Global Livestock CRSP

# Informal Institutions and Cross-border Livestock Trade in the Horn of Africa

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*Trans-border trade in livestock in sub-Saharan Africa plays critical roles in meeting regional food security needs and generating incomes for thousands of herders and traders. This brief addresses the institutional aspects of cross-border livestock trade in the Horn of Africa, especially in the Kenya/Ethiopia/Somalia borderlands. It will be argued that while informal exports and imports of animals are illegal in Kenya and Ethiopia, local institutions and agreements often allow the trade to function 'on the ground' in the absence of official recognition. For policy makers what is particularly challenging is that cross-border trade thrives in the absence of government interventions and policies, while punitive controls against it usually redirect the trade along unofficial channels. In the conclusion, different policy scenarios are briefly discussed that can allow cross-border trade to continue to play a major role in meeting regional consumption demands and providing livelihoods for large numbers of people.*

## Background

Trans-border trade in the Horn of Africa represents a particularly important and challenging activity for policy makers. On the one hand, it epitomizes the essence of informal or 'shadow' trade, operating along remote borders in a vast region where government presence is particularly weak, as well as generating large amounts of revenue. Illustrative of this reality is the fact that official annual exports of cattle from Ethiopia, the most populous country in the region, often are less than 2,000 head, when in fact more than 25 times this amount is unofficially exported across borders (Teka et al., 1999). On the other hand, most governments in the Horn of Africa rely on official exports of primary commodities to earn foreign exchange and, thus, view informal cross-border trade as lost public revenue. Unfortunately, politically-charged arguments for controlling borders dictate that trade in agricultural and other benign products usually are neglected or constrained by government policy. For the livestock herders or pastoralists who dominate the area's border regions, market alternatives to unofficial cross-border trade are minimal.

## Major Findings

The informal nature of trans-border trade determines that traders rely on a range of local institutions and practices to facilitate their businesses. Most of the important innovations are centered around financial services, broker services, and transport.

**Informal Financial Services.** Trans-border livestock trade relies on a range of different informal finance institutions in support of their businesses. When credit is used in cross-border commerce, more than 95 percent of it is obtained informally from kinsmen, friends, and associates. Very few livestock traders (less than 10 percent of the total) have access to formal sources of finance. In the case of the Somalia border areas, informal finance services minimize risks associated with carrying large amounts of cash in an unstable environment. Somali border traders can take their earnings to Nairobi, convert them to dollars, and then 'wire' them back to money houses in Somalia where they can be picked up by associates. This informal practice, called the hawala or hawilaad system (meaning 'transfer' in Arabic), avoids the need to carry large amounts of cash across the border. In other cases the livestock trader will convert part of his earnings in Kenya into tradable goods, which he will arrange with a wholesaler to be picked up at the border to avoid the risk of traveling in northeastern Kenya with excess money (Mahmoud, 2003). These transfer services are mediated through informal money houses and middlemen, who assume special importance in most forms of long-distance trade, including livestock. While much of the cross-border livestock trade is calculated in local currencies, final payments often are made in US dollars and the actual handling of cash in large transactions is minimal.

In the region many of the important informal finance businesses that livestock traders use are based in Nairobi. The enterprises usually charge fees of three to six percent to 'wire' funds from Kenya to locations in Somalia; formal banks usually charge 10 to 12 percent or more for the same service. Different forms of wire transfer and credit minimize risk and reduce the physical handling of worn Somali notes, which slows their deterioration and helps to

*Figure 1. Traders and brokers at the Negelle Market, southern Ethiopia. Photo by Peter Little.*

animals proved futile, as brokers had little use for such expensive devices. In the Nairobi marketplace, for example, Somali traders almost always deal with Somali rather than non-Somali brokers. In Kenya dilaal recently have organized themselves into associations in important border markets and have been registered with the local administration. Dilaal can reduce stubborn market bottlenecks that hurt sellers, whether they are herders or traders. By finding buyers in a timely fashion, brokers can help sellers to avoid the added costs of maintaining the animals until they are sold. In most cases sellers have transported their animals to market over very long distances and, therefore, want to sell them in a timely manner. At the key border market of Garissa, Kenya, merchants must buy fodder and water for their animals when they cannot find a buyer and the herd must remain in the area. A quick sale through a broker minimizes outlays on fodder, water, and hired labor. However, even dilaal have little control over external events that can greatly affect the market and the demand for animals. For example, when there is an unexpected glut of animals on the Nairobi market from neighboring countries, such as Tanzania and Ethiopia, Somalia-based traders may have to wait several days in Garissa, Kenya before transporting cattle down country. When this happens, the trader often has little recourse but to purchase fodder or to move animals into surrounding rangelands.

keep them in circulation. The system sometimes functions in the idiom of the clan system, where knowledge of sub-clan and family relations are used as cross-checks on identity.

**Market Brokers (Dilaal).** Since official price information is poor in the border areas, traders rely on informal means of obtaining market information. This complicates the search for markets by individual traders and herders, who often rely on local brokers (dilaal) for assistance. The broker's role is to match the buyer with a seller, the latter often has traveled 100 km or more to market, and to ensure the legitimacy of the sale [including the assurance that the animal(s) are not stolen]. It is a common institution throughout the Middle East and Islamic regions of West and east Africa.

In all of the key regional markets, including Nairobi, there are dilaal to match sellers and buyers and negotiate prices on their behalf. A dilaal works in the market on behalf of both buyers and sellers. The broker can be compensated by both the buyer and seller. The fee is usually around one to two percent of the price of the animal, anywhere between US$ 1.25 to US$ 2.50 per animal. In some cases, the fee is cut in half with both the buyer and seller paying part of the fee; in others the buyer and sellers may be working with different brokers and will pay them separately. For the seller these arrangements remove the burden of finding a buyer and negotiating a price. An older, trustworthy broker may work for several parties simultaneously.

Brokers show an uncanny ability to accurately gauge animal weights, quality, and prices. This is where an experienced trader holds an advantage over younger merchants and explains why many of the major cattle brokers in the region have been in the business for several years. Early attempts by both the Kenyan and the Somali governments to 'rationalize' the system by introducing scales for weighing

**Transporters.** A third informal practice that facilitates cross-border livestock trade is long-distance trekking. Indeed, one of the most significant and intriguing aspects of the cross-border trade involves the trekking by foot of cattle over several hundred kilometers, which can take up to several weeks. Trekking is an age-old profession that dates back to the 1800s and the early caravan trade. It takes place along most of the Kenyan/Somali border areas and throughout the Horn of Africa generally. In most cases, cattle are moved overland with three trekkers and an armed security person for every approximately 100 cattle. There is a designated 'head trekker' who is directly responsible to the trader and who may be employed on a fairly regular basis. In southern Somalia, the individual must make payments to pass through territories controlled by different factions and sub-clans, and, like the position of Abbaan (protector) in the days of the caravan trade, he is responsible for the safe passage of the herd. The head trekker or protector usually comes from one of the main lineages or sub-clans whose territory the market animals must traverse.

The trader is likely to have a young relative accompany the animals on the trek, because of the physical rigor involved and to safeguard his property. In some cases it can take almost one month to reach a key market from interior locations in Somalia, and substantial animal weight loss can occur. One of the trekkers usually is responsible for procuring rice, flour, sugar, and tea for the trip and serving as the cook. The trader normally covers the cost of food, and on long treks an entire sack of flour or rice (50 kg or more) will be purchased and transported on a pack animal (donkey).

There appears to be a functioning market for trekking services in the livestock trade. As would be expected, transport costs per animal generally correspond with distance to market and type of transportation involved (on the Kenyan side, there is some movement by trucks to terminal markets), except where insecurity is particularly problematic. The Baidoa (Somalia)-Garissa and Dinsoor (Somalia)-Garissa routes are examples of the latter and they experience relatively high transport costs. It was assumed that transport costs in the region would have risen exorbitantly throughout the past decade because of insecurity, but this has not been the case for many of the key routes. Movement costs per animal rarely exceed US$ 0.01 to US$ 0.18/kilometer and only modest increases have taken place since the Somalia government's collapse in 1991. There also were minor differences in transport costs between the Kenyan- and Somalia-based circuits.

## Practical Implications

To address the concerns of policy makers about cross-border trade, the first tactic should be educational; that is, to instruct (convince?) policy makers about the activity's scale and importance to local and national economies. Only recently has the significant contribution that trans-border livestock trade plays in meeting the consumption needs of the region's large cities received official recognition--albeit modest. As a start, policy discussions of cross-border trade and its importance should be encouraged at the border sites themselves (among customs and government officials of relevant countries), national ministries, and in regional bodies such as the Inter-Governmental Authority for Development (IGAD) in the case of the Horn of Africa. Governments in the region should recognize this and take positive steps to support trans-border activities for the benefit of their economies and citizens. The policy dialogue must occur at these three levels because: (1) the local officials 'on the ground' in these border sites can play a key role in encouraging/discouraging policies -- the isolation of many of these sites means that local officials have a large degree of autonomy; (2) national officials and diplomats must be involved because it requires international agreements and dialogue with other states, and because domestic policies have a direct effect on cross-border trade; and (3) IGAD's involvement is required because it is one of the few organizations in the region with a cross-border mandate and with priorities focused on trade and improved transport links between member states. Currently there is a local government border committee at Moyale along the Kenya/Ethiopia border that has encouraged local policy discussions about trade and assisted livestock trade when it has been threatened by bans.

Policies that acknowledge and encourage regional trade across borders—rather than discourage it—would capitalize on comparative advantage for different local and national economies, strengthen local food security, increase collection of state revenues and investments in key market and transport infrastructure, and reduce price volatility and market imperfections. With public resources so scarce and incomes so low in the Horn of Africa, governments should avoid wasting valued resources trying to police trans-border trade that, at best, they can only very partially control. For at least the foreseeable future, trans-border trade will continue to play a major role in meeting consumption demands in the region and providing livelihoods for large numbers of people.

## Further Reading


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The GL-CRSP Pastoral Risk Management Project (PARIMA) was established in 1997 and conducts research, training, and outreach in an effort to improve welfare of pastoral and agro-pastoral peoples with a focus on northern Kenya and southern Ethiopia. The project is led by Dr. D. Layne Coppock, Utah State University, Email contact: Lcoppock@cc.usu.edu.

The Global Livestock CRSP is comprised of multidisciplinary, collaborative projects focused on human nutrition, economic growth, environment and policy related to animal agriculture and linked by a global theme of risk in a changing environment. The program is active in East Africa, Central Asia and Latin America.

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