Supporting Investment and Trade in Africa

The AfCFTA and the Berbera Corridor: opportunities for and potential impact on Somaliland's economy

Adria Rius

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Key messages

The African Continental Free Trade Area (AfCFTA) offers potential opportunities for Somaliland's economy, even though it is not likely to be part of the AfCFTA in the short to medium term.

The potential opportunities are, first, Somaliland could address domestic non-tariff barriers to trade by aligning its laws and policies with those of the AfCFTA protocols. Second, increased alignment and higher continental income could generate a demand-pull effect on export sectors in which Somaliland has a comparative advantage. Third, a more aligned trade framework and a strengthened trade position could pave the way for Somaliland to enter into bilateral trade agreements with its main trade partners.

Through the Berbera Corridor project, trade integration could result in a dramatic increase in the volume and value of the Port's operations, which could contribute greatly to Somaliland's economic development.

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Acronyms

AfCFTA	African Continental Free Trade Area
ARSO	African Organisation for Standardisation
BPA	Berbera Ports Authority
COMESA	Common Market for Eastern and Southern Africa
CSD	Central Statistics Department
DP World	Dubai Ports World
ESL	Ethiopian Shipping and Logistics Services Enterprise
FDI	Foreign Direct Investment
GDF	Goods Declaration Form
GoSL	Government of Somaliland
IPR	Intellectual Property Rights
ISO	International Organisation of Standardisation
MoF	Ministry of Finance
MoIID	Ministry of Investment and Industrial Development
MoPND	Ministry of Planning and National Development
MoTT	Ministry of Trade and Tourism
NDP	National Development Plan
NTB	Non-tariff barriers
OIE	World Organisation for Animal Health
QCC	Quality Control Commission
ROO	Rules of Origin
SAD	Single Administrative Document
SEZ	Special Economic Zones
SME	Small and Medium Enterprise
SPS	Sanitary and phytosanitary standards
SRS	Somali Regional State of Ethiopia
USD	United States Dollar

Executive Summary

Somaliland gained independence in 1960 and formed a union with Somalia in the same year, forming the Somali Republic. After 31 years, Somaliland unilaterally declared independence from Somalia in 1991, at the outbreak of the civil war that ousted Somalia's president Siad Barre from power. Since then, Somaliland has used its de-facto sovereignty to build a stable institutional and political setting that allows for peaceful conflict mediation. Successful elections at the local, parliamentary, and presidential levels have been held since the approval of the constitution in 2001. Presidential elections are expected in 2022, while the House of Elders is expected to be renewed in 2023. Albeit with some changes, its hybrid power structure (customary, institutional, religious) continues to define Somaliland's economic and social life.

Somaliland's economy, while resilient, is characterised by large remittance inflows sustaining a largely import-dependent household and private consumption. An important share of the country's[1] exports remains dominated by a few products (livestock), exported to a few countries (Gulf countries), during a certain period of the year (Hajj festivity). In 2020, the GDP was nearly $3 billion and the government budget was equivalent to $287 million. Import duties accounted for approximately 41% of the government's total revenue. Expenditure is focused on the security, governance, and economic sectors. The government runs a balanced budget policy and has limited room for monetary policy interventions, as well as limited access to international financial markets.

With respect to trade, at the domestic level, while a comprehensive trade policy framework is still under development, there are a series of laws, regulations and policies that shape the environment within which trade takes place. In fact, progress has been made in recent years to upscale efforts to enhance the trade-related regulatory framework, and important laws such as the Customs Law (03/2016), Investment Act (99/2021), or the Special Economic Zones Law (93/2021), have been approved. Imports and exports are governed by the tariff schedule, with a simple average tariff rate of 22%. At the international level, the unrecognised status limits Somaliland's options for entering into bilateral and multilateral agreements.

Against this backdrop, the African Continental Free Trade Area (AfCFTA) offers potential opportunities for Somaliland's economy. Albeit not part of the African Union and, consequently, likely to not be part of the AfCFTA in the short- and medium-term, there are different ways through which Somaliland can benefit from the AfCFTA, structured herein into three areas. First, Somaliland can address domestic Non-Tariff Barriers (NTB) to trade by aligning laws and policies with those of the AfCFTA protocols. Second, increased alignment and increased continental income could become a demand-pull effect on export sectors in which Somaliland has a comparative advantage. Third, a more aligned trade framework and a strengthened trade position can pave the way for Somaliland entering into bilateral trade agreements with its main trade partners.

[1] Somaliland is referred to as a 'country' herein for simplicity and in recognition of its de-facto sovereignty. Yet it officially remains a state of the Federal Republic of Somalia.

It is argued that the latter, namely entering into bilateral trade agreements within the context of the AfCFTA, probably represents the most likely scenario in the short- and medium-term. In recognition, the report undertakes an in-depth analysis of what currently is the most tangible trade integration project in Somaliland, the Berbera Corridor. The Berbera Corridor is an infrastructure and logistics project connecting the Berbera Port in Somaliland with the capital of Ethiopia, Addis Ababa, spanning a total of 937 kilometres. In Somaliland, the Corridor has three key components: the Berbera Port, the road connecting Berbera and Addis Ababa, and the border town of Wajaale. The Port is currently operated by DP World, who in 2016 entered a joint venture with the Government of Somaliland (GoSL) and committed $442 million in the upgrading of the Port's infrastructure. Since then, the Port and the Berbera Corridor have witnessed remarkable progress, especially in 2021.

By looking into the Berbera Corridor project, the report provides insights onto the current situation of Ethiopia-Somaliland trade and highlights how trade integration could result in a dramatic increase in the volume and value of the Port's operations which, in turn, has the potential to greatly contribute to Somaliland's economic development. First, logistics firms are set to witness a dramatic increase in the demand for their services. Second, the Corridor shall create thousands of direct and indirect jobs across the economy. Third, it could promote dynamic comparative advantages by supporting local industries connect with both local suppliers and regional markets. Fourth, fiscal revenue could increase due to an increased tax base resulting from higher domestic incomes and profits, which could potentially compensate for a decrease in import tax revenues.

The latter responds to important concerns over potential customs revenue losses. As noted above, 41% of Somaliland's government budget comes from import tariffs and a further 8% from export taxes and port duties. Under a potential trade agreement with Ethiopia, Somaliland would forego import taxes levied on goods originating in Ethiopia, it would lose the import tax levied on goods that first arrive in Somaliland through the Berbera Port and are subsequently re-exported to Ethiopia and, finally, on goods that transit from Ethiopia to Berbera and are exported to a third country thereafter, such as much of the livestock trade. Import tax revenue collected at the Wajaale and Kalabaydh customs accounted in January-June 2020 for 22% of total customs revenue, while customs revenue from goods that are currently subject to export/import customs duties at Berbera and would otherwise qualify as transit goods is unclear.

Aligned with the above, the report highlights some of the main risks and challenges of the project, leading to argue that for these benefits to realise, Somaliland should strive for balanced trade agreements, which can take several forms (e.g. transit agreement, preferential trade agreement, simplified trade regime, transport agreement, amongst others). Furthermore, it will need to be able to manage the potential conflicts that arise as a result of the changes that the project will make to local power balances. Also, it will be critical that an appropriate policy framework can set a direction to the country's trade strategy. Finally, the domestic private sector will need to be able to stand up to the challenge, especially if regulations limit the extent to which foreign companies can operate in Somaliland's logistics sector market.

Considering the latter two as particularly critical for trade integration projects under AfCFTA and for the Berbera Corridor in particular, the report identifies key constraints faced by the public and the private sector, and capabilities they will need to develop shall trade facilitation efforts realise. It considers private sector capabilities to link with regional markets, retain and train personnel, provide adequate financial and insurance services, and reach a 'critical mass' of firms that can meet the new demand for logistics services. From the point of view of the public sector, capabilities will need to be developed in the areas of research, policy formulation, and implementation, especially in the agencies that will be most involved in trade integration processes.

Stemming from the above, the report draws a set of recommendations with proposals for action:

Support targeted public and private sector efforts towards the removal of non-tariff barriers. The AfCFTA provides a great opportunity for Somaliland to address non-tariff barriers to trade by aligning its customs procedures with those of the AfCFTA. Such measures shall address currently outstanding gaps in the areas of customs procedures, technical standards and sanitary and phytosanitary standards (SPS), and rules of origin. In addition, and in relation to Phase II potential commitments, Somaliland can address its currently underperforming Intellectual Property Rights (IPR) regime. Support in these areas can target different components, be it the development of specific laws and regulations, preparing targeted policies, establishing dedicated agencies, ensuring alignment with the AfCFTA protocols, or supporting the implementation of specific measures.

Promote the development of private sector capabilities in sectors where Somaliland has a comparative advantage. The AfCFTA is likely to increase continental incomes and can generate a demand-pull effect on Somaliland's export sectors, become a source of Foreign Direct Investment (FDI), and help diversify Somaliland's export markets towards African countries. Somaliland can take advantage of the fact that it already is competitive in a number of sectors in which it has an advantage based on the country's existing resources, which are currently underutilised, such as fisheries, gums and resins, energy, and tourism. However, action is needed so as to enable these sectors unleash their potential. Targeted action could address long-term sustainability issues faced by the frankincense sector, lack of infrastructure development in the case of tourism, promotion of SMEs in the fisheries sector, or financing renewable energy projects.

Support public and private sector efforts to address key private sector external constraints. The private sector faces two major cross-cutting challenges, access to finance and high energy costs. The report highlights the role of both banks but also remittance companies in the financial sector, in addition to insurance companies, which are set to play an important role in the context of the Berbera Corridor. Related to the recommendation above, energy costs have been a long-standing issue in Somaliland and while a few renewable energy projects have been implemented in recent years, Somaliland may need to step up action to address this issue more effectively. Action could aim at assessing banks' client base and instruments so as to understand the presumably shortage of credit supply currently existing in the economy, enhancing efficiency of remittance companies, assessing the capacity of current insurance companies to engage with increased trade transit, and supporting efforts to find alternative options to enhance energy access and cheap electricity prices through projects that engage with emerging firms in the oil and renewable energy value chains.

Support the development of private sector capabilities in the sectors that will be the most critical to the Corridor. Potential trade integration projects such as an Ethiopia-

Somaliland trade agreement pose opportunities for Somaliland's domestic sectors. In particular, the logistics sector is likely to be one of the sectors that will benefit the most from the Berbera Corridor project, and the manufacturing sector shall also benefit by tapping into regional value chains. However, firms in these sectors need to be able to stand up to the challenge and show appropriate levels of performance. In this respect, it is recommended that action is taken to upscale private sector capabilities in those sectors that are likely to be critical to the Corridor. Specific projects could be: supporting the development of certificate programmes that deliver training to logistics services companies, target in-house training programmes that address skills gaps in critical areas such as engineering, accounting, or management, and ensure employee retention, or promote export capabilities of key industrial enterprises with high potential for linking with regional value chains.

Support public sector efforts to develop appropriate trade data management systems. In tandem with the development of private sector capabilities, Somaliland needs to upscale the capabilities of its public sector. The report identifies the current state of trade data as an important hurdle to analyse and estimate the potential impact of trade integration projects. It details how different agencies report different data, there is no published data that captures the country of origin of imported products, and current valuation methods are unreliable. It is recommended that efforts are taken to overcome the challenges to trade facilitation that this poses. Action could be directed towards developing an online trade statistics portal, enhancing trade data collection and early-stage management practices, supporting internal data analysis and reporting practices in key ministries, and supporting efforts to integrate trade data across ministries.

Support public sector efforts to increase research capabilities targeted at undertaking diagnostic studies. The report also identifies that the key ministries have so far not undertaken studies that would generate much-needed evidence to inform policy. Efforts could be targeted at supporting studies on the current state of the industries sector and/or the hurdles currently faced by trade actors such as transport, clearance, and shipping companies. At the same time, key ministries and the Central Statistics Department (CSD) in particular, ought to undertake regular surveys as part of their remit to monitor and promote the sectors they are responsible for. This would call, for instance, for establishing the right infrastructure to undertake regular SME, enterprise, or informal sector surveys. Efforts along these lines would also ensure knowledge codification within the key ministries and the long-run sustainability of trade-related policies.

Support public sector capabilities in policy formulation and implementation. In addition to being able to undertake the appropriate diagnostics, Somaliland's key agencies must be able to formulate and implement trade-related policies. In this respect, these agencies would benefit from enhancing in-house expertise in specific trade-related areas as well as from improving their overall capacity to formulate and implement trade reforms, not least those related to obligations Somaliland will be subject to under any potential trade agreement. With a view on emphasising ownership, cross-agency coordination, and consultation with stakeholders, Somaliland would benefit from support on policy formulation, thematic-specific technical support with reference to industrial and trade policy measures, and support on monitoring and evaluation practices. Such tasks could be coordinated with or support current efforts of the Somaliland Civil Service Institute (CSI).

From the viewpoint of development partners and in recognition of the limited size of Somaliland's administration, the report proposes options for easing implementation of projects aimed at meeting the abovementioned objectives. Proposed options range from the establishment of Centres of Excellence to upscale research capabilities in targeted areas or the establishment of a 'policy development facility' that can support key government agencies in policy formulation by providing technical assistance and diagnostic studies. These insights draw from examples of projects undertaken in neighbouring African countries as well as from projects that have been recently implemented in Somaliland. Ideally, the provision of such services from outside the government would be temporary and conducted in coordination with public sector authorities so as to ensure that in the mid-term the latter can take over such tasks.

Finally, the report proposes a tool that can help map proposed objectives based on their complexity and potential impact. Objectives are plotted in a diagram with 4 areas: (1) complex and high impact, (2) complex and low impact, (3) simple and low impact, (4) simple and high impact. The matrix should be understood as a tool rather than a definite classification of objectives given the potential complexity of achieving these objectives depends on project design, as argued above. It is also highlighted how objectives might present (temporal) interdependencies, giving way to considering how to best sequence objectives. Finally, based on the above considerations and with a focus on the Berbera Corridor, which allows for proposing more precise action given it is currently the most tangible trade-related project in Somaliland, the report suggests to prioritise three key actions: (1) development of a trade data portal, (2) development of the Somaliland Trade Policy, and (3) conducting an assessment of the logistics sector through a one-off baseline survey-based study undertaken in collaboration with the Central Statistics Department (CSD) or the Ministry of Trade and Tourism (MoTT).

1. Introduction

The African Continental Free Trade Area (AfCFTA) aims at creating a common African market with the free movement of goods, capital, and labour. It was established in March 2018 with the signature of the Protocols on Trade in Goods, Trade in Services, and Rules and Procedures on the Settlement of Disputes. Trade under AfCFTA started in January 2021 and by October 2021, except for Eritrea, all African countries had signed the agreement and 38 had submitted their instruments of ratification. Boosting intra-African trade is set to increase continental incomes, reduce poverty, promote industrialisation, and create millions of jobs.

Somaliland is a non-recognised but de-facto country in the Horn of Africa. It is not a member of the African Union thus it is not part of the AfCFTA. This, however, shall not prevent Somaliland from benefiting from the opportunities that the AfCFTA will bring to the continent. As will be argued in the report, Somaliland can reap the benefits of the AfCFTA by (i) reducing domestic non-tariff barriers by aligning laws and policies with those of the AfCFTA protocols, (ii) increasing exports to African neighbours and, based on the former two, (iii) engaging in bilateral negotiations with its main trade partners in the continent. The latter refers to what currently constitutes the most promising and tangible trade integration project in the country, the Berbera Corridor.

Within this context, this report investigates the main opportunities for and potential impact of the AfCFTA on Somaliland's economy. While acknowledging that the AfCFTA can become a key instrument to alleviate institutional bottlenecks and non-tariff barriers, the discussion is focused on the Berbera Corridor as a case study of potential trade integration processes between Somaliland and its neighbours in the context of the AfCFTA, which might be the most probable scenario for Somaliland in the short- and medium-term given its unrecognised status. More weight is also given to trade in goods over investment, services, or competition due to, first, data availability on Somaliland's trade patterns and, second, more clarity of what is expected from AfCFTA members, provided in the Annexes to the Protocol on Trade in Goods.

As a result of this investigation, the report will propose potential action to both facilitate trade in the region and ensure Somaliland realises the benefits of the AfCFTA and the Corridor. The study's methodology consists of qualitative research using secondary data sources drawn from grey and academic literature. The analysis of the potential entry points is developed using a public-private sector capabilities framework. It is intended that by looking at the Berbera Corridor from this approach, which recognises private and public sector actors as key agents for the development of trade integration projects, allows for identifying actions of high impact potential. Results are combined with AfCFTA-specific insights.

The structure of the report is as follows. The first two sections set the stage by introducing Somaliland's political settlement and economy (Section 2) and its trade profile (Section 3). Subsequently, the report discusses how Somaliland can benefit from the AfCFTA, focusing on the potential opportunities for and impacts of the Berbera Corridor on Somaliland's economy. Section 5 investigates the constraints faced by Somaliland's public and private sectors and the capabilities that they might need to develop to realise the benefits of the Corridor. Section 6 formulates a set of recommendations. Section 7 outlines the limitations of the study. Section 8 concludes.

2. Somaliland's Economy and Political Settlement

2.1. Political Settlement

Somaliland gained its independence in 1960 and formed a union with Somalia in the same year, forming the Somali Republic. After 31 years, Somaliland unilaterally declared independence from Somalia in 1991, at the outbreak of the Somali Civil War that ousted President Siad Barre from power. Somaliland's declaration of independence was followed by a relatively fragile period of 10 years marked by a series of month-long peace conferences, which concluded with the approval of the Somaliland Constitution in 2001, followed by a series of elections at the district (2002), presidential (2003), and parliamentary (2005) levels. The ability of Somalilanders to make cross-clan compromises, design a new state apparatus that enjoyed popular support, and avoid the entrenchment of clan militias and warlords by pursuing an effective process of demilitarisation, are considered truly exceptional achievements (Bradbury, 2008; Lewis, 2008).

Somaliland has a presidential system with a tripartite governance structure with executive, legislative, and judicial branches. It has two legislative chambers, the House of Representatives and the *Guurti*, or House of Elders. Presidential elections have occurred three times (2003, 2010, 2017), there have been a total of three local council elections (2002, 2012, 2021), and two parliamentary elections (2005, 2021). The Guurti has not been elected ever since members were first appointed. The constitution limits the total number of political parties to 3 in an attempt to promote cross-clan alliances. Currently, the three parties represented in parliament are Kulmiye, Waddani, and UCID. Kulmyie won the 2017 Presidential Elections but ceased to be the party with most seats in parliament in the May 2021 Parliamentary Elections. The elections were won by Waddani (31 seats), followed by Kulmiye (30 seats) and UCID (21 seats), thus opposition parties currently have considerably more weight than the ruling party.

The role of the Guurti deserves special mention. The House of Elders is composed of clan elders elected as representatives of the main clan-families of Somaliland, and has a key role in mediating clan cleavages. The fact that the Guurti has not been renewed since it was first formed in 2002 means that upon sitting parliamentarians passing away new elders have been appointed through alternative means. This, in addition to the perceived stability of the current political regime, could potentially be decreasing the perceived usefulness of this political body. The latter trend is likely to be reversed in 2023, when elections to the House of Elders are expected to be held. The formal inclusion of the clan system into the institutional structure of the country through this hybrid parliamentary system has proved highly effective in giving the state the required legitimacy and contributing to the peace and stability of the country.

The role of clans in Somaliland's political, economic, and social life cannot be overstated. Somaliland has 3 main clan-families: the Isaaq (centre, including Hargeisa), Dir (north), and Darood (east). Although there are political implications to being part of the same clan-family, clan-families do not act as united corporate groups since they are too large and members too scattered. Instead, the most binding social group is the sub-clan level called 'primary lineage group' and, more specifically, the subsequent sub-clan level called *dia-paying group*, which is the most basic jural and political unit in Somaliland society. Members of the same dia-paying group share costs and risks. The groups are led by ‘minsters’, or *Akils* (delegates of the clan Elder). Members contribute to their dia-paying group with monthly or annual payments. At the same time, the clan provides members with financial and material support as well as mechanisms to engage with other clans. As such, the clan system is a key social safety net and customary insurance system which acts, at the same time, as the most important social fabric of society and is crucial to the security, peace, and stability of the country (Lewis, 1994).

The third layer of power, apart from institutional and clan-based politics, is religion. Somaliland is virtually 100% Muslim and practising other religions in the country is strictly prohibited. Indeed, Islamic Law or *Sharia* is integrated into Somaliland’s constitution. Religious practices are strictly followed and play a key role in defining individual and collective behavioural standards. Sheikhs, or Islamic scholars, have influence over the activities that are carried out in the country and have at times opposed certain government policies. The role of religion in the country often has economic implications. The clearest example is the reluctance of the Government of Somaliland to allow western-type commercial banks to operate in the country, as opposed to Islamic banking.

The political influence that these three layers of power (institutional politics, clan system, and religion) play over society is also represented in the country’s hybrid legal system, which is a combination of Somali customary law (*heer*), Sharia norms, and statutory law. In practice, Shariah law is applied in instances related to personal relations (e.g. marriage law). Customary law is used in disputes traditionally regulated by cross-clan norms such as conflicts or accidents involving members of different clans. Statutory law is applicable in instances of serious offences as well as more complex legal cases. However, generally speaking, legal disputes go first through customary law procedures and if clan elders cannot reach an agreement, the case moves to the courts and goes through the formal procedure (MoTT, 2013).

Acknowledging the political economy of Somaliland is an important consideration when designing policy interventions. Day-to-day life is influenced by decisions taken at the clan, institutional, and religious spheres, and while out of the scope of this report, policy interventions that take these aspects into account are more likely to succeed. In consequence, some mentions are made to these power layers, and Somali clans in particular, throughout the report.

2.2. Economy

With a population of approximately 3.8 million people, Somaliland has a GDP of nearly $[2]3 billion and a GDP per capita of $700 (current prices), one of the lowest in Sub-Saharan Africa (CSD, 2020; MoPND, 2017). According to estimates by the CSD, in real terms the GDP increased by 15.6% from 2012 to 2020. The largest component of GDP, from the demand side, is household expenditure. Private investment, government expenditure, and exports account for a small share of total GDP. Livestock is the main sector in terms of sectoral GDP contribution, followed by wholesale and retail trade and real estate. Imports play a very important role in the economy and have an estimated value over GDP of 45%. Given the lower level of exports in relation to imports, foreign currency supporting household expenditure often comes through remittances, which were valued at as much as $1.4 billion in 2020, possibly

[2] Herein ‘$’ stands for United States Dollars

making Somaliland one of the most remittance-dependent countries in Sub-Saharan Africa. Foreign aid is also an important contributor to the economy and in 2019 totalled $194 million (MoF, 2021a, 2019a; MoPND, 2017).

The Somaliland-born diaspora, estimated at 150,000-200,000 people but probably larger, plays an important role in not only supporting household income, but also in Small and Medium Enterprise (SME) financing (WB, 2016). FSNAU (2012) found that 45.4% of surveyed firm managers received remittances in their household, a percentage that increased in the case of large firms (60.3%). Similarly, successful businesspeople are more likely to send relatives abroad, thus reinforcing remittance inflows. Some prominent countries of origin of these remittances are the UK, the US, the UAE, Sweden, Saudi Arabia, Djibouti, and Canada (RVI, 2017). In light of the importance of the diaspora for Somaliland's economy, the government has a dedicated Diaspora Department at the Ministry of Foreign Affairs and International Cooperation.

Therefore, imports sustain an important part of household consumption and only a limited set of products are produced domestically. The backbone of the economy is the livestock sector, primarily undertaken by the still large nomadic community (34% of Somaliland's population), and consisting of sheep, goats, camels, and cattle. A few other primary goods are produced in the country. Crop production is limited, although there are some farming enterprises growing vegetables and fruits. There are also some small-scale fishing activities taking place, although resources are still largely underutilised. Also, Somaliland hosts minerals and oil reserves. Finally, for long Somaliland has been exporting frankincense, a valued product in international markets (MoPND, 2017).

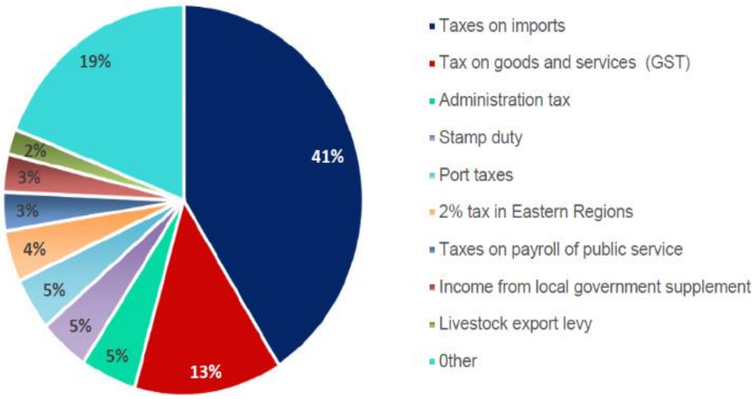
Manufacturing is scant, although there certainly are some local manufacturing companies producing a limited set of goods such as detergent, fibreglass, foam, paint, furniture, shampoo, beverages, or water bottles. Manufacturing mainly caters for the local market and does not compete in regional/international markets. In fact, given the informal nature of livestock activities, undertaken by nomad pastoralists, and the relative lack of industrial activities, most new business registrations fall within the services sector and range across a wide range of business types, including accounting, consultancy, and hospitality. According to MoPND (2017), wholesale retail and trade services were the second main sector in the country and accounted for 21.9% of GDP.

Regarding economic policy, the non-recognised but sovereign status of Somaliland has implications for its policy space in terms of both monetary and fiscal policy. With respect to the former, Somaliland issues its own currency, the Somaliland Shilling. It has a Central Bank tasked with, primarily, the control of inflation and most importantly with ensuring the stability of the exchange rate between the Somaliland Shilling and the US Dollar (USD), which has remained at approximately 8,500 SLS/USD for the past 2 years. With USD widely accepted and used, the country operates a de-facto dollarized system. This sheds light, however, on the limited room for monetary policy the government has at disposal (MoF, 2021a).

The dollarisation of the economy might have been aided, at least in part, by what has become a substantial penetration of mobile money payment systems, put in place by the two main telecommunications companies in the country, Telesom and Somtel (Dahabshiil Group). The two mobile payment systems, Zaad and Dahab, provide payment and store of value functions, and are used by a substantial part of the population. Importantly, Zaad/Dahab offices accept payments and money deposits at the counter in both SLS and USD. Once the money is in their phone account, users are able to exchange SLS into USD or vice versa immediately and at a low fee. Mobile payment methods are accepted in most urban shops and services such as markets, supermarkets, taxis, restaurants, and petrol stations (Bradbury et al. 2021).

With respect to the fiscal policy space, Somaliland runs a balanced budget policy, which is largely determined by the government not being able to borrow from international financial markets. In 2020, the tax to GDP ratio was nearly 10% and the annual budget was equivalent to $287 million. 41% of 2020 state income came from import tax revenues alone and the Customs Department (Ministry of Finance (MoF)) collected 75% of total government revenue (MoF, 2021c). Other revenue sources are taxes on goods and services (13%) and taxes on public sector workers payroll (3%) (Figure 1). With respect to the expenditure, in 2020 Somaliland allocated over 30% of its budget to security, followed by the governance, economic, education, and health sectors. This distribution reflects the country authorities' recognition of the 'peace dividend' that Somaliland reaps due to its enduring stability (MoF, 2021a; MoF, 2020a).

Figure 1. Government budget, sources of revenue (2020)



Source: MoF (2021a).

3. Trade profile

3.1. Trade Performance

Somaliland is a fairly open economy with a merchandise trade-to-GDP ratio of over 70%. In 2020, imports were valued at $2 billion and exports at $275 million, resulting in a trade deficit of nearly $1.7 billion. Food imports are an important component of the import basket and were estimated to account for as much as 43% of the total 2020 import value (Table 1). Imported foods include basic items such as cooking oil, vegetables, rice, or beans. Other widely imported goods are fuel, vehicles, building materials, and pharmaceutical products. Machinery and equipment, consumer goods, and furniture also tend to be common. In terms of single import items, by total imported value, the top 5 products are diesel, petrol, khat, and clothes (Table 2).

Khat consumption deserves special mention. Khat is a leafy green plant containing stimulant components causing excitement, loss of appetite, and euphoria. It is widely consumed in Somaliland by adult men and mainly produced in the Ogaden region of Ethiopia, which is inhabited by Somalis, most primarily from the Darood clan, and is imported into Somaliland in pickup cars every day. While the importation of khat provides the government with substantial tax revenues, it also results in a severe foreign exchange drain and is often a trigger of health issues. However, curbing khat consumption is particularly challenging. During the outbreak of the Covid-19 crisis in March 2020, the government attempted to curb its consumption, yet measures had to be lifted due to contestation from merchants and consumers (SA, 2020).

Table 1. Imports by product category, 2020

Category	Value (SLS, billions)	Duty (SLS, billions)	Value (%)	Duty (%)
Food Stuff	7,451	410	43%	26%
Oleaginous*	2,425	510	14%	33%
Fuel & Transportation	1,732	188	10%	12%
Shopping	2,425	192	14%	12%
Building Material	2,079	156	12%	10%
Electronics	866	77	5%	5%
Others	173	25	1%	2%
Grand Total	**17,154**	**1,561**	**100%**	**100%**

* Includes khat, cigarettes, tobacco, medicines

Source: MoF (2021d).

Table 2. Top 10 imported products, 2020

Product	Unit/Measure	Quantity	Value (SLS, billions)	Duties (SLS, billions)
Gas Oil	M3	158,257	3,641	35
Mogas "Petrol"	M3	85,222	2,084	21
Khat	KGs	42,498,880	1,539	416
Children Clothes	Dozen	47,425,201	1,516	2
Stitched Clothes	Dozen	4,482,675	564	35
Milk Powder	KGs	13,878,621	406	23
Paint/Distemper	Litters/KGs	4,543,566	380	7
Cooking Oil	Litters	83,576,966	357	60
Fresh Vegetables	KGs	43,989,659	341	10
Medicines	Vials/Tabs/Bottles	21,246,052	330	4

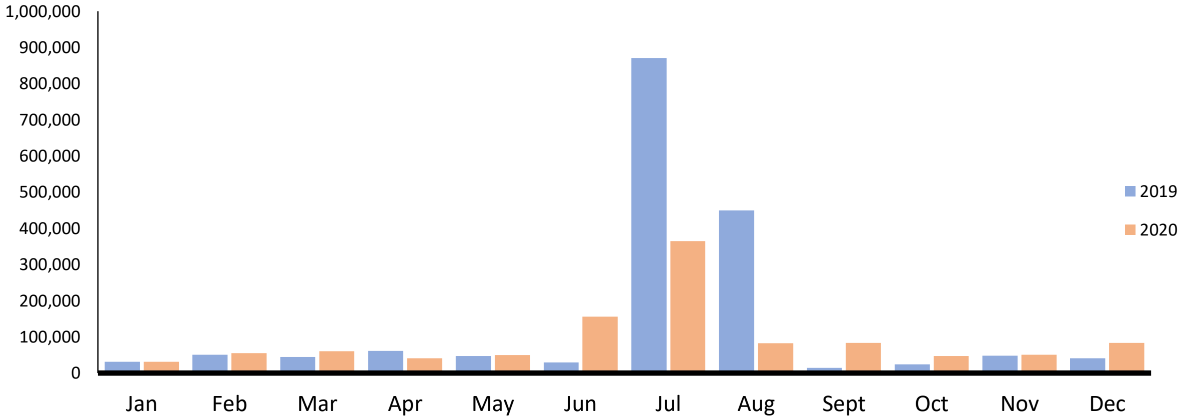
Source: MoF (2021d).

Ethiopia and Somalia are two of Somaliland's most important trade partners. Goods come through various customs. In the case of Somalia, imports come primarily from the Laascaanod customs, in the Sool region, as well as by plane through Hargeisa Airport. In the case of Ethiopia, goods pass mainly through Wajaale. Neighbouring countries are not, however, the only important trade partners of Somaliland. Imports from China, the United Arab Emirates (UAE), or India are also prominent. Imports from these countries come through the Berbera Port. Data from the MoF indicates that the top 5 countries of origin of containers arriving in Berbera are India (10,416), the UAE (8,705), China (7,545), Turkey (5,909), and Saudi Arabia (3,166). Djibouti, Kenya and Egypt fall within the top 15 countries and accounted for a total of 2,070 containers in 2020 (MoF, 2021d; Abdi, 2021).

The impact of highly competitive imports from countries like China is having an effect on the social fabric of Somali society. A survey undertaken by the Ministry of Trade and Tourism (MoTT) in 2020 highlighted how the *Tumaal*, a minority clan whose members are primarily small-scale blacksmiths producing household items in urban centres, were suffering from low price competition from Chinese products (MoTT, 2021a). While the clan-based system acts as an incredibly effective social safety net, when the impact is received by a large part of the community, the clan's ability to pool resources to sustain those in most need is substantially reduced and can jeopardise the subsistence of the clan itself.

With respect to exports, Somaliland is known for its comparative advantage in exporting sheep and goats, camels, and cattle. However, the export of livestock is highly concentrated in a few countries and a specific period of the year (Figure 2). Sheep and goat exports are particularly dependent upon demand from Saudi Arabia during the Hajj festivity, whereby in pre-covid times up to 3 million Muslims travelled to Mecca. In fact, Somaliland grows the black-headed berberi sheep, which is preferred to other types of sheep (MoTT, 2013). This pattern explains the comparatively lower level of exports experienced in 2020, due to restrictions to the number of pilgrims allowed to travel to Mecca. Other important destinations are Yemen, Oman, and the UAE.

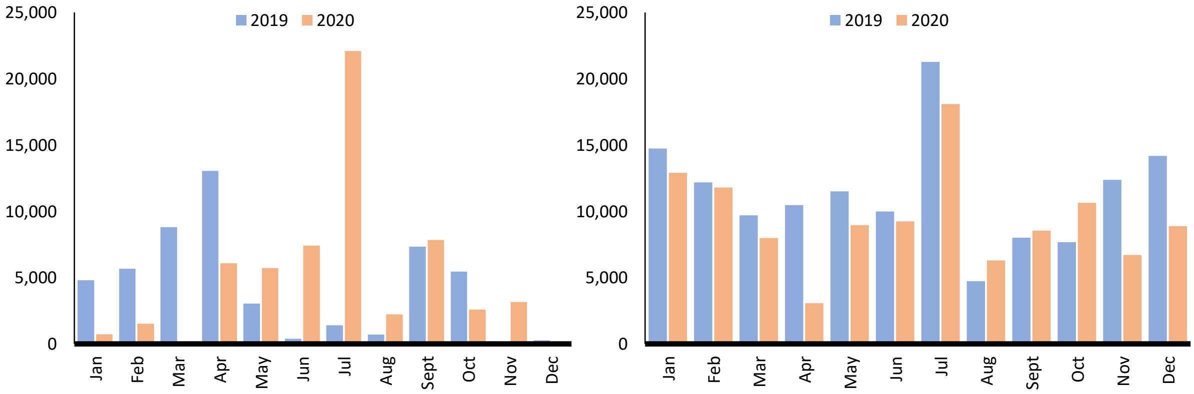
Figure 2. Exports of sheep and goat, 2019, 2020 (heads)



Source: MoF (2021d)

Camels and cattle are the other two key livestock exports. Camels fetch a substantially higher unit price and have an important value in Somali social life. As an illustration, what one clan must pay another clan as compensation for having murdered someone from the latter's clan is valued in camels. Trade of camels and cattle is less volatile (Figure 3). In terms of value, in 2020 exports of sheep and goats were valued at $78 million, cattle at $53 million, and camels at $38 million, for a total of $170 million (61% of total exports).

Figure 3. Exports of (a) camels and (b) cattle, 2019, 2020 (heads)



Source: MoF (2021d)

Apart from the above, Somaliland exports other goods that fall primarily within the category of primary products. These include frankincense, myrrh, and gums (*foox*, *malmal, xabag*), gold, watermelons, some vegetables, and fish. Processed or manufactured products include powder soap, Ethiopian flatbread (*injeera/daafi*), and hides and skins, amongst a few others (Table 3). Somaliland also exports various types of scrap, including batteries, copper, and aluminium scrap. It is worth highlighting that available data indicate that the export basket has not significantly changed in the past decades. In 2020, the total value of non-livestock exports was $104 million. Most recorded exports pass through the Berbera customs (MoF, 2021c, 2021d).

Table 3. Top 10 (non-livestock) exported products, 2020

Product	Unit	Quantity	Unit Price ($)	Value ($)
Ethiopian injera	Bags of 50 KGS	324,250	147.00	47,664,750
Frankincense	KGs	1,250,160	14.00	17,502,240
Gold bars	Grams	355,319	47.00	16,699,993
Powder Soap	KGs	2,483,187	2.38	5,909,985
Watermelon	KGs	1,743,950	3.00	5,231,850
Battery Scrap	Tons	41,020	100	4,102,000
Fresh Fish	KGs	710,365	4.00	2,841,460
Sorghum	Bags of 50 KGs	126,898	9.50	1,205,531
Skins	Pcs	584,000	1.25	730,000
Lobster	KGs	36,000	20.00	720,000

Source: MoF (2021d)

3.2. Trade Policy

The GoSL gives trade an important role in the country's economic growth and job creation objectives. However, in recognition of the import dependence it is subject to, and of the large trade deficit it currently runs, the National Development Plan (NDP) II (2017-2021) acknowledges international trade both as a challenge to be addressed and as an opportunity. Trade-related goals are integrated into the NDP II Economic Sector objective, aligned with Sustainable Development Goal 17. The GoSL aims at increasing the overall exports to GDP share by 10% as well as reducing the imports to GDP share by 20%. As potential interventions, the government takes a strategic export-import policy that aims at both promoting and diversifying exports through export promotion and increased local value addition, while substituting imports by promoting local production catering for local demand for basic goods.

In terms of trade in services, the NDP II (2017-2021) identifies certain services sectors as key for the development of the country, most notably tourism, finance, insurance, transport, and Information and Communication Technologies. It envisages tourism accounting for 2% of the country's GDP, improved infrastructure in key tourist sites, increased number of financial institutions operating in the country, increase capacity for air freight transport, improved transport infrastructure, enhanced e-government services or an improved ICT skills base. The NDP II also indicates the need for developing dedicated sectoral policies for each of these sectors, albeit the relevant ministries have seemingly not yet published these strategies. Action to develop these sectors should result in Somaliland increasing its trade in services position in the region.

Within this context, the current administration has the mandate to elaborate the National Trade Policy, as well as related policies such as the National Industrialisation Policy and the National Transport Policy. Similarly, the relevant laws/regulations should be drafted and presented to parliament/cabinet for approval. The main Ministry tasked with the design, consultation and implementation of the trade policy and related laws/regulations is the Ministry of Trade and Tourism. Despite the Ministry making progress in advancing the enabling environment agenda and promoting private sector development, to date there has been limited success in the elaboration of the policy. The development of the policy has been a national priority since, at least, the first National Development Plan (2012-2016) (MoPND, 2011).

In addition, as opposed to its neighbours, the lack of recognition makes it challenging for Somaliland to enter into bilateral and multilateral trade agreements. This notwithstanding, the country has been able to gradually strengthen its diplomatic and strategic ties by signing Memorandums of Understanding and through other mechanisms with Kenya, the UAE, Taiwan, and Ethiopia (Collins, 2021; UNCTAD, 2016). Stronger diplomatic relationships can promote foreign direct investment (FDI) as well as trade. Indeed, Somaliland has already been able to attract investment from several foreign companies, including DP World, Coca-Cola, FedEx, Genel Energy, DHL, Shura, and CAT.

In lack of trade agreements with other countries, imports and exports are governed by the government's tariff schedule. Tariffs are designed to tax heavily goods which fetch a relatively high price and are imported often into the country, such as motor vehicles and kat, while subjecting some staple goods and fuels to much lower tariff rates. Some of the most heavily taxed and highly imported goods are passenger cars (90%), cigarettes (80%), khat (65%), and creams, shampoos and perfumes (50%). On the contrary, some of the most highly imported, low-tax products, are kerosene (5%), wheat (7%) rice (7%), cement (10%), and medical products (10%). At the same time, capital and input goods, such as trucks and concrete mixers, are subject to relatively lower taxes (15% and 10%, in this case). Taking all tariff chapters together, the simple (unweighted) average tariff rate is 22% (MoF, 2020b).

In addition to the above, the fact that there currently is no national trade policy does not mean that trade in Somaliland operates in a vacuum or that there are no laws shaping the environment within which trade takes place. In fact, the Parliament has been effective in approving laws and regulations which influence directly or indirectly international trade, including:

- Companies Regulation, under the Companies Law (August 2021)
- Licensing Act (Law No. 98/2021)
- Special Economic Zones Law (Law No. 93/2021)
- Insurance Agency Law (Law No. 92/2021)
- Law on the Registration of Commercial Companies at the Duty Free Zones (Law No. 96/2021)
- Investment Act (Law No. 99/2021)
- Somaliland Ports Agency Law (Law No. 94/2021)
- National Insurance Act (Law No. 92/2020)
- Regulation No. 03/2019 to enforce the Customs Act No. 73/2016 (2019)
- Companies Law (Law No. 80/2018)
- Revenue Act (Law No. 72/2016)
- Customs Act (Law No. 73/2016)

The Customs Act (Law No. 73/2016) and the Regulation to enforce the Customs Act are primary instruments in the regulation of international trade. The Customs Act provides the overarching legal framework. It includes provisions on Rules of Origin (ROO), customs valuation, import and export procedures, duties and exemptions, and appealing mechanisms, amongst others. The Regulation provides further nuance to these provisions. They are both developed by the Ministry of Finance, which is in charge, through the Customs Department, of customs procedures and the tax collection thereof. The Revenue Act (Law No. 72/2016), which provides the MoF with the necessary legal powers for the collection of customs duties, complements these laws.

The Somaliland Companies Law (Law No. 80/2018), Companies Regulation, and Licensing Act (Law No. 98/2021), form the legal basis for the operation of businesses in Somaliland. These include provisions establishing the main requirements to be followed by all companies as well as those which are/will be involved in the Berbera Corridor such as importers/exporters or clearance agents. In this respect, businesspeople are required to register their business with the MoTT and subsequently apply for the relevant license. Currently, registration and licensing of businesses must take place either at the MoTT headquarters in Hargeisa or online. The in-person procedure normally lasts no longer than three days. Depending on the type of business activity, specific requirements may differ. In the case of exporters/importers, they must be Somaliland nationals.

Regulatory and licensing procedures can be a mechanism for the government to regulate the activity of those agents who are, or will be, part of the Berbera Corridor ecosystem and which might be one of the instruments to be used to regulate trade in services. Furthermore, the ability to modify requirements and costs for business registration and licensing can target other agents who will also be indirectly involved in the corridor such as manufacturers. The government is cognizant of the potential this policy tool can have and, for instance, in an attempt to promote private sector activity, firm creation, and formalisation of existing businesses, the MoTT lowered the cost of business registrations by 50% in January 2021 (SC, 2021). In addition to regulating who and under which conditions can legally operate service activities linked to the Berbera Corridor, and related to trade in services, Parliament has recently passed the Insurance Agency Law (Law No. 92/2021) and the National Insurance Act (Law No. 92/2020). This responds to the need for developing an enabling legal framework that can accommodate for demand for insurance products by the companies operating in the Corridor.

Companies might also be requested to obtain a permit from the relevant line Ministry. This is the case for investments in the country by either locals or foreigners (or joint ventures), regulated under the Somaliland Investment Act (Law No. 99/2021). The Act seeks to incentivise private investment while bringing predictability for investors. Investors who obtain the Investment Certificate, which requires a minimum investment of $100,000, are granted a 100% tax exemption on profits for the first 5 years, and 100% duty exemptions on the import of capital goods and raw materials. The regulation also sets out the rules for the employment of foreign staff, grants foreign investors the same treatment as domestic investors, allows for profit repatriation, and protects against uncompensated expropriations. The Act is part of the implementation of the Somaliland Investment Policy, approved in 2019 (MoIID, 2019).

Related to the above, Somaliland has recently laid down the necessary legal basis for the establishment of Special Economic Zones (SEZ), which paves the way for the development of the Berbera Economic Zone. The SEZ Law (Law No. 93/2021) provides for the creation of the SEZ Authority, with exclusive regulatory jurisdiction over all SEZ and tasked with submitting SEZ proposals to the President, and managing the establishment of new SEZ, including the issuance of permits and the coordination of SEZ developers and users. The law is aligned with the provisions of the Investment Act, thereby granting SEZ companies profit and dividend tax exemptions, authorising profit repatriation and unlimited currency exchange and, indeed, granting import and export tax exemptions. With a view on the operationalisation of the Berbera Port, apart from the SEZ Law, parliament has passed the Law on the Registration of Commercial Companies at the Duty Free Zones (Law No. 96/2021) and the Somaliland Ports Agency Law (Law No. 94/2021).

In sum, Somaliland is import dependent for much of its consumption and only exports a limited set of products, mostly accounted for by livestock, raw materials, and natural resources. In addition, one of its main exports, sheep and goats, is concentrated in a particular time of the year and a handful of buyers. The resulting merchandise trade deficit is $1.7 billion. Within this context, the NDP II clearly recognises the importance of international trade to promote prosperity and sustainable growth, but the government has still not designed a comprehensive trade strategy and it struggles to strike deals with neighbouring countries because of its unrecognised status. This said, trade does not operate in a vacuum and several trade-related laws, regulations, and policies, have been recently approved and shape the existing legal framework within which trade operates.

Against this backdrop, the next section explores the opportunities that the AfCFTA and the Berbera Corridor can bring to Somaliland's economy.

4. The AfCFTA and Somaliland

4.1. Taking stock

The African Continental Free Trade Area (AfCFTA) aims to boost intra-African trade, industrialisation, and investment. Ultimately, the objective is for Africa to operate under a common market with the free movement of goods and services, capital, and labour. The AfCFTA negotiations have been structured into two main stages. Phase I regulates the provisions that cover trade in goods, trade in services, and the settlement of disputes. Phase II concerns investment, intellectual property rights (IPR), competition policy, and digital trade. Phase II negotiations are ongoing. The AfCFTA foundational agreement, with the first three protocols, was signed in March 2018 by 44 countries, and as of October 2021 it had been signed by a further 10 countries and ratified by a total of 38. Trade under AfCFTA officially started in January 2021 and is applicable to those countries which have deposited their instruments of ratification.

Under Phase I, countries are expected to remove trade tariffs for 90% of product categories over a period of five years (10 years for least developed countries). Out of the remaining 10% product lines, 7% shall be considered as sensitive goods and should be liberalised over a period of 10 years (13 years for least developed countries). Finally, countries can exclude 3% of product categories from tariff reductions (AU, 2018a). In addition, trade liberalisation consists, indeed, not only of lowering/removing tariffs, which in many African countries are already low given their participation in one or more regional trade agreements, but also of fostering trade by removing non-tariff barriers (NTB)[3]. Regulations related to NTB such as sanitary and phytosanitary (SPS) measures are incorporated in the Annex of the 2018 AfCFTA Agreement (AU, 2018b).

Following the implementation of these measures, boosting trade is expected to promote inclusive growth through various mechanisms. First, spurring intra-African trade, which is more intensive in manufacturing than extra-African trade, is likely to promote industrial development through the emergence of regional value chains. Second, it can enhance food security by unleashing intra-African agricultural trade, currently underexploited due to high tariff rates, NTBs, and poor infrastructure. Third, a more vibrant intra-regional trade is estimated to create millions of jobs annually. Fourth, it can address gender inequality provided trade is expected to expand in key female labour-intensive industries. Finally, it can increase the competitiveness of small-scale enterprises (UNECA, 2020). Indeed, WB (2020) estimates that under AfCFTA continental income could increase by 7% and intracontinental exports by over 81% by 2035.

In the case of Somaliland, the country's capacity to benefit from the AfCFTA is critically determined by its unrecognised status. In this respect, the options for Somaliland to formally enter into multi-lateral agreements seem, in principle, limited, and indicate that in the short-term it shall not be eligible to formally join the AfCFTA. AfCFTA membership explicitly requires state parties to be members of the African Union, and so far the African Union has not vowed in favour of Somaliland's recognition (ISS, 2020). A possible alternative would be accessing

[3] Non-tariff barriers defined herein as "policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both" (UNCTAD, 2019).

AfCFTA privileges through Somaliland's official status as part of Somalia[4], but that is likely to not be practical given the lack of cooperation between the two governments. In this respect, there is no evidence that Somaliland currently benefits from preferential treatment by countries which Somalia has trade agreements with, such as in the case of COMESA members. Finally, shall Somaliland unilaterally abide by the AfCFTA protocols, it is unclear the extent to which African countries would apply reciprocal treatment to Somaliland without first formalising trade relations through bilateral agreements.

In the event that Somaliland were able to join the AfCFTA, an often-cited challenge is the high dependence of the government revenue on customs duties. As has been outlined in Section 2, 41% of Somaliland's budget comes from import tariffs. This is an anomalous situation in comparison to other African countries' government budgets. For African countries, the average share of tariff revenue coming from imports is less than 10%. For neighbouring countries, the figure is 13.9% for Ethiopia, and 6.9% for Kenya (WB, 2018a; WB, 2021b). Thus, while this risk is not considered as particularly concerning in most estimates, which predict average revenue losses could be less than 1.5% for 49 out of 54 countries, the case of Somaliland might deserve special attention (UNCTAD, 2021; WB, 2018a; UNECA, 2020). Moreover, and in contrast to other countries, Somaliland would most probably not be able to effectively borrow funds from abroad to compensate for temporary revenue losses.

There are three arguments that could help address these concerns. First, since Somaliland is not solely dependent on intra-African trade for its customs revenues, the impact of lowering tariffs with these countries could be cushioned by tariffs against imports from non-African countries. In this case, the percentage of customs revenue collected by customs other than Berbera, and therefore susceptible to be foregone by trade integration with other African countries was 32.8% during the first six months of 2020[5] (MoF, 2020a). Second, the bulk of Somaliland's imports is concentrated in a few products, and the government could use the 7% and 3% buffers to protect revenue from taxes on these goods for a longer period of time while the country finds a suitable compensation mechanism. Third, an overall increase in both trade volumes and values could partly compensate for some of these losses, and/or the savings that would accrue to traders and households could revert back into the treasury through an increased tax base

Shall these concerns be overcome, implementing the AfCFTA protocols could bring important benefits to Somaliland's economy. Given the high tariff rates currently applied by Somaliland's customs authorities, liberalisation of trade in goods could contribute to increase food security, facilitate access to basic goods such as pharmaceutical products, and reduce SMEs intermediate input costs. In this respect, while Somaliland's import tariffs imposed on basic food items are low in relation to other product lines, in absolute terms these are still considerable (approximately 10%), and there are important food items such as frozen chicken, fruits and vegetables, or shampoo, which face higher tariffs, of between 35% and 50%.

In addition, the trade in services protocol shall offer Somaliland the opportunity to source highly capable firms to operate in sectors that are currently underdeveloped, and which will be critical for the implementation of some of its trade integration projects such as the Berbera Corridor. Furthermore, Somaliland would benefit from the fact that the AfCFTA is likely to increase FDI

[4] Somalia has yet to ratify the AfCFTA agreement and is in the early stages of the WTO accession process. It joined COMESA in 2018 but as of 2020 Somalia's exports were not subject to COMESA FTA rules (TRALAC, 2020).
[5] This notwithstanding, there is a significant part of containers arriving at Berbera Port that are shipped from Egypt, Djibouti and Kenya.

flows within the continent. Somaliland has a series of high-potential export sectors in which increased investment would result in enhanced competitiveness and productivity levels.

Importantly, even in the likely event that in the short- and medium-term Somaliland does not join the AfCFTA, this shall not necessarily imply that the country cannot take advantage of the momentum being built around the AfCFTA to boost trade. More concretely, the ways in which Somaliland could benefit from the AfCFTA are structured herein into three areas: (i) reducing domestic non-tariff barriers by aligning laws and policies with those of the AfCFTA protocols, (ii) target opportunities for products and services with high export potential, and (iii) enter into bilateral trade agreements.

In particular, it is posed that a strengthened trade position through an AfCFTA-aligned regulatory and policy framework (Section 4.2.) and an increased export potential (Section 4.3.) will facilitate Somaliland entering into bilateral agreements with its neighbours, the latter probably being the most realistic scenario in the short- and medium-term. Based on this, Section 4.4 will explore the main opportunities and challenges of processes of trade integration between Somaliland and its main trade partners under the context of the AfCFTA by focusing on the case of the Berbera Corridor, which is currently the most tangible trade integration project in the country and the one with the greatest potential to harness the momentum built around the AfCFTA. Results are integrated into a SWOT-type of diagram (Table 6).

4.2. Aligning trade-related laws and policies

The AfCFTA negotiations will result in the harmonisation of trade facilitation measures, substantially reducing non-tariff barriers. With a focus on the Protocol on Trade in Goods, for which the Annexes have been published, this section looks into three often-cited sources of NTB to trade by enquiring whether Somaliland has (i) relevant legislation in place, (ii) developed targeted policies, and (iii) established a designated public authority. Reference is made to the AfCFTA agreement provisions and to potential alignments. The areas under review are customs procedures, rules of origin (ROO), and technical and sanitary and phytosanitary standards. A summary is provided in Table 4. Beyond NTB to trade, Somaliland might also need to step up action to prepare for the implications of Phase II protocols. As an illustration, the section comments on the current state of the Intellectual Property Rights regime in Somaliland.

With respect to customs procedures, in accordance with available information, these shall not be excessively burdensome. The Ministry of Finance has developed detailed provisions on import and export processes in Regulation No. 03/2019 under the Customs Act (Law No. 73/2016). The Regulation is comprehensive and covers a wide range of trade-related matters including customs valuation, rules of origin, customs declaration procedures, relevant documentation, and simplified procedures, amongst others. In some cases, provisions draw from existing COMESA and WTO protocols.

In terms of implementation, in 2018 the Ministry of Finance introduced a relatively simple Goods Declaration Form (GDF), to be used for both import and export procedures. Apart from goods declaration, traders must attach supporting documentation, which includes invoices, packing list, business license number, and export licenses/authorisations. Once accepted, customs authorities proceed to the valuation and classification of goods, and complete the Single Administrative Document (SAD), which identifies the duties to be paid. Upon payment, goods shall be released. The MoF is also planning to introduce an online Customs

Management System that traders shall use to submit the required documentation before the goods reach Somaliland customs. In addition, the Regulation sets out options for applying for authorisation to file simplified declaration forms provided certain conditions are met.

With respect to quality standards and SPS, in 2010 the government established the Quality Control Commission (QCC), and later in 2014 parliament approved the Quality Control Commission Act (Law No. 68/2014). The QCC develops standards, issues certificates, and promotes quality assurance, metrology, and testing. The agency is also tasked with inspecting imports and exports. In 2021, the Commission inaugurated a new lab and, with support from TradeMark East Africa, launched 16 new standards to support local industries reach regional markets in the oilseeds, edible fats, cereals, pulses, livestock and beverages sectors. According to its 2020-2024 Strategic Plan, the QCC plans to develop more standards in the food, horticulture, pharmaceutical, fuel, and construction sectors; streamline inspection procedures with international standards; and deliver private sector training programmes on the adoption of standards and application for certificates (QCC, 2020).

The AfCFTA provisions on Technical Barriers to Trade and SPS (Annex 6 and 7) strengthen the importance of harmonising measures across African countries based on international standards and guidelines, not least by promoting state parties' participation in the work of the International Organisation of Standardisation (ISO), the African Organisation for Standardisation (ARSO), and the World Organisation for Animal Health (OIE), amongst others. Generally speaking, the AfCFTA Agreement mandates members to comply with the WTO Technical Barriers to Trade Agreement. Endeavouring to align quality control and standards procedures with those of the AfCFTA would ensure greater harmonisation with Somaliland's neighbouring countries and their national implementation strategies, ultimately facilitating access to regional markets while ensuring the quality of imported products. According to QCC (2020), Somaliland is not a member to any of the abovementioned organisations.

A third area that requires attention is that of Rules of Origin. ROO are a set of criteria used to determine the country of origin of a product. In Somaliland, the Customs Act (law No. 73/2016) determines that goods originate in a country if they have been (i) wholly produced or (ii) substantially transformed in that country. Whereby preferential trade terms have been granted, the Act commands exporters to present a Certificate of Origin, issued by the competent authority. In practice, however, no evidence has been found on the issuance of Certificates of Origin in Somaliland and, according to the Goods Declaration Form and MoF (2021e), exporters are currently not required to indicate the country of origin of their products. While this might be due to limited exports and the lack of trade agreements with other countries, Somaliland will need to put in place the relevant competent authorities and ROO certificate procedures so as to be able to benefit from greater trade integration projects in the region.

Also, current acts and regulations do not specify the circumstances and mechanisms that would grant products the consideration of being 'sufficiently worked or processed' so as to be awarded a Certificate of Origin. Somaliland could draw on AfCFTA's efforts to harmonise ROO procedures by aligning its own certificate requirements with the four types of conditions specified in the Annex II of the AfCFTA 2018 Agreement: (i) value added, (ii) non-originating material content, (iii) change in tariff heading, and (iv) specific processes. Similarly, Somaliland customs could adopt AfCFTA's Certificate of Origin, Origin Declaration Form, and

Supplier/Producer's Declaration, which member states are also expected to integrate into their customs procedures.

Table 4. Action to address non-tariff barriers

NTB Area	Customs procedures	Standards and SPS	Rules of Origin
Laws and regulations in place	Customs Act (Law No. 73/2016), Regulation 03/2019	Quality Control Commission Act (Law No. 68/2014)	Customs Act (Law No. 73/2016), Regulation 03/2019
Policies formulated	Insufficient/undetermined	QCC 2020-2024 Strategic Plan	Insufficient/undetermined
Dedicated agency established	MoF Customs Department	Quality Control Commission (QCC)	Insufficient/undetermined
Alignment with AfCFTA protocols	Moderate	Probably Insufficient	Probably Insufficient
Implementation	Moderate	Moderate	Insufficient/undetermined

Source: Author.

As mentioned at the beginning of this section, beyond NTB and in relation to Phase II negotiations, a further area that will require attention by Somaliland authorities is that of Intellectual Property Rights. Despite IPRs being acknowledged in Article 16(2) of the Somaliland Constitution ("the law shall determine the rights to authoring, creating and inventing"), Somaliland does not yet have an IPR law. The tasked Ministry with this responsibility is the MoTT, which in its annual 2020 plan outlines a work plan to deliver the IPR law, yet the Act has still not reached parliament (MoTT, 2020a). This does not necessarily mean that trademarks and inventions are not registered or that there are flagrant IPR infringements. In practice, the MoTT has a functioning Somaliland Intellectual Property Office (SOMIPO) and inventors often rely on the publication of cautionary notices in both Somali and English newspapers (MoTT, 2021d). However, this area warrants action shall Somaliland align IPR regulations with the upcoming AfCFTA Protocol on Intellectual Property Rights.

In light of the above, the AfCFTA protocols provide an excellent opportunity for not just aligning existing laws and policies, but also for the establishment of regulations that are so far non-existent. In this respect, Somaliland can draw both from the AfCFTA protocols and Annexes and from neighbouring countries' AfCFTA implementation strategies. Harnessing the benefits of harmonised trade-related instruments will require Somaliland to take action to alleviate NTB by addressing existing gaps in the legal framework, enacting targeted policies, establishing dedicated agencies, and ensuring implementation. In consequence, on the one hand alignment with state-of-the-art AfCFTA provisions should greatly facilitate trade with partners even under current circumstances (non-recognition). On the other hand, better alignment with these instruments should facilitate both a hypothetical membership of Somaliland in the AfCFTA and Somaliland's current and potential bilateral trade negotiations with African countries.

4.3. Targeting opportunities for products and services with high export potential

The increase in continental incomes as a result of expanded intra-African trade could generate a demand-pull effect on Somaliland's export sectors and become a source of foreign direct investment. Moreover, much of Somaliland's exports are destined to Gulf countries and exports to African countries are limited to a few products and to Horn of Africa neighbours. Therefore, the AfCFTA, through increased demand for African goods and services, can give Somaliland an opportunity to strengthen and diversify its trade position in the continent. Furthermore, opportunities will only be greater shall Somaliland align laws and policies with those of the AfCFTA protocols, as discussed in Section 4.2. In this respect, in the short- and medium-term, the GoSL can complement these actions with efforts to untap the vastly underused potential of products in which it has a strong comparative advantage. An overview is offered in the following lines.

First, Somaliland is endowed with vast fish resources, with an estimated average annual value of potential fish catch of $32 million, approximately 11% of 2020 export value (MoTT, 2013; MoF, 2021d). WB (2016) indicates that only 3,000 tons of fish are fetched locally out of a potential catch of 180,000-200,000 tons. Local demand is weak due to fish consumption not being particularly popular in Somaliland, whereby people have a strong preference for camel, sheep, goat, or cattle meat over seafood and fish. Fish is normally caught by small-scale fishers using rudimentary fishing equipment and small boats. Supply lines delivering fish to the hinterland are in place but do not often reach other countries, as the analysis of trade exports has shown in Section 3.1. Hence, trade facilitation could help boost fish production and exports towards Somaliland's neighbours such as Egypt, Kenya, Ethiopia, or Sudan, which in 2019 imported $564, $22.3, $1.6, and 0.$53 million in fish and crustaceans. Total African imports of fish accounted for $4.4 billion in 2019 (OEC, 2022).

Second, Somaliland has a comparative advantage in the production of gums and resins. These are harvested from trees that grow mostly in the Sanaag region. Resin and gum trees, and especially the Boswellia tree (frankincense resin), only grow in a limited number of regions in neighbouring Ethiopia, Puntland, Yemen, and in a few Asian countries. However, the government does not have a policy or regulation in place for the promotion of these products and they currently suffer from overharvesting. In fact, the long-term unsustainability of tapping practices has been intensified by an increase in market demand, resulting in an increase in the average frankincense resin price per kg from $1 to $6-9 (Hargeisa market) (DeCarlo et al., 2020). Being able to exploit these resources also requires infrastructure investments in the Sanaag region that allow the produce to be exported more effectively. While these products are mostly sold to European markets, Somaliland could use the opportunity of the AfCFTA to first regulate and standardise the market, and second diversify towards African consumers. This could also help alleviate inter-regional economic imbalances.

Third, it is estimated that Somaliland has important oil reserves and plenty of potential for wind and solar energy. As per the former, in December 2021, Genel Energy signed a farm-out agreement to explore and potentially extract 5 billion barrels of prospective resources. Regarding renewable energy, Somaliland is particularly well endowed with wind resources, especially in the coastal regions with speed potentials between 30 and 45 GWh/km^2. Solar energy is also abundant, and together with Puntland, Somaliland has one of the highest daily averages of total solar radiation in the world. Some renewable energy projects have already been implemented in parts of Somaliland. In June 2021 German-based DHYBRID installed 8 MW of solar power generation capacity connected to Berbera's electric grid (Varley, 2021). In 2014, UNDP and the Ministry of Health joined forces in installing solar panels at Burco Hospital, which reportedly covered 75% of the hospital's electricity demand. Now that the costs of onshore wind turbines and solar PV installations have dramatically decreased, investment in these areas is particularly attractive and could become an important source of FDI inflows that, together with infrastructure improvements and an enabling regulatory environment, could help create a renewable energy hub in the region (Shuraako, 2016).

Fourth, Somaliland's tourism potential is clearly underexploited. The country is home to Laas Geel, a very well-preserved series of cave paintings dated from 3,000-8000 BC that are acclaimed as one of the most important archaeological sites in the Horn of Africa, or the al-Qiblatayn mosque in Zeilac, one of the oldest mosques in Africa. Similarly, Taleex is one of the best-preserved Dervish-era structures. Berbera and Sheikh have well-established tourist attractions such as snorkelling activities in the case of the former. Yet again, infrastructure is weak, there is no tourism policy, and the government struggles to attract potential tourists despite what the country has to offer. While some African tourists have been visiting the country in the past three years, numbers are still low and, in fact, most tourists come from either the US or Europe (MoTT, 2021b). A greater appetite for intra-African tourism combined with raising incomes could certainly boost African visitors to Somaliland. This is especially relevant now, when tourists from the Global North are only visiting in low numbers due to the COVID-19 pandemic.

Relying on the strengthened position of these sectors due to increased demand from African countries could be used to promote value chain development through (Hirschman-like) linkage effects. Fish products can be processed into canned, frozen fish, fish oil and dry fish. Frankincense and myrrh can be made into oil, which normally fetches high prices in end markets. In the case of renewable energy, the sector would trigger, at the very least, domestic activities in the repair and maintenance sector and ideally in other, more advanced manufacturing activities. Tourism promotion would help upgrade Somaliland's hospitality, insurance, and passenger transport sectors. Such developments would be in line with AfCFTA's key objective of promoting industrial development through diversification and regional value chains.

Before ending this section, it is important to recognise that the analysis above hinges upon the assumption that as a result of the AfCFTA African countries will experience real income gains. In this respect, WB (2020) calculates that under AfCFTA neighbouring Ethiopia, Kenya and Egypt could experience real income increases of 9%, 11%, and 7%, respectively, by 2035. At the same time, UNECA (2020) estimates that AfCFTA reforms could lead to increases in exports and imports totalling $176 million for Ethiopia, $256 million for Kenya, and $18 million for Djibouti. However, estimates are sensitive to changes in the underlying assumptions of the models. For instance, WB (2020) calculates that if removing NTBs does not benefit non-AfCFTA countries[6] continental gains could decrease to 1.2%. Therefore, gains from the AfCFTA and particularly increased trade with AfCFTA members are not necessarily guaranteed.

[6] The main AfCFTA scenario assumes that the reduction in NTB barriers will facilitates trade with non-AfCFTA countries. This is because many NTB do not discriminate by products' country of origin. For instance, streamlining customs procedures benefits all trade partners regardless of whether they are part or not of a prevailing trade agreement.

This notwithstanding, even in the case AfCFTA does not have a significantly positive impact on incomes, there is room for Somaliland to enhance the competitiveness of the abovementioned sectors, especially in fisheries, gums and resins, and tourism, and strengthen its trade position in the region from such a supply-side approach. In turn, as argued in Section 4.2., a strengthened trade position and a well-aligned regulatory and policy framework with that of the AfCFTA provisions, shall facilitate Somaliland's trade integration efforts with its main trade partners. A concrete perspective is appraised by looking into the Berbera Corridor. Given Ethiopia is Somaliland's main trading partner in the continent, together with Somalia and Djibouti, analysing the Berbera Corridor project and its implications in greater detail offers a useful case study for future trade integration projects within the context of the AfCFTA.

4.4. Entering into bilateral trade agreements: The Berbera Corridor

The Berbera Corridor is a transport and infrastructure project connecting Ethiopia's capital Addis Ababa with Somaliland's Berbera Port. In total, the corridor spans 937 kilometres and passes through the main cities of Addis Ababa-Harar-Jigjiga in Ethiopia (696 km), and Wajaale-Hargeisa-Berbera in Somaliland (241 km). In Somaliland, the Corridor has three key components: the Berbera Port, the road infrastructure connecting Berbera and Wajaale, and the Wajaale Ethiopia-Somaliland border. The project is framed within a larger country-wide strategy to promote trade and economic development which includes the establishment of Special Economic Zones (SEZs).

Figure 4. (a) Berbera Corridor, (b) Berbera Port and Economic Zone

Source: Ciabarri (2017); DP World Website (https://www.dpworld.com/bez)

Berbera has been a trade hub since pre-colonial times and has historically played an important role in Somali pastoralist trade networks. The first road from Berbera to Harar was built during the Italian invasion of British Somaliland in 1940. During the post-colonial period, the Port saw significant development due to investments made by the Soviet Union first and the US thereafter. During this period, the Port was already channelling as much as 60% of Somalia's exports, primarily livestock herded by Somalis hailing from the Isaaq and Darood clans in Northern Somalia (today's Somaliland) and today's Somali Regional State of Ethiopia (SRS). Clans would control part of the trade routes and levy 'taxes' in exchange for protection. After declaring independence in 1991, ensuring the Port could continue operating and controlling its revenue was key to the creation of Somaliland's state apparatus (Stepputat and Hagmann, 2019).

Since the 2000s, the GoSL has identified the Berbera Port as a potential source of economic development. However, the difficulties in raising capital in international financial markets precluded the government from upgrading the Port's facilities. The most decisive event in changing this trend was the joint venture signed between Dubai Ports World (DP World) and the GoSL in 2016, creating DP World Berbera. In March 2018, it was announced that the Ethiopian government (Ethiopian Shipping and Logistics Services Enterprise (ESL)) would join the venture by buying 14% shares from DP World and 5% from the GoSL, making the final share between DP World, GoSL, and ESL, 51%, 30%, and 19%, respectively. DP World started operating the port in January 2017.

Under the agreement, DP World would operate and develop the Berbera Port for a period of 30 years, which entailed an investment of $442 million in the establishment of a multi-purpose port facility and a free economic zone close to the port. Land ownership would be in the hands of the Somaliland Ports Authority. Furthermore, the Somaliland government shall receive an annual retribution of $5 million plus 10% of port-generated revenue from handling services. Other parts of the agreement also included Dubai building a four-star hotel in either Hargeisa or Berbera, the road from Berbera to Wajaale, and granting Somalilanders favourable migration terms to be able to work in the UAE[7]. By striking this deal, apart from upscaling operations in the Port and contributing to operationalising the Berbera Corridor, Somaliland hopes to strengthen its case for international recognition (Cannon, 2017).

The establishment of the Corridor responds as much to economic as to geopolitical motives. Ethiopia is eager to diversify its main source of imports, Djibouti's Doraleh Port, which accommodates virtually all of Ethiopia's maritime traffic (UNCTAD, 2018). In this respect, under the agreement to join DP World Berbera, Ethiopia estimates to divert around 20% of its international trade flows from Djibouti to Berbera, thus guaranteeing the commercial viability of the project (GoE, 2016). On the other hand, at the time of the agreement the UAE had strengthened ties with Eritrea against Ethiopian interests, and the latter sought to convince the UAE to shift investment and diplomatic relations from Eritrea towards Berbera/Somaliland[8] (Ramani, 2021). This coincided with a row between a senior Emirati diplomat and a high-rank Djibouti military officer, leading the Djibouti government to attempt to renegotiate the DP World 30-year concession (2006-2036) to operate the Doraleh Port. In 2018, the Djibouti government appropriated DP World's shares of the joint venture and terminated the concession (Reuters, 2021).

Despite the momentum built around the Corridor in 2016, little progress was made in terms of infrastructure development during the period 2016-2018. It was only in 2018-2019 that investments started to materialise. As of now, substantial progress has been made in the development of both the Port and the Berbera-Wajaale road. The latest developments are the inauguration of a new container terminal that increases annual container capacity from 150,000 twenty-foot equivalent units (TEUs) to 500,000, which concludes the first investment phase; the partnership between DP World and CDC to invest 1.3 billion in 3 ports in Africa, Berbera being one of these; the launch of construction works for building the Hargeisa bypass in May 2021; and the inauguration in November 2021 of the renovated Berbera International Airport as well as progress in upgrading the 140km road between Wajaale and Berbera.

[7] The UAE was also meant to build a military base in Berbera, the plan that was abandoned in 2019.
[8] The UAE officially dismantled its base in Eritrea in 2019.

Furthermore, as DP World proceeds to implement Phase 2 investments, the Port will see an extension of the quay to 600m and seven more Ship-to-Shore gantry cranes (Donelly, 2021).

In 2020, the total number of containers arriving at the Port was 47,374, with an average of 3,978 containers per month. The arrival of containers in 2020 was slightly lower than in 2019 (-4%), most probably due to the impact of the COVID-19 pandemic. The arrival of containers has dramatically increased in comparison to 2002, when the Port only handled an annual volume of 5,532 containers. With respect to ships, a total of 354 vessels called at the Port in 2020, similar to the 353 recorded in 2019, and most of these carried bulk food and containers. Both in 2019 and 2020, arrivals were relatively stable throughout the year (MoF, 2021d).

These figures primarily reflect the result of investments in hard infrastructure, and the number of cargoes arriving at the Port is expected to grow in light of the latest developments, outlined above. With respect to soft infrastructure aspects, progress has not been so encouraging. Indeed, challenges related to trade facilitation are particularly relevant, primarily hurdled by the lack of a comprehensive trade agreement between Somaliland and Ethiopia that can encourage action to address tariff and non-tariff barriers. With respect to tariff barriers, tariffs in Somaliland and Ethiopia are relatively high in comparison to other countries in the region (WB, 2021b; MoF, 2020b).

In addition, Ethiopia's attempts to clamp down on informal cross-border trade have often been accompanied by the introduction of NTB. In the 1990s and early 2000s, Somaliland residents were allowed to trade in the SRS, in particular in the trade hubs of Hartasheikh and Jigjiga. At the same time, much of the livestock that was exported through Berbera came from the SRS, crossing the border through informal routes and avoiding Ethiopian customs authorities (Devereux, 2010). As mentioned, the approach to what was a de-facto open-border policy changed in the late 2000s. Since then, Ethiopia has increased the number of customs posts in key border points and has made it virtually impossible for Somaliland residents to trade in the SRS. At the moment, only trucks with an Ethiopian plate, operated by traders who are Ethiopian nationals, and who hold a Letter of Credit, can trade in Ethiopia (Kefale, 2019; Abdi and Hagmann, 2020).

On the other hand, Somalilanders living in the SRS are allowed by Somaliland authorities to cross the border and buy goods coming from Berbera and arriving in Wajaale. However, some of the trade related to SRS residents returning from Wajaale with goods to be sold in the SRS happens through informal means, allegedly to avoid paying the high import taxes collected at Ethiopia's customs posts but also as a result of the abovementioned NTB. Also, it is likely that goods imported through Berbera and destined to be sold in Ethiopia have already paid (Somaliland) import taxes at the Berbera Port and are, in fact, being re-exported (Kefale, 2019; Abdi and Hagmann, 2020).

Table 5. Types of trade passing through Wajaale

Products[1]	Origin	Destination	Customs	Formal/informal	Traders' nationality[2]
Several (pasta, electronics, clothing, vehicles, others)	Third country	Ethiopia (transit)	Berbera Wajaale	Formal in Berbera Mostly informal in Wajaale	Somalilander Ethiopian SRS
Several (pasta, electronics, clothing, vehicles, others)	Third country	Somaliland	Berbera	Formal	Somalilander
Very limited (Fruits, vegetables, scraps)	Somaliland	SRS	Wajaale	Formal and informal	Somalilander, Ethiopian SRS
Several (vegetables, electronics, clothing, vehicles, others)	SRS	Somaliland	Wajaale	Formal and informal	Mostly Ethiopian SRS, Somalilander
Undetermined	SRS	Third country (transit)	Wajaale Berbera	Formal and informal in Wajaale Formal in Berbera	Ethiopian SRS, Somalilander
Livestock	SRS	Somaliland	Wajaale and others	Mostly informal	Ethiopian SRS, Somalilander.
Livestock	SRS	Third country (transit)	Wajaale and others Berbera	Mostly informal in Wajaale and others Formal in Berbera	Ethiopian SRS, Somalilander.

Notes: [1] Lists of products as indicative only. [2] Ethiopian nationals are normally Somalilanders relatives of other Somaliland nationals based in Wajaale. It is likely they also hold the Somaliland citizenship.
Source: compilation from Kefale (2019), Abdi and Hagmann (2020), Abdi (2021)

At this stage, it is important to differentiate between transit goods and traded goods that originate in either Somaliland or Ethiopia. Most of the trade dynamics described above apply to transit goods, this is, goods that are either sold by Ethiopians with the sole purpose of being exported to third countries through Berbera, or goods that are imported by Somaliland-based traders with the sole purpose of re-selling them in Wajaale to Ethiopian importers, normally from the same sub-clan, who will then sell the goods in the SRS. With respect to goods originating in either Somaliland or Ethiopia, the former's exports to Ethiopia are limited to a handful of goods. On the other hand, Somaliland imports a significant variety and volume of presumably Ethiopian-made goods, including cars, trucks, clothes, and electronics, amongst others (Kefale, 2019; Abdi and Hagmann, 2020; Abdi, 2021).

Against this backdrop, one of the key instruments to resolve this situation is, indeed, bilateral trade and transit negotiations between Somaliland and Ethiopia. Given the importance of transit goods in total bilateral trade, negotiations could start by agreeing on a bilateral treaty on transit goods. In this respect, a transit agreement was signed in March 2016 but recent evidence indicates the situation might not have changed significantly (Stepputat and Hagmann, 2019). Related to the latter, trade facilitation can also be promoted through a more tailored Simplified Trade Regime agreement, which would support small-scale traders and reduce informal trade at the border by easing trade regulations. In addition, action that is more tailored to goods originating in Somaliland would require signing a trade agreement proper that would regulate tariff and non-tariff measures (Conley, 2017).

Within this context, a strategic approach to trade on the Berbera Corridor project can bring unprecedented value to Somaliland. The fact that the Berbera Port may capture 20% of Ethiopia's export and import flows would mean in and of itself a dramatic increase in the Port's operations. In the short-term, WB (2018) estimated that Djibouti's share of Ethiopian cargo could decline by 10-15% in 5 years, starting in 2021. With respect to the Berbera Port, handled volumes could raise from 3 million tonnes in 2016 to 18.1 million in 2050, with compounded annual growth rates for the container, general cargo, and dry bulk volumes that could reach 8.7% (2016-2030), 3.8% (2030-2040), and 2.7% (2040-2050). CDC Group estimates that by 2035 the investments in the Port could create additional trade equivalent to approximately 27% of Somaliland's GDP.

Somaliland can benefit from this additional trade in various ways. The services sector is poised to reap much of the potential benefits through transport and logistics operations. The main activities that will be promoted are forwarders, clearance agents, shipping agents, ship suppliers, and road transport companies. Moreover, port activities undertaken by stevedores and cargo survey companies will also be likely to be in high demand. In addition, the establishment of the Berbera Economic Zone near the port could generate a cluster of manufacturing activities with the potential to increase exports and foreign exchange revenues. While the domestic manufacturing sector could face greater competition due to the increased volume of goods arriving in the country, the infrastructural developments of the Corridor should allow Somaliland's manufacturing industry to tap into regional value chains.

With respect to the government's treasury, the overall increase in output should increase the country's tax base and potentially allow for greater tax revenues. Despite low profit and income tax rates (6% and 12.3%, respectively), the increase, in absolute terms, of economic activity should generate new sources of revenue. On the other hand, the treasury could also reap benefits by taxing services provided by the Port's operations. Moreover, if the government increases its capacity to collect taxes, the overall benefits could be larger. In this respect, the MoF (2021a) reported an annual increase in domestic revenue collection of 12.3% in 2020 (including a 190% increase in profit tax collections).

In a similar vein to what has been introduced in Section 4.1, a potential agreement to facilitate trade along the Corridor that entails tariff reductions should reduce costs for households and SMEs. Given import of foodstuff and other basic items account for an important share of total imports, reduced prices can increase overall consumer welfare while improving food security and reducing poverty levels. Similarly, access to medicines, which featured as one of the top 10 most imported products in 2020, should also be eased. In addition, reduced input costs for SMEs could improve efficiency and facilitate access to capital goods with technology that could potentially increase productivity levels. The latter is especially relevant for informal industries and SMEs, which do not necessarily benefit from import and profit tax rebates granted by the Somaliland Investment Act (Law No. 99/2021). This notwithstanding, the potential impact would be significantly lower as compared with a situation whereby Somaliland is considered as an AfCFTA member (Section 4.1) due to the fact that a significant part of its imports come from other regional (e.g. Egypt, Kenya) and extra-regional (e.g. China) economies.

The increased demand for both qualified and unqualified labour holds potential for increasing employment and reducing labour market informality, which in turn should also result in greater revenues for the state. Importantly, the Special Economic Zones Law (Law No. 93/2021) and the Somaliland Investment Act (Law No. 99/2021) have specific clauses on local labour content requirements that expect companies to employ 100% of low-skilled workers from the local labour force, and 70% for semi-skilled workers. These measures should help push forward job creation dynamics within the country and be able to capitalise on the 53,000 indirect jobs that the expansion of the Port will create (CDC, 2021). The increased efforts towards formalisation, such as the newly developed online Business Registration and Licensing System (BRLS), shall help ensure companies abide by the existing tax regime, yet for the state to collect income tax revenue further efforts might be needed.

The realisation of these benefits, however, is not necessarily guaranteed. Indeed, the capacity of the local private sector to respond to such demand-induced effects and the nature of any potential agreements between Somaliland and Ethiopia may ultimately determine the extent of these benefits. For instance, with respect to transit good treaties, Somaliland may need to ensure that at least part of the demand for new freight and transport services is not overtaken by more capable companies headquartered in Djibouti or Ethiopia. In parallel, Somaliland should ensure its local logistics companies have the necessary competitive edge to be able to compete and meet the new demand for their services. Indeed, as of now, only nationals can obtain an import and export license at the MoTT, which virtually shelters the sector from foreign competition. Hence the extent to which such provisions are maintained or not in future agreements and the overall ability of the GoSL to shape the market to its advantage will be important.

A note of caution in relation to the trade agreements and the potential loss of government revenue is also warranted. Due to the fact that Ethiopia is one of the main trading partners of Somaliland in the region, these concerns are akin to those exposed in Section 4. More specifically, with a trade and transit agreement with Ethiopia, Somaliland would lose the import tax it currently levies on goods imported from Ethiopia, especially khat, on goods that are re-exported to Ethiopia, and probably the export tax levied in Berbera on goods that transit from Ethiopia to Berbera and to a third country thereafter. According to MoF (2020a), revenue collection from Kailbaydh and Wajaale accounted for approximately 22% of 2020 January-June customs revenue, while the Berbera customs post contributed with 67%[9]. A free trade agreement could entail the loss of the revenue collected by the two former customs (Kalibaydh and Wajaale), while the percentage of goods that are currently subject to customs duties at Berbera and would otherwise qualify as transit goods is unclear.

In contrast to the AfCFTA, however, by negotiating the agreements bilaterally, Somaliland has greater room for adapting the treaties to the interests of the country, and can use this window of opportunity to find alternative funding mechanisms that can compensate for potential revenue losses. For instance, given the vast volume that is expected to be diverted from Doraleh to Berbera Port, a levy on road traffic, or port operation services, might be explored as a compensation mechanism. An alternative option with a less targeted impact on the Corridor's efficiency would be to use other instruments such as the Value Added Tax (VAT), which according to PKF (2017) stands at 6% (fixed rate). Finally, aligned with the AfCFTA

[9] Near Wajaale. Kalabaydh customs post is where khat imports are recorded (Ahmed, 2020). Out of the 22% of total customs revenue, 20.8% were collected at Kalabaydh and less than 2% in Berbera.

protocols, Somaliland might attempt to exclude khat imports from liberalisation as a type of 'sin tax'.

Also, it is worth noting that these agreements and the development of the Port itself are likely to change the existing power balances in the borderlands. In the case of Berbera, for instance, the Port's operations were formerly managed by the Berbera Ports Authority, a state-owned agency with direct access to the Presidency. BPA had maintained important formal and informal ties with the local authorities and had been making donations to the city's mosques, schools, community leaders, and the municipality for nearly two decades. Hence, the takeover of BPA's Port operations by DP World was met with strong contestation by the local population. The latter perceived the central government was gaining influence in the city at the expenses of the dominant local clan (Issa Muse) and to the benefit of the clan of the then-President Silaniyo (Habar Jalo), who had struck the deal with DP World (Ahmed & Stepputat, 2020; Musa & Horst, 2019). After initial discontent, there have been instances of support from the local population to the project (SomalilandSun, 2018).

Further to the three abovementioned conditions key to realising the benefits of the Berbera Corridor (i.e. (i) ensuring appropriate trade deals, (ii) strengthening the domestic private sector, (iii) managing changes in local/regional power balances), the GoSL will need a comprehensive trade strategy that can provide a direction to the country's efforts to maximise the gains from trade. Moreover, the successful implementation of the measures incorporated in the trade agreements shall require the budgeting, planning and operationalisation of specific projects and the national trade strategy should provide a framework and coherent plan for these actions to take place. In addition to the trade policy, the successful operationalisation of the Corridor requires the development of related strategies such as a national transport policy or industrialisation policy.

In sum, assuming that in the short and medium-term Somaliland is not able to formally join the AfCFTA, it is likely that the AfCFTA offers opportunities for Somaliland in three main areas. First, Somaliland can leverage the fact that customs procedures will be harmonised across Africa to follow suit and promote action towards the establishment and alignment of trade facilitation measures. Second, the country can take advantage of trade facilitation efforts and increased incomes in the African continent as a demand-pull effect for the vastly untapped potential of its export-oriented sectors. Building on the former two, the AfCFTA can pave the way for bilateral trade agreements between Somaliland and its main trade partners, with the Berbera Corridor as the most tangible case. In order to maximise these opportunities, it has been highlighted how Somaliland needs to be cognizant of and act in coherence with the risks, weaknesses, and strengths associated with the AfCFTA and the Berbera Corridor projects, summarised in Table 6.

Table 6. Summary of Strengths, Challenges, Opportunities, and Risks: AfCFTA and the Berbera Corridor project

Strengths	Challenges
Peace and stability Privileged geographical location Recent diplomatic accomplishments and conducive geopolitical environment Effective regulatory action in recent years Ample regulatory and policy space Comparative advantages in export-oriented sectors with vast underexploited potential Potential for dynamic comparative advantages in domestic manufacturing and services sectors	Non-recognised status precludes progress towards addressing tariff barriers to trade through trade agreements Lack of overarching policy framework Non-Tariff Barriers; gaps at the domestic level Weak harmonisation of some laws and rules (or implementation thereof) with international standards Government revenue overdependent on customs duties Limited access to international financial markets Limited state capacity to undertake research, situational analyses, design and policy implementation efforts Long-standing, structural challenges faced by private firms; energy cost, access to finance, skills shortages
Opportunities	**Risks**
Increased exports: diversification of export markets and export basket, aligned with NDP II objectives Increased volume of imports (especially transit goods) Increased government revenues through a larger tax base and ability to enact/modify direct and indirect taxes Job creation (low, mid, high-skilled) Increased demand for logistics and business (finance, accounting, insurance) services Potential for tapping into regional value chains Alignment with international trade regulatory standards Improvement of hard infrastructure Increased consumer welfare, potential increase in food security Reduced cost of intermediate inputs, especially for SMEs. Hopes for country recognition	Unbalanced trade agreements Substantial government revenue loss Competition from more capable foreign service companies Competition from cheaper goods imports against local manufacturers Distortion of existing power balances with impact on local/regional stability

Source: author

Finally, this section has identified action at four complementary levels as critical to maximise the benefits of the Corridor: ensuring appropriate trade deals, managing changes in local/regional power balances, strengthening the domestic private sector, and developing a comprehensive policy framework. The next section focuses on the latter two.

5. Harnessing the opportunities: a public-private sector capabilities framework

Extending the analysis in Section 4 and focusing on the Berbera Corridor, this section contends that public-private sector capabilities are fundamental to successfully address the two main priorities identified above: strengthening the domestic private sector and developing a comprehensive policy framework. Recognising that the AfCFTA provides an excellent opportunity for removing NTB and strengthening bilateral trade relations between Somaliland and its trade partners, this section follows from Section 4.4. in that it focuses on the Berbera Corridor as a case study of the impacts and opportunities of Somaliland's participation in trade integration projects.

The capabilities framework builds on the work of scholars studying the growth of the firm and trying to understand how businesses diversify, compete, and acquire new competitive advantages (Penrose, 1995). With reference to economic development, the term has been widely used at the micro-, meso- and macro- levels in the form of, for instance, firm capabilities for innovation (Cirera et al., 2020), countries technological capabilities (Lall, 1992), or sectoral productive capabilities (Mondliwa et al., 2021). At the micro-level, further work advanced the resource-based view of the firm by looking into how firms develop dynamic capabilities in response to changing environments (Teece et al., 1997). More recently, the latter has been combined with theories on the role of the state to argue for a public sector that is capable to lead and set the direction of economic development in instances whereby sociopolitical considerations rather than technical fixes are most critical (Kattel and Mazzucato, 2018).

Taking these insights as a starting point, but using the concept 'capabilities' in its broadest sense (e.g. organisations' 'knowledge, experience, and skills' (Richardson, 1972)) and from a meso/sectoral level perspective, the following lines advance knowledge of the constraints faced by Somaliland's public and private sector actors and the capabilities that they might need to acquire in order to maximise the benefits of the Berbera Corridor.

5.1. Private sector capabilities

For Somaliland to both benefit and facilitate the effective development of the Corridor, it is critical that the companies which services will be in high demand have the necessary capabilities to adjust and grow accordingly. This applies to both logistics and manufacturing sector companies. On the one hand, if Somaliland does not allow foreign companies to undertake import/export activities, as indicated in Section 4.4., it needs to ensure local traders can stand up to the challenge. On the other hand, for Somaliland to be able to retain a larger share of value within the country, manufacturing companies need to be able to tap into and compete in regional markets.

Logistics firms set to reap the gains of increased trade are those involved in the shipping, forwarding, clearance, and road transportation sectors. To attempt to assess the number of formal active companies in the logistics sector, Table 5. below depicts the number of renewed licenses by license type in 2020. According to the Licensing Act (Law No 98/2021), licenses should be renewed on an annual basis, thus it is assumed that companies that renew their license are both active and compliant with the existing laws, two conditions that will be required from logistics companies operating in the Corridor. As Table 5. indicates, the largest group of companies who renewed their license in 2020 were those engaged in import and export activities. However, these companies do not necessarily undertake trade and logistics operations themselves, but normally act as the supplier (producer) or consumer (retailer).

Table 7. Renewed business licenses by quarter and license type, 2020

Type of License	Q1	Q2	Q3	Q4	Total	Perc
Clearance	9	9	9	9	36	5.4%
General Trading	44	79	139	119	381	57.2%
Industry	9	12	16	7	44	6.6%
Services	26	26	51	45	148	22.2%
Shipping	7	5	8	5	25	3.8%
Wholesale	5	9	7	11	32	4.8%
Total	**100**	**140**	**230**	**196**	**666**	**100%**

Source: adapted from MoTT (2021b)

Apart from importers and exporters, the data shows that there were 36 clearance companies that renewed their licenses in 2020. Renewed business licenses for shipping companies totalled 25. To complement these figures, data have been consulted on new firm registrations. Newly registered clearance companies were 47 in 2019 and 38 in 2020, while new shipping firms totalled 14 and 7, respectively (MoTT, 2020a; MoTT, 2021a; MoTT 2021b). These two figures indicate that the number of logistics companies which are set to benefit from the Corridor's investments and are operating legally in the country might be limited. It thus raises questions regarding the capacity of the sector as a whole to meet the demand for logistics services[10]. From this follows that the increase in trade volumes will need to be met by either (i) a substantial increase in the number of firms, (ii) wide formalisation of informal logistic firms, and/or (iii) the growth of existing firms[11].

A similar rationale applies to industrial companies. Table 7. Indicates that only 44 industries renewed their license in 2020. These industries are probably the ones that benefit from the privileges granted by the Investment Act (Law No. 99/2021) through profit tax rebates and import duty exemptions. The Ministry of Trade and Tourism introduced in 2019 a new criterion for classifying industries into 3 'Grades' based on the companies' capital investment. Companies with capital investments greater than $450,000 obtain the Grade A, the Grade B is given to companies with capital investments of between $250,000 – $450,000, and industries with investment levels below $250,000 receive Grade C. Based on the industries that were registered and had requested import tariff exemptions, the total number of active industries in the country increases to 63 (MoTT, 2021a). Amongst these industries, 33 were classified into Grade A, 28 into Grade B, and 1 into Grade C.

These industries produce a limited set of goods including water bottling, construction materials, foam, plastics, furniture, beverages, dairy products, salt, shampoo, steel, fibreglass, and hides, amongst a few others (MoTT 2021a). Matching this information with the export data presented in Section 2. suggests that except for soap and skins, none of the other products

[10] It must be noted that the total number of companies engaged in such activities is likely to be significantly higher if unregistered companies or registered companies that do not renew their license are accounted for.
[11] Further research is needed to assess the extent to which existing, large firms, could meet this new demand.

produced by local industries ranks amongst the top 10 commodity exports, indicating these mostly cater for the local market. Simply put, most of the most prominent industrial companies in Somaliland are not currently competing in international/regional markets. Indeed the hard and soft infrastructure actions under development as part of the Berbera Corridor project shall make it easier for these companies to connect with regional markets. Yet action might be needed to help these firms attain the necessary level of capabilities to compete in local, regional, and international markets.

Despite the need for guaranteeing that firms can successfully respond to the new demand, there seems to be no instruments or plans to ensure that firms and managers develop the required level of capabilities. Filling this gap, Somaliland has a few financial and non-financial institutions that provide business development services, including training and technical assistance. These include the Nordic Horn of Africa Opportunities Fund (Norfund, in conjunction with Shuraako), Innovate Ventures, KIMS Microfinance, and HarHub (MoTT, 2021a). The Chamber of Commerce (CoC) is also expected to be able to support firms in their ventures, although as of now efforts might be required to scale up CoC activities. Except for Norfund and the Chamber of Commerce, the remaining organisations support small-scale companies and newly created enterprises. As the country proceeds into trade integration with neighbours, the services of these organisations will be in high demand and could be used as catalysers of private sector capabilities development. This notwithstanding, their remit might need to be widened so as to account for established medium-sized and large enterprises operating in various sectors.

Partly, enhancing firm performance requires understanding the growth constraints that most private sector organisations often face. According to WB (2012, 2016) the most cited constraint is access to finance. The study found that only 2% of businesses applied for a loan or credit line during 2012, while out of those who did not apply, only 6.5% reported they did not have need for a loan. At the time of the survey, the main items being financed were building supplies and trading goods through *murabaha* and *musharaka* financing. While the sector has definitely improved its performance in the last years, at the time of writing there are only 4 banking institutions in Somaliland (Dahabshiil, Dara Salaam, Premier, Amal) and it is likely that lack of finance continues to constrain business growth[12]. Complementing the banking system, as introduced in Section 2.2., are remittance companies, which also service *murabaha* and *musharaka* products, hence running financial operations beyond traditional family transfers and some of these can have a considerable client base WB (2016).

In addition, and related to the Port operations, insurance services might be limited too, with only 5 registered insurance companies operating in Somaliland: Takaful Insurance of Africa[13], Horn of Africa Takaaful, Som Takaaful, Amana Insurance, and East Africa Insurance. All but the latter two, for which available information is limited, offer insurance products that cover for the loss of maritime and inland cargo and are based in Hargeisa. Some have started in Somaliland relatively recently, such as Horn of Africa Insurance, which was founded in 2018. The insurance sector is supervised by the National Insurance Authority and regulated by the National Insurance Act (Law No. 92/2020). Through its establishment, Somaliland has formalised some of the basic requirements that insurance companies must meet such as minimum capital requirements.

[12] While Parliament passed the Central Bank Law (Law No. 54/2012) and the Islamic Bank Law (Law No. 54/2012) in 2012, there has been resistance to a potential Commercial Bank law.
[13] 'Takaful' refers to a sharia-compliant type of insurance service.

The opportunities arising from the Corridor suggest that, while following solvency and liquidity requirements, banks might need to take a more entrepreneurial role by facilitating finance to either existing firms seeking to expand, or new firm creation. This is particularly relevant since, as displayed in Table 5., it is likely that the expansion of the Corridor requires a substantial increase in the firms operating in the country. Insurance services will be essential to implementing any transit or trade agreement since they are expected, for instance, to supply the appropriate customs guarantees, which in the case of comprehensive guarantees the Customs Act (Law No. 73/2016), Section 90 Article 3a., indicates shall be carried out by companies established in Somaliland.

A second recurrent constraint is skills shortages. WB (2016) reports that there is widespread need for all types of skills, and firms often import foreigners for highly skilled positions and technical or mechanical tasks. Firms indicated accounting and finance, market and trade information, and management, as the occupations that were most difficult to find workers for. Interviews also highlighted that turnover tends to be high for most locally hired workers, which might be linked to the somewhat surprising finding of firms indicating difficulty in finding unskilled workers. In this respect, it is worth noting that the Special Economic Zones Law (Law No. 93/2021) expects that 70% of semi-skilled and 100% of unskilled jobs are filled with local workers, which is also in line with the Investment Act (Law No. 99/2021). Therefore, for companies to be able to successfully operate while complying with regulations and creating job opportunities, there is need to promote skills programmes that target those occupations that will be in most demand. In this respect, there is scope for companies offering in-house training and skills programmes as well as developing mechanisms aimed at employee retention.

A final constraint faced by the private sector that is also mentioned often is high electricity costs. Somaliland has historically had one of the most expensive electricity prices in the world, which disproportionally affects micro-enterprises, in some cases left without electricity access (WB, 2016; Shuraako 2015). In Hargeisa, firms source electricity from the private sector, which in most cases comes in the form of diesel generators. In addition, Somaliland's electricity sector is highly reliant on fuel imports and, as has been highlighted in Section 2., fuel is one of the top 10 most imported products into the country. This makes the private sector vulnerable to price volatility and has pushed the MoTT to issue monthly caps to the retail price of fuel and closely monitor its evolution (MoTT 2021e). In light of the complexity and long-term nature of establishing electric grid infrastructures, decentralised renewable energy options and solar power in particular could be scaled up as a complementary measure.

Finally, while the last three issues are normally related to external constraints to firm growth, this should not prevent firms from taking appropriate action to overcome these constraints to the extent possible. Also, this highlights how public-private cooperation will be critical to enhance firm performance. In this sense, private sector development is dependent upon effective public sector intervention in key areas such as investing in infrastructure (electricity system, transport costs) or successfully negotiating trade agreements. On the other hand, the Somaliland government is dependent upon firms investing in the development of the necessary capabilities to effectively respond to an unprecedented demand for their services, be able to effectively link with regional markets, and develop mechanisms that allow for employee retention and in-house skills development.

5.2. Public sector capabilities

As has been emphasised in Section 4.4., it is key to have a comprehensive and well-articulated policy framework that can provide direction to the government's approach to trade, prioritise efforts, and design and implement projects aimed at the promotion of trade and the reduction of trade barriers. This would call first and foremost for a National Trade Strategy. Similarly, the government has yet not published at least two further policies that would be warranted shall Somaliland maximise the gains of the Berbera Corridor, the National Industrialisation Policy and the National Transportation Policy. There are many reasons why these strategies are still under development and it ought to be noted that lack of action on these matters does not mean the GoSL has not acted swiftly on other issues. This notwithstanding, it is posed that one reason why action might have been limited is public sector capabilities gaps in three areas: research, policy formulation, and implementation.

Research refers herein to data gathering, data management, and report writing capabilities aimed at producing evidence that can inform policy. Thus, it is part of the 'diagnostics' phase of any policy formulation process. In this respect and in relation to the trade policy, according to CSD (2020) 'the Customs Authorities only collect data on 25% of total trade transactions'. Trade data are collected by at least two ministries, the Ministry of Finance (Customs Department) and the Ministry of Trade and Tourism. The Ministry of Finance appears to have a better capacity to collect and process data and works with Sahal Technology in several customs[14]. The Ministry of Trade has published trade data only in MoTT (2020b). The CSD reports trade figures as well. Apart from potential import/export underreporting, which is not unusual in the region, it seems clear from the statistics reports of these agencies that there are at least two further issues.

First, trade values are likely to be significantly underestimated. Product valuation has often relied on a Customs Valuation Book that structures goods into HS categories and assigns fixed unit USD prices to each product. However, unit values are known to be lower than real figures and there are few adjustments made to the book from year to year. This also means that monthly price fluctuations cannot be captured. Furthermore, USD prices are revalued to SLS using an exchange rate set by the government and which might not capture the real exchange rates[15]. Second, there seems to be a certain lack of coordination between ministries, and each agency reports different trade volumes and values; for instance, the MoTT reported an import volume of 98,000 sheep and goats during the first quarter of 2020, while the MoF reported 146,094. MoF (2020d) reported a 2020 import value of $2 billion, against $1.3 billion reported in CSD (2020), with both agencies using different valuation methods.

Understandably, this situation hampers the government's ability to properly undertake situational analyses of current trade patterns in Somaliland, and more importantly, estimates of the potential impact of different policy options, and/or assessments of the full implications of trade agreements, be it a potential transit agreement with Ethiopia, a free trade agreement, or joining the AfCFTA. This is compounded by Somaliland not being included in international trade databases such as UN Comtrade, which otherwise would allow for data validation

[14] According to Sahal Technology website, they cover the 5 customs: Berbera, Wajaale, Kalabaydh, Zeila, Hargeisa airport.

[15] This valuation system is akin to the one defined by the Brussels Definition of Value (market, fictional value) and contrary to the valuation system adopted by the WTO Agreement on Implementation of Article VII (1994) following the Tokyo Round Valuation Code (transaction value). The latter has been adopted by the AfCFTA Agreement (Annex II) (AU, 2018b). Both approaches are provisioned for in the Somaliland Customs Act (Law No. 73/2016). Efforts are ongoing to improve valuation and MoF (2020) expects to start using CIF values.

mechanisms based on matching Somaliland's trade data with those of its trade partners. While it might be unrealistic to expect Somaliland to have, in the short-term, a state-of-the-art trade data collection and processing management system, there is seemingly ample room for improving the current state of trade data, not least given regular publication of import and export statistics that follow international standards such as the use of HS classification codes is a requirement of the AfCFTA agreement (Annex III, Article 3.2a) (AU, 2018a).

Related to the ability to collect and treat data, the key government agencies involved in the Berbera Corridor have only published scant analyses about the sectors under their remit. This might indicate low capabilities in not just collecting data but also analysing and using such information. In this respect, the CSD has never published a business enterprise survey, the Ministry of Industries and Investment has not published any industrial enterprise survey, and the Ministry of Trade and Tourism has not undertaken any micro-firm survey of traders, logistics companies, or similar. In effect, this means that relevant agencies have limited codified knowledge about these activities. While there is probably a wealth of tacit knowledge in such organisations, the lack of knowledge codification can result in important project stoppages due to organisational reshuffles. Most importantly, this indicates that the key agencies in charge of developing the policies that are central to the success of the Berbera Corridor do not have systematic assessment mechanisms to either undertake baseline and/or ex-post studies about the state of the industrial, transport, and trade sectors.

If the two former aspects refer to the importance of building capabilities that allow the government to undertake much-needed diagnostics, a third important capability that the public sector would benefit from strengthening is that of policy formulation. The MoTT 2019 Annual Progress Report indicates plans for the development of two sectoral policies: the National Trade Policy, and the National Industrialisation Policy[16]. According to the Annual Strategic Plan for 2020, policies were given specific timelines and organised across the relevant actors. All of them were expected to be finalised by the end of 2020 (MoTT, 2021c). However, as of now, it seems that policies are still under development. Considering that these policies are of high priority to the current developments in the country and were already scheduled in national development plans, progress could be promoted through increased capabilities in the design and formulation of economic policies.

Further to formulation, capabilities to put in place the necessary planning and implementation frameworks will be key to the realisation of Somaliland's ambition to realise and benefit from trade integration projects. In this respect, Ministries' strategic plans show strong ambition, with the MoF (2019) planning to undertake a total of 83 projects from 2019 to 2023 and the Ministry of Transport at least 43 between 2018 and 2024 (MoT, 2018), while the MoTT (2020c) planned 34 projects to be completed in 2020 alone. While it is challenging to assess the exact degree to which projects have been implemented, available information indicates that some of these strategies had to be postponed and indeed, the Ministry of Finance identifies in various instances poor implementation as a key weakness of the ministry (MoF, 2019b). Strong implementation capabilities, followed by the appropriate monitoring and evaluation frameworks, shall be in place so as to ensure that commitments taken in any potential trade agreements are materialised in policies and specific projects.

As an illustration of key government agencies' action on key areas and complementing the preceding paragraphs, Table 8 displays outputs by area and ministry as available on their

[16] MoTT was formerly Ministry of Trade, Industries and Tourism

websites. It is important to note that both the Ministry of Trade and Tourism and the Ministry of Investment and Industrial Development (MoIID) only have one policy under implementation each. Both the MoF and the MoTT have shown important capacity to develop laws and regulations, while MoPND and MoIID have been less active on this front. Only the MoF has an active strategic plan, while all but the MoIID had an annual work plan for year 2020 or 2021. Similarly, all but the MoIID have engaged in publishing reports.

Table 8. Action by area and ministry as available on ministries' websites

Ministries	Laws and Regulations	Policies	Research, Reports	Annual Work Plan (last)	Strategic Plan (last)
Ministry of Finance	Special Economic Zones Law (Law No. 93/2021) Regulation No. 03/2019 to enforce the Customs Act No. 73/2016 (2019) Customs Act (Law No. 73/2016)	-	Several	AWP 2020	Strategic plan 2018-2023
Ministry of Planning and National Development	Somaliland Statistics Act (Law. 60/2013)	National Development Plan II (2017-2021)	Several	AWP 2021	-
Ministry of Trade and Tourism	Licensing Act (Law No. 98/2021) Companies Act (Law No. 80/2019) Companies Regulation, under the Companies Law (August 2021)	Micro, Small, and Medium Enterprise Policy (2019)	Several	AWP 2021	-
Ministry of Investment and Industrial Development	Investment Act (Law No. 99/2021)	National Investment Policy (2019)	-	-	-

In this regard, strengthening public sector capabilities shall help the GoSL advance trade agreements and trade integration with partners in two complementary ways. On the one hand, negotiating trade agreements requires evidence-based situational analyses that help parties understand their strengths and weaknesses, technical knowledge to delineate potential scenarios, and estimates to comprehend the implications of each scenario. On the other hand, once an agreement has been reached, it is necessary to establish concrete implementation plans, as is the case with AfCFTA's implementing commitments. The greater the extent to which commitments are implemented, the higher the potential for trade facilitation.

Finally, since the Corridor is a project that cuts across the remit of multiple public sector agencies, it is important to identify the ones that are likely to play a greater role in designing the appropriate policies and spearheading agreements. Agencies that could play an important role are the agency responsible for the Treasury (Ministry of Finance, which hosts the Customs Department), development planning programmes (Ministry of Planning and National Development (MoPND), which hosts the CSD), trade policy (Ministry of Trade and Tourism), investment and industrial development (Ministry of Investment and Industrial Development), and transport policy (Ministry of Transport). As non-ministerial agencies, the Berbera Ports Authority and the Quality Control Commission are also expected to play an important role. Finally, the Presidency's leadership will be critical in moving this forward.

6. Potential action points

6.1. Defining objectives

The present report has outlined the opportunities for and potential impact on Somaliland's economy of trade integration projects under the AfCFTA, with a focus on the Berbera Corridor. It has argued that Somaliland can take advantage of the AfCFTA by (i) aligning policies to abide by the AfCFTA protocols, with specific focus on NTM, (ii) promoting export sectors into new African markets, and (iii) entering into bilateral trade agreements. As a cross-cutting theme and based on the case of the Berbera Corridor, the report has outlined how effectively capitalising on these opportunities requires action at two main levels: strengthening the domestic private sector and developing a comprehensive policy framework. By analysing these aspects from a capabilities perspective, Section 5 has looked into some of the constraints faced by public and private sector actors.

Combining insights from sections 4 and 5, the following lines address the main objective of the report and describe areas of action that can guide interventions aimed at implementing the AfCFTA protocols, facilitating trade, and promoting economic development in Somaliland. The first two components are related to more general AfCFTA implementation and adoption areas (sections 4.2., 4.3.), while the remaining guidelines draw specifically from the analysis of sections 4.4. and 5.

Support targeted public and private sector efforts towards the removal of non-tariff barriers: The lack of progress in facilitating trade agreements with neighbouring countries shall be taken as an opportunity to, in the meantime, ensure that Somaliland is ready to effectively implement trade facilitation commitments attached to potential trade agreements. Action on this area can target outstanding NTB or misalignments between the AfCFTA protocols and measures as they currently stand in Somaliland (e.g. IPR regime). Action should combine support to the relevant public sector agencies with private sector training and awareness raising campaigns. Specific action could aim at:

1. Support GoSL efforts to develop an online Customs Management System that allows for the digitalisation of trade customs procedures and facilitates import and export processes.
2. Assist the Quality Control Commission's objectives as defined in the QCC 2020-2024 Strategic Plan, most notably by supporting action to enhance inspection capacity, introduce new standards, and align standards with those if international organisations (ISO, ARSO, OIE).
3. Support efforts to establish and implement ROO procedures with a particular focus on options for adopting and streamlining AfCFTA ROO certificates and forms.
4. Assist the relevant agencies draft an IPR law that can accommodate for the AfCFTA Protocol on Intellectual Property Rights (under negotiation) and enhance the function of SOMIPO.

Promote the development of private sector capabilities in sectors where Somaliland has a comparative advantage. Section 4.3. has argued that the AfCFTA is posed to raise continental incomes and create regional value chains. In addition, enacting trade facilitation measures that ensure the harmonisation of customs procedures and other potential barriers to trade with those of the AfCFTA members is likely to help Somaliland reach regional markets. These two mechanisms could result in a demand-pull effect over sectors in which Somaliland already has a comparative advantage and could help Somaliland diversify its export markets. These actions could be taken directly with the private sector, by supporting the Somaliland Chamber of Commerce, or in conjunction with the relevant ministries. Specific action could aim at:

1. Promoting SMEs capabilities in the fisheries sector combined with improved supply chain infrastructures.
2. Promoting environmentally sustainable practices in the frankincense sector while supporting formalisation of companies along the value chain.
3. Assisting private sector tourism enterprises in attracting intra-African tourism.
4. Financing renewable energy projects

Support public and private sector efforts to address key private sector external constraints across both, sectors where Somaliland has a comparative advantage and sectors that will be critical to the Corridor**.** The report has highlighted that most firms face two major challenges, access to finance and high energy costs. It has also highlighted how remittance companies play an important role in the money lending business by offering murabaha and musharaka financing and the expected importance of insurance companies for the functioning of the Corridor. Similarly, energy and in particular electricity costs have been a long-standing issue in Somaliland. A few renewable energy projects have been implemented in recent years, and Somaliland may need to explore these options if it is to achieve cheap energy access in the short- and medium-term. In the context of the Berbera Corridor, action could aim at:

1. Assess banks' client base and instruments so as to understand the presumably shortage of credit supply currently existing in the economy.
2. Enhance efficiency of remittance companies and improve engagement between the Somaliland diaspora and the local business community.
3. Assess the capacity of current insurance companies to engage with increased trade under the Berbera Corridor project.
4. Support efforts to find alternative options to enhance energy access and cheap electricity prices by assisting or coordinating projects that engage with emerging firms in the oil and renewable energy value chains.

Support the development of private sector capabilities in the sectors that will be most critical to the Corridor. Related to the above, Section 5. has argued that for Somaliland to benefit from integrated trade regimes the capabilities of the private sector need to be strengthened and the main constraints private firms face addressed. In the case of the Corridor, this applies to the services sector: local logistics companies need to be able to respond to the increased demand for their services. And the manufacturing sector: industrial enterprises must be able to connect with the African markets and nurture dynamic comparative advantages. Specific action could aim at:

1. Supporting the development of certificate programmes that deliver training to logistics services companies expected to be operating along the Corridor.
2. Targeting in-house training programmes addressing specific skills gaps and employee retention in industrial enterprises.
3. Export capacity promotion through workshops with key industrial enterprises with high potential for linking with regional value chains.

Support public sector efforts to develop appropriate trade data management systems. According to the CSD (2020), Somaliland could be analysing only 25% of trade data, and for the most part valuation is unreliable. Supporting the development of appropriate trade data management and reporting systems can help the government estimate the potential impacts of trade policies. Importantly, enhanced trade data should also allow for more granular information about trade patterns, including trade partners, products' origin, and appropriate valuation, which to date are seemingly not available. Transparent and readily available trade statistics is also part of the AfCFTA agreement (Annex III, Article 3.2a) (AU, 2018a). Specification could aim at:

1. Developing an online trade statistics portal that ensures that, at least, collected data is analysed and the statistical nomenclatures stated in the AfCFTA are followed (e.g. Harmonised System convention).
2. Assisting efforts to increase the amount of data that is to be collected and treated by improving customs posts infrastructure in regions other than the most important.
3. Supporting internal data management practices in key ministries, exploring the potential for full digitalisation.
4. Supporting efforts to integrate data across the relevant ministries.

Support public sector efforts to increase research capabilities targeted at undertaking diagnostic studies. The lack of capabilities to undertake survey-based research projects that can allow the GoSL entice the required information from the private sector so as to inform policy can limit the ability of the government to formulate evidence-based policies. In-house research teams with strong analytical capabilities ought to facilitate these tasks. It ought to be borne in mind that, precisely because these studies have not been done by the government for a long time, there is an important knowledge gap on what the current situation of various sectors is. Codifying knowledge and systematically analysing the constraints faced by particular sectors is a priority if the government is to legislate and develop policies that can adequately support these sectors. Specific action could aim at:

1. Capacity to deliver one-off survey-based studies. In the context of the Berbera Corridor, and with a focus on situational analyses: logistics agents survey, clearance agents survey, industrial enterprise survey, informal sector survey.
2. Regular Enterprise Surveys: Enterprise Survey, MSME Survey, Industrial Sector Survey, Service Firms Survey.

Support public sector capabilities in policy formulation and implementation. Trade-related agencies would benefit from technical support on policy formulation and implementation. Importantly, action along these lines could provide space for long-term engagements that deliver training catered for meeting specific objectives that go beyond the publication of a particular policy. Most notably, ownership of the policy, consensus building processes through consultation with stakeholders, coordination across ministries, and realistic project plans, should be prioritised as these are likely to increase chances of successful implementation. Focus could be put on the development of the trade, industrialisation, and transport policies. Training programmes shall be coordinated with/support current efforts of the Somaliland Civil Service Institute. Specific action could aim at training and engagement on:

1. The policy formulation cycle

2. Key trade-related concepts and policy toolkit.
3. Key industrial-related concepts and policy toolkit.
4. Implementation plans, including monitoring and evaluation practices.

6.2. Easing implementation

The interventions above highlight the need for supporting Somaliland's public and private sectors so that they are able to deliver outputs that are deemed necessary shall Somaliland benefit from and facilitate trade. With a specific focus on action aimed at delivering outputs that would normally fall within the remit of the public sector, and in recognition that building public sector capabilities in the short term might not always be possible, there are different alternatives that development partners might consider.

Support to data enhancing efforts and in particular the development of an online data portal could be done by commissioning projects that are coordinated by the development partner in conjunction with the relevant ministry/government agency and delivered by a partnership between local and foreign companies. There is a successful precedent already, the development of the Somaliland online Business Registration and Licensing System. The project is managed by the WB/IFC in tandem with the MoTT, and the software solution is delivered by a foreign and a local company. Thanks to the project, MoTT staff has received training and the project has enhanced communication and coordination between MoTT and other relevant ministries (MoF, Attorney General, Ministry of Interior) (MoTT, 2021f).

BRLS is a complex project and its model could be replicated for the development of an online trade data portal. Successful delivery could also result in improved customs infrastructure (especially in less well staffed customs posts), statistics training, improved quality and security of trade data, and better capacity to inform policy. It could also provide an opportunity for enhancing cooperation between the CSD, the MoF, and the MoTT statistics teams, all of which are currently collecting and using trade data differently. An online solution for customs procedures could also be susceptible to this type of approach.

Another option, which would be linked to the need to support public sector research capabilities, would be launching Centres of Excellence that have a clear remit towards generating evidence that can inform policy. This should be done either through or in close coordination with the CSD so as to avoid duplication of efforts. It would also engage local universities. In this respect, there is the precedent of the World Bank's project 'The Eastern and Southern Africa Higher Education Centres of Excellence Project', which built partnerships across universities and scaled up research capacity across different priority areas. In Somaliland, the approach could be based on fostering skills in statistics and data management for policy development. Also on research outputs, there have been instances whereby development partners have coordinated one-off research projects which have generated evidence about Somaliland's economy, such as the World Bank's Somaliland Enterprise Survey 2013.

The often-mentioned limitation of the latter approach, however, is lack of ownership and limited involvement of government agencies in the process, which disincentivises developing research capabilities within Ministries. In this regard, an alternative approach would be to provide targeted support to the statistics teams of the relevant ministries. As is evident from ministerial annual work plans, ministries give, in principle, high priority to data efforts (e.g. MoF, MoPND, MoTT annual or strategic plans) and have dedicated research and statistics teams. Projects that aim at both training and upscaling these team's capabilities and which have a clear objective, might be considered. This could be done in collaboration with the CSI.

With respect to policy development, development partners could provide support by creating Special Purpose Entities that can complement government action in critical areas. An example could be the FCDO-funded Policy Development Facility in Nigeria, implemented by DAI Consultancy. The Policy Development Facility is a rapid response facility set up to support key government agencies in designing and implementing policies. It does so by providing technical assistance and diagnostic studies, amongst others. A second, more ambitious, high-level approach would be to support the creation of a Policy Unit that could provide advice directly to the President and would be charged with developing prime ministerial policy proposals.

When approaching interventions, development partners shall prioritise aligning their proposals with ministerial work plans, which are normally developed annually. For years 2021/2022, some of the most relevant ministries for the development of the Corridor have either developed annual work plans or have 3-year/5-year strategic plans under implementation (MoTT, MoPND, MoF). Finally, year 2022 is critical for policymaking in Somaliland as the country prepares itself for the development of the National Development Plan III, led by the Ministry of Planning in coordination with all relevant ministries. The National Development Plan III preparations require the development of situational analyses and delineating specific projects under newly specified objectives. Close collaboration between development partners and government agencies at this point in time hold, in principle, great potential.

6.3. Prioritising objectives

Finally, in order to help prioritise objectives, Figure 5 below maps objectives in a two-scale matrix that distinguishes between level of complexity and potential impact. Complexity is understood as the potential difficulty of pursuing that specific objective and is ranked according to the number of actors involved, the period of time required, and the need for technical expertise. Impact refers to potential to facilitate trade and harnessing the opportunities of trade integration projects. It maps objectives as delineated in Section 6.1., which address action to facilitate trade through both the AfCFTA and the Berbera Corridor. The scale is relative, so that objectives are not necessarily 'simple' but 'less complex'. The same logic applies to the impact potential scale. Objectives have been coloured based on the primary stakeholder (public, private, or public-private), although it is important to recognise that most projects would require some degree of collaboration between public and private actors[17].

Following this line of argument, objectives that can be achieved through one-off short-term actions, such as export-promotion workshops or a survey-based study of the industrial sector, have been considered less complex. On the other hand, supporting efforts to establish and implement ROO procedures would potentially be more complex given it requires specialised knowledge and collaboration between private and public sector actors. In terms of impact, however, the latter might not have as much potential as other interventions since its effectiveness is also contingent on progress to address other NTBs.

Based on this, the matrix places objectives in 4 quadrants: (1) complex and high impact, (2) complex and low impact, (3) simple and low impact, (4) simple and high impact. Objectives in quadrant 1 are, for instance, supporting the oil and renewable energy value chain so as to

[17] Figure 5 should be interpreted as a tool rather than a defining classification of objectives given, as evident from Section 6.2., potential complexity and impact are dependent on project design.

reduce energy prices, developing key economic policies (e.g. Trade Policy), and supporting the CSD and relevant ministries to undertake trade-related surveys on a regular basis. Quadrant 2 is concerned with actions such as assisting the QCC, supporting the frankincense sector, or supporting ROO efforts. Some of the objectives in quadrant 3 are export capacity promotion and the establishment of certificate programmes for logistics firms. Targets located in quadrant 4 are most of those related primarily to the private sector, such as supporting SMEs in the fisheries and tourism sector, as well as one-off critical research outputs such as a trade sector survey.

Therefore, in terms of prioritising action, simple and high-potential objectives could be prioritised over other objective such as simple low-potential targets. For example, the development of a study that can shed light on the current state of the clearance and forwarding sector could be a relatively, one-off, simple research project with high impact potential because it would inform directly the trade policy while also support trade negotiations. It would therefore be prioritised over, for example, the development of an IPR law, provided the latter's impact on the trade and FDI flows at this stage are probably lower and more uncertain.

At this stage, it is worth noting that there exist (temporal) interdependencies between objectives. On the one hand, it might be necessary to meet certain objectives first before others can be achieved. It might be best to focus, for example, on the improvement of customs posts infrastructure before attempting to implement an online customs management system across all customs in the country. On the other hand, some objectives could be pursued together, thus developing a trade data portal and improving data management systems within the relevant ministries could go hand in hand. Third, projects can be virtually unrelated, for example, ensuring sustainable commercialisation of gums and resins would be considerably unconnected to the development of certificate programmes for logistics firms.

Focusing on the Berbera Corridor, which is currently the most tangible project in the short- and medium-term, and accounting for objectives' potential impact, complexity, and interdependencies, three actions that could be prioritised are[18]:

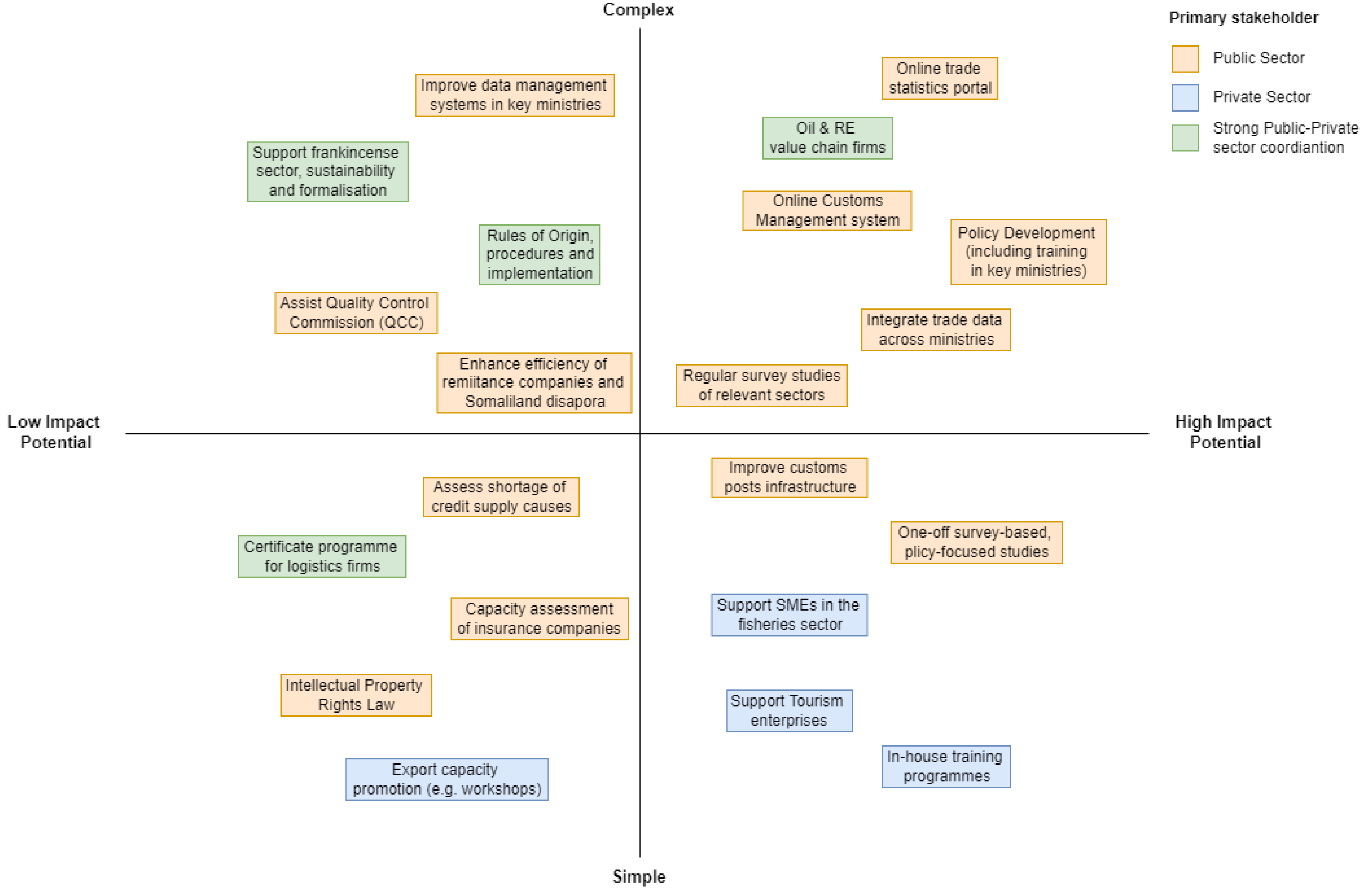
1. **Development of an online trade data portal**: this type of project could be done following a model similar to that of the BRLS. Its primary objective would be to ensure there is a regular management and reporting of trade data. Processes should be put in place to ensure coherence with AfCFTA requirements (e.g. use of HS codes) as well as ensure that the data have enough level of detail to be useful for policymaking. Throughout the process, the project could help address current inconsistencies between how trade data are collected and reported across the CSD, MoF and MoTT. Working on this could also include the improvement of customs infrastructure in less-developed customs posts. This project would contribute to developing the trade policy while also allowing to estimate the impact of trade agreements.
2. **Development of the Somaliland Trade Policy**: it has been argued throughout the report that lack of progress on trade facilitation is partly due to the lack of a comprehensive trade strategy. It has also been indicated that limited public sector capabilities might have contributed to the delay in preparing such policy. A project that aims at supporting policy development efforts that result in the preparation of the country's trade policy would give a framework under which the relevant ministries can

[18] These actions can be used as instruments that make use of objectives' complementarities and simultaneously pursue more than one target.

pursue specific (AfCFTA-aligned) actions to ease tariff and non-tariff barriers to trade. A project of this nature could be delivered through engagement with the Ministry of Trade and Tourism by providing technical capacity and support to diagnostic studies. Development partners might explore the option of establishing temporary agencies to support policy development such as the Policy Development Facility in Nigeria.

3. **Assessment of the logistics sector through a one-off baseline survey study undertaken in collaboration with the CSD or the MoTT**: the report has identified the logistics sector as a strategic sector in ensuring Somaliland benefits from the Berbera Corridor. It has also highlighted that meeting the new demand will require either (i) a substantial increase in the number of firms, (ii) wide formalisation of informal logistic firms, and/or (iii) the growth of existing firms. A baseline study of the logistic sector would verify these arguments while, at the same time, explore the extent to which new market demands could be met by existing large firms. In coordination with the CSD or the MoTT, this project would generate evidence of Somaliland's business sector ability to provide efficient services along the Corridor and to potentially compete with foreign firms. This could, in turn, inform trade negotiations. Additionally, in a subsequent step, there could be scope for fostering a project aimed at developing a certificate programme for logistics firms operating in the corridor.

Figure 5. Complexity-impact matrix of proposed objectives



7. Limitations

Evidence for this report has been based on secondary data sources drawn from grey and academic literature. Available information on certain issues (e.g. degree of policy implementation) is limited. This can hinder asserting whether in certain cases there is a lack of implementation of particular projects/policies, or lack of reporting. Similarly, as has been noted in Section 5.1., government agencies tend to report different data figures and there is only limited evidence on the potential income effects of the Berbera Corridor or the AfCFTA, suggesting that more research is needed in this direction. This notwithstanding, efforts have been made to triangulate data sources so as to validate the data used in this report and ensure the information presented here is as reliable as possible, and that any potential data inaccuracies do not affect its main conclusions.

8. Conclusions

Somaliland is at a crossroads. In recent years, the country has made significant progress on multiple fronts. It has passed relevant laws and regulations, has achieved important diplomatic milestones, has continued to hold peaceful elections, and has experienced remarkable foreign investment into the country's projects, most notably into the Berbera Corridor. At the same time, Somaliland still faces structural weaknesses that limit its socioeconomic progress. Its export basket has remained concentrated in a few products and export markets, the government's budget is still reliant on import duties, remittances play a crucial role in supporting the local economy, and local production is limited and mostly directed to local markets. While trade is seen as an engine for development and several trade-related laws have recently been approved, a comprehensive trade strategy has not yet materialised, and trade continues to operate under relatively high customs tariffs.

Against this backdrop, the AfCFTA potentially offers opportunities to address these issues through trade promotion, facilitation, and integration. While the current unrecognised status of Somaliland critically determines the extent to which it can directly benefit from the AfCFTA, Somaliland still has ample room for deepening trade relations with neighbouring countries. In particular, the Berbera Corridor stands as the most promising trade integration project in the country, and provides insights into Somaliland entering into bilateral agreements within the context of the AfCFTA, a likely scenario in the short- and medium-term. Both the Corridor and the AfCFTA are posed to potentially promote export diversification, help Somaliland companies tap into regional value chains, increase demand for local logistics firms, create jobs, and reduce consumption costs of basic goods as well as of intermediate capital inputs, amongst others.

Helping ensure that the benefits of Somaliland's trade integration projects are realised requires action aimed at improving domestic private and public sector capabilities. Action can range from areas such as supporting key agencies' data management systems (e.g. publishing regular trade data, promoting digitalisation) to fostering the capabilities of both, the sectors that will be most involved in the Corridor (e.g. development of certificate and training programmes for logistics firms), and those that are set to benefit from broader AfCFTA demand-pull effects (e.g. promote Somaliland as a tourist destination). It is hoped that targeted, effective action on these areas helps ensure that trade facilitation efforts bear fruit and that Somaliland maximises the significant potential benefits of the AfCFTA and the Berbera Corridor.

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