

Preliminary results

Cross border agricultural trade In Ethiopia:

Importance and its impact on the
domestic market

19 June 2008

Introduction

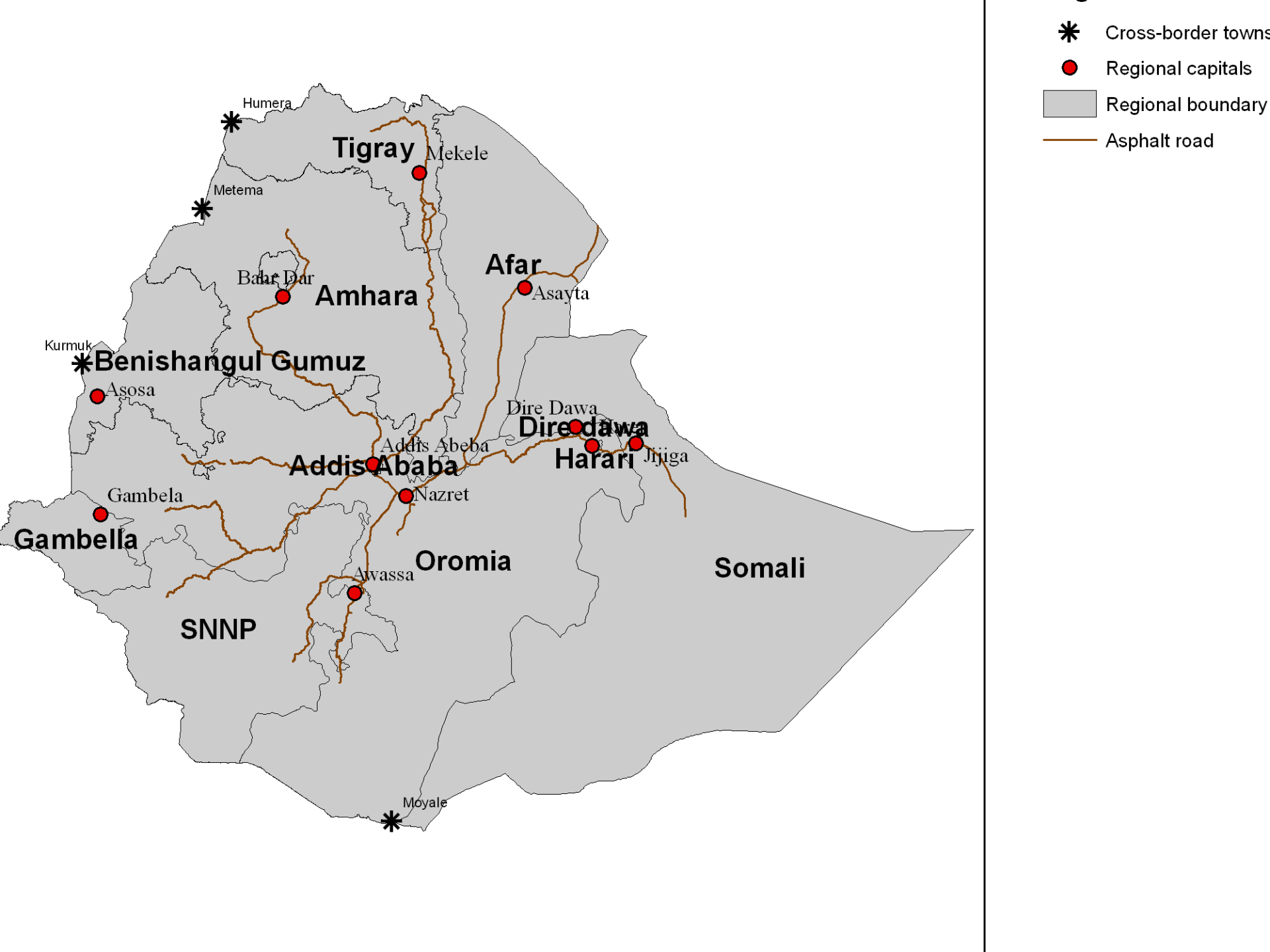
- This is part of the CAS study
- Despite good harvests, nominal prices of major cereals have been rising sharply since late 2005
- One of the reasons for the sharp increase is hypothesized to be increased cross border exports

Objectives

- Overall objective:
 - To document the importance of cross border cereal trade and its impact of the domestic market
- Specific objectives:
 - To characterize the cross border trade, market actors, and marketing channels for both legal and illegal
 - To analyze the trend in cross border trade of agricultural commodities with emphasis to cereals
 - To document the implications of the cross border trade on the domestic market

Methodology

- The method employed was Rapid Market Appraisal (RMA), where triangulation of info generation was used to improve the quality of the information
- Sources of information were:
 - Secondary data
 - Primary data from:
 - Experts (Bureaus of Agriculture and rural development, Customs)
 - Farmers, and
 - local traders
- RMA tools used:
 - Group discussion,
 - Discussion with key informants
 - Direct observation



Cross border issues in Ethiopia

- Cross border trade has been an issue with all neighboring countries, i.e. Sudan, Kenya, Somalia, Djibouti and Eritrea esp. in recent years
- The cross border trade both the legal and illegal has been different to the different neighboring countries depending upon the socio-political relations
- Since 2004 bilateral trade agreements with most of the neighboring started to function
 - For instance a bilateral agreement was signed between Ethiopia and Sudan in 2003 (proclamation No. 3/8/2003)

Policies and regulations in cross border trade

- The cross border trade is generally governed by two categories of regulations:
 - 1) Formal import-export rules and regulation (letter of credit arrangement)
 - Applies formal procedure of export and import
 - Legal status of exporters and importers
 - Frequent changes in rules and regulations e.g. export ban on cereals
 - 2) Small-scale cross border trade guideline of the Ministry of Trade and Industry (Franco-valuta arrangement)
 - Meant to benefit the people nearby the border villages and towns by increasing the availability of required goods and commodities
 - Limited to 90 km radius, the lists of tradable commodities and the capital ceiling 2000 birr

Policies and regulations in cross border trade (cont...)

- Serious government intervention in regulating the legal cross border trade and controlling illegal trade:
 - Increased number of Custom checkpoints (e.g. two checkpoints at Lugdi and Bereket along the Abderafi to Hamlyte border of Western Tigray)
 - Strengthened border patrolling
 - Strengthened formal trade with the neighboring countries
 - Cereal export ban

Cross border market actors

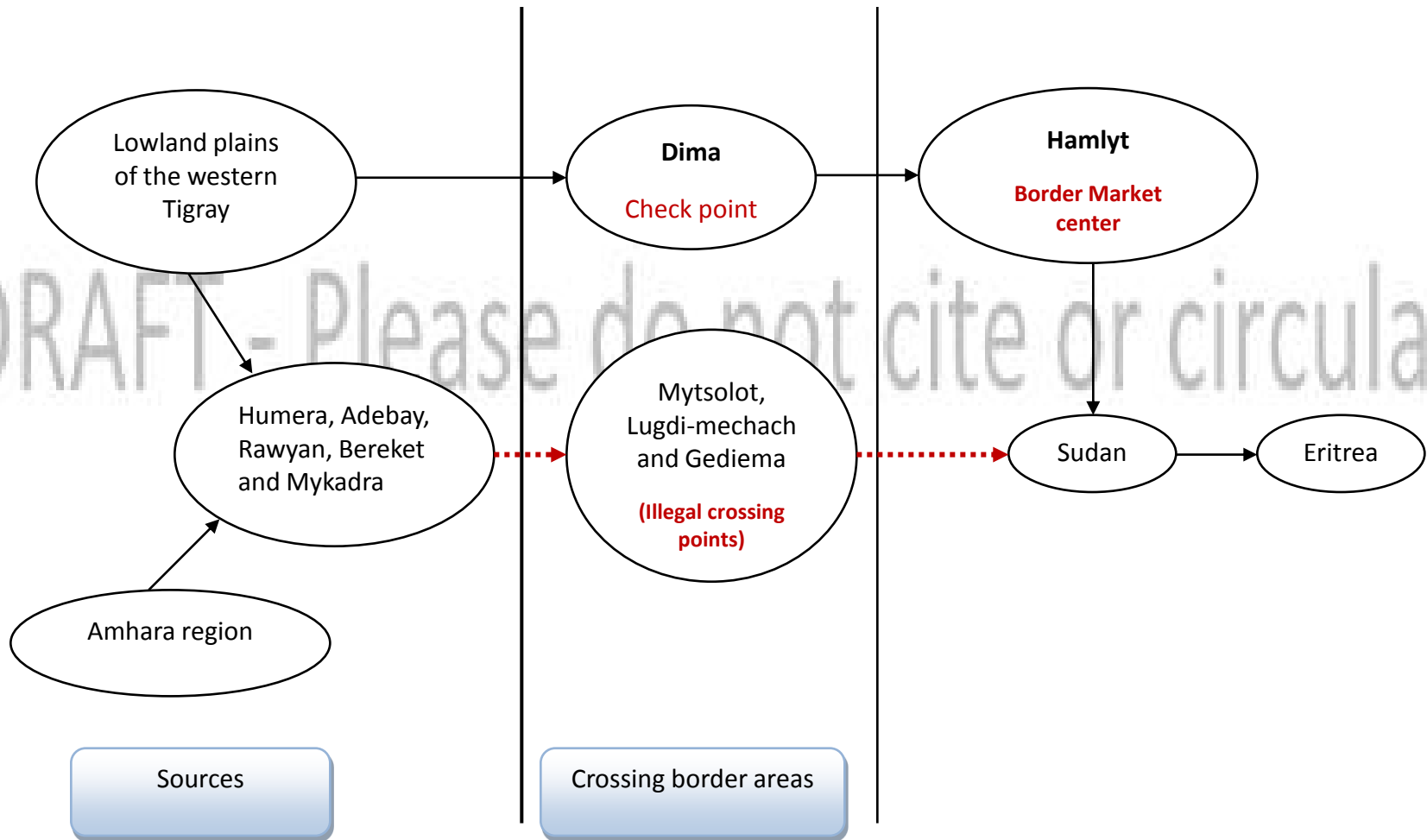
- **Market Actors:**

- **Primary sellers** (producers) in the weekly markets around the source
- **Local traders:** these are small traders who purchase the products from the producers and hand over to wholesalers, local retailer and consumers
- **Wholesalers:** these are mainly engaged in grain trade and they purchase the grains directly from producers and local traders
- **Exporters:** these are of two types:
 1. Small size import-export engaged in the border trade exporting grains as well as animals and importing consumables.
 2. large import/exporters who export grains and animal through the bank permit
- **Brokers/agents**
- **Other actors** such as transit express, the custom branch office, the office of agriculture and rural development, office of trade and industry and administrative bodies at different levels

Cross border market actors (Cont...)

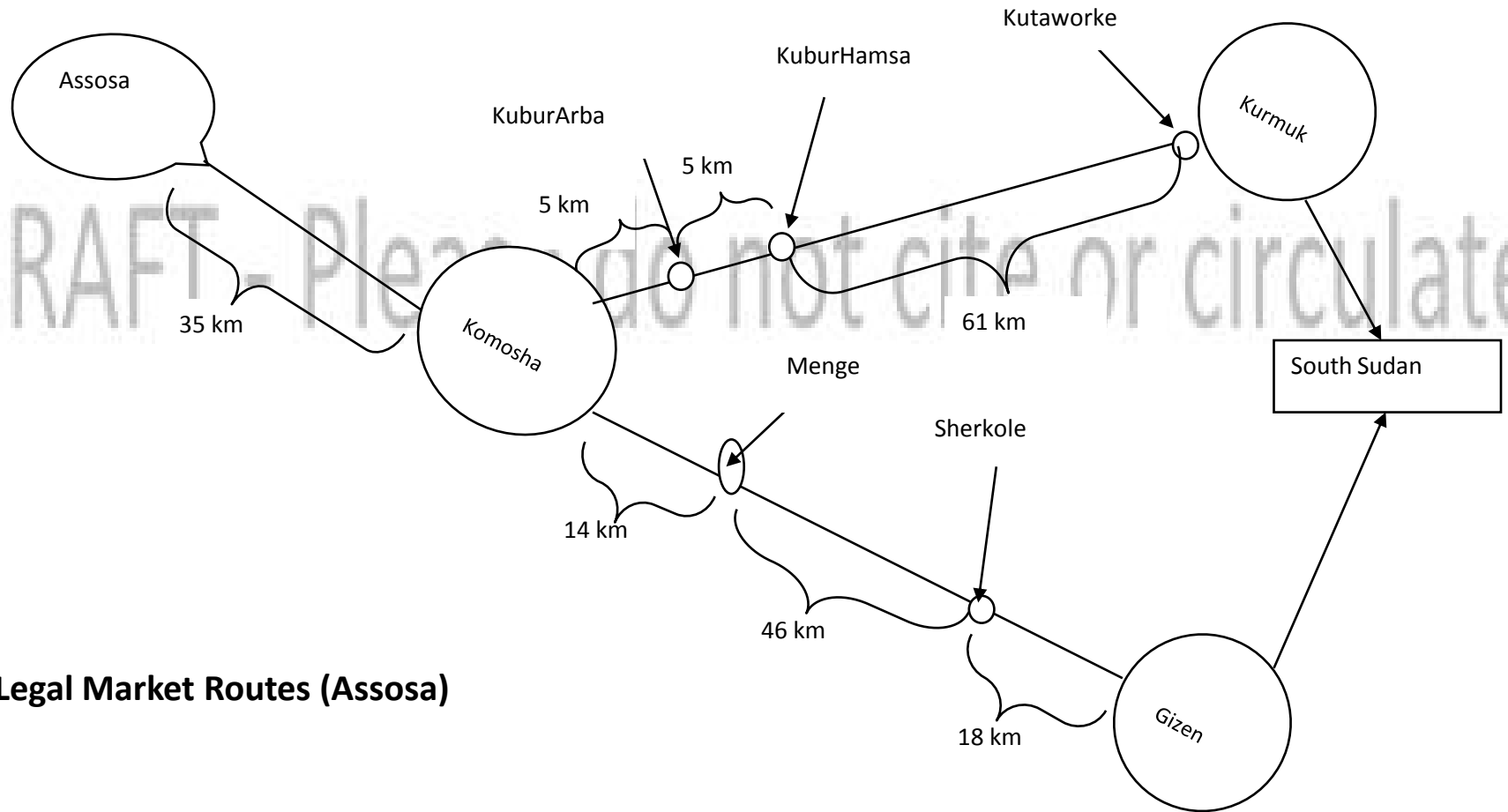
- In general, the main actors that undertake the cross border trade are:
 - Licensed small traders engaged in cross border trade legally (franco-valuta)
 - Licensed small traders rented out their licenses to other non licensed traders
 - Large traders engaged in import export via the Ethio–Sudan border legally.
 - Large import–export traders engaged in an illegal border trade by renting the border trade license from the small traders who have shortage of finance
 - Commercial farms nearby the cross-border areas using tractors and local knowledge (mainly in Humera area)

Cross border market routes

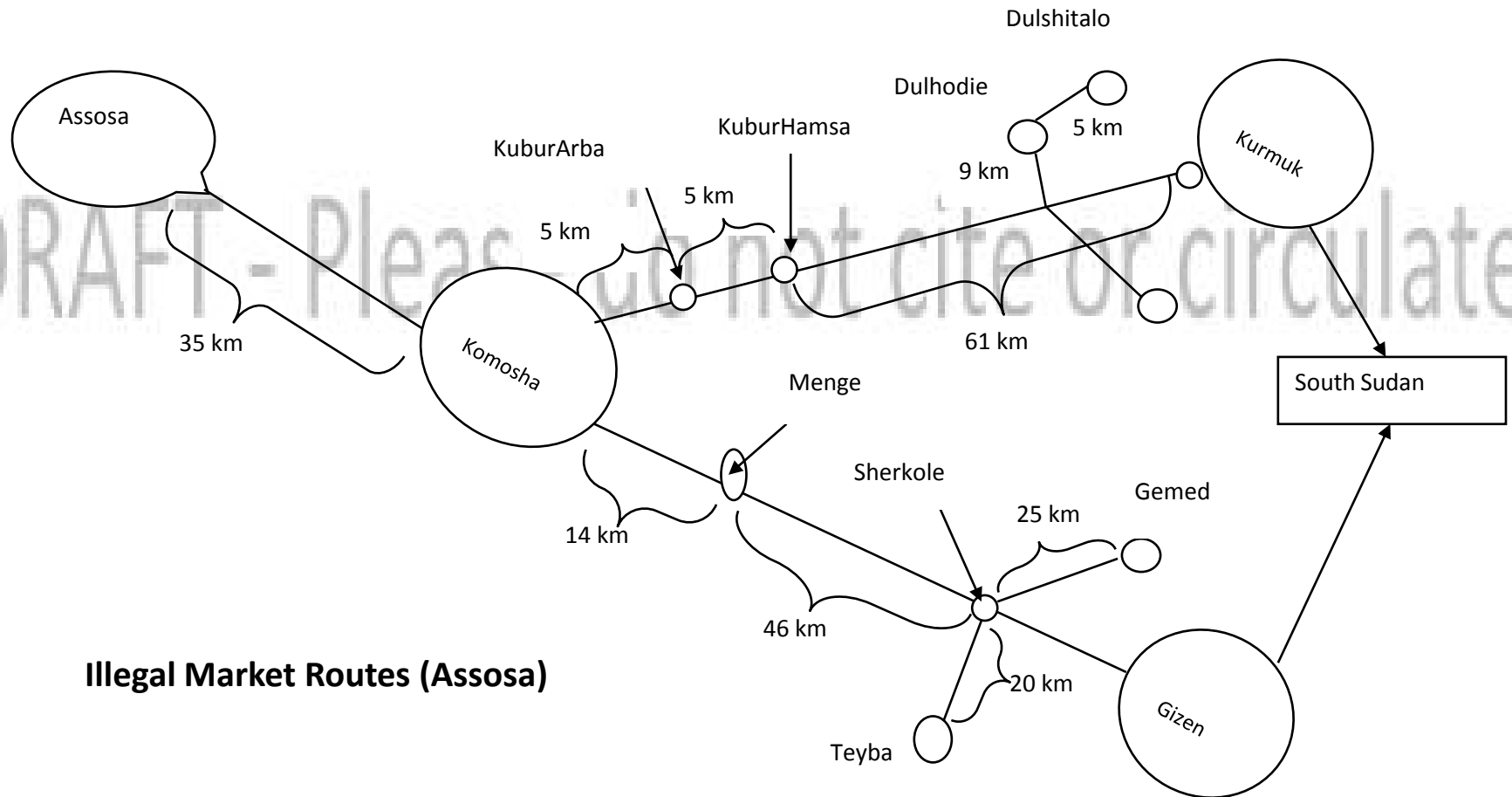


Cross border market routes (Western Tigray)

Cross border market routes



Cross border market routes



Trends in cross border trade

- Major agricultural commodities in the cross border trade:

	Category	Border area		
		Metema	Humera	Kumuruk
Crops	Cereals	Sorghum	Teff and sorghum	Sorghum, Maize
	Pulses	Faba Beans	Faba bean, Field pea, lentil, chickpea	Faba bean, field pea, lentil, chickpea
	Oil crops		Sesame	
Livestock		Cattle, camel	Cattle except begait breed, camel, horse and mule	Cattle, Goat, Sheep

Trends in cross border trade (Cont...)

Legal cross border trade:

- Relatively high export of livestock than grains

Cross border trade in Metema areas

Metema	Cereals (qtls)	Sorghum (qtls)	Faba bean (qtls)	Cattle (no)	Camel (no)
2003/04			398.00	398.00	
2004/05			2,436.00	2,436.00	
2005/06	154,234.00	135,669.00	11,868.00	11,868.00	102.00
2006/07	4,729.00	4,729.00	54,156.00	54,156.00	1,102.00
2007/08			11,633.00	11,633.00	1,940.00

Trends in cross border trade (Cont...)

Sorghum (qtls)	Metema	Humera	Kurmuk	Total
2003/04			480.00	480.00
2004/05			624.00	624.00
2005/06	135,669.00		960.00	136,629.00
2006/07	4,729.00	5,900.00	672.00	11,301.00
2007/08			720.00	720.00

Cattle No)	Metema	Humera	Kumuruk	Total
2003/04	398		768	1,166
2004/05	2,436		912	3,348
2005/06	11,868	2,964	672	15,504
2006/07	54,156	10,314	1,344	65,814
2007/08	11,633	822	1,680	14,135

Trends in cross border trade (Cont...)

Illegal cross border trade (Metema):

- Considerable increase in the value of illegal export mainly livestock
- The figures are only those handled by the customs

Value of contraband exports to Sudan handled by Customs Authority in Metema (in USD)

Commodity	2005/06	2006/07	2007/08
○ Agricultural commodities	2,060,570.00	916,943.00	2,010,922.00
• Crops	753,869.00	272,077.00	448,284.00
✓ Grain	22,334.00	-	2,201.00
✓ Non grains	731,535.00	272,077.00	446,083.00
• Livestock and byproducts	1,306,701.00	644,866.00	1,562,638.00
✓ Live animals	1,057,592.00	604,700.00	1,486,950.00
✓ Livestock products	249,109.00	40,166.00	75,688.00
○ Forest products	1,330.00	6,525.00	822,420.00
○ Non -agricultural commodities	369,671.00	71,556.00	441,429.00
Total	2,431,571.00	995,024.00	3,274,771.00

Summary

- Preliminary estimates of the volume of trade indicate that the cross border trade impact on the domestic market mainly on cereals is limited
- Rising trend in overall cross border trade in agricultural commodities
- Considerable cross border trade in livestock with large illegal component
- Strong GOE moves towards regulating and controlling cross border trade
- The considerable export of faba beans could have impact on the domestic market