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Unofficial Trade When States are Weak

The Case of Cross-Border Commerce in the Horn of Africa

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Abstract

This paper addresses informal cross-border trade in the Horn of Africa, with an emphasis on the Somalia borderlands. It will be shown that despite the collapse of a government in 1991, Somalia's unofficial exports of cattle to Kenya have grown considerably during the past 13 years. It will be argued that while informal exports and imports of animals are illegal in Kenya and Ethiopia, local institutions and agreements allow the trade to function 'on the ground' in the absence of official recognition. The paper concludes with a discussion of the policy implications of informal cross-border commerce in regions of weak administrative control.

Keywords: cattle, livestock, Somalia, markets

JEL classification: E26, O17, Q13, L14

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1 Introduction

Trans-border trade in the Horn of Africa[1] represents a particularly important and challenging unofficial, informal sector activity. 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 or, in some cases (Somalia), absent. In many instances it represents the only type of exchange in the area, since extremely poor regional infrastructure and communications impede official trade between neighbouring states. Illustrative of this reality, is the fact that official annual exports of cattle from Ethiopia, the most populous country in the region, are less than 2,000, when in fact more than 25 times this amount are unofficially exported across borders (see Teka *et al.* 1999). For some commodities, like livestock and grain, unofficial exports to neighbouring countries can exceed officially licensed trade by a factor of 30 or more.

The study of cross-border trade, on the other hand, provides a particularly challenging set of research and policy issues. Because it is essentially illegal and often ‘invisible’, there are great difficulties for the researcher in gathering data on the phenomenon. Take the case of cattle again and its unofficial trade along the Kenya and Somalia borderlands. In my own work on the activity during 1996-2001, it was difficult to obtain information from traders and border officials and secondary data were very scarce. In terms of policy equally problematic issues arise. 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. In addition, recent government awareness in the 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, even when the commodities are relatively innocuous and meet the vital consumption needs of their constituents. The latter is the case for the informal livestock trade that helps feed the growing demand for meat products in the region’s large urban markets, especially Nairobi, Kenya (see Little 2003). Unfortunately, politically-charged arguments for controlling borders dictate that trade in agricultural and other benign products usually are conflated with harmful commerce in weapons and illicit drugs. Official concerns about informal trans-border trade definitely grew after 11 September 2001, which changed the policy dialogue surrounding the activity.

In this paper I discuss trans-border trade in the Horn of Africa, with a particular emphasis on the livestock business along Somalia’s borderlands, perhaps the most significant form of *clean*[2] trade in the region. It draws on my own research on the topic dating back to the mid-1980s and a recent collaborative project on cross-border trade and food security that I co-directed (see Little 2003; Little *et al.* 2001). The first part of the paper discusses the ‘macro’ context of trans-border trade in the region and provides a ‘snapshot’ of its importance and scale. The second part of the discussion addresses the special case of Somalia and its voluminous trans-border commerce with neighbouring states. Somalia has been without a recognized government since 1991 when the Siad Barre regime was overthrown, which makes it the longest period in modern history

[1] This region normally includes the countries of the Sudan, Ethiopia, Eritrea, Djibouti, Somalia (including Somaliland and Puntland), and the northeastern part of Kenya.

[2] 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.

without a formal state. It will be shown that even without a government, it may be more accurate to view Somali commerce as an extreme entry along a continuum of formal-to-informal (or legal-to-illegal) trade rather than a distinctly unique case. It is a question of degree not difference. In the third section the significance of certain informal, indigenous institutions in trans-border trade are assessed. It is suggested that any official government interventions in this important business need to acknowledge their significance and, hopefully, build on them. The final section of the paper discusses the policy challenges of facilitating official trans-border trade in *clean* goods, like livestock, without threatening or, even worse, destroying it.

2 The macro picture

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). The incredible vastness of the region's borders makes administrative presence and controls very expensive. Most of the borderlands are characterized by arid and semi-arid environments and livestock-based economies, where trade in livestock and livestock products assume considerable importance. As a commodity, livestock has features that make it amenable to cross-border trade even in situations of widespread insecurity. It is a mobile and high-value commodity that can be transported overland rather than on roads, and can easily be moved across borders. With market infrastructure, veterinary certification facilities, and transport infrastructure so poorly developed, official trade in the commodity is very limited.

For the livestock herders or pastoralists who dominate the area's border regions, market alternatives to unofficial cross-border trade are minimal. Huge amounts of potential capital in the form of cattle are found in or near the border zones and, in the case of southern Somalia (near the Kenya border), cattle numbers are perhaps the largest in the Horn of Africa averaging about 700,000 head. Generally the pastoral groups of the borderlands are weakly integrated with most areas of their countries and domestic channels in many countries hardly provide adequate outlets for the sale of their livestock and livestock products. It simply is easier for many to sell their animals at nearby markets, which often may be in other countries. The weak domestic market links also constrain the supply of food crops from local surplus grain areas to deficit border zones, motivating consumers to purchase foods from unofficial cross-border markets (see Teka *et al.* 1999). In short, cross-border trading is now a major economic activity in the area and this trade is conducted without official policies and support.

The development of trans-border trade stems from ecological, geographic, production and social factors that advantage certain regions for particular commodities, such as cattle, and facilitate informal trade in these goods (Teka *et al.* 1999: 1). In some countries like Ethiopia, unfavourable domestic market policies and prices and low purchasing power favour informal exports to neighbouring countries where prices are better (ibid). Throughout the region social relations based on clan affiliation, kinship, and friendship shape the existence of cross-border trade, and the presence of the same ethnic groups on both sides of the border further promotes it. Trading partners across international boundaries can draw on a common language and identities in conducting business. Consequently, cross-border trade in the Horn of Africa has always assumed considerable importance in the economies and societies of the region, 'even when governments have attempted to discourage it' (ibid: 1). In fact, despite its importance governments usually appreciate only the illegal dimension of cross-border trade and, when they act, their normal response is to try to control the commerce and its actors.

Figure 1
Horn of Africa

Source: UNU-WIDER.

In terms of livestock trade in the study region, it is mainly affected by the significance of two important markets – one regional and the other external. In the southern border areas of the region it is the importance of the Nairobi market, a city of about three million people and the key regional market in the Horn. Cattle prices in Kenya are 20 to 25 per cent higher than in neighbouring countries, which explain why cross-border cattle trade, including from Tanzania, Ethiopia, and Somalia, is mainly unidirectional: it flows from neighbouring countries to Kenya. In the early 1990s Kenya liberalized its meat trade and numerous small-scale slaughter facilities emerged. It is estimated that Nairobi purchases about 450,000 cattle annually (2002), with about 410,000 for slaughter and 40,000 for restocking or fattening on nearby commercial ranches. Of the total number, Somalia supplies approximately 75,000 (16 per cent) and Ethiopia about 40,000 (8 per cent) animals. Not surprisingly, the vast growth in informal exports to Kenya have kept urban meat prices in Nairobi relatively low and stable over the past 10 years.

In terms of the region's principal external market, the Middle East, the bulk of this trade comes out of Somalia, although approximately 50 to 60 per cent of the exported animals are informally sourced across the border in Ethiopia. The export trade in small stock from Somalia (including Somaliland) was larger in 1998 than during pre-1991 when the country had a government. However, it has dropped by as much as 40 per cent following a recent import ban by Saudi Arabia due to fears of the deadly Rift Valley Fever (see Little 2003). In 1998 Somalia (including Somaliland) accounted for 850,000 goats and 1.25 million sheep, or more than 95 per cent of all goat exports and 52 per cent of sheep exports from the entire eastern Africa region (Zaal and Polderman 2000: 17-18). This also made stateless Somalia one of the largest exporters of live animals in the world, and much of this came from informal cross-border trade. Based on an average annual export figure of approximately 1.4 million small stock (see EC/FAO 1995; Steffen *et al.* 1998), approximately 800,000 animals originated across the border in Somali areas of eastern Ethiopia. A modest estimate would be that this trade generates about US$25 million for the economy of eastern Ethiopia.

In addition to livestock, other goods are exchanged informally across borders. Table 1 shows some of the important market items traded along the Somaliland-eastern Ethiopia and the Kenya/Somalia borders. Several of these products are critical foods for local consumption and local food security. The movement of traders from southern Somalia to key Kenyan markets following the collapse of the Somalia state has facilitated cross-border trade, because these merchants often maintained their linkages to suppliers in Somalia. Not only cattle, but food aid (especially cooking oil and wheat), pasta, and electronics from the other side of the border find their way into northeastern Kenya's retail sector. During the occasional border closures of the late 1990s, merchants made it very clear to me that their businesses were strongly dependent on trans-border trade with stateless Somalia. Analyses of prices for critical foods, like wheat flour and maize, revealed large price spikes when unofficial cross-border trade was negatively affected either through trade embargoes or floods (see Little 2003). Local shortages of key foodstuffs are not uncommon in the border regions when commerce is slowed.

Table 1
Cross-border trade goods

Somaliland to eastern Ethiopia	Eastern Ethiopia to Somaliland
Kerosene	Goats and sheep
Wheat flour and pasta	Maize and sorghum
Sugar	Cattle and camels
	Camels
	Charcoal
	Kerosene
Somalia to Kenya	**Kenya to Somalia**
Cattle	Mirrah (qat, a mild natural stimulant)
Consumer electronics	Maize (small amounts)
Clothes	Wheat flour (small amounts)
Pasta	Tea
	Sugar

3 The case of trans-border livestock trade along the Kenya-Somalia-borderlands[3]

With the collapse of the Somalia state in 1991 there was a spectacular ‘boom’ in cross-border livestock trade between Kenya and Somalia. In the case of Garissa, Kenya, a key market town near the Somalia/Kenya border, the aggregate value of cattle sales has grown by an astounding 500 per cent since 1991 and 700 per cent since 1989 (see Table 2). In terms of volume, sales rapidly grew from 24,395 in 1989 to more than 100,000 cattle by 1998. About 75 per cent of the animals end up at the terminal market of Nairobi and by 1998 cattle sales at Garissa market accounted for 659,880,500 Kenya Shillings or US$11,783,580.

Table 2
Cattle sales in Garissa, Kenya: 1989-2003[1]

Year	Number	Value (Ksh)	Value (US$)[2]
1989	24,395	51,717,400	2,510,533
1990	32,664	84,273,120	3,677,640
1991	33,449	99,510,775	3,618,573
(Somalia state collapses)			
1992	65,127	162,229,648	5,038,188
1993	67,076	387,162,670	6,675,218
1994	62,351	436,457,000	7,793,875
1995	80,795	565,565,000	11,003,210
1996	86,400	n.d.	n.d.
1997	90,701	659,880,503	11,783,580
1998	101,590	599,693,700	10,272,307
1999	91,700	n.d.	n.d.
2000[3]	77,633	580,990,875	8,802,892
2001[4]	108,210	n.d.	n.d.
2002[4]	est. 110,000	n.d.	n.d.
2003[5]	64,469	n.d.	n.d.

Notes:

1 Except where indicated, these data are based on annual reports (1989-2000) from the Livestock Marketing Department, Ministry of Agriculture and Livestock Development, Garissa.

2 Exchange rates for each year were obtained from International Monetary Fund (1999: 560-561). The decline of values in US dollar terms partly reflects annual devaluations in the value of the Kenya Shilling.

3 Based on Umar 2000: 15. Annual sales were affected by a devastating drought and an official closure of the border with Somalia.

4 Based on FSAU (2003: 2).

5 Based on FSAU (2003: 2). Sales are through September 2003.

n.d. no data.

3 Parts of this and subsequent sections are drawn from Little (2003).

Analyses of interview data from two different periods of research, 1986-1998 and 1996-2001, demonstrate that many Somali traders have benefited from the growth in cross-border trade to neighbouring countries. If defined in relation to a recognized state and its economy, the economy of southern Somalia and its border trade is entirely unofficial. There are no government laws to define the differences between an official and unofficial economy.[4] As one merchant told me in 1998, Somalia is now one large 'duty-free' zone, an ideal dream for an entrepreneur seeking profits.

Current cross-border livestock trade has some parallels with the pre-1991 situation. It is an activity that was significant during the late 1980s, but grew considerably during the 1990s. In the 1980s the activity was theoretically illegal but was openly discussed by traders and even some government officials. Many of the traders who engaged in the trade in the pre-war period are still involved despite the political changes. During 1998-2001, the legality of the cattle trade was challenged only once by the Kenyan government, when it closed the border and blocked trade during part of 1999 and 2000. Along the Somalia/Kenya border little official effort is made to halt livestock movements, since the trade is so important for the country's livestock sector and economy generally.

3.1 Effects of war and statelessness

The 1990s war in southern Somalia had major impacts on the country's livestock markets. While four market channels – overseas export trade, a national market centered on Mogadishu (the former capital of Somalia), regional domestic trade centered on Kismayo (the former capital of the Lower Jubba Region), and informal trans-border trade – existed prior to 1991, the cross-border commerce is the only one that escaped large-scale devastation (for details of the war, see Besteman and Cassanelli 1996). In fact, it has grown considerably as a result of the conflict in Somalia. The regional domestic market in the Lower Jubba still exists, but herders increasingly avoid Kismayo market because of conflict. This isolation stems from divisive politics and clan relations among the main clan-based factions in the area, especially tensions between the Harti of Kismayo and the surrounding Ogadeen, and recently between the Marehan and the Harti. These strained relations have been manipulated and aggravated by regional faction heads (warlords). Because they have to traverse Ogadeen-controlled lands, Harti-owned cattle and products from Kismayo are rarely transported to lucrative Kenyan markets despite the obvious economic benefits of doing so. Less than 2 per cent of cattle sold during March to November 2000 at the largest Kenyan border market were from Kismayo (personal correspondence, Stefano Tempia) and virtually no Harti traders were found at the market. The city's livestock prices also show particularly erratic swings relative to other markets in the border region. In short, hostilities have created extreme market and price distortions in and around Kismayo town, at one time the major market for the entire Jubba Valley, southern Somalia.

Currently prices for cattle in Somalia increase vis-à-vis distance to the Kenya border rather than toward the country's largest city, Mogadishu, as was the case in the 1980s. On the Kenyan side, regional prices generally reflect distance to Nairobi and Mombasa,

4 Other African countries, such as Sierra Leone and Liberia, which are effectively stateless, fall into a similar category as Somalia, where the official versus unofficial dichotomy is increasingly meaningless.

the main terminal markets. In Kenya prices move in the opposite direction: they are lowest near the border and increase as one moves south and west where the large urban markets are located. When the animal reaches Garissa, the major transit market in Kenya, cattle prices are about 45 per cent higher than in southern Somalia. In the final stages of the market chain, the animals are transported from Garissa to Nairobi and sold at prices up to 200 per cent higher than in southern Somalia. Based simply on the economics of this example (see also Table 5 later in the paper), it is hardly astonishing that flows of cattle from Somalia to Kenya increased in the 1990s. What is surprising, however, is that price differences between Kenya and Somalia are not greater under the current volatile conditions.

There is little question that the national cattle market in Mogadishu has been badly affected by post-1991 events and conflict. Table 3 shows that Mogadishu's prices, which were highest among Somali markets in the 1980s, are now lower than transit markets in the border trade, a stark contrast to the situation of the 1980s.[5] As the data reveal, prices rose between 1987 and 1998 at market centers involved in cross-border trade (Afmadow and Liboi), while they actually declined in US dollar terms for Mogadishu. Prior to the collapse of the national government, cattle prices among Somalia's markets were always highest in Mogadishu. For the border town of Liboi, prices doubled between 1987-88 and 1996, a reflection of the strong growth in cross-border trade with Kenya. Not surprisingly, the market catchment for the cross-border trade has expanded greatly toward Mogadishu since the 1980s, as Kenyan-based traders find it profitable to source cheap cattle well into the interior of Somalia (Figure 2).

Table 3
Average prices of cattle in selected markets: 1987-1988, 1996, and 1998 (in US$)

	Mogadishu	Afmadow	Liboi[1]	Kismayo
1987-88[2]	121	94	83	80
1996[3]	99	128	163	71
1998[3]	110	117	133	100

Notes:

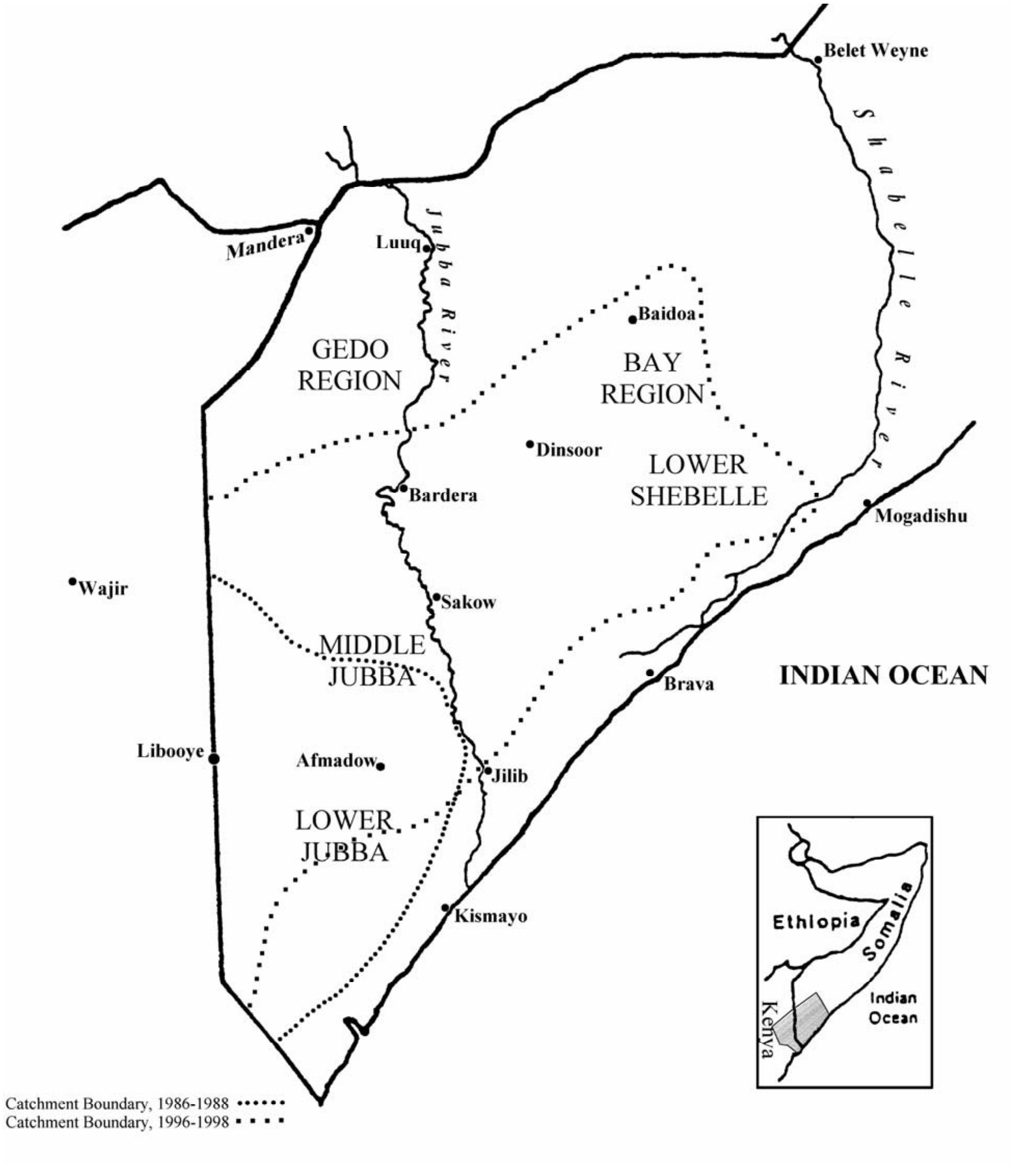
1 Liboi is located on the Kenya/Somalia border.

2 Based on analysis of monthly market data collected under the USAID/Livestock Marketing and Health Project. The period covered was January 1987 to February 1988, although data were not available for each market every month. The Somali Shilling (SoSh) eF/xchange rate for the period averaged approximately 120SoSh=US$1.

3 Based on data from interviews with 94 traders. Period covered was March 1996 to July 1996 and June to August 1998; cattle were Quality 2 animals of medium-quality (cows and bulls older than 7 years).

5 Here I rely on price data from traders who actually procured animals from the Mogadishu area in 1996. At the Garissa, Kenya market the Mogadishu cattle are evident and are referred to as the 'red' cattle because of their hide colour.

Figure 2
Changes in cross-border market catchments in southern Somalia, 1986-1998



Based on Little (2003: 102).

What does it mean for economic agents, like traders and middlemen, in a context where the formal economic and political institutions in a country have collapsed? Based on the Somalia example, the impacts are not as significant as one might envision. For the economic agent, port fees to import goods and to move them safely must still be paid, but instead of going to representatives of a central state, they are going to warlords and militias. The entrepreneur still has little access to formal banking and financial institutions, although small trader access to informal financial facilities actually has improved in the past 15 years. The feeble nature of economic institutions and financial systems in countries like Somalia has meant that their collapse has been relatively insignificant for much of the population.

3.2 Social relations

Whether it is state-sanctioned (legal) or not, trade requires some level of mutual trust and norms to function. To trust somebody assumes that agreed outcomes, behaviours, and prices are followed and that parties do not have to carefully monitor each other (see Gambetta 1988). Trust and fair practice are critical in the current Somali economy where legal enforcement is virtually impossible. There are important 'trust' relations ('social capital') based on kinship and other social relations that serve market and finance functions. In times of conflict and uncertainty, these relationships become even more important and can lead to highly exclusionary practices, whereby traders of certain clans and groups exclude others from participating in the trade. This may help to explain the predominance of strong ethnic-based trading coalitions in the trans-border trade. These not only include the strong presence of certain clan and ethnic groups in trading activities in Somalia, but throughout northern Kenya and eastern Ethiopia as well. 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).

In the Somalia case trust has been strongly challenged by recent acts of seemingly random violence, but it also was compromised earlier by the brutalities of the previous Siad Barre government and its representatives. In some cases recent events have reinforced the importance of trust within certain social groups, such as clans, while unfortunately heightening conflict and distrust between groups. In the words of Simons (1998: 70): 'Now more than ever, knowing genealogy does chart who can and who cannot be trusted'. The segmentary kinship principle of political alliances and trust have always been present in Somali politics (see Little 2003), but have assumed more significance recently as faction leaders have deliberately used clanism ('genealogy') as a political weapon. Through the misdirected actions of warlord leaders, clans and their territories have become forcibly isolated from each other and interactions restricted by armed factions. In these volatile, risky environments, Somali traders rely on their extensive kinship ties and on members of their clan and sub-clans.

The expansive clan system of the Somalis has abetted traders in gaining access to markets, finance, and information both during periods of boom and bust. It also has aided the global trade and remittance networks that have helped to keep the Somali economy afloat. Somali traders and transporters are found throughout East Africa and well into central Africa and the Middle East. These networks have grown in significance with the implosion of the Somali state. The segmentary kinship and clan idioms strengthen them by enhancing trust and guarding against deception in business dealings.

A ‘greater Somalia’ of trade and finance networks has expanded beyond the Horn of Africa, to encompass parts of the Middle East and to link numerous international cities to Somalia. While a significant trade diaspora existed prior to 1991, the collapse of the state and the ensuing problems have accelerated its growth, with livestock being just one of its important commodities.

As noted earlier, in each of the border sites of the Horn region, similar ethnic groups are found on both sides of the demarcation. This facilitates cross-border trade and channels the trade through certain centers and merchants. For example, along the northeastern Kenya/southern Somalia border Somali pastoralists are found on both sides, but there are marked differences in clan composition that influence the nature of cross-border trade. Because of the rigor required and hardships endured, many traders in the business are young (less than 40 years old).

3.3 Who benefits?

Historically informal sector activities in Africa and elsewhere have been associated with the poor, those who are cut off from salaried employment, financial institutions, and lucrative licensed trade. In many cases, informal trade is highly gendered with high levels of female participation, especially women who often pursue petty trade as a survival strategy to feed their families (Little and Lundin 1992). While there are poor, small-scale traders involved with trans-border cattle trade, many of the actors in the commerce are not poor by local and regional standards and few are women (see discussion below). Indeed, there is considerable economic heterogeneity among cross border traders, with about 20 per cent of traders accounting for more than 60 per cent of market transactions and 50 per cent dealing with less than 15 per cent of the trade. The high standard deviation and range in volume of sales in trader samples from the Somalia borderlands support this pattern of inequity. For instance, in the Kenya/southern Somalia sites where cattle trade dominates 50 per cent of traders sell less than 200 cattle per year and 35 per cent sell less than 100 cattle (Table 4). By contrast a small minority (13 per cent in 1998) had annual sales in excess of 1,200 animals. A similar trend is also observed in the small stock (goats and sheep) and camel trades, where a few traders have annual sales three to four times higher than most merchants.

Table 4
Annual sales of cattle by traders, Somalia/Kenya border

Range of annual sales	Percentage of total	
	1996	1998
1 to 300	17	34
301 to 600	18	26
601 to 900	20	5
901 to 1200	28	22
1200+	17	13
Total	100	100
Average sales (mean)	943	855
Standard deviation	760	883
	n = 94 traders	

Based on Little (2003: 117).

As noted earlier, the war has instigated an increase in cross-border cattle trade and the merchants, both large- and small-scale, associated with it have benefited. These traders who were involved in informal, trans-border trade fared much better after the state collapsed than merchants associated with other kinds of trade, especially the official export business. The boom in cross-border trade encouraged a relatively large percentage of traders (42 per cent of total) interviewed in 1996 and 1998 to start their businesses during the past five years. The growth in the cross-border trade, coupled with the lack of viable alternative employment options in the region, accounts for relatively large increases in the number of cattle traders in recent years. More than 92 per cent of traders interviewed were Somali, and the bulk of these were from the Ogadeen clan (for more details, see Little 2003). And in our sample 100 per cent of traders interviewed were male; in a random observation of more than 150 sellers on three market days in Garissa only one female livestock trader was observed who had any involvement with cross-border cattle trade. Involvement of non-Somali in the trade only occurs on the Kenya side at the higher levels of the market chain (e.g., Nairobi), although they were more active at smaller markets in the late 1980s. As I have pointed out elsewhere, trade has become increasingly clan-based as a result of the instability of the 1990s and the blatantly clan-based tactics of different militias.

It is possible to calculate economic returns to traders at different levels in the market chain, and to determine where profits are highest. Table 5 illustrates the kinds of costs and profits that can be accrued along a common cross-border route, the Afmadow (Somalia) – Garissa-Nairobi market channel. The table assumes that there are two traders involved in the market chain; one based in Garissa, Kenya who buys from a Somalia-based middleman, and one based in Nairobi who purchases from the Garissa trader. The estimates include other assumptions that will vary from year to year. In very dry years when animal sales are slow, trader costs allocated to fodder and water can be as much as five to six times the figures in Table 5.

As would be expected, the highest risks and costs in cattle trade involve the initial purchase and transport. The net return for the trader (Trader 1 in Table 5) who buys directly from Somalia and sells at Garissa is 15 per cent. The return is almost the same at 16 per cent for the trader (Trader 2 in Table 5) who purchases at Garissa and then resells in Nairobi – the high cost of transport between Garissa and Nairobi (about 12 per cent of the Garissa purchase price) accounts for most of Trader 2's marketing costs. If Trader 2 purchases an animal directly from Somalia rather than at the Garissa market, then the net return per animal can be as high as 31 per cent. Thus, while the risks can be excessive in some years, the returns in the cross-border trade also are very high – well above profits in other types of agricultural trade and higher than returns that I observed in 1987-88.

4 The importance of local institutions and practices

The stateless 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 informal finance, broker services, and transport.

Table 5
Trader returns in the cross-border trade, 1998-1999

Item	Amount US$ per cattle	% net return
Initial purchase price from herder	108.00	
Purchase price from middlemen, Afmadow	128.00	
Transport cost (Afmadow-Garissa)	3.00	
Hired herd labour	1.60	
Security/transit fees	0.40	
Water (50 days @ .08)	4.00	
Medicine/dips	1.82	
Fodder (Garissa market) (dry sea only)	0.60	
Risk from loss (theft, drought, etc.) (6%)	7.68	
Broker fee (Afmadow)	1.25	
Broker fee (Garissa)	1.67	
Council tax (Kenya)	1.33	
Currency transaction/conversion fees	5.28	
Trader 1 costs	156.63	
Sale price, Garissa	176.00	
Trader 1 return		15%
Transport cost (Garissa-Nairobi)	20.15	
Movement permit/fees	1.33	
Hired labour	0.33	
Water	1.00	
Fodder (Garissa and Nairobi)	0.60	
Market/municipal tax – Nairobi	1.33	
Broker fee (Garissa)	1.67	
Broker fee (Nairobi)	2.50	
Trader 2 costs	204.91	
Sale price, Nairobi	233.00	
Trader 2/middleman return		16%
Gross difference between original purchase and final price	105 (82%)	
Trader return if one trader only and purchases from Somalia and sells in Nairobi		31%

Source: Based on Little (2003: 111).

4.1 Informal finance services

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 per cent of it is obtained informally from kinsmen, friends, and associates (see Little *et al*. 2001). Very few traders (less than 10 per cent of the total) have access to formal sources of finance. Informal finance can supplement the lack of formal market access and, as noted above, trust-based relationships play an important role in these transactions (Teka *et al.* 1999: 54). 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 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 travelling 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. Confidence in the local currency (Somali Shilling) facilitates credit and financial transfers, critical components of commerce because of the risks associated with carrying large amounts of cash. While much of the livestock trade is calculated in SoSh and final payments are made in SoSh or US dollars, the actual handling of cash in large transactions is minimal.

In short cross-border trade often entails elaborate informal financial and credit arrangements that, in turn, generate significant capital for local investment. This is especially the case for cross-border trade in livestock, which often is the major asset and store of capital in these areas. My observations also 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 (see Little *et al.* 2001).

In the region many of the important informal finance businesses that traders use are based in Nairobi. The enterprises usually charge fees of 3-6 per cent to 'wire' funds from Kenya to locations in Somalia; formal banks usually charge 10-12 per cent 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

6 Mahmoud (2003) records a practice whereby trans-border traders who sell animals in Nairobi transfer their cash earnings to a wholesaler from the border who is in Nairobi. The wholesaler, in turn, buys goods in Nairobi with the trader-supplied money and transports the products to border towns for sale. The person then orders a business associate or partner at the border to repay the livestock trader or his partner. The livestock trader may have a partner at the border who receives the cash and then re-initiates procuring animals for sale in 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.

helps to 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.

A recent UNDP-commissioned report describes a similar growth in informal money houses related to the remittance business:

> A major financial innovation, since the collapse of the State [Somalia], has been the rise of hawilaad or remittance companies. There are several major remittance companies and innumerable small ones. The large companies handle remittances of funds sent by the Somali diaspora to relatives in country, charging a commission of 3 per cent to 7 per cent (depending on the level of competition and the size of the remittance). Using a mix of telephone, fax, and HF radio, and relying on a worldwide network of agents, the hawilaad companies can instantly transfer money from a Somali in Canada to his family in Bosasso. Increasingly, hawilaad companies also transfer money between businessmen both within Somalia and internationally, allowing merchants to make fast purchases of commodities growing scarce in a local market (UNDP 1998: 15).

The scale of the informal banking system is extraordinary and at least one of the larger Somalia-based enterprises has branches in many cities around the world. As a point of comparison the US-based company, Western Union, charges a 12 per cent fee to send cash from the USA to the Horn of Africa. Unfortunately for many Somali families the largest of these *hawala* banks, al Barakaat, abruptly closed in November 2001 over concerns that it laundered funds and generated profits for the terrorist network, al-Qaida (Vesley 2002; IRIN 2001). Based on a US-led initiative the indictment also claimed that at the highest levels the bank was controlled by key al-Qaida supporters. Thus, what had evolved as a viable institution in such a short time following the collapse of Somalia's finance sector, and depended upon by literally thousands of Somali families in the region and around the world, is now labelled as a terrorist-linked organization. There has been an active lobby by development agencies, such as the United Nations Development Programme (UNDP), to reopen al Barakat but this has not yet happened.

4.2 Market brokers (*dilaal*)

Poor access to market information is a major risk associated with cross-border trade. Since official information about prices of different types of livestock is virtually non-existent, traders rely on informal means of obtaining market information.[7] 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 insure the legitimacy of the sale. It is a common institution throughout the Middle East and Islamic regions of West and East Africa (see Cohen 1969). Once again, the notion of

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7 Some NGOs and government organizations operating in the area collect prices on different types of animals, grain and fuel wood. However, the dissemination is limited and their market coverage is limited. Moreover, even when it is available herders and livestock traders rarely use this information.

trust is inherent to the institution of *dilaal* and relevant to understanding 'unofficial' activities like cross-border trade.

In all of the markets, including Nairobi, there are *dilaal* to match sellers and buyers and negotiate prices on their behalf (for similar cases of brokers in livestock markets elsewhere in Africa, see Cohen 1969; Manger 1984). 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 per cent 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 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 Somalia the role of the *dilaal* in the 1980s was so significant that they were officially registered and licensed by the local administration, and required to pay a small tax. In Kenya brokers (*dilaal*) recently have organized themselves into an association in at least one important border market town, Moyale, and have registered the group with the local administration (Mahmoud 2003).

The roles and fees of brokers changed very little during 1988 to 2001, a surprising outcome given the increased insecurity in the border region following the collapse of the Somali state. If theft and insecurity were so rampant, one would have expected broker fees to have increased considerably, as a result of the added risks of doing business and possibly widespread cattle theft. Since a broker is paid to insure the legitimacy of a transaction, if a stolen animal is sold the *dilaal* is responsible should the original owner seek compensation. Yet, brokers' fees have not grown any faster than inflation or other transaction costs, which would imply that risks of transactions in stolen animals are not especially high. A comparison of broker fees in 1996-98 with those in 1987-88 show that there has not been a significant change in broker charges and, in fact, the actual amounts (in US$) paid in the past few years have declined. As a percentage of livestock prices, average broker fees at most markets in 1988 and 1998 were about the same.

Brokers 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. Recall that sellers often have transported their animals over very long distances before they reach the market. For example, 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 labour. 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 neighbouring countries, such as

Tanzania and Ethiopia, Somalia-based traders may have to wait several days in Garissa before transporting cattle down country. When this happens, the trader often has little recourse but to purchase fodder or to move animals into surrounding range lands.

4.3 Transporters

A third informal practice that facilitates cross-border trade is long-distance trekking. Indeed, one of the most significant and intriguing aspects of the cross-border trade involves the trekking 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 (Dalleo 1975). 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 (see Lewis 1994: 115), 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 safe guard 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 lose can occur.[8] 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).

Based on data in Table 6 that show the different trekking routes, there appears to be a functioning market for the service. 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 0.18/kilometer and only modest increases have taken place since the government's collapse in 1991. There also were minor differences in transport costs between the Kenyan- and Somalia-based circuits.

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8 It was virtually impossible to estimate weight loss from trekking, although herders pointed to it as a problem. The amount of weight loss will depend on range conditions, the number of trekking days, the herding skills of the trekkers, and other factors.

Table 6
Transport costs in cross-border cattle trade, 1996 and 1998

Market route	Estimated distance (km)	Number of days[3]	Cost head (US$) 1996/1998	Cost per km 1996/1998
Garissa-Mombasa[1]	470	1-2	16.15/27.83	0.34/0.059
Garissa-Nairobi[1]	420	1	13.29/20.15	0.032/0.048
Mandera-Isiolo[2]	620	3	n.d./16.67	n.d./0.0269
Afmadow-Garissa	240	14	2.32/3.00	0.010/0.013
Baidoa-Garissa	550	28	4.59/5.92	0.010/0.010
Dinsor-Garissa	490	23	4.03/2.08	0.010/.004
Dhobley-Garissa	160	8	2.03/ n.d.	0.012/ n.d.
Kismayo-Garissa	350	n.d.	n.d./2.92	0.010
Libooye-Garissa	150	6	1.60/2.50	0.011/.017
Mogadishu-Afmadow	300	15	3.27/ n.d.	0.011
Mogadishu-Garissa	540	28	4.15/4.92	0.0100/.010
Wajir-Garissa	250	n.d.	1.90/11.67[1]	0.008/0.047
Isiolo-Nairobi[1]	250	1	n.d./14.17	n.d./0.057
Mandera-Isiolo	600	36	n.d./2.63	n.d./0.004
Dinsor-Moyale	540	32	n.d./6.00	0.011
Sakow-Mariakani (Mombasa)[4]	730	30	n.d./8.33	n.d./0.011

Source: Author's data.

Note: n.d. = no data.

1 These prices reflect the use of motorized transport (truck).

2 This price was mainly for motorized transport but included some trekking on foot.

3 There is considerable variation in this category depending on environmental and security conditions at the time, the particular motivations of the trader, and the skills of the herders. These numbers represent estimated averages based on trader interviews.

4 The last part of this trek (100 km) often involves motorized transport.

5 Discussion and concluding remarks

The materials presented here show the extent to which informal trade drives the economies of East Africa's border regions and areas well into the interiors of Ethiopia, Somalia and Kenya. They provide telling evidence of the importance of cross-border commerce for inhabitants of the border region, and even for consumers and producers located several hundred km from the borders. Examples from this and other studies (see Little *et al.* 2001) show what happens to local incomes, food security, pastoral welfare, and local and regional markets when cross border commerce is disrupted. In the case of the Ethiopia/Kenya border it was found that revenues from cross-border livestock trade financed informal grain imports from the surplus highlands of southern Ethiopia, to deficit areas of northern Kenya (Teka *et al.* 1999: 50).

But are the results presented here applicable to areas outside of the Horn of Africa? It has been the paper's contention that while cross-border trade along the Somalia borderlands is an extreme case of an informal activity because there is no government on one side of the border, other studies show that unofficial cross-border trade is absolutely critical to the economies of Mozambique, Sierra Leone, Djibouti, Liberia, Democratic Republic of the Congo (DRC), Benin, Angola and several other African states where governments exist (see Ellis 1999; Nugent and Asiwaju 1996; Reno 1995). The same holds true for large parts of Central Asia and the former USSR as well (Burawoy and Verdery 1999; Humphrey 1999). Some of these countries engage in unofficial cross-border trade involving high-value commodities, such as diamonds and iron ore, and attract investment from legitimate transnational corporations (see Ellis 1999; Ellis and MacGaffey 1997; Richards 1996). The effective collapse of national monetary systems and financial and regulatory institutions in African countries like the DRC and Angola, also means that most of the domestic economy is unofficial and trans-border trade is mediated through private entrepreneurs not government bodies. As the paper has shown, in strict terms this practice is considered to be smuggling, but the term is increasingly meaningless in large parts of Africa where what is officially legal and illegal are increasingly blurred (Hibou 1999).

5.1 Openly informal economy

In weak states distinctions between formal and informal or official and unofficial are simply meaningless, even where 'recognized' forms of governance exist. As Hibou convincingly argues, the lines between legal and illegal in fragile states are extraordinarily blurred: 'the division into formal and informal spheres is thus not a useful distinction in large parts of Africa, since illegal practices are also performed in the formal sector, while so-called informal economic networks operate with well-established hierarchies and are fully integrated into social life' (1999: 80). In short, many African states are officially involved in the 'unofficial' export of commodities, such as diamonds and ivory, while illegal businesses operate in the open often with the support of the government (ibid: 89; also see Reno 1995).

One needs only to visit Eastleigh, Nairobi, a center of Somali business life, to see how the formal (legal) and informal (illegal) merge in complex ways. The shopping area itself, which is widely noted to have the busiest commercial avenue in Nairobi, attracts middle and upper class shoppers from around the city and other parts of the country. They come to shop for bargains and, in some cases, to purchase counterfeit identification cards and the like. Up-scale brands of fashion, electronics, and other consumer items imported through 'duty-free' Somalia can be purchased at 20 to 30 per cent below prices elsewhere in town and services, such as internet and phone, can be obtained at a fraction of normal costs. Unregistered (illegal) phone services stand in close proximity to official phone booths and fuel stations selling contraband diesel are found within a few blocks of a licensed petrol station. That other openly informal ('illegal') urban-based economies dominated by diaspora trading groups like Somalis, have taken hold in many African cities, including parts of Johannesburg, South Africa (Rogerson and Rogerson 1996; Peberdy and Rogerson 2000), demonstrate its prevalence on the continent. It is a growing phenomenon that has largely gone unexplained and, in many cases, undocumented (Murray n.d.). In this sense Eastleigh is 'openly informal', neither hidden from authorities nor entirely consistent with an official, public place of business. At the same time it is integral to the service economy of Nairobi and its 3 million-plus residents who depend on it for low-cost products and services.

Similar to the cross-border commerce in northern Kenya, the prevalence of illegal trade and its tight integration into daily practice serves to legitimize it. Somali livestock that are imported 'illegally' into Kenya but openly traded, discussed, and inscribed in daily practice assume almost official status in the border regions but are not reflected in most trade statistics. In 2001 some local Kenyan officials with whom I spoke did not think cattle were contraband commodities, nor the trade illegal when in fact on paper it really is. Other smuggled imports, such as drugs or weapons, are secretively traded but treated as *more illegal* or *dirty* in status than animals. If discovered by Kenyan border officials, they likely will be confiscated.

5.2 Policy challenges

The critical question becomes what should governments and other parties do, if anything, to improve cross-border trade and enhance its contributions to local and national government. Most governments view the activity as lost public revenue and rarely acknowledge its positive dimensions. What is particularly challenging is that because of its informal nature cross-border trade thrives in the absence of government interventions and policies, while punitive controls against it usually redirects the trade along unofficial channels. With public resources so scarce and incomes so low in the Horn of Africa, governments should avoid wasting valued resources trying to police a commerce, 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. Thus, governments should help to facilitate rather than police it.

To address the concerns of policymakers about cross-border trade, the first tactic should be educational; that is, to instruct (convince?) policymakers about the activity's scale and importance to local and national economies. Throughout my work in the region I have been surprised by the lack of understanding on the part of policymakers about either the scale – which is well above US$45 million annually (2003) in livestock trade alone – or its importance to local populations and their welfare. Only recently has the significant contribution that trans-border trade plays in meeting the consumption needs of the region's large cities received official recognition – albeit modest. Especially in Ethiopia the general sense is that because it is unofficial it should be stopped (Teka *et al.* 1999). The latter point assumes that it could be halted even if governments wished to do so. Evidence from other parts of the world with far more resources and infrastructure than countries of the African Horn shows how hard this can be (in Iraq, Pakistan, Ukraine, South Africa, Mexico, *inter alia*).

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. By recognizing the importance of cross-border trade rather than discouraging it, the government could greatly expand its own revenue through customs and tax collection.

Official trade statistics of governments and international bodies (e.g., FAO and World Bank) contain only vague estimates of the importance of cross-border trade in the region. As a start, 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. The policy dialogue must occur at these three levels because: (1) the local officials are 'on the ground' in these sites and 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. These three different levels of institutions need to be involved in policy discussions about cross-border trade. 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.

5.3 Improve infrastructure and communications

Roads and transportation facilities are generally lacking to/from many border markets, as are most other important infrastructure in the region. Earlier work on cross-border trade has shown that the lack of infrastructure greatly increases transaction costs and inefficiencies, and that a lack of communication facilities leads to poor dissemination of market information (Little *et al.* 2001).

The absence of security in many of the border areas also is a strong impediment to efficient trade and often results in banditry, violence, and the attraction of criminal elements into the trade. It also greatly distorts markets and significantly reduces incomes for the poorest populations of the region, especially pastoralists. Without improved security, required investments in infrastructure, veterinary services, and communication facilities will be difficult.

5.4 Importance of veterinary services

The recent bans on livestock exports to Saudi Arabia from most of the Horn countries (excluding Sudan) highlight the overwhelming importance of improved veterinary services in border areas. It is not expected that governments will have the resources to implement major investments in veterinary infrastructure but there are smaller, perhaps more effective measures that can be taken. Our comparative study in the region has shown that traders are willing to pay for veterinary services and drugs, but that they often are limited in availability. Efforts should be made to support para-veterinary efforts in the region. They have the potential to play critical roles in supplying services to herders and cross-border traders, and are means to combat disease epidemics before they devastate local and regional economies. Recent pressure on the World Trade

Organization (WTO) by major livestock exporters, such as Australia and Brazil, over animal health regulations can be interpreted as an assault on Somalia and its lucrative animal trade with the Middle East. By campaigning for rigid health and export controls, wealthier countries are aware that Somalia (including Somaliland) and its African neighbours will face great difficulty in meeting stringent requirements and, consequently, will lose access to international markets.

To conclude, while there were some positive signs at the turn of the century that seemed to encourage cross-border trade in livestock and other agricultural goods (see *Daily Nation*, 9 November 2000; Teka and Azeze 2002), they mainly have disappeared in the past few years. New regional concerns about security in the post-September 11th era influence recent policy dialogue concerning international borders and, unfortunately, it has the potential to negatively effects all types of informal trans-border commerce. Kenya closed down much of the *clean* trade between Kenya and Somalia under international pressure in 2003, although it has relaxed this in the past eighteen months. Ethiopia, in turn, has voiced recent concerns about 'contrabrand' trade along its borders and does not seem to distinguish between trade in *clean* (and essential) products from other kinds of border trade, even though as recent as 2000 it had relaxed barriers on a lot of petty trade in foodstuffs along its borders. Nonetheless, the reality is that unofficial trans-border trade in livestock and other critical commodities play important local and national development roles and will continue to do so until alternative markets and livelihoods are found for these areas and their inhabitants. Governments in the region should recognize this and take positive steps to support trans-border activities for the benefit of their economies and citizens.

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