

# Taxation, Political Accountability, and Foreign Aid: Lessons from Somaliland

Nicholas Eubank<sup>1</sup>  
[nicholaseubank@stanford.edu](mailto:nicholaseubank@stanford.edu)

March 26th, 2011

*For years, studies of state formation in early and medieval Europe have argued that the modern, representative state emerged as the result of negotiations between autocratic governments in need of tax revenues and citizens who were only willing to consent to taxation in exchange for greater government accountability. This paper presents evidence that similar dynamics shaped the formation of Somaliland's democratic government. In particular, it shows that government dependency on local tax revenues -- which resulted from its ineligibility for foreign assistance -- provided those outside the government with the leverage needed to force the development of inclusive, representative and accountable political institutions.*

---

<sup>1</sup> Stanford GSB Political Economics Program PhD Student. This research was made possible by the support of the Centre for Global Development's Weak and Fragile State Project. The conclusions of this paper are those of the author and are not intended to represent the views of the Centre for Global Development. The author is extremely grateful to Steve Knack, Mick Moore, Maggie Fick, Katie Krackenberg, Meredith Startz, Pierre Englebert, Abe Handler, Roger Low, Rachel Homer, Vijaya Ramachandran, Satish Chand, Todd Moss and other CGD Fragile States Project authors. Any errors are the sole responsibility of the author. Author can be contacted at [nicholaseubank@stanford.edu](mailto:nicholaseubank@stanford.edu).

# INTRODUCTION

In recent years, the importance of good governance to economic and social development has become widely accepted. Yet our understanding of the factors that foster political accountability and good governance remains limited. So over the past decade, a growing number of academics have turned to studies of state formation in early Europe in search of clues to better understand what gives rise to accountable and representative governments. This move has given birth to modern research into the connection between taxation and political accountability.

This new literature owes its origin to researchers of state formation in medieval Britain and the Netherlands who argue that the modern, representative state emerged as the result of negotiations between autocratic governments who needed tax revenues in order to survive inter-state conflicts on the one hand, and citizens who were only willing to consent to taxation in exchange for greater government accountability on the other (Moore (2008) provides an excellent overview of this literature). In these historic cases, government dependency on local sources of revenue provided those in control of economic assets with significant leverage over the government which they were able to use to demand the development of more accountable and representative political institutions through a process often referred to as ‘revenue bargaining.’

The important question these historical studies raise is whether, in the words of Mick Moore, ‘this idea of “revenue bargaining” is helpful in thinking about how political authority and order are created (and re-created) in poor countries today.’

A number of recent studies suggest that it may be. Several studies have documented this process of revenue bargaining -- which Moore (2008:26) has defined as ‘the exchange of tax revenues (for the state) for institutionalised influence over public policy (for citizens)’ -- in contemporary developing countries. Mahon (2004) finds evidence of revenue bargaining in Latin America, and Morton (1994:200-232) explores the relationship between tax structure and accountability in Darfur. Bernstein and Lu (2008) find evidence of the phenomenon in China, and though he does not use the term, Prichard (2009:3) argues that taxation has often (although not always) been a ‘catalyst for demands for greater accountability’ in Ghana between 1981 and 2008.

Cross-country econometric studies also suggest a generalizable link between taxation and political accountability. Mahon (2005) finds that increases in government dependency on tax revenues are followed by increases in democratic indicators. Timmons (2005) finds that the more a state depends upon taxing richer citizens, the more it upholds property rights. He also finds that the more governments depend on taxes from the general population, the more they provide basic services.

Of course, these studies do not imply that dependency on local revenues will always lead to greater accountability. There are any number of illustrations of governments that simply seize the resources they need by force without offering any political concessions in exchange. Such

taxation without compromise is especially evident in countries with point-source natural resources (like oil or diamonds) that are easy for governments to control. But in countries where the means of production is more diffuse and mobile, collecting taxes by force can be quite costly. In these contexts, offering political concessions in exchange for voluntary taxation may be a far more efficient means of collecting revenues, which is particularly important during periods when a government is under financial stress.

This connection between taxation and political accountability also has potential implications for current debates over appropriate levels of foreign assistance and concerns about consistently high level of foreign aid provided to countries in sub-Saharan Africa. Given the levels of foreign assistance provided to many developing countries today -- assistance which reduces government dependency on tax revenues -- this is more than an academic question. There are 16 sub-Saharan countries in which the ratio of foreign assistance to government expenditures is greater than 50%. In ten of those countries, foreign assistance is equal to at least 75% of government expenditures. Indeed, Brautigam and Knack (2004) find that high aid intensity is associated with deteriorating scores on the International Country Risk Guide index of expropriation risk, corruption, and bureaucratic quality as well as lower tax collection efforts.

Moreover, these ideas about tax dependency and political accountability are consistent with studies that find easy-to-control natural resource endowments (which reduce government dependency on taxation and thus decrease the bargaining power of citizens) -- are associated with more autocratic governments and poor governance (Jensen and Wantchekon 2004, among others)

This paper explores the applicability of these theoretical concerns in the context of the modern, developing country, Somaliland -- formed following the collapse of Somalia 1991. Two things make Somaliland an ideal case study for this purpose. First, because of international norms against secessionist states, Somaliland has never been internationally recognised, and consequently has never been eligible for foreign assistance. As a result, the formation of a government in Somaliland was deeply intertwined with the process of building a viable tax base. And second, because of the explicit nature of negotiations over representation during state formation, it provides some of the most direct evidence of revenue bargaining in a modern setting to date.

Somaliland also offers a unique opportunity to expand our understanding of the possible effects of foreign assistance on revenue bargaining. By comparing normal levels of foreign assistance in sub-Saharan Africa with the size of revenues that were involved in bargaining in Somaliland, this analysis provides some of the most direct evidence to date of the potential impact of normal levels of foreign assistance to disrupt the revenue bargaining process.

This paper is based on an extensive review of existing literature on Somaliland's political development. It draws heavily upon a number of sources, including (among others) reporting by the International Crisis Group, the War-torn Societies Project and the Academy of Peace and

Development, and most of all the exceptional research and personal accounts of Mark Bradbury. It is divided into three parts. In Part One, it presents a brief overview of Somaliland and its development for those unfamiliar with the country. In Part Two, it details the role of revenue bargaining in the development of accountable and representative institutions in Somaliland and explores some of the other factors that helped facilitated this process. And in Part Three, it explores how the revenue bargaining process detailed in Part Two may have been affected had Somaliland been eligible for normal levels of foreign assistance.

# 1. BRIEF HISTORY OF SOMALILAND

Somaliland owes its modern day origins to the disposition of the oppressive Barre regime at the end of an extended civil war in 1991. Siad Barre came to power in a military coup 1969, and over the years his regime become increasingly oppressive, particularly to the northern regions of the country. In the early 1980s, this oppression motivated a group of exiles from the most populous clan in northern Somalia, the *Isaaq*, to form the Somali National Movement (SNM) to challenge the regime (*International Crisis Group* 2003: 6), a move which sparked a civil war which continued until the eventual collapse of the government in 1991.

The collapse of the Barre regime threw southern Somalia into chaos. No single group in the region was able to secure control of the government, and conflict broke out among local militias and warlords. But while the details of this ensuing conflict and United Nations involvement in southern Somalia and are now well known, the northern regions of the country have received less international attention.

When the Barre regime collapsed in 1991, the SNM was left as the clear dominant political and military organisation in the northern region. (Bradbury 2008: 79 and 83) In May it called for a conference to discuss the fate of the northern region. Elders from nearly every major clan in Somaliland gathered with the leadership of the SNM to decide on a plan of action. (Bradbury 2008: 79), and on May 18, 1991 they declared Somaliland's independence. (Bradbury 2008: 81-82).

As the only large-scale political organisation in the now independent state of Somaliland, the SNM created a transitional government built around its leadership council that was to govern from 1991 to 1993. Representatives from across the state agreed to this arrangement, and Somaliland's first government was born.

The formation of Somaliland's government was far from easy, however. From 1991 to 1997, Somaliland struggled to develop a truly viable national government, but repeatedly found that established institutions did not have broad enough support to be viable. Through a series of national conferences that will be explored in more detail later, political institutions eventually developed with sufficient support to govern, and in 2001 Somaliland ratified a new constitution with broad public support.

The institutions that evolved during this period survive to this day. Since 1997, Somaliland has had presidential, parliamentary, and district level elections (Bradbury 2008: 184-219). It has seen multiple peaceful turnovers in power, including both a handoff of the presidency to a minority clan president, and a presidential election which was decided by an 80 vote margin without resort to violence (*International Crisis Group* 2003: 23-25; Bradbury 2008: 135-136). Creating a national voter registry is proving to be a significant political and logistical problem at the

moment, and Somaliland continues to struggle with the provision of public goods because of its weak tax base and lack of international support -- but Somaliland provides security and stability, which is more than many other internationally recognised states can claim.

Despite these successes, Somaliland's efforts to shake its secessionist label and gain international recognition have failed. At the time of the country's secession, the international community was becoming increasingly concerned about the sanctity of the nation state. The US was engaging in the First Gulf War, which was premised on the sanctity of internationally recognised borders, and a few years later, events in the Balkans served to reinforce global concerns about the destabilising effect that the secession of minority groups throughout the world might bring. And nowhere was this concern more clear than in Africa, where arbitrary colonial borders often bear little relationship to underlying social and economic realities and persist due largely to intense international assertion of their importance.

As a result, the Somaliland government has never received international financial assistance. This is not to say that it does not receive any aid, only that the small amount of aid it receives is directly administered by local NGOs and aid agencies. *None* of the aid Somaliland receives is administered by the government or appears in the government budget (*War-Torn Societies Project* 2005: 100; Somaliland Ministry of Planning and Coordination 2008: 13).

Accurate statistics on aid allocations to Somaliland are difficult to come by as international donors do not report the share of aid going to the unrecognised country, but the gross figure appeared to be between \$30-\$43 million USD in 2002 (*International Crisis Group* 2003: 6-7; Bradbury 2008: 157). However, 'this figure does not show the high proportion of donor funding that is spent on overhead, Nairobi offices or international personnel. Probably less than half of the total volume of aid is actually spent on the ground.' (*International Crisis Group* 2003: 6-7) More recently, in 2009 Human Rights Watch reported that Somaliland's government estimates that the region receives approximately \$79 million USD per year. (*Human Rights Watch* 2009: 55) To put these numbers in context, Somaliland's population is estimated at 2-3.5 million people, earns around \$180 million USD a year in export earnings, and receives an estimated \$200 million USD a year in remittances according to that same report.

This lack of support is all the more striking given the terrible legacy of the Somali civil war, which left Somaliland in ruins. According to a 2005 War-Torn Societies report released in 2005,

In Hargeysa [the future capital of Somaliland], a town of nearly 300,000 people, barely 10% of the structures remained intact, leaving only a vast field of blasted rubble strewn with explosives. [...] Burco, to the east, had suffered roughly 70% destruction, and countless villages in the interior had been razed to the ground. Hospitals, schools, clinics and wells had all been destroyed, government offices ransacked, bridges blown up, and roads mined and made impassable. (*War-Torn Societies Project* 2005: 24)

Despite these terrible initial conditions and lack of foreign assistance, Somaliland has made extensive progress towards recovery. Its economy, which is built primarily around pastoral farming and animal husbandry, has largely recovered from the devastation of years of conflict (Bradbury 2008: 138-139). Somaliland has rebuilt many of the cities destroyed during Somalia's civil war, and economic activity in much of the country is thriving. As Bradbury has noted:

Over the past fifteen years, the cities, small towns, and villages have been substantially rebuilt and expanded. Commercial activity is vibrant. Utilities have been restored, telephone systems have been established linking Somaliland into the world-wide web, where numerous Somaliland websites can now be accessed, and Somali companies have established services throughout the country that facilitate financial transfers from anywhere in the world to the smallest village in Somaliland. (Bradbury, 2008: 137)

Statistical data on Somaliland is exceedingly scarce, making objective confirmation of these accounts difficult,<sup>2</sup> but what data does exist suggests significant improvements in the region since Somalia's civil war. Primary, secondary, and higher education enrolment has improved dramatically for both boys and girls in Somaliland since 1995 (primary school enrolment has increased from almost zero to 100,000 boys and 60,000 girls in more than 500 schools in 2005).<sup>3</sup> These numbers mask the same urban biases found in many developing countries and the fact that schools remain prohibitively expensive for many poor families (Bradbury 2008: 165), but the improvement in availability over such a short period is itself remarkable .

Available data also strongly suggests Somaliland is doing significantly better economically than southern Somalia, a significant reversal of the pre-civil war income distribution in the region. A crude extrapolation of the results of a 2002 UNDP/World Bank household survey suggests an average income of \$300 USD per capita in Somaliland, compared to an average income of \$225 USD when all of southern Somalia and Somaliland are examined together. (Official estimates for 'Somalia' provided by the UNDP and World Bank continue to include Somaliland as a part of Somalia) (UNDP/World Bank 2003: 23).<sup>4</sup> And the infant mortality rate in Somaliland was half the average of all of Somalia and Somaliland in 2000 (113 versus 224 deaths per 1,000 live births) (Bradbury 2008: 162). To some degree this comparison to southern Somalia sets a relatively low bar, but in a region of failed states, brutally repressive regimes, and brazen electoral fraud, Somaliland's accomplishments are, in the words of a recent Human Rights Watch report, 'both improbable and deeply impressive.' (*Human Rights Watch* 2009: 2).

## **2. DEVELOPMENT OF POLITICAL INSTITUTIONS THROUGH REVENUE BARGAINING IN SOMALILAND**

Somaliland's declaration of independence in 1991 proved to be only the beginning of its political development. When Somaliland was first created it established a relatively unaccountable and unrepresentative national government. This government lacked the resources necessary to assert authority, however, so it attempted to take control of Somaliland's main port by military force in order to strengthen its revenue base. The port was under the control of a clan that was not well represented within the government at the time, and that clan -- voicing concerns about the illegitimacy and lack of accountability in the current government -- resisted the government's efforts.

An armed conflict ensued, but when the government failed to take the port by force, it was forced to enter into negotiations with the clan in control of the resource. Through a series of national peace conferences, the government was allowed to collect taxes from the port of Berbera, and also received significant amounts of direct financing from the private sector to help it establish a new currency. In exchange, it accepted a new set of national political institutions that not only embodied a much broader base of support, but also included internal checks and balances, including a bicameral legislative branch, one house of which included 150 clan elders from across the country.

This new government not only received the support of the private sector, but also the support of a patchwork of local polities which had emerged after the end of Somalia's civil war. These local polities helped to ensure Somaliland's peace and stability in subsequent years, in large part because the local business communities that financed these polities demanded stability for economic reasons.

### **2.1 Development of Accountable National Institutions**

Somaliland's current national government is an unusual combination of a US-style presidency, a British-style bicameral legislature, and traditional Somali clan leadership. The president and members of the lower of the two legislative houses are independently elected, while the upper house consists of traditional clan elders, collectively known as a *Guurti*.

Unlike many so-called democracies in sub-Saharan Africa, this government is democratic in more than name only. As already noted, Somaliland has held presidential, parliamentary, and district level elections. It has seen multiple peaceful turnovers in power, and in 2005 Somaliland was 'one of the only governments in Africa with 'cohabitation' between rival parties in the



executive and legislative branches.’ (Menkhaus 2006/2007: 92). But this has not always been the case.

### 2.1.1 Failure of the SNM Transitional Government

Somaliland’s first national government was built around the leadership of the Somali National Movement (SNM) rebel group during Somalia’s civil war, which had led the rebellion against the military regime in Mogadishu. The decision to build the government around the leadership of the SNM was made by representatives from across Somaliland at the same conference that announced Somaliland’s independence. While the government was created with the support of representatives from throughout Somaliland, however, it was primarily built around the leadership council of the SNM, which drew primarily from the *Isaaq* clan family (Bradbury 2008: 80-85). This decision was made because the SNM was the only large-scale authority (and military power) in existence at the time that might have had the capacity to form a national government (Bradbury 2008: 79 and 83).

The SNM transitional government struggled from the beginning, however. In part due to internal divisions, and in part due to a lack of resources, the SNM was never able to project authority beyond the territories of the *Isaaq* clans that made up its core membership. It quickly became apparent that the SNM had only been held together by a common distaste for the military regime in Mogadishu. With the war over, financing from the diaspora -- which had helped support the SNM during the civil war -- dried up, and the group succumbed to internal divisions (Bradbury 2008: 85-86). The SNM’s transitional President ‘governed mainly from behind closed doors, and his impoverished administration exerted little real control, even of the capital city of Hargeysa.’ (International Crisis Group, 2003: 9)

Even among the *Isaaq*, the limited representation within the new government began to cause problems. Many began to feel that the administration was being dominated by the clan of the President, the *Habar Yonis* (Farah and Lewis 1993: 54-55). One such *Isaaq* clan was the *Habar Jelo*, a traditional rival of the president’s clan that had held its peace during the civil war. This clan broke off from the SNM administration and began an opposition group (Farah and Lewis 1993: 54-55). In early 1992, government attempts to bring heavy weapons under its control in the town of Burco sparked heavy fighting with the *Habar Jelo* which left over 300 people dead (Bradbury 2008: 89).

(Please note that from this point forward, this analysis will use these clan two clan names despite the occasional involvement of additional groups in political conflicts. This simplification does not change the interpretation of events significantly, and helps to make this paper accessible without entering into an extended discussion of clan structure).

Struggling to assert its authority against this opposition group, the SNM recognised the importance of developing a national army. Strapped for resources, however, the only way the creation of a national army seemed possible was if the government could increase its revenue

generation through taxation of a major commercial centre (Bradbury 2008: 88-89). So, motivated by this desire to establish a national army and broaden its revenue base, the SNM government attempted to take control of the Somaliland port of Berbera in 1992.

Berbera is Somaliland's main port, and would eventually become one of the government's main sources of revenue (Bradbury 2008: 111). A 1998-1999 Ministry of Finance report estimated contributions from the port would amount to \$7 million USD in 1999, which would have constituted about a third of government revenues that year (*Somaliland Centre for Peace and Development* 1999: 48). Another estimate puts the contribution of port revenues at between \$10-15 million USD in 1995 (Bradbury 2008: 111).

The port of Berbera was at that time controlled by an *Isaaq* clan which was not well represented within SNM government, the '*Ilse Muse*. This group 'disliked the move, which they saw as an attempt by the [President's *Habar Yonis* clan] dominated government to appropriate power and the tax revenue of their port facility.' (Farah and Lewis 1993: 55) This clan resisted the SNM's attempt to administer the port militarily, and was quickly joined by the *Habar Jelo* opposition faction (Bradbury 2008: 89). The resulting conflict over the port lasted for five months, and caused the death of more than 600 Somalilanders (Bradbury 2008: 87 and 89).

While on a superficial level, this conflict may appear similar to a simple inter-clan rivalry, statements made by the '*Ilse Muse* in the course of the conflict suggest their resistance was not just motivated by opposition to losing control of their own resource, but rather opposition to losing them to an unaccountable government in which they had only limited representation. In an open letter released during the conflict, the '*Ilse Muse* port stated that 'Berbera is one of the districts of the Republic of Somaliland and is therefore subject to its rules and regulations,' and that '[w]e are ready to participate in a genuine national economy, national force and national law and order structure,' but that it would 'never accept a special military force and rule designed for Berbera alone.' (Farah and Lewis 1993: 56-57)

The conflict eventually drew to a close after the '*Ilse Muse* headed opposition groups had beaten back the SNM forces, re-secured their control over the port, and was advancing on Hargeysa, the SNM capital (Bradbury 2008: 90). 'Facing military defeat and public opposition, [the president of the SNM government] accepted the need to enter dialogue with the opposition,' (Bradbury 2008: 90) and a series of national peace conferences were called.

### 2.1.2 Creation of Accountable and Representative Institutions

A series of three peace conferences followed. These conferences, which took place over a period of 8 months between 1992 and 1993, were 'almost entirely financed by the communities of Somaliland, who thus determined the agenda.' (Bradbury 2008: 98) At the end of these conferences, what emerged was a new, more inclusive and representative government built around a new National Charter. The new government included a parliament that consisted of 150 clan elders, and a new president and vice president (Farah and Lewis 1993: 55-58; *War-Torn*

*Societies Project* 2005: 62-63). Critically, this new government differed from the SNM government in that it,

‘possessed a broader base in terms of political participation and representation, although the smaller and minority clans were not represented at the Boorame Conference, non-*Isaaq* clans were given better representation compared to the previous administration.’ (*War-Torn Societies Project* 2005: 64)

These conferences also resulted in the appointment of a new president, whose paternal lineage came from the *‘Ilse Muse* clan -- which had controlled the port of Berbera -- and whose maternal lineage came from the *Habar Yonis* clan -- which had previously been represented by the presidency. This ‘encouraged public optimism that [the new president] could unite the *Isaaq*.’ (Bradbury 2008: 110) The new president also had the benefit of being the ‘favoured candidate of the dominant *Isaaq* businessmen.’ (Bradbury 2008: 155)

The government created by the new National Charter differed from the old government in more than the number of clans represented and the new president. The National Charter also divided the government into an presidential executive, an independent judiciary, and a bicameral legislative branch (Bradbury 2008: 99-100). As already noted, this legislative branch included one house made up of traditional clan elders who represented all clans in Somaliland. This house, which was created ‘to guard against the re-emergence of authoritarian rule,’ (Bradbury 2008: 224) was given authority to appoint the president and vice-president (Bradbury 2008: 100). (The presidency would later become an independently elected office).

As a result of these conferences the new government earned ‘the backing of some of Somaliland’s wealthiest merchants, who had interests in keeping Berbera free of conflict.’ (Bradbury 2008: 110) This community provided the fledgling national government with a loan of \$7 million USD (Bradbury 2008: 112) (approximately \$9.5 million in constant 2005 dollars. To put this figure in perspective, recall that Somaliland’s total national tax revenues between 1999 and 2004 have ranged from only \$20-30 million USD, increasing to about \$40 million USD in 2007. (Bradbury 2008: 236-237)). Subsequently, the business community also played an active role in demobilising by providing rations to demobilised militia members (Bulhan 2004: 101) and to a new government army and police force (Bradbury 2008: 112). The port of Berbera was also placed under the control of the government, which ‘provided an immediate revenue source for government [sic], which by September 1995 was estimated to be between US\$10-15 million per year.’ (Bradbury 2008: 111)

## **2.2 Second Cycle of Violence**

While the conferences held in 1993 laid the foundation for all subsequent political institutions in the country, they did not represent the end of the development of Somaliland’s political institutions. Somaliland underwent one subsequent cycle of violence before achieving some degree of democratic consolidation.

Somaliland's new National Charter established a framework of accountable and representative institutions, but it was not embraced by all. The *Habar Yonis*, who had previously held central authority within the SNM transitional government broke with the government over disagreements about representation ratios (*International Crisis Group* 2003: 11; Bradbury 2008: 116-117). In 1996, the conflict reached a stalemate, but initially neither the government nor opposition groups showed any willingness to compromise (Bradbury 2008: 121).

What exactly motivated the government to reach a compromise with the opposition is not entirely clear -- events from this period are not as well documented as during the earlier conflict. But the eventual compromise appears to have been motivated by a combination of pressure from civil society and the strain the conflict was putting on the government's limited resources. While not as traditional an illustration of revenue bargaining as the conflict over the port, the apparent influence of civil society over government policy at a time in which the government was financially overstretched is consistent with social contract theory.

In 1995 a group of Somalilanders living abroad organised the Peace Committee for Somaliland and began pushing for a peaceful resolution. One analyst -- who founded the Peace Committee for Somaliland in 1995 and was thus intimately involved in deliberations at the time -- has expressed the view that:

The war would have continued if pressure for peace and reconciliation did not come from civil society, first from Somalilanders living in the Diaspora, then from traditional elders, intellectuals, and former civil servants in Somaliland. [President] 'Egal and his government agreed to dialogue and negotiations when they could no longer contain a peace movement that grew rapidly by [1996] and could have swept them from power if they remained intransigent.' (Bulhan 2004: 44)

This pressure combined with the significant strain the conflict was putting on the government's limited revenue base. It is estimated that the government spent \$4.5 million USD re-equipping the army during the conflict. (Bradbury 2008: 116)

Together, these forces were apparently sufficient to push the government towards reconciliation. A new provisional constitution was adopted, and the allocation of seats within the government was adjusted in a manner which increased the representation given to the *Habor Yonis*, and the conflict was diffused (Bulhan 2004: 44; *War-Torn Societies Project* 2005: 66-67).

After six years of conflict and fighting, the power-sharing arrangements established by the Hargeysa Conference proved sufficient to quell further uprisings. From this point forward, political conflict in Somaliland shifted to the electoral arena. In 2001 a constitutional referendum was held, and the provisional constitution created in Hargeysa was replaced with a new constitution. This constitution was finalised in 2000 by a committee composed of individuals nominated by both the legislative and executive branches, was ratified in a national vote in 2001, and is still in place today (*War-Torn Societies Project* 2005: 68-70).

Since the Hargeysa Conference in 1997, the business community has also continued to provide the national Somaliland government with nearly all of its financing. A 1999 report by the Ministry of Finance reports that of Somaliland's budget of \$20 million USD, 'some 95% of the resources that finance the activities of the government are locally mobilised, mostly through taxation.' (*War-Torn Societies Project 2005*: 104)

At a national level, much of this revenue comes from customs collected at major trading centres -- like the Berbera port and Hargeysa airport. But local governments also depend upon local financing throughout the country. Under Somaliland's system of decentralisation -- another measure established at the Boorame conference in 1993 to ensure local governments were accountability to local populations, and not financially accountable to a potentially predatory national government -- Somaliland's district councils continue to raise their own revenues to supplement disbursements from the central government by 'taxing local resources, with land, animal slaughter and business tax providing the main revenue streams.' (Bradbury 2008: 238-239)

### **2.3 Revenue Bargaining at the Local Level**

Finally, there is also some evidence that revenue bargaining also took place at the local level in Somaliland. As noted in the earlier summary of Somaliland's political development, while Somaliland's national institutions were established at the large conferences explored in the preceding two sections, in the period before the establishment of a national government with the capacity to govern throughout the country, much governing was done through local polities.

Between 1991 and 1997, these local polities engaged in a series of local and regional peace conferences (by one count at least 26 (*War-Torn Societies Project 2005*: 64)) which both helped settle local disputes and lay the groundwork for larger, national conferences, and the national conferences themselves. Bradbury (2008) notes that the agreements made by these local polities were exceptional for the degree to which they focused on what he refers to as 'civil issues,' like freedom of movement, water and grazing rights, and private property definitions, all critical to a pastoral economy. There was a 'synergy between the Somaliland-wide peace conferences and the local peacemaking processes, which succeeded in containing violence while crafting a political consensus and power-sharing agreements that provided the foundations for new state structures.' (Bradbury 2008: 107)

As with the national government, these local polities and the conferences held among them were locally financed. It is thus somewhat unsurprising that commercial interest played a large role in motivating local polities to address civil issues.

As a result of the pastoral nature of the region's economy, cooperation and stability are viewed among Somalilanders as prerequisites for economic prosperity. This view is embodied 'by the Somali saying *nabad iyo caano* ('peace and milk' or 'peace and prosperity'), which [...] stands in

opposition to the phrase *ol iyo abaar* ('conflict and drought').' (Bradbury 2008: 103) Bradbury makes this point eloquently:

Access to pasture and water is assured through peaceful cooperation. Access to land and its usage was an underlying issue in the civil war in Sanaag and a driving force behind peace there. In order for people to survive and resume their way of life there was a need to re-establish cooperative relations over pastoral resources and trade. The series of peace meetings that were concluded prior to the Erigavo conference set out the parameters for peaceful cooperation: freedom of movement; freedom of trade; access to common grazing areas; access to common water sources; and the return of private property.<sup>5</sup> (Bradbury, 2008: 103)

Of course, is impossible to say with certainty how local polities may have behaved had they not been financially dependent upon local financing. It is possible these arrangements would have simply emerged through local mediation. Unlike in the development of the country's national political institutions where failed military campaigns give strong indication of how the government would have acted had it not been for resource constraints, there is no clear indication of how local polities might have behaved had they had an independent source of financing. Nevertheless, the clear prioritisation of 'civil' and commercial issues certainly suggests that at the local, as at the national level, political behaviour was significantly constrained by the interests of the financial supports of the government.

## **2.4 Other Important Contributors to Somaliland's Success**

While the emphasis of this paper is on documenting a relatively explicit illustration of revenue bargaining in a modern context, it is also important to recognise the significant supportive conditions that facilitated this revenue bargaining process. Most of these conditions have been noted in passing elsewhere in this paper, but given their importance to understanding the generalizability of Somaliland's experience they are worth reiterating here.

The first of these factors is the fact that Somaliland's pastoral economy was dependent upon cooperative management of grazing lands and water resources. As previously noted, this provided a strong impetus for the cooperation between local communities that helped lay a foundation for peace. If instead of pastoralism, Somaliland's economy were based upon natural resources like oil or valuable minerals that could be easily captured and controlled by the government, not only would this impetus not have existed, but the government's need to negotiate for tax revenues may have been undermined.

The second major factor was the strength of indigenous conflict mediation traditions in Somaliland, which were the result in part of the relatively benign rule of the British during colonial times. (Reno 2003: 12-13) These institutions proved to be exceptionally able mediators at the heart of every conference that was held in the country, and ensured that where mutually beneficial arrangements existed, they could be achieved.

It is worth noting, however, that while this analysis certainly recognizes the tremendous importance of indigenous conflict mediation traditions, it does not ascribe to them sole responsibility for Somaliland success. Traditional institutions were critical to ensuring collective action problems could be overcome and that compromises were reached when possible. But on numerous occasions they failed to contain power-grabs and violent conflict, and when this occurred it was resource constraints that eventually forced parties to return to the bargaining table. In other words, the strength of the country's conflict mediation traditions may very well have been *necessary* to its success (as others have argued (Reno 2003)), but this analysis strongly suggests that these institutions were not sufficient in and of themselves. This view is consistent with an analysis of the role of traditional elders in Somalia by Menkhaus (2001), who points out that:

To the extent that the role of traditional elders is to represent their community in peace talks, their ability to promote peace is constrained by the material interests of the communities to which they belong. (Menkhaus, 2001: 197)

And finally, perhaps the most important facilitator of revenue bargaining in Somaliland – and the factor that is most exceptional – was the country's ineligibility for foreign assistance, which is explored in much greater detail in the next section.

## 3. FOREIGN ASSISTANCE AND REVENUE BARGAINING

One of the most important issues motivating research into a possible link between dependency on local tax revenues and political accountability is the possibility that foreign assistance may be disrupting this mechanism in developing countries. As previously noted, some econometric studies have suggested that foreign aid flows may be large enough to have a significant effect on political accountability in recipient countries (Brautigam and Knack 2004; Djankov, Montalvo, and Reynal-Querol 2005), but the econometric devices these studies employ are not widely accepted by critics (Bourguignon and Sundberg 2007).

Somaliland offers a unique opportunity to examine this link more directly. Using data on aid flows to other countries in sub-Saharan Africa, this section estimates the volume of aid Somaliland would likely have received had it been internationally recognised and compares this volume to the financial sums involved in the revenue bargaining described in the preceding section. This will provide exceptionally direct evidence that, at least in the case of Somaliland, normal levels of foreign assistance are more than sufficient to disrupt the revenue bargaining process. This section will then expand this exploration by exploring how rational and forward looking actors might have responded to Somaliland's eligibility for foreign assistance.

Moreover, because Somaliland's ineligibility for foreign assistance is the result of exogenous international norms against secessionist states, and not a direct response to some action of Somaliland itself, this exploration is largely unhindered by concerns about reverse causality that hinder most studies of the effects of foreign assistance. Of course, there is some selection bias arising from the fact that Somaliland is a successful secessionist country, but given that the institutions that succeeded in toppling the Siad Barre regime (namely, the Isaaq-based SNM) are not the same institutions that established peace in Somaliland -- indeed, as explored in the previous section, the SNM led government almost immediately proved itself to be poorly suited to governing, and was quickly replaced -- this is only a partial limitation.

It is important to stress here that this exploration is not meant as advocacy against foreign assistance. Recent studies have shown that foreign assistance has both costs and benefits, and if the international community wishes to best serve the countries it is aiming to help, it is imperative that it strive to understand the possible negative effects of its efforts so that it can design better policies that minimise these effects, and properly balance aid's benefits against any unavoidable downsides.

### 3.1 Comparing Foreign Assistance to Domestic Resources

#### *3.1.1 Estimating Foreign Assistance Flows to Somaliland*



Had Somaliland been internationally recognised in 1991, the country would very likely have received foreign assistance. Both the SNM transitional government created in 1991 and the interim government created at the Boorame conference in 1993 had strong claims to international legitimacy. The SNM government had been created at a national conference with the participation and support of clan leaders from throughout the country. The Boorame government had not only been created with the consent of parties from throughout the country, it also included representatives from these groups in its governing structure -- the conflict in the case of this government was over the relative representation scheme used by the government. And further, both governments had consent to administer, regulate, and tax commercial centres in Somaliland under these accords. Given this fact, there is every reason to believe that had Somaliland been eligible for foreign aid, it would have been provided assistance. But how much?

Between 1991 and 2004, the median sub-Saharan African country received roughly \$47 USD per capita annually (in constant 2005 dollars). Of course, not all of this foreign assistance goes to the government sector, but data from the recently released Paris Declaration Monitoring Survey suggests this is the case for the vast majority of aid in sub-Saharan Africa; in 25 of the 29 sub-Saharan African countries included in the survey, more than 75% of foreign assistance went to the government sector (the median value is 86%).

Using this median level of assistance and a very conservative discount factor of 25% to account for the fact some aid does not go to the government sector, this suggests that an eligible Somaliland would have received approximately \$70.5 million USD in foreign assistance in 2001. To put this in context, that amount is approximately double annual Somaliland government revenues, which have ranged between \$20 - \$40 million USD between 1999 and 2007, and which were even lower in preceding years. Even this represents a conservative estimate, however, as it does not take into account the fact that donors tend to provide higher levels of assistance per capita to smaller countries. Taking this tendency into account results in even higher estimates, as presented in Table I below.

**Table I**  
**Imputed Somaliland Aid Levels**  
 Controlling for Population, Past Colonial Relationships, Annual Fixed Effects, and a 25%  
 Discount Factor for Aid Not Going to Government Sector

| Period                                   | Net Aid Transfers Per<br>Capita | Total Aid<br>For Population of 2 Million |
|--|---------------------------------|--|
| <b>1991-2004 Average</b>                 | \$59.4                          | \$118.8 million USD                      |
| <b>1999-2004 Average</b>                 | \$49.6                          | \$99.15 million USD                      |
| <b>Year of Secession (1991)</b>          | \$80.4                          | \$160.8 million USD                      |
| <b>Year of Boorame Conference (1993)</b> | \$74.0                          | \$147.9 million USD                      |

Figures in Constant 2005 Dollars. Predictions based on regressions of aid per capita against the natural log of population and dummy variables for historical coloniser, minus 25% to account for aid not going to the government sector. Values for Somaliland calculated for a population of 2 million. A full discussion of this figure, source data, and methodology can be found in Appendix 1 of the version of this paper posted online at SSRN.

### *3.1.2 Possible Effect on Development of National Institutions*

How then might Somaliland have been affected had it been eligible for these volumes of foreign assistance?

In the case of the SNM transitional government, these levels of aid would have diminished the need of the government to take control the port of Berbera -- the \$7-15 million USD in revenue the port generates would have been inconsequential in comparison to foreign aid flows. Moreover, foreign aid would also have provided the government with more independent resources which may have improved its ability to overwhelm opposition groups by military force had it still decided to take control of the port.

In both of these ways, foreign assistance would have dramatically diminished the bargaining power of those outside the government in control of the port, and thus reduced the need of the government to extend political franchise to them and create a more representative national government.

In the case of the conflict between the *Habar Yonis* and the *Habar Jelo* which began in the fight over the Hargeysa airport, this assistance may have either (a) provided the government with sufficient resources to defeat the *Habar Yonis* militarily, or if it had not, (b) reduced the financial pressures on the government and the influence of civil society which steered the government towards a peaceful compromise. In either case, the eventual outcome of a political compromise which satisfied both parties and left them willing to participate in the democratic process seems less likely.

### **3.2 Avoiding Somalia's Pitfalls**

Up to this point, this analysis has shown that revenue bargaining ensured the development of more inclusive, representative, and accountable government than would otherwise have likely emerged. It is also worth noting the possibility, however, that by facilitating this process of revenue bargaining, Somaliland's ineligibility for foreign assistance may also have helped the country avoid one of the problems that has contributed to southern Somalia's inability to form any government at all -- the emergence of those who would rather see no government at all than one which might be predatory in nature.

The presence of 'spoilers' in southern Somalia is well documented. Traditionally, analyses of 'spoilers' in southern Somalia have focused on warlords and criminal elements that seek material gain from instability. More recently, however, Menkhaus (2006/2007: 75-76) has argued that 'many businesspeople who need a predictable, safe, and peaceful environment in which to conduct commercial activities' have also become spoilers out of 'fear that a revived central government will become repressive and predatory at their expense.' While these same businessmen 'support peace building and the reduction of crime, [they] block efforts to revive an effective central government.'

These concerns are motivated by Somalia's legacy of state predation, which has left Somalis with a deep fear of state institutions. In Menkhaus words,

There is perhaps no other issue on which the world-views of external actors and Somalis diverge more than their radically different understanding of the state. For external actors, the conventional wisdom is that a responsive and effective state is an essential prerequisite for development [...]. For many Somalis, the state is an instrument of accumulation and domination, enriching and empowering those who control it and exploiting and harassing the rest of the population. (Menkhaus, 2006/2007: 87)

As a result of these concerns,

[...] Somali actors view efforts to revive a central government as a zero-sum game that has provoked rather than mitigated conflict. This zero-sum mentality has contributed to the virtual absence of local opposition groups in regional and transitional governments. Instead, those outside the circle of power tend to become armed rejectionists, spoilers who opt to bring down an entire government rather than risk seeing it used against them. (Menkhaus, 2006/2007: 94)

Somalilanders, who suffered even more under Somalia's military regime than southern Somalis (*Somaliland Centre for Peace and Development* 1999: 16-17), show significant signs of having shared these same fears about the possible rise of a predatory government. Yet unlike in southern Somalia, revenue bargaining forced Somaliland's central government to accept institutional arrangements that provided significant safeguards against the possible rise of a powerful predatory state to help alleviate these concerns. When a new government was formed after the conflict over the port of Berbera, for example,

The intention of the authors of the [1993 National] Charter was clearly inspired by their wish to maximise the process of political devolution, given that the majority of Somalilanders had suffered grievously over the past two decades from manifold abuses of power arising out of a highly centralised state system of government in Muqdisho. (Drysdale 1995, quoted in *War-Torn Societies Project* 2005: 88)

And Somaliland's final constitution also included a system of both fiscal and political decentralisation,<sup>6</sup> measures which were critical given that, in the words of a *War-Torn Societies Project* report based on workshops conducted throughout the country at the time,

Many Somalilanders, particularly those beyond Hargeysa, deem decentralisation to be an inescapable condition for their participation in Somaliland's political arrangement. (*War-Torn Societies Project* 2005: 87)

In addition to forcing the development of these institutions, revenue bargaining also provided Somaliland citizens with an ongoing mechanism for enforcing these arrangements. While deviations from constitutional constraints are common in sub-Saharan Africa, in Somaliland the persistent dependency of the central government on local tax revenues helps keep occasional attempts to exceed constitutional limits by the executive in check. Indeed, as a 2009 Human Rights Watch report points out:

Somaliland's government remains fundamentally a product of political compromise, negotiation, and consensus and the presidency is often not strong enough to defy the diverse coalition of clan and other interests that support it. This reality imposes informal limits on presidential power which have worked well enough to partially offset the dysfunction of legal and constitutional constraints. [...] The result, as another analyst put it, is that 'Some in the government don't believe in our democratic process, but no one has enough power to destroy it.' (*Human Rights Watch* 2009: 22)

Together, these institutional arrangements and the belief that their constraints could be enforced were enough to alleviate concerns about state predation sufficiently to allow Somalilanders to support the development of a new government, rather than turn against it.

Of course, southern Somalia and Somaliland are not identical, so the comparison between the two countries should only be taken as suggestive. Clans in southern Somalia are more heterogeneous than in Somaliland, for example, which makes cooperation in southern Somalia more difficult (Bradbury 2008: 91) and Somaliland's traditional institutions are more organised than those of southern Somalia (Reno 2003). Despite these limitations, however, the fact that Somalilanders were able to overcome the same (if not greater) fears that motivated southern Somalis to become spoilers in order to create a stable state suggests that revenue bargaining may not only have ensured that the state that emerged in Somaliland was representative and accountable, but it may also have helped guard against the emergence of the same kinds of spoilers who have consistently frustrated state-building efforts in southern Somalia.

## 4. CONCLUSIONS

The idea that government dependency on domestic tax revenues creates an important mechanism of accountability is not new. Its role in the formation of representative governments in medieval and early modern Europe is well documented. But far less attention has been paid to this dynamic in contemporary developing countries. Somaliland provides a new and thought provoking illustration of the connection between government dependency on local tax revenues and political accountability in a modern sub-Saharan African country. It is, of course, not a perfectly generalizable case study. As previously noted, the revenue bargaining that took place in Somaliland was facilitated by a number of factors that are not universally present. Nevertheless, it provides one of the clearest modern illustrations of a phenomenon well documented in historical case studies. Moreover, Somaliland's recent history provides unique insights into the potential downside of current levels of foreign assistance to developing countries. Its political development illustrates the potential of normal levels of foreign assistance to disrupt the development of representative institutions that may follow from revenue bargaining

Somaliland also has implications for discussions about whether the threat of inter-state conflict is a necessary condition for revenue bargaining to occur. In most historic European cases, it was the threat of constant inter-state conflict that made governments willing to make significant political concessions in order to augment their revenue generation. Given the relative lack of inter-state conflict today, therefore, some have raised the question of whether states are really likely to be sufficiently motivated to make major concessions in the revenue bargaining process. But Somaliland can now be added to the existing list of case studies -- including those covered in the introduction of this paper -- that provide illustrations of pressures other than inter-state conflict motivating revenue bargaining.<sup>7</sup> This further reinforces the argument that understanding the link between taxation and accountability remains important in a contemporary context.

This discussion also bears directly on debates over international recognition of Somaliland. It cannot answer whether Somaliland is *deserving* of international assistance, or, as some have argued, if recognising Somaliland will lead to increased conflict in the rest of sub-Saharan Africa (because, the thinking goes, other groups will also be motivated to secede). However, this analysis does suggest that the volume of foreign aid that Somaliland would likely receive with international recognition could harm the relationships that have helped shape Somaliland's political success to date. The time may come when Somaliland's political institutions are strong enough to absorb some amount of foreign assistance, but for the time being, resisting the urge to reward Somaliland's government with regular flows of foreign assistance is its best hope of encouraging the country's continued success.

---

<sup>2</sup> The limited availability of data on Somaliland comes from two sources -- a lack of recent surveys conducted in Somalia, and the treatment of southern Somalia and Somaliland as a single country in what surveys exist.

<sup>3</sup> See Appendix 3 in the version of this paper posted online at SSRN for detailed statistics.

<sup>4</sup> Estimate derived by simple average of the five regions the make up Somaliland, as population data by region is not available for calculating weighted averages. Estimates for these regions are relatively tightly clustered between approximately \$275-\$350 per capita, however, making an estimate of \$300 a reasonable approximation. There is no way to account for the fact that only parts of Sool and Sanaag are a part of Somaliland, however.

<sup>5</sup> From a passage describing the Sanaag Grand Peace and Reconciliation Conference in 1993, which Bradbury calls 'a classic example of a peace process that addressed civil issues.' (Bradbury 2008: 101).

<sup>6</sup> Appendix 2 in the version of this paper posted online at SSRN provides detailed statistics on the degree of fiscal independence that exists between the national government and major municipalities.

<sup>7</sup> Moore (2008:52-57) provides an excellent discussion of these alternative motivators

# BIBLIOGRAPHY

Bernstein, T. and Lu, X. (2008) Taxation and coercion in rural China, in: D. Brautigam, O.H Fjeldstad, and M. Moore (eds) *Taxation and state-building in Developing Countries*, (New York: Cambridge University Press), pp. 89-113.

Bourguignon, F. and Sundberg, M. (2007) Aid Effectiveness -- Opening the Black Box. *American Economic Review*. 97(2). pp. 316-321.

Bradbury, M. (2008) *Becoming Somaliland*, (London: *African Issues, Progresio*).

Brautigam, D. and Knack, S. (2004) Foreign Aid, Institutions, and Governance in Sub-Saharan Africa. *Economic Development and Cultural Change*. 52(2). pp. 255-285.

Bulhan, H. A. (2004) *Somaliland in Ruin and Renewal: The Story of Somaliland*, (Conflict Analysis Regional Report, Centre for Creative Solutions).

Djankov, S., Montalvo, J.G. and Reynal-Querol, M.. (2005) The curse of aid. Economics Working Papers #870, Department of Economics and Business, Universitat Pompeu Fabra.

Farah, A. (1999) Civil-Military Relations in Somaliland and Northeast Somalia. Presented at the Conference on Civil-Military Relations in Nairobi. <http://www.somaliawatch.org/archivefeb01/010414202.htm>

Farah, A. and Lewis, I.M. (1993) Somalia: The Roots of Reconciliation. Report Commissioned by ActionAid. [http://www.progressio.org.uk/Shared\\_ASP\\_Files/UploadedFiles/E1E3E18D-1C69-4274-8E39-0D822DDDF67\\_rootsofrecon.pdf](http://www.progressio.org.uk/Shared_ASP_Files/UploadedFiles/E1E3E18D-1C69-4274-8E39-0D822DDDF67_rootsofrecon.pdf)

Human Rights Watch (2009) Hostages to Peace: Threats to Human Rights and Democracy in Somaliland. <http://www.hrw.org/node/84298>

International Crisis Group (2003) Somaliland: Democratization and its Discontents. Crisis Group Africa Report No. 66. <http://www.crisisgroup.org/en/regions/africa/horn-of-africa/somalia/066-somaliland-democratisation-and-its-discontents.aspx>

International Crisis Group (2009) Somaliland: A Way out of the Electoral Crisis. Africa Briefing No. 67. <http://www.crisisgroup.org/en/regions/africa/horn-of-africa/somalia/B067-somaliland-a-way-out-of-the-electoral-crisis.aspx>

Jensen, N. and Wantchekon, L. (2004) Resource wealth and Political Regimes in Africa. *Comparative Political Studies* 37, pp. 816-841.

Mahon, J. (2004) Causes of Tax Reform in Latin America, 1977-95. *Latin American Research Review* 39(1), pp. 3-30.

Mahon, J. (2005). Liberal States and Fiscal Contracts: Aspects of the Political Economy of Public Finance. 2005 Annual Meeting of the American Political Science Association, September 1-4. [http://www.allacademic.com/meta/p\\_mla\\_apa\\_research\\_citation/0/4/0/1/1/p40115\\_index.html](http://www.allacademic.com/meta/p_mla_apa_research_citation/0/4/0/1/1/p40115_index.html)

Menkhaus, K. (2001) Traditional Conflict Management in Contemporary Somalia, in: Zartman, I.W. (ed) *Traditional Cures for Modern Conflicts* (SAIS African Studies Library), pp. 183-199.

Menkhaus, K. (2006/2007) Governance without Government in Somalia: Spoilers, State Building, and the Politics of Coping. *International Security* 31(3), pp. 74-106.

Moore, M. (2008) Between coercion and contract, in: D. Brautigam, O.H Fjeldstad, and M. Moore (eds) *Taxation and state-building in Developing Countries*, (New York: Cambridge University Press), pp. 34-63.

Morton, J. (1994). *The Poverty of Nations: The Aid Dilemma at the Heart of Africa*. (London: British Academic Press).

Prichard, W. (2009). The Politics of Taxation and Implications for Accountability in Ghana 1981–2008. IDS Working Paper #330.

Rajan, R. and Subramanian, A. (2005) Aid and Growth: What Does the Cross-Country Evidence Really Show?. *NBER Working Paper Series* #11513.

Reno, W. (2003) Somalia and Survival in the Shadow of the Global Economy. Queen Elizabeth House Working Paper 100, Oxford and Northwestern University.

Somaliland Centre for Peace and Development (1999) A Self-Portrait of Somaliland: Rebuilding from the Ruins. <http://www.apd-somaliland.org/docs/selfportrait.pdf>

Somaliland Ministry of Planning and Coordination (2004). Somaliland in Figures (2004). [http://siteresources.worldbank.org/INTSOMALIA/Resources/somaliland\\_in\\_figures\\_04.pdf](http://siteresources.worldbank.org/INTSOMALIA/Resources/somaliland_in_figures_04.pdf)

Somaliland Ministry of Planning and Coordination (2008). Somaliland in Figures (2008). [http://slministryofplanning.org/index.php?option=com\\_content&task=blogsection&id=37&Itemid=58](http://slministryofplanning.org/index.php?option=com_content&task=blogsection&id=37&Itemid=58)

Timmons, J.F. (2005) The Fiscal Contract, States, Taxes, and Public Services. *World Politics* 15 (4), pp. 530-567.



War-Torn Societies Project (2005) *Rebuilding Somaliland: Issues and possibilities*.  
(Lawrenceville, NJ: The Red Sea Press).

## Appendix One: Aid Imputation Methodology

The imputed levels of foreign assistance that Somaliland may have received had it been eligible for foreign assistance presented in Figure II were estimated by first regressing aid levels for sub-Saharan African countries against a number of determinants using a simple OLS regression. The coefficients from this regression were then used to predict possible levels of assistance for Somaliland. These estimates are then discounted by 25%, a conservative estimate of the share of aid that would be directed to the government sector based on data from the 2008 Paris Declaration Monitoring Report on the share of aid in sub-Saharan Africa going to the government sector.

The choice of determinants used in the OLS regressions was dictated by existing literature on determinants of foreign assistance levels and data availability for Somaliland. Included are: annual fixed effects, dummy variables for historic colonial relations (found to be significant by Brautigam and Knack (2004) and Rajan and Subramanian (2005), among others), and the natural log of population (numerous studies find that smaller countries receive higher levels of aid per capita, likely due to the desire of aid agencies to maintain a presence in all countries, including very small ones (Brautigam and Knack (2004), among others)). Data from 1991 to 2004 is included. Note that this regression was also run without dummies for historic colonial relations, but this resulted in higher aid levels for Somaliland, so in the interest of being conservative, the dummies were included in the final analysis.

Imputations of total aid levels for Somaliland assume a population value of 2 million for Somaliland, although estimates of Somaliland's population range from 2-3 million. (A detailed summary of Somaliland population surveys can be found in a footnote in Bradbury (2008:160). While this results in larger estimates of aid per capita than using a value of 3 million for its population, the estimates of overall assistance remain lower with a population estimate of 2 million than 3 million.

Summary statistics can be found in Table II below, and regression coefficients can be found in Table III. Data on share of non-technical assistance ODA going to the government sector is available in Table IV below.

**Table II**  
**Summary Statistics**

| Source   | Source Details   | Variable   | Obs | Mean | Median | Std. Dev. | Min  | Max   |
|--|--|--|-----|------|--------|-----------|------|-------|
| Centre for Global Development Net Aid Transfers Database | The Net Aid Transfers dataset is published by the Centre for Global Development, and draws from the OECD DAC data on aid activities, but makes a few of corrections to data from the OECD so they better reflect actual financial transfers, rather than changes in a country's capital positions. | <b>Country Average of Net Aid Transfers Per Capita between 1999 and 2004</b><br>(in Constant 2005 Dollars) | 47  | 48.6 | 33.6   | 55.8      | 2.26 | 291.7 |
|  |  | <b>Country Average of Net Aid Transfers Per Capita between 1991 and 2004</b><br>(in Constant 2005 Dollars) | 47  | 64.5 | 46.7   | 69.0      | 2.4  | 358.3 |
| World Development Indicators                             | Published by the World Bank Group  | <b>Average Population between 1991 and 2004</b><br>(in millions)   | 47  | 11.2 | 6.3    | 16.9      | 0.1  | 97.2  |

**Table III**  
**Net Aid Transfers Per Capita**

As a Function of Population, Historic Colonial Relationship, and Year

|   | <b>Dependent Variable</b>                                |
|---|--|
|   | Net Aid Transfers per Capita (Annually from 1991 – 2004) |
|   |  |
| <b>Natural Log of Population (in Millions)</b>  | -26.788***<br>(-4.683)                                   |
| <b>Historic Colonial Relationship with Spain</b>  | -9.375<br>(-0.579)                                       |
| <b>Historic Colonial Relationship with France</b>   | 11.306<br>(1.037)  |
| <b>Historic Colonial Relationship with Great Britain</b>  | 9.681<br>(0.709)   |
| <b>Historic Colonial Relationship with Italy</b>  | 20.162<br>(1.045)  |
| <b>Historic Colonial Relationship with Belgium</b>  | 17.876<br>(1.190)  |
| <b>Historic Colonial Relationship with Portugal</b>   | 103.647**<br>(2.412)                                     |
| <b>Historic Colonial Relationship with South Africa</b>   | 38.770***<br>(3.717)                                     |
| <b>Fixed Effects</b>  | Annual   |
| <b>Constant</b>   | 116.129***<br>(7.986)                                    |
| <b>Observations</b>   | 658  |
| <b>R-squared</b>  | 0.586  |
| Robust t statistics in parentheses<br>*** p<0.01, ** p<0.05, * p<0.1<br>Omitted Dummy is No Clear Coloniser (Liberia and Somalia, as Somalia was split between the Italians and British)<br>Errors Clustered by Country |  |

**Table IV**  
**Percentage of Non-Technical Assistance ODA going to Government Sector**  
For Sub-Saharan African Countries in 2007

| Recipient                   | Percentage of<br>non-Technical Assistance ODA going to Govt Sector |
|-----------------------------|--|
| <b>Benin</b>                | 88.8%  |
| <b>Burkina Faso</b>         | 87.0%  |
| <b>Burundi</b>              | 81.0%  |
| <b>Cameroon</b>             | 85.2%  |
| <b>Cape Verde</b>           | 94.1%  |
| <b>Central African Rep.</b> | 97.5%  |
| <b>Chad</b>                 | 92.2%  |
| <b>Congo, Dem. Rep.</b>     | 76.4%  |
| <b>Cote d'Ivoire</b>        | 98.5%  |
| <b>Ethiopia</b>             | 83.8%  |
| <b>Gabon</b>                | 95.7%  |
| <b>Ghana</b>                | 93.0%  |
| <b>Kenya</b>                | 53.1%  |
| <b>Liberia</b>              | 7.2%   |
| <b>Madagascar</b>           | 83.8%  |
| <b>Malawi</b>               | 86.6%  |
| <b>Mali</b>                 | 94.2%  |
| <b>Mauritania</b>           | 80.2%  |
| <b>Mozambique</b>           | 82.4%  |
| <b>Niger</b>                | 85.6%  |
| <b>Nigeria</b>              | 94.4%  |
| <b>Rwanda</b>               | 85.5%  |
| <b>Senegal</b>              | 92.7%  |
| <b>Sierra Leone</b>         | 84.6%  |
| <b>Sudan</b>                | 40.8%  |
| <b>Tanzania</b>             | 87.4%  |
| <b>Togo</b>                 | 49.5%  |
| <b>Uganda</b>               | 86.4%  |
| <b>Zambia</b>               | 81.8%  |
| <b>Mean</b>                 | 81.0%  |
| <b>Median</b>               | 85.6%  |
| <b>Standard Deviation</b>   | 19.7%  |

ODA to the government sector is defined as 'ODA disbursed in the context of an agreement with administrations (ministries, departments, agencies or municipalities) authorised to receive revenue or undertake expenditures on behalf of central government. This includes works, goods or services delegated or subcontracted by these administrations to other entities such as: Non-Governmental Organisations (NGOs); semi-autonomous government agencies (e.g. parastatals), or; private companies.' (OECD 2008: 144). Note that any ODA reported as going towards technical assistance from both total aid (the denominator) and aid to the government sector (the numerator) has been subtracted from these figures, as the share of ODA going to the government sector might otherwise be inflated by the salaries of international staff. See Knack and Eubank (2009) for a more extended discussion of the Paris Monitoring Survey Data and sample. Source: Modified data from OECD (2008).

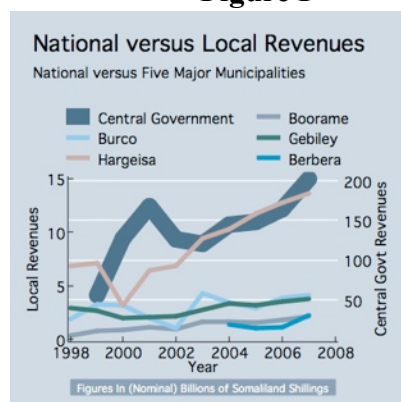


## Appendix Two: Fiscal Decentralization

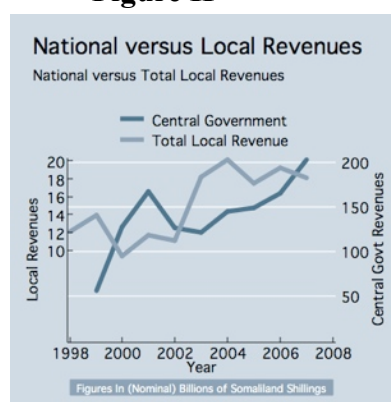
Somaliland's current government is divided into the central government, regional councils, and district councils. Independent elections are held at all levels. Since 2000, districts in Somaliland retain 10% of customs collections that occur within their borders and receive an additional 12.5% of pooled collections from the central government. And in addition, districts are able to raise their own revenues to supplement disbursements from the central government by 'taxing local resources, with land, animal slaughter and business tax providing the main revenue streams.' (Somaliland's system of political decentralisation is described in Bradbury (2008: 232), and its system of fiscal decentralisation is described in Bradbury (2008: 238-239).

One empirical measure of fiscal decentralization is whether local government revenues are correlated with national revenues. Data about Somaliland's fiscal structure is limited, but what data does exist suggests a high degree of independence between local and national revenues, as shown in Figures II, III, and Table V below. The choice of municipalities included in the graphs below is dictated by data made available by the Ministry of National Planning and Coordination's *Somaliland in Figures* publication (this data comes from both the 2004 and 2008 editions).<sup>8</sup> All expenditure data included in those reports is reproduced here.

**Figure I**



**Figure II**



**Table V**

**Correlation of Municipal Expenditures with Central Government Expenditures**

| Municipality                    | Simple Correlation of Municipal and Central Government Expenditures | Number of Years of Data |
|---------------------------------|---|-------------------------|
| Hargeisa                        | 0.54  | 9                       |
| Gebiley                         | 0.43  | 8                       |
| Boorame                         | 0.72  | 9                       |
| Burco                           | 0.15  | 9                       |
| Berbera                         | 0.87  | 4                       |
| All Local Expenditures Combined | 0.32  | 9                       |

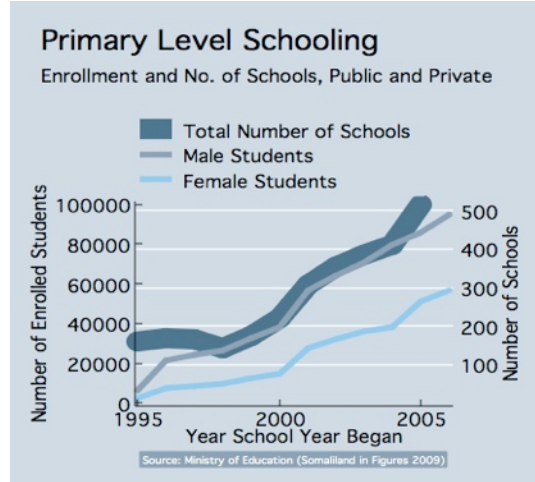
---

<sup>8</sup> The *Somaliland in Figures* version from 2004 differs from the *Somaliland in Figures* version for 2009 in its estimate of central government expenditures for 2003. This data reflects the 2009 value, which is more recent and appears more in line with later budgets.

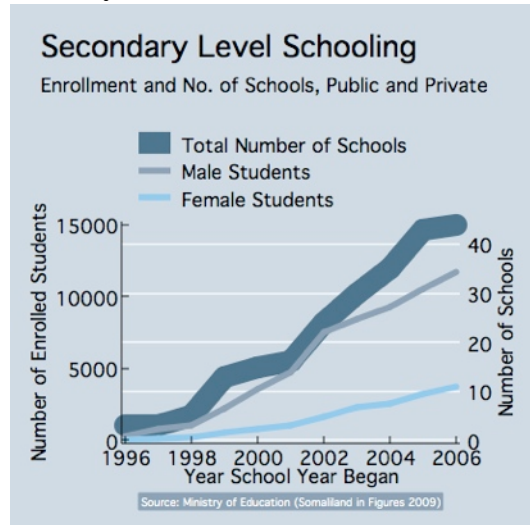


# Appendix Three: Improvement in Schooling

**Figure III**  
**Primary School Enrolment in Somaliland**



**Figure IV**  
**Secondary School Enrolment in Somaliland**



In addition to these improvements in primary and secondary schooling, Somaliland has established six new universities since 1995, when the region had none (Somaliland Ministry of Planning and Coordination 2004: 58; Somaliland Ministry of Planning and Coordination 2008: 54)

## APPENDIX BIBLIOGRAPHY

Knack, S. and Eubank, N. (2009) Aid and Trust in Country Systems. World Bank Policy Research Working Paper #5005.

OECD (2008). 2008 Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010. [http://www.oecd.org/document/0/0,3343,en\\_2649\\_3236398\\_41203264\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/0/0,3343,en_2649_3236398_41203264_1_1_1_1,00.html)