



FAO Regional Initiative in Support to Vulnerable Pastoralists and Agro-Pastoralists in the Horn of Africa

Policy Brief

Informal Cross Border Livestock Trade in the Somali Region

Background

ICBLT in the Horn of Africa

Informal cross-border trade is a movement of goods in which all or part of the trading activity is unrecorded or unrecognized by the government, and is carried out outside or inside official check-points without adherence to procedural requirements of all formal institutions. This often occurs with business activities cross borders, which are mainly based on popular supply and demand conditions or comparative advantages.

The cross border livestock trade operation in the Horn of Africa is one of the largest live animal export movements in the world, among which the cross border livestock trading through the Somali regional state of Ethiopia is the oldest and the most vibrant one. The Somali region has the longest national frontier in Ethiopia bordering the neighboring countries of Somalia, Djibouti and Kenya. The cross border movement of traded livestock and other commodities along this national frontier has long survived against all odds of political rivalry, armed conflicts, regional insecurity, border closures, livestock export trade bans, and other restrictive government interferences. Several reports indicate that live animal exports from Berbera and Bosaso have often reached a peak of 3 to 3.5 million heads per year (e.g. FEWSNET, 2010; COMESA, 2009), and the observed normal trend is that there are fluctuations between 2 to 3.5 million heads per annum. An estimated average of some 65% of this volume is considered to have originated from Ethiopia.

The cross border livestock trade has remained to be the life line of the herders and other inhabitants of Somali regional state and other adjacent regions which are the source of supply for portion of the livestock that cross the border informally. However, there is limited understanding about the food security and economic growth contributions of this trading to the region and beyond. Hence, it has received little and improper attention in national strategic plans and regional development programming. This briefing paper, based on an assessment study of informal cross-border livestock trade along the Berbera and Bosaso market corridors, is prepared to distill some key messages from a consolidated account of the critical limitations of existing government initiatives, the importance and major constraints of the cross border pastoral livestock trading system.

General Features of the ICBLT along the Berbera and Bossaso Corridors

The cross border livestock marketing chains and trade routes that feed into the Berbera and Bossaso corridor involve a long distance operation of a large number of different types of actors such as herders, traders, brokers, financiers and a variety of numerous actors in the physical market place. As the marketed animals move through the value chain across vast areas to reach their destinations, they change hands through both the formal and informal systems.

The Somali regional state, east and west Hararghe zones of Oromia Regional State, Harari Regional State, and Borana zone in Oromia region (Desta et al. 2011), are the major sources of informal cross-border live animal outflows from Ethiopia, through the Barbara and Bossaso Corridors. Recently, cattle are brought all the way from Jimma and Bale zones to be traded to Somaliland (through Togowuchale and other outlets); and to Puntland (through Werder, Geladin, and Boh). Price, proximity to export market, conveniences and clan based trust and regularity of demand are some of factors that move traders in the region and beyond to supply the corridors.

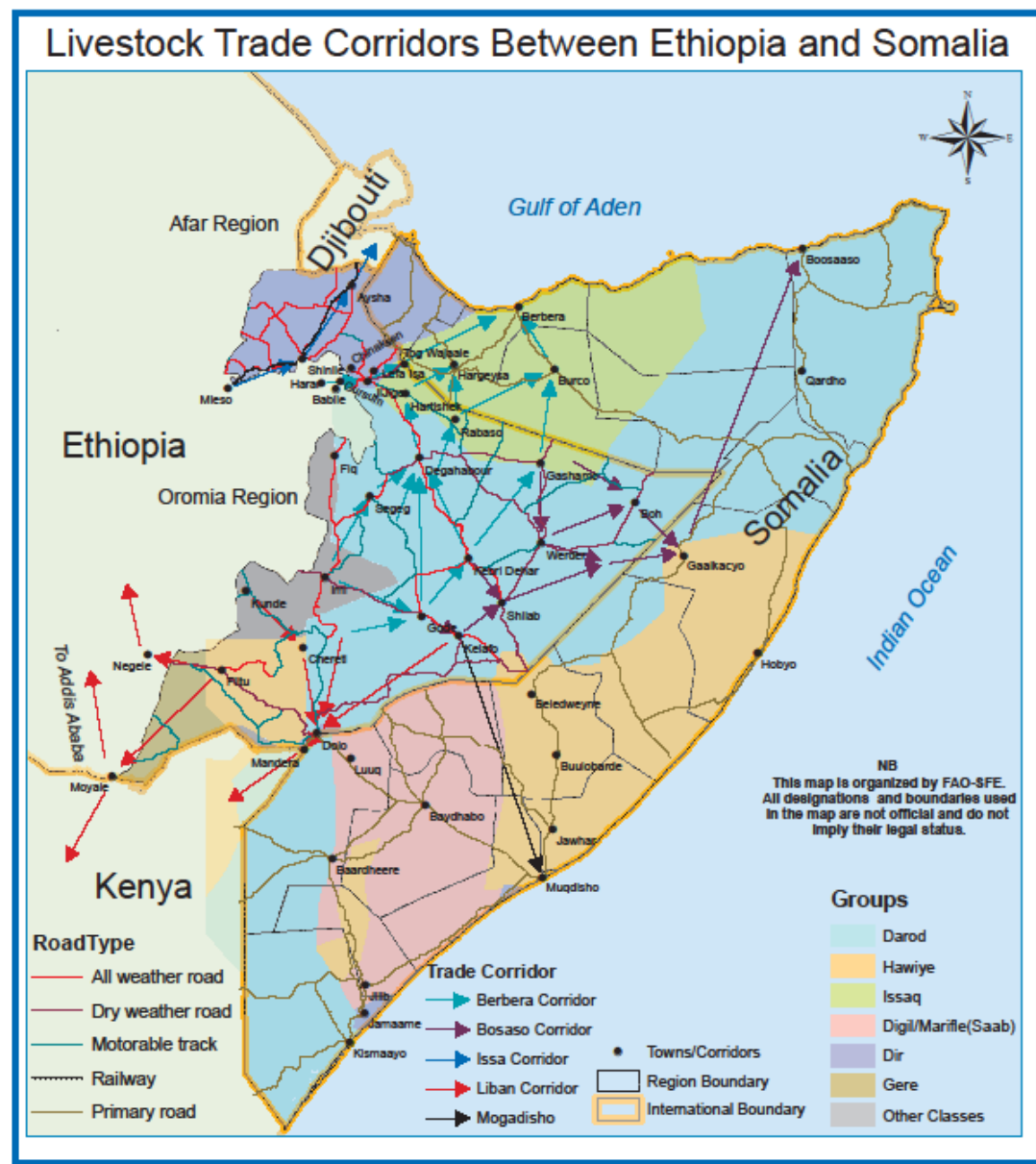
An important feature of the informal cross-border livestock trading system lies in its crucial interconnection with food and other basic commodity imports. The cross-border livestock trading operation is an integral part of a system which Umar (2007) describes as “a set of parallel conveyor belts that take out livestock exports and bring in consumer goods.”

The cross border pastoral trading system is characterized by spatially integrated clan-based networks, where market participants throughout the region obtain their “fair share” of total income generated from the trading system. Clan-based trading networks are defined within the broad indigenous institutional framework that governs the conduct of operations of the entire supply chain. Business trust and smooth operations of the informal cross-border pastoral trading system are highly dependent on the clan-based networks. These networks ensure security of individual operators in this significantly complex and uncertain environment characterized by risks of failure to pay, violent attacks, confiscation, and harassment.

Each market in Oromia, Harari and Somali regions that supply the two corridors have some level of specialization in terms of species of livestock they supply. For example, Harar and Gursum markets are the major suppliers of bulls fattened by the small holder farmers who align their production practices targeting the gulf market. The farmers after selling the fattened bulls buy one or two younger bulls that originated from the pastoral areas for further fattening. This shows the highland-lowland market linkage and some level of market driven production stratification. Hartishiek market is popular for supplies of shoats to the Berbera corridor. Werder market is a special market to supply shoats to the Bossaso corridor via Geladin and Boh

which mainly serve as transit markets, or directly to Galkayo in Puntland. Harshin, Gashamo, and Daror which are part of the Haud route are transit markets for shoats before the animals cross the border. Babile market is becoming the major center for trading camels. Camels are brought to Babile market from areas as far as Imi in Bale; Arero and Moyale in Borana; and from northern rangelands of Kenya.

There are nine zones in Somali region and each zone uses different cross border exit ports, depending on proximity and clan composition along the trading routes. The major export traders along the Barbara corridor are the Issaq clan, whereas the Majertin operate along the Bossaso corridor.



Importance

Despite lack of clear policy support but the rather dubious official stance to the contrary, the extreme importance of ICBLT to livelihoods of the regional population cannot be overemphasized. Cross-border livestock trade is a critical source of livelihood to millions of inhabitants in the Somali regional state including herders, traders, middlemen, and other market actors. The trading system is an important driver of non-pastoral income growth and employment in the region. Its contribution can be seen in terms of direct job creation in the livestock marketing channel and in the form of indirect multiplier effects of linkages with other income generating activities such as merchandize trade, foods and drinks selling, transportation, hay making and animal pen rentals. In addition to direct impact on livelihoods of livestock producers, this vibrant cross border livestock trading system is significantly interconnected with other commercial activities in the region. This makes it one of the drivers of regional economic diversification, saving and capital accumulation even with potentially significant long-term contribution to the national economy. The regional food security and local investment contributions of cross-border trading activities are not in fundamental conflict with national economic development objectives though this latter is often narrowly stressed by authorities in terms of potential loss of foreign exchange and government revenues. The direct regional food security contributions of the informal cross-border livestock trading system are obtained through higher income to livestock producers generated by comparatively favorable livestock price offers, the system's key role of financing cheaper food imports and incomes generated from a wide area of marketing activities that can be used by participants for direct food purchases. The welfare contributions of the system certainly go beyond these direct achievements of improved consumption level. The ICBLT, as a vibrant source of saving and capital formation in the region, is an important driver of regional economic growth through its linkage effects. It is this nature of the trading system that denotes the essence of the inescapable reality of recognizing cross-border trade as a vital source of livelihoods and food security in pastoral areas of the country. It is the livestock trading business which finances the purchase of supplies that come from all directions. This is not to dispute the loss incurred in public revenue and foreign currency as the result of the ICBLT. It is rather an attempt to show the magnitude of the importance of the ICBLT to the livelihood and food security of millions of people, and its contributions towards the local, regional and national economy that clearly outweighs the alleged losses.

The share of the informal cross-border trade in the overall national economic activity has not been assessed, because of the well known limitation of the system of national accounts in capturing the activities of the informal sector of the economy. However, for the purpose of this study a preliminary estimate of an aggregate indicator of the volume of economic activity in the informal cross-border livestock trading channel is estimated by measuring the gross value-

added generated in the sector (see Kolli [2011] for details of this approach). This is done by estimating the trading margin, which captures the activities of traders, brokers, trekkers and all other agents involved in the livestock trading channel. The estimated trade margin here is the difference between the average domestic terminal market sales value and the average purchase (“pastoral-farm-gate”) value of the animals traded. This, in the language of national/regional income accounting, provides a proxy for the gross value-added in the livestock trading sub-sector. The gross value-added, in our present context, simply represents the total *additional* income generated in the cross-border livestock marketing chain. Therefore, the *gross value-added* in the informal cross border livestock trading activities on the Berbera and Bosasso marketing corridors in Somali region is estimated to be as high as about 2.52 billion birr (\$144 million), which was about 4% of the formal national trade sector GDP for Ethiopia in 2011. It was 27.1% of the entire trade and tourism sector *value-added* generated in Oromia region, which is the largest regional economy in Ethiopia, in 2009 (ONRS, 2010).



BABILE CAMEL MARKET



HARTISHIEK SHOATS MARKET

Current government initiatives and their limitations

A systematic formal effort to advance the case of the cross-border livestock trading operations to the wider benefit of the regional population has largely remained minimal. There have been some initiatives intended for redirecting flow to the formal channel from the informal cross-border trading activities in order to minimize loss of public revenue and hard currency. These are: the advance hard currency deposit Cash against Commodity/Advance Payment (CAC/AP) arrangement, the small scale border trade directive and Franco Valuta basic commodity import permits. The CAC/AP arrangement facilitated the diversion of some informal cross-border outflows of traded cattle and camels though it remains to have had little effect on informal small stock outflows. The CAC/AP permit is not a complete arrangement for internationally recognizable formal cross-border trading operation. Traders are not fully guaranteed in their trade deals with foreign importers of live animals, because of lack of officially recognized

exchange procedures backed by formal international banking arrangements. The CAC/AP arrangement simply guarantees safe passage of live animals trekked/trucked within the Ethiopian border. The government does not take any responsibility for the safety of products exported through this channel. Therefore the CAC/AP mainly served traders that can make advance hard currency deposit, in exchange for smooth cross border transfer of live animals.

Cattle and camels that are traded through the CAC/AP have increased substantially in recent years. In Berbera corridor alone the volume and value of bulls traded through this system via Togowuchale exit post increased by 410 and 650% respectively in 2010/11 as compared to 2008/09. The number of camels traded through the same exit post increased from 130 with a value of \$43,623 in 2008/09 to 13,472 with a value of \$5,604,352 in 2010/11. However, this trading arrangement in fact constitutes a small proportion of the total livestock traded across the border in Somali region. The large majority of the livestock that are supplied from the region to the Berbera corridor and all livestock that exit the country through Geladin, Boh and other border towns to supply the Bossaso corridor are traded informally and unofficially. According to the estimates of key informants who have been involved in cross border livestock trade business for many years and key regional officials, 70% of cattle, 30% of camel and 99% of shoats that cross the border are traded informally and unofficially, outside the CAC/AP arrangement.

The small scale border trade directive was issued by the federal government in 2010 in response to growing regional pressures that have sought for full recognition of the vital importance of cross-border trade for sustainable food security needs of pastoral areas. The directive has attracted a great deal of criticism and skepticism. It ignores the great majority of the population that lives outside the 15 km radius of the designated border towns.

The Somali regional government (beginning from 2010) has issued Franco Valuta (FV) license to 27 hand-picked traders/cooperatives (3 for each administrative zone) to import and distribute basic food items in all districts of the 9 administrative zones. The implementation of the FV privilege has the intention to reduce food shortage in the region the prevailing unofficial cross-border food commodity inflows with an ultimate target of reducing if not eliminating the need for the informal and unofficial cross border livestock trade that is required to finance food importation. Although it is not quite evident whether the objective to reduce the ICBLT has been met, it appears that the importation of food items through the FV permit has improved the availability of selected food items in the region.

Major constraints and issues

The cross-border livestock trading activity is typically conducted in a difficult context of the policy environment. Government actions are mainly directed by security concerns and profound misconceptions dominated by the traditional national objective of surplus extraction rather than an attitude of unreservedly recognizing the vital importance of the ICBLT in the context of the urgent realities of regional food security and livelihood vulnerability. The major issues and constraints are summarized as follows:

- a. *Absence of genuine strategic focus on the importance of ICBLT:*** The vital contribution of the informal cross-border livestock trade to livelihood portfolios of peripheral societies is an area of tragic neglect in Ethiopia's national strategic schemes on food security and poverty reduction. This influence has its sharp origins in the conventional strategic stance which is largely driven by gross misunderstanding and static attitudes towards the nature and complexities of the pastoral trading system. The blockage of the cross-border pastoral trading system in some respect is historically associated with security concerns of the central government over a freely roaming pastoral society in vast lowland territories bordered by a hostile neighboring state. In addition to these concerns, the political economy of cross-border livestock trade in peripheral pastoral areas in Ethiopia is further complicated by the deeply rooted conventional belief of potential losses of foreign exchange and public/government revenues.
- b. *Animal health problems and trade bans:*** Animal health issues are central to the cross-border livestock trading system. Periodic trade bans on livestock from the Horn of Africa has always remained a serious impediment to livelihood security in peripheral areas in the region. An immediate and significant effect of a ban on livestock trade is felt through a general decrease in livestock prices with a consequent negative effect on pastoralist purchasing power. This is a central case which underscores the crucial importance of regional cooperation in animal disease control, livestock information management, and harmonization of livestock health and trade standards in the Horn of Africa.
- c.** Multiple and in some cases illegal taxation and harassments in the market places as well as on the trade routes.
- d. *Scarcity of data:*** The absence of accurate livestock data or incomplete coverage of pastoral areas is a common feature of the Ethiopian national agricultural surveys. The commitment of the national authorities to maintaining an up-to-date data-base of cross-border livestock trading is rather unimaginable given the indifferent attitude of formal government institutions towards the informal cross-border trading operations. As a result, any effort by NGOs and international organizations appears to be ineffective as these efforts could not sustainably substitute that of the public institutions.
- e. *Drought:*** Drought is a serious problem when it occurs; it affects both the volume, value and the quality of animals traded.

- f. Lack of alternative outlets:* The central market, if not completely missing, is an extremely feeble outlet for Somali livestock.

Key policy recommendations

- Dialogues should be initiated to help the government and other actors understand the merits and demerits of the ICBLT business. Government actions to control ICBLT are guided by the fixed idea of passionate concern for the potential loss of central government foreign exchange earnings. The apparent restrictive attitudes towards the informal livestock cross-border trading system has no other result than loss of income, pastoralist destitution, local food insecurity and enhanced food aid dependence unless replaced by a “stronger formal cross border trading system”. This should be overcome by adopting a balanced stance of selecting constructive policy options which recognize the inescapable prevalence of the ICBLT. It is therefore very crucial for the government to positively consider the importance of ICBLT and formulate appropriate strategies that would suitably maximize the benefits of the system, minimize the losses and thereby result in a win-win situation for all actors in the value chain, and to the growth of the economy of household, local, regional and national.
- There is a need for drought-time cross-border trade strategy, as part of the regional food security strategy, designed for drought times which relaxes existing government controls and recognize cross border trade. This is quite crucial to improve food security, wealth conservation, and to reduce government cost of food aid and recovery interventions. Given the strong food security implications of informal livestock cross-border trade, restrictions need to be substantially relaxed in times of severe droughts in order to allow for efficient movement of livestock and other traded commodities. Such a move helps to maintain the local capacity to procure food and other basic necessities and reduces dependence on food aid from the government. It also enhances timely destocking including emergency commercial de-stocking, through the application of the MoA guidelines for Livestock Relief interventions in Pastoral Areas of Ethiopia, before animals are decimated by drought (MoA, 2008).
- Policy should respect the right of the herders and other citizens who live in all border areas to sell their products (livestock) and buy their basics for survival at fair prices. The pastoral livestock trading arrangement needs to have household-based policy focus which allows and encourage households to trade and benefit by selling a certain number of livestock per year in the cross border trade. The existing, but not yet functional, “small scale border trade” arrangement should be fully implemented and be

relaxed to reasonably recognize availability of water and pasture, settlements and to include herders who live outside the 15 km designated trading radius.

- Policy should ease the procedures and requirements of the Cash Against Commodity/Advance Payments permits. It may be important to reduce the amount of hard currency deposit requirement per animal in order to make the arrangement more attractive to small and medium size traders. The CAC/AP arrangement should seek for a system that provides government guarantee, through bilateral cooperation, for the traded stock even after crossing the national frontier.
- Policy should encourage flexibility in allowable import items through the Franco Valuta permits depending on local shortages. The number of FV operators to only 3 cooperative/traders per zone and the kind and volume of allowable items for importation are apparently in need of reconsideration for a further revision.
- It is important to harmonize cross-border livestock trade activities and animal health operations. There is a need for quick moves by the Ethiopian government to initiate dialogue with bordering countries in order to forge bilateral trade agreements which help to promote the harmonization of trading conditions for the common benefit. It is also critically important to harmonize animal health interventions to minimize TAD that affect sales at the terminal markets in the Gulf Countries.
- There is an overriding need to develop a system for data collection on cross-border livestock trade so as to come up with evidence-based policy dialogue.
- It is quite reasonable to motivate traders in the official livestock trade channel through various instruments such as credit support and tax advantages with a view to gradually increase this sector's share of cross-border live animal export transactions. There is an apparent need to reasonably look into ways of providing financial support services, insurance facilities and tax reductions in order to address the critical problem of financial capital shortages and drought risks often faced by small and medium livestock traders.
- Policy should enhance increased investment by the regional government in pastoral livestock production, and productivity to ensure sustained supply of good quality livestock to the growing cross border market without depleting the livestock resource base. Investments in value addition and livestock product processing facilities could provide additional marketing outlets to herders.