

B A S I S



■ Broadening Access and Strengthening
Input Market Systems

**Research Methods on Cross-Border Trade in the Horn of Africa:
Further Observations**

Paper prepared for the Cross Border Trade and Food Security Study

Broadening Access to Input Systems Markets Collaborative Research Support Program
(BASIS CRSP) and
The Organization for Social Science Research in Eastern and Southern Africa (OSSREA)

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BACKGROUND

Research on cross-border trade in livestock and grain in the Horn of Africa raise particularly thorny methodological issues. Most of the key cross-border markets are located in dry regions, far from major urban centers, dominated by mobile pastoral production systems, and, in most cases, poorly served by transport and other infrastructure. These all add to the costs of standard survey approaches and require methodological innovations, such as key actor interviews, ethnography, and rapid appraisal techniques. In addition, on-going conflicts and random border closures in the region increase risks and uncertainties for merchants, producers, and researchers alike. The lack of inter-country collaboration on data gathering and analysis also raise questions about existing data sets and their utility for the study. In light of these constraints, it was felt that an 'update' on the research methods paper drafted in June 1998 was needed after field visits and preliminary data collection were completed.

A meeting was held at OSSREA, Addis Ababa, Ethiopia on June 30-July 1, 1998 to review questionnaires and to finalize research sites and teams (see Annexes 1 and 2). At that time a short methods paper was drafted to focus discussion at the meeting and to reach a final consensus on research questions discussed in the project proposal (Little 1998b).¹ This paper elaborates on some of the points presented in the initial methods paper and raises some further questions about data collection, as well as some observations from preliminary archival and field research (see Annex 3, Table 1).² It is meant to be an informal document for the use of the project's researchers and for other BASIS researchers working on similar issues.

PRELIMINARY OBSERVATIONS

Although the BASIS cross-border study has mainly been funded by the Regional USAID Office in Nairobi (REDSO), it was designed in part to address some of the factor market concerns of interest to the BASIS CRSP program. This has meant going well beyond REDSO's concerns with documenting the nature and volume of cross-border trade in the Horn; the actors and operation of the activity in the region; the incorporation of national and regional partners in the program; and the major policy and institutional dimensions of cross-border trade. It has required a rethinking of cross-border trade in the context of factor markets, particularly the importance of informal finance markets and natural resource use (water and pastures).

The Importance of Informal Finance Arrangements

To respond to the themes of the BASIS research program, the co-PIs (Little and Tegegne Tekla) have directed the study to two factor market-related issues of interest to the BASIS CRSP. The first is the nature of formal and informal credit relationships that surround cross-border exchange in livestock (primary focus) and grains (secondary focus). The general questions identified in the proposal (see Little 1998b) related to credit are:

- (a) What are the credit arrangements (formal and informal) that facilitate/constrain cross-border trade and that generate capital for other activities?
- (b) To what extent does cross-border livestock trade enhance food security through cross-financing for grain imports and other critical food imports?

The study will have much to say about these questions and we feel that they are especially appropriate based on initial assessments in the region. In fact, preliminary observations indicate

that informal financial arrangements associated with cross-border trade 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.

There exists considerable social and economic variation between cross-border sites, depending on the nature of currency exchanges in the area (i.e., in the Kenya/Somalia trade traders are likely to earn as much from foreign exchange arbitrage than from commodity trade), the volatility of the situation along the border (i.e., some traders avoid carrying large sums of money but instead use networks of informal banking and currency transfers), and other finance-related factors. By focusing on the main commodity of the region, livestock, preliminary findings show that we will learn much about how informal financial markets operate in highly dynamic and unstable situations, particularly in the absence of any viable formal credit markets. We also will be able to assess the important role of cross-border financing (i.e., using revenues from livestock trade to finance grain imports) and its general impact on food security in the region; and about the ways that barter trade (grain-for-livestock trade) re-emerges in the context of unstable currency markets (e.g., in Somaliland³). Livestock itself is a form of capital (savings) and in some cases can serve as a medium of exchange, especially where inflation is rapid and currency devaluations are common. Huge amounts of potential capital in the form of cattle are found in or near the border zones (in the case of southern Somalia [near the Kenya border], cattle numbers are perhaps the largest in East Africa exceeding 500,000 in some years (see Little 1996). The OSSREA team has an economist to look at the economics of these informal finance arrangements

and BASIS also plans to utilize a US economist to do the same.

It was hypothesized initially that social relationships and networks will assume important roles in cross-border trade (see Little 1992, 1996a and 1998). There are important 'trust' relations ('social capital') based on kinship and other social relations that serve market and finance functions. Similar to what anthropologists Abner Cohen (see Cohen 1965) and Jean Ensminger (Ensminger 1992) found for northern Nigerian and northeastern Kenya, respectively, 'trust' relations based on ethnic and clan-based affiliation are an important dimension of cross-border trade in livestock. This may help to explain the predominance of strong ethnic-based trading coalitions. These would include, for example, the strong presence of Somali trading groups found in northern Kenya and eastern Ethiopia. Where 'trust' relationships or social capital exists, market transaction costs are reduced because informal credit and market contracts are more easily extended without formal contracts or other agreements (see Ensminger 1992:104-105). Preliminary observations show that this is important in the cross-border work but not in all sites. The issue needs to be explored further in the field. These data are most effectively gathered through trader interviews and ethnographic observations.

Understanding Trader Access to Water and Pastures

An important research theme of BASIS addresses rights and regulations governing access to water and other natural resources; and the conflicts that can ensue when access to these resources is exclusionary. It was originally hypothesized that questions of access to water and pastures would be critical in the cross-border trade. The reasons for this are: (a) livestock as a commodity group require water and fodder; (2) all of the cross-border sites are in arid or semi-arid areas where water and pasture are limited; and (3) traders often traverse areas where they

may not have well-defined rights to resources. A limited literature on absentee herd ownership shows the ways that outside traders can acquire access to natural resources by hiring local herders; negotiating or paying for use rights from local elders; or by going directly to government officials (Little 1985; Bekure et al. 1991; and Bassett 1988).

The cross-border study will gather data on the 'access to natural resources' issue but it is not likely to be as rich as the informal finance data. Nor does it seem to be as important a constraint as credit. Preliminary observations are that important grazing and watering areas may be distant from many major market sites and, therefore, direct observation will be difficult. In addition, the larger traders often do not herd themselves but, instead, use agents and hired herders. They are unlikely to know as much about local rights to water and grazing, as herders themselves. The cross-border trade in livestock often is seasonal. During the dry season when water and pasture is particularly scarce traders often do not move animals long distances. In the wet season when water and pastures are relatively abundant access may not be a critical problem. Data on different aspects of these issues will be gathered through the trader questionnaires, unstructured interviews, and secondary data.

It should be noted that these observations are very preliminary and additional work on resource tenure is required. After systematic data collection and analysis are completed, issues surrounding access to water and pastures may show up as significant constraints.

The Importance of the Somaliland Economy

For several reasons Somaliland, the northwest region of former Somalia, was excluded in the original design of the study. The justification for this was because of the travel restrictions in the area, expected difficulties in obtaining reliable data, and assumptions about the depressed state

of the economy. Some rethinking has occurred in recent months, following preliminary analysis of existing data sets for the area (from the World Food Programme [WFP] and the Famine Early Warning Systems (FEWS) Project. While it is not possible to collect primary data in the region, this summer we learned of some excellent data sets on key cross-border towns that provide monthly and weekly price data and other indicators of trade. These data are current as of July 1998. We also have data that confirm the growth in livestock exports from Berbera and Bossaso, key ports of northern Somalia. Live animal exports were actually higher in 1997 than during the pre-war period (pre-1991). Food imports through Somaliland's ports also are approaching pre-war levels and serve a large part of the Somali Region of eastern Ethiopia. In short, the economy of Somaliland is anything but stagnant.

Two border markets along the Somaliland/Ethiopia border (and near the Djibouti border), Togwajale and Borama, have excellent market data and should provide additional insights to the research along the Djibouti/Ethiopia border (to be conducted early in 1999). In fact, Borama is strongly linked to the Djibouti market, as well as to Ethiopian markets. A rapid assessment of these data show a relatively predictable cross-border price pattern, although high security and transaction costs on the Somaliland side seem to account for higher price differences (mark-ups) than occur in western Ethiopia.

Major Regional and Export Markets

In the project proposal (Little 1998) and in the report from the Addis meeting (July 1998), the key domestic market centers and channels were listed. They serve as terminal points of consumption or export for the trade and include Nairobi, Addis Ababa, Djibouti, Assab (which has been dropped out of the study because of the current conflict), and, to a lesser extent,

Mombasa. Added to this list now is Berbera, Somaliland because of its importance to eastern Ethiopia and to the Ethiopia/Djibouti trade. Estimates are that from 50 to 65 percent of livestock exported from Berbera, Somaliland originate from eastern Ethiopia. Both import and export activities in Somaliland have a significant impact on cross-border trade with, on the one hand, Ethiopia and Djibouti and, on the other, between those two countries. Evidence for this is the effect that the recent ban on livestock exports from Berbera to Saudi Arabia --due to unwarranted fears over Rift Valley Disease (RVD)--has had on the economy of eastern Ethiopia. Indeed grain, wheat flour, and sugar prices in the Somali Region, Ethiopia have all risen while livestock prices have declined (Ahrens 1998; Steffen et al. 1998). Imports of many foodstuffs into Somaliland and into eastern Ethiopia were dependent on revenues earned from the livestock export trade.

Effects on Regional Food Security

It was hypothesized in the original proposal that revenues from cross-border trade in livestock are used to finance grain and other food imports. From this summer's work, the hypothesis appears valid for most of the study's sites, with the possible exception of Moyale, Ethiopia/Kenya. Because of strong currency and cross-border controls in Moyale, Ethiopia, cross-border imports tend to be restricted. There are currency exchange controls and, in recent months, vigilant patrolling of the Moyale border trade. In other sites, particularly along the Somalia and Somaliland borders, preliminary assessment indicate important links between livestock and grain trade--in fact much stronger than originally anticipated. We did not anticipate the extent of direct commodity barter trade that exists and the extent to which livestock traders finance grain and other imports from their profits. The strongest data on this come from the monitoring work of the Food Security Assessment Unit (FASU) for Somalia and FEWS, which

provide insights into the effects of cross-border trade on local and regional food prices (Steffen et al. 1998; Ahrens 1998).

Continued Constraints to the Study

In the June-July meeting in Addis Ababa two major issues were identified that strongly impact the study. These are: (1) the impacts of the recent closing of key cross-border markets along the Ethiopia/Eritrea border, an event that has accelerated trade between Ethiopia and Djibouti; and (2) the embargo/ban imposed by Saudi Arabia on livestock exports from the Horn region. Both of these constraints remain in place and have meant that the study has avoided working along the Ethiopia/Djibouti border until early 1999. It also now must utilize existing secondary--rather than primary field data--on the Ethiopia/Eritrea cross-border trade (pre-1998) to estimate trade along that border. While the Saudi ban on livestock exports most directly affects the eastern Ethiopia/Somaliland trade, its repercussions are felt throughout the study region. With the loss of a lucrative export market, prices are generally depressed and livestock have been redirected to cross-border sites oriented to domestic markets.

The closure of the Ethiopia/Eritrea trade is going to heighten the significance of Djibouti and, perhaps, the Berbera (Somaliland) markets for regional cross-border trade. Already this seems to be the case and cautions the study from generalizations based on the unusual circumstances that surround data collection at this time.

SOURCES OF DATA

Early documents (Little 1998a and 1998b) indicate the different sources of data for the cross-border study, including trader and transporter interviews, customs records, market

observations, existing secondary data, and so on. Here we wish to point out some of the existing (in some cases, on-going) data sets that will prove important for the study. Some of these are highlighted in Table 1.

New Secondary Data Sources

These include the regional export data available at the Ethiopian Grain Trading Enterprise (EGTE) in Addis Ababa; the data and documents at the United Nations Development Office for Somalia (UNDOS) Documentation Centre in Nairobi; the government veterinary department records for Ethiopia and Kenya; and the monthly market data for the multi-donor funded, Food Security Assessment Unit (FSAU) for Somalia based at WFP/Nairobi and for the USAID-funded Famine Early Warning Systems (FEWS)/Somalia project. The EGTE data should provide some indication of pre-1998 trade between Ethiopia and Eritrea, while the FSAU/FEWS data cover about five cross-border markets along the Kenya/Somalia and Somaliland/Ethiopia borders. These data are gathered monthly by NGO personnel working in the field and are of relatively good quality. In Nairobi they are entered into computerized data sets, analyzed, and reported in monthly formats. For most markets monthly prices for the following products include:

- Local Sorghum
- Local Maize
- Red Rice
- Wheat Flour
- Sugar
- Tea leaves
- Charcoal

- Unskilled daily labor rate
- Fresh camel milk
- Goat (export quality)
- Goat (local quality)
- Cattle (export quality)
- Cattle (local quality)
- Cattle (export quality)
- Camel (local quality)

Other products are included, but those listed above are most relevant for this study.

While complete price series data are incomplete for some border markets, they nevertheless represent a rich source of information for the cross-border study. These data are accessible and parts of the information have been used before for analysis by one of the co-authors (Little).

As indicated earlier, it was not expected that adequate cross-border data on Somaliland/Ethiopia livestock and grain trade would exist. This is not the case. The study would like to capitalize on the availability of these data and anticipates that some comparative analyses can be done within the original terms of this study. These data are especially important in light of the changes in the Ethiopia/Eritrea trade and the importance of Berbera for the economy of eastern Ethiopia. Since these data have not been fully assessed, it is difficult at this time to know whether or not additional time and resources will be required to include the Ethiopia/Somaliland trade in the BASIS Cross-Border Study.

Limitations on Official Customs Data

Preliminary visits indicate that revenue/customs data along the border often are incomplete and of questionable quality. They may provide an indication of tradable commodities, but will be of little value in estimating the importance and volume of livestock and grain commodities. Already the Kenya/Ethiopia border has tightened up just this year and customs data will be particularly misleading. The Kenyan government shows a general willingness to allow cross-border trade in livestock to exist, as long as the animals are cleared by veterinary officers for movement to Kenyan markets. This is not surprising since domestic markets in Kenya, especially the Nairobi and Mombasa markets, depend heavily on livestock imports from neighboring countries. Ethiopia, on the other hand, has placed considerable constraints on transborder livestock trade, especially during the past year; reports of animals being confiscated on the Ethiopia side are not unusual.

Revisions to the Trader Questionnaire

The trader questionnaire that is being used in the Kenya border case studies has been modified slightly by OSSREA to account for differences in Ethiopia. Additional questions related to finance, currency transactions, and trader networks have been added to the original questionnaire used by Little in his earlier work (Little 1996b). The core questions, however, remain the same, which will allow for cross-site comparisons. The revised trader questionnaire was field tested in Ethiopia in September and October, 1998.

TIME SCHEDULE

The current schedule indicated in the January 1998 proposal has had to be slightly modified because of some of the delays related to border conflicts and closures. It is still

anticipated that field research would be completed at the Ethiopia/Kenya sites by February 1999 and that data collection at the Djibouti sites would be started immediately after that. Preliminary drafts of field reports for each case study will be completed by June 1999. Next summer would be spent carrying out comparative data analysis and synthesis work and a draft final report would be completed and distributed for comment in September 1999. Final revisions would be carried out from October to December 1999, and the final report would be presented at a seminar in December 1999, held either in Nairobi or Addis Ababa.

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Endnotes:

1. Unfortunately, when plans for the meeting were being finalized travel restrictions to Ethiopia were in place. This limited the US attendance at the meeting to the Co-Principal Investigator of the study, Dr. Peter Little.
2. The cross-border study has been collaborating with the Global Livestock CRSP (GL-CRSP) project on "Improving Pastoral Risk Management on East African Rangelands" based at Utah State University. Collaboration has included sharing the costs of data collection at one principal cross-border site, Moyale, Kenya/Ethiopia, which is in the GL-CRSP project area, as well as sharing of secondary data between researchers.
3. Somaliland is that part of northern Somalia (includes Hargeisa and Berbera towns) that in the 1990s established its own independent state.