Unofficial Cross-Border Trade in Eastern Africa

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ABSTRACT

This paper discusses unofficial cross-border trade (CBT) in eastern Africa, with a particular focus on livestock trade in the Horn of Africa. Counter to common perceptions of CBT as an unorganized, informal activity, the paper demonstrates its complexity and linkages to the formal sector. It does this by highlighting four different themes: (1) the realities of CBT; (2) the linkages between cross-border livestock trade and commerce in other foodstuffs, particularly grain and flour; (3) the effects of CBT in livestock on local and regional food security; and (4) the policy challenges of CBT. The paper argues that while market liberalization efforts of the 1980s and 1990s were suppose to re-direct informal cross-border trade into formal market channels, this largely has not happened, especially for livestock commerce. Reasons for this include: (1) significant price differences and market opportunities between countries; (2) inconsistent legal and policy environments; and (3) continued poor infrastructure and security in border areas.

INTRODUCTION

Informal or unofficial cross-border trade (CBT)[1] is an increasingly important phenomenon in eastern Africa, but one that remains surrounded by considerable controversy and ignorance. For some observers it represents a normal market response to cumbersome, time-consuming export regulations and regional price distortions, and should be encouraged as a means to increase intra-regional trade (and 'regionalization'), meet local demand that is not being meant by national production and markets, and insure regional food security. These same supporters often argue that many trans-border markets pre-date colonial and post-colonial state boundaries and, thus, reflect long-standing indigenous patterns that make more sense than formal trade channels (see Meagher 1997). For others, CBT reflects a potential loss of foreign exchange, an illegal activity, and a source of unfair competition for official traders and food producers. The contra position argues for increased regulations and taxes, policing, and/or forcing CBT into formal market channels. As Meagher's work shows (1997; 2003), it was assumed by some policy makers that market liberalization ('structural adjustment') policies of the 1980s and 1990s would have channeled most informal trade into formal market channels, which has not been the case in large parts of Africa (see also Peberdy 2000; Little 2001).[2] In fact, for many parts of Africa the overall effect of structural adjustment has resulted in "a significant expansion of transborder trade (Meagher 2003:57)," especially by large numbers of unemployed youth, women, and others, including ex-formal sector employees

[1] Throughout the paper CBT refers to informal or unofficial cross-border trade unless noted otherwise.
[2] In contrast, Morris and Dadson (2000:19) argue that increased liberalization has been successful in channeling CBT into formal channels in the case of Ghana.

'downsized' through budget reforms (see Boko et al. 2005; Roitman 2003; Mwaniki nd:1;).

This paper addresses CBT in eastern Africa, with a particular focus on livestock trade in the Horn of Africa region (Sudan, northern Kenya, Somalia, Ethiopia, Eritrea, and Djibouti). In fact almost all regional trade (>95 percent) in livestock in eastern Africa is carried out via unofficial channels. It will be shown that while the focus is on livestock trade, it affects parallel forms of CBT in other commodities, including cereals trade, and important policy lessons can be learned from its study. The paper suggests that CBT cannot be treated as an anomaly outside of the 'formal economy' that will go away with a few policy 'tweaks' and increased enforcement. Instead, informal trans-border commerce is integral to many formal market channels and influences them in subtle and not so subtle ways. The market chain for livestock-based CBT, for example, includes both formal and informal elements.

The paper is divided into four sections. The first part covers current 'realities' of CBT in the region and some of the definitional and conceptual problems that surround the activity. In the second section the case of CBT in livestock in the Horn of Africa (hereafter referred to as the Horn) is discussed, highlighting some of the differences and similarities between CBT in livestock trade and in other foodstuffs, particularly grain and flour. The effects of CBT on local and regional food security and economies are examined in part three, while the last section looks at the policy challenges and opportunities associated with CBT.

In the final part it will be shown how concerns about national sovereignty and security issues, especially in the post-9/11 era, complicate CBT policy dialogue. Recent

government awareness in the Horn region about illegal arms trade and international terrorism has made it particularly difficult for governments to avoid special attention to border regions and their trade.

REALITIES OF CBT

To begin, there is considerable confusion over what informal CBT is and what it is not. A first distinction that needs to be made is in the types of products that are traded, especially differences between trade in legal and trade in illegal products (see Meagher 1997). The two often are conflated in policy discussions and can lead to misinformed interventions. CBT is 'illegal' in many countries of the region because it avoids official procedures and channels, but it does not mean that the traded products themselves are illegal. Most cross-border commerce is in *clean*[3] commodities, although perceptions are that CBT (especially in the Horn of Africa) encourages trade in illicit drugs, weapons, and other illegal and harmful goods. My work has not revealed overlaps between trade in livestock and food products and commerce in illegal goods.

A second definitional point to make is that despite common perceptions CBT has strong ties to the formal sector. In fact, the distinctions between what is formal and informal in CBT are difficult to make. Take the case of maize, for example, that may be informally sourced from trans-border markets but eventually sold through licensed retail shops in the import country; or the case of livestock that are trekked across borders to be sold but are officially taxed at different market centers and eventually sold through formal market channels. Do these constitute informal or formal trade? Contrary to common perceptions, CBT also generates significant amounts of local taxes and permit

[3] I use the term 'clean' for trade in relatively benign commodities like cattle or grains, in order to distinguish it from other trans-border trade in 'dirty' goods, like drugs and arms.

revenues for the formal sector, as well as a wide range of unofficial payments or 'taxes' to government personnel and offices. The fact that policies directed at formal food market channels can strongly affect the performance and profitability of unofficial commerce and vice-versa, is further evidence of the interconnectedness of the formal and informal sectors (see Akilu 2006; WFP/FEWS-Net 2006).

A third set of definitional issues about CBT concern the scale and spatial aspects of the activity. Much CBT involves small amounts of food products moved over short distances—for example, the Ugandan trader who bicycles with two sacks of beans across the border to sell in Kenya (see Akello-Ogutu 1997)—but other types entail large volumes and vast distances (see WFP/FEWS-Net 2006). The latter might include large-scale Ethiopian traders who transport truckloads of animals 250 km across the Somalia border to be exported from the Somali port of Berbera, relying on market information transmitted via hand radios and faxes. The merchants then return home with considerable amounts of imported foods to be sold in eastern Ethiopia. Recent policies by some governments to permit small-scale (low value) CBT within certain distances of borders show a recognition that important scale differences characterize the activity (for an Ethiopian case, see Teka and Azeze 2002; Umar 2007).

In many instances CBT may represent the only market option, especially since extremely poor infrastructure, communications, and security are typical of many borderlands in eastern Africa, especially the Horn region. Thus, the harsh *realities* of CBT which distinguish it from other commerce in the region need to be acknowledged. The most important of these are discussed in the remainder of this section.

Poor infrastructure

Despite the political significance of borders, most international border regions are generally isolated and have very poor transport, communications, and other infrastructure. They usually are distant from political and commercial centers of the country and in many eastern African countries it can take several days to travel between the capital city and one or more of its border areas. Mwaniki (nd) describes the infrastructure challenges of cross-border trade as follows:

> The main challenge is dealing with the infrastructural development which includes road and railway network, lack of warehousing, no internet facilities for market intelligence; the cross border traders are restricted in accessing market information, finding out what is needed, where, in what quantities and packaging standards, etc (nd:3).

The lack of storage and warehouse facilities mentioned here may relate to the fact that because of its informal nature, most merchants avoid investments in facilities that would draw attention to them. In insecure areas these kinds of infrastructure also make ideal targets for bandits and other criminal elements, as has been the case in the southern Sudan/Uganda borderlands (Nobera 1998:27). The irony is that the relative isolation and anemic infrastructure in border areas actually insulates CBT from official and other types of detection.

For livestock-based CBT, I would add another set of infrastructure needs that include veterinary facilities, holding grounds, and water points. These infrastructures are so poorly developed in the border areas that even if governments wanted to officially export livestock to neighboring countries, they would be hampered in most border markets.

Volatility, risk and market distortions

Several risk factors particularly affect CBT that can greatly increase market costs or even totally stop the trade. For example:

- CBT between Somalia and Kenya has been halted several times in recent years due to conflict and by Kenya's concerns about insecurity in Somalia;
- CBT between Ethiopia and Eritrea has been virtually nil since the war between the countries halted the trade in the late 1990s;
- CBT between Uganda and DRC and between Uganda/Kenya and southern Sudan was stopped several times in recent years because of conflict and insecurity.
- CBT between Ethiopia and Somalia/Somaliland has been slowed numerous times in recent years due to conflict, as well as increased confiscations of trade goods by government officials.

Even in relatively secure border areas, the threat of confiscation by government officials is always there, but its enforcement is inconsistent. Interviews with Ethiopian traders and herders reveal the kinds of risks associated with different government policies regarding CBT enforcement[4]:

> "The border effect is not from the Kenya side. It is from Ethiopia. The prices are good. The Ethiopian government considers the animals as smuggled goods, so they restrict us. This restriction gives us a problem (Interview with Ethiopian trader, October 27, 1998)."

[4] These notes are from interviews conducted by Alemayehu Azeze during initial fieldwork for the 'Cross-Border Trade in the Horn of Africa' project (see Little et al. 2001).

> "Border affect? When we try to sell animals to the Kenya side, the Ethiopian government finance (customs) police consider the animals as contraband. To sell our animals on the Kenya side is not a problem to the Kenya government. When we buy things and bring them back, they can be seized and the man can be sent to jail (Interview with Ethiopian trader, October 25, 1998)."

> "It (border) has a very big effect because the Ethiopian government restricts it. To avoid them, we sell by passing the border (Interview with Ethiopian herder, November 5, 1998)."

As these responses indicate, CBT actors often risk confiscation of their goods. In addition to the Kenya/Ethiopia example, these deterrents have been documented in the Kenya/Somalia (Little 2003), the Sudan/Kenya (Guvele and Lautze 2000), and Uganda/Tanzania CBT (Nobera 1998). In some cases, border enforcements might reflect nationalist perceptions of unequal benefits among different trading partners. For example, there is a strong perception among Ethiopian officials who I recently interviewed (December, 2006) that Kenya is the main beneficiary of the trade. They feel that Kenyan consumers receive relatively inexpensive and good-quality Ethiopian beef, while imports of manufactured goods and clothing from Kenya unfairly compete with Ethiopia's manufacturing enterprises. Recent work in the area show that confiscations of trade goods by officials has picked up in the past two years (Umar 2007).

An added element of risk for the trader and producer is inconsistent border enforcement (discussed later in the paper). In eastern Ethiopia officials sometimes, so to

speak, "look the other way" when CBT in bulk foodstuffs is involved but pursue punitive measures for other trade goods. The region's chronic shortage of food may be a reason for this, but it still adds to the element of uncertainty. Umar notes that:

> Random checks along the roads and routes of the region regularly catch traders running goods across the border. Occasionally even stricter border blockages are enforced. Such blockages can be inconsistent and do not target all goods; exceptions are sometimes made, especially for bulk food imports, and blockages are sometimes removed altogether. The result is a confusing environment for traders (2007:20).

Other government actions directed at controlling CBT can greatly harm both producers and merchants and aggravate an already risky market environment. In 2005 the government of Ethiopia banned the use of Somali shillings (SoSH) in eastern Ethiopia, in order to discourage CBT. Prior to this the SoSh currency was widely used in the area because CBT activities were calculated in SoSh, especially since exports and imports transited through ports of neighboring Somalia (see Little 2005).[5] With the currency ban, CBT merchants stopped going to certain areas where the directive was strictly enforced, resulting in large drops in livestock prices and increases in prices of imported foods. Moreover, as Umar notes "anybody found using Somalia currency was liable to imprisonment, and any Somalia currency found was confiscated . . . which was the dominant currency used to purchase small-portions of retail goods affordable for the poor (2007: 81-82)."

[5] Nobera also notes that the eastern Congo and southern Sudan economies are so integrated with Uganda and dependent on products informally imported from Uganda that the Uganda shilling is widely used in these areas (1998:26).

Market risks in CBT also are associated with political insecurity and conflict. Guvele and Lautze (2000), for instance, explain how widespread conflict in southern Sudan borderlands depressed CBT to the extent that Sudanese herders often received less than 25 percent of gross revenues from sales to Kenya. In border areas that are highly dependent on CBT to meet consumption needs, volatility also can have dire consequences for food security. A case in point is the southern Somali borderlands, which are particularly prone to conflict and experience near famine conditions when CBT is halted (see Little 2006). Because of high risks of theft from banditry and insecurity, traders avoid these areas, disrupting trade patterns and contributing to local food and income shortages.

Importance of trader networks

CBT based on long distance movements of goods often involve intricate networks of traders, financers, and transporters. The nature of these networks can be as important for explaining the structure and flow of CBT as market factors, such as price and supply/demand. While these networks facilitate the trade, they also can be highly exclusive and distort supply and price conditions. For the eastern Ethiopian borderlands Devereux describes how complicated these trader networks can be:

> Marketing in Somali Region is much more complicated than the neoclassical model of a producer selling to a consumer at a negotiated market-clearing price, perhaps with a wholesaler or retailer as market intermediaries. Partly because live animals are often involved, partly because the trade is informal—even illegal—and crosses national boundaries, and partly because of the complex interrelationships between trade routes and clan territories, there are a large

> number of market actors between primary producers and final consumers. The result is a marketing system that is far from anonymous and impersonal, but instead is a network of personal and clan-based relationships, with each actor dependent on the others in a way that both protects and constrains their options and opportunities (2006:53).

These trader-based networks can link numerous actors across vast distances of space. In the Ethiopia/Kenya cattle trade Mahmoud (2003) estimates that more than 20 actors are involved along the approximately 800 km route from southern Ethiopia to Nairobi. Market participants include herders, brokers, middlemen, trekkers, loaders, truckers, and so on. Many of the individuals work together in networks bound by common kinship, religion, and/or ethnicity. In many border regions of eastern Africa singular ethnic groups straddle both sides. When market actors in different countries are from the same ethnic group, they can draw on a common language and identities which facilitates transactions and can reduce the costs of monitoring and enforcement. In times of conflict and heightened uncertainty these networks assume even more significance, as actors turn 'inwards' and favor transactions with those whom they know well, trust, and can converse with in a common language. When this happens it can lead to highly exclusionary and disruptive practices, whereby traders of certain social groups exclude others from participating. The emergence of specific clan-controlled market networks in southern Somalia and ethnic-based markets in Marsabit town, Kenya are graphic examples of this (see Little 2003; Green *et al* 2006).

Umar (2007) documents other cases of how trader-based networks affect CBT in the eastern Ethiopia/ Somalia borderlands. He argues that the highly uncertain trade

environment, due to political instability, conflict, and random product confiscations by government officials, has created tightly structured clan-based trading corridors (networks) where products and agents are limited to a particular corridor. These corridors "serve to protect but also to limit the volume and value of trade. . . .each corridor is dominated by two or three large clans and managed by different sets of traders, guarantors and credit suppliers whose ties are clan-related and whose operations are founded on trust (ibid: 8)."

On the positive side 'trust' based relations based on kinship and/or other social relations can serve important market and finance functions. In Ethiopia/Kenya trans-border commerce Mahmoud (2003) reports on the prevalence of loans between kin-based relations or between members of the same ethnic group in the Moyale-Nairobi trade. This may help to explain the predominance of strong ethnic-based trading coalitions in the area, where credit often is extended across considerable distances. In the absence of contracts and legal protections, this financial practice requires strong confidence that default and deception will not occur. Where trust-based networks exist, market transaction costs in CBT can be reduced because informal credit and market contracts are more easily extended without extensive oversight and formal agreements (see Ensminger, 1992:104-5).

THE CASE OF LIVESTOCK-BASED CBT IN THE HORN OF AFRICA

International boundaries throughout the Horn of Africa have important economic and ecological characteristics that generally distinguish the region from other parts of Africa (see Figure 1). For instance, the different borders separating the countries of Kenya, Ethiopia, and Somalia are more than 2,500 km in length and traverse very

insecure, remote zones. The incredible vastness of the region's borders makes administrative presence and controls very expensive.

Figure 1 here

Most of the borderlands are characterized by arid and semi-arid environments, mobile pastoral populations, and chronic food-deficits. The pastoral residents of the border areas are weakly integrated into most sectors of their countries and domestic market channels often provide inadequate outlets for their livestock and livestock products. The weak domestic market links also constrain the supply of food crops from surplus grain areas to deficit border zones, motivating consumers to purchase foods from unofficial cross-border markets (see Teka et al. 1999). Because most border markets are located far from national urban centers and markets, CBT can offer the best market option for residents.

Trans-border trade in livestock is perhaps the most significant form of *clean* trade in the Horn. It dates to the pre-colonial period and the era of long-distance caravan trade (Dalleo 1975). As a commodity, livestock has features that make it particularly amenable to CBT even in the poor security conditions typical of the Horn. Unlike many agricultural commodities, it is a living and mobile commodity that can be transported overland rather than on roads, and can easily be moved across borders. The fact that most of the commerce involves livestock trekking across borders means that a higher proportion of it is transacted via informal channels, than trade in other agricultural products which often are trucked across borders. However, unlike other tradable commodities animals are alive and require water and feed in transit, as well as veterinary care.

High market costs

High marketing and transport costs typify CBT in livestock. Figure 2 shows the vast distances that are covered by the CBT livestock routes in the Horn's borderlands and why marketing costs might be so high. Table 1, in turn, shows the estimated costs of marketing a head of cattle along one of these trade routes—the southern Somalia/Kenya channel. As the data show, transportation is the most important element of marketing costs and accounts for 47 percent of total costs. This percentage is consistent with data for livestock CBT elsewhere in Africa but, of course, it will vary based on distance (for a West African example, see Okike et al 2006). Mahmoud, for example, calculates that for the southern Ethiopia/northern Kenya CBT, transport costs vary from 58 to 76 percent of total marketing costs (2003:152).

Figure 2 and Table 1 here

The trekking of animals at the lower end of the market chain characterizes virtually all of the key CBT livestock routes in the Horn. Usually there are three trekkers and an armed security person for every approximately 100 cattle moved by foot. Traders note that security risks are partly responsible for the increased transport costs, but also indicate that truck availability is a problem, especially along certain routes (see Umar 2007; Mahmoud 2003). Indications are that certain large traders and companies control transport along particular routes and limit the number of lorries involved. They monopolize the route and are known to restrict entry by outside entrepreneurs wishing to participate in the lucrative transport business.

As Table 1 demonstrates, traders incur other costs in CBT but they are generally small in comparison to transport. They must pay off a range of different actors, including

middlemen and brokers, and cover the costs of taxes, water, fodder, and veterinary inputs. While not reflected in Table 1, high bribe and corruption payments also are a major cost and in some areas can be a considerable marketing cost (for a West African case of how high these 'taxes' can be, see Okike et al 2006). Mahmoud shows that informal payments by livestock traders to police en route from the Kenya/Ethiopia border to Nairobi average 1,500 Ksh ($21) per truck load of cattle (2003: 154).

Most traders who are involved in the cross-border cattle trade utilize middlemen. Once a trader builds up a trust relationship with a middleman, the merchant is likely to stick with that individual. In contrast to earlier periods, it now is common for a Kenyan-based trader to receive price quotes by hand radio and telephone, including cell phones, and to adjust buying strategies accordingly.

Access to market information and buyers and sellers are costs that rural traders must address. Because official market information for livestock is virtually non-existent at the borders, traders rely on informal means of obtaining it. For instance, they often rely on local brokers (*dilaal*) for assistance. The broker's role is to match the buyer with a seller who often travels 100 km or more to the market, relay price information, and insure the legitimacy of the sale. (I have not observed any comparable broker institution for cross-border trade in other agricultural commodities, including grains). *Dilaal* work in the market on behalf of both buyers and sellers. They usually charge the equivalent of around 1-2 percent of the price of the 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 seller 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, as well as seeking out market information.

Trade can be very seasonal

Livestock-based CBT in the Horn can be highly seasonal since animals have to be trekked, fed, and watered. In dry seasons this can be major problem. For example, during the long dry season when surface water is unavailable virtually no cattle are moved to border markets in the Somalia/Kenya CBT. In this trade water and grazing shortages show up as critical constraints identified by traders. There are well known watering and grazing points along the main trekking routes, but rarely do transit herds stay long at any single place even during favorable seasons. Some locations do not have sufficient resources to support large numbers of cattle for more than a day or so, and most communities are reluctant to allow 'trade herds' to remain very long in an area. In the Somalia/Kenya CBT the goal is to move the animals as fast as possible to Kenya, and workdays of 10-12 hours, seven days a week, are the norm. Animals are usually moved no more than 15 km per day and then watered and grazed at the end of the day. In the long dry season, resource constraints make this impossible

Herders who trek animals long distances to border markets often are forced to sell quickly. Without adequate holding grounds at markets, they usually cannot afford lengthy price negotiations, especially since their product (animal) is prone to losing weight and value. In a particularly harsh dry season or year this becomes an even larger problem and herders are forced to purchase riverine fodder from market vendors at relatively high prices. The lack of adequate holding spaces aids traders in price negotiations with CBT herders/middlemen who usually are desperate to sell after a day or two. Without alternative

market options, they sadly end up being 'price takers' after trekking their animals such long distances.

The importance of informal finance arrangements

Trans-border merchants rely 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 (see Little et. al 2001). Very few traders (less than 10 percent of the total, Little 2005) have access to formal sources of finance. Informal finance can supplement the lack of formal credit and, as noted above, trust-based relationships play an important role in these transactions. In the case of the Somalia border areas, informal financial 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* system (meaning 'transfer' in Arabic), avoids the need to carry large amounts of cash across the border. In other cases the trader will convert part of his earnings 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.[6] These transfer services are mediated through informal money houses and middlemen, who assume special importance in most forms of long-distance trade, including livestock.

[6] Mahmoud (2003) records a practice whereby trans-border traders who sell animals in Nairobi transfer their cash earnings to a border wholesaler. The wholesaler, in turn, buys goods in Nairobi with the trader-supplied money and transports the products back to the border to sell. The person then orders a business associate or partner at the border to repay the livestock trader or his/her partner. The livestock trader may have a partner at the border who receives the cash and then re-initiates the process of procuring animals for movement to Nairobi. This important informal practice allows both the livestock trader and the wholesaler to conduct business without personally transferring large amounts of cash across vast areas of insecure territory. Bandits in northern Kenya are less likely to attack a lorry/truck if it is only transporting goods.

My observations also indicate that informal financial arrangements associated with CBT are far more complex than originally envisioned. They entail issues of foreign exchange arbitrage; informal 'letters of credit' and wire transfers; use of revenues from livestock trade to cross-finance a range of imports, food and non-food; sophisticated market information and clientage relationships; and a variety of different social mechanisms to reduce transaction costs (see Little et al. 2001; 2005). In the region many of the important informal finance businesses that traders use have offices in Nairobi. The enterprises usually charge fees of 3-6 percent to 'wire' funds from Kenya to locations in Somalia or Ethiopia; formal banks usually charge 10-12 percent or more for the same service.

Evidence of market integration

Evidence of market integration for livestock CBT is mixed. Teka and Azeze, for example, note that:

> Correlation results show that markets in eastern borderlands (Jijiga area) (Ethiopia) are integrated with cross-border markets in Somaliland. The results are found responsive to distance. Teka et al (1999) have found that livestock markets in Borana area (southern borderlands, Ethiopia) are not integrated with markets in Kenya (Teka and Azeze 2002: 37).

However, when Teka and Azeze examine price data between different border market channels in the eastern Ethiopia region they find very weak spatial market integration. They find that "the regression results show that there exist weak spatial integration between livestock market centers in the eastern borderlands (ibid: 40)." These results, based on three years of market data, seem to confirm what Umar (2007) and Devereux

(2006) found in their recent study of livestock trade in the eastern Ethiopia/Somaliland borderlands. Markets seem to be better integrated within specific trading corridors but not between different trade corridors: "price changes along one route do not appear to have an immediate effect on the prices along the rest of the routes (Umar 2007:9)." The explanation relates to the domination of specific clans and market operators in specific trade corridors: "if the route used by a pastoralist or trader becomes inaccessible (e.g., due to conflict or insecurity) or the market collapses (e.g., during a drought, or because of government clampdown on contraband trade), there is often no alternative (Devereux 2006:52)."

Studies of CBT in cereals and other food commodities seem to indicate better integration for these markets than for livestock markets. Although not based on the kind of systematic, longitudinal data described above, Nobera (1998) finds that cross-border food markets between Uganda and Kenya are well integrated (Nobera 1998). Where there are problems of market integration for food crops, Nobera points to "poor road and communications infrastructure (ibid:18-19)" as culprits, rather than exclusionary trade practices as described for livestock CBT.

The results of the studies of CBT in the Horn confirm what was mentioned earlier about the key role of trader networks and how they can be highly exclusionary at times. The fact that these border regions experience high levels of political volatility, often resulting in conflict, intensifies the rigidity of these trade corridors and networks. This could help to explain why in certain CBT corridors Umar (2007) found a glut of animals unsold while there were shortages and higher prices at markets in other trade corridors. These findings also confirm what others have found for trans-border trade in West Africa,

"where increasing competition between transborder trading networks has provoked recourse to various forms of informal protectionism (Meagher 2003: 67)." There is much to be excited about the endurance of CBT in the Horn of Africa despite political, economic, and climatic instabilities, but some of these trade channels are marked by monopolistic characteristics, high barriers to entry, and excessive gains for merchants and transporters with only minimal benefits to producers. In fact, in most CBT routes herders receive less than 50 percent of the final sale price (Little 2005; McPeak et al. 2006).

CROSS-BORDER TRADE AND FOOD SECURITY

How does CBT in livestock contribute to food security in grain-deficit border areas? Why is cross-border trade so critical for understanding food security in the region? The simplest response to these queries is that income from CBT is used to subsidize grain consumption. Since purchases of foods in the borders' deficit zones account for a large part of household expenditures, especially for herders, increased food availability and reduced prices are beneficial outcomes. However, there are others ways that CBT in livestock is critical for food security. Importantly the commerce compliments, even finances, cross-border trade in grain and other food products. This has been documented along almost all CBT routes in the Horn region, including southern Sudan/northern Kenya and southern Sudan/northern Uganda (see Guvele and Lautze 2000; and Muchomba and Sharp 2005), southern Ethiopia/northern Kenya (Teka et al 1999; Mahmoud 2003), southern Somalia/northern Kenya (Little 2000; 2006), eastern Ethiopia/Somaliland (Umar 2007) and eastern Ethiopia/Djibouti (Teka and Azeze 2002; Lawrence and Mohiddin 2004). For example, livestock traders who sell their animals can purchase loads of grain and other foods to bring back across the border to sell in deficit areas. At times they may

'back haul' food using the same trucks. Umar found that about 25 percent of livestock traders in the Ethiopia/Somalia/Kenya CBT were involved in selling staple foods, most of which were unofficially imported from Somalia and purchased with revenues from the livestock trade (Umar 2007:25).

Not only cattle, but food aid,[7] pasta, and electronics are supplied via CBT and find their way into neighboring countries. During the occasional border closures of 2001-2002, Kenyan merchants made it very clear to me that their businesses were strongly dependent on CBT with stateless Somalia (see Little 2003; also see FSAU 2003). Local shortages of key foodstuffs are not uncommon in the border regions when CBT in livestock is slowed.

Cross-financing of food trade

In many parts of the Horn region the revenue earned from livestock-based CBT is used by merchants to finance foodstuff trade (see FSAU 2003; Little et al. 2001). For example, in the Ethiopia/Somalia CBT the important role of cross-border financing (i.e., using revenues from livestock trade to finance grain imports) has an enormous impact on food security in the region. Umar uses the concept of a 'conveyor belt' to explain how livestock and other types of trade compliment each other in this region. He notes that "the basic structure of the market is a simple set of parallel conveyor belts that take out livestock exports and bring in consumer goods (2007: 8)." He goes on to describe how the same ships arriving at Somali ports to pick up livestock also bring in imported foods. These imported foods then are moved back across the borders:

[7] The leakage of food aid across borders in the Horn region is a well known phenomenon, and it moves in different directions depending on price, availability, and ease of movement. In the Great Lakes region on eastern Africa CBT in food aid is noted to be particularly important and many key international food relief agencies source their supplies from CBT markets (see Nobera 1998).

> Vessels (ships), returning to collect more export animals, come loaded with goods, such as food and household items that will be sold to the pastoralist producers. The trucks that ferried livestock to the port will load up with the return goods, completing the parallel conveyor belt connecting the ports with the pastoral towns and villages (2007:41).

Umar's study of trans-border trade also shows that the largest of the traders have their own companies (called *shirkad*) and export livestock to Saudi Arabia. They then use the revenues to import food, such as rice and wheat flour (2007:28). According to Umar:

> *Shirkad* agents in Saudi Arabia send out *baggage* (household goods) and rations (bulk non-perishable food items like rice or wheat flour) as requested by the purchasing agents in the pastoralist areas. These purchasing agents have arrangements with a series of traders and shopkeepers. Due to the effects of the Saudi Arabian government ban on live imports from East Africa there were no *shirkad* operations in most of Somali Region throughout 2005. The *shirkad* of Somaliland will offer loans to traders to bring in cattle from Ethiopia (2007:28)."

Umar documents a case in March 2005 where more than 50 truckloads of imported foods (600+ tons of food) were confiscated by the Ethiopian government, resulting in rapid price inflation and the temporary closing of more than 50 percent of local retail stores. After about three weeks the trucks were released and the retail stores reopened and prices stabilized (2007:73-74).

In the late 1990s the slowdown in CBT in livestock, also due to an animal health-related import ban, had similar effects on food trade. For example, during the Saudi

Arabia ban on livestock exports in 1998-1999 it is estimated that cross-border commerce along the Somaliland/Ethiopia border was reduced by about 30 percent (Steffen et al 1998). This reduction meant that Ethiopian consumers on the other side of the border were adversely affected along two fronts: their livestock prices declined while prices of imported foods rose. In small rural areas key food commodities, such as rice and wheat flour, were either unavailable or accessible only at inflated prices (Ahrens 1998). Because of the ban many large-scale animal traders, who also were major importers of food, pulled their operations out of eastern Ethiopia (Umar 2007: 28).

Livestock-Grain terms of trade

Since many herders in the border regions finance imported food purchases through the sale of livestock, it is important to examine terms of trade indices between cereals and livestock prices. Unfortunately, residents at many border areas are spatially disadvantaged in two ways: they are at the bottom of both the livestock supply and food distribution chains where prices are low for livestock but high for foods. The terms of trade for livestock producers is worsened when CBT is disrupted. For example, herders suffered immensely when CBT in livestock and grain was halted because of the El Nino floods of the late 1990s and, more recently, 2006. Livestock sales equivalencies for maize, wheat flour, and rice in southern Somalia declined 79, 53, and 61 percent, respectively, during September to December 1997 (Little 2001). Thus, a herder who sold a head of cattle in September 1997 could purchase 298 kg of maize, but in December the same animal fetched the equivalent of 64 kg. The poor market for livestock further damaged herder economies of the area and increased their vulnerability to food shortages and hunger.

In a different example, Table 2 shows what happened to animal exchange values at two border markets along the Ethiopia/Somalia border during a trade slowdown in the late 1990s (which was caused by an animal-heath related ban by Saudi Arabia, see Steffen et al. 1998). As the table shows, the terms of trade between livestock and food commodities worked against the herder at both markets. For a herder in the border market of Borama, a goat or sheep bought 79 kg of wheat flour in 1997, while it only purchased 49 kg in 1998. Herders at Togwajale, which is most distant from Berbera port, suffered the worst terms for small stock sales, especially relative to imported foods. This town is located along the Ethiopian/Somalia border where prices for import foods are highest and livestock prices are lowest. In short, while the disruption of the CBT livestock trade impacted the entire region, it particularly affected locations along the border, which experienced the largest declines in small stock prices and the highest increases in the costs of imported foods.

Table 2 here

If one looks at five-year trends in the terms of trade for herders in the same region, equally alarming concerns are raised (Table 3). For the Ethiopia/Djibouti/Somalia triangle area, Teka and Azeze point out:

> For instance, in three selected markets of the Afar region (Ethiopia) near the Djibouti border the terms of trade between livestock and grain shows that there has been a consistent decline. The overall drop during five years was more than 80 percent. In other parts of eastern Ethiopia, the decline in the terms of trade has ranged from about 11 to 50 percent in Jijiga and Hartishiek to about 28 to 66 percent in Kebribeyah, eastern Ethiopia during the same five year period (1995-

> 1999). Price data show that declines are higher for locally supplied maize than for rice, which is imported unofficially across the border. The problem is more severe in the Afar region where cross-border market access is limited in comparison to the Ethiopia-Somali region (2002: 41-42).

More recent assessments show that the price trends for the western Djibouti border area have not improved much for Afar herders, who continue to see unfavorable terms of trade for their livestock vis-à-vis grain prices (Lawrence and Mohiddin 2004). In the nearby Somali region of eastern Ethiopia, in turn, Umar shows that while livestock prices rebounded slightly in the 2002-2003 period recent disruptions to CBT still result in lower livestock prices relative to food prices. As he notes, "ensuring a stable supply of imported food grains into the region is crucial to reducing the vulnerability of pastoral livelihoods (2007:76)." Similar findings are also echoed in a 2003 report on the southern Somali borderlands (see FSAU 2003). In this area, "proceeds from cattle trade are used to pay for imported commodities" and the closure of CBT in cattle "has seriously curtailed traders' ability to bring imported commodities into rural markets (ibid: 5)." The net result has been steep increases in food prices but sharp declines in cattle prices.

POLICY IMPLICATIONS AND CONCLUSIONS

The preceding discussion has shown the scale, complexity, and vital role of CBT in the economies and societies of eastern Africa, with a focus on the Horn region. Nonetheless, the activity still suffers from policy ambiguities, misunderstandings, and an unwarranted concern that the trade's 'informality' encourages trade in illegal goods and a major loss of public revenues. This final section summarizes the paper's major findings in terms of their policy implications and challenges.

Scarcity of information for policy making

Contemporary CBT in many parts of eastern Africa is not captured by government statistics, despite important recent efforts by regional groups and projects to collect market data at key border points (see WFP/FEWS-Net 2006; and Regional Agricultural Trade Intelligence Network [RATIN] project-- http://www.ratin.net). Notwithstanding important recent initiatives, available government information still contains only vague estimates of the trade's importance. This shortcoming hampers constructive policy dialogue and results in self-perpetuating stereotypes and misinterpretations. In short, CBT remains largely 'below the radar' for many policy makers and economic planners.

Until very recently most data on informal cross-border trade derived from case studies of limited geographic scope and/or anecdotal estimates and observations from brief field missions. Since 2004 some systematic market data has been collected at key border markets in southern and eastern Africa with support from regional and international organizations (see above discussion and WFP/FEWS-Net 2004 and 2006). However, coverage of CBT in livestock remains minimal. Market information systems should be expanded to include coverage of CBT, so policy can be informed by reliable data.

Trader perceptions

An important source of policy-relevant information about CBT should come from the main actors themselves, the traders. This is almost never the case. Morris and Dadson's work (2000) in Ghana's borderlands and Little's (2001) study in northern Kenya's border areas suggest ways in which information from groups of traders can be

used to generate policy-relevant data. In the Horn of Africa different studies of traders' perceptions of CBT reveal several key policy-related issues. Most of the points have to do with insecurity, lack of markets, the role of the government in 'policing' and taxing CBT, and a lack of infrastructure and credit.[8]

Table 4 shows the main concerns expressed by traders involved with the Somalia/Kenya (S/K) and Ethiopia/Kenya (E/K) border trade. The data highlight important and surprising differences. For instance, when traders were asked to identify their major concerns about CBT, insecurity showed up as important in both markets but for different reasons (insecurity also was a major constraint identified by CBT traders elsewhere in the region, see Nobera 1998; Muchomba and Sharp 2005). Surprisingly, it was identified as more of a problem in the E/K than in the S/K commerce, despite the latter's common association with excessive conflict and political instability. In the S/K trade security risks are associated with intermediate market levels between Somalia and Kenya's border markets, but most risks are found elsewhere in the E/K commerce. The risks in the E/K activity mainly include violence along the Moyale/Isiolo road, cash losses at the Nairobi market, and insecurity on the trekking routes between the border and terminal markets.

Insert Table 4

Credit problems are issues in both the S/K and E/K markets but assume greater magnitude in the latter commerce. Virtually all traders from northern and northeastern Kenya sell their animals on credit/consignment to the large meat wholesalers in Nairobi.

[8] In a study of CBT along Ghana's borders, traders point to similar policy concerns. They indicate "government inspections and police/customs roadblocks as the two most important obstacles to cross-border trade. . . monetary cost calculations associated with these inspections/roadblocks was estimated at 8 or more days in lost wages per month for over half of the respondents" (Morris and Dadson 2000:1)."

In a survey of 35 E/K traders in 2001-2002, the average amount of credit owed to them from Nairobi wholesalers was US $2,992 (Mahmoud 2003: 201). The institutional response to these credit and payment risks has been the emergence of partnerships to facilitate the collection of Nairobi debts, as well as improve flows of market information between Nairobi and the border (see Mahmoud 2003; Little and Mahmoud 2005). One of the partners remains almost full-time in the Nairobi market to secure sales and insure collection of payments.

A comparison of Table 4 with what Umar (2007) found in his study of CBT reveal some interesting differences and parallels. Umar's study shows the main concerns of eastern Ethiopian traders to be (in order of importance): (1) lack of markets; (2) low profitability; (3) harassment by government; (4) low prices; and (5) the animal import ban imposed by Saudi Arabia (Umar 2007:78). Interestingly, insecurity showed up as a relatively minor concern of eastern Ethiopian traders (identified by about 7 percent of traders). With recent confiscations of trade goods by government officials and the imposition of the Somali currency ban discussed earlier, it is not surprising that government harassment showed up as an important issue (identified by 16 percent of traders), as well as market problems and trader profitability (24 percent of traders). Strong market-related concerns were expressed in all three of the border regions and this probably stems from trade disruptions caused by the Saudi ban on animal imports and by random government confiscations. However, market disruptions to CBT have been considerably more severe in the eastern Ethiopian/Somalia trade than in other trade channels in the region.

Administrative and legal ambiguities

There is a great deal of uncertainty about existing policies toward CBT; about what level of administration is responsible for regulating/licensing the activity; and about the rights of CBT traders to engage in trade of legal goods. Efforts to counter these shortcomings and establish more formal policies toward CBT, especially for maize trade, seem to be further advanced in southern than in eastern Africa. To exploit the potential of a free trade zone in the region, COMESA (Common Market for Eastern and Southern Africa) has endorsed the so-called 'Maize without Borders' initiative and has reviewed "customs documentation and procedures with a view to simplifying and facilitating cross-border maize trade (Miti 2005:7)." Both Uganda and Ethiopia also have tried to simplify CBT issues by 'decentralizing' permit administration to local levels and allowing small traders to practice informal CBT up to a certain value (> $1,000 per month in Uganda's case) but even here considerable confusion remains (see Teka and Azeze 2002; Nobera 1998). As Devereux (2006) points out for eastern Ethiopia, regional and local authorities in eastern Ethiopia often are unaware of policy changes at the federal level and, thus, some local actions may actually contradict existing laws and policies. In cases of livestock, there is even more ambiguity in Ethiopia after the legalization of small volumes of cross-border trade (8 head of small stock or less per trip). In the Horn region where some CBT restrictions have been eased, the amount of paper work and time required to qualify under new regulations is so cumbersome that most traders do not bother with it.

Additional factors that increase policy uncertainties surrounding CBT are concerns about (1) illegal arms trade/terrorism and (2) potential competition with domestic industries. The former activity has become an increasing government concern

in border areas since the events of 9/11. Unfortunately, politically-charged arguments for controlling borders also impact food trade (including livestock).

CBT in foodstuffs and livestock also can become embroiled in larger trade issues that include re-exports of manufactured goods and electronics (see Nobera 1998:35). Re-exports of textiles and 'used clothes' across borders have been of special concern to national policy makers in the region. The conflation of different products and types of CBT has hurt policy discussions as governments want to protect domestic industries against cheap Asian imports. Because states also rely on official exports to earn foreign exchange, they also want to halt CBT since they perceive it as a source of lost public revenue.[9] Occasional punitive actions against livestock traders by governments in the Horn can be linked to these larger issues. Thus, despite its importance governments usually only appreciate and acknowledge the illegal dimension of cross-border trade and, when they act, their normal response is to penalize it.

Improve infrastructure, security, and communications

As noted earlier, roads and transportation facilities are generally lacking to/from many border markets, as are most other important infrastructure in the area. Earlier work has shown that the lack of infrastructure greatly increases transaction costs and inefficiencies and inadequate communication facilities leads to poor dissemination of market information (Little et al. 2001; Nobera 1998). Studies in the region show that road improvement in some border areas can increase volumes of CBT and reduce marketing costs (see Little 2005).

[9] Official attitudes toward CBT also can change during periods of drought and national food shortages. As Nobera points out, "Tanzania also imposes a ban on food exports every time it has a food crisis (1998: 12; also see FEWS-Net 2002)."

As noted frequently in the paper, insecurity also is a strong impediment to CBT, resulting in banditry, violence, and the attraction of criminal elements into the trade. Some observers argue that insecurity is the single largest constraint to CBT in eastern Africa and should be a key focus of policy makers (Nobera 1998: 48). Indeed, it can greatly distort markets and significantly reduce incomes for the poorest populations of the region, especially pastoralists. Without improved security and public infrastructure, merchants may be reluctant to invest in CBT and supportive facilities and assets.

To conclude, policies that acknowledge and encourage--rather than discourage--regional CBT can capitalize on comparative advantage for different locales; strengthen local food security; increase collection of state revenues and investments in key market and transport infrastructure; and reduce price volatility and market imperfections. By recognizing the importance of CBT rather than discouraging it, the government could greatly expand its own revenues through customs and tax collection at borders and market towns, and improve the welfare of its citizens at the same time.

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Table 1. Trader Marketing Costs in Somalia/Kenya Trade

	Amount US$	% Total
ITEM	Per cattle	
Initial Purchase Price from Herder	Varies	
Transport cost (to border)	3.00	6
Hired Herd Labor	1.60	3.2
Security/Transit Fees	0.40	0.8
Water	4.00	8
Medicine/dips	1.82	3.7
Fodder (Garissa market)	0.60	1.2
Broker Fee (Afmadow)	1.25	2.5
Broker Fee (Garissa)	1.67	3.3
Council Tax (Kenya)	1.33	2.7
Currency transaction/conversion fees	5.28	10.6
Transport Cost (Garissa/border-Nairobi)	20.15	40.5
Movement Permit/Fees	1.33	2.6
Hired Labor	0.33	0.7
Water	1.00	2
Fodder (Garissa and Nairobi)	0.60	1.2
Market/Municipal Tax—Nairobi	1.33	2.7
Broker Fee (Garissa)	1.67	3.3
Broker Fee (Nairobi)	2.50	5
TOTAL COST	49.76	100

Table 2. Exchange equivalencies between small stock (export quality) and foodstuffs in the Somalia/Ethiopian border markets, 1997-1998

Food Item	Borama (kg)		Togwajale (kg)		Range of Change (%)
	1997	1998	1997	1998	1997-1998
Maize	89	66	68	52	-21 to -26
Wheat flour	79	49	37	30	0 to -38
Rice	54	39	37	30	0 to -28
Sorghum	69	58	88	55	-15 to -38
Pasta	25	16	19	15	0 to -36

SOURCE: Based on FEWS/FSAU market data, 1997-1998.

Table 3. Terms of Trade between Livestock and Grain in Eastern Ethiopia Borderlands (Jijiga Area), 1995-1999

Markets	Livestock to Grain	1995	1996	1997	1998	1999	change 95 to 00 (%)
Jijiga Town	Male Sheep to Maize	93	77	98	92	50	-46.24
	Male Goat to Maize	76	67	79	69	38	-50.00
	Male Sheep to Rice	22	23	34	32	27	22.73
	Male Goat to Rice	18	20	27	24	20	11.11
Kebribeyah	Male Sheep to Maize	130	116	115	67	44	-66.15
	Male Goat to Maize	114	99	98	60	40	-64.91
	Male Sheep to Rice	40	33	35	26	27	-32.50
	Male Goat to Rice	35	28	30	24	25	-28.57
Hartishiek	Male Sheep to Maize	96	94	104	55	50	-47.92
	Male Goat to Maize	89	82	86	46	45	-49.44
	Male Sheep to Rice	45	40	47	32	40	-11.11
	Male Goat to Rice	42	35	39	26	36	-14.29

*Values are in kilograms of the specified grain
Source: Teka and Azeze (2002: 42).

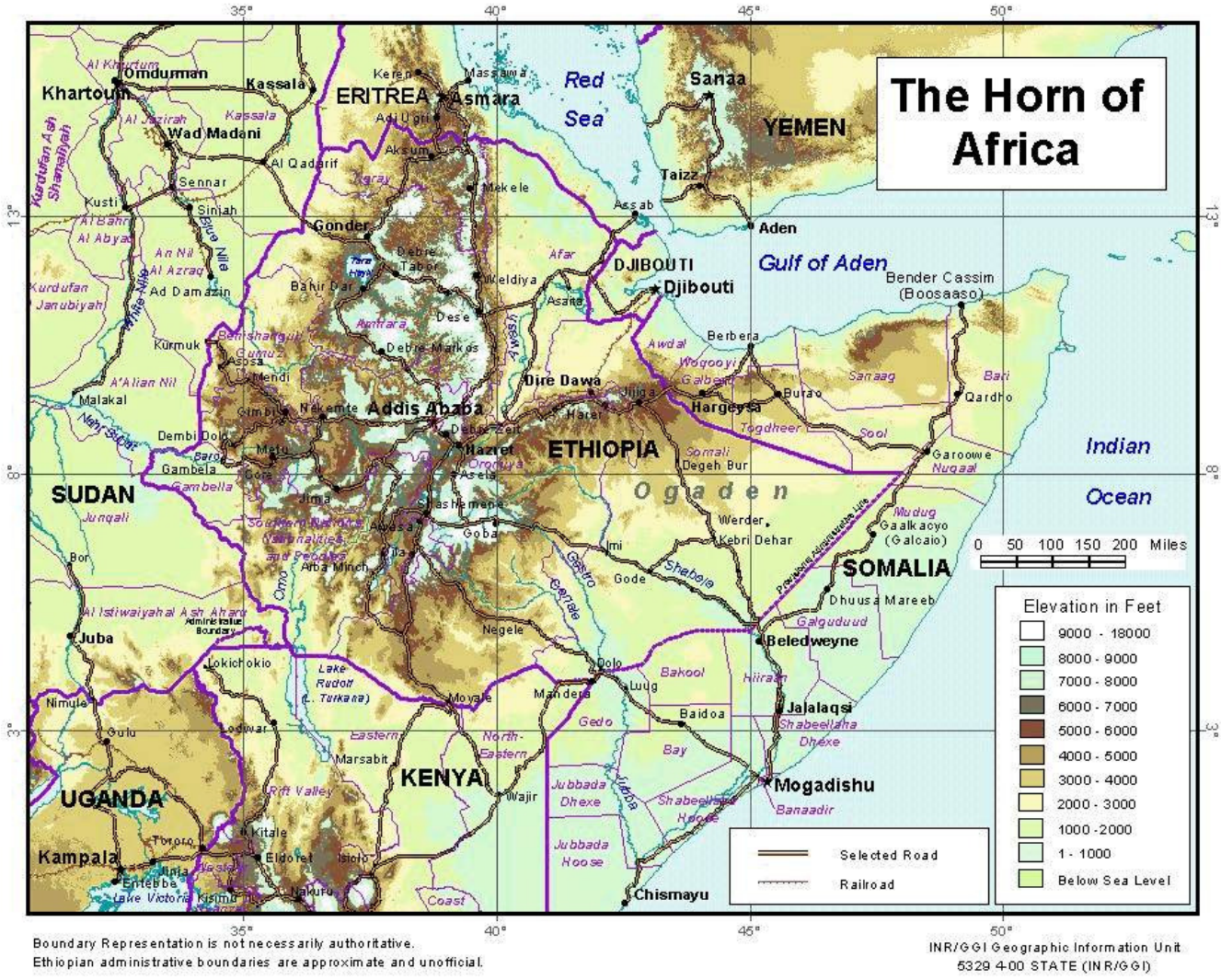
Table 4. Major Concerns expressed by Traders

% of traders who identified different concerns

PROBLEM TYPE	KENYA/SOMALIA BORDER TRADERS (%)	KENYA/ETHIOPIA BORDER TRADERS (%)
Insecurity	19.5	32.5
Transport-related	11	25
Pasture/water	17	13.5
Market-related (low prices, excessive competition, etc.)	24	6.5
Loan/credit problems	7	12.5
Fees/taxes (incl. bribes)	3.5	9.5
Other	8	0
TOTAL	100	100

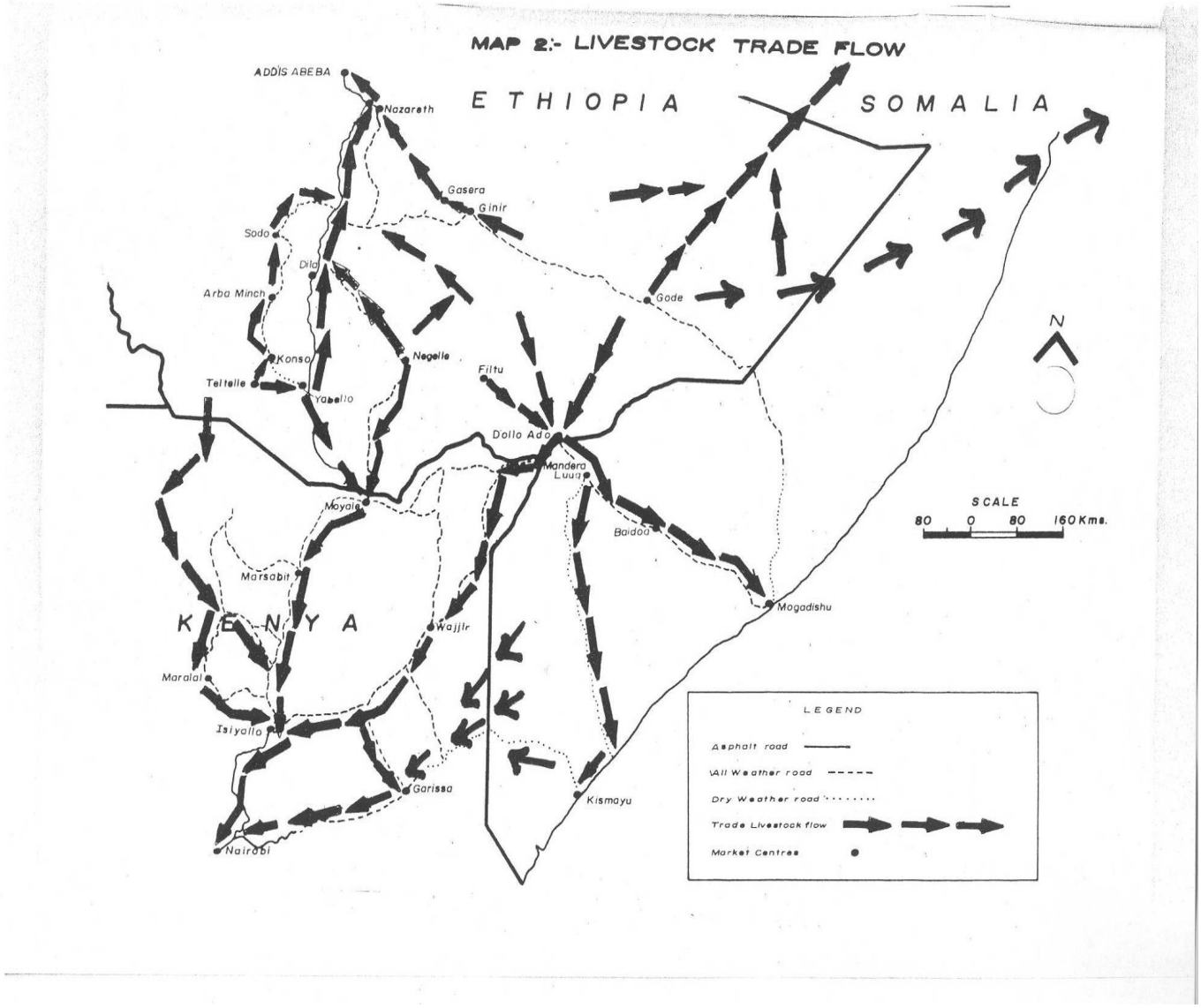
Sources: Little and Mahmoud (2005:2); Mahmoud (2003:160); Little (2003: 126).

Figure 1. Horn of Africa region



Source: US State Department.

Figure 2. Livestock Trade Routes in the Horn of Africa (Kenya, Somalia, and Ethiopia)



Source: Teka et al. 1999: 73; Author's field notes