aid also gave rise to 'elite extraversion' tactics (Hagmann, 2016) and provided an additional layer of explanation. Specifically, it explained why Telecom actors, given their strong positioning

(vis-a-vis the state), would make more formalised tax payments and agree to be brought within the state's fiscal ambit. The access to greater conditional grants following the completion of the HIPC process, in particular, was found to be a precipitating factor for greater tax contributions. Sector leads were willing to pay some tax to demonstrate their commitment to and maintain the appearance of the state even as they resisted efforts to pay 'their fair share' and concretely contribute to long-term state-building.

Structural factors interacted with the institutional context and further explained the low and negotiated tax rates. The reliance on informal institutions and structures also contributed to the sector's resistance towards formalisation. Attempts at establishing formal payments were resisted because they changed the distribution of benefits (Khan, 2010). Such dynamics were most closely observed in the resistance to the formalisation of corporate tax contributions under the National Communications Act. Specific provisions relating to corporate tax contributions were ultimately not included in the final version of the law, following pressure from the sector.

Lastly, the interrelationships between the business and political elites further facilitated the brokering of low and disordered tax deals. Political and economic elites were bound by clientelist relations, which were clan-based, personalised, and monetised. The Hassan Sheikh government, in particular, was wound up in clan-based patron-client relations with the business elites. In contrast, although outward projections of a more distanced approach towards the sector strengthened its bargaining position, the Farmajo government, much like its predecessor, also had overlapping relationships with the private sector. Such relations were also ostensibly leveraged in negotiations with the sector. Furthermore, the limited holding power of political elites and the distributed nature of elite groups (horizontal differentiation) meant that relations between elites were neither stable nor fixed. Consequently, elites were incentivised to engage in spot bargains on taxes, which also contributed to the low and negotiated tax rates paid by Telecom actors.

Thus, even as sector elites were willing to pay some tax as part of an elite compromise, there was a reticence to investing in long-term institutional development. As such, political settlement and elite bargain perspectives pointed to the 'necessary conditions' for the low and negotiated rates of corporate taxes paid by Telecom actors.

10.3.2 Tax Relations as an Exchange

While sector leads were unwilling to make higher corporate tax contributions, they seemed amenable to paying other kinds of taxes – license fees under the Universal Licensing Framework and sales taxes (based on self-reported figures). The passage of the Communications Act also signalled the sector's willingness to be regulated, albeit to a limited degree.

To explain why the sector was willing to make such tax payments and why, in principle, they agreed to regulations, I proposed the significance of the evolution of state and capitalist relations. Drawing on the work of IPE scholars like Polanyi (1957), van Apeldoorn et al. (2012; 2022) and economic geographers, such as Harvey (2005) and Doshi and Ranganathan (2019), I argued that the entangled and rent-seeking relations between political and economic elites were perhaps also part of a larger dynamic between the 'state' and 'capital'. Thereby, it was not only that sector and political elites were linked owing to close clan partnerships, personalised relationships and a shared desire to appropriate rents (political settlement perspectives), but there was the possibility for a more intrinsic and structural linkage between the development of capital and state institutions.

In reviewing the impressions of key government and Telecom sector elites, I concluded that despite the limitations of the Somali government, there continued to be some 'returns' that the state could offer the sector in exchange for which prominent players were willing to make certain tax payments. Telecom operators, which had emerged without significant state support as they grew larger and became more professionalised and globalised, sought particular returns that state institutions could principally provide. The sector, as such, was approaching the limits of what could be sustained without formal regulation.

Notably, the types of returns included collectively desired goods and services for creating an enabling environment for investment (market creation), namely, a regulatory environment, infrastructure investments and some level of protection and security. The government could also offer legitimacy and recognition to Telecom operators, which were necessary to reduce the sector's isolation from global financial markets (external interests of domestic capital) and improve their credibility and prospects for securing lucrative contracts. Additionally, reinforcing the image of a state apparatus was crucial for the sector, not only from the point of view of elite extraversion but also because the sector wanted to be part of the broader commu-

nity of states that could support and defend the interests of capital.

Based on these findings, there was scope for a fiscal relationship based on exchange, where the state could offer a few material returns and leverage some of the symbolic benefits that accrued from the 'state idea'. Nevertheless, given the state's weakened capacity, the contractual arrangements were far from reciprocal. In response to the state's inability to deliver reciprocal services, sector leads continued to exercise a dominant position and bargained for lower payments. For instance, even as they were willing to pay license fees, there was significant push-back against other indirect taxes, including the more fiscally lucrative spectrum fees[1] and taxes on mobile money transactions.

Thus, taxes such as sales and license payments were paid in return for collectively desired goods and services, some legitimacy and recognition and the defence of the sector's external interests. Thereby, alongside an explanation for the low, closed and disordered tax deals, I found that the exchange argument offered an additional layer of reasoning for why the sector was willing to engage with the state and pay certain taxes, even as it actively resisted other more fiscally lucrative payments and a rules-based system of enforcement, which together would have contributed towards long term institutional development. In causal terms, therefore, taking into account the exchange-based arguments bolstered the sufficiency of the explanation offered by political settlement perspectives.

10.3.3 Tax Relations as an Obligation

Another salient insight that emerged from my research was how formal taxes were part of a broader universe of payments. Like other actors, Telecom actors made several additional payments to various non-state institutions. For instance, 'tax-like' payments were paid to AS and informal institutions such as kinship and religious institutions. Moreover, given the years of 'statelessness,' these institutions had also come forward and performed core governance tasks. Formal institutions were, therefore, one among the many authorities in an already crowded governance arena.

Taking note of the hybrid political orders perspective, I noted the significance of informal institutions and

[1] Although based on the latest announcement by the NCA April 2023 (beyond the scope of this study) new regulations have been issued on spectrum licenses and fees and interconnections. Nevertheless, it remains to be seen how spectrum licenses will be issued in practice and whether interconnection agreements will work to level the playing field.

norms and the leakages of meaning that bled into and legitimated the state's right to tax (Lund, 2006, p. 691). The state was not the only 'referential point' for understanding the tax morale underpinning formal taxes (Sheild Johansson, 2020b). Specifically, there were two fundamental ways hybrid arrangements were considered to facilitate tax collection and legitimate the state's right to tax. The first involved non-state authorities, such as clan or religious authorities, in tax collection arrangements (*Type 1 Hybrid Arrangements*). A second way was if formal tax payments were justified using religious and customary registers or social norms (*Type 2 Hybrid Arrangements*). The deployment or attribution of customary religious or social registers to formal institutions by state or non-state institutions could, thereby, also facilitate formal tax collection.

In assessing the role of these various institutions, I found few instances of direct involvement of clan and religious institutions in tax collection arrangements to incentivise payments of Telecom actors (*Type 1 Hybrid Arrangements*). However, I did note a few instances where clan and religious registers were mobilised to justify formal tax contributions (*Type 2 Hybrid Arrangements*). In addition, I found that social norms of reciprocity, interdependence and fairness played a more significant role. Telecom actors were concerned with their corporate reputation. One of the critical ways to uphold their reputation was by subscribing to prevailing social norms. Therefore, given the overall economic insecurity of the country, these players who had done considerably well and profited by using public resources felt obligated to redistribute their wealth. Taxes were considered to facilitate this redistribution, especially if they were paid in line with the community's needs and took cognisance of the interlinked and interdependent nature of social relations. Thereby, the motivation to 'pay some' tax also stemmed from an obligation to uphold social norms and standards.

However, while religious, clan and social norms were mobilised and impacted the emic understandings of formal tax payments, these norms and institutions were also used strategically to strengthen the sector's bargaining position. There were consequently limits to how far sector leads were willing to go in acknowledging the extent of their obligations. Specifically, Telecom operators lobbied clan leaders to ensure they received favourable treatment from the government by performing their kinship responsibilities in specific ways. Similarly, CSR contributions were central to the sector's tax bargaining strategy. Because of such contributions, the industry considered that they had met their religious duties and subscribed to prevailing

social norms and standards, calling for the redistribution of the wealth earned.

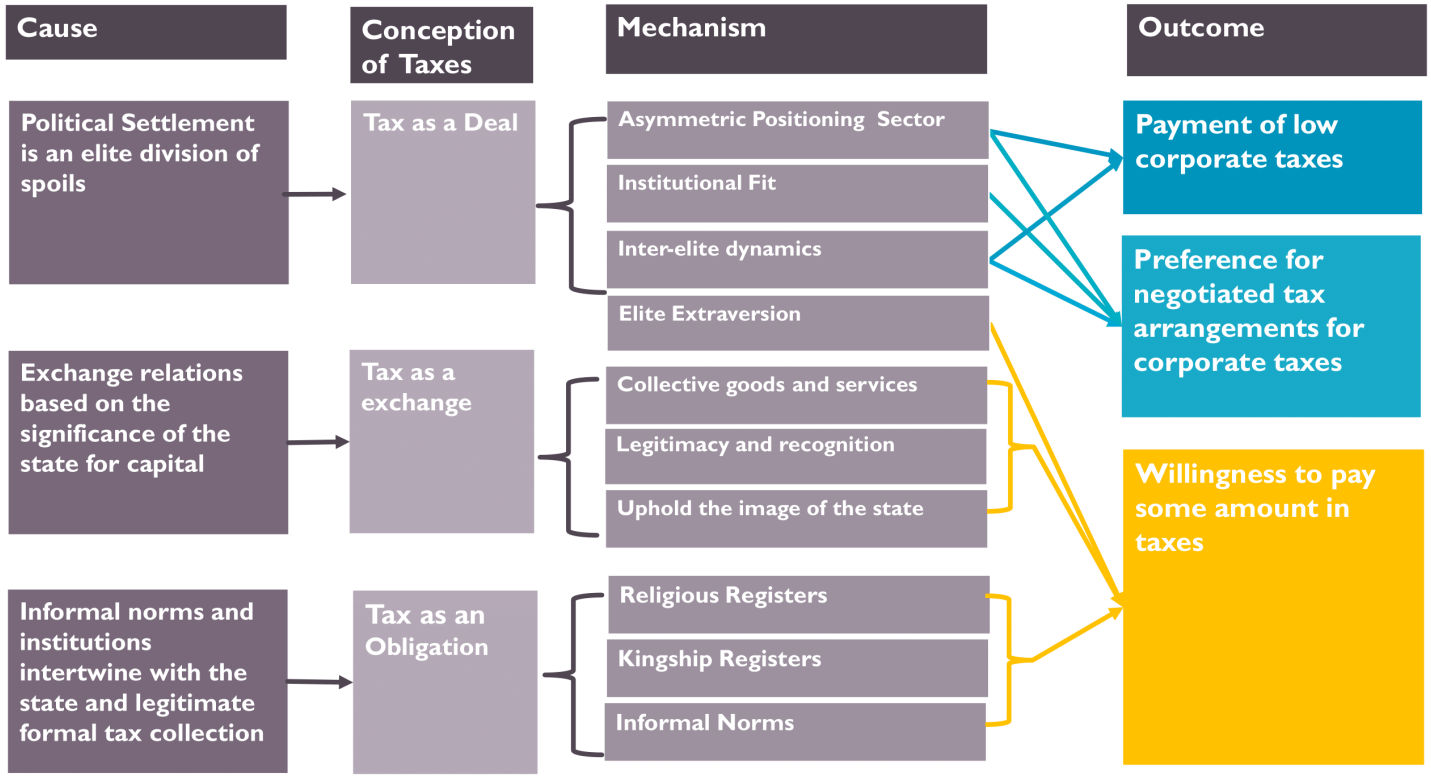
Thus, tax incentives were shaped by the leakages of meaning that drew on various institutional sources. However, these same institutions were also readily called upon to negotiate with the state. As such, my research finds further evidence for how the relationship between hybridised arrangements and state capacity is mediated. The sector's willingness to make tax contributions strengthened some aspects of the state's revenue-earning capacity. Still, the institutional effects were limited as some taxes continued to be paid on a negotiated basis.

Thus, the findings from my research indicated that 'multiple logics' underpinned the tax relations between the FGS and the Telecom actors (Sheild Johansson, 2020b, p. 34). With regard to corporate tax payments, these relations could be best characterised as a 'deal' owing to the political settlement dynamics and the arrangements for elite bargaining. Sector leads were willing to pay some corporate tax to sustain the formal state but were unwilling to pay taxes according to a standardised rate and contribute their 'fair share'. However, even as the sector was in an asymmetric position and could determine the tax rates, they also recognised that there were specific returns that only formal state institutions could provide. The sector leads were, thereby, willing to pay license fees and other types of indirect taxes that could help create an enabling environment for investment and protect the sector's external interests. Despite its limited capacity, the Somali state was able to leverage the symbolic value of its juridical statehood and deliver a few specific material returns.

In contending with the various logics that underpinned the tax relations, the contextual complexity of Somalia implied how formal tax payments existed within a broader universe of monetary transfers. The role and influence of the various political authorities that emerged to collect 'tax-like' payments also influenced conceptions of formal taxation. They offered an additional layer of reasoning and bolstered the sufficiency of the arguments. Specifically, formal taxes were conflated with and considered a moral obligation to kinship and religious institutions. More significantly, informal norms of community interdependence, fairness and reciprocity defined perceptions of formal tax obligations. Therefore, fundamentally, even as the logic of bargains and exchange were readily deployed, the notion that taxes were, to some extent, an obligation and were part of a communistic relationship of interdependence was also observed. (See Figure 10.1

for a graphical depiction of the causal pathways)

Figure 10.1: Causal Pathways of Tax Relations



10.4 Implications and Contributions of the Findings

In this last section, I reflect on the implications of my research. I take stock of the literature I have dialogued with and consider how my findings contribute to conceptions of the state. I also attempt to explain how my findings help to infer political settlement dynamics in Somalia and what they reveal about state-building trajectories and state-society relationships. In contending with these issues, I assess whether they reassert the principal claims, provide further avenues for exploration, and offer some considerations for future research. Lastly, I reflect on some key policy lessons from my research.

10.4.1 State Concept: Beyond the Ideal and the Typical

One of the salient implications of my research is the significance of interrogating the state concept beyond the 'ideal-typical notions' (Lund, 2006, p. 695). As Hagmann and Péclard, Lund (2006) and more recently Musa et al. (2023) have argued, a focus on 'empirical statehood' can be incredibly productive in not just unpacking the basis of political order and governance but also in understanding tax relationships.

The Somali case demonstrates that the state does not always have a monopoly over the control over violence. Instead, as North et al. (2007) argue in fragile contexts, it is imperative to study how elites, who control a disproportionate amount of power, wealth and access to violence, are incentivised to cooperate and preserve some modicum of order. Elite bargains around the sharing of taxes can provide a glue to hold together fragile coalitions between elites.

Additionally, the state is not a coherent entity; rather, there are ideas and practices which together shape the power of the state. Moreover, as Migdal and Schlichte (2016, p.16-17) contended, the image of the state as a 'dominant, integrated, autonomous entity that controls all rule-making in a territory' can be reinforced even when the material manifestations and actual practices of the state are known to be weak, as in most instances of fragility. Thus, it is essential to study how ideas and practices constitute the state to grasp the basis of tax relations and the maintenance of public order more broadly.

The notion that the state is an autonomous entity external to society also needs to be questioned as a wide range of actors and institutions deliver public services and exercise public authority. Therefore, it is

"difficult to ascribe exercised authority to the 'state' as a coherent institution. Instead, public authority becomes the amalgamated result of the exercise of power by various institutions – state, non-state, domestic and external – conjugated with the idea of a state" (Lund, 2006, p. 686). While such institutions can often compete with the state, in several instances, as van den Boogaard (2020), others (Owen, 2018; Boege et al., 2008; Prichard, 2010; Lund, 2006), and this thesis also demonstrates, non-state institutions can reconfirm the state's authority and legitimate the state's right to tax.

10.4.2 Political Settlement Dynamics: Continuities and Tensions

A fundamental consideration in making sense of the findings is what they reveal about the overarching political settlement. Specifically, do they provide a cohesive explanation of the distribution of power and institutions? I propose that the main conclusion that there were multiple logics governing tax relations in Somalia offers distinct insights into political settlement dynamics and helps to identify some emerging sources of tension.

To begin with, the nature of tax relations as a 'deal' confirms how the distribution of power and institutions in Somalia resembled a 'fragile, limited access order' where rent-seeking relations provided a powerful glue for maintaining a modicum of order and stability (North et al., 2007, p. 11). The absence of a single dominant group of political elites (horizontal dispersion of power) and the contested legitimacy of the ruling coalition (vertical differentiation of power), combined with the 'powerbroker' status of the industry, meant that actors in the Telecom sector held considerable holding power (Pritchett et al., 2017). These groups leveraged their asymmetric position in the economy and relations with their political elites to negotiate tax arrangements that furthered and secured their access to rent-seeking opportunities. Consequently, the more fiscally lucrative corporate taxes were paid at low and negotiated tax rates.

However, the nature of the 'exchange relations' observed pointed to an emergent tension in the interests of the elite groups. In particular, it underscored the extent to which mutual interests had developed between the state and the sector. On the one hand, the sector's evolution meant it increasingly required certain returns from formal state institutions. Thus, the status quo of 'preserving only the 'illusion of statehood' rather than investing in state institutions proved less tenable with the growing ambitions of the sector. The

willingness to pay certain taxes was reflective of this dynamic: the sector agreed to pay some tax in return for specific returns that could contribute to the productivity and growth of the industry.

However, even as there was a move towards formality (or ordered deal-making), the holding power of sector elites, in particular, was still aligned towards exclusionary informal institutions. Moreover, the 'ideas and beliefs' of the sector (Hickey, 2012) – especially their understanding and vision of the state as 'non-interventionist', also translated into resistance to an 'open deals environment'. Thus, despite an emerging tension, a new equilibrium, wherein elite interests were aligned more squarely towards investing in long-term institutional development, remained pending.

A second source of tension emerged from the role of informal norms and institutions and how they, too, shaped the 'interests and ideas of sector elites' (Hickey, 2012). The desire to be seen as actors who were not predatory but compliant with social norms, kinship ties, and religious commitments meant that sector elites were increasingly concerned about the reputational effects of not complying with informal and formal taxes. Formal taxes were, therefore, seen as part of the broader universe of transfers that sector elites had to pay to fulfil their obligations to Somali society.

However, given the limited legitimacy of the Somali state, the reputational effects of not investing in state institutions were insufficient to encourage a decisive shift in incentives away from the existing settlement. Moreover, the state was one actor among many in a crowded governance arena, which meant that the sector could strategically leverage the payments made to informal actors when negotiating rates of formal tax contributions with the state. CSR contributions were crucial to how the sector managed its reputation of fulfilling social, religious and kinship responsibilities even as it paid only preferred taxes and the rest at low and negotiated rates.

Thus, overall, tax relations revealed the persistence of 'limited access order' in Somalia. However, there was an emerging tension for one critical group of elites, which had considerable implications for shaping the nature of elite bargains in the future.

10.4.3 State-building Trajectories: The Development Bargain Remains Elusive

One of the central questions this thesis has grappled with is whether the emerging tax relations of Telecom actors signalled a growing commitment to state institutions or were 'peace-building and state-building antagonistic and distinct projects' (Hagmann, 2005, p. 529). I proposed that this question was significant because it guided much of the understanding of the private sector and state relations (Hagmann and Stepputat, 2023, 2016; Menkhaus, 2018; Webersik et al., 2018). As previously discussed, the thinking was that 'while private sector actors saw a need for peace and stability, they were hesitant to invest in state institutions for fear of losing their profits should a more effective administration emerge' (Hagmann, 2005, p. 529). My findings similarly suggest how, although the sector was willing to pay a certain amount in taxes to strengthen the state's revenue-earning capacity and maintain a modicum of stability, the commitment to long-term institutional capacity was less evident.

However, unlike previous contentions, I argue that the state became more critical as the Telecom sector evolved. Sector leads were willing to support and invest in formal state institutions by paying certain taxes and contributing in some measure to the state's (extractive) capacity. These actors, thereby, supported formal institutions out of a desire for greater peace and stability (or as a strategy to access external rents) and because such institutions became more important for the sector's profitability. Such insights coincide with the broader tax literature, which finds that 'firms are likely to be concerned about the nature of state institutions (e.g. fairness and equity) not out of any ethical or moral considerations but primarily owing to concerns about their profitability, the predictability of the business environment and their competitive position' (Dom et al., 2022, p. 28). Thereby, to amend Menkhaus's (2003) previous contention, Telecom actors came to have a stake in formal state institutions because a reconstructed state could potentially 'increase' and not merely reduce their profits.

Nevertheless, my findings also concur with Hagmann (2005) and Menkhaus (2003) regarding the great deal of uncertainty and concern among sector leads, who were eager to ensure that state institutions did not develop in ways that undermined their interests. Sector leads had accumulated considerable economic power (not despite) but because of conditions of acute fragility and the lack of effective regulation (Iazzolino and Stremlau, 2023). Without more open (or less exclusive) regulatory standards, these actors engaged in mo-

nopolistic and anti-competitive practices and emerged as one of the most powerful groups in the country. The repudiation of a rules-based corporate taxation system and the scuttling of reforms and regulations that created a more competitive playing field was an important strategy for preserving the status quo. In Pritchett et al.'s (2007) vocabulary, even as they were willing to move towards some level of ordered dealmaking (regulations and payments of certain taxes), the sector essentially resisted the institution of more open deals that would undermine their privileged position and ensure unrestricted access to economic activities and organisations to all types of firms and citizens. Thus, while some of the ambivalence of the past had been eschewed as the sector leads saw the state project as 'productive', investments in long-term institutional development were constrained by concerns with the protection of monopoly interests.

The broad implications are considerable and suggest that long-term institutional development and economic growth will be stymied if elite interests are defined by short-term and narrow protectionist concerns and some level of ambivalence towards investing in state institutions continues (Moore and Unsworth, 2010). As Moore argues (2010, p. 33), 'while informal relationships and exclusive bargains can help boost investment in the short term, more inclusive and institutionalised arrangements are almost certainly needed to sustain it over the longer term'. Moreover, even when informal relationships may pave the way for more rules-based governance and facilitate productive cooperation, the private sector and state need to 'make a gamble on development' (Dercon, 2022, p. 52). As Kohli (2004, p. 12-13) also observes, "rapid industrial growth is contingent on the state's commitment coinciding with the profit-maximising needs of private entrepreneurs". Thus in Somalia, a 'developmental bargain' between Somali elites, which was growth-focused but also relied on the capabilities of the state to achieve the goals, remained elusive.

10.4.4 State-society Relations: Revisiting Social-Contract Perspectives

Importantly the findings also offer persuasive reasoning for moving beyond social contractual frameworks of taxation and using these as the basis for investigating the dynamics of state-societal fiscal relations. As Makovicky and Smith (2020, p. 13) argue, it is essential to interrogate tax morale beyond the 'conceptual realm of the social contractual perspective'. Such perspectives presume that taxes are essentially contractual, reciprocal, and reflect a commitment to the state project, even as such conceptions have limited ap-

plicability, especially in the African context (Meagher, 2010; Guyer, 1992; Sheild Johansson, 2020a).

Indeed, as observed in the Somali case, informal institutions could influence taxpayers' understanding of formal taxes. In such instances, *fiscal relations could be understood beyond the framing of an 'exchange' or a contract* – where everything owed had to be paid back; instead, formal tax payments could be considered an obligation to the larger communal world. Specifically, as I demonstrated, moral obligations underpinning kinship, religious and social norms were mobilised and conferred on to formal taxes (van den Boogaard and Santoro, 2021).

Moreover, even when exchange relations are observed, *the terms need not be reciprocal or stable* as predicted by contractual perspectives. In the Somali context, despite its weak capacity, the state could leverage the symbolic value of its juridical statehood and deliver a few specific material returns. In exchange for such returns, prominent players in the sector were motivated to make specific forms of tax contributions. However, the terms of the exchange were far from reciprocal and were based on less stable contractual terms.

As in the Somali context, fiscal relations could be part of an elite bargain to maintain a modicum of political stability, however fragile. Consequently, *tax payments may not reflect a clear commitment to the state project*. Even though Telecom sector elites were willing to pay some taxes and invest in formal state institutions, they resisted attempts at rules-based payments of more fiscally lucrative taxes and, as such, were more hesitant to invest long term institutional development.

The limited applicability of social contractual perspectives has been increasingly recognised in research and policy. Most recently, experts concede that "the social contract model is less readily applicable to fragile contexts as it is mostly inspired by the Western experience of state-building, and is driven by a reciprocalist approach that does not fit well within contexts of fragility" (Cantens and Raballand, 2021, p. 9). Nevertheless, despite acknowledging the limited portability of such perspectives, scholars continue to compare fragile contexts to standard models. For example, Cloutier et al. (2021; 2022, p. 11) attribute the low rates of tax compliance to 'a weak social contract between the federal state and its citizens'. Thus, the principal issue of how tax relations continue to be framed is through the prism of 'what does not seem to work' or is out of step with Enlightenment conceptions of the social contract.

Although particularly problematic for fragile states, the continuing dominance of social-contractual con-

ceptions of fiscal and state-society relations also has wider implications. Even in Western contexts where taxes have been most commonly considered part of a fiscal exchange with the state, recent anthropological work attests to how citizens understand their relationship to the state beyond contractual terms. In Sweden, Larsen (2018) observes that taxpayers approach their fiscal relationship from a perspective of reciprocity and a 'fair share'; and conceive of fiscal exchanges as connected to a mutually agreed upon moral order. They, therefore, imagine the fiscal system as a moral and not merely a contractual order.

Similarly, Bowles (2022) finds that although the social contract model fits well within a capitalist framing in how it transposes self-seeking individualism (a capitalist notion) and contractual relations into the political realm, such models have conversely been undermined by neo-liberal policies. In Britain, 'contractual terms have moved away from a reciprocal relationship into an unequal partnership as public goods provisioning has become increasingly privatised' (Bowles, 2022, p. 276). In this model, in place of taxes exchanged for the delivery of public services, states and citizens 'share' responsibility for a market-based system of provision, even as these services are ultimately funded by taxes and charges levied on the citizen (Bowles, 2022, p. 276).

Lastly, as has been argued (chapter 1), there is limited empirical validity to contractual perspectives that naturalise the relationship between taxation, political representation and accountability (Sheild Johansson, 2020a; Foged, 2019; Guyer, 1992; Meagher, 2018). As Prichard (2015, p. 1), argues 'links between taxation, responsiveness and accountability are often indirect, long-term and difficult to observe, while the emergence of positive connections hinges on specific features of tax systems and of the broader political and economic environment'. Moreover, Wilson and Rosenzweig (2022) also point out that assuming tax payments are rooted in a fiscal contract, the specific terms of the contract will likely differ across groups in society. Tax instruments have different tax bases; therefore, a unique set of preferences determine how individuals evaluate state service delivery and decide whether to comply with tax payments.

Thus, while social-contractual perspectives have specific currency and can serve as an 'interpretative resource' for influencing tax morale, there is an urgent need to deconstruct the normative claims of social-contract theory. As Makovicky and Smith (2020) and Burnyeat and Sheild Johansson (2022, p. 232) argue, the contractual perspectives need to be understood as just one story – 'a travelling idea, albeit persistent

and far-reaching, but which does not capture the totality of the ethnographic experience of state-society relations and may, in fact, occlude much of the reality'.

10.4.5 Policy Recommendations

Lastly, a few policy lessons emerge from the observation that multiple and often contending rationalities govern tax morale in Somalia. Principally, there is a need for more nuanced policy approaches to state-building, particularly in designing strategies for revenue mobilisation. As Makovicky and Smith (2020) and Johansson (2020a; 2020b, p. 34) propose, 'it is important to dis-aggregate fiscal systems, pay attention to the socio-economic relationships and positionalities that are produced by fiscal structures, and examine the multiple reasons that can define tax relations'.

For instance, since the logic of exchange governed the sector's relationship to specific tax instruments, there were opportunities for negotiation and leverage. Specifically, the Telecom actors required certain returns and were willing to pay taxes in exchange. The types of returns included an enabling environment for investment, protection of external interests and juridical statehood. Even when the state's delivery was far from reciprocal, the Telecom sector was still willing to pay some tax. As discussed in the introductory paragraph, the sector's acceptance of spectrum fees and license payments was the most recent example of this trend: By September 2022, following extensive consultations with the Telecom sector, the Ministry of Finance and the Ministry of Communications and Technology, the NCA board had approved several strategic regulations on Spectrum licenses, fees and interconnection agreements between operators (National Communications Authority, 2022).

In the short term, policymakers may need to prioritise such taxes to mobilise higher revenue. The FGS will also need to make 'a stronger case for its existence by delivering essential goods rather than merely investing in efforts to broaden its tax base' (van den Boogaard and Isak, 2021, p. 31). Thus, strengthening state capacity for service delivery of public and sector-specific goods and goods will be essential for improving revenue mobilisation. In recent years, there has been a greater push to increase expenditure outlays for core service delivery functions (including education and health services) to mobilise higher revenue and strengthen public financial management systems (World Bank, 2022c). The IMF and the World Bank,

in particular, have included improved delivery of services as a critical benchmark for the HIPC debt relief programme (World Bank, 2022c). In addition to public goods, the government also has to be able to deliver essential services that are critical to the sector, such as improving global connectivity, ensuring access to correspondent banking services and supporting the institution of a broadband network.

However, a distinct approach is needed towards corporate taxes. Given the entangled relations between political and economic elites, the sector's asymmetric positioning, and the government's lack of capacity, corporate tax payments will likely continue to be low and negotiated (at least in the near future). It is also prudent for policymakers to acknowledge that while problematic and unequal, the negotiated payments were an outcome of political settlement dynamics and contributed towards maintaining a level of stability.

Thus, any improvements in corporate tax contributions may be only possible with more changes in the political settlement and the elite bargaining arrangements. For instance, a shift in the structural dynamics, such as the emergence of a more cohesive group of political elites, could strengthen the government's bargaining position and, in turn, compel the sector to increase its tax contributions. However, for this to happen, political elites would need to operate with longer-term horizons instead of 'discounting the future' and engaging in spot-bargaining arrangements (Bates, 2008, p. 20).

The current government's (2022) commitment to addressing the threat posed by AS by 'declaring total war' and joining the clan militias in their uprising against the group (News 24, 2022) may represent a first step in the direction of an elite alliance with a longer-term objective. Significantly, if successful, this alliance could undermine AS's power and authority and fortify the FGS's enforcement capacity to collect taxes (See chapter 8).[2] Private sector actors I spoke to in 2022 recounted how they were closely following the government's campaign against AS and would be encouraged to strengthen their support for the FGS if the government could credibly reduce the threat posed by AS.

In conclusion, this thesis has attempted to offer a different reading of tax relationships by drawing on the specific case of Somalia. In doing so, the attempt has been to demonstrate that fragile contexts are not only places of state failure that challenge standard models of state-building and conventional understand-

[2]Interview with Private Sector Representative (Other Sectors), ID: 633591-633582-100808143, Date: 18-10-2022; Interview with Private Sector Representative (Other Sectors), ID: 633591-633582-100841390, Date: 19-10-2022

ings of tax relations (Hagmann and Stepputat, 2023). Instead, such contexts offer crucial insights for reframing debates on tax relationships, conceptions of state-society relations and processes of state-building. Specifically, the Somali case demonstrates how tax payments do not automatically reflect a more profound commitment to the state project, nor is 'reciprocal exchange' the primary way taxes are conceived. Instead, multiple rationalities may be at play and define the tax incentives of large taxpayers (such as those in the private sector). Resultantly, the operation of these multiple rationalities can have critical implications for the project of state-building and long-term institutional development.

In the Somali case, while there were structural reasons why a weak state was necessary for capital, the interests of the private sector were complex and conditional. The payment of low and negotiated corporate taxes, on the one hand, and payment of license and other regulatory fees, on the other, emerged as a strategy to balance the sector's desire for a productive state, yet one that continued to earn them lucrative rents. However, the variety of public authorities in Somalia meant that the state was not accorded an exalted status, nor were capitalist relations treated as 'totalising'. Instead, informal norms and institutions embedded in the moral economy set limits to the processes of capitalist accumulation, mediated perceptions of state authority, and influenced conceptions of formal taxation.

In this thesis, I have taken a first step in essaying a nuanced understanding of the private sector and state fiscal relations. However, there is room for further investigation to more fundamentally apprehend the limits of Western models of state-building and state-societal relations and to explore the possibility of alternative perspectives that are more contextually grounded and reflect the empirical experience of different types of states, including those that are among the most fragile.

Chapter 11

Annexure

11.1 List of Interviews

Table 11.1: List of Interviews Conducted

Unique ID	Date	Position
638287-638278-78095464	14-05-2021	Academic
638287-638278-79480600	09-06-2021	Senior Conflict Expert (International)
638287-638278-65701286	28-09-2020	Public Finance Specialist (International)
638287-638278-65801919	01-10-2020	Senior Governance Specialist (Bilateral)
638287-638278-65875512	05-10-2020	Public Finance Specialist (International)
638287-638278-66054701	07-10-2020	ICT Expert (Independent)

Table 11.1 – continued from previous page

Unique ID	Date	Position
638287-638278-66322362	20-10-2020	Former Country Director for Somalia (Bilateral)
638287-638278-66721332	26-10-2020	Senior Governance Specialist (Bilateral)
638287-638278-66961070	29-10-2020	Private Sector Development Expert (International)
638287-638278-67077439	02-11-2020	Senior Somali Expert (Think-Tank)
638287-638278-67097488	03-11-2020	Senior Governance Specialist (Bilateral)
638287-638278-67211617	09-11-2020	Senior Governance Specialist (Bilateral)
638287-638278-67593610	23-11-2020	Private Sector Development Expert (International)
638287-638278-67785756	23-11-2020	Former Government Official (Ministry of Finance)
638287-638278-67992513	26-11-2020	Somali Expert (Think Tank)
638287-638278-68014827	27-11-2020	Senior Somali Expert (Think-Tank)
638287-638278-68996981	07-12-2020	Conflict Expert (International)
638287-638278-68572078	04-01-2021	Private Sector Development Expert (International)
638287-638278-68685164	05-01-2021	Somali Expert (Think Tank)
638287-638278-69668473	13-01-2021	Academic

Table 11.1 – continued from previous page

Unique ID	Date	Position
638287-638278-69550831	14-01-2021	Senior Somali Expert (Multilateral)
638287-638278-69275840	15-01-2021	Senior Development Expert (Somali NGO)
638287-638278-71293521	01-02-2021	Senior Conflict Expert (International)
638287-638278-71718021	08-02-2021	Senior Somali Expert (Multilateral)
638287-638278-72530625	16-02-2021	Development Expert (Multilateral)
638287-638278-72103485	22-02-2021	Economic Development Expert (Multilateral)
638287-638278-7415191l	11-03-2021	Economic Development Expert (Multilateral)
638287-638278-74606672	01-04-2021	Senior Governance Specialist (Bilateral)
638287-638278-75106495	06-04-2021	Financial Expert (Bilateral)
755678-755669-78830861	26-05-2021	Telecom Expert
755678-755669-78832614	26-05-2021	Academic
755678-755669-79141099	02-06-2021	Academic
755678-755669-79141325	02-06-2021	Public Finance Specialist (International)
755678-755669-79406753	08-06-2021	Telecom Expert

Table 11.1 – continued from previous page

Unique ID	Date	Position
638286-638277-65324819	17-09-2020	Former Senior Government Official (Ministry of Communications)
638286-638277-66943378	29-10-2020	Senior Government Official (Ministry of Finance)
638286-638277-67076681	02-11-2020	Senior Government Official (Ministry of Finance)
638286-638277-69292696	10-01-2021	Senior Government Official (Ministry of Finance)
638286-638277-71883645	10-02-2021	Government Official (Ministry of Communication)
638286-638277-71891460	12-02-2021	Senior Government Official (National Communications Authority)
638286-638277-72609532	17-02-2021	Senior Advisor to Government (Finance Governance Committee)
638286-638277-72029382	17-02-2021	Public Finance Specialist (Multilateral)
638286-638277-72487677	05-03-2021	Senior Government Official (Ministry of Information)
638286-638277-72707291	05-03-2021	Senior Government Official (National Communications Authority)
638286-638277-73977930	10-03-2021	Government Official (National Communications Authority)
638286-638277-74501691	30-03-2021	Senior Government Official (Ministry of Communications)
638286-638277-76308750	15-04-2021	Senior Government Official (Ministry of Planning)
638286-638277-76215156	13-05-2021	Senior Government Official (Ministry of Commerce)

Table 11.1 – continued from previous page

Unique ID	Date	Position
638286-638277-80506697	29-06-2021	Former Senior Government Official (Ministry of Planning)
638286-638277-80967291	07-07-2021	Senior Government Official (Ministry of Communications)
638286-638277-82393352	12-08-2021	Senior Government Official (State Bank Puntland Government)
638286-638277-82397892	12-08-2021	Senior Government Official (Ministry of Finance Puntland)
638286-638277-82409534	12-08-2021	Senior Government Official (National Bureau of Statistics)
638286-638277-82611225	23-08-2021	Government Official (National Communications Authority)
638286-638277-82748286	23-08-2021	Senior Government Official (Ministry of Communication)
638286-638277-82844121	26-08-2021	Senior Advisor to Government (Ministry of Planning)
638286-638277-82855115	26-08-2021	Senior Government Official (Ministry of Communication)
638286-638277-83340182	10-09-2021	Senior Government Official (National Communications Authority)
633591-633582-80548046	29-06-2021	Senior Telecom Representative (MVNO)
633591-633582-82398923	12-08-2021	Senior Telecom Representative (MNO)
633591-633582-82399347	12-08-2021	Senior Telecom Representative (MNO)
633591-633582-82735717	23-08-2021	Senior Banking Representative

Table 11.1 – continued from previous page

Unique ID	Date	Position
633591-633582-82784210	24-08-2021	Senior Banking Representative
633591-633582-83453637	14-09-2021	Senior Banking Representative
633591-633582-68989523	07-12-2020	Senior Telecom Representative (MNO)
633591-633582-70935685	25-01-2021	Senior Telecom Representative (MVNO)
633591-633582-70725921	25-01-2021	Senior Telecom Representative (MNO)
633591-633582-71142446	28-01-2021	Senior Telecom Representative (MVNO)
633591-633582-72209812	23-02-2021	Senior Telecom Representative (MNO)
633591-633582-72815443	08-03-2021	Senior Telecom Representative (MNO)
633591-633582-74522775	31-03-2021	Senior Telecom Representative (MNO)
633591-633582-74903809	05-04-2021	Senior Telecom Representative (MVNO)
633591-633582-78491856	20-05-2021	Senior Telecom Representative (MNO)
633591-633582-77480353	25-05-2021	Senior Banking Representative
633591-633582-78957269	28-05-2021	Senior Telecom Representative (MNO)
639281-639272-65772622	30-09-2020	Senior Telecom Representative (MNO)

Table 11.1 – continued from previous page

Unique ID	Date	Position
639281-639272-66104934	08-10-2020	Senior Telecom Representative (MNO)
639281-639272-66401804	26-10-2020	Senior Telecom Expert
639281-639272-67082913	03-11-2020	Private Sector Development Expert (International)
639281-639272-67559301	17-11-2020	Private Sector Development Expert (Independent)
639281-639272-68801218	08-12-2020	ICT Expert (Multilateral)
639281-639272-69273656	07-01-2021	Somali Expert (International)
639281-639272-69536914	27-01-2021	Telecom Expert (Multilateral)
639281-639272-73333840	16-03-2021	Telecom Expert (International)
639281-639272-73538050	17-03-2021	Senior Private Sector Development Expert (Multilateral)
639281-639272-73699765	24-03-2021	Senior Private Sector Development Expert (Bilateral)
639281-639272-74159571	28-03-2021	Telecom Expert (International)
639281-639272-76153101	13-04-2021	Senior Private Sector Development Expert (Multilateral)
755678-755669-98627156	13-05-2021	Academic
633591-633582-100808143	18-10-2022	Private Sector Representative (Other Sectors)

Table 11.1 – continued from previous page

Unique ID	Date	Position
633591-633582-100841390	19-10-2022	Private Sector Representative (Other Sectors)
638287-638278-100869449	20-10-2022	Senior Somali Expert (Think-Tank)
638287-638278-100874768	20-10-2022	Senior Conflict Expert (Bilateral)
638287-638278-101191014	28-10-2022	Public Finance Specialist (Multilateral)
638287-638278-101308422	01-11-2022	Economic Development Expert (Multilateral)
639281-639272-101270064	31-10-2022	Senior Telecom Representative (Telecom Association)

11.2 Questionnaire

The following are the main types of questions that were posed to the interviewees. The questions were adapted slightly to ensure that the questions were tailored for the different types of interviews.

11.2.1 Nature and History of Organisation

This section interrogated the history and evolution of the specific organisation. Some of the questions included:

- What are the types of services offered by your firm?
- Where is the main market of your products, and who are your primary consumers?
- Can you kindly describe the history of your company and how it was established?
- Were there any challenges that your company faced when it was first established and during its initial years (mid-1990 – 2011)? Please describe the types of challenges, if any, with the help of examples.
- How did your organisation cope with such challenges? Did it receive any support from other actors or groups (outside your organisation)?
- To what extent were such strategies successful in meeting the challenges?

11.2.2 Governance of the Business

This section focused on the overall governance of the Telecom sector.

- In the last few years, have there been any changes in how your organisation is managed and run?
- Is your firm currently regulated? Please describe the institutions and actors involved in its regulation, if any.

- Within your sector, if there are differences between providers, how are they settled? Please describe the strategies, institutions and actors involved in resolving disputes.
- Is there any mechanism for enforcing contracts between providers? Please describe the strategies, institutions and actors involved in enforcing contracts

11.2.3 Relationship with the state

This section focused on the sector's evolving relationship with the emergent federal state.

- In the last few years, has your organisation faced any challenges? To what extent are these challenges similar or different to what you had experienced earlier?
- How has your organisation been meeting current challenges? Did it receive any support from other actors or groups?
- Has the Federal government been able to address these challenges? Please comment on the extent to which the support provided, if any, has been helpful

11.2.4 Fiscal Relationships

This section focused on tax relations and the reasons why individual organisations were motivated to pay taxes to the government.

- Are there any taxes paid by Telecom operators and companies like yours? Can you please tell us the types of taxes that companies like yours pay? Please also describe the specific group to whom they pay taxes, if any.
- For taxes paid to the FGS/FMS, how are they spent?
- Do companies (such as yours) get anything in return for paying taxes to the government (FGS/FMS)? Please provide details of the types of returns that they may receive, if any, with the help of examples.

- What are the outcomes of not paying taxes to the government (FGS)? Please provide details of negative or positive outcomes if any.
- To your knowledge, does your organisation currently pay taxes to the Government (FGS)? Please describe when it began paying taxes (if any) and the type of taxes paid.
- What are some of the reasons that your organisation began paying taxes to the Federal Government? Please narrate for us when it began paying taxes and the reasons why it chose to do so.
- Does your organisation receive anything in return for paying taxes? Please describe if there are any benefits or returns that your organisation gets either individually or then more broadly.

11.2.5 New Tax system

This section focused on the provisions of the New Communications Act and the provisions for taxation included within it.

- Have you heard of the National Communications Law, 2017? If yes, please describe some of the main provisions of the Act.
- One of the provisions of the Act is that companies would be required to pay higher taxes to the government (FGS) based on their earnings. Do you agree with this, and to what extent? Please describe your reasons.
- Are there any benefits from this new law? Please describe the types of benefits, if any.
- Who are the groups most likely to benefit from this new law?
- Are there any problems with this New law? What are the problems?
- Which groups are likely to bear the cost of the new Law?

11.2.6 Community Engagement

In this section, the organisation's engagement with the community was discussed.

- To your knowledge, does your organisation currently engage in any charitable and social development projects? Please describe the nature of the work and the organisations you support.
- Why does your organisation make such contributions? Please describe the reasons, if any.

11.2.7 Concluding

In the concluding section, respondents will be asked for their advice on how the government could strengthen its tax collection system. The last question in this section will include a question on clan relations.

- In your view, if the government was interested in increasing its tax base, how should it go about doing so? Please describe if there are specific aspects of its functioning or style that it should improve?
- In your view, do you feel that the (FGS) government will be able to make such changes to its style and functioning? Please elaborate and provide reasons for your response.
- If you feel comfortable sharing, please provide the name of your principal and sub-clan grouping.

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