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Civil War economies, the hunt for profit and the incentives for peace
(The case of Somalia)

Dr Stig Jarle Hansen
(Doktor04No@yahoo.no)

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

The “Civil War economies, the hunt for profit and the incentives for peace” project, is a one and a half year project led by the Department of Economics and Developments studies at the University of Bath, in partnership with the university of Mogadishu. The goal of this project is to advance the understanding of the role that the business community can play in peace making, focusing on the Mogadishu business sector. The project hopes to provide new insights both to researchers and to policy makers.

The projects partners are NCA and UNDP, NIBR has contributed with support.

Researchers involved in the project

Bath Research Team

Research director	Dr Stig Jarle Hansen
Head of research unit	Dr Monica Guillen
Research assistant	Yu-Fang Chu
Research assistant	Yumin Sun

Mogadishu research Team

Head of Mogadishu team	Professor Shariff Osman,
Trainer (Quality controller)	Professor Adam Hussein
Trainer (Quality controller)	Professor Abdishakur Faqih
Head of Field research group(Quality controller)	Professor Yahya Amir,
Field researcher	Abdulkadir Abukar Sh. Hassan
Field researcher	Abdulahi Ali Mohamed
Field researcher	Abdi Hashi Aden
Field researcher	Amina Abdulkadir Arale
Field researcher	Mohamed Abdirahman Weheliye

Nairobi research Team

Research assistant	Hamida Abdusalam Mwangi
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1.

Introduction¹

As will be shown in the literature review in chapter two of this paper, several scholars view civil war economy as by and large controlled by warlords. They view a civil war economy as dominated by monopolist business lords closely connected with warlords, and dependent on the warlords for privileged access to both natural resources and cross border trade. Scholars in this group, which includes names as Collier and Reno, focus on economic incentives for war.²

In contrast to the above described approach, several large international organisations and non governmental organizations have a very positive view on the role of the business sector, claiming that they can contribute positively to a peace processes, and face economic incentives that prompts them to work for peace.³

Both approaches face several problems; there is a notable lack of in depth studies of a war economy as a whole. Few studies have been done of the totality of effects of large scale business life.⁴ This paper and indeed the research project it emerged from, examines the incentives that the businessmen/women of Mogadishu faces to promote continuous war, the incentives they face to promote institution building and peace making, and explores the balance between the two. It examines this balance over time, accepting that changes in the dynamics of the conflict might change the incentives faced by the business sectors. The research questions of this working paper are thus:

- 1) What are the economic incentives the business sector faces motivating them to promote peace and institution building in a civil war context?

- 2) What are the economic incentives the business sector faces pressuring them to promote war in a civil war context?

The working paper aims to answer these questions in order to explore how/ if the business sector can be partners in peace and institution building.

¹ I would like to thank Yahya Ibrahim, Berit Åsen and Henrik Wiig for valuable comments.

² Collier (2000) ³ Reno (1998):3

³ DIFD (2005), SIDA (2005)

⁴ Some studies do this in the Somali context. Marchal and Nenova also points to the business sector's interest in peaceful business conditions, an interest that have resulted in their funding of courts and police forces, and that can be harnessed for peace. Marchal (2002), Nenova (2004)

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The findings of the research project suggest that big business could have economic incentives for peace, as well as for war, and examine both types of incentives, in the end concluding that the incentives for peace seems stronger. Moreover it concludes that the business sector of Mogadishu in the end acted independently of the warlords, it was far from mere pawns of warlords as several researchers within the first approach suggests. The working paper will be followed up by a second working paper that addresses the various peace, reconciliation and justice institutions, forms of state- like institutions that the business community supported.

Definitions and Methodology

The findings of this project is based on two surveys of the business sector in Mogadishu, one in June/July 2006, and one in January 2007. The first survey, conducted during the struggle between the sharia courts of Mogadishu and the warlords in the summer of 2006, consisted of 99 different firms. The survey questionnaire had many open questions, allowing the respondents more freedom when replying. Questions were later coded by the Bath team and the research director. The second survey included all companies within the below defined target group in the whole of Mogadishu, the questions on the questionnaire were closed, and the results were used to examine the validity of the first survey, as well as to weigh its results. In addition to this, a Random Sample of 15% of the businesses in Mogadishu was selected for in-depth case studies.⁵

One does not need to invest much to start a small kiosk in Mogadishu, only some items for sale, and the trader might leave trading almost as fast as he or she entered the business. A survey of Mogadishu’s small traders would have been extremely difficult, and perhaps of less importance as many of them quickly disappear from the trading sector, are too poor to hire militias, and seemingly would be of little importance for political factions. The survey thus put a limit on the companies it wanted to include; it included all companies with more than 15 employees. The small traders were examined by interviewing the traders associations in markets as Bakara, associations that contain many small traders. By examining these associations one might assume that one examines the more stable small traders, as it takes stability and motivation to continue in the business sector to provide the fees to these associations over time.

⁵ For more details, see Appendix I

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When exploring the relationship between warlords and businessmen/women, one clearly has to define what really separates the two categories. In the Somali context a businessman/woman could have sizable militias making it harder to separate the groups. The classical conceptualization of warlords comes from Dick Whittaker, who describes a process in which officers on active service were becoming increasingly powerful locally, through their attachment to the land in regions in which they served, while state control over the exercise of private patronage was becoming weaker.⁶ At the same time landlords were turning to militarism, as with the increasing concentration of property ownership came control of large numbers of dependants who could be mustered for military action, in this sense Whittaker describes warlords as something very similar to the various Somali faction leaders, who more often than not started out as commanders in various rebel factions, but then broke away and took local control, basing their power on military factors and charisma rather than political and bureaucratic structures. The warlord will run a region/fiefdom, and tax and control the inhabitants of that fiefdom, and he/she will have political ambitions. Many Somalis will claim that a businessman earns his income from business only, and does not operate taxing systems or road blocks.⁷ Moreover, the businessmen deploy their militia defensively, they are in general not out to conquer land, but to protect their assets, and they will seldom engage in political negotiations. Most business militias are deployed for defensive purposes, and are not even spotted in the streets of Mogadishu.

Structure

The working paper first conducts a literature review of the existing literature on civil war economies. Second, the working paper examines the structure and history of the businessmen and women of Mogadishu, arguing that vital dynamics have changed over the years, making the general literature on war economy outdated in the Somali case.

The working paper then proceeds to the examination of the various economic incentives driving peace and institution building, as well as the incentives that might motivate the business sector to sabotage peace negotiations and institution building. A conclusion sums up the main findings.

⁶ Whittaker (1993)

⁷ “Somalia’s hope of a new era” BBC 10 July 2004

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Civil war and economic incentives for war and peace; a literature review.

When reviewing literature on the interaction between economic factors and war one can not help notice the huge volume of works produced in the period 1996-2005. The increase was perhaps because of a revolt towards an older approach focusing on primordial ethnic and religious hatred. During the early 1990s, explanations focusing on such factors flourished.¹ Books and articles like Kaplan’s “The coming Anarchy”, painted a picture of irrational wars based on primitive feelings and social trends that had disappeared from the more “modern” Western world.² Scholars as Eizenberger argued that the wars were without ideology, they were about “Nothing at all”.³

In seeing the wars as irrational, the above described researchers and journalists missed the rational motivations of war leaders; their depiction of irrational African faction leaders had few similarities with shrewd military leaders as Muhammad Farah Aided, who even managed to defeat American Special Forces during the United Nations intervention in Somalia. A second generation of scholar’s and journalists re-discovered rationality, rationality in the form of actors promoting their own economic interests in a conflict, even to the extent of initiating conflict it-self because of economic aims.⁴ While keeping the focus on the fluidity of the parties to the wars, they switched to approaching the wars as criminal rather than political phenomena.⁵ War became seen as “economics with other means”.⁶ Various belligerents were seen as so motivated by profits as wanting to continue wars rather than winning them.⁷ The media had a major influence on this change in the state of affairs, printing numerous media articles that described, in some detail, the role economic agendas played in African wars. In many ways the new trend was fortunate for many journalists, the simplicity of explanations focusing on greed provided guidance and materials when dealing with cases like Sierra Leone, a tabula rasa for most journalists.⁸ Academic and newspaper articles focused on how factions gained access to sources of income, how rulers and local strongmen used their commercial ties to profit from war, and how the quest for profit led to a

¹ Kaplan and his generation tended to neglect the grave human rights abuses that had taken place in wars during and before the cold war. According to numbers gathered by Rummel, many of the cold war, and pre cold war wars were equally, if not more, murderous, than the so called new wars.

² Kaplan (1994),

³ Eizenberger (1994):6; See Berdal and Keen for a summary of the works of this period

⁴ Kinsey (2005): 275

⁵ Kalywas (2001):99

⁶ Reno (1998)

⁷ Berdal and Keen (1997):798

⁸ Pugh and Cooper (2004):97

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prolonged war. Factions were in general seen as more or less unitary, and the local business sector seen as controlled by/dependent on the factions.

Within these broad frames methods and analytic approaches varied, as did the conclusions. A first group of researchers approached the study of Conflicts and War Economies using econometrics and regression based analyzes, initially focused on “greed”, later the availability of opportunity, as the main cause of mostly African wars, but also wars in other continents. The group also focused on the role primary goods had in war economies and on civil war in general. This approach, as will be shown later, neglected many of the case specific factors. A second approach employed case studies, with a strong emphasis put on West Africa.⁹ This group focused strongly on the interaction between economic factors, ideology and other factors. A last group also employed case studies, but, separating them from the second group, focused more strongly on the regional and global connections. The emphasis was put on the interaction between war economies, regional economic networks and globalization. As will be shown later, this group offered the most detailed study of war economies.

Parallel to the works of the above researchers international organizations and consultancy groups evaluating development strategies developed a different approach to civil war economy, focusing on the positive role of the private business sector in ending conflict.¹⁰ This approach viewed the actors of the business sector as more independent of warlords and faction leaders, this without suggesting under which conditions they could wield such independence.

This chapter explores the theories of all these groups, its findings suggests that a more detailed exploration of the balance between incentives for war and the incentives for peace is needed.

Greed, Grievance, Opportunity

In 1996 Jean and Ruffin pioneered an approach studying conflict using econometrics and regressions focusing on the role of greed in conflict.¹¹ Paul Collier and later Anke Hoeffler

⁹ Reno (1998)

¹⁰ DFID (2005), SIDA (2005)

¹¹ Jean and Rufin (1996).

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were to become the most well known researchers following this approach.¹² Nils Petter Gleditch and Indra de Soysa also produced important contributions.¹³

Few of these researchers had wide field research experience, and as can be seen in several of their articles, references to the case specific circumstances that surrounded the conflicts were at best simplistic, at worst totally absent.¹⁴ Indeed, the group as a whole received critique for this, suggesting that each separate civil war was so complex and was influenced by so many variables that it almost became impossible to use a general econometric approach.¹⁵ As suggested by Kalywas, the local context was ignored; local explanations of the conflict tended to be disregarded as mere propaganda or dismissed as irrelevant.¹⁶ Despite this, the group was to have large influence on donor policy formulation in civil war zones, the groups’ initial focus on primary goods and greed influenced UN-sponsored efforts to reduce the trade in “conflict goods”, primary goods as diamonds that was seen as fuelling conflicts.¹⁷

Two of the researchers in the group, Collier and Hoeffler, functioned as agenda setters for conflict researchers. They produced many of their working papers while working for the world bank, this, and the way they managed to keep their arguments simple and understandable made their research influencing amongst NGOs and policy makers. Their original research focused on motivations to rebel, arguing through econometric analyses of various factors correlated with civil war onset that variables associated with greed, namely calculated economic benefits for rebels, and were better predictors for conflicts than variables associated with grievances. Later Collier and Hoeffler moderated their statement; focusing on opportunities, incentives to rebel, rather than outright greed.

During the first phase the two variables greed and grievance were described as more or less opposing sets of explanations, in which one type of explanation, the greed focused, enjoyed superiority when it came to explain the “new wars”.¹⁸ Certain variables were singled out to measure the connection between greed, grievance and war. Firstly Collier examined the proportion of young men. A large population of young men in a country was claimed to make it-easier to recruit soldiers. Collier proceeded to examine the education of these men. Lower education was claimed to make it more tempting to become militia members.¹⁹ Secondly, he

¹² Collier (2000) ; Collier & Hoeffler, (2000)

¹³ Se e.g. Collier and Hoeffler, (2000), Collier and Hoeffler (1999a), Collier and Hoeffler (1999b), de Soysa (2000); Lujala, Gleditch, Gilmore (2005)

¹⁴ Collier (2001a):12; Collier even managing to claim that Muhammed Farah Aided was the initiator of the Somali civil war.

¹⁵ Cramer (2003); Suhrke, Vilanger and Woodward (2005), Ballentine and Sherman (2003):5

¹⁶ Kalywas (2000):99

¹⁷ Berdal (2005): 688

¹⁸ Collier and Hoeffler, (2000), Collier and Hoeffler (1999a), Collier and Hoeffler (1999b)

¹⁹ Collier (2001c):94

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examined the amount of primary commodities exported. Primary commodities were claimed to indirectly create conflict, such commodities are easily to loot, and can be easily taxed, making it easier for rebels to get income.²⁰ A correlation between availability of primary commodities, the availability of young educated men and conflict was said to support the hypothesis that greed created civil wars.²¹ Moreover, Collier explored the connection between religious fragmentation, economic inequality, and growth per capita.²² A connection between these variables and conflict were seen as confirming a hypothesis in which grievance played a role in causing conflict, but this correlation failed to emerge in Collier and Hoefflers work. The emphasis was thus put on greed. Collier explicitly claimed that “Civil wars are far more likely to be caused by economic opportunities than by grievance, and therefore certain rebel groups benefit from the conflict and have a very strong interest in initiating and sustaining it.”²³

Collier and Hoeffler claimed that greed was such a strong motivator because of the collective action problems faced by grievance motivated rebellions. In case of a grievance based rebellion, the final reward of the struggle, the end of many of the grievances, would benefit all, not only the ones fighting for it.²⁴ A “free rider”, a person not participating in the rebellion, would get the same reward as people participating, while avoiding the dangers of the fighting. There would thus be strong incentives to avoid joining a rebel movement and wait for others to do the job. On the other hand, if economic incentives were provided, if there were some economic gains from joining a rebel group, then recruitment would become easier.

Collier and Hoeffler’s approach were attacked by members of the academic community. Firstly the quest for economic resources is not necessary a sign of greed. As claimed by Hansen, income is vital to maintain a successful army, thus looting, and the access to income can be a very important tool to stay alive, in the Somali case, a decline of income often meant a decline of the warlord in question, even his death.²⁵ Again Somalia gives many examples; the American withdrawal from Mogadishu led to a fragmentation of general Aided faction, ironically the Americans had bought services from Aided affiliated businesses, and the withdrawal of the Americans meant large financial losses. The collapse of the banana trade weakened Aided organisation even more, and by 1999, the most prominent

²⁰ *ibid*

²¹ The correlation is contested by several researchers; Fearon and Latin (2003):87, does not find a correlation between primary goods and conflict at all.

²² *Ibid*:96

²³ World Bank, “Greed for Diamonds and Other ‘Lootable’ Commodities Fuels Civil Wars” (News Release 2000/419/S, <http://wbln0018.worldbank.org/news/pressrelease.nsf>, accessed April 20, 2001).

²⁴ *Ibid*:100; In this sense, Collier and Hoeffler based their arguments on Mansur Olsons “logic of collective action”;

²⁵ Hansen (2003), Reno claims that 59.4% of African leaders since independence (1991), have either died, been imprisoned, or exiled, indicating a malign fate for leaders failing to uphold their patronage networks. Reno (1998):19

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lieutenants operated by them-selves, the loss of income was fatal to the Aided faction’s power which declined. The all important question became, do people wage war in order to loot or do they loot to be able to wage war? The answer to this question might vary from case to case, and might be a combination of security and profit considerations rather than an outright quest for profit. As claimed by Christopher Cramer, it becomes dangerous even to believe that one faction is unitary in the sense that it shares the same motivation, within one faction individual actors might have different motives.²⁶

Secondly, Colliers treatment of natural resources was criticized. Lujala, Gleditsch and Gilmore pointed to how different types of primary goods could have different effects, separating between primary diamonds, diamonds mined in deeper mines, needed large investments before they could be harnessed, and secondary diamonds, diamonds close to the surface, could be easily harnessed. Lujala, Gleditch and Gilmore claimed that easily harnessed resources could be used by rebels, but resources that demanded more investment, would demand stability and finances that rebel organisations would find hard to provide, and would actually decrease the likelihood of conflict.²⁷ Le Billion discussed the location of primary goods, if they were close to the centre of the country; the resources were seen as having the potential to deter rebellion, as they were easy to control. If they were dispersed, they were seen as benefiting rebels.²⁸ Carter argues that natural resources might become more important because of prolonged war, alternative industry that demands infra structure will suffer as war destroys the latter.²⁹

Thirdly, several other quantitative studies failed to confirm Collier and Hoefflers findings. Other researchers, most Notably Shurke, Vilanger, Woodward, Fearon and Lating, basing research on different definitions and/or different data material, but nevertheless using regression and similar quantitative methods as the two, got different results.³⁰ Collier and Hoeffler also overlooked some of their own findings, dismissing a significant correlation between economic decline and conflict, a potential indication of grievance initiated wars according to their own definitions’, as an exception only without commenting further upon it.³¹ Additionally they used a data set that ignored the anti colonial insurgencies of the 1960s.³²

²⁶ Cramer (2002): 1853

²⁷ Lujala, Gleditch, Gilmore (2005): 538-562.

²⁸ Le Billion (2001)

²⁹ Carter in Berdal (2005):691; He points to the example of Angola

³⁰ Suhrke, Vilanger and Woodward (2005); Fearon and Latin (2003)

³¹ Collier (2000c): 99

³² Pugh & Cooper (2004):

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Importantly, Collier and Hoeffler maintained that rebel organisations would have incentives to present as gruesome as possible depiction of local grievances in order to get international support and secure recruits. The researchers warn against taking narratives of grievances to serious, as did other members of the econometric approach.³³ A disregard for the arguments of the involved parties led to a systematic disregard for local opinions regarding the causes of a conflict; local grievance claims were neglected as were the opinions of recruits that joined rebel movements regarding their own motives.³⁴

As suggested by Hansen another weakness in Collier and Hoefflers arguments, is the fact that systematic large scale abuse can overcome a free rider problem ensuring mass recruitment to rebel organisations.³⁵ During the bombing of Hargeisa, Somaliland, May 1988, the collective punishment of all members of the Isaq clan meant that the alternative to collective actions against the regime would have been punishment, even death, giving strong personal incentives to join or support the rebel group in question, the Somali National Movement (SNM).³⁶ There are several other specific examples on how mass suffering have increased the recruitment to rebel movements, including Reagans study of Bougainville and Bary, Lunde and Mursheds study of Nepal.³⁷

An additional weakness of Colliers and Hoefflers analysis is the dichotomy of greed and grievance it-self. In Somalia greed and grievance for example interacted to create the Rahanwein military mobilization of 1996-1998 (Somalia). Rahanwhein, an agricultural clan inhabiting central Somalia that traditionally have been looked down on by other clans, was severely abused by the faction controlled by Muhammad Farah Aided and later his son Hussein Aided. The income from export of Bananas from Rahanwein populated areas fuelled harsh policies towards the Rahanwehin. Extremely cheap labour or slaves recruited, often forcefully, from the Rhanwhein and the Bantu communities were used to keep production costs low and thus maximize the profit from the banana trade. However, this caused grievances amongst the Rahanwhein that led to military mobilization. In this, and indeed many other cases, the analytical separation between greed and grievance becomes hard to defend. Greed and grievance are closely interacting, greed creating grievances, grievances in turn creating military mobilization, and a renewed quest for profit in order to sustain the

³³ Collier (2000c):92; De Soysa (2002):396

³⁴ The role Siad Barres carpet bombing of Hargeysa plaid in the Mobilization around the Somali National Movement (SNM) in 1988 was crucial for the movement, the movement was on the verge of collapse before this happened, but then expanded from 3000 to 10.000 fighters in a couple of months.

³⁵ Hansen (2000)

³⁶ Indeed, a to strong focus on greed related factors would inevitable also lead to an under evaluation of the role of the killing of Ogadeen officers in the creation of Somali Patriotic Movement, and ignores the role that Muhammed Farah Aided, and his sons, harassment of the Rahanwhein's plaid in the creation of the Rahanwhein revolutionary army.

³⁷ Reagan (2003): 133-163, Bray, Lunde & Murshed (2003): 107-132

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resulting military organisation. The very commonly observed interaction between greed and grievance caused general criticism of Collier and Hoefflers work.³⁸ Collier and Hoefflers interpretation of the correlation between the numbers of un-educated young men in a society with conflict as a sign that greed caused conflict also suffers from the problem encountered when dichotomizing greed and grievance. Uneducated men could indeed have grievances against a state that failed to provide them with education.³⁹

Collier and Hoeffler later abandoned the clear separation between greed and grievance, the World Bank report “breaking the conflict trap”, edited by Collier, suggesting that the dichotomy was less useful than it initially was believed to be.⁴⁰ Focus was put on “opportunities”, which also included greed based factors. Rebellious action was seen as a result of a pure cost-benefit analysis of the participating individuals. In addition to older variables as primary goods, unemployment, some new variables were introduced. Mountainous terrain was seen as making it more tempting to rebel, as it provided shelter for rebels and minimized central control, as were a dispersed population.⁴¹ Focus was also put on the diasporas, and their finance to rebel movements.⁴² Collier and Hoeffler now claimed that specific grievance variables, as ethnic dominance, are important.⁴³ The two nevertheless concluded that grievances collectively were of minor importance.

Collier and Hoeffler, and indeed most scholars within their tradition, fails to explore the function that the provision of justice have in creating opportunities to sustain a rebel movement over time. In Somalia, some warlords went to a great extent to create a perception of providing justice, even providing justice, to their ethnic constituencies, in Somalia e.g. creating or facilitating sharia courts.⁴⁴ The ease by which these courts in the end overcame the whole warlord system, seen as illegitimate by the local population, is striking. The courts took great care in upholding law, and avoiding civilian casualties, and received important support from the civil society. The warlords profit motivated soldiers were often unwilling to do battle, while the core of the islamists were fanatically determined fighters, believing that they were fighting for justice and Islam, and able to fight in situations where the warlord militia choose to flee. Despite claiming to look into economic factors, Collier and Hoeffler failed to examine the role of specific global and local enterprises in the conflicts. In this sense they did not look into the specific interaction between war and economy, how and when the business

³⁸ Kalywas (2000):99

³⁹ Marchal (2004):1

⁴⁰ Collier and Hoeffler (2004); Collier (2003)

⁴¹ Ibid:570

⁴² Ibid: 588

⁴³ Ibid:581

⁴⁴ Hansen (2003)

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sector would support factions, how, why and when warlords and military factions gained and lost power in a conflict due to economic variables. Beyond some very general comments, namely that the economic horizons regulating investments would become shorter, long term investment would decline, and short term gains would become more tempting, crime would increase, and foreign investment and savings would decline, assets would be shifted out of the country in question, that there would be little competition, that trade would become monopolistic, and entry into the market would be harder, the researchers failed to comment upon the specifics of a war economy.⁴⁵ In this sense they failed to examine the potential positive aspects of profit seeking actors, as suggested by the philosopher Immanuel Kant trade might force individuals from different ethnic backgrounds to interact in a relatively cordial manner, a common quest for profit creating common goals.⁴⁶ Moreover Collier and Hoeffler to a certain extent focus on the extractive sectors, on the natural resources that are easy to loot, other sectors of the economy are more neglected, although they still make generalisations about them.⁴⁷

Shadow States

A second group of researchers focus on the connections between rebel factions, local war leaders and business in more detail than the first group. The group employed case studies of mostly West African countries. As claimed by Ballentine and Sherman, they attempted to contextualize each case, some exploring variations within separate stages of a specific case, and the interaction between many variables.⁴⁸

This group was more balanced regarding the role of greed in creating conflict. One of them, William Reno argues that “...greed and grievance can play variable roles...” and “Explaining these variations requires an analytical framework that has some contact with the world of politics and can deal with complexity”.⁴⁹ Reno also introduced a central concept: *the shadow state*. He sees the shadow state as “a patronage system rigidly organized around the control of resources, being independent of the formal borders.”⁵⁰ It is partly seen as a result of a colonial pattern, in where informal rewards had been used to gather support for the colonial regime, and in which the opinions of the local population meant little. However, *the*

⁴⁵ Collier (2000c):102-103

⁴⁶ Kant (1997):105

⁴⁷ Collier (2000c):102-103

⁴⁸ Ballentine and Sherman (2003):8

⁴⁹ Reno, (2004): 22.

⁵⁰ Reno (1998):3

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shadow state is also claimed to be a consequence of a weak ruler, lacking control with his own army and bureaucracy, dependent on providing personal rewards to command a minimum of loyalty.

Public goods, or more specifically the absence of public goods, are central in Reno’s discussion of shadow states. Public goods draws resources that can be used for personal rewards, it also provide services that makes the population less dependent on such rewards. Public goods, public services and indeed a public administration can be used by strongmen to build up an independent powerbase from the local leader; they can thus be used for revolt. It thus becomes in the rulers interest to prevent general services to be produced, the production of public goods has to be avoided, even the production of such goods as general security.⁵¹ General insecurity subsequently means that citizens will be more dependent on the leader in question for special protection, and provides the potential for receiving protection money.⁵² A shadow state thus fails even to provide monopoly of violence, the state is better understood as a private commercial syndicate than an ordinary state, and this is what Reno terms “Warlord Politics”.⁵³

Reno separates him-self from the first group of researchers by focusing on other motives than pure greed or opportunity; he acknowledges that warlords and leaders have security considerations, they fear for their own safety. There are several strategies that are employed to ensure survival and maximise the profit, which also contributes to an increase in security for the warlord, in the Shadow state system. Rulers divide up states in useful, profitable parts, and useless, non-profitable parts, and then abandon the control of the latter. Weak ethnic groups are ignored; stronger groups are accommodated in order to build alliances.⁵⁴ Task as diplomacy, resource extraction, and defence is often handled by foreign commercial firms. Paradoxically foreign firms are regarded as more trusted than the warlords own sub lieutenants, as the former are seen, often erroneously, as having no local political interests.⁵⁵ Foreign diplomats and NGOs often encourage such alliances, since global firms are easier to deal with and communicate in a more well-known way, than the local strongmen.⁵⁶ Aid agencies prefer the stability offered by the warlords, and the safety provided by them to the perceived anarchy if the warlords collapse.⁵⁷

⁵¹ Reno (2001): 47

⁵² Reno (1998):105

⁵³ *ibid*

⁵⁴ Reno (1998):10

⁵⁵ Reno (2000):220

⁵⁶ Reno (1998):132

⁵⁷ Reno (1997b):167, Reno (1998):38

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According to Reno “Shadow state” structures are grossly inefficient, but are allowed to continue their existence partly because of the lack of competition. Partly basing him-self on the work of Charles Tilly, Reno claims that the fierce competition between the states in Western Europe ensured the adaptation of the most efficient structures. The many European wars ensured “the survival of the fittest”; the western European state had to generate revenues and to cultivate popular legitimacy in order to sustain the armies needed to survive the survival of the state in question. Reno subsequently claims that non-western states never needed to face up to the same competition as western states had to face in the 16th, 17th, 18th, 19th, and 20th century, and thus never needed to be as efficient as the western state in order to survive.⁵⁸

Reno has a point, African states do not disappear from the map, sovereignty is now relatively respected. However, competition between political movements within the states, and competition in which the neighbouring rulers tries to remove their regional rivals are quite common. As Reno him-self admit, non-western leaders are in relatively high danger of being violently removed. Organizations that manage to gain legitimacy and to efficiently collect income and taxes, will have large advantages having more loyal forces, having local support, and having resources that can be transformed into military striking power. The lessons from the 2006 of victory in Mogadishu of Sharia courts, or the 1996 victory of Taliban in Afghanistan, namely how ideologically strong and financially effective organisations managed to win over warlord factions, shows the opposite, competition is fierce, and efficiency pays off. As shown by the amount of warlords killed or captured, warlords, are extremely vulnerable to competition, legitimacy and the efficient management of economic resources could provide the warlord or military leader in question with the means to survive. At times the competition between warlords and faction leaders are hindered by foreign support, the Islamic courts of Somalia e.g. lost despite probably being the strongest military actor in Somalia, this because of Ethiopian intervention. However, this does not make the analytical point less important, in situations with less extreme foreign intervention, legitimate and efficient guerrilla organizations have an advantage, and are more likely to survive, unfortunately this point was lost on Reno.

Reno also shows tendency to see war economies and wars as static; in his work the structure of the shadow state never seems to evolve. Reno’s analysis is also inhibited by the fact that he focuses strongly on west and central African cases. He most commonly studies

⁵⁸ Ibid, a very interesting aspect of Renos analysis is his focus on the vested economic interests of peace keepers, the ECOMOG in Liberia, acting to control markets. Ibid 93

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strongmen with access to the nominal structures of the state; most of his warlords have at one stage been internationally recognized rulers.⁵⁹ Perhaps because of his selection of cases, Reno does not explore how the dynamic in a warlord system without a formally internationally recognized authority functions.⁶⁰ He also fails to adequately explore the lower levels of the system; the interests of sub lieutenants are not examined in detail.

What does Reno claim about non-warlord economic entrepreneurs operating in conflict zones? The answer is, not much. It can be argued that his wide, and very unorthodox definition of warlords as “the transformation of political authority into effective means for controlling markets without the reliance on formal state institutions”, may include some more ordinary businessmen with political authority, however, he studies few such actors. Reno’s focus is on actors that strive for some form of territorial and political control beyond protecting their businesses. Reno makes some specific claims about businessmen. He claims that the confused states of the warlord system make entrepreneurs manage their economic environments through means of violence. Moreover, Reno argues that both political factions and entrepreneurs will try to maximize violence, to be as extreme as possible in order to deter competition, violence is thus important in the relationship between businessmen. Reno acknowledges that wars might constrain the economic options for entrepreneurs, over time the possibility for looting decreases as locals flee away from dangerous areas.⁶¹ Although stating that looting and insecurity gives some incentives to independent traders to promote peace, Reno denies the existence of such classes in weak states; he sees the business sector as mostly dependent on local rulers.⁶² Reno claim that in a late state of civil war, warlords might end up protecting local businessmen, in order to get more to loot or to collect taxes.⁶³ However, entrepreneurs will be too weak, crowded out by warlords doing business, or undermined by the global commercial allies of the warlord to act independently.⁶⁴ Reno thus fails to explore the possibilities of economic entrepreneurs acting independently of the Warlord/faction leader. His business entrepreneurs are in a one sided relationship with the warlord/faction leader, which dominates him/her. Again this is very different from the Somali relationship, with strong businessmen that since 1999 have stood up against warlords, at times taking control over whole areas of the city. Importantly, such takeovers, as Telesom

⁵⁹ Reno includes countries as Nigeria under Sani Abacha, a country with a different dynamic than the societies that traditionally have been associated with warlords, countries as Afghanistan (1985-2002), Somalia (1991-2005) and China (1928-1937), the latter countries were much more fragmented than the Reno’s examples, failing to have an even nominal internationally recognised government for periods

⁶⁰ Reno (1998):16

⁶¹ Reno (1997a): 503-504

⁶² Reno (1998):32

⁶³ Reno (2000): 223

⁶⁴ *ibid*: 218-19

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(telecommunications) and Barakat (finance) actions in 1996, were not to gain political power (which would have made them new faction leaders/warlords), but to protect their business.⁶⁵ The protective actions were usually conducted during war, and the companies withdrew their forces when tension decreased. Reno’s work leave a tainted picture of the business sector as a whole; a picture depicting business as benefactors of war, and not potential allies in the quest for peace, this conclusion is made despite his failure to examine the local commercial actors in detail.

Although studying the same phenomena, war economies and their influence on conflict, Berdal, Keen, Balletine and Sherman, other notable researchers in this group, are broader in perspective than Reno and include non west/ central African cases , as Afghanistan and Somalia, in their studies.⁶⁶ Ideology, humiliation, globalisation are reintroduced as factors interacting with the war economy, creating a complex system. Mats Berdal and David Keen introduces a much needed typology of both potential economic benefactors in war, types of violence in conflict, and potential benefits wars might create. Firstly, the two operate with a dichotomy between *political functions* of civil war and *non-political*. The political functions include *progressive functions*: geared to reduce inequality, and *regressive functions*, namely to maintain such inequalities. The non-political includes *economic functions*, *security related functions*: belonging to an armed group can help individual security, and *psychological functions* (the feeling of power, the feeling of avenging humiliation).

<i>political functions</i>	<i>non-political.</i>
regressive, non- regressive functions	economic functions, security related functions, and psychological functions

The interaction between political and non political functions is highlighted; violence becomes something more than pure economy.⁶⁷

They list several types of economic agendas: pillaging, protection money, controlling or monopolizing trade, labour exploitation, land graft, stealing aid, and to secure benefits for the military.⁶⁸ In the latter case armies can justify embezzlement, looting, and the search for economic profit by claiming that they need extra resources to fight war, in-turn this gives an

⁶⁵ During inter warlord fighting In 1996 Telesom (Telecommunications) and Barakad (Finance) took over the part of Mogadishu in where their headquarters were located. The two companies shared responsibility for security, made road blocks and patrols, and successfully deterred the warlords from taking the war into their areas.

⁶⁶ Berdal and Keen (1997),

⁶⁷ Initially Keen highlighted the economic factors, but both Keen and Berdal modifies their claims, and over time put more emphasis on other factors, Keen focusing more on psychological factors. Keen (1998), Berdal and Keen (1997), Keen (2002), Berdal (2005)

⁶⁸ Keen (1998):17

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incentive to continue the war in order to maintain these rights. Illicit activities as drug production might be conducted; the “enemy” might be blamed for the production.⁶⁹ Keen also elaborates on how aid sustains conflict, it can be plundered, it can encourage resettlement and land graft, it creates vested interest in the aid flow it-self.⁷⁰ However, Keen ads that the above described factors, except foreign aid, only produce short term benefits. Similarly, Keen understands that extreme looting would be self-defeating, people would flee and income would be lost, they loyalty to the looting militia will become weak, even hostile, all three factors creating problems for warlords.

Keen claims that the need to sustain an army contributes to the never-ending quests for profit on behalf of warlords. Weaker rebel organisations, lacking external support, might be prompted to seek illegal revenues, and might have weaker control over its forces.⁷¹ Loot might be announced as a part of the payment of forces, as it was during the initial stages of state formation in Europe, and during the first stages of the Somali civil war. However, Keen claims that this might lead to an army engaged in economic activities. Such army will become disloyal towards its own leaders if they fail to adequately pay it.⁷² Keen sees other strategies that can be employed to keep the loyalty. Drugs can be used as rewards to create loyalty and unity within the factions; disciplinary measures have the same function.⁷³ The feeling of power, and the feeling of the ability to avenge humiliation from the upper class, here including both members of ruling ethnic groups, traditional leaders, businessmen and political and bureaucratic leaders, also gives some cohesion.⁷⁴ The rebels are usually helped by the fact that government soldiers feel little loyalty towards their own cause, lacking solidarity because of low payment and hatred of the educated strata running the weak bureaucracy.⁷⁵ Keen also reintroduces ideology as a factor creating loyalty towards the rebel faction, but only at the initial stages of conflict. Indeed Keen sees different effects of economic factors at different stages of a conflict. *In the first stage* of a conflict, the factions have ideals, however, some elements of military factions turn away from their ideals (ideals being fighting on behalf of civilians, effecting political change, protecting civilians from rebels, and so on), and end up abusing civilians. This first stage is intimately linked with the mutation of war from a contest to an economic system. Major factors prompting this development includes poor or non-

⁶⁹ ibid 25

⁷⁰ Keen (1998):64-65

⁷¹ Keen (1998):24-25

⁷² In this sense Keen touch upon a vital aspect of warfare in Somalia during the period 1991 to 2006, initially the warlords could promise looting, but after looting turned in to a form of taxation.

⁷³ Keen (2002): 1-4

⁷⁴ Ibid:5

⁷⁵ Ibid:4

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existent salaries/payments in factions, the existence of readily exploitable resources (notably diamonds), the weakness of ideological or military training, and a desire to avoid dying at the hands of the enemy, as well as the killing or fleeing of the ideologically motivated strata.

In the second stage, civilians condemn or turn away from the armed factions - a highly understandable action given the increasingly widespread abuses by military factions. This can even happen for the international peace keepers as well as locally initiated self defence groups, as these groups alter the local economic dynamic, and violates human rights. Part of this pattern of increasing civilian condemnation consisted in labelling armed groups (whether rebels or government soldiers or, later, civil defence forces or peacekeepers) as ‘greedy’. However, as claimed by Keen : “at the same time, this kind of labelling runs the risk not only of oversimplifying a complex reality but also of contributing to the damaging dynamics in stage three.

In the third stage of the model, the military factions turn with renewed intensity on the civilians, accusing them of being disloyal, ungrateful and a threat to the fighters’ own security.”⁷⁶ Naturally, the escalating abuse of civilians tends to produce further disillusionment among the civilians, and the cycle may be renewed and deepened. Even where abuses are carried out by a relatively small group, they may set off a process of alienation (civilian disgust, fighters’ perception of civilian ingratitude). In this third stage, anger and fear – and not just the ‘rational’ pursuit of wealth and safety – feed more and more into an escalating abuse of civilians.⁷⁷ The fact that class is weakly developed, and that nationalism is weak in Africa is seen as potential factors that make African conflicts to go into stage three quite rapidly.⁷⁸ In the absence of a colonial power or outright land seizure, ideological motivation is hard to sustain. In this sense the absence of metaphysical ideals, not greed, that increases the importance of short term economic motivations.⁷⁹ Indeed, his point seems to be very important, scholars as Alexandros Yannis, studying Kosovo, and Anthony Reagan, studying Bougainville, explores how vital such metaphysical beliefs were for recruitment, ensuring recruitment even in situations when economical rewards were absent.⁸⁰ The point have implications for the various actors in the business sector, it might be argued that when

⁷⁶ Ibid:8

⁷⁷ Keen argues that amongst Sierra Leonean rebels, there was anger at civilians turning away from them and fear of civilian betrayal and recrimination. Among government soldiers, there was a sense that the efforts of loyal soldiers in defending civilians were not being recognised, and again a fear of civilian betrayal and recrimination.

⁷⁸ Keen (1998)

⁷⁹ Keen sees such metaphysical loyalty, as legitimacy, as vital even when distributing aid, local authorities, traditional leaders, self defence groups with legitimacy have to be found

⁸⁰ Reagan(2003), Yannis (2003)

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metaphysical ideals are present, then the business sector becomes the willing supporters of the warring factions, they support what they believe is the “right” side.

Keen is very explicit that economic activities can decrease violence and create cooperation between local parties.⁸¹ Firstly, underpaid rebels, or underpaid soldiers often made tacit alliances with their supposed enemies, in order to avoid battles, conduct trade, even selling arms to the opposing sides and gain loot.⁸² Keen and Berdal also suggests that such economic interests might create more moderate leaders, leaders with economic interests in trade, sometimes even with the enemy, will have an interest in keeping the war at a lowest possible level, in order to avoid disrupting the trade. In this sense, Berdal and Keen sees economic factors as having the power, under some circumstances, to create peace. However, Keen claims that the form of peace created under such circumstances might be negative, it might create a fundament for illegal activities, suppression and injustice. Keen argues: “Cooperation during war may create opportunities for peace, but peace on what basis? Striking the balance between peace and justice is never easy.”⁸³ Neither Keen, nor Berdal, explores this balance, or under which circumstances business actors can contribute to more durable peace, it seems to be taken for granted that the role of profit seeking actors will be negative. The business sector is viewed as mere henchmen, or victims, of the factions.

Keen do describe how local communities might react towards injustice, illustrating how hostile government and rebel soldiers, with little respect for local lives, prompted the formation of local civil defence groups, locally initiated groups that defended their neighbourhood against both parties.⁸⁴ In this sense he goes beyond the depicting of conflict zones as consisting of only warlord factions, but he does explore this in-depth. The approaches of the above described group of researchers becomes faction centric, and the business sector does not have roles separate from the military factions, as the civil society and/or the business sector, have little influence and importance.

Global, Regional and Local

A third group of researchers have a strong focus on regional and global dynamics, and their influences on war economy. Their case specific analyses went more into detail of the war economy than the above presented researchers. Members of this group tended to criticise

⁸¹ Keen (2002):17

⁸² Berdal and Keen (1997), Keen (2001), Keen (2000), Duffield (2000)

⁸³ Ibid:57

⁸⁴ Keen (2002):8

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previous research for being either too case specific, focusing mostly on Congo, Sierra Leone, Angola or Liberia, or, in the case of Collier and Hoeffler, failing to do in-depth case studies.⁸⁵ The factions of a war, and big multinationals, are no longer seen as the only actors. Subsistent traders, local business companies, regional trade networks as well as international great powers emerge as actors in their own right.

Two notable contributors to this approach are Michael Pough and Neil Cooper. Firstly, their analysis focuses on the regional level. They see civil wars and wars as influenced by the political and economical dynamics within and between neighbouring countries, even if these countries officially are neutral in the conflict. The importance of regional trading networks are highlighted, both trading with legal goods and illegal goods. Wars are dependent on arms, which has to be imported. The import has to go through regional, if not global, illicit networks. The countries in question are often under embargo, but the factions seemingly have no problem getting weapons.⁸⁶ Importantly, sanctions might build up the foundation for illegal economy, as it becomes more profitable to smuggle.⁸⁷ Regional networks with an interest in war related profits will mean that the amount of people profiting from the conflict will increase. Businessmen based in countries adjacent to the conflict might have an equal interest in sustaining the conflict, and act as spoilers during peace negotiations. However, Pough and Cooper also points to the potential incentives that economic networks might give to factions promoting peace and justice, they highlight how factions providing forms of stability and justice gains economically from such networks.⁸⁸ If businessmen are treated fair, it becomes more likely that they will support a faction.

The two reintroduces ethnicity as a factor in war economies. Regional networks sometimes are ethnically defined, as Lebanese trading networks in West Africa, Croat Diaspora in Croatia, Pashtuns in the Pakistani/ Afghanistan border areas.⁸⁹ They highlight how regional trade networks could be faith based.⁹⁰ In this sense justice, ethnicity and faith will influence war economics and the strategies actors follow to maximize their profit. Michael Pough and Neil Cooper also go beyond depicting the war economy as consisting of factions, and faction affiliated businessmen only.

⁸⁵ Ballentine and Sherman (2003):9-10

⁸⁶ *ibid* 33-35

⁸⁷ *Ibid*: 154. Here Pough and Cooper are supported by Ballentine and Sherman, who finds that sanctions have to be carefully tailored in order to be efficient. Ballentine and Sherman (2003b):276

⁸⁸ They explore how Taliban profited from the fact that they created stability for farmers, and were supported by truckers because they made the roads in Afghanistan safer. Pugh & Cooper (2004):53

⁸⁹ Keen (2002): 35

⁹⁰ Pugh & Cooper (2004):53

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War economies are again said to consists of three different types of actors, the military factions/political leaders/ warlords, entrepreneurial elites, and the poor who participates to survive.

	The Combat economy	The Shadow Economy	The Coping Economy
Key Actors	Commanders, conflict entrepreneurs, fighters, arms suppliers	Profiteers, businessmen	Poor families
Motivations	To fund the war: Peace might not be in their interest if it leads to decreased power, status and wealth	To make profit on the margins of the conflict. To make profit from the highly liberal economy and the lack of state (no taxes, few regulations). Peace could be in their interest if it encourages long-term investment, and licit entrepreneurial activities	To cope and maintain asset bases through low-risk activities or to survive through asset erosion. Peace could enable families to move beyond subsistence. However, at the same time it could destroy the livelihood if this is based on illegal activities as for example drugs.
Key Activities	Taxation of illegal activities, money arms, equipment and fuel import. Looting, aid manipulation	Smuggling, drugs, Natural resources, Hawalla, aid manipulation. (And import, as domestic ability to produce alternatives decline)	Subsistence agriculture, Petty trade, Remittances. Humanitarian assistance.
Effects	Disruption of markets, impoverishment of politically vulnerable groups. Brain Drain. Political instability (Regionally). Violent redistribution of assets.	Concentrates power and wealth. Inflation. Undermining existing patron client relationship. Undercutting taxation. Increased drug use.	Reinforcing social networks, lack of long term investment. Lowering health, social strains.

Following Pain and Goodhand they separate the war economy into three main types of economy: *The combat economy*, *The Shadow economy*, and *The Coping economy*.⁹¹ This political model of war economy interacts with ethnically based networks as clan, tribe and religious networks.⁹² The various actors within the economy might also interact; the entrepreneurial elite and military leadership might be related but not always.⁹³

⁹¹ The typology is based on the case of Afghanistan, Pain and Goodhand (2002):2, Pugh & Cooper (2004):61

⁹² Ibid:61

⁹³ Ibid 9

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Failing to walk into the simplistic trap to suggest ending and/or regulating a war economy will benefit the average population, Pugh and Cooper two also explores how ordinary people become attached to the economy, and how a disruption of a war economy might worsen their situation.⁹⁴ Local farmers might become dependent on illegal crops as opium, they might adapt to the lack of taxation. In this sense, while still suffering from the lack of security, even commoners get stakes in the war economy, a stake that may ensure their survival.

The two highlight the advantages of case specific, if not micro specific, analyses. Even small towns or hamlet within a country might have their own economic climate; a simplification of the economical dynamics resulting in policy advices might have dangerous implications.⁹⁵ However, even these micro climates exist in a regional context, making Pugh and Cooper warn against not taking the regional interaction into consideration.

Pugh and Cooper follows the argument of Keen and also warns about neglecting ideology and accepting a crude stereotyping of rebel factions as undisciplined greedy rabble, and points to the fact that even greed based explanations can be based on dangerous stereotyping of for example African factions.⁹⁶ The researchers thus go beyond equalling war economy with factions, and warlords, or with greed or grievance. Religion and ethnicity is reintroduced, not as primordial factors creating conflict, but as factors influencing the organisation of the business communities. The business communities are reintroduced as independent actors, actors that war leaders to a certain extent have to appease, and actors that might, under some circumstances, have an interest in peace. However, again the specific economic incentives that can drive members of the business sector to participate in peacemaking and institution building is neglected. Moreover, while examining some sectors, as the transport sector, in detail, other sectors, as the import/export sector are almost neglected. An important question remains; under which circumstances might the business sector becomes allies for peace and institution building?

A NGO/ Development Agency Approach

Many development agencies and NGOs have a slightly different approach to the role of the business sector in civil war.⁹⁷ Several volunteer and international organisations stress the

⁹⁴ Pugh & Cooper (2004):5

⁹⁵ Ibid 71

⁹⁶ Ibid: 97

⁹⁷ DFID (2005), SIDA (2005)

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importance of having a dialogue with the business sector in relations to ongoing peace negotiations. As remarked by Paul Simkin of EUs Somalia unit, the military strength of the business sector in Mogadishu, make it necessary to have a dialogue with them in order to achieve disarmament and peace.⁹⁸ Some NGO workers, as Tarje Iversen Wanvik, see the huge resources international firms wield as an untapped resource.⁹⁹ Big firms, as e.g. Coca Cola, with a local franchise are seen as easy to pressure into taking community response because of their need for good publicity in the west. Importantly, Norwegian Church Aid has scored notable successes in South East Asia using such strategies. Indeed, it was within the development community that this approach gained strength. Several development affiliated researchers and NGOs describes the positive role of the business sector, that free market mechanisms can promote peace.¹⁰⁰

Often these rapports fail to go into detail concerning what kind of incentives commercial enterprises face that will make them abstain from taking advantages of the anarchic situation of civil wars. However, some reports elaborate on the existent of several negative incentives facing the business sector. One of these reports is the “Local Business, Local Peace” report of International Alert, an international organisations that focuses on peace making, that bases its findings on case studies from 20 different cases.

International alert accept that the business sector might engage it self in *conflict-sustaining activities*, such as involvement in illicit trade that finances the continuation of armed combat. The companies might also engage with more neutral *coping activities* have both potentially conflict-sustaining as well as conflict-reducing impacts. Finally there are responses that seek to reduce conflict and enhance the prospects for peace – activities that the study terms *peace entrepreneurship*.¹⁰¹ The study address some of the motives the business sector might have to engage in such a process as the loss of investment; destruction of infrastructure; damage to capital and workforces; loss of business partners across the conflict divide; lack of security in the operating environment and loss of opportunity for growth are among the direct impacts suffered by businesses during conflict. It also address non material factors as the moral imperative and the internalization of corporate responsibility norms, as well as positive support by external forces.¹⁰²

⁹⁸ Interview with Paul Simpkin, 15 November 2004

⁹⁹ Interview with Tarje Iversen Wanvik, October 2004.

¹⁰⁰ DFID (2005), SIDA (2005)

¹⁰¹ International Alert (2006)

¹⁰² International Alert (2006): 8

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Type of peace building activity	The role of the business sector
Formal peace negotiations	1) Supportive role: as ‘insiders’, for instance as part of a negotiation team; 2) As ‘outsiders’, helping to build trust between parties, mobilising popular opinion, providing advice and know-how, lobbying for peace 3) Providing necessary functions, such as administrative and logistics support.
Addressing economic root causes	1) provide jobs hindering the recruitment to militias 2) Bringing ethnic groups closer together by spanning ethnic divisions

International Alert also suggests that various strata of the business sector might face different economic incentives and interests, and that some sectors might easier become partners in peace-making.

Causes of differences between segments in the private sector	
How much does the respective sector loose from the war?	Sectors that encounters financial losses will be more eager to participate in promoting

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	peace
How close is the business to the capital?	Business close to the capital often has more political influence.
How large is the business company in question?	Big businesses are likely to be targeted by efforts at extortion, providing them with motives, and they have resources to become active.

The Literature Review; Some Questions Left Open?

The first group of researchers studied the Collier and Hoeffler group, tended to make sweeping statements that they later had to abandon, and failed, perhaps never even intended, to produce in-depth analyses of the mechanisms influencing war economy. The second group did produce in depth case studies, however, the focus was mostly on West Africa, and mostly on members of the various factions in the war, and how they exploit the war for profit. The two groups suggests very similar measures to address the malign effects of a war economy: to regulate trade of natural resources seen as limiting the income of local factions, thus preventing war from escalate.¹⁰³ Local businessmen are seen as either non-existing, “up and coming” warlords, or mere pawns that can be exploited by the factions. It seems like it is taken for granted that all trade is controlled by the belligerents or their allies, showing an assumption about coherence that is strange given the researchers previous statements of the complexity of war torn societies.

It is possible to have an alternative approach, inspired by the works of the third and fourth groups, as well as some of the assumptions made, but not explored, by the first groups. If profit maximisation is important, economic conflicts should be easy to solve, altering the cost benefit calculus in favour of peace may change a warlike situation. Warlords holding assets might be afraid of loosing the assets and may thus be forced into negotiations by such threats.¹⁰⁴ Targeted sanctions, commodity embargoes, freezing of financial assets may work to promote peace.¹⁰⁵

¹⁰³ Malone and Nitzschke (2005): 11

¹⁰⁴ Ballentine (2003b):274

¹⁰⁵ *ibid*

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Approach	Relationship between businessmen/women and Warlords/faction leaders	Sector focus	Incentives for peace	Incentives for war
Collier/Hoeffler approach	Close; The business sector is controlled by factions	Primary goods; with a few generalizations about other sectors	Not explored	Income from looting, primary goods trade.
Reno/Keen approach	Close; The business sector is controlled by factions	All sectors; But with more detailed focus on the primary goods sector	Some incentives for local peace, but such peace would with necessity exclude some groups. These initiatives are based on the need to make profitable business arrangements with supposed enemies.	Income from looting, primary goods trade, protection money, aid manipulation.
Pugh/Cooper approach	Not necessarily close; The business sector might be able to act independently	All sectors; but with more detailed focus on the transport sector	Selective incentives for peace are concluded to exist, but not explored	Income from smuggling, drug trade, arms trade, natural resources, Hawalla, aid manipulation, lack of taxes
The NGO approach	Not necessarily close; The business sector might be able to act independently	All sectors	Selective incentives for peace exists; Security costs, Damage to capital and workforces. Loss of business partners across the conflict divide	Illegal trade as Smuggling, drug trade, arms trade, Natural resources.

However, the dynamical interaction between the structure of the parties involved and the incentives for peace facing the business sector have not been adequately explored. Moreover, with the exception of the last group, few have explored the circumstances under which aspects of the war economy can be used to promote peace. As claimed by Sherman “to

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date there have been little sustained analysis of the way that economic self interests may contribute to conflict reduction”.¹⁰⁶

There seems to be both costs and benefits to do business in a war economy. The benefits might be profit from looting, from illicit trade, from aid, the absence of troublesome regulations, the absence of tax. However, there is a price to pay, security have to be handled, as a business man/ woman you need to protect your self against swindle, theft, war. In this sense, suggesting the following equation.

T= Tax

I= Income from normally illegal trade

B= Benefits from the non-existence of regulations

IL=Income from loot and theft

M= Monopoly rents because of warlord established monopoles.

S= Security expenses

L= Loss from loot and theft

R= Loss of governmental regulations

$T+I+B+IL =$ The ad-on income from the war economy = W

$-(-S-L-R) =$ The ad-on income from a peace economy = P

A businessman/woman will need to minimize the negative costs of war, and thus have to address the questions of security, regulations, and prevent looting against their own property. However, there is also an interest in keeping taxes low, and prevent regulations that could hurt the business.

A first important question become what kind of solutions that the business sector develops to deal with problems caused by war and lack of security, their solutions might even suggest solutions that can act as foundations for peace agreements and economic post-war regulations. *The second question* becomes how the balance (W)/(P) have developed over the years in the Somali conflict, and what kind of expenses/income the Somali business sector have encountered because of the civil war.¹⁰⁷ *A third question* becomes is how ethnic and

¹⁰⁶ ibid

¹⁰⁷ A related question is how to make $W < P$ so that war becomes less tempting for the involved parties.

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religious factors have influenced the balance. The study will not neglect metaphysical factors as religious beliefs, and changes in the perception of the conflict it-self.

Importantly, the business sector might attempt to address some of the problems facing it by building institutions rather than peace making/ contributing to a new state structure or to peace. Stabilisation arrangements, as neighbourhood watches, courts (religious based as well as secular), arenas for negotiations between clans, ethnic groups and warlords, justice systems, disarmament regimes, community projects and wider alliances/networks/groups between business firms might be supported. It might be profitable for the private sector to support such structures, theft can be avoided, the security of their businesses can increase, the potential for conflict between commercial actors might decrease However, all these structures could have the potential to ease local tension, address the needs of the local community, and to function as stepping stones for a consolidation for new government institutions.

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Structure, Dynamics and the Mogadishu War Economy

The changing structure of the Mogadishu business sector and of the armed factions participating in the conflict might influence the balance between the economic incentives that promotes war, and the ones that promotes peace and institution building, and thus has to be explored.

First, the relationship between the businessmen/women of Mogadishu and the armed factions/warlords need exploring. As shown in chapter one, several researchers exploring civil-war economy seem to assume that the business sector is controlled by the various factions and the warlords who leads them, or neglect to explore the independent business class.¹ Warlords are seen as granting monopolies to specific traders, allowing them to control whole segments of the economy, and are thus seen as creating business-lords, businessmen with monopolies over specific sector dependent on the war for their enterprises.² In order to establish the incentives facing the business sector, one has to explore the relationship between the business class and the military factions, could really the businessmen/women act independently of the faction leaders? If the fortunes of the business sector were locked up with specific factions, the businessmen/women’s ability to promote peace might be limited; as such efforts might decrease the power of the faction they are affiliated with.

Additionally, the chapter will explore how the changing dynamics of war influenced the structure of the business sector, and how in the end the business ideas behind most Mogadishu businesses grew very similar to the business ideas that businesses base them-self on in more peaceful areas. The types of business the business sector is involved with will influence its interests, and subsequently have an impact on the balance between incentives for prolonged warfare, and incentives for peace and institution building.

A Brief Background

There are several aspects of the Somali culture that influences the war economy of Mogadishu. Firstly, the economy was influenced by the clan-structure of the Somalis system. Somalis generally perceive themselves as divided into clan and sub clans. Sub clans are again divided into smaller kinship based groups, which again can be divided into even smaller and

¹ Collier (2000), Collier and Hoeffler (1999a), Collier and Hoeffler (1999b)

² Reno (1998):32

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smaller groups, until one reach the family unit. The clan system is patri-linear, the exact detailed structure of these family groupings, will always be open to debate amongst the Somalis. Nevertheless, there is a general agreement over the more general traits of the system. With some exceptions, each sub clan will have traditional leaders known under various names as Imams, Boqors, Ugas, Sultans. While these leaders enjoy respect, and wield power through their coordinating roles, and roles in peace making, they lack formal governance structures and are in general more facilitators than leaders, but their words holds great respect amongst Somalis. The most important institution for decision-making is the Shir, a gathering in which all male clan-sub clan members have the right to participate inn. Persons who participate in the shirs and are well respected, often because of their education, wealth, eloquence or poetry, are known as elders, and are often seen as representatives of their clan. However, since the defining criteria are floating, it is often hard to know which elders that really are representatives of their clan.

Somali politics have always been influenced by clan considerations. While the traditional clan structures of Somalia to an extent are transparent, the clan politics of the republic (1960-1969), and the following military dictatorship (1969-1991) were not. During these periods clan allegiances were hidden, and traditional leaders wielded little power, creating possibilities for hidden deals nepotism and corruption. The coup of General Siad Barre in 1969 was partly a reaction towards clanism, nepotism and corruption. However, Siad Barres regime grew increasingly unpopular, and he started to draw on particular clans within his own family, the Darod.³ By the employment of collective punishment strategies targeting specific clans, and by the use of clan militias from particular clans in his army, he contributed to the rise of several clan based rebel organisations. The United Somali Congress (USC), mainly recruited from the Hawie clan, became the dominating rebel organisation in Mogadishu. However, the USC splintered. One USC group, led by Muhammad Farah Aided, consisted of the former military wing of the organisation, but recruited mainly amongst the Haber Gedir sub clan of the Hawiye. This group joined with non-Hawiye allies into a faction that became known as the Somali National Alliance (SNA). A rival splinter group of the USC was led by a former businessman Ali Mahdi, and consisted of the exile political wing of the USC, but recruited mainly from the Abigal- sub clan of the Hawiye. Ali Mahdi created an

³ The government clan allegiance was often named MOD. This acronym stood for Mareehaan (Siad Barre's clan), Ogaden (the clan of Siad Barre's mother), and Dulbahante (the clan of Siad Barre son-in-law Colonel Ahmad Sulaymaan Abdullah).

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alliance with non-Hawiye allies, and funded the Somali Salvation Alliance (SSA).⁴ It was the Hawie clan elements of SSA and SNA that provided the soldiers for the wars of Mogadishu after Siad Barres regime was ousted from the city. Moreover, most of the armed factions in Mogadishu until the autumn of 2005 originated in some way or another from the USC.

The Changing Dynamics and Structure of the Somali civil war

The Somali civil war has varied both in intensity and geographic span over the last 16 years, at times Mogadishu was relatively peaceful, at times there were large scale clashes and combat operations involving heavy artillery and airpower. The first war was the urban guerrilla war leading up to the ousting of Siad Barre in January 1991. A period of relative peace followed the end of this campaign and lasted until November 1991. In November 1991 two of USC's leaders, Ali Mahdi and Mohammed Farah Aided, fell out. The large scale clashes between the Mahdi and Aided factions divided the city into two, a northern and a southern part, but the fighting died down in March 1992.⁵ On January 1, 1993, serious fighting once again broke out, this time between the USC-Aided forces and those of the Murusade clan's faction of the USC, allied to Ali Mahdi, who were attempting to recapture territory that Aided controlled.⁶ A second round of fighting between the two main groups of the USC (the Mahdi and the Aided group) was sparked during the summer of 1993, with United Nation Forces de-facto fighting on the side of Ali Mahdi. The next round of fighting, which started in April 1994, was between two previously allied clans in the southern part of the city, faction leaders of Haber Gedir and the Hawadle, the fight ended in the large scale expulsion of the Hawadle clan from Mogadishu. In September 1994 Ali Mahdi's Abgal forces and a previously allied leader of the USC, Mohammed Qanyare from the Murosade sub clan, clashed in the neighbourhoods of Bermuda and Medina in South Mogadishu. This trend continued. In 1996 the factions controlling the south split again. Aided's financier, the businessman Osman Atto, broke out from Aided's USC faction and established him-self as a warlord. A new war in southern Mogadishu ensued. In 1997 the north had similar problems, and the Mahdi faction split once more. In 1999 there was another fight between the northern

⁴ SSA also included non-Hawiye elements, as the Somali Patriotic Movement and other southern factions. It was formally in existence from 1992. Aided's faction within the USC existed much earlier. Military units aligned with the SNA were the bulwark of Somali resistance to UNOSOM II, and an estimated 2,000-4,000 participated in the Battle of Mogadishu in 1993.

⁵ Many Somalis would refer to the green line going east-west rather than north-south, it might be argued that it ran from north-west, to south-east.

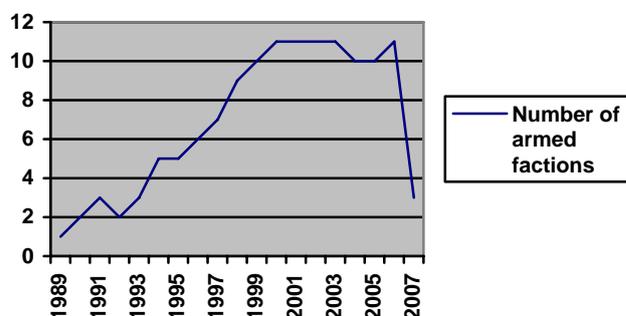
⁶ The Murusade forces shelled a troop cantonment of USC forces but were unsuccessful in taking control of the area.

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and southern parts of the city. In 2004 Abigal warlords clashed in the northern part of Mogadishu. During the spring of 2006, there was another heavy round of fighting between an alliance of sharia courts, more multi clan than any other Somali faction, and the various Mogadishu warlords. The last round of fighting is taking place when this paper is written, and are between elements of the transitional federal government and its Ethiopian allies, and the remains of the Sharia courts as well as clan militia from the Ayr and Suleiman sub clans, and is historic since no factions originating in the USC are active combatants.

The above story indicates an important aspect of the dynamics of the wars in Mogadishu, the increased fragmentation of the USC. USC fragmented from one organisation into two organisations as early as in 1991. In the end USC was fragmented into more than ten different factions, all following sub-clan divides, and with little or nothing in common with the USC of 1990. In 2006, the Sharia courts presented a more united alternative and won easily over the scattered and fragmented remains of the militias of former USC leaders and their sub-lieutenants.

2.1 The fragmentation of armed factions in Mogadishu



As suggested by Keen when commenting upon the life cycles of African rebel movements, the rebel movements of the early 90thies enjoyed both popular support and consisted of many idealists.⁷ Indeed, the USC of the early 90thies was in many ways a resistance organisation against the oppression of the Barre regime. Several episodes, as when Siad Barres forces shot dead over 100 civilians at a soccer stadium on July 6 1990 after the crowd jeered the President; (over 300 were injured), ensured the popularity of the USC amongst the Hawies, the majority clan of Mogadishu. Random killings by soldiers, particularly the President's

⁷ Keen (2002):8

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heavily armed bodyguards, the Red Berets, as well as by ordinary criminals and soldiers in plainclothes, became so common that people were afraid to leave their homes at night. Favouritism and corruption made the Siad Barre regime equally unpopular with the Hawiye business sector, of which many supported the USC voluntarily. It is not surprising that the USC enjoyed popular support from their clan constituencies, they were to a certain extent seen as protectors of their clans, and they were possible to influence by the clans traditional leaders.⁸ Moreover, the faction originally convincingly claimed to provide security, also for the business sector, protecting them from the looting and confiscation of the forces of the Barre regime.

The two first parties in the 1990-1991 conflict in Mogadishu, the USC and the regime of Siad Barre initially had a well functioning command structure, and possessed heavier military hardware. Militarily, the USC was relatively strong, having weapons from looted military stocks. Refugees from government campaigns in the Hawiye dominated mid-Somalia ensured that the organisation had a larger numeric strength than it ever was to have later. However, the above traits also ensured that USC was unstable. USC lacked the funds it needed to pay its new recruits, recruits that often came from outside of Mogadishu and lacked friends and alternative possibilities for income in Mogadishu. Looting became necessary in order to survive for many members of the USC militias. Militias recruited in the rural areas were more free-lance militias than regular forces, in many ways reminding of the mercenary bands that plagued Europe after the 30 years war. A large number of these recruits had low education, and had little knowledge of the political issues in Somalia. In this sense many of the USC recruits were de-politicised, they had little knowledge about politics. However, they had great knowledge of clan issues, de-facto making clan cleavages more important, but also making it possible for traditional clan leaders to put some restraints on these forces. The rapid expansion of the forces of the USC ensured that many of its commanders had little experience in ordinary commanding forces, and the rural militias were even more demanding than regular USC units. Moreover, leaders were often selected on the basis of personal connections with the leaders of the organization rather than on merit.

Facing the USC was the forces of Siad Barre, numerous, equipped with tanks and artillery, but with little motivation and, due to rampant inflation, also low on cash. By the time of the fighting in Mogadishu even this army was clan based. Looting also became a common strategy for government forces, indeed many of them had to loot in order to survive, inflation had left them with extremely low wages.

⁸ Human rights watch (1990)

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. The first phase of fighting (1990-1991), thus saw relatively large clan based armies, to a certain extent centrally controlled, with their own constituencies, and heavy equipment, and with low paid soldiers, fighting for dominance over Mogadishu. The combination proved devastating to non-hawiye clan businessmen, especially after the victory of the Hawiye based USC. Non-Hawiye businessmen fled the city in large numbers. Their property was often looted, emigrants from central Somalia, often related to the USC militia recruited in these areas, re-settled on their land.

Amongst the Hawiye businessmen, some pre- war businesses managed to survive. According to Ali Nur, who ran several foodstuff businesses, and now is one of Mogadishu's largest sugar importers, some sectors, the sectors targeting primary needs, as food, actually saw an increase of their sales as Somalis attempted to build up food reserves for the future. The successful business segments were often protected by business security arrangements established before the war, as for example the Bakara marked security guards.⁹ The successful businesses changed their focus to food related trade; many of the older more specialized businesses collapsed, or changed business ideas. Some businessmen, as the present day head of the finance section of the Bakara marked, Abdikarim Abokour Foodere, took advantage of the new situation, and the collapse of government regulations, and established money transferee and exchange agencies.¹⁰ However, firms with bank savings in Somalia experienced huge problems because of the collapsed bank system.¹¹ The most efficient remedy to offset the effects of a collapsing bank system was offshore bank accounts, and small businesses that never used bank services as well as globalized businesses with large foreign assets had advantages compared to the larger companies that had worked close to the Barre regime.

The worst was yet to come. After successfully driving the governments forces out of Mogadishu, a split within the USC it self occurred. The split was mainly caused by Ali Mahdis premature declaration of him-self as a president, and was fuelled by the fact that Ali Mahdis main rival, Muhammed Farah Aided, was from another sub clan (Habr Gidir) President Mahdi's Abgal clan. At first, a ceasefire was arranged, but fighting broke out in November 1991. Several facts made this conflict one of the most devastating conflict in Mogadishu's civil war history. A majority of the unpaid USC soldiers needed to steal in order to eat, this contributed to large scale looting. The armies operated in areas outside their own constituencies, Aideds Haber Gedir sub-clan based militia invaded parts of the north, and

⁹ Interview with Ali Nuur (alwasa) 23 February 2007.

¹⁰ Interview with Abdelkarim Abokor Foodere, 25 Februar 2007.

¹¹ Interview with Haji Ahmed Who, 26 February 2007

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Madis Abigal sub clan based militia conducted several intrusions into the south. These events meant that traditional elders had little power to restrain looters, they wielded little power over youngsters from sub-clans exterior to their own. The fighting saw an extraordinary level of indiscriminate brutality as all the weapons of the former dictator Mohamed Siad Barre's arsenal were deployed. Field artillery, anti-aircraft guns, heavy machine guns, mortars, the ubiquitous AK-47 and even air-to-air missiles mounted on jeeps were used in the capital of Mogadishu. Most were fired by untrained teenagers merely in the approximate direction of the "enemy." Residents referred to artillery rounds fired across the city as "to whom it may concern" shells, because of their wholly indiscriminate targeting. The city's population shrank from 1.25 million to a Human rights watch estimate of 600,000 to 800,000, the remainder having fled to camps on the fringes of the city.¹² It was this war, the so called “four month war”, that the interviewed Mogadishu businessmen describe as the most destructive for business.¹³ The business sector had in large failed to build up the necessary security personnel. Many business companies collapsed, businessmen fled. Mina Hassan Mohammed, today an owner of Global Hotel, estimated that her father lost 30 years of savings during this war: “All the things we had outside the country remained, all inside were lost. We had deposits in Italy. He [The father] went back to his business again, but my brother was wounded during the war time so he had to leave”.¹⁴ Ramadan enterprises estimated their losses to be as high as 2 million dollars values in assets, as well as losses from the closure of their business, after the Haber Gedir sub clan militia, led by the late Muhammed Farah Aided overrun Ramadans properties.¹⁵ Some businessmen, had better luck, Omar Fiasco, today one of the big businessmen of Mogadishu, had military experience and, together with other businessmen, organised a perimeter defence force. However, Fiasco still reported his losses to be around 30% in the period 1991-1993, and argues that the only target during this period was survival, not business.¹⁶ Omar Sharif, today leader of Human Diagnostics, estimate that his family business lost 50.000\$, a devastating loss because of the smaller size of the family's business.¹⁷ The intensity of the fighting might paradoxically have contributed to the popularity of the two factions, they were seen as the only protection available for the business sector, and they were seen as defenders of their own clan.

¹² Human right watch (1992): 1-2

¹³ In the four month war Human rights watch estimated that 4,000 people were killed and 27,000 wounded in Mogadishu alone. It is interesting to compare these figures with the figures estimated for the 6 month war between the Sharia courts and the Mogadishu warlords in 2006 (January to June), of 300-400. There was a drastic difference in the intensity of the fighting in Mogadishu in the early 90thies and the mid 2000s. See Human right watch (1992): 1-2

¹⁴ Interview with Mina Hassan Mohammed 22 February 2007

¹⁵ Interview with Said Ahmed Abokor of Ramadan enterprises 19 October 2006

¹⁶ Interview with Omar Fiasco, Mogadishu, 21 February 2007.

¹⁷ Interview with Omar Sharif, Mogadishu, 29th of February 2007

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The conditions in Mogadishu during the years 1990, 1991 and 1992 formed the business sector. A segment of the business sector consisted of old business families, barely surviving, often importing and selling food, more specialized business disappeared. Another segment consisted of old businessmen that used their connections with the USC to gain large marked shares. Most of the business sector supported the various factions, partly because they remembered the prosecution of the Barre regime, and believed that the sub-clan based factions of the USC were the only institutions that could protect them. Militarily the business sector was weak, while the factions were strong, there were few opportunities to challenge faction leaders.

In-depth interviews with businessmen/women indicates that the volume of transaction was probably low, a few members of the business sector, close to the warlords, earned money, but for the majority of the members of the present day business sector business was almost out of the question, survival was highest priority.¹⁸ In the words of Ahmed Aden, journalist in Horn Africa:” In 1991-1992 no businesses functioned... indeed nothing functioned”.¹⁹ The strategy of the remaining large scale businessmen was rather to participate in factional politics, and in some cases get monopoly over economic sectors in return. Some businessmen, as Osman Atto, built them selves up as financiers and monopolists closely working the warlords. Importantly, such monopolies could only be granted because of the relative strength of the two involved factions, there were no internal fissures that the business sector could play on, the factions wielded clear control over the areas controlled by their factions, and two factions controlled most of Mogadishu. Notably, some members of the pre-war business sector, especially many of the Dubai based businessmen, refused to play this game, they did not engage themselves with the warlords. These businessmen waited, evacuating Mogadishu, but having the foreign savings to reopen businesses when ready, and still being active in the business community in the gulf.

The situation was to change, partly because of the United Nations. From April 1992 to March 1993, a small united nations force, the United Nations Forces Operation in Somalia (UNISOM I) was established, however its relative small size , reaching a maximum of 54 military observers and 893 troops and military support personnel, supported by international civilian and local staff, meant that it had little macro economic impact. Its predecessors the Unified task force (UNITAF) (December 1992 to March 1993) and UNISOM II (March

¹⁸ Interview with Shamza Abdhulla 25 February 2007, Interview with Mina Hassan Mohammed 22 February 2007, Interview with Omar Fiasco, Mogadishu, 21 February 2007., Interview with Omar Fiasco, Mogadishu, 21 February 2007, Interview with Haji Ahmed Who, 26 February 2007.

¹⁹ Interview with Ahmed Aden, 18 February 2007.

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1993), had a large impact. The mere size of UNITAF , with a peak strength of 37.000 soldiers and civilians, and UNISOM II, 16.000 soldiers strong in October 1993, jumping to 29.732 in November the same year meant that it had a large macro economic impact.

For several members of the old business class, UNISOM II created an opportunity to re-establish business activities. First, at the start of the UN engagement created relative peace. During the first 60 days of the UNITAF period looting and fighting was drastically reduced.²⁰ The initial peace did not last, during the summer of 1993, the security situation again declined, and UNISOM II stopped its routine patrols, but it created a window of opportunity.²¹ Second, the UN managed to re-open Mogadishu port. Before the re-opening, businessmen had to pay money to checkpoints when transporting goods from makeshift ports north and south of Mogadishu, now they could avoid paying when transporting the relatively short distance from Mogadishu port. The safety of the transport also increased, as it had to travel shorter distances. Lastly, but most important, UNISOM II purchased services and subsequently heavily increased the demand for goods and services in Mogadishu.

Some sectors boomed. According to Abdikarim Abokor Foodare, the whole fuel import sector in Mogadishu was a product of UNISOM II demand. Several of the fuel companies operating in Mogadishu today, as Kaah petroleum emerged during the UNISOM II years.²² Petroleum trucks, very easy to destroy in war, benefited from the shortened distance to a good port, as well as the increased demand.²³ Some of the giants of the present day Mogadishu business sector started up during UNISOM II, one may mention the Gutale trading group (consisting of Gutale Shipping Agency, Gutale Petroleum, Gutale Trading), and Telecom Somalia. The meat industry also boomed, it was directly serving the needs of the UNISOM forces.

In Omar Sharifs words:

“UNISOM came, and I had an opportunity to make money. First I systematically built up my relationship with the purchasing officers, by bringing them gifts, small things. In the end they gave me a contract for vegetables, I did not have any money to buy the vegetables, so I

²⁰ Army Peacekeeping Institute;(1995): 73

²¹ Ibid;80

²² Interview with Abdikarim Abokor Foodare, 1 of March 2007

²³ Interview with Hussein Ahmed Gaab, 1 of March 2007; despite the improved security, Kaahs security arrangements were both expensive and cumbersome, illustrating the remaining difficulties of operating in a war zone. Normally Kaah had 6 guards only, but when petrol came in they hired between 15-20 guards. With great professionalism they organised two armed convoys, one in the morning to the northern part of the city, one in the evening to the southern part of the city (Kaah had two main bases).

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went to the Bakara market and talked to the owner of a Banana store. I showed him the contract, I promised to pay him after one week, and paid him promptly. By the end of June 1992 I got a livestock contract, I borrowed 8000 \$ from my cousin to buy 75 goats, and used Dalal (brokers from my sub-clan). Although of a different nature (Human diagnostics), the savings from that area created a foundation for my current day business²⁴.”

The story illustrates several important points regarding UNISOM and UNISOM II involvement. First, funds were important in order to establish firms, funds either came from trust, from relatives abroad, or from established businessmen, it was thus important to have a network or have savings, it was hard for newcomers to enter. Second, it was necessary to have a good relationship to the procurement officers. Several UN sources maintain that the corruption level amongst some procurement officers were very high.²⁵

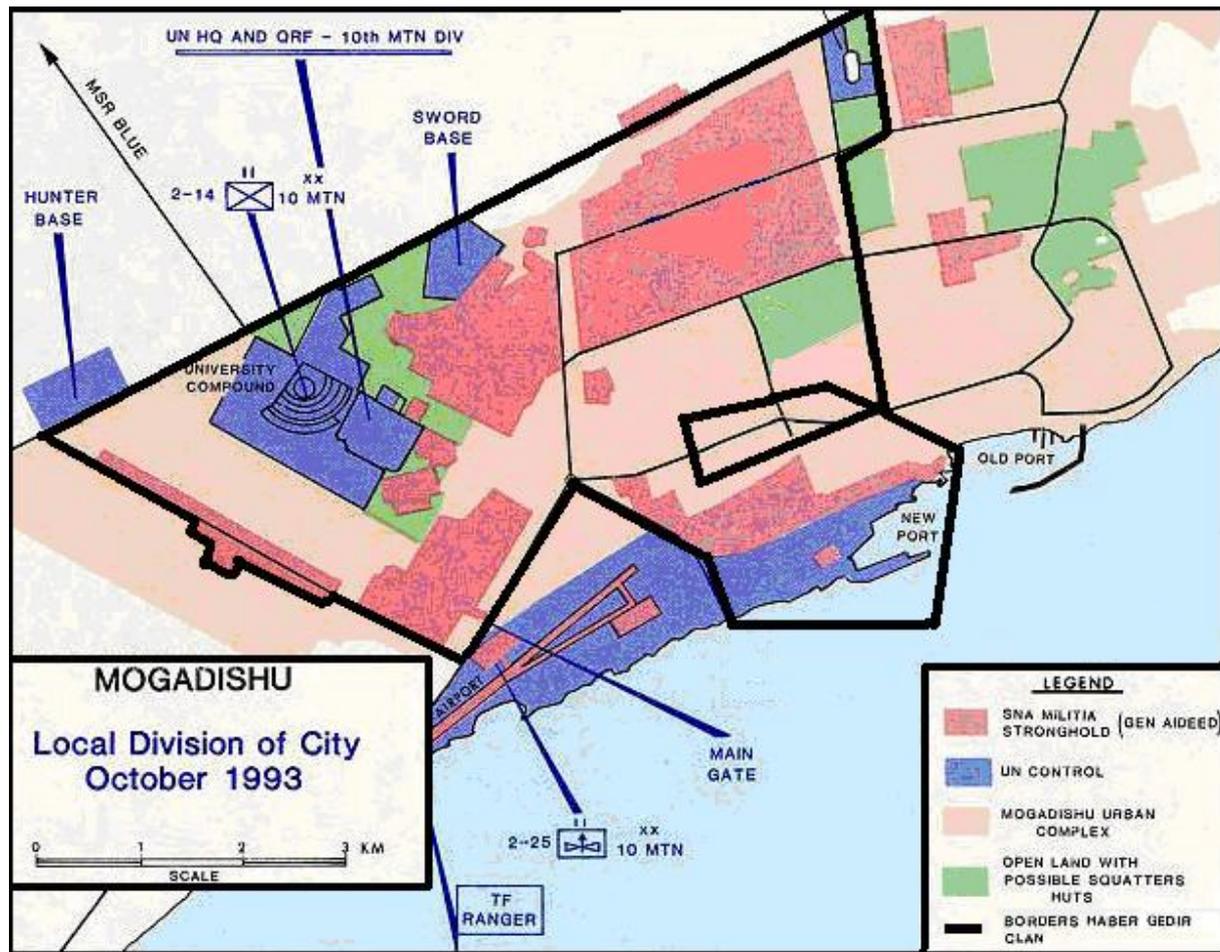
Moreover, the bases of UNISOM II were not equally distributed around the city, the major bases, the University of Mogadishu camp, the so-called “Hunter base”, the Olympic stadium base as well as the airport, were in, or very close to Haber Gedir Areas, making it easier for Haber Gedir businessmen, businessmen clan-wise allied to Aided to benefit. Some of the close allies of Aided benefited hugely from the UNISOM II, amongst them Aided's main financier and backer Osman Atto. In the words of an anonymous UN intelligence officer: “It was a paradox that at the same time as the United Nations were hunting Aided, they contributed millions to his war efforts by purchasing goods and services from Osman Atto's companies, this practice continued even when Osman Atto was captured by the Americans.”²⁶

²⁴ Interview with Omar Sharif, Mogadishu, 29th of February 2007

²⁵ Interview with anonymous former UN intelligence officers.

²⁶ Interview with anonymous former UN intelligence officers; On the 21st of September 1993, Osman Atto was captured by American special forces from the so-called task-force ranger Atto was captured near the Digfer Hospital with three of his bodyguards, he was then brought to Koheima in Southern Somalia, for interrogation. He was later released but describes the incident as the most humiliating incident in his life. Interview with Osman Atto 23 November 2004 (Nairobi)

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Osman Atto is in him-self in many ways the typical business lord described in the more general literature. Osman Ali Atto was already wealthy and strategically well positioned when the civil war started in the spring of 1990. Atto had also been involved with the construction industry. He had been able to acquire trucks and heavy construction machinery, making him the only Somali capable of being a reliable contractor for construction projects by Western companies, including US Aid. Among the Somali country managers of international oil companies, Atto was known as “Monsieur Dozer” because of his ability to cut through the most difficult territory and establish access roads to remote sites. His monopoly made him powerful before other warlords started to ascend. He used this power, and financial contributions, to become the right hand of General Mohammed Aided of the USC faction in Mogadishu. Atto became famous in Somalia when he systematically dug up the old public telecommunication cables in Mogadishu.²⁷ In the northern part of Somalia, Somaliland, he is notoriously famous for moved his militia into the house of several prominent Isaq (a northern

²⁷ Hansen (2000)

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clan, not originating in Mogadishu) families.²⁸ In 1992, Atto helped pave the way for the food airlift and later the American troop landing. He was the Americans' main contact and negotiator with General Mohammed Aided and Aided's most important financial backer. As the tension escalated and the United Nations began an all-out assault against General Aided, the American military bombed Atto's garages, destroying hundreds of thousands of dollars of bulldozers and other equipment as well as equipment that gave him the ability to build technicals (Somali improvised attack vehicles). Ironically, at the same time the United Nations paid Atto indirectly for the services provided by his Saad sub-clan. Aided's rival Ali Mahdi brought the problem to the attention of the United Nations, and sent official complaints, which today is meticulously stored in the United Nations Headquarters.²⁹

Atto was not the only Business lord that benefited from the activities of the United Nations, Abigal businessman, later Warlord, Bashir Raghe Shirar got lucrative garbage collection contracts, which contributed to the financial foundation of his military fraction.³⁰ United Nations seem to be a very secretive organization, United Nations refused to make the contracts of these two individuals public.

The problem of the United Nations was twofold. Firstly, the connection between purchases and politics was not clearly seen. Secondly, the Mogadishu factions, the SSA and the SNA, was still fairly unitary, the two leaders Ali Mahdi and Muhammed Farah Aided controlled their sectors, and in order to gain large contracts one had to have their approval, approval that was most easily gotten through gifts and/or contribution to the factions. In this sense United Nations contributed indirectly to the financial foundation of both factions.

An important source of income of both factions of the USC was provision of security. The recruitment of private security guards had been a necessity for the aid agencies operating in Somalia before UNISOM was established, and continued to be a norm of operations in Somalia after U.N. troops arrived. Hundreds of armed men were employed both by private aid agencies and by U.N. for its own operations. The need for privately recruited guards was never eliminated-not least because a major recruitment pool was the large body of armed men loyal to the dominant sub-clans and their warlords, who in turn benefited from the payments made. The private guards provided security against random violence and the real threat of independent banditry. However, the employment of private guards often provided protection

²⁸ Interview with Edna Adan Ismael 15 March 2004

²⁹ Hansen (2003)

³⁰ Interview with anonymous former UN procurement officers

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from the very de facto authorities to which the guards were themselves affiliated, the functions of UNISOM police, militiamen and private guards often overlapped.³¹

The still unitary structure of the belligerents meant that they could demand taxes for protection, also from the business sector. Paradoxically, the income from protection taxes and checkpoints created the independent source of income that enabled sub-leaders of the two factions to build up their forces and later challenge the faction leaders, it was easy to keep some of the income from checkpoints to them-selves, the factions had no bureaucracy, and no institutionalized mechanism for control. One of the most notable warlords that built his fortunes on this business was Abdurashid Ilqaite, who in the period took 2 dollars per 15 Kilo bananas from the farmers south of Mogadishu. Ilqaite again paid directly to Aided and was rewarded by a monopoly on financial services in the southern part of Mogadishu, which he in-turn used to build up his own militia/ take control over the militia Aided had allocated to him.³²

The era describes the typical symbiotic relationship between warlord (faction), businessmen, but also add in a third party, the United Nations. And many of the procurement officers within the UN seemingly benefited financially from the arrangements. In 1994 banana export was re-establish, a sector that had been devastated by the wars of 1990-1991. Multinationals subsequently moved in and became a last partner in the Symbiosis. Dole was perhaps the most important international actor. Dole- Sombana's president Ahmed Duaale Haaf, appointed partly because of his closeness to Aided, confirmed to have paid \$8,000 into Aided's coffers 'from his own pocket', mainly for protection.³³ He also paid for the rebuilding of a Peace Centre, a luxurious villa where Aided held audience.³⁴ In Mogadishu, businessmen estimated that the Aided spent around \$40,000 per week to maintain his militias. And that he would not survive without the substantial payouts from the banana multinationals.

However, the way in which Aided earned money from the banana trade is important, he did not get his main earnings from the sale of bananas, but from providing security to the banana producers, both local and multinationals, in this sense the money received were an extra expense encountered by the business sector because of the insecurity created by war. The multinationals were more than willing to pay this expense, for them it was a small expense.

³¹ Human Rights watch (1995)

³² Interview with anonymous businessmen.

³³ Pendregast (1995): 275

³⁴ Pendregast (1995): 275

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However, several of the large scale farmers that operated outside of Mogadishu were almost driven out of business by the protection payments they had to pay. According to the banana farmer and businessman, Muhammed Haji Who, the costs were almost tripled because of the security business, and these costs in the end drove him out of business.³⁵ Although the example is taken from 2002/2003, the history of Muhammed Deylaf illustrates this point. Deylaf claimed that his trucks had to use as much as 8 days to travel the distance between Mogadishu and Baidoa, a mere 250 kilometre, that in Europe would have taken some 3 hours to travel. He also estimated that 30% of his profit was lost to protective measures in order to protect his convoys.³⁶ It is not surprising that several businessmen were negative to these conditions; they were losing a substantial amount of money because of the Warlords protection rackets, and after UNISOM II they increasingly resisted the warlords, the warlords lost control over major segments of the business sector.

Several factors made the larger businessmen more able to withstand pressure from warlords. First, UNSOM II created opportunities drawing members of the old Dubai based Somali business elite back to town, a elite that had substantial capital reserves that could be used for security purposes. UNISOM also contributed to the establishment, and re-establishment of many mid sized businesses, businesses too small for the faction leaders to care about, but at the same time large enough to serve as a platform for expansion. Admittedly, the withdrawal of UNISOMs forces led to a collapse of business in Mogadishu, businessmen as Dahir “UNISOM” lost their businesses. However, more experienced businessmen managed to stay floating.

Second, there was a renewed interest on behalf of Somali businessmen from other clans to re-invest and re-open in Mogadishu during the late 90ths. Some of the big financial houses of Somalia, as Mustaqbal and Dahbshil express, re-established themselves in Mogadishu in 1995, 1996 and 1997.³⁷ They did this by employing locals, following the local clan balance and very often closely related to warlords or local strong-men, in order to avoid problems with them.³⁸ However, their owners were from other parts of Somalia, they were not close to the warlords clan-wise.

Third, the end of the UNISOM II intervention in Somalia meant that the income gained from selling services, most importantly security militia, to NGO`s and the United

³⁵ Interview with Haji Ahmed Who, 26 February 2007

³⁶ Peleman, Johns, Sandhu and Tambi (2003):35

³⁷ Interview with Mustaqbal express, 1 November 2006, Nairobi

³⁸ The re- establishment of a larger business sector also contributed to the clan diversity of Mogadishu. During the early 90thies the city had been virtually cleansed of non- Hawiye clans.

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Nations declined.³⁹ Warlords now had less money to redistribute to sub-lieutenants. A strategy to deal with lacking ability to pay sub-lieutenants was often to allocate independent sources of income, as checkpoints, that the sub lieutenants could harness by using their own resources instead of drawing upon the warlords'. Subsequently, the availability of separate sources of income, and the failure of the warlords to create a functioning system of financial redistribution within the faction, made it tempting for sub-lieutenants to create their own factions.⁴⁰ Adding to the fragmentation was the ill fortune of the Aided faction. On the first of August 1996 Mohammed Farah Aided died, his son Hussein Aided lacked the experience of his father. Additionally Hussein Aided decided to intervene in the Eritrean-Ethiopian war (1998-2000), on the Eritrean side, provoking an Ethiopian intervention, as well as Ethiopian support for his enemies, again leading to the collapse of the Aided faction outside Mogadishu. Warlords lost even more power when the lucrative banana trade collapsed, the Banana trade had secured income for the Aided faction, it had a monopoly on providing security to the big multinationals involved in this sector.⁴¹ In 1998 the Banana trade collapsed, partly because of pressure from the WTO against EU to drop their preferential treatment of old colonies. With less money, and more fragmented organisations, warlords could not pay for larger armies anymore, and lost control over much of the militia in Mogadishu.

Fifth, the heavy fees many businessmen had to pay in checkpoints, and the utter failure of the factions to protect both their clan constituencies and the affiliated business sector, meant that the factions lost legitimacy. The memories of the oppressive regime of Siad Barre grew weaker, and the failure of the factions to establish forms of security grew more and more obvious. The organisation of Mohammed Farah Aided and Ali Mahdi, the United Somali Congress (USC), initially claimed to protect Somalis, later only members of the Hawiye clan, against theft and harassment from the Barre Regime and its allies. Most factions initially had similar roles, offering protection and security to members of a specific clan, in one sense they were security entrepreneurs, they had to appear to provide security in order to get support. The fragmented and weak factions of the late nineties did not even manage to pretend that they were security providers, the so-called security and justice functions of the factions functioned on an ad-hoc basis, depending how close you were to the warlord in question, a fact that became very clear to the businessmen that re-established them-selves during this

³⁹ Their financial backers actually complained against the policy of some factions targeting united nations personnel. Osman Atto asked Aided to negotiate with the United States in order to keep the profit from the services sold to the American soldiers. Hansen (2003)

⁴⁰ *ibid*

⁴¹ Until 1997 Somali Banana production had been de-facto subsidized by the Lome convention, which gave preferential treatment to Africa, Caribia and Pacific States. In 1997 The World Trade Organisation deemed the import regime illegal, leading t less advantageous trade terms for Somali bananas and a drastic decline in the Somali Banana trade

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period. As the factions of the warlords fragmented into smaller and smaller parts, the fiefdoms of each warlord became smaller and smaller, the military strength of the warlords declined. The warlord thus had less to offer to the business sector, the monopole rights that a warlord could grant were limited to a smaller and smaller area, and could, if the warlord had enemies in other factions, restrict possibilities to trade outside the warlords area. Moreover, the warlord could offer less protection, he/she had less military power, and thus also less military power to use against businessmen/women.

It was in such surroundings the businessmen of Mogadishu started to provide security for themselves. Some businessmen, such as Osman Atto, turned into warlords, as the forces under their command increased. Several Somali NGO contractors, and business (wo)men, such as Ester Abdi Arushi, used their NGO contracts to create their own small armies.⁴² Some firms, as the large money transfer firm, such as Dahbshil reinforced their own security, becoming able to protect themselves.⁴³ In 1996, TELESOM and Barakad (now Huurmood), two major telecommunications carriers, were annoyed by the fighting between the Aided and Mhadi factions, and subsequently mobilized. In the end the two companies took control over the blocks around their Headquarters, forcing both warlords to stay out of the area.⁴⁴ In 1999 and 2000, the warlord Musse Sudi Yallahowe attempted to tax the business sector, an attempt that ended in war and the subsequent defeat of Musse Sudi.⁴⁵ The warlord Hussein Aided encountered similar problems when he attempted to tax the Medina district in 2000.⁴⁶ In Some places, as Bakara, the business sector had managed to keep the warlords out as early as in 1990. The development peaked in 1999 when several of Mogadishu’s leading businessmen made a formal break with the warlords, buying off the latter’s fighters.⁴⁷ The end of the standoff was a clear success for the businessmen, and the warlords failed to challenge them militarily.⁴⁸ However, the checkpoints remained a feature of Mogadishu, they were simply too many to remove, and tended to re-emerge quite quick if removed. Some of checkpoints were operated by sub-clans, and thus could become politically costly for the potential remover. Insecurity remained a problem, when fighting escalated and major wars were fought between larger alliances, even the business sector faced problems. The sector grew more independent, but was not able to fully protect it-self.

⁴² Tadesse (2002):55

⁴³ Interview with anonymous source within Dahabshil.

⁴⁴ Interview with Telesom, 22 November 2006

⁴⁵ “SOMALIA: SOMALIA REVISITED - IRIN SPECIAL REPORT ON MOGADISHU” *IRIN NEWS* April 27 1999

⁴⁶ “SOMALIA: Mogadishu suffers new round of fighting” *IRIN News* 10 July 2000

⁴⁷ In 2005 only one warlord was able to regularly pay his militia, this warlord was Musse Sudi Yallahowe. Menkhaus (2004):42

⁴⁸ Menkhaus (2004):44

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This was not a linear process, however, the increasing factionalism within the military factions, the decreasing wealth of the factions, the growing unpopularity of the faction leaders as they failed to deliver the security they promised, made them increasingly more unpopular. Simultaneously, the business sector adapted it-self to the new situation, they had established a parallel security apparatus, they had contacts amongst the faction leaders’ family or close affiliates, they had members from the old business elite with considerable wealth in non Somali banks, and they had created dependencies within Mogadishu, because of the services that they supplied.

In this way the ability of the business sector to act independently of factions and warlords increased, as the various factions fragmented and got weaker and weaker. In one sense, the business sector was moving away from the structure described by Reno and Collier, moving away from consisting of monopolists close to warlords, towards the structure suggested by Pugh and Cooper, as well as the NGO approach, to becoming more independent. They did however re-emerge as supporters of a political faction, the sharia courts of Mogadishu, institutions that provided direct security dividends for the business sector by suppressing crime, and in this sense provided useful services to the sector, this will be explored in a later working paper. As will be shown below, the size of the business sector in this phase was large, while it had been small in the first years of the civil war.

The Structure of the Mogadishu Business sector

The Mogadishu war economy shows strong signs of continuity with the structure of the pre-war economy. A substantial number of the businesses operated in the black marked or in-between the legal sphere and the black market, including the important remittance sector. The remittance sector consisted of firms transferring money from the Somali Diaspora back to their families in Somalia. Emigrants that wanted to transfer money to relatives living in Somalia used businessmen, often from the same clan, the businessmen received the money and used fax to confirm the reception of the money, and which relatives that was supposed to benefit, to their local business partners in Somalia. The Somali based business partners then paid an equal sum of money to the benefactors. The original sum money was often used to buy goods abroad that were exported to Somalia, ensuring that the business men got profit from the financial transaction. Over time the system developed, despite a law banning the practice coming in 1983. The strength of family loyalty in the Somali society, as well as the

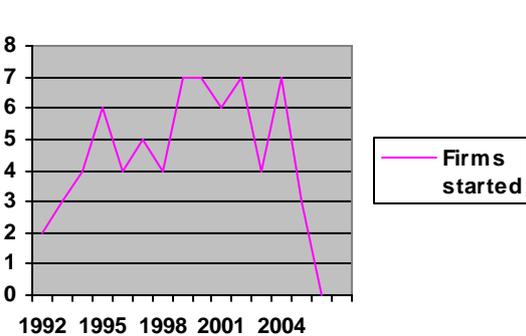
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boom in Saudi Arabia and Dubai, which attracted many Somali guest workers, ensured large scale financial flows. The Barre government's attempts to keep the Somali shilling exchange rate artificially high thus worsening the exchange rate for remittances, meant that the public got large financial advantages when transferring their remittance through illegal channels, motivating them to use such channels. The majority of the remittance, estimated to be 300.000 000 \$ in the early 80ties, went through private and non-taxed channels, a private, highly profitable and illegal, financial sector had been established. In the end the private black financial transfers were estimated to be ten times larger than the public legal transfers, and contributed substantially to the Somali GNP.⁴⁹ The large black sector meant that the Somali pre-war economy often was booming despite the public figures showing negative numbers. Illicit money flows from abroad, especially the gulf, kept the Somali economy afloat. Many of the pre-war financial actors, as Dabshil, remain amongst the most financially, and indeed military, most potent firms of the civil war.⁵⁰ Indeed, one out of four of the larger enterprises (with more than 15 employees) operating in Mogadishu today are enterprises that started before the war. The in-depth studies of a random sample of 10% of businesses with more than 15 employees indicates that even a majority of businesses established after 1991 had partners that had been active in the Somali business sector before 1991, examples are as diverse as partners in Juba Air and Global Hotel. These results are surprising for many of the observers of the business sector today. However, there have been few systematic surveys over the issue previously. There are two alternative explanations of the findings; the first explanation is that the survey maps the many part-time businessmen of Somalia before 1991. During the late 80thies the inflation had forced many civil servants to take up business as an alternative to their depleting public wages. However, the survey indicated that ¼ of the companies in operation today were founded before 1991, and the random sample interviews indicate that many business partners/ business leaders were full-time businessmen/women, or from business families, before 1991. The second alternative is that the individuals in question were from the lower business strata, they were not as famous as the big firms that collapsed in 1991. Secondly, that there were many new names amongst the businessmen and women, as Mina Mohammed Hassan of Global Hotel, and Omar Sheriff from Human Diagnostics, but that many of the new names, as the two above, were sons and daughters of members of the old business class or/and in partnership with them.

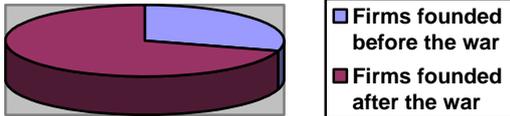
⁴⁹ Marchal (2002): 8

⁵⁰ It is important to underline that Dabshil never used its militia for any offensive operation, its forces functioned mostly as a deterrence, and it did not have any forces in parts of Somalia that were relatively peaceful.

2.1 Founding year for Mogadishu enterprises in operation in 2006, based on the June 2006 survey



Year	Percentage
Before war	25%
1991*(Unknown if the establishment was before the collapse of the Siad Barre regime, or after)	4%
1992	2%
1993	3%
1994	5%
1995	6%
1996	4%
1997	5%
1998	4%
1999	7%
2000	7%
2001	6%
2002	7%
2003	4%
2004	7%
2005	4%



The last explanation seems more likely. The active role plaid by pre-war businessmen in the civil-war economy seems to be due to several factors. Pre-war businessmen had capital reserves, networks and education that gave them large advantages also during the war. Capital reserves made it possible for the businesses to survive the losses encountered during the initial phase of warfare, which was the most critical phase of the civil war for the economy, Italian and Dubaian bank accounts seemed to have been important for the re-establishment of several enterprises.

However, the above description does not adequately describe the early period 1991-1993 of the Somali civil war. The business sector was not prepared for the war, and lacked security. The involved political factions failed to provide security and protection. Although dependent on income from the business sector, the factions held little discipline over freelance fighters from their own clan. Factions were reluctant to pay their militias when not facing military crises, thus providing incentives to the militias to loot to survive. Moreover, the frontlines were fluctuating, at times clan militias occupied areas outside their own clan, making it more legitimate to rape, pillage and also to loot businesses. In cases where militia

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looted members of their own clan, there could be consequences, their traditional leaders could react, the faction leaders actively courted their own clan. If you belonged to a militarily weak clan, or if your areas were overrun by other clans, your enterprises had little protection.⁵¹ Ramadan enterprises (established 1985), the company of Abokor Omar Adane which was to become one of Mogadishu's most famous businessmen and leader for the El-Maan harbour, for example estimated their losses to be as high as two million dollars values in assets, as well as losses from the closure of their business, after the Haber Gedir sub clan militia, led by the late Muhammad Farah Aided overrun Ramadans properties, in the areas of Abigal clan in 1991.⁵² Ramadan enterprises managed to stay floating because they sold of land, and used the money to raise their own militia, and because they held assets outside of Somalia. As illustrated by this example, well established firms often had safe capital reserves, foreign accounts in places like Dubai. As Ramadan enterprises, well established firms also often held land, land could not be looted, it could be confiscated, but was there after militia from other clans had been ejected. Moreover property was, if militia from the companies own clan managed to retake areas, possible to reclaim.

However, the business sector faced problems; they had to adjust to a new reality. Many businessmen closed their shops and businesses; they lacked the means to provide security, and the logistical skills to keep the logistics running in a war zone. Moreover, many of the old business men changed the focus of their business activities. There are many examples, Omar Sharif, today leader of Human Diagnostics, claims that the business focus of the family changed from medical equipment into food import, one focused on the basic needs on the consumers.⁵³ Another sector that remained important was the financial sector; people transferred money back to their relatives in order to help them survive.⁵⁴ Larger sectors as telecommunications, factory production, fuel import, banana production, many governmentally controlled, all seem to have collapsed. The Mogadishu business life was in low gear during the years 1991-1993, it was based on import businesses importing necessities for day to day survival, many of the pre-war business families were either out of business, or in business in Dubai.

As previously described, the UNISOM II intervention contributed to the end of this phase, the years 1994-1999 was a period of re-establishment of businesses, and a change of structure of the businesses. Several international NGOs contributed to this development. The

⁵¹ Interview with Abdulqadir Omar Adane, Mogadishu November 2006: According to Abulqadir Ramadan encountered its largest losses when plundered by Haber Gedir (a clan) militia, the Abokor family are from the Abigal clan.

⁵² Interview with Abdulqadir Omar Adane, Mogadishu November 2006

⁵³ Interview with Omar Sharif, Mogadishu, 29th of February 2007, Interview with Omar Fiasco, Mogadishu, 21 February 2007

⁵⁴ Interview with Abdelkarim Abokor Foodere, 25 February 2007.

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present day head of Juba airways, Abdi Said, lost all his money during the initial phases of the war, but work with his uncle in Dubai, and used friends and business contacts in Canada, as well as savings from his works for international NGOs, to re-establish him-self.⁵⁵ In the war economy of Mogadishu, trust was of major importance, and reputation from a past within the business sector contributed to such trust. Thirdly, former businessmen were well educated, and had managerial experiences. They were thus preferred partners for international NGOs as well as the United Nations, and even formed their own NGOs. The business transactions with international NGO's and the capital accumulated from their local run NGOs created the necessary capital reserve to re-enter/stay in the business sector. Indeed, even today the NGO contracts are important, and many Mogadishu based firms have a façade NGO representing them in Nairobi in order to get contracts/support from the international sector.

From 1994, the businessmen and women of Mogadishu diversified their businesses. The export sector re-emerged, the banana trade opened again, charcoal export increased. More advanced sectors blossomed, petrol importers re-emerged, telecommunication firms were established. Small plants started to operate.⁵⁶ The examples are many, in 1998 the Jegan pasta factory started to operate. Sompasta, another pasta factory, opened in 1999, in 2001 Mogadishu even got its own candy factory, the Sweet Benadiir sweet factory. In 1994, the Al Fuuruqan factory started to produce boats again. In the telecommunication sector the growth in this period is amazing. Barakt launched its telecommunications company in 1994, expanding from finance into telecommunications. Telecom Somalia was established the same year. Nation link was established in 1997.⁵⁷ In one sense members of the old Somali business elite reasserted them-selves Expansion into Mogadishu was also made more secure with sector arrangements in which new firms supported services for the local clans, as well as with donations to local elders. These firms also hired locals in order to convince local communities about their good intentions. By employing such strategies they managed to transcend clan divisions, telecommunication industries, emerging from 1994 and onwards, managed to function in areas of Mogadishu inhabited by different clans. that longer-term investments could be profitable.

By February 2007, there were about 13 factories with more than 15 employees in Mogadishu. Plants were concerned with pasta (mostly macaroni and spaghetti), mineral water, detergent and soap, food processing, and printing presses. Several smaller factories with less

⁵⁵ Interview with Abdi Said, Nairobi November 2006

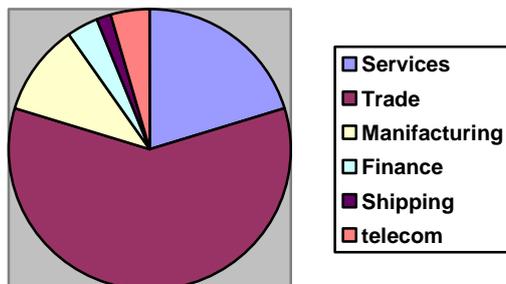
⁵⁶ Marchal (2002):83

⁵⁷ The listed dates are based on the dates these firms provided in the 2006 survey.

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than 15 employees are involved in foam (mattresses and pillows), fishing boats, packaging and stone processing.

2.2 The Business Sector of Mogadishu: Structure (based on the 2007 survey)



Services includes: Construction, printing, postal services, water, Hotels, Power, Media, printing

Trade include all import-export companies

Manufacturing include all Mogadishu factories

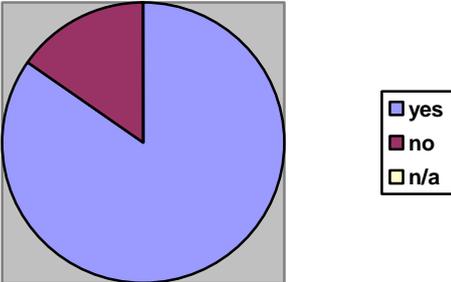
2.3 What do the factories produce? (before April 2007 battles in Mogadishu)

Mineral water	<i>Sagal Purified Water, Somali Tango, Al Firdows Water Company, United Bottling Company</i>	4 Factories
Pasta	<i>Ital Pasta company, Hilaal Pasta Factory, Barwaaqo Pasta Co.</i>	3 Factories (several smaller factories also exist)
Mechanic Spare parts	<i>Bagdad Workshop</i>	1 Factory
Slaughterhouse	<i>Mubarac 1 Company, Somali Meat Company</i>	2 Factories
Printing press	<i>Hamar Cade Printing house, Shafil Printing Unit</i>	1 Factory
Soaps and detergents	<i>Dalsan Industries</i>	1 Factory
		Total: 13 with more than 15 employees

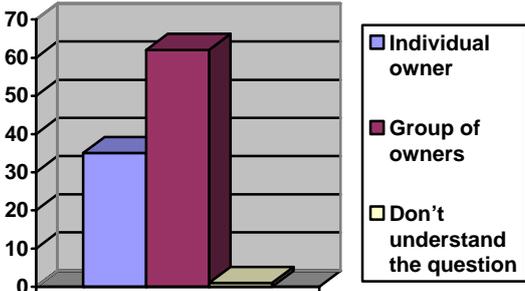
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A majority of companies in Mogadishu based them-selves on business ideas very similar to ordinary companies outside of Somalia, in the start import/export of basic commodities dominated, but over time services and manufacturing gained size. Moreover a majority of businesses grew dependent on import from foreign markets. The exporters also grew dependent on specific markets, in the 2007 survey 15 out of 20 exporters listed the emirates as the main destination for their export, a mere two listing Saudi Arabia as the second most common market.

2.4 Are you dependent on import in your business? (2007 survey)



2.5 What is the most common type of ownership in Mogadishu? (2006 survey)

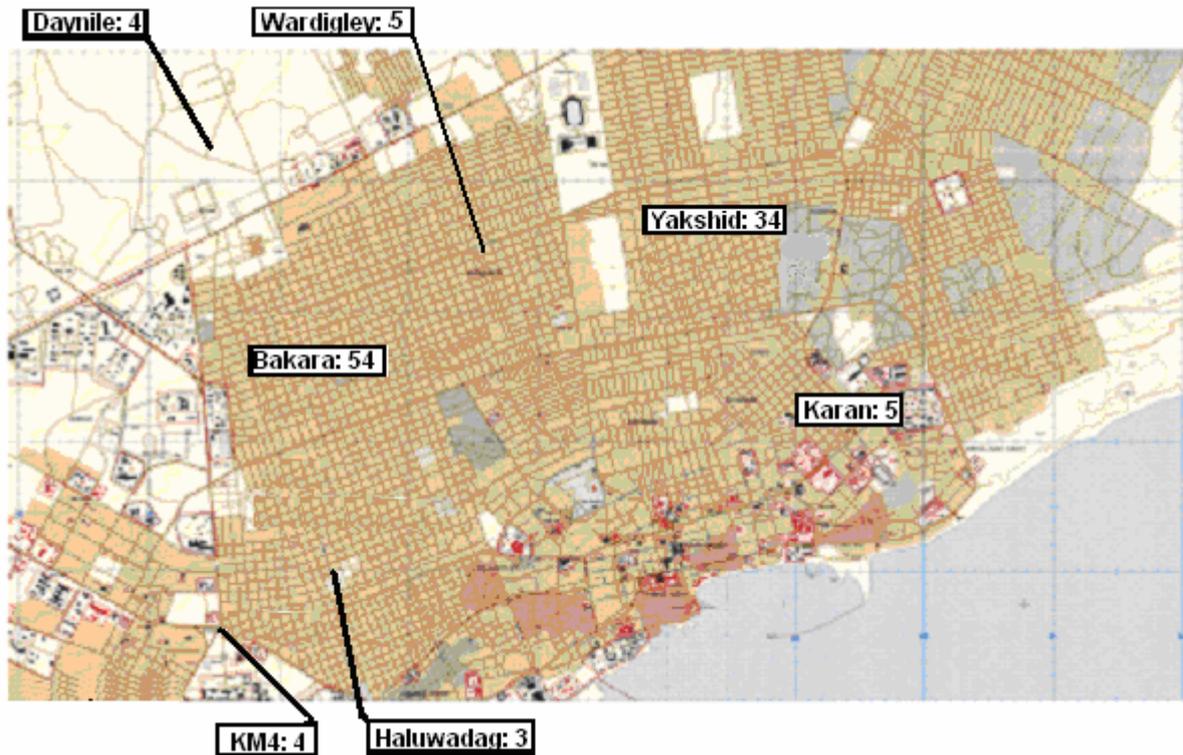


In an economy without a state, and with weak formal institutions regulating and upholding law, reputation became of vital importance, general reputation, often influenced by religious reputation, reputation from previous business transactions, were important when business partners was to be located. Today, a large part of the Mogadishu commercial sector consist of shareholder based companies. The most successful shareholding structure is often based on religious networks, and old student networks, this gives a potential for expansion beyond areas dominated by a single clan. However, the nature of the student networks seems to have

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changed, old student friends from Canada, and the west have become more active in forming companies, weakening the role of the old student networks from Saudi Arabia and the gulf.

2.6 Business- clusters in Mogadishu (2007 survey*)

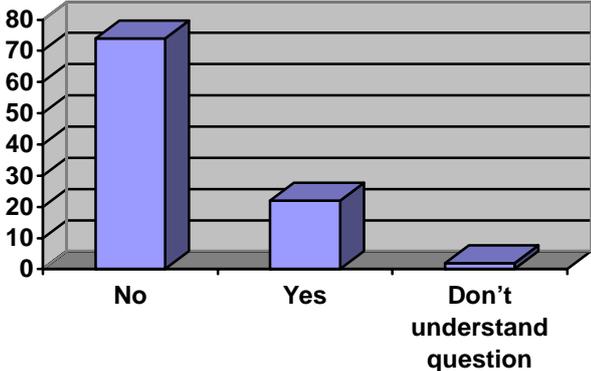


* One must keep in mind that businesses with less than 15 employees were not registered, companies with headquarters outside Mogadishu is not plotted, and companies with several branches are plotted at the location of their HQs. It is a notable change in concentration between the survey in 2006 and in 2007 in two areas Km4 and Haluwadag, the survey of 2006 counted four more enterprises in each area. Areas with less than three businesses with more than 15 employees are not marked.

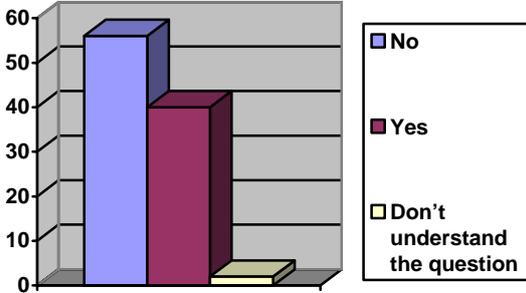
Membership in branch-organisations is however not common, attempts to organise the business sector seems in-large to have been unsuccessful. However, this does not prevent the business sector from coordinating their efforts. Some of the shareholder structures are extremely large and include many business men, United Somali Bottling Company have 400 shareholders alone, the now abolished Barakad claiming to have as much as 600.⁵⁸ In this sense the business sector coordinated their actions through the shareholding structures, as will be shown later large shareholding structures also served other purposes.

⁵⁸ Irin News “The chairman of Barakat Bank has denied press reports that his bank is owned by Al-Ittihad al- Islami”, 1 October 2001.

2.6 Are you organized in some form of branch organisation? (2006 survey)



2.6 Are your business a part of larger holding structures (2006 survey)



Structure and Change in Mogadishu

All in all it seems like the business sector and the warlords grew apart in the late 1990thies, the warlords control over the sector declined, and large businessmen/women acted more and more independently.

The structure of the Mogadishu economy also changed, in an initial phase there were few business opportunities, the business sector had not adjusted to war yet. Some businessmen, as Osman Atto kept alive by staying close to factions, and to loot. Other

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businessmen focused on import of necessities and on financial services (remittance). War prevented the large scale export of the primary goods that writers as Collier and Reno explores. The opportunities for business during the early 90thies were limited. However, this changed in the late 90s, the export of primary goods, livestock, bananas, charcoal increased drastically. Moreover, the specialized companies that common in most countries, for example dealing with soda production, car import, and sweet production re-emerged. Technology based firms as telecommunication carriers re-emerged.

The primary goods sector was weakened by the collapse of the Banana trade in 1998. Nevertheless, primary goods still holds an important place amongst the export oriented businessmen of Mogadishu, focusing on fruit for the domestic market, livestock and charcoal. Despite this, the business sector developed beyond primary goods, and many of the business ideas that Mogadishu firms are based on are very similar to the ideas that the business sector in other countries are based on.

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The Cost of War

During an ongoing civil war with fluctuating front lines and fragmenting factions, business might face several types of extra expenses. Artillery barrages and fighting also takes its toll, and business enterprises might be destroyed by war. Additionally, factions might take protection money in order to finance their war effort, or simply to get additional income, as suggested by Berdal and Keen, the war can be used as an excuse for extra taxation or protection rackets.¹ Moreover, when establishing business in new areas, a business might be seen as legitimate targets, because it is owned by businessmen from an-other ethnic/clan group. Low paid militia might loot. Public institutions as police and fire departments are non-existing, or weakened. Problems with getting taxes, and with crossing borders between factions, fluctuating frontlines, faction leaders engaged in illegal activities with little will to prosecute crime, fragmenting factions with little formal bureaucracies, and with little financial means/will to pay freelance militia all contribute to a high frequency of crime. Factions often put less emphasis on maintaining security, and more emphasis on winning the war. All the above mention factors contribute to costs facing the business sector.

A cost/utility calculation will also be influenced by fear, close relatives might have passed away because of the civil war, and the various businessmen have observed the fate of other firms situated in the middle of battles. The findings of the survey indicate that war creates large costs for the average businessman/woman.

Crime and War

In Mogadishu the business sector faces theft, well organized gangs, at times with a substantial militia, organise robberies. The business sector faces war, not prolonged continuous warfare, but shorter intensive clashes, usually once or twice a year since 1991. Moreover, these clashes are often geographically concentrated.

However, there are indications that the threat of war is taken very seriously, all individuals interviewed in case studies expressed such feelings. War it-self is deadly, it might result in the total destruction of a factory or a business, and the death of the individuals

¹ Berdal & Keen (1997): 64-65

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running it. One example of the devastating costs of war is Coca Colas franchise factory (owned by united Somali botteling company) in Mogadishu. During the fighting in 2007, a large part of the fighting took place in the Towfiq area, where Coca Colas factory was located. The factory it-self was viewed with pride by most mogadishuians, they saw Coca Colas return to Mogadishu as a sign of better times, it had a sharholder structur that included shareholders from most clans, and a sizable militia. Despite this, parts of the compound were destroyed.² The April 2007 fighting did not only hit Coca Colas franchise, another example of the damage caused by indiscrete fire was the Global Broadcasting Corporation (GBC) incident. A Mogadishu-based television and radio network was forced to shut down by artillery shells and cross fire. At least four journalists were injured and two security guards died in the attacks, and there are many similar stories from both this and previous wars.³ After periods of combat looting also intensifies.⁴ Adding to the costs that the business sector experiences is the loss of revenue, refugees, which also is potential customers, flee away from their areas, trade often halts when armed clashes occur. As illustrated by pie-diagram 4.3, businesses often close when fighting erupts. As one of the leaders of Coca Cola in Mogadishu (a franchise) remarks: “We did not work during those months (February 2006), the fighting between the warlords and the courts and the warlords was too fierce. We had to wait, we lost number of days, we did not go to the marked, and we lost large sums of money.”⁵

The business sector was perfectly aware of the problems direct war caused. When negotiations led to increased expectation for peace, investment and the volume of transaction seemingly increased, as better times were expected to come.⁶ The most recent investment boom was during the reign of the court union, when Diaspora families returned and re-opened businesses, this because of the safe environment the courts managed to provide.⁷ As expressed by factory owner Mohamed Yusuf, in the euphoria after the start of the Arta peace negotiations, and when many believed that peace was coming: “If there is peace, this could be a very good business.”⁸

Direct war is not the only problem encountered by the business sector; an equally important problem is crime and general insecurity. It might be argued that the rampant crime in Mogadishu is rather a result of statelessness, and of lack of will on behalf of the factions,

² Shabelle news” Somali government in control of Mogadishu as looting is underway” Friday 27 April 2007 The devastating effect of warfare is also illustrated by the stories describing the experience of various firms during the four month war in the preceding chapter.

³CJP “Shelling destroys Somali broadcast stations; injures journalists”, 25 April 2007.

⁴ Shabelle news” Somali government in control of Mogadishu as looting is underway” Friday 27 April 2007

⁵ Interview with Muhammed Hassan Awale, 25 February 2007

⁶ Marchal (2002)

⁷ New York Times “Islamists in Somalia pacify a dangerous city”, 24 September 2006.

⁸ Reuters “After Years of Chaos, Somalia Is Open for Business” 27 November, 2000.

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rather than the direct result of the war. Indeed, it seems like several factions tried to maintain some form of law within their fiefdoms during the early 90thies. Ali Mahdi supported the funding of the northern Mogadishu Shariacourt system in 1994.⁹ Mohammed Farah Aided even maintained a relatively efficient charcoal ban in his part of Mogadishu.¹⁰ However, even during the early years it was hard for both Mahdi and Aided to keep security and prevent theft. Both parties employed free-lance militia, militia that they only paid when they were needed for relatively large campaigns. The free-lance militia of the two factions was constantly short on sources for cash, and many of them needed to loot in order to survive. The results of these conditions were in general rampant insecurity, with some notable exceptions in areas controlled by Sharia courts, as well as, relatively speaking, the Bakara Market who had established own security forces quite early.¹¹

In the late 90thies the business sector developed sizable militias to handle the security and crime problem, as well as to serve as deterrence in the case of direct war. A substantial part of the income of any Mogadishu business was used to pay security guards.¹² The amount of money used to pay militia varied from business to business; the largest financial actor in Somalia, Dahbshil fielded 50 militia soldiers in Mogadishu in 2003, a small number for a global financial company with 400 branches and agents world-wide.¹³ However, other companies had larger expenses, the lower shabelle business committee/ Benadir Maritime Import Operations/ Benadir Maritime and local port operations (the company operated under several names), which operated the El-Maan port from 1999-2007, According to CEO Abokor Omar Adane, the port managers on average spent \$40,000 a month to deploy 400 militiamen and 20 battlewagons inside El-Maan and on the road linking it to Mogadishu during the year 2000.¹⁴ The business sector could use the free-lance militia as a recruitment pool during times of crises and at special occasions. Benadir Maritime Import Operations for example increased their amount of guards after the fighting with warlord Musse Sudi Yallahowe in 2004, until they fielded a force of 600 and several Fiat armoured cars. During august 2006, researchers at Mogadishu University estimated the company military strength to be around 1000, with 40 battlewagons and four armoured cars.

One deterrence strategy was to show strength during the initial establishment of a factory/business enterprise. Following this strategy, Coca Colas franchise in Mogadishu,

⁹ Interview with Sheik Ali Dheere, February 26. 2007. Hansen (forthcoming)

¹⁰ Sabrina Grosse-kettler (2004):18 , 23

¹¹ Interview with Abdelkarim Abokor Foodere, 25 February 2007, Interview with Shamza Abdullah, 26 February 2007.

¹² Ramadan enterprises paid their militia 2.5\$ per day in 2004.

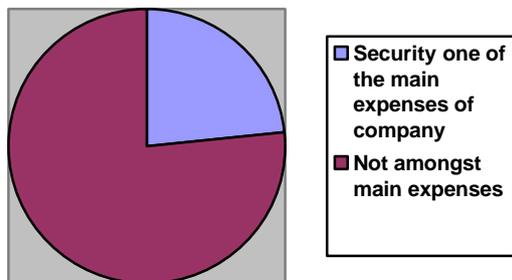
¹³ Interview with Said Duale, Hargeisa June 2003.

¹⁴ Interview with Abokor Omar Adane, *The Christian Science Monitor*, 3 August 2000: The pay of each of their soldiers were 2.5\$ per day, much better than the average warlord militia

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United Somali Bottling Company, used 100 soldiers, to protect its 140 employees when it opened in June 2004.¹⁵

4.1 Security and expenses (2006 survey)



This is not strange, as expressed by the CO of Zam Zam water purification, Ali “America” now the Somali ambassador to Kenya: “when a company is new, everybody tries to challenge you. Lot of checkpoints, used to stop us and ask for money. As the trademark becomes more known, it will be assumed that you have more security.”¹⁶

Despite having guards the business sectors countered problems, large scale organized crime groups organized them selves in areas far away from the various bases of the business militias and targeted the businessmen/women when they were away from their guards. Bakara market businessmen/women were for example often robbed when travelling back and forth from the Market; robbers did not dare to challenge the business militia in the market, but could hit businessmen/women when they left the relative safety of the market.¹⁷ Some organized crime groups operated systematically over the whole of Mogadishu. Saylah Baronshe's infamous car- theft gang for example operated out of the Sii Sii area, but most of Mogadishu was within their reach, and the transport sector encountered substantial losses because of its activities.¹⁸

Despite the shortcomings a private security force has in a civil war environment, a failure to create as such force can have serious consequences. The losses for companies that failed to build up their own security apparatus could be large. The story of El Adde port, the major petrol and gas port of Mogadishu provides an illuminating example. El Adde, was

¹⁵ “Somalia's hope of a new era” BBC 10 July 2004

¹⁶ Interview with CEO, ZAM ZAM, Ali “America”, Nairobi 21 November 2006.

¹⁷ Interview with Abdelkarim Abokor Foodere, 25 February 2007, Interview with Shamza Abdullah, 26 February 2007.

¹⁸ Hansen(forthcoming) In the end they were stopped by the Sii Sii sharia court, not surprisingly this court received substantial support from the Mogadishu business sector, even parts of the sector not clan-wise related to it

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started in early 1996 by 3 oil companies who invested in the port to make it easier for them to receive oil and petrol. Other ports could not be used for this purposes, the El Maan port was to shallow, as was Merka, and the northernmost ports of Somalia, Bosasso and Berbera was simply to far away. However, the companies recognised that they needed security, and decided to contract security to the former garbage collector of UNISOM II, Bashir Raghe Shirar. After two years Bashir Raghe decided to take control over the port, he had many security guards, the three oil companies had less than 20 soldiers, so the conclusion of the conflict was foregone, the meticulously prepared contract was literally torn apart in front of the oil companies eyes, and they had to pay Bashir Rage heavily for the use of their own port.¹⁹

Some companies had larger problems than others, Hoormuud, despite having an impressive security force, experienced large problems with locals cutting down their telephone lines to sell cables, and had to approach elders in Medina. The costs facing the companies can be summed up by the following calculation of Hoormuuds own Abdullah Salad:

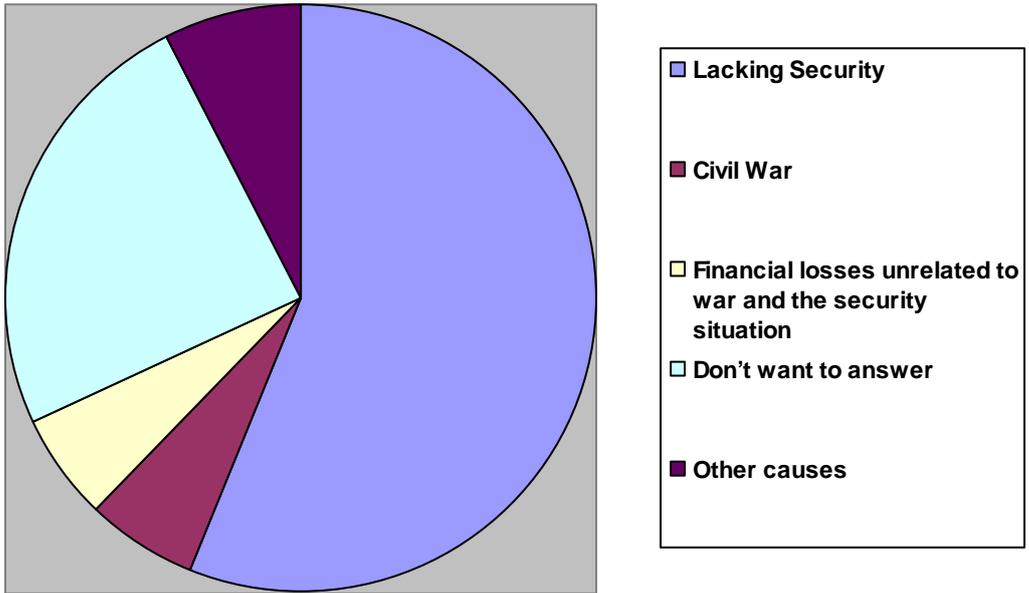
” I estimate that we have more than 100 guards, last year we installed lines in more than 145 areas, we needed 1000 guard, 50% of the employees are guard. The Guards get 70\$ per month, and 70.000\$ per month is a relatively large expense for us. Moreover, the 1000 guards will have double loyalty, to us and to the clan inhabiting their areas. They are enemies with each other! We have other security expenses as well, partly to ensure the loyalty of our guards partly to ensure that the local population supports we have community development programs everywhere, this is not a mere charity, it is also a security expense, despite this we lost lines in Medina.”²⁰

¹⁹ The oil companies got their revenge; in 2006 they contributed to the Sharia courts that ended the reign of Bashir Raghe.

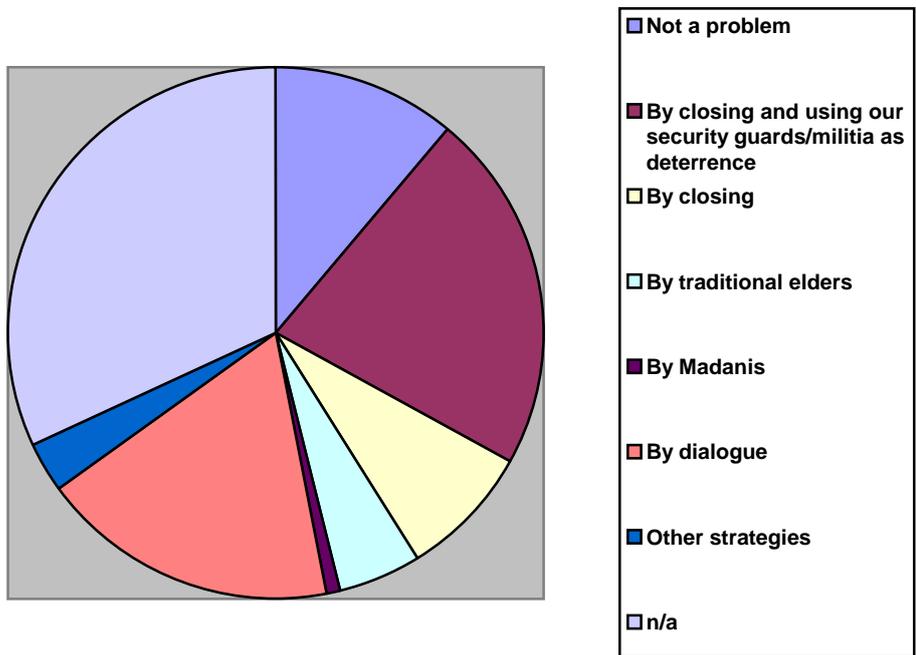
²⁰ Interview with Abdullah Isalad, 25 February 2007

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4.2 The causes of major crises (2006 survey)



4.3 How do you deal with war and conflict? (2006 survey)



Checkpoints and Tax

As described in chapter two, the checkpoint “industry” of Mogadishu almost strangled the independent banana traders of Mogadishu.²¹ If one examines the case study box 4.1 one will find that the checkpoint it self was profitable, but that the monthly net profit of 1059\$ was less impressive. For the militia it was enough to sustain them-selves, and provide their clan with some income. The fees paid by each long distance truck, around 6.2\$, seems quite modest. However, one must keep in mind that these long distance trucks passed more than one checkpoint, the distance between southern Mogadishu and the El Maan port at times had as much as around 10, then the price becomes heavier to bear, the transport company encountered fees as much as 62\$ for one single trip to the port. Moreover, the checkpoints caused delays, and prolonged the transport time.²²

The business sector could draw advantages from the checkpoints, if one studies the example in Box 4.1, one will find that the telecommunication sector gained access to cheap cable guards that could prevent their cables from being stolen from the Checkpoint, which is if these guards proved loyal. The shop keepers probably both benefited (they gained security from the militia) as well as lost, they had to pay fees to the checkpoint militia, but gained some protection. However, in a normal society, the state would have provided an alternative. The business sector also had to pay direct tax in the areas controlled by warlords/faction leaders, although this practice increasingly was challenged by businessmen.

Chart 4.1 Warlord imposed taxes in Medina (2004).²³

Sector	Daily fee	Monthly fee
Kiosks	36\$	1418\$
Telecommunication	25\$	750\$
Finance	7\$	210\$
Warehouses	8\$	240\$

²¹ Interview with Haji Ahmed Who, 26 February 2007

²² Peleman, Johns, Sandhu and Tambi (2003):35

²³ Schiemsy, Holt, Kelly & Salek (2006): 66, The warlord in question was Muse Sudi Yalhowe

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Box 4.1: Case Study of a Checkpoint: The Fagah Checkpoint 2004-2006.

The security business; The Fagadhe checkpoint

The Fagah Checkpoint, one of the oldest and most famous checkpoints in Mogadishu. was primarily managed by clan militia. It had 70 persons, of which 35 worked daily. The militia were governed by clan leaders until the Sharia courts took over. The Islamic courts had 250 persons working part time, and 40 full time militias.

Income

Source of income	Daily income	Monthly income
From Jamhurya livestock marked	2,500,000 Somali shillings(SS)	75,000,000 SS
Fagah intersection	3,000,000	90,000,000
Tea shop	210 shops each 3000= 630,000	18,900,000
Total	6,130,000	183,900,000

Expenditure

Type of expenditure	Daily expenditure	Monthly expenditure
40 workers (each 10,000)	410,000	12,300,000
Petty cash expenditure	150,000	4,500,000
Salary (250 workers)	n/a	150,000,000
Total	n/a	166,800,000

Net monthly profit 17,100,000 = 1059\$

The sources of income are

1) shopkeepers and tea shops around the checkpoint

2) Traffic

Buss passengers pay 10,000 and is estimated to 150-170 per day, long distance trucks pay 100,000, construction trucks pay 10,000, as do trucks heading for El Maan port.

3) Telecommunications

Uses the checkpoint personnel to watch over their cables

4) Politicians and elders

May pay for military services (block their enemies, assist in retrieving stolen goods etc), or to offer motivation (pay for chat or cigarettes)

5) Other indirect services

US\$1.00 = 16,147 Somali Shillings (Exchange rates as of May 2005)

(Based on a case study by students at Mogadishu University)

Transaction Costs

The lack of regulation between companies and the lack of state import- export arrangements increases transaction costs, the costs firm's faces when doing business with other firms.²⁵

First, importers or exporter (which make up a majority of the Mogadishu business sector) faces sever problems when dealing with foreign business partners. There is no correspondent banking so financial houses do not offer letters of credit. In order to pay a foreign trading partner, offices has to be opened abroad (mainly Dubai) and foreign banks has to be used. Even this solution is not without deadweight loss. Opening an office in Dubai, for example, costs \$5,600-10,600 and takes several months. Second, traders must deposit 100% of the funds before the foreign bank would initiate any contact with the trade partner's bank. Leveraged LCs (e.g. 10% down until merchandize delivery) is only offered to relatives / long-term business partners of the bank owners. Thus, frequently a sum of money, as high as \$1.5 million is frozen at the bank for 45 days prior to the merchandise delivery. A further complication is that large amounts of cash are avoided by banks on money-laundering concerns.²⁶

Lack of regulations have at times also parked small wars between companies, one of the major radio stations in Mogadishu, Horn Afric even had to defend it-self after airing a commercial in which one shampoo company criticised the shampoo of another company, and guards from the latter company attacked the radios compound.²⁷ In a stateless society the mechanisms to prevent swindle and breach of contracts are weak. Companies operating over time in Mogadishu have to be careful avoiding such breach of contract, the potential to punish contract violators is limited.

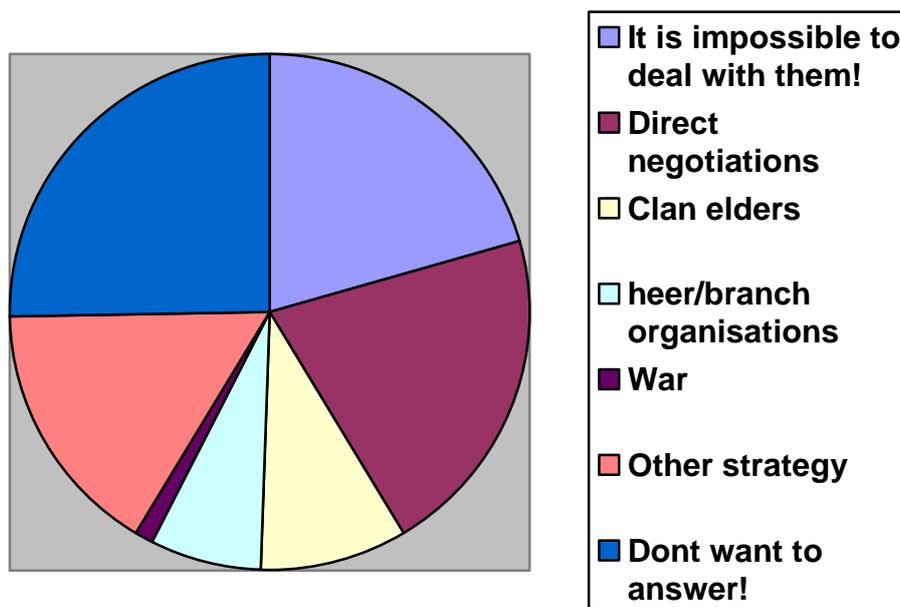
In such circumstances it becomes important to ensure that the business partner is honest. Reputation is of great importance in making new business connections, and will to a certain extent keep businessmen from violating a contract. Very often business partners are selected via religious networks, old friends, student networks. Another strategy is that prominent businessmen financially guarantee specific businessmen from their areas, promising to pay money, if these younger businessmen break contracts or steal.

²⁵ Blois (1990); Transaction costs are defined by North cited in Blois (1990) as the costs of exchange that include "defining, protecting and enforcing the property rights to goods (the right to use, the right to derive income from the use of, the right to exclude, and the right to exchange.)" (p. 26).

²⁶ The World Bank (2005): 110

²⁷ Interview with Horn Afric 2 November 2006

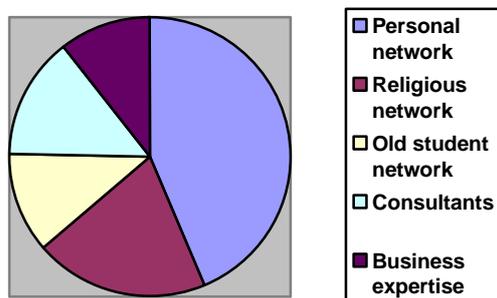
4.5 How do you handle contract violations? (2006 survey)



Religion is of commercial importance in Mogadishu. Certain cultural and religious stands, as for example wahhabism/Salafism, serve as a class identifier, an element adopted by the upper trading classes. In the war economy Wahabism and Salafism stands were to become valuable, almost cashable assets. Such religious stands helped businessmen in their dealings with Saudis. Sharing the same religious stands and ensured a form of class consciousness, and created trust amongst peers with similar religious stands. Religious networks also grew important amongst non-salafists, and non-wahabists. Activities in the local mosque, in Islamic charities, and amongst the sufi tariqas were seen as indication of a pious life, and of trustworthiness, and religious leaders, persons active in the religious community were to be intensively employed as advisors during the civil war. Indeed, it is not surprising that the international crisis group suggested that 80% of the economy is controlled by islamists.²⁸

²⁸ Pham (2006), one might speculate if the metaphysical assumptions of Islam influences a cost benefit analysis between the profit and expenses caused by the civil war. Islam strongly condemns war between Muslims. If a businessman/woman wants to keep his/her reputation, then one way is to publicly condemn war, and support peace and institution building.

4.6 Do you use any form of advisors in your business? (2006 survey)



Despite the importance of religion in creating trust and minimize transaction costs in Mogadishu, not even religious reputation serves as a full proof guarantee against swindlers. In early May 2006, Dalsan, one of the larger financial companies of Somalia, folded its operations without warning, taking with it not only the \$10 million to \$30 million in capital invested by individual shareholders, but an estimated \$9 million to \$12 million in unconsummated money transfers from ordinary customers. The company initially enjoyed much trust, it had been led by a former spokesman of the militant religious organisation, it was led by Mohamed Sheikh Osman, a wahabist religious scholar as well as a former leader with a formidable reputation.²⁹ As claimed by Peter Pham “the closure of Dalsan has been widely covered in the Somali-language press, most of the reports have been understandably focused on the white collar aspects of the collapse which most directly affected the readers: the fraud itself and the subsequent efforts of investors and remitters to secure their "divinely guaranteed" refunds.”³⁰ There have been attempts to regulate the financial sector of Somalia, and a branch organisation exist, but these UNDP sponsored schemes in the end failed to prevent the Dalsan incident.³¹

An additional problem in Mogadishu is the restrained possibilities for credit, when the institutions that can help you get back your money when you have loaned it away are weak, the will to lend out money also becomes weak, indeed 1/8 businessmen/women in Mogadishu saw this as the main financial constraint of their business during the 2006 survey.

²⁹ Pham (2006)

³⁰ ibid

³¹ Many Somali remittance companies have registered or in the process of registering their businesses in various countries. It was with this background that a *Conference on the Somali Remittance Sector* was held in London, United Kingdom on the 3rd and 4th of December 2003. The conference was largely successful in increasing the awareness of participating Somali remittance companies of the regulatory regimes pertaining to the remittance sector in several European Union countries. Additional awareness programs are being planned by the recently established Somali Financial Services Association (SFSA), an industry association created by the Somali remittance sector. See KMPG (2004):

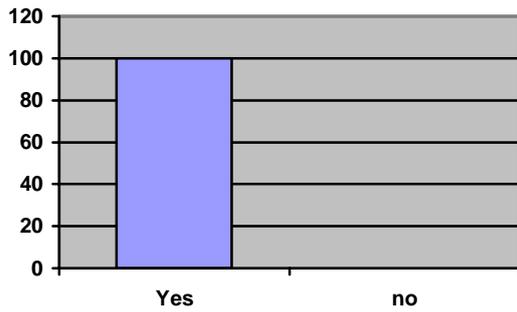
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There are also problems in the cases which the contract partners are honest, but there are misunderstandings between the partners over the interpretation of the contract text. Despite the lack of government, the Mogadishu business community has developed several routines; notaries exist, which records contracts. These notaries are dependent on their reputation in order to survive, the contract partners will not trust them if not, giving some incentives for honest behaviour. Despite the lack of courts, lawyers are extensively used; they draft the written contracts that often follow old Somali law. Sharia courts also handled business conflicts. However, none of these mechanisms are perfect, and most respondents in the survey felt that some state structure would be good for business. The presence of Ad-hoc legal mechanisms, and of religious network does not create the necessary trust, and the scepticism towards new faces runs deep in the business community, many business opportunities might be missed because of this. It might be argued that this is a cost of statelessness, not civil war it-self, but this statelessness is caused by civil war.

The Cost of Civil war.

Insecurity in Mogadishu has been high, and most companies employ guards, and pay dearly when transporting goods because of various checkpoints. Wars might devastate business, lack of regulations leads to conflicts, confusions, and opens up opportunities for con-men. Because of the profile of the business sector, being based on import/export, and performing many of the services that other big city businesses perform in other cities of Africa it seems that the business sector has large interests in attempting to create remedies to alleviate these costs. In this sense, the findings of the 2006 survey, which was conducted under anonymity, is not so surprising.

4.7 Should the business sector engage in peace and reconciliation? (2006 survey)



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War Profiteering

As indicated in chapter two of the working-paper writers as Reno and Keen have focused on the benefits certain groups within the business sector might get because of war.¹ One might engage in illegal trade, faction leaders might even promote such trade in order to get income. Consumer protection might be weak, and faction leaders might grant monopolies to specific businessmen/women. Moreover, one might base the business on looted property and/or re-sell looted items. Using the contacts with warlords, specific individuals might establish monopolies, taking advantage of consumers and other traders. The lack of regulation also opens up for price cooperation and the consumers receive weak protection. Businessmen might also trade with illegal items. Narcotics, charcoal, endangered spices, weapons, can be profitable merchandise. Fourthly, traders might engage in cross border smuggling and launder money for criminals operating in other countries. Taxes are less easily collected, at-least when factions are fragmented and one can escape to adjacent areas if the local faction leader attempts to tax

Methodologically, it is not easy to estimate the income from these activities, they are by nature clandestine, and actors that get these forms of profit will be reluctant to provide information about it. Moreover, often neglected in the general literature, there will be strong incentives for political leaders as well as business rivals, to claim that rivals are engaged in such activities.

This chapter does not attempt to give a full estimate of the benefits that the civil war provides to the businessmen/women of Mogadishu. It does however highlight some important problems encountered when estimating of the profit supposedly emerging from war and/or civil war. The chapter suggest that the profit of war easily is overestimated, at least when it comes to its importance for the average businessman/woman.

¹ Keen (2002), Reno (1998), Reno (2001)

Monopoly Rents

A common claim made by researchers exploring civil war economy is that civil war enables warlords to select specific businessmen/women and grant them monopolies. Warlords and their allied businessmen will subsequently share the profit. In chapter three it is shown that the warlords lost control over the Mogadishu business sector, illustrating the problems with the Warlord- Monopolist claims in the case of Mogadishu. However, the lack of warlord control does not mean that monopolies or big sector organization do-not exist in Mogadishu. There have amongst other been accusations of price cooperation within the energy sector, the fuel sector and the port/airport sectors.²

It is notable that the energy sector was very successful transcending clan divisions in the early 90thies, showing early cooperation between business entrepreneurs.³ In May 2000, an association of independent power producers was established in Mogadishu (*Shirkada Xoogga Korontada Muqdishu*) claiming to have 43 members. Researchers as Marchel have claimed that the sector appears to be amongst the Mogadishu sectors which have a cartel structure. Several cartel mechanisms seems to be in place, when a new company wants to start, it must first make sure it is not taking customers from others. If customers are “stolen”, then the cables of the new entrant may get cut and small incidents or even skirmishes may take place. Importantly, cartelisation in this example seems to be a strategy to handle conflict and to avoid confrontation. The case of the electricity producers illustrate a general point regarding the cartels in Mogadishu, namely the large transaction costs the business sector faces. Cartelisation, as well as both vertical and horizontal business integration might be strategies to deal with high transaction costs. The economist Jarillo argues that an activity will be integrated where $EP + TC > IC$, EP being the price charged by the supplier for a product, TC the transaction cost and ZC the internal cost of making rather than buying the product.⁴ Transaction costs will include the cost of handling security when making business agreements, of dealing with con-men, of getting information about prices, safeguarding property rights, finding honest business partners etc. As illustrated in the last chapter, transaction costs in Mogadishu seems to be larger than in more peaceful cities, there are more uncertainty when relating to other market actors, as well as political actors, this because the institutions that handles breaches of contract, and security issues are so much weaker because

² Marchal (2002), Schiemy, Holt, Kelly & Salek (2006): 19,AP/COMTEX: “Many Somalians can't afford fuel”, 25 October 2000.

³ Marchal (2002). Hodan and Medina, or Hawl Wadaag and Bermuuda had common suppliers in spite of the recurrent tensions that existed at the factional level

⁴ Blois (1990):493

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of the civil war situation. Large transaction costs provide incentives to integrate, and to make cartels. The substantial amount of shareholder companies in Mogadishu proves this point, shareholder structures are not only purely an investment on the shareholder, it is also a security investment on behalf of the company, the company can offer shares to businessmen that can help with security in areas beyond the clan base of the company, they can offer shares to rivals, partly because of security reasons, partly to improve communication and coordination. Businessmen/women can also create ad hoc groups of businessmen, to handle specific problems, or tasks.⁵ In some cases, as within the electricity sector, such loose cartels, created to handle conflicts between the various members, don't seem to hamper competition, in fact Marchal estimates that the competition is so hard that it probably hampers the services of the sector, profit is so low that it can not be re-invested.⁶

Another sector that has been accused of gaining from the monopoly situation was the airport/port sector.⁷ The limited number of ports and airports, and the high dependency on imports, in theory seems to indicate that airport and port monopolies easily could be established. Again reality is more complex. The sector was initially dominated by warlords and faction leaders; however, the history of several of the airports/ports illustrates the security dilemma facing faction leaders, in some instances preventing cartelisation. Faction leaders engage in armed struggle, a profitable joint venture might not be acceptable if it is perceived that such a venture changes the balance of power. There are several examples that faction leaders deliberately choose to close airports/ports, in order to avoid that business-partner's gets income from them, although they were highly profitable. The history of Mogadishu seaport illustrates the point, it was closed as early as 28 December 1990, and remained closed until February 1991, it then functioned until the start of the four month war in November 1991. Mogadishu port opened again in March 1992, after a UN brokered cease fire, but was frequently bombarded, and shipping agencies shunned it because of the security situation. After the UNITAF and UNISOM II interventions, the security situation at the then United Nations controlled Mogadishu seaport became stable. The UNISOM II mission attempted to create institutions that would ensure fair operation conditions and a good security situation even after they left. A joint committee, made up of individuals close to Ali Mahdi, General Aided, and Mohammed Qanyare Afrah, (then allied with Ali Mahdi), was created. The Committee members were to receive a commission on fees paid by the ships and the importers. A large militia was supposed to secure the functioning of the facility in

⁵ Interview with Muhammed Hassan Awale, 25 February 2007

⁶ Marchal (2002): 55-56

⁷ Schiemsky, Holt, Kelly & Salek (2006): 19

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exchange for food and small cash payments.⁸ However, northern leaders felt that Aided's dependency on Banana trade, and the importance of Mogadishu port in this trade, justified attacks upon the port to disrupt it. In the end northern faction leaders, with Ali Mahdis reluctant approval, attacked the port. Paradoxically, the major faction leaders of Mogadishu, including northern leaders, lost financially when the port was closed in October 1995. The story of 1995 was to repeat it-self over time, spoilers wanted to prevent both businessmen and warlords from gaining income from the seaport. In order to prevent rivals from gaining income businessmen and faction leaders bombarded the port when attempts were made to open it.⁹ The Sharia courts managed to re-open the port in August 2006, and today it remain open.¹⁰

The story of Mogadishu port illustrates how security related factors prevented monopolies from occurring amongst the warring factions, some monopolies were simply so profitable for some of the business partners (warlords), the income enabled them to build up their own militias, sparked fears amongst their own business partners/rivals. These other business partners/rivals chose to attack and disrupt the business, this despite the fact that the business partners/rivals at times gaining financially from the arrangement. The actions of such rivals/business partners seem to have been sparked because of fear from changes in the balance of power between factions, as well as hurt pride when they felt they should have gained more from the business arrangement in question.

The frequent closure of the Mogadishu port allowed other individuals to build up their power as entrepreneurs building and running ports. Merka port, located in Merka city south of Mogadishu, had been a blossoming port even before the colonial time and was important for the whole of Somalia until the mid-1960s. Merka was used as a port by the international red cross as early as in 1991.¹¹ The opening of Mogadishu port by the United Nations initially drove away Merka's customers. However, the revival of Somali Banana export in 1994, when the international banana firms re-engaged them-selves in Somalia, led to a revival of the port. There was a price to pay, Merka grew dependent on the Banana trade, and it declined sharply when the Banana trade collapsed in 1997-1998, after this point in time the

⁸ The militia was about 2400 in total, 960 linked to Ali Mahdi's side and 1,360 to General Ayded's side. Marchal (2002): 38

⁹ The most important attempts to open the port was in 1999, by warlords Aided and Ali Mahdi, in 2002 by a business consortium that included Ahmed Duale Gelle "Haaf" and 2004 by a business consortium including important businessmen as Mohammed Dheilaf, all ended in failures, the first ended when the warlord Mohamed Qanyare Afrah sabotaged the opening by bombarding the port, the second when the Warlord Abdulkadir Abdi Bebe repeated Qanyares actions.

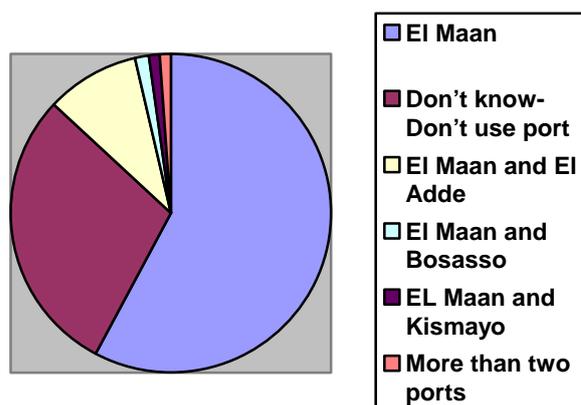
¹⁰ Shabelle news. "Mogadishu traders to suspend import and export at the port", 27 March, 2007; According to Marchal (2002: 42), the price of a sack at El-Maan 2002 was around 0,42\$; The port remained open even after the takeover of the city by the transitional government, this despite attempts by the remains of the sharia courts to bombard it. However, it seemed that the transitional government took advantage of the situation and drastically increased the fees, the fees for a sack of sugar increasing from 1\$ to 3.6\$.

¹¹ At the time Merka lacked modern equipment. Small fishing boats had to be used for the laborious unloading process, it thus provided jobs for hundreds of people, boat owners and porters.

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port only survived because of the United Nations continuous use of it. The port grew increasingly under the control of Sheik Yusuf Muhammed Siyad “Indohadde”, the head of a regional administration established 2003.¹² The distance between Merka and northern Mogadishu, as well as the dangers encountered by the traders from the northern Mogadishu Abigal clan when transporting goods in other areas initially made Merka, located south of Mogadishu, a costly and risky alternative. The traders in the northern part of the capital city chose to use the El Maan beach port, although it had fewer facilities than Merka. El-Maan was created in 1991, during the initial face of the civil war, when the international Red Cross committee needed a secure port. The opening of Mogadishu port, and UNTAF and UNISOMs securing of this port led to the closure of the El Maan port. In 1995 El Maan opened again. El Maans history after 1995 shows important trends in Mogadishu business life. First, it illustrates how the clan fissures lost importance within the Mogadishu business elite. Despite the port being allocated within the territories of the Abigal clan, the efficiency of the port authorities as well as the advantages of the port, mainly competing price and security wise, allowed the port to out-compete other ports controlled by other clans. El Maan was winning over Merka as the most popular port alternative.

5.1 Which port did you use before the opening of Mogadishu port? (2006 survey and 2007 survey (similar proportions in both surveys))*



*the two surveys included several similar questions, this was done to explore the reliability of the two surveys.

Despite losing income, the various warlords in the end failed to hinder the businessmen operating from their areas choosing El-Maan as their main port, Haber Gedir warlords as

¹² Most leaders in this administration came from the Ayr clan which had occupied and looted property in the city from 1994 and onwards. In this sense United Nations again contributed to the income of some of Somalia's most notorious looters.

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Hussein Aided failed to stop businessmen from their own clan choosing alternatives that led to economic losses for his factions. This was partly a result of the ever weakening political factions, they were more fragmented and had less control over the business sector. It was also a result of the development of the so called transporters union. The transporters union had been created by prominent businessmen as Ali Warsame, Haji Ali Fido, Hajji Dabole, and developed a comprehensive logistical system, in which drivers were changed when the truck crossed clan borders, this in order to enhance the safety of the transport it-self. The union took responsibility for economical losses under a certain financial threshold.¹³

The example above shows how the business sector contributed to the establishment of ad-hoc organisations that could solve specific problems, there were also other institutions established. In 1996. Ali Dheere, with the support of the powerful Abokor family, then under the Ramadan enterprises umbrella, asserted juridical but not financial, control over the port on behalf of his Karan sharia court, creating a legal institution that was employed both in civil cases as well as to punish thief's and looters . It is not unlikely that this development contributed to the comparative advantage of El Maan, it was under a security and justice regime. However, the Abokor family withdrew their support when they found Dheere to extreme, and the northern Mogadishu court system collapsed. In 1997-1998 there were fighting between Abigal Warsangeli, and Abigal Reer Mataan clans. Again, the Abokor family then intervened and the Benadir business committee/ holding company was created in (1999), successfully establishing peaceful cooperation, as well as internalizing transaction costs between the involved businessmen. There were a price to pay, the warlord Bashir Raghe, was made head of the export office. Because of the wide membership of the Benadir business committee, and the amount of militia fielded by it, there was a form of military balance between the warlord and the committee. This alliance had to fend of various attacks; a particularly strong one was launched by Musse Sudi Yalahowe in 2004.

Although the Benadir business committee had non-Abigal members, the alliance was generally clan based (around the Abigal clan), clan remained important for the administration of the port it-self. However, customers used El Maan because of efficiency and profit considerations rather than clan considerations, the customers grew increasingly multi- clan, as illustrated by the pie chart 5.1, it became the choice of most Mogadishu businessmen/women despite clan differences. El-Maan is thus an example on how profit considerations transcended clan and faction loyalties amongst the business sector, the drive for profit gave incentives for cooperative arrangements and interaction transcending clan or political

¹³ Interview with Ali Nur, Mogadishu 28 February 2007.

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loyalties. The financial strength of the entrepreneurs and the wide participation of the business sector in the administration ensured that the port was protected by a powerful and relatively independent militia. At the same time, the location of the port, far away from central Mogadishu with its many warlords, meant that spoilers had a harder job disrupting the port.¹⁴

The history of the airports of Mogadishu reminds of the history of the Sea ports. Mogadishu airport, located close to the centre of the Mogadishu, was frequently sabotaged by warlords that fired artillery at it in order to hinder other warlords from taking advantage of it. Mogadishu airport was initially closed on the 28 of December 1990, but was used infrequently by brave international NGO's, Qat traders, and a few commercial flights. The airport was finally totally closed down at the outbreak of the four months war, it simply became too dangerous. In April 1992, Ali Mahdi and Aided opened the airport, and agreed to allow Hawadle militias to run it. However, the technical competence of the staff was very poor, accidents were frequent, and air companies transferred to other airports, showing the importance of competition between airports even in early civil war Mogadishu. The international airport was taken over by the UNTAF in December 1992. The area was secured, buildings were rehabilitated and new radio equipment was brought in, but the United Nations reserved the airports use for them-selves. When UNISOM II left, despite all commitments made by several political figures, the airport area was very quickly taken over by various militias. Despite controlling an extremely valuable asset, a good airport, the free-lance militia looted petty property instead of attempting to open up fro traffic. Neither warlords, nor businessmen could control the militias, despite the potential profit that could have been gained from a working airport. In 2006 the sharia courts, using the skills of their supporters from the business sector, successfully opened the airport.¹⁵

Because of the frequent closure of Mogadishu airport, as well as lacking competence of the airport staff, alternative airports were developed. One of the alternative airports, Isely was built by businessman, later warlord Osman Atto, and Ahmed Adle (a land owner) in December 1990 to function as an outlet for the USC. In the early 90thies Isely offered an alternative to the Mogadishu airport for the northern Mogadishu business men, fearing to be

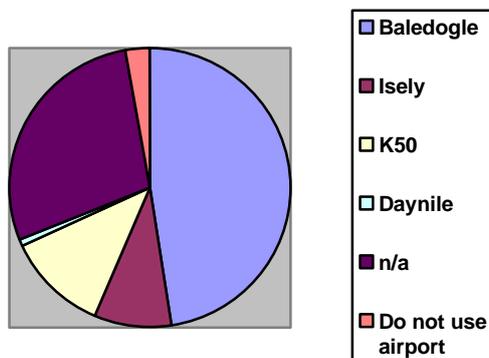
¹⁴ El Maan provided two of Mogadishu's most important businessmen Abdulqadir Eno, And Abokor Omar Adane, the financial means to build up their business empires, as well as to equip some of Mogadishu's strongest business militias. In the spring of 2006 Bashir Raghe and Abokor Omar Adane fell out, the fighting between the two initiated the fighting that led to the demise of the Mogadishu warlords. Abokor Omar Adane had supported the Sharia courts financially; he had also contributed to the day to day running of a police station in Mogadishu, as well as several community projects. Popular support from the Mogadishu population, and support from the Sharia court made Abokor Omar Adane, and his Ramadan enterprises prevail.

¹⁵ The airport remains open after the takeover of the city by the Somali government, despite the insurgency forces (at times successful) attempts to shoot down planes. The corruption at the airport has increased, but the prices (with the exception of bribes) are stable.

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kidnapped if they choose to travel through Mogadishu airport. After the UNISOM operation started and the Benadir administration was initiated the frequency of flights increased, UNISOM purchases contributing to the growth. The later warlord Bashir Rage , establishing himself as the “port” lord of Mogadishu, became a manager of the airport , the port income contributed to his consolidation as a warlord. It is estimated that Mr. Rage’s airport operations generate revenues close to 1.2 million dollar in 2003, contributing significantly to his military strength.¹⁶ However, Bashir Raghe also contributed to the improvement of the airport, collecting funds from businessmen in order to improve the runway. Although being more expensive than other airports Isley grew popular for its efficiency.

5.2 Which airport did you use (before the opening of Mogadishu airport, 2006 survey)



Another popular airport was the Kilometre (Km) 50 airstrip, located to the south of Mogadishu. The airstrip was built before the civil war. In 1991, Ahmed Duale Haaf, a businessman close to Mohammed Farah Aided, took control over the government owned property, and extended the airstrip.¹⁷ From 1992 onwards, the Km 50 became the main airport for the qat trade, and cargo was sent to Nairobi. A factor deterring the use of the K-50 airstrip for years was the rough road connecting it to Afgooye and Mogadishu. In early 2002, the manager of the airport rehabilitated the roughest section of the road. Despite this the airport suffered from the long distance between it and the city, a distance many of its customers regarded as a security risk. An alternative to Km 50 was Daynile airport, located relatively

¹⁶ For an air carrier providing twice-weekly service to Isely, the united nations estimated the payments to amount to yearly expenses in landing and security fees of \$52,000 (based on an average passenger load per flight of 90 people), passenger fees of \$187,000, and cargo fees of \$156,000 (based on average cargo of 10 tons per flight). The total yearly cost to the flight operator amounts to some \$395,000 just for one flight service. Hogendoorn, M’Backe and Mugaas (2003):43

¹⁷ Haaf was one of Somalia’s richest men, and started at Bank Port as a functionary in 1967.

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close to Mogadishu city. The work to establish Daynile started in May 2000, it was completed in December 2001 and started operating in January 2002.¹⁸ For few months, only Qat and United Nations planes and United Nation planes landed there, the latter under a special agreement that security would be provided to foreign guests to reach Hotel Sahafi. The airport was controlled by warlord Mohammed Qanyere Afrah.¹⁹ His clan, the Murosades, gave the land for free in anticipation of whatever services it expected in exchange, and got some income in return. Dayniles central location, and the high political profile of its owner, meant that traffic going to and from this airport became easy to block, planes leaving from the airport could relatively easily be shoot down by rivals, and the airport never became a success. Daynile was blocked by the Sharia courts in early 2006, the courts failed to conquer it until June but effectively blocked its use by threatening to fire on arriving planes.

The biggest success story when it came to being used by the business sector in Mogadishu before the re-opening of Mogadishu airport was an old military airport, Baledogle. The airport was built by the Barre regime and is located about 100 km south-west of Mogadishu on the road to Baidoa. It was used for military purposes by the Aided faction from November 1991, but controlled by a group of private business people whose militias collected landing fees and passenger airport taxes. Ali Hersi became Airport manager and leader for the business consortium controlling the airport. As the Aided factions power decreased, the business consortium in charge grew more and more independent. In early 1996, General Aided tried to take it over and make it part of his government’ assets. The attempt failed, but the Aided faction was allowed to continue using the airport. The airport was also used by commercial flights, Qat planes, and humanitarian aid agencies although some of these activities shifted to other airstrips at different times.²⁰ In early 2001, the business consortium in charge voluntarily ceded control over the airport to the transitional Somali government, produced after the Arta peace conference in 2000, the transitional government decided to restore Baledogle to military use. The government control was challenged several times throughout late 2001.²¹ After the fall of the Arta government, the Business committee again resumed control over the airport until the sharia courts opened Mogadishu international airport in 2006. Baledogle had the largest capacity of the airports around Mogadishu, with the

¹⁸ The initial airstrip was 22 meters X 1,6 km and an extension to reach 2,4 km was finished. These dimensions allow 10 to 15 small aircraft to land and park as well as one IL 18 or IL 72.

¹⁹ Afrah had to share the income with Musse Sudi Yalahowe, Omar Finish, his own clan, and at times the Ifka Halane sharia court.

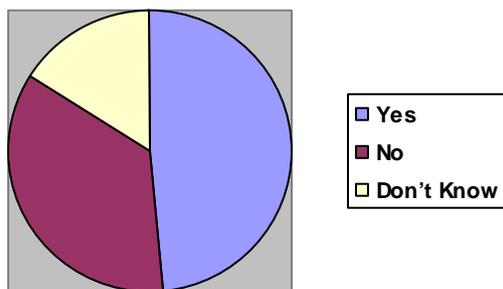
²⁰ Over the years, different problems arose. Two were significant. The tarmac was deteriorating and the airlines were reluctant to pay for its rehabilitation, while the group managing the airport collected money without improving the quality of services or even to maintain the services or the infrastructure at the decent level they had been once. The unpredictable behaviour of the militias and their inability to deliver on promises and stick to agreements also created problems.

²¹ Some militia tried to shoot the then Prime Minister, Cali Khaliif Galeyr, and wounded a leading staff member of al-Barakaat.

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exception of Mogadishu airport, in the end became the preferred option for most of the Mogadishu business sector, regardless of clan and allegiance.

5.3 Do you find the airport and seaport fees fair (before the sharia courts opening of Mogadishu airport and seaport, the 2006 survey)



The history of the ports and airports of Mogadishu again highlights some general points. First, the History of El-Maan and Baledogle highlights of successful and enterprises were able to attract customers from all clans, and create business alliances transcending clans and factions. Competition between various seaports and airports were fierce, factors as general security, port/airport capacity and prices were important in influencing the decisions of the business sector. Indeed, one of the problems at El Maan was competition between the tug boat owners, at some instances creating conflict. A simple majority of the traders 42% at El Maan were satisfied with the port prices. There were factors disturbing competition, during the early and mid 90thies clan allegiances prevented traders from finding competitive alternatives beyond the control of their own clan, even to day this holds influence over several traders.²² However, in the end a majority of traders choose to go for the best solution rather than the clan-defined solution. The developments also illustrate how the balance of power changed between warlords and the business sector. By February 2006, not a single workable airport or seaport was controlled by warlords.

Cartels exist in Mogadishu, however, the cartelization might be driven by transaction costs, and the price level is in general low, this despite the extra costs the cartels face because of the security situation.²³

²² It was surprising that businesses in Yakshid was more likely to use Baledogle together with other airports, indicating a break with clan allegiances.

²³ For more information on prices, see Nenova and Harford (2004):1

Looting, Illicit Trade

The business sector of Mogadishu is larger than ever, and the business structure it operates is relatively new. Many of the ports/airports, as El-Maan, and Daynile (see previous section), were created during the civil war, they are new establishments. Roland Marchal shows how this goes for other sectors as well, in his 2002 survey of Mogadishu economy, only three out of 20 wells in Mogadishu were established before the Somali civil war; in this sense looting seems only to play a small role in the establishment of the businesses of Mogadishu.²⁴ The infrastructure built up by many of the new companies, as well companies, as factories, as telephone lines, are entirely new, they were not there before the war, and have stayed with the companies that built them, thus they are not based on looting.

Baledogle airport seem to be an example of the opposite, a looted property. The airport was owned by the government before the collapse of the Barre Regime, subsequently the business sector took control over it when the Barre regime collapsed. However, the example of Baledogle illustrates the problems of defining what looting really consists of. Can one say that the business consortium taking over Baledogle looted the property? As acknowledged by the property committee of the current Somali parliament, the answer is not as simple as one might believe.²⁵ When the state withdrew from Mogadishu, it to a certain extent abandoned the airport, it was no state structure that could wield control, no institution to ask for permission or to pay fee to. The alternative to the business committee's arrangements was to keep the airport closed, without guards protecting it. This situation would have opened up the airport for squatters, prevented the maintenance of the airport, enabled looters to loot the property of the government, and hindered the transport of aid, preventing the business sector of Mogadishu to develop. The ultimate question is, should one expect the resources of the state to remain idle after the state it-self have abandoned them, or should one expect individuals to use them, to some extent maintain them, even without initially pay compensations. Indeed who should receive the compensation when the state does not exist? One might claim that the tragedy of Mogadishu was rather all the government factories that had to close and was looted for equipment, rather than the few government installations that was kept working by the businessmen of Mogadishu after the state collapsed. Admittedly, the transfer of property back to the government could create problems, there will be a loss on

²⁴ Marchael (2002):53

²⁵ Committee III, Land and property rights (2004)

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behalf of the operators, especially so for the airports. However, all the transitional governments since 2001, including the sharia courts, have managed to handle such transitions, in many cases with the active support of the business sector, this partly because there are relatively few owners of these installations compared to the size of the business sector, partly because these owners are integrated into several sectors, sectors that expect to earn from the increase in business transactions and improvement in security due to peace and stability.²⁶

Importantly, there were clear cases of looting. The earlier described story of Bashir Rages conquest of El Adde and Abdirashid Ilqeyte takeover over Shahfi hotel, a hotel owned by a northerner prove that looting could be profitable in a war economy. Similarly, Osman Atto confiscated the house of Edna Adan Ismael, later the foreign minister of Somaliland.²⁷ Many companies lost when free-lance militias looted their offices during clashes between faction leaders, looting formed a basis for the holdings of many faction leaders. However, the legal status of many of the houses/building confiscated in the early 90thies is not clear. As expressed by the technical committee of the transitional federal parliament in 2004, in many cases it is not that clear that the pre- war owners had legitimate property rights to the properties they lost early in the war. The technical committee of the parliament pointed to the fact that the Barre regime through a policy of confiscation and nationalisation rewarded its followers.²⁸ In one sense it had been large scale looting before the outbreak of the civil war, and many USC leaders saw the confiscation, both of government property and of the property of the government’s supporters, as a form of justice. Officials of the Barre regime, and the close friends of the Barre family had often been rewarded by property confiscated from enemies of the regime, in a sense many of the officials them-selves lived in looted property. Moreover, the colonial pre-1960 Italian administration had the same practices as the Barre regime. In fact, the technical committee handling such issues in the parliament regarded the period of the Somali republic, 1960-1969, as the only period in Somalia over the last 100 years with no form of property looting.²⁹

The large scale looters of property seem to have been faction leaders, which had the military means to keep looted property. There were several mechanisms that prevented looting on behalf of the ordinary businessmen/women during the civil war. The fact that many of the current businessmen experienced looting them selves, and had relatives that were active in the business sector before the war meant that many businessmen also had an interest

²⁶ See preceding chapter; Baledogle has been handed over to the TFG (2001), to the Sharia courts (2006), and the TFG (2007).

²⁷ Interview with Edna Adan Ismael 15 March 2004.

²⁸ Report; Committee of Land and Property rights of the parliament, 2004

²⁹ *ibid*

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in stopping looters. Importantly, according to Mogadishu human rights activists, in general land ownership in Mogadishu was relatively safe from 1993 onwards, few houses changed hands because of land graft.³⁰ The most vulnerable groups, the minority clans, lost property, but mostly due to free-lance militias settling down, not to the business sector.

The Qat trade is at occasions highlighted as a major source of illegal income, and as a consequence of the civil war.³¹ Qat, a mild narcotic leaf, is often seen as the symbol of the advantages a war economy gives to illegal traders. The Qat trade is very profitable, in 2004 the retail price per bundle was between 3.50\$ and 6 \$, the net cost 1.20\$, making it possible to gain profit from the trade.³² Warlords and faction leaders, as well as airport owners, and the small shops selling qat, usually run by women, benefits financially from this trade. Qat definitively is a problem for Somalia, hindering efficiency within the business sector, as people stay home to chew qat, and drawing from the already limited financial resources from the average Somali household. However, the assumption that this phenomenon is necessarily connected to the war economy, or warlordism, is simply wrong. Firstly, one should not take for granted that qat would be banned in a well functioning and peaceful Somalia with a functioning state. Qat is legal in countries as United Kingdom and Israel. Neighbouring Kenya, Yemen and Ethiopia also allows the use of the drug, as well as the areas of Somalia with functioning governance structures (Somaliland and Puntland). Qat was perfectly legal during the Italian colonial administration and under the Somali republic (1960-1969). For the first 14 years of the Siad Barre regime, from 1969 until 1983, it remained legal, but was then banned. The Siad Barre regime legalized qat again in 1990.³³ If one accepts the validity of the laws of the Barre regime qat remains perfectly legal in Somalia, and neither the transitional federal government nor its various predecessor governments, with the single exception of the sharia court alliance in Mogadishu, have attempted to re-invoke a ban. While there are some indications that other drugs have been sold and grown in Somalia, there are few indications that large scale production have occurred, Somalia is not Afghanistan or Colombia.

There are two other booming business areas that were defined as illegal by the former Somali regimes, and are regulated by most countries across the world. The first area is the charcoal business. Somalia produces a large quantity of charcoal and export to the Gulf

³⁰ Interview with Somali Human Rights Defenders Network , 20 October, 2006.

³¹ Sabrina Grosse-kettler (2004):18 , 23

³² Qat destined for Somalia is packaged in the evening at Maua (Kenya)and dispatched overnight by road to Wilson Airport at Nairobi, where it arrives by 5 a.m. The qat is loaded on to small aircraft for transport to Somalia. The largest transporter is Bluebird Aviation, with approximately 250 flights each month to Somali destinations; next is Knight Aviation with 60 to 70 flights per month, followed by Capital Airlines with 50 to 60. Other smaller companies fly less frequently to Somalia. There are about 10 flights per day to different destinations in Somalia: 6 or 7 usually fly to Mogadishu, the remainder travelling to smaller towns like Kismaayo, Baidoa, Galkayo, Baardheere and Beledweyne. Aircraft payloads vary from 1,250 kg (Kingair) to 1,600 kg (Let). In total, Kenya currently exports between 5,000 and 7,000 tons of khat per year to Somalia.

³³ Brooks (1998)

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countries, leading to environmental degradation, desertification and the loss of endangered spices within Somalia. The profit is significant, according to Grosse Kettler a bag that cost 3-4 \$ in southern Somalia will be sold for 10\$ in the gulf-states.³⁴ The chain of agents that gains profit from the trade is long, it starts with the choppers, bigger enterprises, but also subsistence households in the in southern Somalia, between Brava and Kismayo. It is then transported, frequently by the transport union, to ports in Mogadishu or Kismayo for export, or to small subsistence traders for local sale and consumption. As expressed by one of the charcoal traders in 2002: "A lot of money goes on transportation to the El Maan port in Mogadishu. The port charges you a fee, then the ones who take it out to the ship charge you a fee. That's after the road blocks, as well. It becomes very expensive by the time we load it."³⁵ Indeed, in June 2005 alone the El Maan port shipped over 9413 ton charcoal to Markets in Saudi Arabia, Yemen and the emirates.³⁶ The agents that handle the charcoal use the profit from the sales to buy sugar or other goods to re-import to Somalia. The charcoal business it thus integrated into many sectors, many businessmen/women gain profit from it.

The sector are the most clear example of a profitable sector benefiting from the lack of state, and potentially creating spoilers for the future establishment of Somali state structures, as well as the establishment of regulatory institutions. However the faction leaders that efficiently banned charcoal trade, as warlord Mohammed Farah Aided of the USC, managed to maintain their popularity despite such action.³⁷ The sharia courts of Mogadishu also banned the trade, and still received massive support from businessmen, many directly involved in the value chain of the charcoal trade. Another interesting aspect of the charcoal trade is its dependency on Saudi Arabian demand. Saudi Arabia managed to stop domestic charcoal production, but its ban is in one way is based on the lack of regulations and state in Somalia, Somalia provides the replacement for Saudi Charcoal.

A second area of licit profit made possible by the absence of state is contraband. A very common strategy amongst Somali businessmen, especially within the sugar sector, is to buy goods in Kenya subsidised for export, bring them into Somalia, and then smuggle it back to Kenya.

³⁴ Ibid: 17

³⁵ Irin news "Focus on charcoal trade" 26 October 2000

³⁶ Schiemy, Holt, Kelly, & Joel Salek (2006): 93

³⁷ Outside Mogadishu Muhammed Nur "Shatigaduud", banned the charcoal trade in Bay –Bakool as early as in 1999, his ban seems to have been relatively successful.

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Box 5.1 : The political economy of a warlord’s faction 1995-2006.

It is and was costly to run a warlord faction. The average militia of a warlord had three different components, firstly a hard core (category(I) of fighters that were paid on a day to day basis. The Second category (II) was free-lance fighters that where hired in, when expecting conflict. A third category (III) was pure clan militia. Category (III) joined when the clan-sub clan was threatened, but could potentially bring the largest number of fighters, were usually mobilized by clan elders, and only mobilized in times of crisis. Category I and II are paid. The warlord will pay ammunition for the first two categories. All of the categories will be recruited from his/her sub-clan.

Economically the warlord had an interest in keeping (I) and (II) as small as possible, while ensuring that III were as large as possible. In relative peaceful times the warlord will thus only have a category (I) militia, he will however attempt to maintain an image that these forces are large, in order to deter attacks, and to get political capital, this has led to paradoxical situations, Hussein aided for example in 2004 claiming that he had 50.000 Militias when he had 50. This, combined with the fact that category (II) and (III) are mobilized and demobilized according to situation means that it was hard to estimate a warlords faction. Using estimates from UNISOM II, and Janes Defence review, it still becomes possible to put up budgets for different factions from different periods in 2003 dollars (and 2003 average wage).

Faction	Amount of fighters (3\$ each)	Annual cost; Militia
Aided faction 1993, before mobilisation against UNISOM	6000 (UNISOM lowest estimate); 18000\$ per day	Per month; 540000\$ * 12 <u>6480000\$</u>
Ali Mahdi Faction 1993-1995, not mobilized.	5000(UNISOM lowest estimate); 15000\$ per day	Per month; 450000\$ * 12 <u>5400000\$</u>
Qanyare Faction 2006; Mobilized without category III	1200 (Janes Defence group lowest estimate); 3800\$ per day.	Per month; 114000\$ *12 <u>1268000\$</u>
Bashir Raghe faction 2005, Mobilized without category III	450 (Janes Defence group lowest estimate); 1350\$ per day.	Per Month; 40500\$ *12 <u>486000\$</u>
Hussein Aided faction 2004 (* Aided failed to pay his 50 militia soldiers regularly, and thus had frequent mutinies)	50 militia (Janes Defence group lowest estimate); 150\$ per day.	9000\$ *12 <u>108000\$</u>
Botan Isse Alin, 2006 (after the II battle of Mogadishu)	200 militia (Janes Defence group lowest estimate). 600\$ per day.	18000\$ month *12 <u>216000\$</u>

In additions to mere wages, the warlord have to pay for technical, the main battle tanks of Somalia, pick ups with mounted anti aircraft guns/ recoilless rifles, in 2003, the price of the technical varies, so does the amount of technical controlled by a warlord, a powerful warlord had around 100 technical. A warlord might also want to invest in some form of artillery, the most popular being the 81 mm mortar, or a ZU23 anti air craft artillery piece for 60.000 \$

Although the price of ammunition varies, a fair estimate for the 2003 average price would be 30 cent a bullet. The cost of a battle for a large faction (example; Qanyare 1986) could thus be as much as 36000\$ (an estimate of 30 bullets fired per militia). Mobilization also often mean a doubling/tripling of the costs, as Category II fighters are mobilized in large number. The faction leaders thus have economic incentives to avoid fighting, the arms traders have an incentive to spark fighting.

A warlord will often sell out equipment when clashes end in order to cover cost. Fighting will also increase the pressure on the warlord to increase revenues. As experienced by Hussein Aided and Botan Issa Alin, there is a threshold when it comes to the size of a faction. A small faction will rapidly loose control with checkpoints. Aideds 2004 force (50) was barely enough to man one checkpoint continuously.

The violent deaths of warlords as Muhammed Farah Aided, and Ester Abdi Arushi also shows that the quality and size of the militia are important for the survival of the warlord.

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By doing this one might put the Kenyan export subsidies in their own pocket, businessmen as Abdhiraman Bore and Muhammed Deyalf have been reported by the United Nations to be involved in this trade, as well as using the same strategy for trading with cigarettes.³⁸ As expressed by Marchal, although statelessness and civil war makes such trade simpler, the demand for contraband in Kenya and Ethiopia is also influenced by the tariff policies of these two countries, the high tariff makes the smuggling highly profitable.³⁹ Indeed, Somali traditions of smuggling into these countries go back before the collapse of the Somali state.

Another source of income is the arms trade. The main source of arms imports is Yemen, the weapons are exported through a chain of smugglers, going via Bosasso in Puntland to Mogadishu, or re-sale from the domestic market.⁴⁰ Traditionally, the main factions had different, relatively well known, brokers. The arms market are very important, and its actors relatively strong, and clearly have an interest in continuous war and insecurity. However, the main characters are relatively well known, according to the United Nations each faction had their specific brokers.⁴¹ The value chain of the arms import seem to be shorter, and contain fewer individuals than compared to the Charcoal trade, mainly because of the larger physical volume involved in the latter type of trade, involving more individuals in the transport process. While the arms embargo experts of the United Nations estimates the weapons smuggling to be in the scale of several tons, the Joint needs assessment (JNA) estimated an annual production of staggering 120000 ton charcoal as early as in 1996.⁴² Moreover, arms traders used/uses rough beaches, and the far away Bosasso port, depriving the port and airport authorities of fees, and creating less interest to protect the trade on behalf of these commercial sectors.⁴³

The internal circulation of arms within Somalia contributes to a larger market, and mean that slightly more individuals are involved in the trade, however, the recirculation trade often involves the same faction leaders and brokers as the import trade, with the exception of the cases in which ordinary Somalis sells their guns, the latter sellers are most commonly not full-time members of the business sector, and as such do not have the same interests as the full time arms traders in maintaining the sector. The second-hand arms sales also involve little transport, and thus have a limited value chain and thus a limited amount of individuals benefiting from the trade. The support the sharia courts received from the business sector

³⁸ Ironically, the latter was employed by United Nations as their local facilitator, and initially built up his fortune by providing storehouses and security for the UNISOM forces. Hogendoorn, M'Backe and Mugaas (2003):16

³⁹ Marchal (2006)

⁴⁰ Peleman, Johns, Sandhu and Tambi (2003):19

⁴¹ *ibid*

⁴² Pellekaan (2006):8

⁴³ Peleman, Johns, Sandhu and Tambi (2003):21

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when trying to close the arms market illustrates the will of the business sector at large to address the arms sales if there is some form of alternative security structure.

Some businessmen have also taken the advantage of the current situation by printing forged money. In 2003 Mogadishu warlords and businessmen, Abdurashid Ilqayte, Abokor Omar Adan, Bashir Rage and Mohamed Nur Iaresh made an agreement with Asian Security Printing and Minting Co for printing money. From June to September 1999, Mogadishu businessman Abdi Nur Darman and his associates came into possession of approximately 130 billion Somali shillings, taking them over from self appointed president of Somalia, Hussein Aided. Mr. Darman identified the sponsors of the takeover of the currency production as Mohamed Deylaf, Hussein Hassan Golley, Saeed Nur and Muridi Dalfac, all prominent businessmen.⁴⁴ The fresh money supply upset the balance of power in Somalia.⁴⁵

One has to keep several factors in mind when analyzing these phenomena's. The inflation created by the inflow of money damaged the business sector of Mogadishu at large, it grew unstable, and the action of a minority of businessmen was met by anger on behalf of large segments of the business sector. There were large scale riots and demonstrations on the Mogadishu markets because of the inflation caused by the counterfeit bank notes.⁴⁶ Although it has been argued that especially one sector benefited from the forgery operations, there seems to have been an increase in investment in the construction and property sector as these sectors were seen as less influenced by inflation, the forgery did hurt a large segment of the Mogadishu commercial sector.⁴⁷ Perhaps because of the dangers of damaged reputation there have been no reported counterfeit incidents since 2003. Moreover, the segment of businessmen involved was usually from the first generation of businessmen that were close to the warlords in the early 90ths. Indeed, it was warlords and faction leaders that pioneered the printing of money, claiming that they represented Somalia and thus were legitimate, in some instances even having international recognition.

War Profit?

Often when writing about war economy, the emphasis is put on the illegal sector, one focus on tax avoidance, the resale of looted goods, looted property, drug production, the profit from

⁴⁴ Ibid:35

⁴⁵ By means of the new funding obtained through their businessmen, Deylaf, Golley and Nur, the Ayr, a sub-clan of the Hawiwe, gained substantial influence and power.

⁴⁶ PANA: “Riots Over Fake Currency Notes Rock Mogadishu”, November 8, 2000

⁴⁷ Eastern and Southern African Trade and development bank (2002):35

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arms trade. However, several problematic aspects of these sources of income have not been adequately discussed. Firstly, what is really illegal and what is legal? Importantly, in Somalia property was looted before the collapse of the state, making it hard to determine who looted from whom. Some of the supposedly illicit goods traded in Somalia, are not illicit according to the Somali laws under the last regime. Admittedly, there are quite profitable and illegal strategies to get money in a war economy, as arms trade, and the printing of money. However, the businessmen involved in these sectors seem to be of limited numbers, and their activities are damaging the business opportunities of the majority of businessmen, inflation and insecurity create losses. For most businessmen arms were an expense not an income, needed in order to protect the business, but not giving direct profits. The same goes for the printing of money, while this helped some notable individuals, it damaged the situation for all the businesses involved in the Mogadishu economy.

The massive and profitable charcoal seems to be the most profitable and largest illicit sector in the Mogadishu economy, sugar and cigarette smuggling also seem to have been profitable, but given the fact that most Mogadishu companies have experienced near collapses and bankruptcies because of war, the rational balance seemingly tilt towards providing incentives for support for some kind of regulatory mechanisms.

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6.
Conclusions

When a business company operates in a war zone they can gain several advantages, they do not need to pay tax, that is only if the faction leaders controlling their areas are too weak to tax. However, these companies, at least if they need supplies, need to pay to checkpoints, and to pay security guards. They can engage in illicit activities, as the printing of fake money, but it most likely they would rather be the victim of the inflation that often followed from this activity. Businessmen/women can buy looted items, but may be looted from in return. They can engage in chair coal production and sale, and earn much money on such activities. But they have to face the constant threat of destruction of their property when battles commence, and have limited opportunity to punish theft, and they face great insecurity when interacting with other members of the business sector, inhibiting expansion as well as creating conflict. Some sectors face specific incentives for war, as businessmen/women that has established factories and business facilities on governmental property, and maybe even invested heavily, but this depends on what kind of policies they expect from a future government, will there be compensation for their investment? Moreover, the newly established facilities in Mogadishu are many, creating a large segment of the business sector that lack similar incentives.

The danger of a civil war environment is large, and it is thus not strange that a large segment of the business sector admits to have supported proto-state institutions that attempted to provide justice. It is not strange that 100% of the respondents in the anonymous survey wanted to support peace and reconciliation efforts. It is often the illicit and clandestine economic sectors that catch the eye when studying civil wars, the more normal sectors are neglected, as well as the proto state institutions/structures supported by the business sector explored in the next working paper.

Table 6.1: Which of the following mechanisms have you supported financially?

Sharia courts	Madani	Traditional leaders	Political parties	Civil society	Anti piracy group
69%	77%	20%	1%	53%	6%

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There are several strategies that can be employed in order to get the business sector on-board and engaged in building up a new state. The first is to produce state structures that address their needs, namely structures that handle security and theft, and structures that minimize transaction costs. There are strategies that addresses the incentives that spoilers face in Mogadishu, by putting pressure on Saudi Arabia and the gulf states to end/limit the coal trade, by providing fair settlement for investment in formerly government owned property. By influencing the balance between incentives for war and peace, one might be able to draw upon the large resources of the Business sector of Mogadishu and employ them for peace.

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Appendix 1; Respondents

Name: Mahad Alle Company

Location: Bakara

Nature of Business: Pasta importer

Name of Contact Person: Abdi Nur (Bago) (Manager)

Contact details: 2521271658

Name: Al - Ixsaan Drug Company

Location: Bakaro

Nature of business: Medicine

Name of Contact Person: Abdirahman Sheik Ahmed (Salesman)

Contact details: 002521652659/

002525936701

Name: Al - Gutaale Petroleum Company

Location: Yakshid

Nature of business: Petroleum Distributor

Name of Contact Person: Ahmed Guutaale Hiraabe (General Manager)

Contact details: 002521647882/

002525960850

Name: MB Shanmal Company

Location: Bakaro

Nature of business: Cigarette and Tea Leaves

Name of Contact Person: Hagi Abdulahi Ba'adow (Manager)

Contact details: 002521226740/

658780

Name: Kaliminjaro Pharmaceuticals

Location: Bakaro

Nature of business: Medicine

Name of Contact Person: Abdirahman Sidik (Director)

Contact details: 002521653010/

22893/5584717/5574057

Name: Qaran Company

Location: Yakshid

Nature of business: General Trading

Name of Contact Person: Halima Socdaal Jibril (Manager)

Contact details: 002521215724/

960521

Name: Al - Mustaqim Enterprises

Location: Yakshid

Nature of business: General Trading

Name of Contact Person: Muhidin Mohamed Duxulow (Manager)

Contact details: 002521215523/

215777

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Name: MahadAlle Company
Location: Bakaro
Nature of business: Merchandise Company
Name of Contact Person: Abdi Nur (Bago) (Manager)
Contact details: 25121271658

Name: Global Money transfer
Location: Bakaro
Nature of business: Money Service
Name of Contact Person: Mohamed Ibrahim (Admin and Finance officer)
Contact details: 002521600102/
217243/002525924200

Name: Somal Pharma
Location: Bakara
Nature of business: Business of Medicine
Name of Contact Person: Mohamed Husein Amiin (Manager)
Contact details: 002521222693/
653340/002525934070

Name: Moumin Group of Companies
Location: Bakaro
Nature of business: General Trading
Name of Contact Person: Yousuf Omar Abiikar (General Manager)
Contact details: 002521211635/
602060/002525934018

Name: Irshaad Electronics Company
Location: Bakaro/ Hawl Wadaag
Nature of business: Electronics
Name of Contact Person: Abdikafar Mohamed Muhidin (Manager)
Contact details: 002521659313/
224770. Mob: (5) 555781

Name: Bilkeyr Company
Location: Yakshid
Nature of business: General Trading
Name of Contact Person: Hagi Aways Hiraabe (Shareholder)
Contact details: 002521945069/
937562/ Mob: 960515
Name: Balsam Pharmaceuticals Company

Location: Bakaro
Nature of business: Medicine
Name of Contact person: Bashir Abdullahi (Vice Manager)
Contact details: 002521215169/
653764/002525933571

Name: Nulmaan General Trading Company
Location: Bakaro
Nature of business: Medicine
Name of Contact person: Ali Abdullahi Ahmed (Manager)
Contact details: 002521653705/
002525934137/
Mob: 960532

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Name: Al Aqeed Food Staff Company
Location: Yakshid
Nature of business: General Trading
Name of Contact person: Dahir Omar Mohamed (Manager)
Contact details: 002521268030/
649445/ Mob: 960436

Name: Guutaale Shipping Agency
Location: Yakshid
Nature of business: Service
Name of Contact person: Abdi Guutaale Hiraabe (Manager)
Contact details: 0025259451701/
002521520022

Name: Al Mustaqiim Brothers Company
Location: Yakshid
Nature of business: General Trading
Name of Contact person: Hussein Ahmed Tuuryare (Manager)
Contact details: 02521215522/
646182/002525945778/
960152

Name: Al Miizaan East African Company
Location: Bakaro
Nature of business: Medicine
Name of Contact person: Abullahi Sheik Ali (Manager)
Contact details: 00252652873/
224715

Name: Nasiib Brothers Company
Location: Yakshid
Nature of business: General Trading
Name of Contact person: Abdulahi Ali Elmi (Manager)
Contact details: 002525933336/
945761/961912/960605

Name: Warsame General Trading Company
Location: Yakshid
Nature of business: General Trading
Name of Contact person: Abdullahi Idow Warsame (Owner & Manager)
Contact details: 002525946020/
960448

Name: I B W Company
Location: Yakshid
Nature of business: Building Materials
Name of Contact person: Ibrahim Barkhad Warsame (Owner & Manager)
Contact details: 002525946120/
Mob: 002525961762

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Name: Dhiblawe Electronics Company
Location: Yakshid and Bakaro
Nature of business: Electronics
Name of Contact person: Muhammed Hussein Diblawe (Manager)
Contact details: Email: Dhiblawe7@hotmail.com

Name: Ayaamsha Printing and Publishing House
Location: Bakaro
Nature of business: Printing
Name of Contact person: Abdullahi Mohamed Hassan (black)
Contact details: 0025 1 655505/227017/ Mob 55005560

Name: Al Haramayn Stationary Km 50
Location: Km 50
Nature of business: Stationary and Electronics
Name of Contact person: Ismail Hirsi Hagi (Vice Manager)
Contact details: 00252 1 858231/216119/270694/548666

Name: Pharma Som
Location: Bakaro
Nature of business: Medicine
Name of Contact person: Ahmed Ali Suldaan (Vice Chairman)
Contact details: 00252 1 652636/543211/00252 5 933079

Name: Macamil Trading and Shipping Agency
Location: Yakshid
Nature of business: Service
Name of Contact person: Muhidin Mohamed Duxulow (Manager)
Contact details: 00252 5 960179

Name: Al Cayn Water Supply
Location: Yakshid
Nature of business: Service of water
Name of Contact person: Muxumed Hussein Diblawe (Manager and Owner)
Contact details: 00252 1 218915 / 00252 5 945105/960518

Name: Daallo Airlines
Location: Bakaro Zone
Nature of business: Transport Services
Name of Contact person: Abdi Mohammed (Cashier)
Contact details: 2521224546/
2521658406

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Name: Saabir Tyres Company
Location: Bakaro Market
Nature of business: Merchandising Company
Name of Contact person: Abdillaahi Shire Jim'ale (Owner)
Contact details: 659061

Name: Al Towba Emporium
Location: Bakaro
Nature of business: Furniture and Cosmetics
Name of Contact person: Abdalle Ise Mohamed (M. of General Sales)
Contact details: 002521215071\
653278

Name: Banadir Electronics Company
Location: Bakaro
Nature of business:
Name of Contact person:
Contact details:

Name: Sagal Purified Water
Location: Bakaro Zone
Nature of business: Providing Mineral Water
Name of Contact person: Muktar Abdi (Shareholder)
Contact details: 937442/216746/657554

Name: Onko Tel Company
Location: Bakaro Mogadishu
Nature of business: Telecommunication Company
Name of Contact person: Hassan Hashi Farah (Sales Manger)
Contact details: 802521077

Name: MOH General Trading Company
Location: Bakaro Market
Nature of business: Export and Import
Name of Contact person: Mr. Mohammed Omer (Export and Import
Manager)
Contact details:

Name: City Centre Emporium
Location: Bakaro
Nature of business: Furniture and all Cosmetics
Name of Contact person: Ahmed Mohamed Mohamuod (Sales Manager)
Contact details: 002521223344/
600825

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Name: Ital Pasta Company
Location: Yakshid
Nature of business: Manufacturing
Name of Contact person: Jaamac Abdikarim (ViceManager)
Contact details: 2525935274/
252 933907

Name: Eameco
Location: Bakara
Nature of business: Construction Company
Name of Contact person: Eng. Rooble (Engineer)
Contact details: 2521653919/
252933535

Name: Salim General Trading Company
Location: Bakaro
Nature of business: General Trading Company
Name of Contact person: Mahud Ahmed Yero (ViceManager)
Contact details: 257653329/
25275588811

Name: Dahab Shil Bank
Location: Bakaro
Nature of business: Remittance (Money transfer)
Name of Contact person: Jamal Abdi (Manager of Marketing and
development)
Contact details: 2527275006/
2527650880

Name: Ifis Electricity and Water supply
Location: Bakaro
Nature of business: Power & Water supply
Name of Contact person: Hassan Maxiud Gabow (Manager and Owner)
Contact details: 2527654860

Name: Barwaaaqo Pasta Co.
Location: Huriwaa
Nature of business: Pasta
Name of Contact person: Abdullahi Shiine (Director)
Contact details: 632077 Mob: 5593536

Name: Gutale General Trading Co.
Location: Yakshid
Nature of business: General Trading
Name of Contact person: Ahmed Guutale Hiraabe
Contact details: 002521647682/
002525960850

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Name: Bagdad Workshop
Location: Mogadishu Somalia
Nature of business: Manufacturing
Name of Contact person: Ahmed Yuusuf Malin (Director)
Contact details: 5551762

Name: Ubah Power Supply
Location: Howl wadag, Bar Ubah
Nature of business: Service
Name of Contact person: Hassan Yusuf Ali (Technician)
Contact details: 2521655174

Name: Orbit Telecom
Location: Bakara Market
Nature of business: Telecommunication services
Name of Contact person: Nur H. Mohamed (CEO)
Contact details: 659151/920043

Name: Ubah Bakery
Location: Hawl Wadaag
Nature of business: Sweets and Breads
Name of Contact person: Abdulkadir Hagi Osman (Manager)
Contact details: 0025211215373/
653484

Name: SDC Company
Location: Bakaro zone
Nature of business: Merchandising
Name of Contact person: Asad Ahmed Hassan (Sales Manager)
Contact details: 659590/937868/ Mob: 5558850

Name: Harmanyo Construction and Transport
Company
Location: Bakaro Market
Nature of business: Trading Transportation
Name of Contact person: Abdulkadir Omar (Vice Chair)
Contact details: 5561957/980638

Name: Somali Oil Company
Location: Bakaro Zone
Nature of business: Merchandising
Name of Contact person: Farah Ahmed Siad (General Manager)
Contact details: 965456/965444

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Warsan Group of Companies
Location: Bakara Market
Nature of business: General Trading
Name of Contact person: Warsame Mohamuod Abdi (Manager)
Contact details: 217148/272106

Name: Tawak Express Bank
Location: Bakaro
Nature of business: Financial Transfer and Banking
Name of Contact person: Abdirahman Ahmed (Vice Manager)
Contact details: 002525937407/
002521659908

Name: Mustaqbal Bank of Somalia
Location: Bakaro Zone
Nature of business: Banking Service
Name of Contact person: Salad Ali (Manager)
Contact details: 933330/653177

Name: Dalsan Purified Water Co
Location: DayNile
Nature of business: Water Providers
Name of Contact person: Eng. Ali Abdulle (Manager)
Contact details: 002521636777/
02525935025

Name: Somali Tango
Location: Zope Kms
Nature of business: Manufacturer
Name of Contact person: Abdirisak Ahmed (Production Manager)
Contact details: 25215509870

Name: Hotel Sham
Location: WarDhiale
Nature of business: Service
Name of Contact person: Dahir Mohamed Arab (Owner)
Contact details: 25225421100

Name: Alex Group Leather Company
Location: WarDhiale
Nature of business: Export of Leather
Name of contact person: (TitleCali Roble)
Contact details: Seller Manager

Arafat Specialist Medical Centre
Yakshid District
Community hospital
Dr. Abdillahi Farah Asseyr (Consultant
paediatrician and the chairman of national and
international relations)
636043/2600409

Sas Trading & Shipping Company
Yakshid
Goods (detergents, soap) and shipping
Xuseen - Manager Cali (Department of sufbacad
manager)
961982

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Radio Banadir
Shibbis
Services
Cali - Mohamed (Madobe) (Director)
2521559251

Argatine Water Supply
Karan
Service
Mohamed Ali Ahmed (Owner)
25255536573

Qaran Emporium
Manapolio
General Trading
Mohamoud Abdi Samad (Owner)
0025215885406

Olad Company Wabari Group

Suuq Bacad Market
Dealers - Food stuff
Siyad Tifow Olad (General Manager)
252115541217

Al - Hudda Leather Company
Wardhiale
Export of Leather
Abdiraman Moalim Osman (Manager)
2521553390

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Ijaabo Leather Company
Location: Wardhigley
Nature of business: Export of Leather
Name of contact person: Abdi Jam Yare Ahmed (General Manager)
Contact details: 555324

Name: Siraj Paints Company
Location: Mogadishu
Nature of business: Material Building
Name of contact person: Abdirizak Osoble (Manager)
Contact details: Next Street of Bakaro Market

Name: Rowda General Trading & Shipping Co
Location: Mogadishu
Nature of business: Merchandising & Service
Name of contact person: M. A. Olow (Operation Manager)
Contact details: 652623/602699

Name: Hotel Nasrudin
Location: Bar Ubah
Nature of business: Service
Name of contact person: Husein Jirow (Owner & Manager)
Contact details: Near Baar Asho

Name: DHL Company
Location: Makaal mukarama
street kmy
Nature of business: Service
Name of contact person: Muse Abdi Hassan (Manager)
Contact details: 002525555998

Name: Kaah Petroleum
Location: Karan
Nature of business: Goods (Oil)
Name of contact person: Hussein Ahmed (Accountant)
Contact details:

Name: Human Diagnostic Somalia
Location: Suuqbaad Market
Nature of business: Goods
Name of contact person: Professor Omar Sharif (owner and manager)
Contact details:

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Afi Pure & Mineral Water
Location: Wardigley/
Industrial Street
Nature of business: Water Supply
Name of contact person: Mohamed Hussein Mohamed (Information
Technology Officer)
Contact details:

Name: Somali Meat Company
Location: DayNile Zone
Nature of business: Export Company
Name of contact person: Mahdi Abdule Wardhere (General Manager)
Contact details: 252924736/
252925072

Name of contact person: Ali Yale Nur Hassan (General Manager)
Contact details: 002527653491/
2521652197/
5547626

Name: Hilac Oil Company
Location: Karan zone
Nature of business: Oil Merchandise company
Name of contact person: Mohiud Abdi Karin Als (Gabayre) (General
Manager)

Name: East African Fishery Co
Location: Bakaro
Nature of business: Export Company
Name of contact person: Abdi Mohamed Guled (Shareholder)

Name: Wahol Store
Location: Bakaro
Nature of business: Store of Soft Drinks and some other goods
Name of contact person: Ahmed Mohamed Adam (Owner and Manager
of Mogadishu centre
Contact details: 002521653318/
2521275163

Name: S. Company
Location: Bakaro
Nature of business: Merchandise Company
Contact details: 2527276510/
25215504826

Name: Somali Energy Company (SECO)
Location: Hiliwa
Nature of business: Service
Name of contact person: Abdirizac Mohamed Halane (Manager)
Contact details: 002521633992/
260876/ Mob: 5889090

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Globel Hotel
Location: Karan
Nature of business: Service
Name of contact person: Ahmed Hassan Afrah (Manager)
Contact details: 002525944707/
944800/002521643058

Name: Bin Ali Hotel
Location: Abdi Aziz
Nature of business: Service
Name of contact person: Ali Haji Hassan (Manager)
Contact details: 002521915856/
002525945266

Name: ZamZam Water System
Location: Yakshid
Nature of business: Service
Name of contact person: Muse Hassan Mohamed (Chairman)
Contact details: 00252961618

Name: Badrudin Supermarket
Location: Yakshid Zone
Nature of business: Merchandise Company
Name of contact person: Daahir Salad Naleye (Manager)
Contact details: 2527632320/
257228993/
2525938777

Name: Mubarakt Company
Location: DayNile Zone
Nature of business: Export Company
Name of contact person: Salad Maxied Farax (Manager)
Contact details: 2527654285

Name: Hamar Cadde Printing House
Location: Bakaro
Nature of business: Printing & Publishing House
Name of contact person: Ahmed Hassan Cali (Owner & Manager)
Contact details: 2521600702/
2521253181

Name: Somali Dry Lemon Org.
Location: Bakaro
Nature of business: Merchandise (Export Only)
Name of contact person: Abdi Nur Mohamed Hassan (Shareholder)
Contact details: 2521270163

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Quality Computers Company
Location: Bakaro
Nature of business: Merchandise
Name of contact person: Abdi Noor Hassan (Sales Manager)
Contact details: 002525920737

Name: Global Information Technology
Location: Bakaro
Nature of business: Merchandise Company
Name of contact person: Mohamed Dahir Nur (Vice President)
Contact details: 2521657751/
252924107/
252964412

Name: Somafone
Location: Bakaro
Nature of business: Telecommunication
Name of contact person: Abdi Rahman (Vice President)
Contact details: 25267300111/2526728333

Name: Hisbulah Drug Company
Location: Bakaro
Nature of business: Medicine Merchandise
Name of contact person: Abdi Yare Sheik Ali (Manager of retail department)
Contact details: 252933722/2521275702

Name: Mubarac 1 Company
Location: DayNile Zone
Nature of business: Export
Name of contact person: Salat Cato (Manager)
Contact details: 2521245245/
25259620

Name: Ajip Bexaani Petroleum Company
Location: Karan
Nature of business: Petroleum
Name of contact person: Abdulkadir Hassan Farah (Accountant)
Contact details: 002521268152/
268151/276781

Name: El Maan General Trading Company
Location: Yakshid
Nature of business: General Trading
Name of contact person: Hassan Adawe Ali (Manager)
Contact details: 002521265028/
002525966221/
960830

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Al Firdows Water Company
Location: Yakshid
Nature of business: Manufacturing
Name of contact person: Nuur Ali Wehliye (General Manager)
Contact details: 002521945444/
966405

Name: Aaran General Business
Location: Yakshid
Nature of business: General Trading
Name of contact person: Abukar Mohamed Ali (Salesman)
Contact details: 002521945733/
960163

Name: Amal Bank
Location: Bakaro
Nature of business: Banking and Money transfer
Name of contact person: Abdiwali Muse (south and central Manager)
Contact details: 002521650713/
650712/224677

Name: Wiif Electricity Company
Location: Yakshid
Nature of business: Electricity
Name of contact person: Nuur Ali Wehliye (General Manager)
Contact details: 002525945444/
966405

Name: Al Ihsaan Stationary and Library
Location: Bakaro
Nature of business: Stationary Library
Name of contact person: Ibrahim Salah (Manager & Owner)
Contact details: 002521652845/
002525920346

Name: Shafii Printing Unit
Location: KMY
Nature of business: Printing Service
Name of contact person: Abdirahmaan Ibrahim Elmi (Manager)
Contact details: 002521851334/
216184/00252593255

Name: AL Muwara Company
Location: Yakshid
Nature of business: General Trading
Name of contact person: Abaas Mohamed Ahmed (Salesman)
Contact details: 002521646125/
002525961942/
984700

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Union Traders Company
Location: Bakaro
Nature of business: Electronic and Watches
Name of contact person: Eng. Abdullahi Mohamed Sheik (General Manager)
Contact details: 002525936144/
002521651166/
Mob: 002521556677

Name: Al Fatxi Trading Company
Location: Bakaro
Nature of business: General Trading
Name of contact person: Abdi Hassan Diblawe (Manager of Mogadishu Branch)
Contact details: 002521601503/
002525920820/ Mob 5549953

Name: Liiban Construction Company
Location: Yakshid
Nature of business: Building Materials
Name of contact person: Mohamed Abdi Abdule (Sales man)
Contact details: 002521219889/
002525945792/
Mob: 960560

Name: Al Soya General Company
Location: Yakshid
Nature of business: General Trading
Name of contact person: Mohamed Sudi Ali (Owner)
Contact details: 002525946767/
961920

Name: Somal Post Corporation
Location: Bakaro Zone
Nature of business: Post Services
Name of contact person: Said Hussein (General Director)
Contact details: 216907/945177

Name: United Bottling Company
Location: Yakshid Zone
Nature of business: Producing CocaCola
and other soft drinks
Name of contact person: Abdirahman Mohamoud (Personal Manager)
Contact details: 5557790/5557777/55577779

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: SomElectric Inc
Location: Bakaro Zone
Nature of business: Electricity
Name of contact person: Abdi Nuur Ali Hussein (Currently acting as General Manager)
Contact details: 653569/ Mob: 5573637

Name: Dalsan Industries
Location: Gubta Zone
Nature of business: Producing detergents, soaps
Name of contact person: Abdi rahim Ahmed (Manager)
Contact details: 633677/925025 Mob: 987127

Name: Somali Fresh Meat Company
Location: Gubta Zone
Nature of business: Exportation of Fresh Meat
Name of contact person: Yahya Sheik Ibrahim (Administrator)
Contact details: 226637/245223 Mob: 963177

Name: El - Huur & Deek - Allah Group of Fishing Co.
Location:
Nature of business: Fish Exportation
Name of contact person: Abdikaadir Aadan Keyre (Representative and a member of the shareholders)
Contact details:

Name: Global Internal Company
Location: Global Building Bakara
Nature of business: Internet Service Provider
Name of contact person: Abdulkadir Hassan (General Manager)
Contact details: 002521924085

Name: Shabelle Agro Products Co
Location: Merca Lower Shabelle
Nature of business: Banana Exportation
Name of contact person: Amin Sheik Elmi (Inventory Manager)
Contact details: 676667/672466 Mob: 5500787

Name: Wiif International Company
Location: Yakshid
Nature of business: General Trading
Name of contact person: Igballe Hussein Igballe (Manager of Mogadishu Branch)
Contact details: 0025259606405

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Faaruuk Electronics Company
Location: Bakaro
Nature of business: Electronics
Name of contact person: Abdikafar Mohamed Muhidin (Manager)
Contact details: 002521654525/
250002/ Mob: 55544551

Name: Idan Company
Location: Yakshid
Nature of business: Goods
Name of contact person: Amina Mohamoud Mohamed (Manager)
Contact details: 002521279142/
002525943129

Name: Naasa Hablood Hotel
Location: Maka - Almkarama Street
Nature of business: Service
Name of contact person: Ahmed Mohamed Hussein (Manager)
Contact details: 2521577475

Name: Weheliye Public Notary
Location: Bakaro
Nature of business: Business and Legal Consultancy
Name of contact person: Dr. Abdirahman Weheliy Maalin
(Administrator)
Contact details: 653105/933710 Mob: 967082

Name: National Pharmaceutical & Medical Equipment
Co
Location: Bakaro
Nature of business: General Trading
Name of contact person: Dr. Hanafi Abdi Sheikh (General Manager)
Contact details: 5506585/652316

Name: Sabriye Emporium
Location: Bakaro Zone
Nature of business: Merchandising
Name of contact person: Hamza Mohamed Likar (One of the
Management team) Contact details: 224000/651125 Mob: 284068/990170

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: NationLink Telecom
Location: KM 50
Nature of business: Telecommunication Service
Name of contact person: Mohamed Mohamoud Ibrahim (Human Resource Director)
Contact details: 932888/935888 Mob: 961500

Name: Furqaan Drug Company
Location: Bakaro
Nature of business: Medicine
Name of contact person: Osman Ibrahim Osman (Chairman)
Contact details: 002521653017/
215226/002525933924/
444425

Name: Sabriye Electronics Company
Location: Bakaro Zone
Nature of business: Merchandising Company
Name of contact person: Abdirisal Abdulle (a member of the administration)
Contact details: 933040

Name: Telecom Somalia
Location: Hawlwadaq,
Bakaro Market, Mogadishu
Nature of business: Telecommunication services
Name of contact person: Abdullahi M. Hussein (Business development Manager)
Contact details: 2521215008/

Mob: 2521275888

Name: Hormuud Telecom Somalia
Location: Bakaro Zone
Nature of business: Telecommunication Services
Name of contact person: Bashir Ahmed Sahal (Director of Marketing and Public Relations)
Contact details: 653530/65200 Mob: 5555222

Name: Arif Water & Electricity supply
Location: Yakshid
Nature of business: Service
Name of contact person: Ali Shabun Ahmed (Manager)
Contact details: 002521265330

“Big Business” in Peacemaking and Disarmament: Working Paper 1.

Name: Showqi Trading Company
Location: Yakshid
Nature of business: Dealers of food stuff
Name of contact person: Alrahman Mohamoud Hilowle (Managing Director)
Contact details: 0025215549930

Name: Walalaha General Trading Co
Location: Yakshid
Nature of business: General Trading
Name of contact person: Dahir Ahmed Nor (Sales person)
Contact details: 00252115436

Name: Haryal Emporium
Location: Yakshid
Nature of business: Goods
Name of contact person: Abdullahi Ali Hussein (Sales person)
Contact details: 002525966570/002521578842

Name: East Africa Notary
Location: Yakshid
Nature of business: Service

Name of contact person: Abdi Aziz Ahmed Adawe (Manager)
Contact details: 002521229613/
002521527871

Name: Al - Nimco Water Supply
Location: Yakshid
Nature of business: Service
Name of contact person: Mohamed Ali Baro (Owner & Manager)
Contact details: 25212202061/
0025215580306