Risk Taking for a Living

Livestock Trading in Ethiopia's Somali Region

UNOCHA-PCI

Livestock production and trade are the principal economic activities of Ethiopia's Somali National Regional State (Somali Region). The turnover is surprisingly large. A study commissioned by the UNOCHA Pastoralist Communication Initiative (UN OCHA-PCI) offers a new insight into this complex and vibrant trading system, a system which generates significant income and demonstrates extraordinary resilience. Though Somali Region suffers from a poverty-stricken and relief-dependent image, its marketing chains reach into the remotest corners of the country and serve the economic and food security needs of millions: rural and urban, rich and poor. The study argues for a new view of the livestock trading system in Somali Region; an impressive system in which the risks of a highly uncertain environment are offset by clan-based guarantee arrangements. While these guarantees protect the trade, they also severely limit its volume and value. In a fast-globalising world, the international consumers to which pastoralists sell their animals are rapidly adapting to new sources of supply. Unless this ancient trading system modernises, and unless state institutions recognise and promote trader flexibility, it is possible that market access will dwindle and production will likewise falter.

The Trading System

The findings of the UN OCHA-PCI study challenge the current orthodoxy on the workings of a pastoralist-based economy and its contribution to livelihoods and national wealth in a number of ways. The size of the economy is much larger than usually reported. The volume of animals traded and exported via informal trading routes significantly exceeds the volume of animals exported through official channels. The study estimates that informal cross-border exports from northern Somali Region alone exceed by a factor of 3.2 to 6.5 the Ethiopian Customs Authority's statistics for the number of live animals exported from the whole of Ethiopia. The official number of animals exported from Ethiopia in 2003/4 was 41,565, while this study estimates for 2005 that a minimum of 140,000 animals were exported from just two markets. Total estimated turnover in four markets in the region amounted to 450 million Birr or around US$ 50 million. Yet for each of the many thousands of individual traders and middlemen making this trade possible, income levels are low and profit margins are very small.

The study found that 25–45% of stock sold is exported across national borders to consumers in Saudi Arabia, the Gulf and Kenya. Almost all the remaining animal sales are for breeding or slaughter within Somali Region itself. Very little is moved north to the Ethiopian highlands or to central export abattoirs.

The essential characteristics of the trading system were laid down hundreds of years ago. Livestock and other commodities flow along corridors out of and into the region. Each corridor is dominated by two or three large clans and managed by a particular set of traders, market operators, transporters, guarantors and credit suppliers whose ties are clan-related and whose operations are founded on trust.

While most traders are male and middle-aged and their trade is medium-scale and focused on dealing in small stock and food commodities, there is also dynamism in the system. A growing number of relatively young as well as female traders are

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coming into the business. The trade itself is changing, with new commodities, new forms of transport, communications, finance and banking.

There is oversupply of animals to the markets and relatively inflexible prices. While it is often believed that pastoralists do not like to sell their stock, for all markets for which data exists in the region the number of animals offered for sale systematically exceeds the number of animals sold for all grades of stock. Low to moderate levels of price volatility indicate the strengths of the market, including a rapid response to demand.

Price changes in one market do not appear to have an immediate effect on the prices in others. Traders describe how difficult it is to adjust from one market or market corridor to another, involving increased cost and risk. The trade routes are strongly clan-based and are not quickly interchangeable – a trader cannot easily choose to use a different route than the one he or she normally uses, unless that trader has the contacts and trust arrangements needed to make such a shift. Nevertheless, within these somewhat confined channels the market chains are strong and competitive, offering primary producers value for their stock.

Constraints

Low demand, low margins and harassment dominate the list of constraints reported by traders. Multiple taxes, alongside the costs of working without the umbrella of legality, put unrealistic pressure on traders and means that they tend to avoid payment to protect their small profit margins. Traders cling to what might otherwise be considered outmoded and excessively cautious arrangements for transport, finance, insurance and marketing.

Income levels are constantly threatened by costs imposed by bureaucratic bottlenecks. There are various predictable internal costs (capital, transaction and labour costs and taxes), as well as unpredictable costs imposed by border closures, confiscations and insecurity. The trade is also subject to exogenous shocks beyond the control of the affected traders and pastoralists (such as the Saudi Arabian government ban on live imports, fluctuating currency regimes or the sinking of uninsured boats).

Responses

Overall Somali Region's livestock trading system exhibits a number of unusual features (excess supply, weak correlation of inter-market prices, low growth, ambiguous legal status, high levels of harassment and reliance on clan structures for capital, insurance and access to routes) which do not conform to conventional market behaviour and are therefore unlikely to be solved by traditional livestock marketing policies and projects.

In most such policies and projects, a technical bias has led to a focus on physical issues like stock routes, water, veterinary and market infrastructure. Though these are important, the tremendous role played by local traders in organising, financing and managing the complex trading chains that get animals to export markets has seldom been acknowledged, nor has their potential been enhanced through enabling actions by governments. The dynamics of pastoral livestock trading systems have rarely been examined, while the financial and economic incentives for pastoralists to adopt new marketing arrangements have often just been assumed.

And yet economic growth is one of the most urgent issues for Somali Region. The base of the economy is livestock and commodity trade. The ancient trading system has proved its resilience and its capability to supply, but also its conservatism. Accessing new markets, improving the quality of livestock products and adding value and services means modernisation: reducing inefficiencies in the system and making investments to expand its reach. Growth requires action from the public and private sector alike. It calls for an easing of the barriers of bureaucracy and tradition in an effort by both traders and the state to add quality and value, and open up new arenas for investment.

Traders and producers must adapt to a fast-globalising world where sources of supply can quickly change along with consumer tastes. New markets need to be found to meet the considerable capacity of pastoralists to supply. To make the trade more efficient, the systems of insurance and finance need to open up and modernise.

Government and development agencies should also take a fresh look at the role of the risk-taking entrepreneur. State recognition and support of the trade would improve trader relations with export markets, trader co-operation with the state and improve efficiency within the market. A legal framework that formalised the existing traditional and informal trading practices would enable traders to maximise opportunities, including responding to demand and expanding the range and quantity of private sector investment into a diversified economy.

Efficiency can be achieved if the state lifts constraints, rationalises its incentive systems and builds infrastructure, while the private sector creates added value by building on the dynamic and adaptive elements of this economy. By working in harmony rather than at cross-purposes, traders and the state have the potential to develop and grow an already significant economy.

The UN OCHA-PCI research report, 'Risk Taking for a Living: Trade and Marketing in Somali Region, Ethiopia', by Abdi Umar with Bob Baulch is available from:

UN OCHA Pastoralist Communication Initiative
4th Floor, Old ECA Building, Addis Ababa, Ethiopia
info@unocha-pci.org
+251 (0) 115 444420

Or you can download a copy from www.pastoralists.org