

Options for Ethiopia’s Cross Border Trade and Corridor Development

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I. Background

Cross-border trade (CBT) plays a vital role in improving the livelihoods of Ethiopians living in border areas. CBT is a source of income and employment for a large number of people. It allows border communities, predominantly pastoralists, to have access to basic consumer goods and increases food security. It also often fosters peaceful social relations and cultural understanding among trading communities along the borders.

With its growing economy and as one of the largest land-locked countries in the world, Ethiopia in recent years has shown a strong interest in developing long-distance trading and transport corridors. Indeed, the country has invested heavily in multiple projects that connect the country to its neighbors via road, rail, air, telecommunications and power lines. As the country’s economy has expanded over recent years so has its ambition to diversify its trade outlets to the sea, which at the moment largely depend on the Port of Djibouti. The Ethiopian government’s decision in 2016 to invest in the development of the Berbera Port, signing an agreement with Somaliland and multinational ports operator called DP World and thereby ensuring a 19% stake in it, is a part of these ambitions. By investing in trade corridors, the Ethiopian government also hopes to gain more control over the lucrative livestock trade in the Arab Peninsula by making it more formalized. Much of the livestock exported by Somaliland and Djibouti to the Middle Eastern countries are sourced from Ethiopia. However, the

livestock trade on the Ethiopian side remains largely informal.

Developing CBT corridors has implications for the local communities and traders doing business in the already established trade corridors, which tend to be characterized by ethnic and trans-ethnic networks, official and unofficial authorities and formal and informal norms. On the one hand, the development of trade corridors promises the integration of formerly remote and marginalized border regions with political and economic centres. On the other, however, corridor development risks privileging big business and political interests that bypass small-scale local traders and political actors. This policy brief considers the implications of corridor development for CBT with a particular focus on the Berbera trade corridor based on the recent empirical studies presented at a policy workshop jointly organized by the Governing Economic Hubs and Flows in Somali East Africa (GOVSEA) Research Programme and the Forum for Social Studies (FSS) on October 12, 2017.¹

II. Key features of formal and informal cross-border trade

While much of Ethiopia’s CBT is informal, some formal CBT does take place. Formal cross-border trade consists of trade in goods or services carried out by legally registered traders who fulfil all legal requirements of the trading countries involved. Formal

¹The GOVSEA research programme is funded by Danish Development Cooperation (DANIDA). The papers that were presented at the workshop and used to develop this policy brief include “*Volumes, legal developments and policy issues in cross-border trade*” (by Habtamu Hailemeskel), “*Formalization of livestock export in Eastern Ethiopia*” (by Abdurahman Eid) and a moderated panel on the theme “*Making Trade Corridors Work in the Horn of Africa*”.

CBT is undertaken in US dollars with letters of credit and is regulated by the governments of the trading countries and revenue is extracted from the traded goods. According to the data from the National Bank of Ethiopia, formal cross-border export trade to neighbouring countries Kenya, Djibouti and Somalia (including self-declared independent states like Somaliland) between 2010 and 2017 was about 2.7 billion USD. Formally exported commodities were dominated by fruit and vegetables (65%), followed by live animals (25.56%) and *khat* (6.28%). More than 90% of Ethiopia's formally exported goods go to Somalia.

In contrast to formal cross-border trade, informal CBT is movement of goods in which all or part of the trading activity is unrecorded or unrecognized by the government, and without adherence to procedural requirements of all formal institutions. Volumes and values of informal cross-border import and export can be gauged by examining seized contraband items. According to the Ethiopia Revenues and Customs Authority (ERCA), the total value of seized export contraband from Ethiopia in 2014/2015 was 2.01 million USD, while in 2016/17 it reached 6.7 million USD. The Berbera corridor is one of the most important corridors for export contraband, with significant amounts of contraband passing through Jigjiga where live animals, cereals and *khat* dominate the export contraband. In 2014/15, the total value of seized contraband import to Ethiopia was USD 20.9 and it reached to 36.2 million USD in 2016/17. Again, the Berbera corridor is an important gateway for informal imports from the Somaliland into the Ethiopian hinterland, import dominated by clothes, electronics and foodstuffs.

Actual amounts of informal trade are much higher than the estimates provided by seized contraband figures. This is explained by the extensiveness and porosity of Ethiopia's national borders and authorities' limited capacities to control all informally traded goods. This is particularly the case when it comes to the movement of livestock across borders. Indeed, a large amount of Ethiopian livestock is exported via the country's Somali region outside of state regulation facilitated by the extensive social networks governing livestock trade as well as the enduring economic and political marginalization of border regions like Ethiopia's Somali region. The highly bureaucratic nature of the Ethiopian trading system renders formal trade time-consuming as well as costly; thus, many traders prefer to engage in informal trading.

The Government of Ethiopia has increasingly moved towards formalizing livestock CBT; and among the measures taken to promote formal trade is the establishment of quarantine services. In 2010, the

federal government began the construction of a quarantine centre in Jigjiga, though the centre still remains unfinished. Other policies have focused on weakening informal trade, particularly the lucrative livestock export trade. In 2010, for example, the government expanded the number of official custom points in the Somali Regional State. Accordingly, five new customs points were established at Togwajalle, Harshin, Hartasheikh, Daror and Gashamo intended to encourage traders to use formal channels. However, due to lack of capacity they largely became facilities to police and control livestock leaving Ethiopia for Somaliland. The posts' policing capacities, furthermore, proved limited for a number of reasons including limited capacity and technology. In particular, pastoralists' seasonal migration found to be difficult for customs authorities to differentiate between import/export activity and seasonal mobility. Although the authorities established that export stock could be recognized by a high number of male animals, traders rent female animals from locals as they crossed the border so as to disguise their herds as seasonal migration.

The Government of Ethiopia further sought to discourage informal livestock export by imposing a ban on the trading of fodder in the border zone beyond Jigjiga town. This was ostensibly a means to curb the activities of large-scale traders exporting livestock informally. However, resourceful traders managed to overcome this challenge by using private grazing areas close to the border for the cultivation of fodder and by purchasing young crops from agro-pastoralists in the region.

While the aforementioned policies aimed at curbing larger-scale informal cross-border trade, the Ethiopian government has also turned its attention to the formalization of small-scale or petty cross-border trade with a motivation of allowing border communities to lawfully import and export a limited amount of basic commodities. This policy seeks to legitimize border communities' CBT, cognizant that border dwellers depend on CBT for basic commodities, which they are unable to access via domestic markets due to geographic remoteness and high transportation costs. Efforts at formalizing petty CBT culminated in the Petty Periphery Trade initiative, launched by the Ethiopian government in the 1994/5 fiscal year. Directives pertaining to trade between Ethiopia and neighbouring Kenya, Djibouti and Somalia/Somaliland specify the goods that can be duty-free traded, the maximum monthly value of import and export goods and the number of times a trader is allowed entry into the neighbouring country in question for trade purposes. For trade between Ethiopia and Kenya (Directive No. 4/1992), the

monthly value of import and export goods may not exceed ETB 20,000 (equivalent to 6,588.21 USD by the official exchange rate of 1992) and the traders were only allowed to import goods twice within a month. Similarly, in the border trade between Ethiopia and Somalia/Somaliland (Directive No. 1/1995), the monthly value of import and export goods cannot exceed ETB 10,000 (1623.37) and the traders were only allowed to import twice a month. Each directive determines the area within which licensed traders can lawfully participate in petty periphery trade, a measure that seeks to protect domestic markets by limiting the permeation of imported goods into interior parts of the country. Traders are required to have a license, which must be renewed annually.

In spite of the issuance of the policy framework for petty cross border trading, in most cases the scheme has not actually been implemented. This is due to a number of challenges surrounding the policy. Firstly, the limit on the value of goods to be imported and exported is very restrictive and has not been adjusted to inflation and the devaluation of the Ethiopian Birr against the US Dollar. Furthermore, the lists of commodities stated in the directives are outdated. They do not reflect the items that are relevant to border communities' needs. Thus, licensed traders have little incentive to participate in formalized petty trade and cannot compete with the prices fetched through illegal petty trade. Moreover, the number of times traders are permitted to cross the border is very limited. The ineffectiveness of the Petty Periphery Trade initiative works to the detriment of local border communities and small-scale traders. The ineffectiveness of the Petty Periphery Trade initiative works to the detriment of local border communities and small-scale traders, in particular as other policies such as the aforementioned increase in customs points and ban on fodder trade seek to police informal trade.

III. Developing cross-border trade corridors: Key challenges

Ethiopia's interest in formalizing CBT should be viewed in the context of a broader drive towards developing existing cross-border trade corridors and trade outlets to the sea. Effective trade corridors are supported by hardware, namely infrastructure; software, such as services and agreements; and institutional frameworks. The majority of states' investments in corridors development focus on hardware such as ports, roads, railways, weigh bridges and border posts. Other investments are channelled towards software such as the introduction of quality and safety standards; services (such as quarantine services), cargo-tracking and warehousing; and customs/transit agreements. The institutional framework refers to an international agreement through which a cross-border trade corridor

is managed. Many functioning trade corridors do not operate with such a framework in place but rather through self-managing interdependent institutions.

Ethiopia faces a number of challenges with regard to the development of its cross-border trade corridors that range from larger scale regional politics to the issue of CBT, namely the position of border communities and smaller-scale traders vis-à-vis corridors.

First, there are obstacles pertaining to wider geo-political dynamics and trade diplomacy. State investments in CBT corridors are often intertwined with other political agendas. Ethiopia's signing of the agreement on the Berbera Port with DP World was followed by the UAE establishing a military base in Berbera. This was part of a strategic move vis-à-vis the UAE's involvement in the ongoing conflict in Yemen, which is also linked to the dispute between Iran and the Saudi Alliance. The formal development of cross-border trade corridors, thus, ties participating countries into wider regional politics that stretch beyond the Horn of Africa. The development of the Berbera corridor is intertwined with the militarization of the Horn of Africa, which could potentially have destabilizing effects on the region. Somalia's federal government in Mogadishu is concerned about UAE investments in *de facto* independent states of Somaliland and Puntland, precipitating tensions between Mogadishu, Hargeisa and Garowe.

Second, national trade corridor development can also generate local tensions between national governments and municipal authorities. National governments often fail to include or consult with municipal authorities in corridor development. As a result, local authorities have little incentive to comply with national strategies or collect revenue on behalf of national governments. For example, having initially had control over the port business authority, the Berbera municipality is increasingly sidelined as control over the port moves to Hargeisa and DP World. Such local political issues negatively affect national negotiations over key corridor infrastructure.

A third challenge pertains to the impact of the development of trade corridor on the local actors. A major critique of trade corridors is that they primarily serve dominant interests, so that it is the powerful players that set the terms and conditions of how corridors function. There is a risk that local communities and small-scale traders and entrepreneurs are bypassed or outcompeted by transit trade agreements. Lack of public knowledge about the Ethiopian government's intentions vis-à-vis investment in trade corridors further creates uncertainty among communities living in border regions of the implications of corridor development

for their livelihoods and futures. Lack of transparent communication about trade policy decisions that affect border communities only increases suspicion and mistrust, which risk generating conditions of insecurity around corridors.

A fourth challenge relates to the lack of quarantine services, as is evident in the case of the currently incomplete quarantine centre at Jigjiga. Lack of adequate quarantine services means that Ethiopian export livestock remains unprotected from restrictions and bans from key livestock-importing states.

The final key challenge relates to lack of data on cross-border trade. This data gap hinders the development of appropriate services to facilitate and manage trade and ensure that local actors do not lose out in trade and customs agreements. Data collection which, for example, seeks to gauge numbers of livestock in a given region, tend to be contested, since they can be associated with budget allocations on the one hand and taxation of the goods concerned on the other.

IV. Policy Recommendations

Based on the insights discussed above, this brief makes the following policy recommendations regarding Ethiopia's policy towards its CBT corridors.

- The Government of Ethiopia (GoE) should be more forthcoming in terms of keeping the public informed about the country's role and investment in the Berbera corridor and port. This will ensure that traders are informed of the changes that these investments and infrastructures will bring about. Transparency on corridor development and engagement with the relevant stakeholders will help to mitigate suspicion and mistrust.
- The GoE, the Somaliland Government and DP World should ensure that municipal authorities have a stake in trade corridors, including vis-à-vis key infrastructure such as ports, roads, railways and customs posts. Moreover, it is important to consider ways that would ensure that small-scale traders and logistic/transport and other service providers participate in and benefit from the development of the Berbera corridor.

➤ The GoE should develop policies to support pastoralists living in border areas so that they are not harmed by formalization policies. These could include allowing free market access, providing information systems on livestock marketing, providing livestock insurance, and developing a livestock export framework that protects small-scale traders from large-scale entrepreneurs.

➤ Related to the above point, the GoE should update its Petty Periphery Trade policy so as to support small-scale traders and border communities. Specifically, the government should update the now outdated list of commodities that can be traded tax-free in border areas and the prices these commodities can fetch as well as reconsidering the monetary limit that is placed on petty traders which is currently overly restrictive. It should also consider increasing the number of times per month petty traders are permitted to enter a neighbouring country for purposes of trade. Finally, the government should prioritize the policy's implementation, investing in increasing the capacity of customs points, including with the appropriate technology, so that they are able to support formal trade rather than simply police informal trade.

➤ The GoE should prioritise the completion of the quarantine centre at Jigjiga and pursue accreditation with the Mille standard as with centres quarantining livestock destined for export via Djibouti. This will ensure that Ethiopian livestock formally exported via Berbera and Bosaso will be accepted by livestock-importing states.

➤ In order to address the challenge of lack of data on cross-border trade, the GoE should work with national and international partners to establish standardized national parameters regarding data on cross-border trade, how data will be collected and who the custodian of the data will be. Municipal authorities should also be informed of the how the data will be used so as to avoid speculation and data manipulation.

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