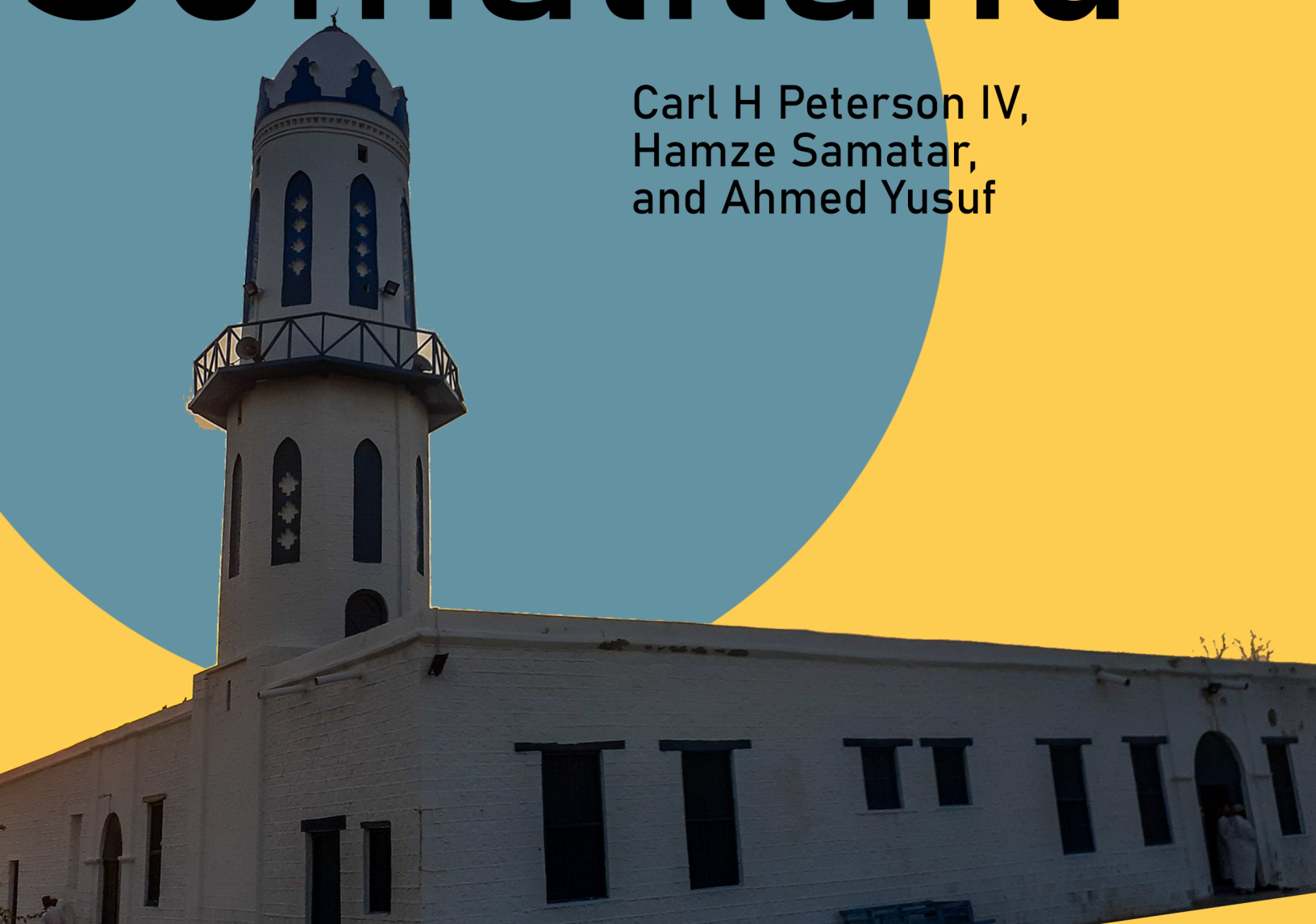


# A Vision for Innovation in Berbera, Somaliland

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## The Future of Development

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Empowering new cities with better governance to lift tens of millions of people out of poverty.

The Charter Cities Institute is a non-profit organization dedicated to building the ecosystem for charter cities by:

- Creating legal, regulatory, and planning frameworks;
- Advising and convening key stakeholders including governments, new city developers, and multilateral institutions;
- Influencing the global agenda through research, engagement, and partnerships.

# Executive Summary

The city of Berbera, Somaliland has some of the greatest growth potential in the Horn of Africa region. Situated in a strategic location with both sea access and close proximity to the fast-growing economies of the region. Somaliland and Berbera in particular are ready to take steps to dramatically increase their regional significance. Somaliland's government has already astutely pursued its advantages, but the positive outcomes that Somaliland has already experienced can be greatly increased by adopting the innovative governance system offered by the charter cities model. Somaliland's unique history and location make it a prime candidate to employ new solutions to age-old problems and to show the world that it cannot only seize opportunities but can also deliver on bold and innovative models of economic development for its people.

# Recommendations

1. Somaliland's government should explore the economic advantages of creating a charter city structure for Berbera, evaluate whether this would be suitable in the local context, and engage with local stakeholders to assess the feasibility of this proposal.
2. Somaliland's government should create a comprehensive economic development strategy for Berbera and the wider Berbera Corridor, including the possibility of establishing a charter city in Berbera.
3. Should Somaliland choose to pursue the charter city option, the next steps are to start building a political coalition that advances the charter city project, assemble stakeholders to delineate the scope of potential reforms in more detail, and contact the Charter Cities Institute for assistance.

# The Opportunity

Somaliland can both improve its development outcomes and the lives of its people, and show the world that it is a leader in forward-thinking governance by establishing a charter city near the Port of Berbera. By following the models laid out by the four “proto-charter cities” of Dubai, Singapore, Shenzhen, and Hong Kong, Somaliland can use Berbera to accomplish two desirable outcomes: (1) Berbera can dramatically grow Somaliland’s economy by becoming the best place to do business in the Horn of Africa; and (2) Berbera can serve as a governance laboratory that Somaliland can use to create successful and innovative institutions that can then be introduced to other parts of the country, which will help accelerate Somaliland’s economic development over the next 30 years or more.

## Context

Berbera is a coastal port city located in the Republic of Somaliland: a de facto independent and self-governing, but as-yet internationally unrecognized, country in the Horn of Africa. Somaliland’s claimed territory has an area of 176,120 square kilometers, which is slightly larger than England, or the state of Florida, and a population of around 4.5 million people. It is bordered by Djibouti to the west, Ethiopia to the south, and Somalia to the east.

Today, Somaliland operates as a de facto independent and self-governing country, having redeclared its independence by popular consensus in 1991 after genocidal repression by the autocrat, Siad Barre. Somalia’s government, despite its best efforts, has little say or power within Somaliland today. Somaliland maintains its own government, parliament, public institutions, currency, flag, and military. A parliamentary republic, it has a democratically elected government that is overseen by an executive in the form of a president who forms the government. Somaliland has held numerous democratic local, parliamentary, and presidential elections, with the most recent occurring in May 2021, with over 1.3 million people registering to vote. Major international governmental organizations such as the United Kingdom and the European Union have applauded Somaliland’s dedication to democratic governance. Somaliland also maintains varying levels of economic, security, and diplomatic relations with several countries including Ethiopia, Djibouti, the United Kingdom, Taiwan, the United Arab

Emirates, and Turkey. However, against the wishes of its people, Somaliland is still internationally recognized as part of Somalia, despite meeting all the requirements of a country as set out in the Montevideo Convention.



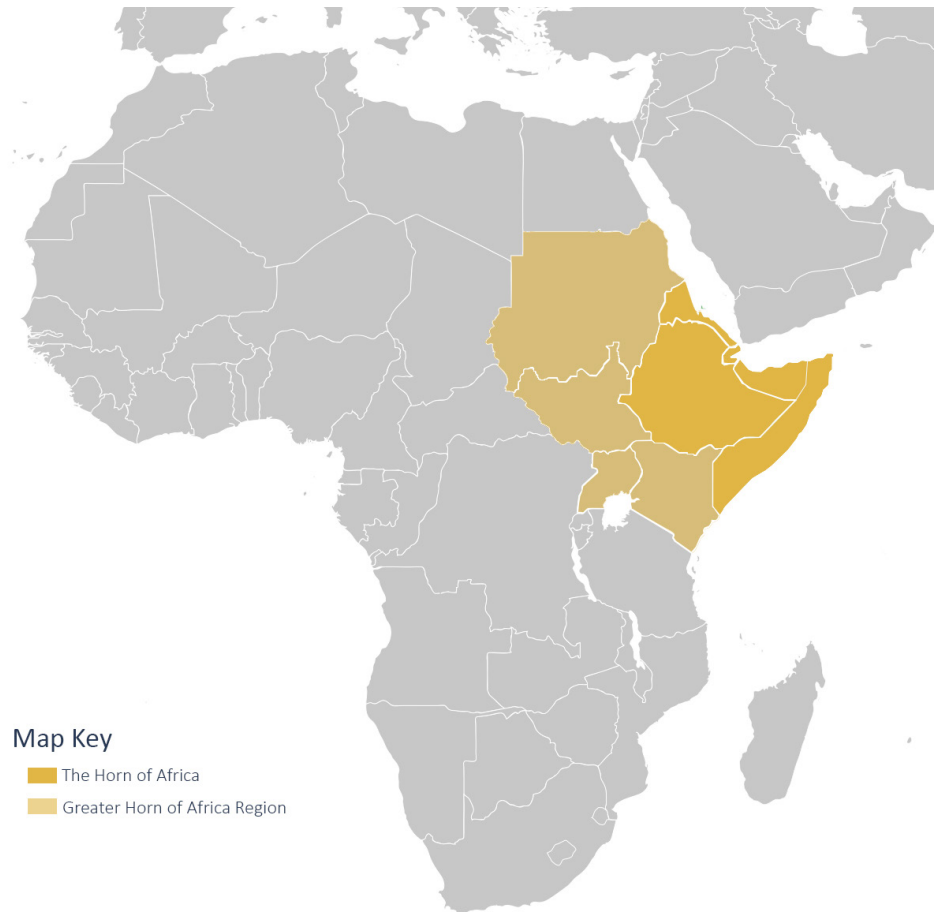
# Somaliland



# Berbera

The Horn of Africa is a strategically important region. It is the eastern most tip of Africa that sits at the crossroads between the Gulf of Aden, Arabian Sea, and Indian Ocean. The term “Horn of Africa” traditionally encompassed the countries of Eritrea, Ethiopia, Djibouti, Somaliland, and Somalia. More modern definitions of the “Greater Horn of Africa” also include Sudan, South Sudan, Uganda, and Kenya. According to the World Bank, in 2019, the total combined population of the region was estimated at 282 million people. Of this, 112 million are in Ethiopia and 52 million are in Kenya. Between 60-70% of the population of the region are under the age of 25, and the population is expected to double over the next 25 years. This region therefore represents one of the largest as-yet untapped consumer and business markets in the world, with significant opportunities for economic growth, infrastructure investment, trade, and job creation.

## The Horn of Africa



Despite Somaliland’s population being a relatively small part of the region, at only 4.5 million people, the country is nevertheless amongst the most strategically located, and therefore well positioned to capitalize on opportunities for intra-regional trade. To illustrate this point, Somaliland’s Berbera port is the second closest port to the main population center of the region (the Ethiopian highlands) in terms of distance. Somaliland’s ambition in the medium- to long-term is for its Berbera port to become one of the principal ports of this economically burgeoning region. Furthermore, Berbera has already been recognized as the high-quality investment opportunity that it is, with Dubai based logistics multinational DP World having already invested US \$ 442 million in the Port of Berbera. The government of Somaliland has wisely already established a special jurisdiction there in the form of the Berbera Economic Zone. Developing a charter city in Berbera could improve Berbera’s and Somaliland’s profile in the region, enhance its competitiveness, and attract further investment. Doing so would be building on the already successful development strategy that is happening in the city and country.

## Preexisting economic development initiatives and programs

From a geopolitical and regional perspective, the Horn of Africa has increasingly attracted the attention of world and regional powers alike. The USA, EU, France and the UK have recently shown an increased focus on the Horn of Africa region, and have attempted to maintain political and economic influence as new players from the Middle East and East Asia have entered the region. Specifically, China, through its Belt and Road Initiative, has lofty ambitions of its own in the region and appears to be winning the race for influence and economic connections. China has made key investments in the region, like the Addis Ababa–Djibouti Railway in Ethiopia, the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) corridor in Kenya, and oil investments in South Sudan linking to the pipelines which run north to Sudan. In Djibouti, Chinese companies have constructed billions of dollars' worth of new ports, railways, and road connections. China will likely continue to play an important regional role and will seek to consolidate and deepen its investments in the coming years.

From Somaliland's perspective, the government has made clear that economic development, job creation, and increasing exports are some of its strategic priorities, and these priorities have been set out in a range of national strategy documents and plans.<sup>1</sup> The documents are clear: Somaliland needs to invest in its infrastructure (including port infrastructure), deal with its high electricity costs, improve healthcare services, improve its educational system, and create sustainable jobs for its population (in particular, its surging youth population).

Some progress has been made towards meeting these goals. The Port of Berbera has been upgraded and expanded. DP World, as the principal investor and backer of the Port of Berbera, has invested US \$442 million in significant new machinery and equipment and has expanded both the port's berth and quay, in order to bring it to the level expected of a modern international port capable of competing with other ports in the region. Similarly, there has been investment in renewable power production, as well as modest investments in manufacturing capabilities.<sup>2</sup> Yet, each of these projects is piecemeal in nature, and they therefore require complementary governance reforms to reap their full potential. Specifically, the governance reforms as laid out in this brief will allow for more effective coordination between recent (and future) investments, for more streamlined implementation of development projects, and for quicker adaptation to changing on-the-ground realities.

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1 Somaliland National Development Plan 1: <https://saxafimedia.com/wp-content/uploads/2020/07/ndp-somaliland-national-development-plan-final.pdf>; Somaliland National Development Plan 2: [https://slministryofplanning.org/images/front-page/Somaliland\\_NDP11\\_Final.pdf](https://slministryofplanning.org/images/front-page/Somaliland_NDP11_Final.pdf); Somaliland Vision 2030: <https://www.refworld.org/pdfid/5b4312194.pdf>.

2 See, e.g. Ayieko, O. (2020, October 14). Kenya's Cookstove manufacturing company sets eyes on Somaliland and rest of Africa. East African Business Week News. <https://www.busiweek.com/kenyas-cookstove-manufacturing-company-sets-eyes-on-somaliland-and-rest-of-africa/>; Generating the power to drive development. Energy Security and Resource Efficiency in Somaliland - Mott MacDonald. (n.d.). <https://www.mottmac.com/article/36821/esres>.



# An Innovative Approach for Fast-tracking Development

Charter cities are the next evolution in governance. By developing a charter city, a host country will have a defined area within itself where it can adopt best-practice regulatory and commercial laws. All the while, the charter city can tailor these laws to its own local context, maintaining the legal traditions and institutions that often most affect the lives of the city's residents, such as family law. The next subsections go over the key steps for implementing a charter city, as well as some of the main benefits.

## Making Berbera a charter city

Making Berbera, or a part of it, into a charter city would require four specific elements: (1) devolving authority to the city government; (2) empowering the city government to solve constraints to growth; (3) allowing for experimentation with policies on a local level; and (4) understanding and embracing how a charter city is different from a freeport.

## Devolving authority to the city government

Establishing a charter city in Berbera will require a significant degree of authority to be devolved to the city government. Such a devolution must be done within a legal framework, and CCI advocates that it be done within a structure that avoids causing domestic political trouble and aligns incentives between Somaliland and a private urban developer (i.e., "the city developer"). The framework to do this is formed by four key legal documents: a statute passed by Somaliland's parliament enabling the establishment of charter cities; a land agreement; a public-private partnership concession agreement



(oftentimes the land agreement and concession agreement are combined); and a city charter.<sup>3</sup> These four documents will create the framework within which a charter city administration can effectively use the authority devolved to it for the benefit of the people of Somaliland in accordance with the rule of law.

## Empowering the city government to solve the constraints to growth

The legal framework of a charter city allows for a city administration to adopt policies that resolve constraints on growth. Empowering the city to solve constraints on growth focuses on four key areas: (i) business registration; (ii) electricity and other essential infrastructure; (iii) dispute resolution; and (iv) investment protection and promotion.<sup>4</sup>

## Allow for experimentation with policies on a local level

Closely related to empowering a charter city to solve for constraints on growth is allowing for policy experimentation on a local level. A key advantage to a charter city is that it can serve as a jurisdiction for running experiments in governance that Somaliland does not want to run at the national level.

Notably, China successfully implemented such a system for engaging in policy experiments at the subnational level when it established its original four special economic zones in Shenzhen, Zhuhai, and Shantou in Guangdong province and Xiamen in Fujian province, in 1979. Unfortunately, experiments

often fail. However, without attempting reforms a country cannot overcome the problems that it faces. The advantage to a charter city is that it can attempt experiments with policies that can be scaled up if they are successful, but only have a limited impact if they fail. Furthermore, local institutional reform is politically often more feasible than national reform. Finally, the structure and market motivations of charter cities allow them to more quickly adopt innovative development programs, implement stop losses on failing programs, and iterate on successful programs.

## Embracing the advantages of a charter city

Charter cities are not freeports. Freeports are “designated by the government as areas with little to no tax in order to encourage economic activity.”<sup>5</sup> Whereas charter cities are new cities granted a special jurisdiction to create a new governance system. The primary difference is that charter cities are a separate jurisdiction with their own laws on a wide-ranging number of subjects for business that include tax law, but also include business registration, labor, and property, among others. Whereas, freeports typically only offer tax incentives within a specified geographic area, and because freeports do not typically have autonomous governments of their own, they need to continually go to higher levels of government for any policy changes they want over time, reducing their flexibility and adaptiveness over the long run.<sup>6</sup> In order for a charter city to be of the most value to the people and government

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3 CCI Model Legislation: <https://www.chartercitiesinstitute.org/post/model-legislation>; CCI Model Charter: <https://www.chartercitiesinstitute.org/post/model-charter>. A Model Land Agreement and a Model Concession Agreement are forthcoming.

4 CCI Risk Mitigation Guide: <https://www.chartercitiesinstitute.org/post/risk-mitigation-guide>.

5 Partington, R. (2019, July 06). What is a free port? All you need to know about the free-trade zones. Retrieved March 16, 2021, from <https://www.theguardian.com/politics/2019/jul/06/what-is-a-free-port-all-you-need-to-know-about-free-trade-zones-brexit>.

6 Ibid.

of Somaliland, it must have a sufficient degree of autonomy and devolved authority. With this degree of autonomy, a Somaliland charter city can adopt business law that is up to an international standard, engage in policy experiments, and quickly pivot toward new opportunities.

## Benefits

Establishing a charter city in Berbera will have five key benefits:

**(1) Attracting investment, creating jobs, and spurring economic growth.** First, the stable and well-ordered legal system combined with the competent administration of a charter city will crowd in international investment and foster the creation of local businesses. By attracting foreign direct investment and serving as a safe and stable location to start a business, a charter city will help foster economic growth in Berbera in particular, and Somaliland in general.

**(2) Empowering small and medium enterprises (SMEs).** Second, the business registration and dispute resolution will empower SMEs to engage in business with confidence that they will not be expropriated or drained of resources in a long dispute resolution process.

**(3) Creating linkages with knowledge sharing to the broader economy.** Third, creating linkages abroad will produce a virtuous cycle of knowledge transfer into Somaliland. As foreign investors bring more money into Berbera's economy, the charter city can recruit some foreign and diaspora talent to help staff the city administration, and Somaliland businesses can increase their connections abroad, which will lead to an increase in knowledge transfers between Somaliland and the world. This will result in improved human capital and skills upgrading, which in turn further attracts investment, and thereby creating a virtuous cycle.

**(4) Generating international attention, and by doing so drawing positive international attention to Somaliland.** Fourth, Somaliland can put itself on the map in a bold way by establishing a charter city at or near Berbera. Establishing a charter city in Somaliland will indicate to the world that Somaliland is innovative, audacious, and willing to try new solutions to accelerate its development.

**(5) Producing economic and governance spillovers to the rest of Somaliland and the wider Horn of Africa region.** Fifth, as time goes on, the charter city's administration will create skilled administrators who can then leave the charter city's administration and go work for other local administrations or for the national government. Similarly, as businesses grow and develop in the charter city, better business and management practices will spillover into nearby areas contributing to economic development of the broader region.

# Conclusion

Charter cities are complementary to the efforts that Somaliland has already made in improving its investment environment, and will help the nation take advantage of the enormous amount of investment that is currently being made in the region. A Somaliland charter city would provide a platform for Somaliland to diversify its economy so that it can deal with the challenges it faces and seize the opportunities it has been given. Somaliland has already taken excellent steps toward making itself an appealing investment environment, but it can do more. A charter city at or near Berbera will be a signal to the rest of the world that Somaliland is not only open for business, but that it is innovative and serious about turning itself into a major economic center in the Horn of Africa.

To move forward and pursue the charter city option, the next steps are to further explore the economic advantages of creating a charter city structure for Berbera, start building a political coalition that advances the charter city project and to assemble stakeholders to delineate the scope of potential reforms in more detail. The Charter Cities Institute stands ready to assist in these efforts.



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