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Research Application Summary

Missing the state: Assessing opportunities and constraints of the absent role of state institutions in Somaliland's livestock export

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Abstract

Livestock trade has remained a key economic activity in northern Somalia with Somaliland exporting live animals to the Arabian Peninsula for centuries. However, many constraints to the livestock export trade emerged following the fall of the Somali central government in 1991. Based on in-depth interviews and participant observations, our findings show that unlike the regional (Horn of Africa) trade operations, Somaliland's livestock exports overseas have to meet strict health requirements and consumer expectations. The existing informal institutions are not able to enforce the livestock export health requirements. State institutions and international livestock trade and health regulatory bodies are important in enforcing such health standards and sanitary requirements, which does not exist in Somaliland. The lack of recognition of Somaliland Government has limited the role of the State to directly control trade and export of livestock, immensely contributing to the constraints facing livestock export. Somaliland's biggest livestock export trade partner has been Saudi Arabia, however, there is no formal trade relationship between the two countries. The present livestock export arrangement is based on private trade relations between Somaliland and Saudi traders. Privatization of the animal export operations was done to help in this situation, however, it did not give a lasting solution to the constraints faced by Somaliland's livestock export. Instead, privatization introduced new constraints.

Key words: Livestock trade, privatization, regulations, Saudi Arabia, Somaliland, Somalia, State institutions, quarantine stations

Résumé

Le commerce du bétail est resté une activité économique clé dans le nord de la Somalie, le Somaliland exportant des animaux vivants vers la cote arabique péninsulaire depuis des siècles. Cependant, de nombreuses contraintes au commerce d'exportation du bétail sont apparues à la suite de la chute du gouvernement central somalien en 1991. Sur la base d'entretiens approfondis et des observations des participants, nos résultats montrent que contrairement aux opérations commerciales régionales dans la Corne de l'Afrique, les exportations de bétail du Somaliland à l'étranger doivent répondre à des exigences sanitaires strictes et aux attentes des consommateurs. Les institutions informelles existantes ne sont pas en mesure de faire appliquer ces exigences sanitaires. Les institutions étatiques et les organismes internationaux de réglementation du commerce et de la santé du bétail jouent un rôle important dans l'application de ces normes et exigences sanitaires, qui n'existent pas au Somaliland. La non-reconnaissance du gouvernement du Somaliland a limité le rôle de l'État de contrôler directement le commerce et l'exportation du bétail, contribuant énormément aux contraintes auxquelles les exportations de bétail sont confrontées. L'Arabie saoudite est le principal partenaire commercial du Somaliland pour les exportations de bétail, mais il n'existe pas de relations commerciales officielles entre les deux pays. L'accord actuel d'exportation de bétail est basé sur les relations commerciales privées entre le Somaliland et les commerçants saoudiens. La privatisation des opérations d'exportation d'animaux a été faite pour aider dans cette situation, mais elle n'a pas apporté de solution durable aux contraintes auxquelles se heurtent les exportations de bétail du Somaliland. Au contraire, la privatisation a induit de nouvelles contraintes.

Mots clés: Commerce du bétail, privatisation, réglementations, Arabie saoudite, Somaliland, Somalie, institutions étatiques, stations de quarantaine

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Introduction

Somaliland, a de facto state in the northern Somalia since 1991, has been exporting cattle, goats, sheep and camels to the Arabian Peninsula for centuries. After trade interruption caused by the Somali civil war in 1988, Somaliland livestock export resumed in 1991 (Gaani, 2002). Post-war Somali economy, especially the livestock trade, has caught attention of researchers and practitioners, mainly due to its 'resilience' and 'adaptability' to the absence of central government institutions (Mubarak, 1997; Little, 2003). However, there are divergent views on the appropriateness of livestock trade free from State interventions. Some authors argue that livestock trade in the Somali regions is effective under limited state interventions while other authors argue that private sector free from government regulations is the root cause of economic challenges that faced Somalia after 1991 (Samatar, 1987; Jamal, 1988; Mubarak, 1997; Little, 2003; Nenova; 2004; Leeson, 2007). Policy makers, practitioners and academicians disagree on the effectiveness of livestock trade free from government controls/interventions. The proponents of this argument cite that the absence of 'monopolistic' and 'bureaucratic' State institutions increase market efficiency (Little, 2003; Leeson, 2007), while the opponents argue that markets not regulated by the State produce 'capitalist' traders who monopolise the markets for wealth accumulation and who fail to improve the livestock economy which render livestock markets to be less efficient (Nenova, 2004; Samatar, 1987).This paper contributes to this scholarly discourse by analysing how absence or limited State intervention affects Somaliland's livestock export market.

Since 1991, livestock markets in Somaliland have been largely unregulated by the State institutions. There has been no (or minimal) government interventions. Livestock marketing, quality controls, livestock health and livestock finances have been left to the private sector. In Somalia, unregulated livestock trade started in the final few years of the Siad Barre Government between 1980s and 1990. During this period, livestock export marketing was organized by traders as there was no livestock export marketing board (Jamal, 1988). Requirement of the Government was for the traders to report the quantity of exports and use Somalia Commercial Bank that offered official exchange rates with some Government controls (Jamal, 1988). However, the official exchange rates were lower than the market rates and as a result, the livestock traders invented the 'farqiya' arrangement. Under farqiya, the Somali livestock exporters evaded government sanctions by negotiating with the importers from Saudi Arabia to retain a given percentage of the livestock sales, which they paid directly to the Somali exporters, outside the official financial bank system (Samatar *et al.,* 1988). After the fall of the central Government, there was a dramatic rise in volumes of livestock export from Somalia (Little, 2003). For example, after the war, Somalia's livestock export accounted for 60% of all livestock exports from East Africa (Leeson, 2007) while volume of livestock export from Somaliland's port of Berbera to the Arabian Peninsula exceeded pre-war levels (Little, 2003).

Considering the controversies and inconsistencies on livestock trade free from State regulations in the Horn of Africa, this study contributes to this academic discourse by focusing on export livestock trade in the Berbera corridor. The study aimed to answer the question of what opportunities and constraints came with absence of State institutions and interventions in Somaliland's overseas livestock export after 1991. This information is important to understand livestock trade in the absence of State regulations. The findings are also important to inform policy interventions in Somaliland to improve livestock export.

Study Methodology

The study conducted Rapid Market Appraisal (RMA) to obtain preliminary answers to the study questions. This is a useful method of data collection for understanding commodity opportunities and constraints within a short-time scale (Collison *et al.,* 2003). The study involved participant observations in three key secondary markets and 40 semi-structured key informant interviews with livestock exporters, traders, brokers, producers, veterinary professionals, market authorities, former livestock exporters and line ministries including Ministry of Livestock and Rural Development, Ministry of Commerce, Ministry of Finance and Chamber of Commerce. Participants were selected using both snowballing and purposive sampling techniques. Informants of livestock trade were purposively selected and then every participant was asked to recommend another informant. We carried out field data collection and participant observations in three main secondary markets (Hargeisa, Burao and Wajale) from March 18^{th} to April 15^{th}, 2018. Hargeisa and Burao markets specialize in the trade of small ruminants (goats and sheep) while Wajale market specializes in cattle trade. These were the three species of interest to the research being the most traded and exported species in Somaliland.

Data from interviews was transcribed, uploaded into NVIVO 11 software and then coded and arranged into patterns and themes. We cited research participants in the endnotes using identifiers such as their roles (exporter, health professional, trader, broker) without necessarily mentioning their actual names and titles.

Results and Discussions

Improved Land Transport. Transport of livestock has improved in Somaliland since the collapse of the central Government. This had been a result of privatization of transport sector, lower taxes and tariffs on motor vehicle importation, and reduced road taxes and levies on the road has become an incentive to trucks import. The respondents noted that there is no time in history pastoral areas had easy access to motor transport than at the present. Three types of trucks/lorries (all Nissan UD) which are locally known as candhomaydle, sideedboole and shaamboo, characterised by their capacity to transport different kinds and classes of animal has been introduced and operate in Somaliland pastoral areas (Table 1). Candhomaydle (Nissan UD 12 ton) is the largest truck and can transport 350-400 heads of small ruminants. Sideedboole (Nisssan UD 8 ton) which is the second largest transports 200-250 while Shaamboo (Nissan UD 6 ton) which is the smallest transports 150-200. The transporters used Cadhomaydle for cattle owing to their size and mostly in transporting large numbers of small ruminants for high economic returns. These trucks replaced the Isuzu, UD and Nissan trucks (all 6 ton) which were locally known as siise/siisow, shaarubo adde and sabaax, respectively. Before the war trucks were imported by exclusive agents, however, after the war, everyone can import trucks.

Table 1. Types of trucks used for animal transport based on capacity of livestock species

Local lorry name	Small-weight ruminants (heads)	Large-weight ruminants (heads)	Cattle (heads)
Candhomaydle	400	350	30
Sideedboole	250	200	-
Shaamboo	200	150	-

Source: authors' primary data (KII)

The type of lorry used for livestock trucking depends on several factors such as the herd size, availability, affordability, location accessibility and distance. For example, larger lorries (candhomaydle and sideedboole) transport small ruminants from remote areas such as Beletweyne[1] and Galkacayo[2] towns of Somalia and Qabridahare[3] and Goday[4] towns of the Somali region of Ethiopia.[1] Mainly, it is the bigger livestock traders (agents of exporters and collectors/jeeble) who transport livestock from the remote areas since they buy larger herd size and can meet the long-distance transport costs. The pastoral producers mostly used the smaller lorries (shammabo), due to affordability and convenience of availability.

Improved transport system has become integrated into the pastoral social capital and economies. The pastoralists meet transport operators (drivers/owners) at the nearby villages and then send their livestock with the transport operators who coordinate with brokers in the secondary markets to sell the livestock. Transport operators scaled up their services since 1990s, they provide more than livestock transport services. They volunteer to buy all the items pastoralists may need from the towns, after delivery of livestock to the secondary markets, at no extra fees for the additional service to their clients. Sometimes, transport operators buy varied items for over 80 pastoral households who sent their livestock with them and only charge return transport costs for the items more than 5 kilograms. This has built confidence and trust with their clients while reducing transaction cost for producers. Before introduction of motor transport for livestock in the 1970s, livestock was trekked to the secondary markets and the port of Berbera. The long trekking distance, which took several days in the hot temperature of the coast, took a heavy toll on livestock health and body condition (Samatar *et al.,* 1988).

Revival of informal credit system in livestock trade. The role of informal credit

[1]Capital of Hiiran region, Somalia
[2]Capital of Mudug region, Somalia
[3]Capital of Qoraxay region, Somali region of Ethiopia
[4]Capital of Shabeele region, Somali region of Ethiopia

system and the abaan system (protector in Somali) in livestock trade are well documented (Samatar *et al.,* 1988). In the 1970s, the Somali Government banking credit system started to complement the informal credit system in the livestock export trade (Samatar *et al.,* 1988). The informal credit system was rejuvenated after the collapse of banks in 1991. Our findings show that cashless trade system has become a common practice in Somaliland since early 1990s.

In the absence of capital after the war, the exporters bought livestock on credit from brokers and traders (jeeble) who in turn bought goods for the producers on credit from food stores and settled payments once the livestock is sold in the end markets and money paid by the Arab traders, who also bought livestock from Somali traders on credit. Creditors in the value chain system waited for their money for months, sometimes years. From producer, transporter, broker, trader and exporter, the system was based on kinship linkages and trust. If the Arab trader failed to pay the money, which frequently happened before 2009 in both Saudi Arabia and Yemen, the Somali exporters auctioned their assets to clear the debt; this was important for them to stay in the trade and their credibility to remain intact. Surprisingly, it was common that if the exporter was credible but at the same time did not have assets to sell, no one was asked to pay anything. However, in this transaction arrangement, the loser was the food store-owner. Producers were the least affected since they took food items on credit from the stores, while the exporter lost livestock he took on credit, which he was not expected to pay if he was not paid. This cost came with informal arrangements in the livestock trade.

Return of cash system in the livestock trade. After 1991, the State financial system collapsed. The Somali Commercial Bank facilitated livestock export through Letter of Credit (LC) system and provided advance money to the livestock exporters. Livestock traders invented arrangements that replaced the services provided by the State financial system. During the period 1991 to 1994, the livestock trade hugely depended on informal credit system. From 1994 to 1998, the informal credit system was replaced by barter trade, major traders imported consumer goods which they exchanged for livestock from producers and traders. From 2000 to 2009 Saudi Arabia ban of livestock from Somalia (including Somaliland) interrupted the livestock export. The involvement of Saleebaan Al-Jabiri, a Saudi investor/exporter, in the livestock trade since 2009, reintroduced cash into the trade. Al- Jabiri who has since become the largest exporter, buys livestock with cash which has greatly reduced the credit-based system and eliminated the barter trade. This presented a new opportunity for the producers and traders who for the first time since 1990s were paid cash for all their livestock. Despite the low prices for livestock when paid in cash than when buying on credit, the producers prefer the cash system.

Unconventional livestock export. Before the implosion of Somalia's central Government, livestock export was regulated by the State. Letters of Credit (LCs) were used to export livestock to the Arabian Peninsula countries. No livestock was exported without first securing an order from an importer. Through LCs, the Government controlled livestock supply. After the collapse of the Somali central Government, the use of LC to export livestock ceased, traders exported livestock without order and prices of livestock were negotiated when livestock arrived at the end markets or sometimes the Arab traders decided the price unilaterally. While the Somali traders accepted the price offered by the Arab partners, sometimes it was lower than the price of livestock to the Somali trader. This new marketing strategy devalued the livestock and increased livestock 'dumping'- oversupply of livestock in the end markets. Gaani (2002) stated that Somali livestock dumping in the end markets destroyed livestock markets, which harmed Somali livestock trade and a backlash from other livestock exporting countries.

Arab traders in the end-markets, at times, colluded to not negotiate with Somali traders, which was a tactic to lower the price of livestock. Keeping livestock in the end markets to speculate better prices was costly to Somali exporters. One exporter stated that, "knowing that we have to pay for the holding pen, hay, treatment and other expenses while waiting for a potential buyer, the potential Arab buyers made arrangements among themselves, and agreed not to negotiate with us, they knew we would reach a point to sell the livestock at throwaway prices, and this is when they buy our livestock". In the absence of state controls and malpractices in the end markets, Somaliland livestock exporters lost negotiation powers in the end markets since 1991.

Privatization of quarantine stations. Somali Livestock Development Agency (LDA) controlled the livestock veterinary services, including Berbera quarantine facilities, before the war. The institution and its services collapsed during the war and since then, the veterinary services fell into private hands. However, the importing countries imposed protracted bans which crippled Somaliland's export economy (Holleman, 2002). To find a solution to the problem, Somaliland allowed a Saudi investor, Al-jabiri, to invest in a modern quarantine station in Berbera and as such, he become the sole exporter of livestock to Saudi Arabia (Eid, 2014).

The privatization of quarantine stations introduced new dynamics into livestock export. Al-jabiri recruited two former Somaliland livestock exporters namely Adan Baradho and Ali Waraabe to be his agents. The rest of the Somaliland livestock exporters had to supply livestock to Al-jabiri. Those who insisted to export, still had to use Berbera Saudi-Emirate quarantine facilities (locally known as Al-jabiri). Livestock exporters resisted this monopoly and in October 2010, a second Saudi investor, Al-yassir, opened up a Berbera International quarantine station (locally known as Al-yaasir or Indho Deeor). Then a third quarantine station, Berbera United Quarantine (locally known as iska caabinta in Somali-resisters) came up.

The establishment of private quarantine stations introduced new constraints into the livestock trade. Despite the establishment of three quarantine stations, Al-jabiri maintained a monopoly position in the market, and exported 60-80% of livestock to Saudi Arabia. Even though Al-jabiri reintroduced cash into the livestock trade, he significantly reduced livestock prices and emphasized to buy livestock on grades. -Somali exporters were flexible with the livestock grading and as a result more livestock qualified for better grades which attracted an average price of up to 80 USD per head of cattle. A livestock trader stated; "Al-jabiri buys livestock with cash, however, since he is the main exporter who has cash and everyone wants cash, he reduced the price of livestock. Unlike the Somali traders who bought on credit, Al-jabiri emphasizes livestock grading and since it was only few animals that qualified for grade one, bulk of the livestock fell in grade two and three whose prices ranged from 50-65 USD."

Competition in the livestock export: From oligopoly to monopoly. The privatization of quarantine stations reduced competition between livestock exporters. Before privatization, 4-5 Somali exporters of small ruminants competed in the market and restricted market entry (Nenova, 2002). After the privatization, Al-jabiri investor/exporter had a monopoly on livestock export to Saudi Arabia. After one year, a second Saudi investor/exporter, Al-yassir, got export license and competed with Al-jabiri in the market. However, Al-yassir who also has quarantine station in Djibouti has not entered the market since 2015 following loss of credibility after he delayed to pay his creditors. As one would expect, livestock prices were good when there was competition in the market. A livestock broker said, *"Al-jabiri and Al-yassir competed on price, Al-yassir always increased the price of livestock and bought quality animals. Then, Al-jabiri also increased. This competition was good for the market. In the last two years, Al-yassir did not enter the market and price of livestock was not good"*.

There used to be a huge and competitive cattle export market in Wajale market before 2015, However, the market has been lost since the Yemeni civil war which started in 2015. The number of exporters in Wajale market reduced to about 2-3 who mainly export cattle to Oman. The exporters have made an arrangement that each day one of them enters the market, and they take turns so that they do not compete on price. This is a tactic used to reduce cattle prices.

Through participant observation, we came to know that the arrangement works in the following way. Cattle market starts as early as 5:00 am. Most of the cattle are brought from far places by trecking while a few are transported by vehicles to the market. Within an hour the market will be awash with cattle, traders, brokers and trekkers. The exporter whose turn has come will send several brokers who will negotiate with other brokers, representing the traders, using their fingers covered with turban, a code language Somalis use to negotiate prices on livestock. If the sale does not happen, the trader has to return the cattle. This is costly to the trader. He has to pay for the pen, water, trekker and hay which reduces his profit margins. Knowing that returning livestock will reduce his profit margins and the market situation will not change as another sole buyer will come the following day, the trader has to sell the livestock at a lower price. If the trader returns the cattle first day, he/she cannot return the second day due to the cost of keeping the cattle while the price remains uncertain.

High cost of quarantine requirements. Private quarantine stations are costly in Somaliland. Since 2009, Saudi Arabia has the requirement for animal screening and blood test within the quarantine before export. The Saudi requirement is a standard livestock incubation period of 11-21 days, depending on the disease, and blood test every animal within the quarantine, as opposed to randomized test. These requirements are costly to both livestock exporters and quarantine investors. Livestock exporters are responsible for the water, hay and welfare of livestock during the entire value chain, including quarantine/incubation period, while the quarantine management has resource constraints of space, veterinary professionals and medical equipment. The Saudi Arabia requirements reduces the profit margins of livestock exporters/investors. In the absence of State institutions that strictly monitor and enforce sanitary requirements, the quarantine management and livestock traders compromise the requirements. This contributes to the increased rejections and bans on livestock trade. However, most respondents speculated that the Saudi Arabia rejection was based on other reasons, and most likely political and economic.

Strict sanitary requirements in the end markets. Once livestock shipments arrive at the port of Jeddah, the main livestock import port in Saudi Arabia, veterinary professionals conduct inspection before unloading the livestock. Based on the inspection results, a decision is made on whether to allow or reject the shipment. For the latter decision, the rejection letter is provided listing the disease leading to the decision. Research participants believed that Saudi livestock rejection and ban are not fair. Veterinary professionals explained that the rejection decision is mostly based on harmless/minor wounds or disease that is not included in the Saudi animal import inspection requirements. Saudi Arabia banned Somaliland livestock export since December, 2016, for the third time since 1998 while rejection of livestock shipments increased after the privatization of the quarantine stations. More than seven livestock shipment rejections were reported in 2011 alone, despite one of the main quarantine stations in Berbera having certified the animal health before export. Rejections are very costly to livestock exporters and lead to the death of higher number of livestock. An estimate of 20-30% of small ruminants and 10% of camel die after shipment rejection due to stress, poor feeding and congested shipment according to livestock exporters.

Absence of bilateral ties to coordinate export livestock requirements. There has not been any official relationship between Somaliland and Saudi Arabia, main export trade partner, since 1991. This has negatively affected livestock export. For example, when Saudi Arabia imposed a ban or rejects livestock, it does not directly communicate to the Somaliland authorities. In the case of a ban, Saudi authorities communicate the decision to the Arab investors who in turn communicate to their Somali partners and the ban news reaches Somaliland Government through the traders. Similarly, in the absence of formal relations, Somaliland does not share complaints on livestock rejections and bans to Saudi authorities. In addition, due to its political status, Somaliland is not a member of the international livestock trade and health regulatory bodies such as the World Trade Organization (WTO) and World Organization for Animal Health (OIE). This has created information gaps on livestock health standards and absence of internationally sanctioned health audits for livestock export.

Conclusion

Livestock trading and exports in Somaliland are mostly governed outside State controls. Livestock trade, largely unregulated by State institutions, has made some gains such as increase in livestock export and improved land transport. However, numerous limitations have emerged which constrain Somaliland's livestock export. The main limitation is that the private actors who control the markets lack the collective action to enforce trade regulations, such as health standards, sanctioned by the import countries along the entire value chain. This is the most turbulent time in the history of Somaliland's livestock export.

Such turbulence becomes real and relevant in Somaliland's overseas livestock export. Unlike the local/regional trade, the overseas trade is confronted by strict State regulations, controlled borders and overseas consumers who demand safe products. There is need for livestock trade/ exporters to meet both local regulating authorities' requirements and the requirements of international regulatory bodies. Somaliland's Livestock export free from State regulations has failed to meet such requirements since 1991 when trade bans and rejections overturned the success documented in this period. The role of the Government to regulate animal health, promote and protect livestock export through State-to-State agreements and enforce policies that are in line with the requirements of the import countries and the international livestock trade regulatory bodies is paramount and urgent.

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