



# Lasanod: City at the margins

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*The politics of borderland trade  
between Somaliland and Puntland*

**Ahmed M. Musa**



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Ahmed M. Musa  
Rift Valley Institute

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**Cover image:** Lasanod checkpoint on the road to Berbera. Photo credit: Ahmed M. Musa, 2021

Ahmed M. Musa is a Postdoctoral Researcher at the Diaspora Humanitarian project (D-HUM) implemented by the Institute of Development Studies (IDS)/University of Nairobi, Danish Institute for International Studies (DIIS), Rift Valley Institute (RVI) and Rako Research (RC). He is also a Senior Researcher at the Peace Research Institute Oslo (PRIO) under the Civic Aid Accountability project.

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# Map: Study site showing major trade hubs and corridors



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# Executive summary

- Lasanod is a city located on the border between the self-declared and internationally unrecognized Republic of Somaliland, and Somalia's federal state of Puntland. The city, which is the administrative capital of the Sool region, is contested—sometimes violently— between the two polities, but Lasanod is currently governed by Somaliland.
- Somaliland and Puntland are products of Somalia's post-1991 state-building project, which has resulted in the proliferation of states and state-like authorities and consequently multiple, ambiguous, negotiated and informal revenue collection practices as goods transit between the different political entities.
- The Somaliland government, which has proclaimed autonomy from the rest of Somalia, levies customs duties on commodities imported from Puntland. Puntland's official stance is that Somaliland continues to be a part of Somalia. However, in practice it also treats the territories of the former British protectorate controlled by Somaliland as a separate country—imposing import duties on commodities from there.
- Like other places in the Horn of Africa, the contestation in Lasanod, due to its borderland status, has political and economic motivations. The control of this strategic corridor is translated into new forms of revenue collection, political organization and state-building.
- Being in the margins affects the local people in different ways and they face different political, social, and economic constraints which further exacerbate the sense of alienation.
- In recent years, Lasanod has been controlled by Somaliland, which has reinforced its legitimacy from the local population through improved security provision and a number of tax exemptions (*cashuur dhaaf*) and reductions (*cashuur dhimid*) on goods imported from Puntland.
- Ambiguous and flexible taxation policies have given rise to a number of 'practical norms'—informal but routinized practices by which traders and public authorities govern and tax commodity flows between Somaliland and Puntland. These kinds of informal taxes are not unique to Lasanod, but are a recurrent feature of cross-border trading in the Horn of Africa.

- In general, opaque taxation practices and uncertainty about the political ties between tax collecting authorities and taxpayers frustrates business communities who engage in tax negotiations and avoidance and are sometimes subjected to coercive tax payments.
- The multiplicity of states and state-like entities, including local authorities, that collect revenues with limited coordination, not only between states but also within states, represents a major challenge for trading cross-border commodities. Economic actors, such as traders and other businesspeople, that operate across Somalia's self-autonomous states, have to satisfy policies of different territories, which has forced them to develop 'manoeuvring practices'—a flexible and negotiated approach to operating within the rules of multiple political and economic jurisdictions.
- Where traders cannot satisfy the policies of the local administrations, they often opt for informal trade and avoid the main, more secure, and official corridors to an informal network of routes away from where local administrations are concentrated.
- Donor resources often contribute to the complexities of economic and political relations in the contested areas. Local elites sometimes use their capacity to attract donor resources to buy legitimacy from the local people. Local actors, on the other hand use violence as part of the competition for access to international aid.

# Introduction

For many years Lasanod, the capital of the Sool region of northern Somalia, has been claimed by competing authorities—the Somaliland, Puntland, Khaatumo<sup>1</sup> and Sool, Sanaag and Cayn (SSC) administrations.<sup>2</sup> Between 2003 and 2018, Lasanod city and its surrounding territories changed hands several times. The result is a city sandwiched between two semi-autonomous states—Somaliland to the west and Puntland to the east—and governed by regulations that are different from the rest of Somaliland.<sup>3</sup> While Lasanod is currently under Somaliland administration and military control, the breakaway republic applies a specific set of trade and tax policies to Lasanod and its surroundings.



Lasanod. Credit: Ahmed M.Musa, 2021

Lasanod was once part of the former British Protectorate of Somaliland. One hundred kilometres to the east is the border to the former Italian administered Somali territories. The border between the British and Italian administered territories was dissolved in

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<sup>1</sup> To distance themselves from Puntland and Somaliland, members of the Dhulbahante clan founded the short-lived Khaatumo State of Somalia in their territories in 2012.

<sup>2</sup> Dhulbahante leaders established the SSC administration in 2009 with the aim of administering their territories in the three regions of Sool, Sanaag and Cayn (Buuhoodle). After SSC had collapsed, the Khaatumo State of Somalia was founded in the area in 2012. It stopped functioning in 2015. Markus Hoehne, *Between Somaliland and Puntland: Marginalization, militarization and conflicting political visions*, London: Rift Valley Institute, 2015.

<sup>3</sup> Interview with the employee of a general trading company in Lasanod, Lasanod, 9 March 2021.

1960 when the two united as part of the independent Republic of Somalia.<sup>4</sup> The border was re-claimed by Somaliland when it declared independence from Somalia in May 1991. But Puntland, which was founded in August 1998, has never accepted Somaliland's recognition of the former colonial border. For its part, Puntland draws on a genealogical (clan-based) logic to define its own borders, which has resulted in a different understanding of its shared border with Somaliland.<sup>5</sup>

Lasanod and its surrounding territories are mainly inhabited by the Dhulbahante clan lineages, which are part of the larger Harti-Darood clan family that demographically, politically and economically dominate Puntland. Geography and genealogy are at the core of Somaliland and Puntland's overlapping claims to the city and its hinterland—Somaliland wants to protect its colonially defined borders, while Puntland seeks to safeguard Harti-Darood interests.<sup>6</sup> Eastern Sanaag, is also claimed by both Somaliland and Puntland and has been affected by the political rivalry of these regional states.<sup>7</sup>

Somaliland and Puntland's claims to Lasanod and eastern Sanaag are not only driven by the legacy of colonial borders and genealogical ties. The conflict is also political—driven by the question of whether Somalia should be re-established in its pre-1991 form, or if Somaliland should now be treated as a separate state.<sup>8</sup> Like other places in Somalia, this political contest has subsequently been translated into new forms of revenue collection, political organization and state-building.<sup>9</sup>

During much of the 1990s and into the 2000s, Somalia was described internationally as being a 'stateless' or 'duty-free' country.<sup>10</sup> However, from the 2000s onwards, Somalia and Somaliland have been far from 'stateless' and 'duty-free'.<sup>11</sup> A multiplicity of local authorities, sub-national and national entities and other actors collect revenue from cross-border commodity trading. These multiple claims to governing and taxing goods can be well observed in Lasanod, and to some extent, in eastern Sanaag.

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4 Markus Hoehne, 'People and Politics along and across the Somaliland-Puntland Border, in *Borders and borderlands as resources in the Horn of Africa*, eds. Dereje Feyissa, Markus Vigil Hoehne and Markus Hoehne, London: James Curry, 2010, 97.

5 Hoehne, 'Mimesis and Mimicry in Dynamics of State and Identity Formation in Northern Somalia', *Africa Today* 79/2 (2009); Hoehne, 'People and Politics along and across the Somaliland-Puntland Border'.

6 Martha Johnson and Meg Smaker, 'State Building in de Facto States: Somaliland and Puntland Compared', *Africa Today* 60/4 (2014).

7 Dominated by the Warsangeli clan of the Harti-Darood family, eastern Sanaag is geographically a part of former British Somaliland, but genealogically related to Puntland.

8 Hoehne, *Between Somaliland and Puntland*.

9 Markus Hoehne, 'The rupture of territoriality and the diminishing relevance of cross-cutting ties in Somalia after 1990', *Development and Change* 47/6 (2016).

10 Tobias Hagmann, 'From state collapse to duty-free shop: Somalia's path to modernity', *African Affairs* 104/416 (2005).

11 Ahmed M. Musa, Finn Stepputat, and Tobias Hagmann, 'Revenues on the hoof: livestock trade, taxation and state-making in the Somali territories', *Journal of Eastern African Studies* 15/1 (2021).



Based on 14 days of fieldwork conducted in Lasanod and eastern Sanaag in March 2021, this paper sheds light on cross-border trade between Somaliland and Puntland and the operation of the border regime, revenue collection practices related to cross-border trading, and how political contestation influences both the border regime and revenue collection. The analysis of the politics of commodity trading and taxation in Lasanod provides several important insights into the post-1991 reality in the territories of the former Somali Democratic Republic.

The study focuses on cross-border trade between Somaliland and Puntland in the eastern Sanaag and Sool regions. For Sool, Lasanod was selected as the main cross border trade hub where the author carried out 10 days of data collection. Compared to the Lasanod corridor, trade in eastern Sanaag is limited and scattered across different towns. Large parts of eastern Sanaag have not been under control of Somaliland in the past three years. Most of the analysis in this study thus concentrates on the more important Lasanod corridor, yet more general observations on taxation and state building are similar across the Harti Darood territories of eastern Sanaag.

# Lasanod after 1991

Political and trading dynamics in Lasanod can be divided into four distinct periods shaped by distinct turning points. First, the period between 1991-2002 marks the breakdown of Somalia's central government and the creation of Somaliland and Puntland administrations. Second, the period from 2002 to 2007 is when contestation over Lasanod between Somaliland and Puntland was at its peak. Third, between 2009-2012 the Dhulbahante clans tried to establish political entities separate from both Somaliland and Puntland. Finally, since 2012 Somaliland has consolidated its administration in Lasanod.

## State collapse and the formation of Somaliland and Puntland (1991-2002)

In the wake of the collapse of the Somali state in 1991, many residents of Lasanod retreated to rural areas for safety. Economic activities subsided and few commodities reached Lasanod and its surrounding territories. Prior to 1991, the Dhulbahante were seen by those supporters of the Somali National Movement (SNM), drawn mostly from the Isaaq clan, as supporters of Siyad Barre. Hostilities between the Isaaq and Dhulbahante temporarily interrupted trade relations between their respective territories in the early 1990s.<sup>12</sup>

Clan reconciliation in the northwest culminated in the unilateral establishment of the Republic of Somaliland in 1991.<sup>13</sup> Despite the persisting ambivalence of people from Sool and eastern Sanaag regions towards Somaliland, some of the most significant traditional leaders (*isimo*) from the two regions at the time took part in the process that resulted in Somaliland's creation and the declaration of Somaliland's independence in the Burco Conference of 18 May 1991.

The goals of the clan conferences have been interpreted in different ways. This is also the case with respect to the views of different clan leaders about Somaliland's succession. There is an unresolved debate over whether the main objective of the Burao conference was peace and reconciliation among the clans of the former British protectorate, or the more ambitious aim of independence for Somaliland. In general, the Dhulbahante and Warsangeli elders wanted peace between the clans but did not actively support Somaliland's secession.<sup>14</sup>

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12 Interview with academic, Lasanod, 14 March 2021.

13 Mark Bradbury, Adan Yusuf Abokor and Haroon Ahmed Yusuf, 'Somaliland: Choosing politics over violence', *Review of African Political Economy* 30/97 (2003).

14 Hoehne, 'Mimesis and mimicry in dynamics of state and identity formation in northern Somalia'.

Between 1991 and 1997, a series of multi-clan conferences and meetings focusing on reconciliation took place in Somaliland. The Dhulbahante and Warsangeli reconciled with Somaliland's dominant Isaaq clan family, which predominantly supported the SNM.<sup>15</sup> During this period, Berbera port gradually resumed its operations, which facilitated live-stock exports and commodity imports.<sup>16</sup> With the resumption of the livestock exports, traders from Dhulbahante began to supply livestock to the Burao market, principally in exchange for consumer commodities.<sup>17</sup>

This resumption of trade relations between Sool and Somaliland's central regions was a turning point in the post-1991 economic history of Lasanod and the Dhulbahante territories. From the 1990s up to the mid-2000s, the Somali shilling was used in Burao and the eastern regions, while the Somaliland shilling was mainly used in the western parts of Somaliland. With no credible administration in place in Lasanod, taxes were not levied there, apart from some small fees given to the different militia groups that operated checkpoints along the main roads.<sup>18</sup> Between 1995 and 2007, the official presence of Somaliland in Lasanod was limited to a small shadow administration of about a dozen officials recruited from the local community, and a military outpost stationed in the town.

On the Puntland side of the border, no official authority existed between 1991 and 1998. In the early 1990s, the port of Bossaso was operated by the Al-Itihad Al-Islami (AIAI, the Islamic Union), which had emerged as a powerful Islamist political force immediately after the collapse of Somalia's central government.<sup>19</sup> Beyond the port, numerous local militias controlled different checkpoints along the main roads.<sup>20</sup> Local forces that were part of the SSDF (Somali Salvation Democratic Front) led by Abdullahi Yusuf, who subsequently became President of Puntland (1998-2004), and latterly President of Somalia (2004-2008), engaged in an armed confrontation with the AIAI, eventually defeating the group in the mid-1990s.

After the defeat of AIAI, and in the wake of several unsuccessful conferences aimed at restoring a central Somali government, local elites in the northeast agreed to create their own regional administration based on a Harti-Darood genealogical descent. Besides bringing peace to the region, basing Puntland on Harti-Darood federation challenged Somaliland's claim on the Harti Darood territories. Consequently, the Dhulbahante and Warsangeli—claimed by both Somaliland and Puntland—became decisive political actors in this struggle.

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15 Ioan M. Lewis, and Ahmed Y. Farah, 'Making Peace in Somaliland', *Cahiers d'études africaines* 37/146 (1997); Bradbury, Abokor and Yusuf, 'Somaliland: Choosing Politics over Violence'.

16 Ahmed M Musa, 'From Trust to Oligopoly: Institutional change in livestock trade in Somaliland after 1991', Working Paper No. 2019: 8., Danish Institute for International Studies, 2019.

17 Interview with academic, Lasanod, 14 March 2021.

18 Interview with academic, Lasanod, 14 March 2021.

19 Interview with academic, Lasanod, 14 March 2021.

20 Interview with academic, Lasanod, 14 March 2021.

Many Dhulbahante and Warsangeli elders identified with the new Puntland administration.<sup>21</sup> President Egal's choice of a vice president from the Gadabuursi clan, rather than Dhulbahante, upset the Harti Darood who later secured the position of vice-president in the newly established Puntland government, while the position of Speaker of Parliament went to a Warsangeli.<sup>22</sup> The embryonic Puntland state appointed local officials for Sool and eastern Sanaag regions, including Lasanod, which at the time hosted Somaliland local officials and a small army unit. This marked the beginning of Puntland and Somaliland's competing claims over these territories.

Most ordinary Dhulbahante and Warsangeli people were, and still are, in favour of Somali unity. However, their elites became increasingly torn between Somaliland and Puntland for both political and economic reasons, though many of them remain staunchly opposed to Somaliland's independence. With both administrations co-opting Dhulbahante and Warsangeli clan and political leaders, and the state-building projects in Somaliland and Puntland also progressing, the pressure on the Dhulbahante and Warsangeli leaders to pick a side intensified.<sup>23</sup>

### **Conflicts over Lasanod (2002-2007)**

In December 2002, six months after he became president of Somaliland following the death of President Egal, in preparation for elections in Somaliland Dahir Rayale Kahin visited Lasanod accompanied by 200 heavily armed soldiers. This made him the first president from Somaliland to ever set foot in the city.<sup>24</sup> Responding quickly to this provocative act, Puntland sent a military contingent to confront Dahir Rayale Kahin and his entourage. After a bloody confrontation involving twenty Somaliland and five Puntland 'technicals' (fighting vehicles), Dahir Rayale Kahin withdrew, taking with him the shadow Somaliland administration that had been deployed there.<sup>25</sup> Since then, the Dhulbahante-inhabited borderlands have experienced recurrent conflicts between forces from Somaliland and Puntland.

In October 2007, Somaliland seized control of the town with non-local troops following the deterioration of relations between some Dhulbahante leaders and President Abdullahi Yusuf in Puntland. In the imaginations of Somaliland nationalists, Lasanod featured as soil to be liberated, while most Dhulbahante perceived the Somaliland presence as an occupation by foreign forces of the rival Isaaq clan.<sup>26</sup>

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21 Dominik Balthasar, 'In Search of More than a State: Trajectories of Political Ordering and Identity Plurality in Somalia', *African Identities* 15/2 (2017), 10

22 Hoehne, 'The Rupture of Territoriality'.

23 International Crisis Group, 'Averting War in Northern Somalia', Africa Briefing No. 141, Nairobi/Brussels: International Crisis Group, June 2018.

24 Hoehne, *Between Somaliland and Puntland*.

25 Hoehne, *Between Somaliland and Puntland*.

26 Hoehne, *Between Somaliland and Puntland*, 151.

The Somaliland-Puntland conflict was primarily driven by the question of whether Somaliland had the right to impose control over Sool and eastern Sanaag regions, or whether this territory should remain part of a united Somalia. A secondary reason for the conflict was competition over control of trade and revenue collection points. As a local academic explained:

Before 2007, Somaliland had its customs in Oog, 80 km from Lasanod on the way to Hargeisa. While Puntland had its customs in Guumays, 60 km from Laacaanood on the road to Hargeisa. Traders could not pay two customs duties to Somaliland and Puntland within a 20 km distance. Somaliland started to push the Puntland customs.<sup>27</sup>

The contestation over Sool and eastern Sanaag regions was thus motivated by a combination of Somaliland and Puntland's political and economic ambitions, occurring, in the words of Omar Mahmood, at the 'intersection of local, regional and national dynamics'.<sup>28</sup>

### **The emergence of SSC and Khaatumo administrations (2009-2012)**

Members of the Dhulbahante clan established the SSC administration with its capital in Buhoodle in 2009 and waged a conflict with both Puntland and Somaliland.<sup>29</sup> Similar to the previous conflicts, the contestation between Somaliland, Puntland and SSC had complex social, political and economic motivations. The SSC-Somaliland conflict intensified after the international community adopted the 'dual-track' policy—they would have a relationship with Somalia's Transitional Federal Government (TFG), and with Somaliland and Puntland authorities—in September 2010, which upgraded Somaliland's status as legitimate a counterpart for donors. Leaders of the SSC believed that the only way they could get a share of international aid from Somaliland was to take up arms, which would win them more attention and consequently greater access to resources.<sup>30</sup>

In 2012, SSC forces briefly established a customs point at Tukaraq, some 50km east of Lasanod on the road to Garowe (Somaliland has had its customs in Lasanod since 2007). In 2021, after several skirmishes, Somaliland took control of Tukaraq customs. However, Somaliland forces soon withdrew from Tukaraq and Puntland took over, re-establishing

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27 Oog is located in the borderland between the Dhulbahante and Isaaq clans. Interview with academic, Lasanod, 14 March 2021.

28 Omar S. Mahmood, 'Overlapping claims by Somaliland and Puntland: the case of Sool and Sanaag', ISS East Africa Report 2019, no. 27, 3.

29 Hoehne, 'The Rupture of Territoriality'.

30 Author's previous fieldnotes from 2016 fieldwork in Lasanod. This tactic is very much in line with what Alex de Waal describes in his 'political marketplace' theory. Local groups and rebel groups take up arms to increase the price of their loyalty, so that they receive more resources. Alex de Waal, *The Real Politics of the Horn of Africa: Money, War and the Business of Power*, Cambridge: Polity Press, 2015.

its customs there.<sup>31</sup> Some argue that this occurred as part of an agreement between the Somaliland and Puntland administrations, which were both opposed to the Khaatumo.<sup>32</sup>

The SSC had outlived its success. It had been involved in major fighting with Somaliland forces in Kalshaale and Buhoodle areas in 2010 and 2011,<sup>33</sup> but the SSC was not able to evict Somaliland forces from Dhulbahante land. Eventually in 2011, the SSC administration collapsed due to internal conflict.<sup>34</sup> After this happened, Dhulbahante inside and outside of Somalia mobilized and in 2012 founded a new clan administration called Khaatumo State of Somalia with its centre in Taleex (Teleh). Khaatumo had the backing of a larger militia force and between 2012 and 2014 engaged Somaliland and occasionally Puntland forces in skirmishes in the Sool region near Buuhoodle.

In early 2018, just after Muuse Bihi had been elected as the new President of Somaliland, he ordered Somaliland's troops to take Tukaraq. This forced Puntland to shift its customs further to the east on the road to Garowe.<sup>35</sup> There were two main reasons for this conflict. First, Tukaraq is strategically located on the main highway between Lasnaod and Garowe and is host to a customs post. As a livestock trader who supplied livestock from South central Somalia explained, 'the fighting in Tukaraq was based on revenues, Somaliland and Puntland customs were in the close distance'.<sup>36</sup> Second, Somaliland wanted to implement its territorial claim based on colonial borders, which included Tukaraq within its borders.

The lingering contestation between Somaliland and Puntland over Sool and eastern Sanaag regions, including Lasanod, explains why many Dhulbahante and Warsangeli residents of the area neither identify with Somaliland nor Puntland. Instead, they see themselves as citizens of Somalia and support the Federal Government. A businessman in Lasanod commented that 'both administrations do not show us mercy, there is no state-society relationship'.<sup>37</sup> Despite this, the Dhulbahante territories are mainly served by Puntland's Bossaso port and Somaliland's Berbera port and the tarmac road that connects these ports to Lasanod. The Warsangeli areas are largely served by Bossaso port through the Bossaso-Eldahir-Erigavo trade corridor.

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31 Hoehne, *Between Somaliland and Puntland*, 107.

32 Interview with local researcher, Lasanod, 11 March 2021.

33 'SSC Rebels Attack Somaliland Military Base at Kalshaale', <https://www.somaliaonline.com/community/topic/51924-ssc-rebels-attack-somaliland-military-base-at-kalshaale/page/3/>

34 Hoehne, *Between Somaliland and Puntland*, 99.

35 Somaliland still has its customs point in Lasanod.

36 Interview with livestock trader, Burao, April 2018.

37 Interview with academic, Lasanod, 11 March 2021.

# Commodity flows and shifting trade between Berbera and Bossaso

The political contestations surrounding Sool and eastern Sanaag regions have shaped commodity flows and cross-border trading. Politically, Lasanod and eastern Sanaag are sandwiched between two states and face multiple, ambiguous, negotiated, and informal revenue collection practices. The economy shifts between the two states, and traders and transporters have to satisfy the policies of both territories. Navigating these overlapping state claims, policies and interests has led traders to develop manoeuvring practices—a set of skills and negotiation tactics—similar to what Olivier de Sardan calls ‘practical norms’.<sup>38</sup> These routinized practices, which are neither formal nor informal, are described in section six of this paper.

Lasanod has seen an increase in trade relations with the ‘east’ (Puntland) and the ‘north-west’ (Somaliland) since the early 1990s.<sup>39</sup> Interviewees estimated that some 80 per cent of commodities in the city originate from either Berbera or Bossaso ports. Imported food commodities such as rice, sugar, or wheat flour and *bagaash* (bundles of packaged consumer goods), building materials, electronics, clothes and vegetables and fruits are the main commodities traded in Lasanod.

Cross-border trade constantly shifts between Bossaso and Berbera ports. An academic working at the local university argued that Lasanod’s location between these two strategic ports is both an advantage and a disadvantage:

If commodity prices are high, or if there is a shortage of commodities in one port, the Lasanod traders easily shift to the other port. The city’s location could have offered a geographical advantage, but its existence between two self-autonomous and competing administrations has also become a disadvantage.<sup>40</sup>

Other than geography, traders shift between Berbera and Bossaso ports—increasingly favouring Berbera—due to institutional, security and infrastructural factors. While lower import tariffs and closer genealogical ties might be thought to benefit Bossaso over Berbera, traders and transporters report that ‘weakening security’ and a ‘fragile admin-

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38 Jean-Pierre Olivier de Sardan, ‘Practical norms: informal regulations within public bureaucracies (in Africa and elsewhere)’, in *Real Governance and Practical Norms in Sub-Saharan Africa*, eds. T. de Hardt and J.-P. Olivier de Sardan, London and New York: Routledge, 2015.

39 Interviewees were referring to Somaliland as ‘north’ or ‘west’ and to Puntland as ‘east’. These were administrative divisions that were common before the fall of the central government in 1991. Hargeisa and Berbera were collectively known as ‘northwest’ (*Waqooyi Galbeed*) region and Bossaso as eastern (*Bari*) region.

40 Interview with academic, Lasanod, 14 March 2021.

istration' in Bossaso port and the road between Tukaraq and Garowe have offset these potential benefits.<sup>41</sup> A senior official from Puntland's Ministry of Finance emphasized that logistical factors, such as Berbera port's increasing capacity to handle containerized imports, and lower transportation costs for international shipments, were the main reason why some commodity imports have shifted from Bossaso to Berbera port.<sup>42</sup> This was confirmed in the Rift Valley Institute's recent report—*Bosaso and the Gulf of Aden: Changing dynamics of a land-sea network*—which found that 'modernization and investment, including in containerization, at the Berbera port means that Berbera is partially integrated in global shipping routes, with container vessels making routine stops at the port of Berbera'.<sup>43</sup>

Table 1 shows which commodities in Lasanod are generally sourced from Bossaso and Berbera ports. The general manager of a major trading company in Lasanod explained this change:

Since 2018, 75 per cent of the commodities we trade come from Berbera. Before this, 80 per cent of the commodities came from Bossaso. This shift had been caused by weakening security in Bossaso port and the road between Tukaraq and Garowe... Due to the recent developments in the port of Berbera, both infrastructure and administration, and less fees on the Somaliland side of the corridor, many companies from Puntland have shifted their operation to Berbera.<sup>44</sup>

A senior customs officer in Lasanod confirmed that since 2018 Lasanod's trade with Puntland has decreased from around eight to two trucks on average per day.<sup>45</sup> However, a senior officer from Puntland's Ministry of Finance was sceptical that this was caused by increased insecurity. Instead, he argued that a mix of political and economic factors had caused the shift. These include Somaliland's consolidation of control over Lasanod and Berbera's increasing capacity to handle containerization and lower sea transport costs.<sup>46</sup> DP World's investment in Berbera port is expected to further contribute to this trend.

While fuel, building materials, and food staples have mainly shifted to Berbera, Bossaso still supplies more *bagaash* bundles of consumer goods. The shift of commodities such as fuel and clothes to Somaliland has been influenced by quality controls. For fuel, Somaliland operates quality checks in Berbera, while for clothes, imports from Berbera and Mogadishu are seen as being of a higher quality than from Bossaso.<sup>47</sup> Other

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41 Interview with manager of general trading company, Lasanod, 8 March 2021.

42 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

43 Jatin Dua, Abdideeq Warsame and Ahmed Shire, *Bosaso and the Gulf of Aden: Changing dynamics of a land-sea network*, London/Nairobi: Rift Valley Institute, July 2020.

44 Interview with manager of general trading company, Lasanod, 8 March 2021.

45 Interview with senior customs official, Lasanod, 12 March 2021.

46 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

47 Interview with small scale fuel trader, Lasanod, 13 March 2021.

























commodities, such as building materials and food staples (rice, wheat flour), have been influenced by major importers in Berbera who can supply larger quantities.

Other factors that influence where commodities are obtained from is the presence of local production factories. For example, wheat flour, still water, and soft drinks are brought to Lasanod from Somaliland, which hosts factories such as the SBI (Somaliland Beverages Industry), Coca-Cola production plant in Hargeisa, and the national flour mill company in Berbera.<sup>48</sup>

Table 1: *Source of commodities traded in Lasanod*

Main source  Other source 

Commodity	Description	Source <sup>49</sup>	
		Somaliland/ Berbera	Puntland/ Bossaso
<b>1. BAGAASH</b>			
<b>Dry milk powder</b>	Nido, ZamZam, Anchor, Coast, Hilwa		
<b>Dry milk powder</b>	Ami's <sup>50</sup> , Jawahir, Anisa		
<b>Dates</b>	in boxes, plastic bags and iron containers		
<b>Tuna fish</b>	Canned Tuna fish (Omaar)		
<b>Candies</b>	Different brands of candies		
<b>Biscuits</b>	Different brands of biscuits		
<b>Diapers</b>	Different brands		
<b>Chocolates</b>	Different brands		
<b>Torches</b>	Big and small/different brands		
<b>Flip-flops</b>			
<b>Tissue papers</b>			
<b>Laundry soaps   detergent</b>	Omo, kitchen soap		
<b>Bathing soaps</b>	Lux, limo, lifebuoy		
<b>Shampoo</b>	liquid detergent and shower gel		
<b>Powder drinks</b>	Caafi, Ananas, Ahlan		
<b>Powder drinks</b>	Ilo tango		
<b>Tea powder</b>	Teabags and powder		
<b>Tomatoes sauce</b>	Canned and bags		
<b>Powder drinks</b>	Royal fee, Foster, Ilo Tango, Golden		
<b>Batteries</b>	Different sizes and brands		
<b>Ketchup sauce</b>			
<b>Soft drinks</b>	Rani fruit, Rani ananas, Mango, Vimto		

48 Interview with former driver and current employee of a trading company, 7 March 2021.

49 A bold tick indicates the source of most of the commodities and that a small quantity of the same commodity can also be supplied from the other port.

50 The price is high in Galbeed USD 75 vs USD 60 in Bari, but traders cannot transport goods from Lasanod to Galbeed due to high taxation at Ainabo customs.

Commodity	Description	Source <sup>49</sup>	
		Somaliland/ Berbera	Puntland/ Bossaso
<b>Chocolates</b>	Different brands	✓	
<b>Shampoo</b>	Both clothes and shower shampoo		✓

## 2. FOOD STAPLES

<b>Wheat flour</b>	Berbera has a wheat flour factory	✓	
<b>Wheat bran</b>	From Berbera wheat factory	✓	
<b>Sugar</b>			✓
<b>Rice</b>			✓
<b>Pasta spaghetti</b>		✓	
<b>Pasta macaroni</b>			✓
<b>Cooking oil<sup>51</sup></b>			✓
<b>Cooking oil<sup>52</sup></b>		✓	
<b>Fuel</b>		✓	
<b>Vegetables</b>	Carrot, tomatoes, cabbage from Ethiopia through Somaliland		
<b>Fruits</b>	Mangos, banana From South-central Somalia		

## 3. SPICES AND HERBS

<b>Cardamom</b>		✓	✓
<b>Simsim</b>			✓
<b>Cinnamon</b>			✓
<b>Hot pepper</b>			✓

## 4. CLOTHES AND ELECTRONICS

<b>Clothes<sup>53</sup></b>		✓	✓
<b>Electronics<sup>54</sup></b>	Phones, electricity material	✓	✓
<b>Building material</b>		✓ <sup>55</sup>	

Source: author's field notes

Some commodities, in particular fruits and vegetables, are trucked in from South-central Somalia to Lasanod and the rest of Somaliland—avoiding the tarmac road that connects Lasanod to Galkayo via Garowe. The road between Garowe and Galkayo is in bad condition, but trucks deliberately avoid Puntland customs duties, fees and checkpoints. They

51 3 litres.

52 5 and 20 litres.

53 Quality textiles mostly come from Mogadishu and Tog'wajale.

54 Phones come from Bosaso and Mogadishu only.

55 Interview with former driver, Lasanod, 8 March 2021.

instead use informal routes in the Haud—the plains stretching southwards into the Ethiopian borderlands. On the Somaliland side, trucks carrying fruits and vegetables to Burao and Hargeisa avoid the well-maintained tarmac road to bypass numerous customs points.<sup>55</sup>

Lasanod is a hub for fruit and vegetable trade—a sector dominated by female traders. They supply vegetables and fruits from South-central Somalia and Ethiopia to Lasanod and beyond to Somaliland and Puntland.<sup>56</sup> Commenting on her cross-border vegetable trade, a female trader who has been in the vegetable business for 20 years, pointed to the costs in money and time when vegetable loads are interrupted by tax collectors.

Some states are very lawless, while others are better. However, from Ethiopia to Bossaso, there is no checkpoint, customs and district administration that does not collect money. They milk us! If you do not pay them, they just tell you to park your truck, our commodities, especially tomatoes, cabbage... is very perishable... both the multiple fees and time lost are detrimental to our trade.<sup>57</sup>

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<sup>56</sup> Interview with former driver, Lasanod, 8 March 2021.

<sup>57</sup> Interview with female vegetable trader, Lasanod, 8 March 2021.

# Taxes, customs and the struggle over trade revenues

Since 1991, the Somaliland government has treated the rest of Somalia as a foreign country. Based on this logic, it levies customs duties on commodities imported from Puntland, a federal member state of Somalia. Puntland's official stance is that Somaliland continues to be a part of Somalia. However, in practice it also treats the territories of the former British protectorate controlled by Somaliland as a foreign country—imposing import duties on commodities from there. But Puntland does not impose import tariffs on commodities from territories such as Badhan, Taleh or Buhoodle, which also lie within the former British Protectorate, but are not controlled by Somaliland. The legal and political foundations of both Somaliland and Puntland's customs policies towards each other are ambiguous. A senior Somaliland customs official in Lasanod pointed out:

Somaliland considers Puntland [as] a foreign country... however, considering that we are all Somalis, that the international community still recognises Somalia as one country and also considering that Lasanod is a border town, we have to be flexible. We charge customs duties equivalent to 40 per cent while 60 per cent is cashuur dhaaf [tax reduction].<sup>58</sup>

Even though Somaliland considers its border with Puntland to be an international boundary, it applies a reduced tax rate to goods imported from Puntland and Bossaso port. This differentiated tax regulation, which the breakaway Republic applies to Lasanod and its surrounding territories, has given rise to a number of 'practical norms', i.e. informal, but routinised practices by which traders and public authorities govern and tax commodity flows between Somaliland and Puntland. Among them are tax negotiations and informal fees such as *biyo cab* or *garaac*—water drinking or stamping fees—collected by customs officials.<sup>59</sup> These informal taxes are not unique to Lasanod, but are a recurrent feature of cross-border trading in the Horn of Africa.<sup>60</sup>

Different taxes and customs duties collected by Somaliland and Puntland in the Lasanod corridor are indicative of the competing state-building projects of these two political entities. Understanding their tax and customs policies provides insight into how both govern their trade periphery. Both states levy customs duties on commodities moving between them. Goods going to Lasanod from the Somaliland or the Puntland side are

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58 Interview with senior customs official, Lasanod, 12 March 2021.

59 Interview with businessman, Lasanod, 11 March 2021.

60 Peter Little, Waktole Tiki and Dejene Negassa Debsu, 'Formal or informal, legal or illegal: The ambiguous nature of cross-border livestock trade in the Horn of Africa,' *Journal of Borderlands Studies* 30/3 (2015).

subject to different regulations and taxes by the two states.<sup>61</sup> The different political objectives pursued by Somaliland and Puntland are reflected in their revenue collection strategies and the way in which they govern cross-border trading. Somaliland considers itself an independent state and relies on local revenues, in particular a considerable amount of customs duties levied at Berbera port, to finance its administration (notably salaries for the national army and civil servants).<sup>62</sup>

Somaliland and Puntland have some differences in the vernacular of taxation. For example, fees collected by Somaliland police officers at checkpoints are called *wado maris*, which loosely translates as ‘road usage’, while in Puntland it is called *bir qaad/xadhig fur*, which means ‘lifting the checkpoint barrier’ or ‘opening the checkpoint rope’. Similarly, transit tax collected by districts along the trade corridors is called *qashin gur* or ‘garbage collection fee’ in Somaliland and *cashuurta horumarinta degamada* or ‘district development tax in Puntland’.

## Puntland taxes

Puntland’s Ministry of Finance collects import duties at Bossaso port according to its valuation book, the updated version of the tariff book of the former Somali Democratic Republic.<sup>63</sup> Customs duties on imported commodities levied at Bossaso are lower than at Berbera port, particularly for electronics and cars.<sup>64</sup> In addition to Bossaso, traders and transporters reported that Garowe, Buuro Wadar and Faliidhyaale are customs points on the road to Lasanod that are manned by officers from Puntland’s Ministry of Finance. Puntland’s customs in Tukaraq shifted to Faliidhyaale, some 25km east of Tukaraq, after the 2018 confrontation with Somaliland. Other than tariff duties, Puntland’s Ministry of Finance collects a ‘sales tax’ between USD 30 and USD 50 per truck depending on the commodity value at the destination districts.<sup>65</sup>

According to traders and transporters interviewed, different districts along the tarmac road between Bossaso and Tukaraq collect the ‘district development tax’ (*cashuurta horumarinta degamada*) from bypassing trucks. A senior Puntland Ministry of Finance officer stated ‘between Bossaso and Lasanod, there are seven districts: Bossso, Gardo, Dangorayo, Armo, Garowe, Taleh and Buurawadal, each district collects USD 6 from transit trucks, this is a total of USD 42’.<sup>66</sup> The officer also added that different checkpoints collect the ‘checkpoint opening fee’ (*bir qaad*), which is negotiable and is influenced by the behaviour of the officer, but on average amounts to USD 2 per truck.<sup>67</sup>

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61 Interview with employee of a general trading company, Lasanod, 7 March 2021.

62 Interview with employee of general trading company, Lasanod, 13 March 2021. As of 2018 the number of Somaliland civil servants was estimated around 14,000 (excluding the police and national army).

63 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

64 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

65 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

66 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

67 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

Traders pointed out that districts on the Puntland side collect fees that are higher than the figures given by the Puntland official. The general manager of a trading company mentioned a total of USD 240 for the district development tax.<sup>68</sup> Traders also reported that new checkpoints, some of them ad hoc, had recently been created between Garowe and east of Tukaraq, collecting the checkpoint opening fee known as *bir qaad*.<sup>69</sup> The proliferation of these new and unpredictable fees in recent years has led to a sentiment among road users that harassment by Puntland district and checkpoint authorities is on the rise.<sup>70</sup> A driver offered the following explanation:

Most of the Somaliland checkpoints in the east are manned by the military who are more disciplined and provide good security and patrolling. On the Puntland side, the officers at the Puntland checkpoints are police who are less disciplined. For example, the driver could run into or unintentionally cut a new checkpoint's rope (xadhig) that did not exist in the previous trip, those manning the checkpoint would shoot...I remember at least two such incidents between east of Tukaraq and Garowe.<sup>71</sup>

Some of those interviewed reported that Puntland checkpoints and district authorities do not apply uniform tax rates. Police checkpoint officers ask for money at will and tell drivers who resist paying to park their trucks, which effectively forces them—particularly when they are carrying perishable commodities—to pay.<sup>72</sup> Puntland checkpoint officers thus leverage their authority to extract revenues from drivers and traders. The employee of a construction company highlighted the absence of transparent customs policies on the Puntland side of the Lasanod trade corridor:

We supply electronic material from Bossaso. Sometimes it happens that we receive the wrong order. Once we try to return the commodities back to Bossaso. Puntland authorities levy [levied] customs duties and other fees on the returned commodities.<sup>73</sup>

The senior official from Puntland's Ministry of Finance confirmed that checkpoint officers on the Puntland side are tough and collect higher checkpoint opening fees than their counterparts in Somaliland.<sup>74</sup>

According to the manager of a trading company in Lasanod, district authorities in Puntland used to issue receipts (*boono*) for the money they collected, but this stopped since Puntland started to collect revenues in US dollars early this year. According to

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68 Interview with manager of general trading company, Lasanod, 8 March 2021.

69 Interview with driver operating on the road between Hargeisa and Garowe, Hargeisa, 15 March 2021.

70 Interview with employee of a construction company, Lasanod, 10 March 2021.

71 Interview with driver operating on the road between Hargeisa and Garowe, Hargeisa, 15 March 2021.

72 Interview with former driver, Lasanod, 8 March 2021.

73 Interview with employee of a construction company, Lasanod, 10 March 2021.

74 Phone interview with senior official Puntland Ministry of Finance, Garowe, 4 May 2021.

the manager, Puntland's district authorities have become troublesome for traders and transporters.<sup>75</sup> A senior officer from Puntland's Ministry of finance explained his belief that the shift in trade from Bossaso to Berbera could partly be explained by the inflation in Puntland, which forced Puntland to collect taxes in US dollars.<sup>76</sup>

## Somaliland taxes

Berbera, Kalabaydh (near the border with Ethiopia) and Lawya'ado (at the border with Djibouti) and Lasanod are the main customs points on the Somaliland side of the Berbera–Lasanod trade corridor. According to a senior Somaliland Ministry of Finance official in Lasanod, Lasanod's customs, which raises some USD 80,000 per month, rank fourth in terms of the amount of revenue generated, after Berbera, Kalabaydh and Lawya'ado.<sup>77</sup> Four customs points manned by Somaliland officers exist along the 330 km road between Lasanod and Burao. They are, from east to west, Lasanod, Ainabo, Guumeys and Beerta. Besides the revenues collected at these customs points, traders incur non-monetary costs when they are stopped. They lose time and cargo may be damaged during inspections, particularly when items are being offloaded. A driver reported how 'depending on the size of commodities, it can sometimes take up to 1.5 hours to clear with one customs [stop]'.<sup>78</sup> A customs clearance broker highlighted how:

Each customs will ask to unload for clearance or inspection at the traders' own expenses and commodities get damaged during the unloading and loading process which reduces the value of commodities.<sup>79</sup>

Somaliland's Ministry of Finance collects import duties on commodities from Puntland at the Lasanod customs. The customs levy only 40 per cent of the official import duty on goods and commodities destined for Lasanod and its surroundings Dhulbahante territories, including Buhoodle district in the Togdheer region. If the commodity is transiting beyond the Dhulbahante territories, then full import duties are levied according to the Somaliland tariff book. Commodities that made their way to Lasanod from Puntland—where they were taxed comparatively less than they would have been in Somaliland—have to be sold in Lasanod and a perimeter of some 60 km.<sup>80</sup> Customs authorities rely on the information provided to them by the trader or transporter to determine the destination of the goods transported. They usually consider a full truckload of the same commodity as being in transit, assuming that such volume cannot be consumed in Lasanod alone.<sup>81</sup>

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75 Interview with manager of a general trading company, Lasanod, 8 March 2021.

76 Interview with manager of a general trading company, Lasanod, 8 March 2021.

77 Interview with Somaliland government official, Lasanod, 9 March 2021.

78 Interview with driver working for a transport and logistics company, Hargeisa, 16 March 2021.

79 Interview with customs clearance broker, Burao, 15 March 2021.

80 Both Budodle and Burao are districts in Togdheer region but the former is inhabited by Dhulbahante while the latter is dominated by Isaaq clans.

81 Interview with manager of general trading company, Lasanod, 8 March 2021.

Importantly, commodities such as fuel and electronics, including mobile phones, watches and laptops, are fully taxed by Somaliland customs. This means that fuel and electronics imported from Bosasso cannot compete with fuel and electronics imported from Berbera. As a result, traders of these commodities avoid the main tarmac road. Instead, they opt for one of the informal Haud routes to supply these commodities to Lasanod and the rest of Somaliland.<sup>82</sup> For example, a Galaxy Samsung phone is taxed USD 5 and a computer USD 40 by Somaliland customs officials. Small-scale traders cannot afford to pay these taxes and are pushed to use the informal routes.<sup>83</sup> This informal sector is the main source of electronics in Lasanod. As a government official in Lasanod explained, 'A16 Samsung phone is USD 180 in Lasanod and USD 230 in Hargeisa because customs duties are higher in Berbera'.<sup>84</sup> This informal trading is sometimes a source of conflict, especially when there is a confrontation between the so-called smugglers and Somaliland patrol officers in the Haud areas.<sup>85</sup>

When Somaliland took control of Lasanod in 2007, its Lasanod customs point started to levy USD 50 import duties per truck. It then gradually increased this amount to the current USD 240 for a medium-sized truck.<sup>86</sup> Somaliland's increasing state capacity has influenced this incremental approach to taxation. As Somaliland began to reinforce its presence in Sool,<sup>87</sup> locals anticipated that the Somaliland administration would sooner or later introduce full import duties on incoming goods from Puntland.<sup>88</sup> Their concern is that if Somaliland were to impose full tariffs—instead of the current reduced tax rate—Puntland might reciprocate, which would negatively affect commodity prices and livelihoods in the region.

Somaliland customs do not levy import duties on commodities reaching Lasanod from the Somaliland side. Instead, as commodities enter Lasanod, local authorities collect a USD 10 'unloading tax' (*dejinta*) while the authority in charge of regional security collects a USD 8 security fee (*amaan*). In addition, each district through which trucks transit collects a so-called garbage collection fee (*qashin gur*) of up to USD 20 per truck, even though these trucks do not produce or leave any garbage when crossing through these districts. The manager of a general trading company in Lasanod explained:

The tax collected by districts in Somaliland is called the garbage collection fee, but this money is lower than that one collected by Puntland districts. We pay

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82 Interview with employee of a general trading company, Lasanod, 7 March 2021.

83 Interview with former driver, Lasanod, 9 March 2021. In Mogadishu and Puntland electronic are taxed by weight (kilogram) and an entire box of Galaxy phones might be taxed at \$5.

84 Interview with Somaliland Ministry of Finance official, Lasanod, 10 March 2021.

85 Interview with academic, Lasanod, 11 March 2021.

86 Interview with former driver, Lasanod, 9 March 2021.

87 In recent years Somaliland has retreated from eastern Sanaag. It does not control Badhan, the largest town in the region, and also small places like Dahar or Ceelbuh were not under its control at the time of writing.

88 Interview with employee of construction company, 9 March 2021.



a total of USD 100 or less per truck to all the districts. The money that districts in Somaliland collect is clearer and stably administered. However, since we are a company, we pay the required money to build a relationship with the district authorities since we constantly use the road and also for protection.<sup>89</sup>

On top of the unloading, security and garbage collection fees, transporters pay a small ‘road use’ (*wado maris*) fee to checkpoint officers. Commenting on the *wado maris fee*, a former driver who used to operate on both the Berbera-Lasanod and Bosasso-Lasanod corridors said: ‘On the Somaliland side, there is less harassment by authorities, no new checkpoints and fee[s] demanded by the checkpoint officers are small. Bossaso–Lasanod road is the opposite’.<sup>90</sup>

Between Berbera and Lasanod there are around 10 checkpoints and a packed medium size 8-tonne truck pays USD 30 in total to all checkpoints.<sup>91</sup> Table 2 provides an overview of the main fees and taxes payable to both Somaliland and Puntland authorities in the Lasanod trade corridor.

Table 2: *Taxes collected by Somaliland and Puntland in the Lasanod trade corridor*

Somali name	English name	Amount (\$)		Tax collecting authority	
		Somaliland	Puntland		
<b>Horumarinta degamada</b>	District development		✓	6	Administrative districts
<b>Wado maris</b> <sup>92</sup>	Road tax	✓	✓	0.3 (Somaliland); 2 (Puntland) <sup>93</sup>	Officers manning at the checkpoints of both Somaliland and Puntland
<b>Tariff</b>	Import duties	✓	✓	According to the tariff book, except Lasanod customs which levies 40%	Ministry of Finance <sup>94</sup>
<b>Dejin</b>	Unloading fee	✓		25	Lasanod district <sup>95</sup>
<b>Qashin gur</b> <sup>96</sup>	Garbage collection	✓		10	Administrative districts
<b>Nabad Gelyada</b>	Security	✓		8	Lasanod regional security

89 Interview with manager of a general trading company, Lasanod, 8 March 2021.

90 Interview with former driver, Lasanod, 8 March 2021.

91 Interview with former driver, Lasanod, 8 March 2021.

92 Other names are *xadhig fur* (rope opening) and *bir qaad* (the checkpoint barrier opening).

93 These figures indicate averages as the actual fee is negotiated and thus varies.

94 At Berbera and Bosaso customs duties are based on the valuation book. At the Lasanod customs it is USD 240 per loaded truck but also negotiable for some commodities. Only fuel and phones are taxed according to the valuation book in the Lasanod customs.

95 Authorities collect USD 480 from an eight-tonne truck.

96 This is the same as the ‘district development’ tax collected by districts in Puntland.

Somali name	English name	Somaliland		Amount (\$)	Tax collecting authority
		Somaliland	Puntland		
<b>Maachal Macaash</b>	Sales tax	✓	✓	Value of the commodity	Ministry of Finance

Source: authors' field notes

In theory, the first entry customs point on the Somaliland side should levy import duties, issue a payment voucher and a transit permit for the onward transit of goods, while the remaining customs should then check these documents. However, in the east of Somaliland, every customs point undertakes its own inspection, which includes the unloading of cargo at the expense of the traders.<sup>97</sup> Customs officers explained that they requested that the Ministry of Finance abolish the inspection of goods within Somaliland's regions so that commodities would only be checked on passage between regions.<sup>98</sup> For example, both Ainabo customs and Lasanod customs inspect goods even though they are both part of Sool region. A minibus driver who operates between Hargeisa and Garowe and carries *bagaash* (commodities) reported:

It is really difficult to transport commodities between Somaliland and Puntland because of high taxes, sometimes 200 per cent, many stoppages and inspections. These days, I stopped to transport commodities. I cry when the company asks me to transport commodities, they will waste 3 hours of your time. I know a businessman from Lasanod who traded between Burao and Garowe, but he quit the business because of the increased trade challenges between the two territories.<sup>99</sup>

The multiple fees and import duties levied on commodities from Bossaso did not translate into higher commodity prices in Lasanod. This is partly due to flexible taxes and customs duties that Somaliland applies to the city. However, commodities that have been taxed low by Somaliland at the Lasanod customs must stay in Lasanod and its surroundings. The employee of a general trading company explained:

Lasanod traders who supplied commodities from Bossaso and who have paid import duties at the Lasanod customs cannot supply other major urban areas in Somaliland. If they have to, they pay a second, this time based on the valuation (tariff) book, at the Ainabo customs.<sup>100</sup>

Traders who import commodities from Bossaso and wish to sell them in other parts of Somaliland will pay taxes at three customs duties: Bossaso, Lasanod and Ainabo. This makes it very difficult for these commodities to compete with commodities from Berbera that have been taxed once only. The logic is that Somaliland's Ministry of Finance

<sup>97</sup> Interview with customs clearance broker, Burao, 15 March 2021.

<sup>98</sup> Interview with customs official, Lasanod, 14 March 2021.

<sup>99</sup> Interview with driver operating between Hargeisa and Garowe, Hargeisa, 16 March 2021.

<sup>100</sup> Interview with employee of a general trading company, Lasanod, 7 March 2021.

does not want commodities that have been taxed less by Lasanod customs to enter the rest of Somaliland and compete with commodities that have been taxed fully at other entry points.

## Traders and tax collectors: contested fiscal - social contract

A fiscal contract refers to the exchange and relationship between tax payers and taxing authorities; the former should pay taxes while the latter should use the tax to implement policies and provide services for the collective good.<sup>101</sup> However, many tax payers in developing countries are frustrated by 'opaque tax systems'.<sup>102</sup> While there is a general dissatisfaction among tax payers in the Somali territories, traders and transporters who operate in cross-border commerce entertain fiscal contracts with multiple authorities.<sup>103</sup> While traders are weary of taxes, local tax collectors working for Somaliland in Lasanod see taxes levied in Lasanod as 'a mandatory and constitutional obligation that one has to pay whether he/she is happy or not happy'.<sup>104</sup> This section focuses on the ambivalent nature of taxation and the contested fiscal and social contract between Somaliland and its periphery. It also considers the daily handling of trade taxation that contributes to these contested contracts.

In recent years, Somaliland has consolidated its presence in Lasanod—and its popularity amongst the city's residents. This was substantially achieved through its decision to fund several different infrastructure and development projects. These projects included the construction of five roads and also Nugaal University. Aid agencies from Somaliland also funded the renovation of the general hospital and a boarding school. Moreover, the Somaliland government invested in health and education sectors with the construction of Mother Child Health (MCH) centres and schools in the rural areas. According to interviewees in Lasanod, following these interventions local perceptions of Somaliland have improved and it appears to not be widely viewed as an 'invading force'.<sup>105</sup>

However, despite the apparent efforts to provide more services to Lasanod, many interlocutors complained about not seeing a return for their tax contributions. Complaints include the exclusion of Lasanod from major development projects in Somaliland, the government in Hargeisa's continued discouragement of NGOs to operate in the city (particularly overnight stays) for security reasons.

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101 Mohammed Abdullahi Umar, Chek Derashid, and Idawati Ibrahim, 'What is wrong with the fiscal social contract of taxation in developing countries? A dialogue with self-employed business owners in Nigeria', *Sage Open* 7/4 (2017).

102 Umar, Derashid and Ibrahim, 'What Is Wrong with the Fiscal Social Contract of Taxation in Developing Countries?'

103 Musa, Stepputat, and Hagmann, 'Revenues on the Hoof'.

104 Interview with government official, Lasanod, 10 March 2021.

105 Interview with government official, Lasanod, 10 March 2021.

Somaliland still governs Lasanod with little legitimacy or popularity. This is one reason why Somaliland has to be flexible with respect to tax collection. It cannot impose the full tax code on the Dhulbahante territories because that would only reinforce local people's existing grievances *vis-à-vis* Somaliland. Therefore, Somaliland's reduced taxes (*cashuur dhaaf*) in the Lasanod areas are one way of garnering, or at least retaining, some level of public acceptance.<sup>106</sup>

Apart from service delivery, the protection of property rights and basic security are important components of the fiscal contract. In Lasanod, the bulk of trade related taxes are paid by general trading and service companies. But the owners and employees of these companies have become discontented with the protection they receive. For example, traders pay the so-called 'security fee' to both Somaliland and Puntland. But neither administration can provide effective security during the transport of their commodities inside or beyond Lasanod. Traders in Lasanod continue to have security concerns about revenge killings (*aano qabiil*) and assassinations carried out by unknown attackers (*madax jebis*). Moreover, trucks are easy targets for non-Dhulbahante business partners or other clans who have differences with their business partners or clans from Lasanod. The manager of a general trading company in Lasanod said, 'trucks, drivers and moving cargo to Lasanod might be subject to an attack by businesspeople who are in conflict with their partners from Lasanod, or whoever would take revenge from wrongdoing committed by someone from Lasanod'.<sup>107</sup> These incidents happen on the road and in areas controlled by authorities that collect security and district development revenues from the passing trucks and commodities.<sup>108</sup>

When security incidents occur along the Lasanod corridor, for example a hijacking or a murder, the people-to-people social contract is activated. For example, when a truck ferrying goods to Lasanod is targeted one of the following two scenarios usually happens. First, if the driver was murdered, the case becomes an issue between the clans of the perpetrators and of the victim. Second, if the driver was not murdered, but the truck and its cargo were hijacked, the trading company reports to the local authority where the incident took place. Most of the time, in particular on the Puntland side of the trade corridor, local authorities react slowly and may ask the trading company to finance their operation, sometimes forcing the company to take over the process, negotiate with the hijackers and settle payments. As the employee of a general trading company in Lasanod illustrated 'suppose the truck is USD 40,000 and its cargo is USD 20,000, and the men who hijacked the truck are claiming USD 5,000 then traders/businessmen have to pay'.<sup>109</sup>

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106 Locals call it *cashuur dhaaf* (tax exemption) but it was *cashuur dhimid* (tax reduction).

107 Interview with manager of a general trading company, Lasanod, 8 March 2021.

108 Interview with employee of a general trading company, Lasanod, 7 March 2021.

109 Interview with employee of a general trading company, Lasanod, 7 March 2021.

Interviewees stated that security in Lasanod has generally improved since ‘Somaliland took over and filled the administrative vacuum’.<sup>110</sup> However, some interviewees’ considered Somaliland as a ‘necessary evil’.<sup>111</sup> While Somaliland’s efforts to provide security in Lasanod are noticeable, one interviewee expressed his concern about how murder cases are handled:

In the case of murder, Somaliland security providers make arrests. Still, once the two clans of the perpetrator and the clan of the victim make settlements such as murdering the perpetrator, Somaliland security providers do not facilitate the process. Still, they keep the perpetrator in prison, which prompts the clan of the victim to take revenge, creating a vicious cycle of conflicts.<sup>112</sup>

Such actions are met with scepticism by some locals who have accused the Somaliland administration of creating divisions among the local Dhulbahante clans. As an academic interviewed for this study argued, Somaliland has no interest in a unified Dhulbahante position because ‘if all local clans are in agreement, they may develop a common voice that leaders do not like’.<sup>113</sup> When interviewing a senior tax collecting officer in Lasanod about what the Somaliland state provides in exchange for the revenue collected, his answer was:

We are not politicians; if you want you to understand how the tax is used and the impact it has on the state-society relations, ask the Minister of Finance, he is our politician.<sup>114</sup>

In addition to the weak social contract between Somaliland and residents of Lasanod, social relations between the Harti Darood and the Isaaq remain fragile. In particular, this affects small-scale traders who rely on informal networks to access credit. Some interviewees argued that, as a result, small-scale traders in Lasanod have stronger commercial connections with Puntland than Somaliland. For Lasanod based traders, informal economic institutions such as credit, trust and *mu’amala* are stronger in Bossaso than they are in Berbera, Hargeisa or Burao. *Mu’amala*, which in Arabic means ‘good conduct evolving from economic transactions’ is at the core of cross-border trade financing in the Somali territories.<sup>115</sup> As a small-scale trader and academic explained:

There is an informal social institution that connects Lasanod traders to Puntland. In Bossaso, small-scale traders receive an informal credit based on *mu’amala* and social network. In Somaliland, we have to pay cash, no credit.<sup>116</sup>

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110 Interview with employee of a general trading company, Lasanod, 7 March 2021.

111 Informal conversation with academic, Lasanod, 9 March 2021.

112 Informal conversation with academic, Lasanod, 9 March 2021.

113 Informal conversation with academic, Lasanod, 9 March 2021.

114 Interview with customs officer, Lasanod, 12 March 2021.

115 Musa, ‘From Trust to Oligopoly

116 Interview with small-scale business owner, Lasanod, 11 March 2021.

Another reason why Lasanod traders struggle to obtain credit in Somaliland is the predominant perception that Lasanod is a conflict-ridden area. These negative perceptions about Sool and eastern Sanaag regions scare off potential creditors. One small business owner said: ‘There is a phobia that Lasanod is a contested area where conflict can erupt anytime. No trader wants to put his money in a risky environment’.<sup>117</sup> Some believe that negative perceptions about a supposedly conflict-ridden Lasanod are deliberately propagated by certain politicians who do not want the Somaliland state to invest heavily in the disputed Dhulbahante territories. To the contrary, traders in Puntland entertain closer family relations with the Lasanod clan lineages and are thus more predisposed to provide credit for import and export operations.<sup>118</sup>

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<sup>117</sup> Interview with small-scale business owner, Lasanod, 11 March 2021.

<sup>118</sup> Interview with small-scale business owner, Lasanod, 11 March 2021.

# Navigating in-betweenness: practical strategies of Lasanod's business people

The in-betweenness of Sool and eastern Sanaag has provided local businesspeople and traders with economic advantages, in particular flexible supply chains from both Somaliland and Puntland. But it has the disadvantage of the multiple taxation and fees outlined in the previous section. How does Lasanod's business class manoeuvre its in-betweenness? Four recurrent trading strategies stand out.

## Paying taxes to different authorities

Traders pay taxes to different authorities to make sure they have good relations and can move their goods.<sup>119</sup> Taxes for commodity trading are paid in different ways. Some manufacturing factories in Somaliland have their own truck fleet that transports commodities to Lasanod. These companies provide their drivers with cash to pay for the various taxes and fees to be paid at the different checkpoints. Other companies hire trucks to transport commodities to Lasanod. In this case, it is the truck owners who pay the taxes and fees and collect the receipts (*boono*), which are then later reimbursed by their client, the company, upon arrival of the goods in Lasanod.

The biggest general trading companies in Lasanod have their own truck fleet transporting commodities from Somaliland and Puntland. The company sends the estimated amount of fees and taxes to its drivers with a mobile money operator. The manager of a general trading company clarified that 'on the Somaliland side, the taxes and fees are known, and we send an estimate of the money to the drivers who clear the fees and taxes and collect receipts'.<sup>120</sup> Private transport and logistics companies operating between Somaliland and Puntland transport bundles of consumer goods (*bagaash*) and work with customs clearance brokers. As a customs clearance agent explained:

When the cargo arrives at the customs, and they do the inspection and tell us the customs duties, I call the company, which transfers the money on my phone. I pay them and collect the receipt which I send with the driver who delivers to the cargo company which gives the receipts to the traders.<sup>121</sup>

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119 Interview with manager of a general trading company, Lasanod, 8 March 2021.

120 Interview with manager of a general trading company, Lasanod, 8 March 2021.

121 Interview with customs clearance broker, Burao, 15 March 2021.



## Merging businesses

Another strategy consists of merging businesses to leverage the economics of scale and reduce trade costs in the Lasanod areas. Since 2016, commodity traders and food store owners merged into five different general trading companies. One of these companies is a large shareholder company that supplies over 70 per cent of the commodities and goods consumed in Lasanod. These companies have a fleet of trucks that are registered in both Somaliland and Puntland. They are thus able to circumvent the restrictions, which both political entities impose on trucks that are not registered with their administration. Similarly, electricity providers in Lasanod have merged to form Sool power company to ward off competition. As one informed observer explained:

Sool power company was formed for survival not for monopoly. Because if the electricity providers competed and the city is limited, then they would have all collapsed and this could have denied the city the chance to get reliable electricity.<sup>122</sup>

The same interlocutor pointed out how:

In Lasanod, the economy is not strong, and the population is small due to the political and security challenges in the city and less purchasing power. Its position between Somaliland and Puntland also negatively affects the economy.<sup>123</sup>

The merging of commodity trading companies as well as of electricity providers thus constituted an effective strategy to survive in Lasanod given its ongoing economic and political challenges. While the establishment of shareholder electricity companies is not unique to Lasanod,<sup>124</sup> the merging of commodity trading companies is less common in Somaliland. It allowed smaller commodity traders to pool their trucks, register them in both Somaliland and Puntland and thus have easier access to both these territories. To mitigate the risk of monopoly in the commodity sector, the general trading companies do wholesale business, while stores do retail business.

## Dealing with transport and trade restrictions

Many vehicles in Lasanod lack number plates and road tax stickers. Others have two number plates and tax stickers for both Somaliland and Puntland. Vehicles that are not registered in Somaliland have to stay in Lasanod and a perimeter of some 60 km. This restriction also applies to commodities that arrive in Lasanod from Puntland—where

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<sup>122</sup> Interview with academic, Lasanod, 14 March 2021.

<sup>123</sup> Interview with academic, Lasanod, 14 March 2021.

<sup>124</sup> Emma Lochery, 'Generating Power: Electricity Provision and State Formation in Somaliland', PhD thesis, Department of Politics and International Relations, Oxford University, 2015.

they were taxed comparatively less than they would have been in Somaliland. Due to Somaliland's reduced import taxes on commodities brought from the east to the Dhulbahante territories, and because of the higher tariffs imposed on goods that travel onward to Somaliland, few commodities that are brought to Lasanod continue further west. Trucks ferrying commodities from Berbera to Lasanod thus often return without a load. As a result, bigger trailers are typically registered with Puntland, while smaller 6 and 8 tonne trucks are registered both Somaliland and Puntland.<sup>125</sup>



Trucks swapping their cargo to overcome numberplate restrictions. Photo credit: Ahmed M. Musa, 2021

## Monetary policy

Until January 2021 three currencies were commonly used in Lasanod: the Somaliland Shilling; the Somali Shilling; and the US dollar. Three telecommunication companies and their respective mobile money platforms are present in Lasanod: Telesom (Zaad); Dahabshil (e-Dahab); and Golis (Sahal). The Somali shilling and US dollar are accepted for daily transactions, while the Somaliland shilling is used to pay civil servants who typically exchange their salaries into Somali shillings and US dollars.<sup>126</sup> However, in September 2020 the Puntland administration stopped collecting revenues in Somali shillings in an effort to control rampant inflation. Lasanod businesses immediately stopped accepting the Somali shilling. As a result, the economy became de facto cashless, relying almost exclusively on mobile money services.<sup>127</sup>

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125 Interview, employee of a general trading company, Lasanod, 7 March 2021.

126 Interview with officer at Somaliland's central bank, Lasanod, 10 March 2021.

127 Regarding a similar scenario in Beledweyne some years ago, see 'Re-introducing the Somali Shilling in Beledweyne', *Somali Public Agenda*, 14 January 2019 (<https://somalipublicagenda.org/tag/re-introducing-the-somali-shilling-in-beledweyne/>)

# Conclusion

In the first decade after the fall of the central government in 1991, Somalia's territories and trade faced limited statehood and functioning forms of formal governance. Trade during this period was labelled by observers as 'stateless', 'unregulated', 'tax free' and 'duty free'. However, over the last two decades, as numerous states, sub-states and state-like authorities emerged in the northern Somali territories, multiple and fragmented taxation and regulations governing cross-border trade have emerged.

Somaliland's and Puntland's claims to state control and trade policies overlap in the Sool and eastern Sanaag regions. This overlap of administrations, and the resulting conflicts, border regimes and revenue collection practices from 2000 onward, have affected commodity trading in places like Sool and eastern Sanaag. Traders in these regions not only have to pay double taxes and fees to both Somaliland and Puntland, but also to numerous district administrations situated along the main transport corridors. Since the legitimacy of both Puntland and Somaliland is contested, both administrations use taxation and revenue collection as a technology to improve their legitimacy. It is difficult to predict how long this exchange of low taxes in return for limited state acceptance can last.

Since the administrative capacities of both Somaliland and Puntland are improving, it is possible that they will stop reciprocating low taxes and tax exemptions for legitimacy. If they impose stricter taxation on these regions before they find a solution for the overlapping administrations and legitimacy, this could be a source of conflict between the states and the local communities.

The Lasanod case study highlights the interplay between politics, conflict and trade as competing state entities seek to expand their territories and tax bases along a major trade corridor. Although Somaliland controls Lasanod, its position remains precarious and the reduced tax rate applicable in the Dhulbahante areas can be seen as type of 'tax bargaining'<sup>128</sup>, by which the Somaliland administration tries to keep the local population happy. Major traders can deal with this in-betweenness as well as with competing state projects, but they need security and protection of their assets and personnel along the cross-border trade corridors in exchange for the taxes they pay.

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128 Kirstine Strøh Varming, *The experiential limits of the state: Territory and taxation in Garoowe, Puntland*, Working Paper No. 2017: 07, Danish Institute for International Studies, 2017.

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Lasanod is located on the border between the Republic of Somaliland and Somalia's federal state of Puntland. Now under the administrative control of Somaliland, the city is contested— sometimes violently— between the two polities, which are both products of Somalia's post-1991 state-building project. *Lasanod: City at the margins* examines the economic and political consequences of this ambiguous borderland status, which has led to new forms of revenue collection and political organization. It describes how traders negotiate multiple tax regimes in the borderlands between Somaliland and Puntland and outlines the consequences for doing business in the region.

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