

Would Somaliland's Citizens Benefit from State Capacity Libertarianism?

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Abstract: Tyler Cowen's concept of "state capacity libertarianism" was not devised with Somaliland in mind. Somaliland falls short of his ideals on both state capacity and libertarianism. Yet, Somaliland has made progress in developing state capacity. Although it faces significant obstacles as an unrecognized *de facto* state in the Horn of Africa, it must further develop state capacity if it is ever going to improve the lives of its citizens and address pressing challenges like high rates of infant and maternal mortality, widespread abject poverty, and minimal public infrastructure. In doing so, however, Somaliland needs to leverage the libertarian sympathies of its people to expand personal and economic freedom. Somaliland will never approximate fully fledged state capacity libertarianism but improving state capacity while increasing freedom is essential for advancing human welfare. Its people would benefit from something approximating "state capacity libertarianism with Somali characteristics."

Keywords: Somaliland, de facto state, state capacity, libertarianism, state capacity libertarianism.

INTRODUCTION

A former British protectorate, the Republic of Somaliland reasserted its sovereignty and declared independence from Somalia in 1991. Somaliland's separate colonial status, its five days of previously recognized sovereign statehood in June 1960 before it united with the former Italian colony of Somalia and its commitment to respect colonial borders "makes Somaliland's search for recognition historically unique and self-justified in African political history" (African Union 2005, paragraph 8). After an initially turbulent period, Somaliland has remained largely peaceful since 1997, particularly in its central core around the triangle formed by Hargeisa, Berbera and Burco (Walls 2009). Somaliland has made considerable progress rebuilding its previously war-devastated economy (World Bank 2016). It has also had striking success, albeit with recurrent setbacks and persistent problems toward consolidating electoral democracy (Pegg and Walls 2018).

Yet, Somaliland remains entirely unrecognized. In this article, the term "state" is defined as a widely recognized sovereign state. As Griffiths (2021, p. 19) points out, "the defining feature of joining the sovereignty club is obtaining a full seat" in the UN General Assembly. There are 193 such

entities in the world today. State is thus defined in juridical and not empirical terms. Thus, a state is not defined in Weberian terms as an entity possessing a “monopoly of the legitimate use of physical force within a given territory,” nor is it defined in the classic international law formulation of Article 1 of the Montevideo Convention as an entity possessing a permanent population; a defined territory; a government; and the capacity to enter into relations with other states (Pegg 2019, p. 27). Dozens of sovereign states violate one or more of these criteria today and yet their sovereign status is not questioned.

Somaliland is not a sovereign state. More than thirty years after it declared its independence from Somalia, Somaliland remains a *de facto* state: an entity that controls territory, persists over time, provides governance, receives popular support, and yet remains unrecognized by other sovereign states (see Pegg 2019 for a more detailed definition). While there are competing definitions, perhaps the most concise definition of a *de facto* state comes from Raul Toomla (2016, p. 331) who argues that “de facto states are entities that fulfil the Montevideo criteria for statehood but lack international recognition.” Somaliland has a larger population (about four million) than many sovereign states, a territory clearly defined by its former colonial borders, and a government that has ten staffed representative offices abroad and hosts consulates or representative offices from Djibouti, Ethiopia, Taiwan, Turkey and the United Arab Emirates as well as various offices from the European Union, several UN agencies and the United Kingdom in Hargeisa. Academically, Somaliland is universally accepted as a *de facto* state (e.g., Caspersen 2012; Klich 2021; Pegg 2019; Richards and Smith 2015; Toomla 2016).

Defining Somaliland as a *de facto* state thus entails rejecting the arguments of those who question whether Somaliland deserves to be considered a state (Leeson 2007, p. 700; Powell et al. 2008, p. 665). While Somaliland deviates from Western ideals of statehood in several respects and its functioning is minimal when compared to most sovereign states, Somaliland is a state with significant popular buy-in from its residents and enough capacity and legitimacy to affect their lives substantively. Scholars questioning Somaliland’s statehood fall into the trap that Fiona McConnell (2009, p. 344) characterizes as having a “binary conceptualization of geopolitical entities as either nation-states or anomalies deviating from this model” which results in the anomalies’ existence being “under-theorized and their achievements under-reported.”

Instead, this article follows North, Wallis and Weingast (2009, p. 59) in rejecting the common Weberian definition of statehood as possessing a monopoly on the legitimate use of force and instead seeks to understand how the “process of controlling violence is central to how individuals and groups behave within a society and how a coalition emerges to structure the state and society.” In their terms, Somaliland is a “natural state” where “peace is not inevitable” but rather “depends on the balance of interests brought into being by the rent-creation process” (North, Wallis and Weingast 2009, p. 60). They go on to note that “Dispersed military power... is central to the logic of the natural state. In this way, the threat of violence becomes part of the arrangement that controls the actual use of violence” (North, Wallis and Weingast 2009, p. 61). In contrast, what they term “open-access” orders “satisfy Weber’s condition of having a monopoly on the legitimate use of violence” (North, Wallis and Weingast 2009, p. 61).

That such a state might legitimately be considered liberal seems problematic. The conception of Somaliland as potentially being a liberal state draws from the work of Chandran Kukathas (2003). The theory of the free society he advances (Kukathas 2003, p. 5) is “an account of the terms by which different ways *coexist* rather than an account of the terms by which they *cohere*.” In such a free society, Kukathas (2003, pp. 7-8) argues that “there will be a multiplicity of authorities, each independent of the others, and sustained by the acquiescence of its subjects.” Although Kukathas does not mention Somaliland, his conclusion that “The state that emerges out of this understanding is a liberal state of a particular kind.... It is a state made up of diverse parts, some of which might be made in the image of the whole—tolerant and liberal—while others are virtually its antithesis—sectarian and inward-looking” is an apt description of Somaliland today (Kukathas 2003, p. 266).

Following Nina Caspersen (2012, p. 23), I argue that “the absence of recognition does not render statehood impossible, but results in a different form of statehood.” Somaliland is a *de facto* state and “statehood

without recognition takes a specific form and these entities are not just like other states without the bonus of recognition” (Caspersen 2012, p. 25). Cases like Abkhazia, Northern Cyprus and Somaliland demonstrate that *de facto* statehood does not render democratic state-building impossible, but it does constrain the specific forms that these states may take. In the context of this article, *de facto* state capacity libertarianism probably looks different from widely recognized sovereign state capacity libertarianism.

Although there are several reasons to question the claim, Somaliland is an interesting case from which to investigate Tyler Cowen’s (2020) notion of “state capacity libertarianism.” Cowen’s work on state capacity libertarianism arguably characterizes a viewpoint that has emerged among liberal economists or libertarians that balances a recognition of the importance of free markets with that of state capacity. It is not a formal set of policy prescriptions for countries to embrace. Yet, it does potentially offer us a way out of a false dichotomy between well-developed state capacity and statelessness. The latter has been advocated in the context of Somalia by Leeson (2007) and Powell, et al. (2008). The former has been criticized in the context of natural resource booms as being the equivalent of “telling poor countries with natural resources, ‘Become Norway’” (Morrison 2013, p. 1122). State capacity libertarians try to balance each perspective but have typically not examined either poor countries or *de facto* states. This article explores how state capacity building along relatively libertarian lines might be plausible in Somaliland even though it will never become a paradigmatic example of state capacity libertarianism. Exploring what “state capacity libertarianism with Somali characteristics” might mean for its citizens is a worthwhile conceptual endeavor.

This article makes a three-part argument. First, state capacity is essential for development. Scholarly evidence suggests that strong but constrained state capacity is linked to a host of positive outcomes including economic growth (Johnson and Koyama 2017), improved respect for human rights (Cingranelli et al. 2014), a better ability to combat human trafficking (Blanton et al. 2020) and the avoidance of civil wars (Sobek 2010). In Besley and Persson’s (2009, p. 1239) concise conclusion, “The historical experience of today’s rich nations indicates that creation of state capacity to collect taxes and enforce contracts is a key aspect of development.” Thus, this article rejects the argument that Somaliland and its citizens would be “better off stateless” (Leeson 2007). One can readily acknowledge various forms of progress made in both Somalia and Somaliland after the collapse of centralized tyrannical rule in Mogadishu (Leeson 2007; Powell et al. 2008). One can also acknowledge that Somaliland (but not Somalia) has benefitted in several ways from a distinct lack of international intervention and foreign aid in its formative years which allowed it to build a state reflective of its own society (Eubank 2012; Phillips 2020; Richards and Smith 2015). That is far different, however, than arguing that Somaliland would benefit more from some hypothetical stateless libertarian nirvana than from having a state that had developed the capacity “to successfully govern its society and implement policies and initiatives within its borders” (Blanton et al. 2020, p. 472).

Second, Somaliland has extremely low state capacity today and faces significant challenges in building additional state capacity. Somaliland needs to expand state capacity if it is ever to successfully address the various challenges it faces including widespread abject poverty, high levels of infant and maternal mortality and a severe lack of basic infrastructure. Perhaps the central counterargument to Somaliland having any claim to libertarian credentials is the widespread prevalence of female genital mutilation (FGM). Estimates suggest that 99% of Somaliland women aged 15-49 have undergone FGM (Ministry of Planning and National Development 2018, p. 73). The limited progress that has been made in stopping FGM or reducing the severity of the type of FGM practiced has been concentrated in Somaliland’s urban centers and amongst its richest quintiles of population (Ministry of Planning and National Development 2018, pp. 73, 75). It is impossible to imagine noteworthy progress in reducing FGM in the absence of substantively increased state capacity to provide better education, better health care and enable a more prosperous society to develop.

Third, in arguing that Somaliland needs to invest in state capacity, we cannot neglect the fundamental importance of personal and economic freedom. In a trenchant analysis of Adam Smith’s contributions to development economics, William Easterly (2021, p. 185) notes that “Variations on the noun ‘choice’ or verb ‘choose’ occur 48 times in the *Wealth of Nations*. Smith mentions ‘consent’ 24 times.” In contrast to

the widespread paternalistic and racist justifications for colonialism prevalent during his time, Easterly argues that Smith's fundamental insight was "that individuals everywhere are indeed fit to choose for themselves, and that true progress happens by consent." While Smith's work is premised upon the importance of individual choice and consent, Easterly (2021, p. 200) laments that "In the economic development world today, there is still today not sufficient awareness of the importance of individual choice and consent in development programs." Albeit far from complete, Somaliland has, as noted below, made progress toward respecting individual and economic liberty, notably in terms of its democracy institutionalizing the regular or constitutional turnover of its presidents (Pegg and Walls 2018). North, Wallis and Weingast (2009, p. 67) usefully remind us that "Sustainable democracy requires not only an open-access polity, but an open-access economy too."

State capacity libertarianism is worth considering because Somaliland cannot improve the lives of its citizens without significantly increased state capacity and increasing state capacity without simultaneously expanding liberty risks devolving into authoritarianism. The empirical evidence of the past thirty years demonstrates the futility of top-down, externally driven attempts to reconstruct a centralized state in Somalia. A more fruitful approach would recognize that "If Somalia is to emerge from its political crisis and aid strategies are to be effective, greater diplomatic creativity and international acceptance of alternative formulations of state governance may prove necessary" (Bradbury 2008, p. 245; see also Leonard and Samantar 2011, pp. 576-580; Menkhaus 2006/07, pp. 101-106). As Kukathas (2003, p. 266) explains more generally, "The liberalism that identifies this state is the liberalism of an archipelago of discrete and separate, though also sometimes overlapping and interacting communities, jurisdictions, and associations.... [The state] comes out of the sea, but is no Leviathan, being neither terrible, nor all powerful...."

The remainder of the article proceeds as follows. The next section highlights Cowen's (2020) concept of state capacity libertarianism. The two following sections break Cowen's concept down into its component pieces—state capacity and libertarianism—and investigate Somaliland's historical track record and its prospects in both areas. A concluding section argues that fully fledged state capacity libertarianism will not happen in Somaliland but that further progress on developing Somaliland's state capacity and building upon the libertarian tendencies of its people is plausible. In making the argument that Somalilanders have libertarian sympathies, I am not suggesting that they are all familiar with the works of Scottish enlightenment authors or core libertarian texts. Rather, I am highlighting three points. First, Somalis are inveterate traders and entrepreneurs. They have vibrant and widely held pro-capitalist and pro-free market sentiments. Second, Somaliland citizens have demonstrated strong demand and support for democracy, peacefully and enthusiastically voting in a constitutional referendum and seven direct elections (three presidential, two local council, one parliamentary and one combined parliamentary and local council) from 2001 to 2021. Their support for democracy does not mean they coherently support libertarian policies, but it does demonstrate their heartfelt opposition to tyrannical rule. Finally, Somaliland residents have considerable first-hand historical experience with minimal, informal or non-existent statehood. They are quite comfortable with extremely limited government. "State capacity libertarianism with Somali characteristics" is conceivable.

STATE CAPACITY LIBERTARIANISM

Cowen's notion of state capacity libertarianism is never precisely defined but stems from an appreciation of the importance that libertarians place on free market capitalism but tempers this with the recognition that relatively free and prosperous countries tend to have larger governments with high levels of state capacity (Johnson and Koyama 2017). It is also based on an acknowledgment that governments sometimes succeed in the task of governing and that state capacity is essential for solving certain problems.

Cowen (2007) credits libertarian ideas with helping to reduce inflation, bring marginal tax rates down significantly and improve the overall quality of government. He notes, however, that libertarian ideas have "also brought much bigger government" (Cowen 2007). Cowen argues that even libertarians who are in-

herently skeptical of government should acknowledge that “sometimes governments do a pretty good job” (Cowen 2006). As evidence, he offers that “The Finnish government has supported superb architecture. The Swedes have made a good go at a welfare state. The Interstate Highway System in the U.S. was a high-return investment” (Cowen 2006). In more recent writing, Cowen (2020) implores that “Public health improvements are another major success story of our time, and those have relied heavily on state capacity—let’s just admit it.” State capacity libertarianism starts from the premise that “Markets and capitalism are very powerful, give them their due.” Yet, it goes on to argue that “Strong states remain necessary to maintain and extend capitalism and markets.”

Cowen (2020) also argues in an American context that while many problems can be attributed to “failures of excess regulation,” other problems are “failures of state capacity.” He offers improving K-12 education, upgrading physical infrastructure and addressing climate change as problems that “require state capacity—albeit to boost markets—in a way that classical libertarianism is poorly suited to deal with” (Cowen 2020). His overall conclusion is that “It is possible to agree with the positive claims of libertarians about the virtues of markets but still think that improving the quality of government is the central task before us” (Cowen 2006).

Cowen’s notion of state capacity libertarianism was not developed with Somaliland in mind. Indeed, his only overly broad reference to sub-Saharan Africa is that “The major problem areas of our time have been Africa and South Asia. They are both lacking in markets and... in state capacity” (Cowen 2020). Geloso and Salter (2020, p. 373) similarly argue that “Rich countries with high state capacity would be represented by OECD countries, while sub-Saharan Africa emerges as the archetype of low state capacity and relative poverty.”

While one might object to lumping Botswana in as equivalent to South Sudan, my larger point is that this article is extrapolating Cowen’s concept of state capacity libertarianism to a context quite different from the one in which he developed it. Beyond that, as shown below, Somaliland has fundamental problems with both state capacity and with libertarianism. Theoretically pure state capacity libertarianism will not happen in Somaliland. Yet, further progress on developing both Somaliland’s existing state capacity and leveraging the libertarian inclinations of its population is possible.

SOMALILAND AND STATE CAPACITY

The literature on state capacity is vast and beyond the scope of this article to summarize. In this article, a two-part cursory definition of state capacity as the ability to raise tax revenues and the related ability to invest in national defense is employed.

In a more comprehensive review of the state capacity literature, Bardhan (2016, p. 862) identifies some commonality “on the role of the state. The state has to be strong enough to provide a solid minimum framework of law and order, enforcement of contracts, and other basic institutions underpinning the market, while at the same time the state executive has to be constrained not to interfere with security of property rights.” Arguably, it was the utter lack of constraints or accountability mechanisms that made Siad Barre’s Somalia so horrible for its citizens. This explains how the removal of the centralized, tyrannical Somali state could lead to noticeable improvements on several measures of human welfare even under conditions of “statelessness” (Leeson 2007; Powell et al. 2008).

In contemporary Somaliland, the problem is much more on the strong side of the state capacity ledger than on the constrained side of it. The World Bank (2016), for example, highlights the small size of Somaliland’s government and its limited revenue raising capacity. Sarah Phillips notes how “Somaliland’s government authorities perform some typical state functions” but outsource many others to non-state actors like clan elders or religious leaders (Phillips 2020, p. 126). Powell et al. (2008, p. 665) stress Somaliland’s miniscule provision of public goods. Leeson (2007, p. 700) emphasizes that Somaliland’s “legal system functions primarily on the basis of private, customary law and mechanisms of enforcement.” Menkhaus (2014, p. 171) characterizes Somaliland as a “functional failed state” which he describes as “a political setting in

which state institutions remain weak, corrupt, and even paralyzed, but where society enjoys basic peace, security, and some form of law....” Among the more generous interpretations, the World Bank (2016, p. 79) argues that “‘clusters of competence’ exist in a variety of offices and ministries, but generally the capacity of the civil service to implement and enforce policies is low.”

Yet, this article argues that Somaliland has made tangible progress on building state capacity and that it is reasonable to expect continued further state capacity building. Two different conceptualizations of state capacity illustrate Somaliland’s achievements to date and highlight its potential for future progress.

First, the ability of a state to raise tax revenues is often seen as one of the best single rough and ready measures of state capacity. Obviously, revenue extraction does not comprehensively portray all aspects of state capacity building (Johnson and Koyama 2017, p. 3). Yet, Thies (2004, p. 54) observes that “Although state building may have many meanings, at its most basic it involves state penetration of society for the purpose of resource extraction. Taxation, or extraction, is thus a central task for the state to master before pursuing any other goals.” Improving fiscal capacity in poor countries is seen as essential because doing so “enables countries to undertake necessary investments into infrastructure and national public goods, thereby increasing economic efficiency, while also strengthening the social contract with their tax-paying citizens, thus mitigating corruption and increasing political stability” (Reinsberg et al. 2020, p. 279).

A second relevant way to measure state capacity comes from Geloso and Salter (2020) who define state capacity as investments in national defense. They argue that “State capacity and coercive capacity are inherently linked. While it may be possible to invest in coercive capacity without state capacity, investing in state capacity necessarily implies investments in coercive capacity” (Geloso and Salter 2020, p. 374). Since many public goods relate directly or indirectly to national defense, “we can equate (to some imperfect extent) investments in state capacity as investments in national defense” (Geloso and Salter 2020, p. 373). Their argument is developed in the context of relatively wealthy states that have valuable things which make them targets for predation. In their succinct explanation, “Richer polities invite external predation, which incentive rulers to marshal coercive capacity to resist such predation” (Geloso and Salter 2020, p. 376).

Given its abject poverty, Somaliland might not seem like an ideal fit for this argument. Yet, the post-1945 international system has featured a strong normative consensus against secession and in favor of preserving existing sovereign states no matter how dysfunctional they might be (Jackson 1990). This has enabled states like Afghanistan, Chad, Lebanon and Somalia to survive when, in previous eras, they would have been conquered, colonized or partitioned. As a *de facto* state, Somaliland does not benefit from that international normative consensus and must survive outside it. *De facto* states face existential security threats, and the international community has shown itself to be quite comfortable with their forcible eradication as seen recently in Chechnya, Serbian Krajina, Tamil Eelam and, in large part, Nagorno-Karabakh. Indeed, Caspersen (2012, p. 126) finds that forcible eradication is “statistically the most likely outcome for unrecognized states.” *De facto* states like Somaliland thus find themselves in the situation described by Geloso and Salter (2020, p. 376) as “the only polities likely to survive are those that can wield sufficient martial force to retain their independence from other polities, and perhaps even their existence.” Replacing “richer polities” in Geloso and Salter’s formulation with *de facto* states works equally as well: “*De facto* states which lack a guaranteed juridical existence in international society invite external predation, which incentive rulers to marshal coercive capacity to resist such predation.”

Somaliland’s history suggests considerable progress in revenue extraction and an overwhelming deployment of those revenues into national defense. As early as September 1995, government revenues from import and export taxes at the Berbera port were estimated to be between US\$10-15 million per year (Bradbury 2008, p. 111). Somaliland’s government levied taxes on livestock exports, imports of consumer goods and imports of *qat*. As Stepputat and Hagmann (2019, p. 800) explain, “All three depended on free circulation and centralized control of key gateways, mainly Berbera Port, Hargeisa airport and the road junction Kalabaydh.” In 2002, customs duties accounted for 85% of all government revenue (Bradbury 2008, p. 237). By 2017, Somaliland’s Director General of the Ministry of Finance, Mohammed Hassan Ibrahim, suggested that 70-75% of the government’s revenues came from customs duties (livestock exports, *qat*, Berbera

imports) with 25-30% coming from inland revenue (a 5% sales tax, a 6% income tax, rental property tax, car license fees, etc.) (Ibrahim 2017). A more recent Ministry of Finance Development document (2020, p. 7) assessing the adverse impacts of the COVID-19 pandemic observed that 77.6% of the government's revenue in 2020 came from customs, 16.6% came from inland revenue and 5.8% came from other sources.

Somaliland is frequently criticized for an over-reliance on customs duties. Yet, it has gradually expanded the share of its revenues coming from inland revenues. Foreigners staying in hotels now notice the sales tax on their bills. Vehicle license and registration taxes are now prominently displayed. Its large dependence on customs revenues is also not unusual for countries in their initial stages of development (Besley and Persson 2009, p. 1238; Thies 2004, p. 64). And, through its agreement with DP World and Ethiopia to develop the Berbera port and corridor, the government is willingly conceding reduced customs revenues based on the expectation "that 'more movement' will promote development and increase state revenue 'further inland' to substitute revenue from customs" (Stepputat and Hagmann 2019, p. 807). Somaliland's heavy initial reliance on customs duties is not unusual and it is actively working to increase inland revenues and reduce this dependence.

Somaliland is also criticized for not raising significant revenues. Somaliland does not tax remittances. Phillips (2020) is scathing on Somaliland's inability to raise taxes from the large telecommunications companies operating in its territory. In her view, "The government lacks the institutional capacity (and often the willingness) to compel the business community to pay substantial tax" (Phillips 2020, p. 135). While there is much truth to this, as Musa et al. (2021, p. 119) point out, "Somaliland authorities have successfully extracted income from livestock trading." As livestock accounts for almost 30% of Somaliland's GDP, is its largest single export and directly or indirectly employs more than half its population (World Bank 2016, p. 12), that is a significant accomplishment.

The government may not have an ideal mix of taxes, but it has succeeded in raising its revenue intake dramatically. Somaliland's government budget was typically in the \$20-40 million range in the 2000s (Bradbury 2008, p. 236; Menkhaus 2006/2007, p. 91; Eubank 2012, pp. 475-476). This had increased to \$180-200 million per year in the 2010s. Former Finance Minister Abdiaziz Mohamed Samale presented a 2016 budget of \$295 million to parliament (Samale 2016). Somaliland's initial 2017 budget of \$362 million had to be cut by 30% due to a major drought and a Saudi ban on livestock exports (Ibrahim 2017). The Ministry of Finance Development (2020, p. 8) now suggests a COVID-19 pandemic-related 15.4% reduction to an original 2020 budget figure of \$238 million. To the extent that revenue raising is a good rough approximate measure of state capacity, increasing revenues from \$20 million at the start of this century to more than \$200 million today suggests that Somaliland's state capacity is improving.

Turning to Geloso and Salter's (2020) concept of state capacity as investments in national defense, one also sees Somaliland's uncertain legal status forcing it to devote most of its revenues to security spending. In its first few decades, Somaliland typically allocated 50-70% of its total budget to national security spending (Bradbury 2008, p. 238). In 2020, 75% of its total budget was allocated to salaries and operating costs (Ministry of Finance Development 2020, p. 8), much of which relates to security spending. Hoehne (2018, p. 8) acknowledges that Somaliland's budget tripled in ten years but laments that "Most of the 'extra money' of the state went into increasing the salaries of the armed forces" and did not lead to anything like a tripling in the quality of public services.

Hoehne is correct that the combination of limited overall revenues and the need to devote most of them to security spending leaves little remaining for education, health or other public infrastructure spending and that Somaliland citizens suffer from this. Yet, the extent of Somaliland's success in maintaining internal peace and stability is immediately apparent. One can walk the streets of major cities like Burco or Hargeisa after dark without fear for one's safety. Entering or exiting the country is not a harrowing experience. While peace is more pronounced in the central triangle formed by Berbera, Burco and Hargeisa than it is in the eastern regions of Somaliland which are also claimed by Puntland, even there the violence is limited when compared to south-central Somalia. The UN Development Program finds that the percent of youth experiencing five distinct kinds of violence in the past year was lower in all categories in Somaliland

than in south-central Somalia (UNDP Somalia 2012, p. 209). When a survey of Somaliland businessmen asked if they felt that they are likely to be victims of crime in the next twelve months “84 percent either disagreed or strongly disagreed with such a possibility” (World Bank 2016, p. 19). Phillips (2020, p. 6) calculates that “from the time Somaliland’s internal wars ended in late 1996, it has experienced around 1 percent of the fatalities from conflict that were suffered in the rest of Somalia.” How Somaliland has maintained peace, however, is more a story of the libertarian tendencies of its people than it is of its state capacity. It is to that we now turn.

SOMALILAND AND LIBERTARIANISM

Defining libertarianism is a contested enterprise. For our purposes, libertarianism is defined as a political philosophy that prioritizes liberty as its core principle. It seeks to maximize personal freedom and emphasizes freedom of speech, free association, freedom of choice, free markets and strong private property rights. It is skeptical of or outright hostile to concentrated state power.

While a small state with a limited capacity to raise revenue and decentralized legal and security arrangements initially sounds appealing, Somaliland is not a libertarian paradise. Libertarians might relish the chance to legally join the estimated 90% of Somaliland’s adult male population that daily chews *qat*, a mild stimulant (Bradbury 2008, p. 171) but they would find it problematic that washing their *qat* down with a beer could get them arrested. Article Five of Somaliland’s Constitution establishes Islam as the country’s religion and prohibits “the propagation of any other religion in Somaliland.” Article Nine of Somaliland’s Constitution mandates the existence of not more than three political parties in Somaliland. An upper house of parliament reserved for (almost entirely male) clan elders who have not been elected or selected since 1997 also violates libertarian ideals. US officials have repeatedly expressed concerns to Somaliland over the country’s recurrent arrests of journalists and opposition party politicians (Pegg and Berg 2016, p. 281). Private radio stations remain banned, and women suffer from almost universal female genital mutilation.

Yet, Somaliland’s government closely reflects its society which demonstrates some libertarian sympathies. The peace and stability described above does not emerge from the competence of its security forces. Security arrangements in Somaliland are extremely decentralized and rely heavily on clans, clan elders and local political and religious leaders maintaining peace in their own areas (Hagmann and Hoehne 2009, pp. 49-51; Menkhaus 2014, p. 163; Walls 2009, p. 383). Local non-state actors typically resolve local matters. As Hagmann and Hoehne (2009, p. 49) note, “Only in exceptional cases, when the integrity and stability of Somaliland is at stake, do central government institutions such as the House of Elders or the national armed forces intervene directly.” The central government’s role is often limited to ratifying agreements reached by non-state actors.

One way to interpret this is that Somaliland’s government does not have a monopoly on law enforcement and relies heavily on private, customary law which calls into question whether it should even be considered a state (Leeson 2007, p. 700). Another way to interpret it, though, is that Somaliland has effectively incorporated traditional non-state actors and institutions into a viable decentralized security system that well reflects its own society. Somaliland has dramatically reduced violence compared to south-central Somalia, and it has not done so through repressive or heavy-handed tactics. Somaliland has been successful in combating maritime piracy, yet its counter-piracy officials routinely note “their inability to curtail piracy through their formal institutional capacity, signaling instead the degree to which they rely on ordinary people reporting possible operations to them” (Phillips 2020, p. 137). One member of Somaliland’s elite proudly observes that “Al Shabaab bombed Uganda but could not disrupt our election or mass rallies. This is not because our police and military are efficient. They are not. The people are our police” (Duale 2010). Former Foreign Minister Edna Adan Ismail often makes this point by saying that “Somaliland works because the people of Somaliland want it to work.” From a libertarian perspective, what is not to like about the paradox so readily visible throughout Somaliland that “a relatively strong sense of public security is widely perceived

despite people's awareness that the police and armed forces cannot provide a robust guarantee of that security" (Phillips 2020, p. 163)?

It is important to remember that security is the one area the Somaliland state has devoted significant revenue to supporting. Outside of the security sector, the Somaliland state has largely outsourced non-security development needs to other actors including citizens, clans, its influential diaspora and, increasingly in recent years, foreign aid and non-governmental organizations. Most Somaliland residents accept this. As explained by Mohammed Fadah (2010), "The number one thing for our people is peace. They do not care about much else from the government. The government handles security otherwise it faces few demands or expectations from the people."

Education is one sector that illustrates the fascinating relationship between a limited capacity state and a private sector that drives much of the impetus to expand education but finds it symbiotic to work with rather than against the state. The state's constrained resources and its willingness to outsource development needs to non-state actors means that "the Somaliland state administration only played a limited role in re-establishing schools and the education sector" (Gandrup and Titeca 2019, p. 649). Yet, the state's limited role in rebuilding Somaliland's war-devastated educational sector did not prevent that sector's growth. The number of primary schools in Somaliland increased from virtually none in 1990 to 294 in 2001 to 1,083 in 2015 (Gandrup and Titeca 2019, pp. 642-643). More recently, the number of primary and secondary school students increased from 265,704 in the 2013-14 academic year to 312,042 in the 2017-18 academic year while the number of primary and secondary school teachers increased from 10,044 to 11,477 during the same timeframe (Ministry of Planning and National Development 2019, p. 11). This is not, however, an entirely private sector accomplishment. As Gandrup and Titeca (2019, pp. 654-655) observe, "Due to its lack of international recognition and its limited financial capacity, the state administration is not capable of fully regulating and financing education. This does not mean that the education sector... depends entirely on the private sector." Indeed, non-state actors seek state approval both for the limited funds the state can provide but also, more importantly, for how state approval can facilitate their access to external resources, including foreign aid organizations who typically will not support educational institutions that are not state approved (Gandrup and Titeca 2019, p. 651).

The libertarian bent of Somaliland's citizens and traders also shows up in their government's light regulation of businesses. While some of this reflects the government's weak bargaining position vis-à-vis major corporations, the commitment to free market capitalism also arises out of Somalilanders' devastating experience with Siad Barre's "scientific Socialism." As explained by Claire Elder (2021, p. 1752), the Somaliland "state emerged out of a revolutionary liberation agenda committed from the outset to business autonomy, market-led development and self-sufficiency in the shadow of Siad Barre's predatory regime...." At crucial times during its early state-building process, Somaliland's government depended on loans from private sector businesses to finance clan conferences, disarmament and demobilization efforts or various peace-building initiatives (Balthasar 2013; Musa and Horst 2019; Phillips 2020; Stepputat and Hagmann 2019). In some ways, this was an inevitable response to the limited foreign aid that Somaliland's unrecognized government received in its first decade. This lack of foreign aid and reliance on domestic resources was arguably beneficial to Somaliland's democratic development as it facilitated a form of "revenue bargaining" that ensured the government was constrained and accountable to its domestic constituents and not beholden to aid donors or international financial institutions (Eubank 2012).

In return for providing financing and loans at critical moments, Somaliland's largest businesses secured extremely limited government regulation in return. This pact between government and business elites led to significant positive and negative externalities. On the positive side, Somaliland's embrace of free market capitalism led to the impressive growth of certain sectors and rapid progress in rebuilding its devastated economy. As explained by Musa and Horst (2019, p. 41), "the entrepreneurial spirit of the business elite, in conjunction with a laissez-faire economy after the civil war, has allowed local business to thrive. It is through private initiative that electricity companies were established, one of the cheapest telephone systems in Africa was made available, advanced mobile money transfer systems were created and

several private airlines serving East Africa and the Gulf were established.” The prosperity so visible today in Hargeisa is a result of light touch regulation, an embrace of free market capitalism and a stable environment conducive to welcoming diaspora investment even if Somaliland’s lack of sovereign recognition scares most foreign investors away.

The downside, though, was granting “businessmen extensive tax exemptions and monopoly status in foreign trade” (Stepputat and Hagmann 2019, p. 801). As explained by Musa and Horst (2019, p. 41), “The state reciprocates private sector contributions and loans by limiting regulations perceived to be in the detriment of local business owners, and such policies have closed the Somaliland market for all but a handful of powerful private companies.” The result is an economy dominated by a small number of large companies that contribute little in taxes. In Phillips’ account, “Through its inability (and sometimes unwillingness) to regulate the economy, Somaliland’s government has perpetuated a market with limited opportunities for access, placing a ceiling on the prospects for more inclusive development” (Phillips 2020, p. 77).

Somaliland is characterized by a dearth of government regulations in key sectors. The lack of government regulations in telecommunications has contributed greatly to some of the cheapest cellphone rates anywhere in the world and to the almost universal acceptance of mobile money payment systems from person-to-person transactions to informal street vendors and the largest hotels, restaurants and formal business establishments. Yet, as the World Bank (2016, pp. 50-51) highlights, “no part of the telecommunications sector is regulated by a designated authority, including the e-money business, which presents financial risks that need to be managed by appropriate authorities.”

CONCLUSION

Somaliland’s citizens would not be “better off stateless” (Leeson 2007). They have, however, benefitted from having a small state with limited capacity that has been allowed to develop in accordance with its own societal traditions and largely free from the kind of intrusive international interventions that have singularly failed to construct a viable centralized Somali state in Mogadishu (Leonard and Samantar 2011; Phillips 2020).

Somaliland’s lack of external recognition has constrained, shaped and limited its state capacity building in several ways. The omnipresent threat of forcible eradication has forced the state to prioritize security expenditures above everything else and to largely outsource non-security development needs to other actors. The lack of foreign assistance, particularly in its earliest years, forced Somaliland to rely far more on internal resources than other sub-Saharan African states have had to do. The positive impact of this was allowing Somaliland the freedom to experiment with institutions that reflected its own society, culture and traditions well and were not Western impositions. Somaliland did not get everything right and it is still trying to resolve significant contradictions within its political system today. Hoehne (2013, p. 213), for example, critiques Somaliland’s hybrid mix of traditional and modern governance and argues that Somaliland finds itself today with “not only an imbalanced but a ‘crippled’ hybrid order that advances neither effective democracy nor strong traditional governance, but undermines both the Western-oriented state and the home-grown traditional system.” Yet, the lack of foreign intervention, its relative freedom to experiment and its reliance on diaspora and business funding arguably made positive contributions to Somaliland’s democratic development (Bradbury 2008; Eubank 2012; Phillips 2020; Richards and Smith 2015). The negative impact of this lack of international assistance came in the creation of an economy dominated by a handful of large business interests that face only minimal regulation and pay next to nothing in taxes (Elder 2021; Musa and Horst 2019; Phillips 2020; Stepputat and Hagmann 2019).

Yet, although Somaliland’s lack of externally recognized sovereignty has shaped its development in profound ways, there is nothing that suggests it is entirely unique or *sui generis* in the history of state capacity building or that its present position is incomprehensible when compared to other sovereign states. Developing countries are often criticized for their limited capacities, yet empirical “findings suggest that the same processes that ultimately led to strong states in Europe may be at work in their early phases in the post-

colonial developing world” (Thies 2004, p. 54). The account of Somaliland’s state-building put forward by Balthasar (2013) which highlights the importance of a series of civil wars fought from 1991-1995 in building Somaliland’s state capacity and argues that “the civil wars fought in the mid-1990s were clearly constitutive of Somaliland’s state-making” (Balthasar 2013, p. 231) would certainly not shock scholars familiar with the literature on early European state-building. Most former sub-Saharan African colonies today are just over sixty years old. Somaliland, in contrast, has just celebrated thirty years since it reasserted its sovereignty in 1991. Although it is often criticized for an excessive reliance on customs duties, “Evidence suggests that reliance on international trade taxes has been the norm for emerging states, whether in Europe during the 17th and 18th centuries, the U.S. and Latin America in the 19th century, or Africa in the latter half of the 20th century” (Thies 2004, p. 64).

Somaliland’s limited state capacity with a few “clusters of competence” like its National Electoral Commission (Menkhaus 2014, p. 171; World Bank 2016, p. 79) is also not particularly surprising. Besley and Persson (2009, p. 1240) find that state fiscal and legal capacities “typically evolve quite slowly. This may help to explain why historical patterns of prosperity are so highly persistent.” Capacity is also relative and varies across different functions for most states. Bardhan (2016, p. 870), for example, observes that “The Indian state shows extraordinary capacity in some large episodic matters, like organizing the complex logistics of the world’s largest elections or the world’s second largest Census. But it displays poor capacity in, for example, some regular essential activities like cost-effective pricing and distribution of electricity.”

Somaliland’s overwhelming emphasis on the preservation of peace is often criticized. Elder (2021, p. 1754), for example maintains that rather than serving the broader population, “Somaliland’s peaceocracy has protected the interests of a select group of financial and political elites for decades. These interests have deliberately kept civil society organizations and formal offices and ministries weak.” Phillips (2020, p. 77) similarly laments that “Despite the broad political inclusiveness of Somaliland’s peace process between 1991 and 1997, the implicit bargain between the political and economic elites that consolidated it was highly exclusive and laid the foundation for the concentration of economic opportunity in the hands of a select few.” North, Wallis and Weingast would not find such critiques surprising. In their view (2009, p. 61), “privileges in the natural state solve the problem of violence, but, in comparison with open-access orders, the existence of these privileges greatly hinders economic growth by creating monopolies, rents, limits on the formation of new organizations, and an absence of widespread, secure, and impersonal property rights.” North, Wallis and Weingast (2009, p. 61) go on to conclude that “This suggests a fundamental dilemma of development: The means by which developing countries, as natural states, solve the problem of violence hamper long-term growth.”

Yet, when viewed comparatively, Somaliland’s “peaceocracy” is an impressive achievement. Cox, North and Weingast (2019) highlight the prevalence of violent regime change in the developing world. They “define a regime as a state that experiences an uninterrupted sequence of non-violent leadership successions. In other words, a regime ends when succession involves violence” (Cox, North and Weingast 2019, p. 5). Defined this way, they identify 697 regimes in 162 countries from 1840–2005. They emphasize how incredibly common violent regime change is. According to their findings, “Ten percent of all regimes last no more than one year, while half of all regimes last no more than eight years. Three quarters of the countries in the ‘all regimes’ sample last no more than a generation (here, 24 years)” (Cox, North and Weingast 2019, p. 5). Somaliland’s first four presidents—Abdirahman Ahmed Ali ‘Tuur’ (1991–1993, losing an election among clan elders), Mohamed Ibrahim Egal (1993–2002, natural death), Dahir Riyale Kahin (2002–2010, losing a popular election) and Ahmed Mohamed Mohamoud ‘Silanyo’ (2010–2017, voluntarily not seeking re-election)—have all left office through regular or constitutional means. One might thus argue that Somaliland’s regime, as defined in Cox, North and Weingast’s (2019) terms, has thus lasted more than thirty years (1991–2022). Even if one were to make the reasonable decision to limit Somaliland’s peace from 1997, its regime on that basis has still outlasted more than three-quarters of the regimes in Cox, North and Weingast’s (2019) sample, most of which had dramatically higher per capita GDPs and did not have to deal with the additional challenges of being unrecognized. The wanton destruction of Hargeisa and Burco

by Siad Barre’s indiscriminate aerial bombing campaigns that did “not seem to correspond to any rational political or military objectives” (Adam 1994, p. 29) and the multiple tens of thousands of people killed in what is now Somaliland and the multiple hundreds of thousands of people forced to flee as refugees or internally displaced persons from Somaliland (Africa Watch 1990, p. 10) during the Somali civil war in the late 1980s-early 1990s poignantly illustrate the potentially stark centralized state alternative to Somaliland’s limited and imperfect “peaceocracy.”

Although his idea of state capacity libertarianism was clearly not developed with Somaliland in mind, Cowen’s (2020) argument that many problems are “failures of state capacity” whose solutions “require state capacity—albeit to boost markets—in a way that classical libertarianism is poorly suited to deal with” is one that resonates strongly in contemporary Somaliland. The World Bank (2014) estimated that Somaliland’s GDP per capita in 2012 was \$347 which “would be the fourth lowest in the world, ahead of Malawi, the Democratic Republic of Congo and Burundi.” In terms of basic infrastructure, even though Hargeisa is the country’s commercial and political capital, another World Bank study (2016, p. 29) found that “Only 13 percent of firms in Hargeisa get electricity from public sources, while the remainder... rely entirely on private sources for electricity, mostly in the form of diesel generators.” Fewer than one in one hundred households in Hargeisa has access to running water (Kilcullen 2019, p. 15). In the evocative description of one observer, Hargeisa’s central avenue “is the only decent tarmac road in the city. Virtually every other paved street is potholed, and outside the business district many roads are gravel or dirt. There are few gutters and no properly-constructed drainage system, so that on the rare occasions when significant rain falls, large areas of the city are flooded and roads are impassable due to mud” (Kilcullen 2019, p. 15). Somaliland’s infant and maternal mortality rates are among the world’s highest and its total fertility rate of 5.4 children born per woman (Ministry of Planning and National Development 2018, p. 11) also speaks to its lack of development. While Somaliland’s vibrant private sector and its embrace of free market capitalism are features to admire, providing basic infrastructure and lifting its people out of abject poverty requires additional state capacity. As Cowen (2020) emphasizes, “State Capacity Libertarianism has no problems endorsing higher quality government and governance.”

Somaliland is never going to be a libertarian paradise. *Qat* will remain legal, and alcohol will not. Although the country is friendly and welcoming to non-Muslim visitors, it is and will remain an Islamic country. Traditional clan elders will continue to play a greater role than most libertarians would see as desirable, and Somaliland’s women will continue to suffer from high rates of early marriage and almost universal female genital mutilation (Ministry of Planning and National Development 2018) in ways that should trouble all libertarians. Yet, Somaliland’s by design and by default libertarian orientation—its small state, its limited capacity, its light touch regulation, its embrace of free-market capitalism, its democratic political system and its willingness to devolve major responsibilities to non-state actors—do much to preserve relatively harmonious relations with its society and to prevent the emergence of a tyrannical state like Siad Barre’s Somalia. Somaliland will never evolve into an ideal example of state capacity libertarianism. Yet, working to improve state capacity while simultaneously expanding freedom is essential to improve human welfare. Its citizens could do far worse than something approximating “state capacity libertarianism with Somali characteristics.”¹

NOTES

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