

# Togwajale Cross-border Market Profile Report

## 1. Description of the market

**Location of market:** Togwajale is located in northwest Somalia on the border with Ethiopia (Figure 1). It's a vibrant market handling both formal and informal trade. It is situated in the north-west agro-pastoral (cattle and sorghum) livelihood zone. It is about 230 and 80 kilometers from Berbera port and Hargeisa city respectively. It has a livestock market (for export and local quality livestock), a food market and a market for non-food commodities (cloths, electronics and other manufactured produces).

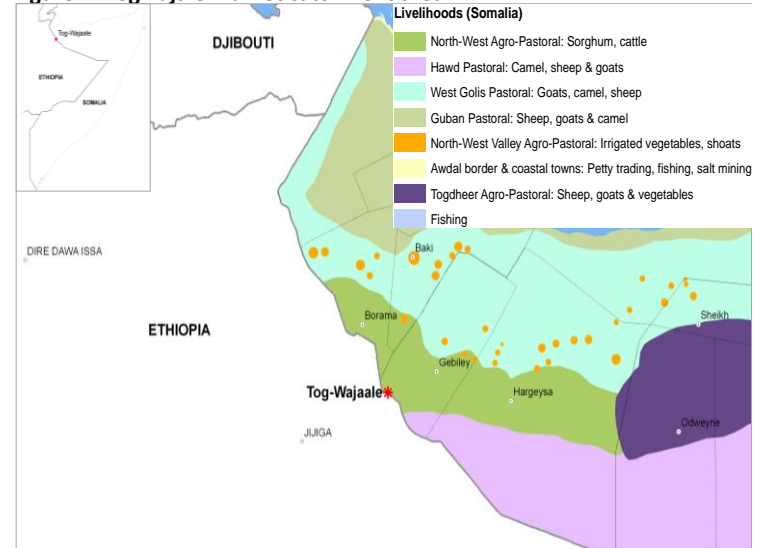
**Days and hours of operation:** The livestock market operates daily from 6 am to 10 am, while the food and non-food markets operate from 6:00 am to mid-night every day.

**Market infrastructure:** The livestock market comprises of a fenced enclosure for holding animals and a rump for loading livestock onto trucks. On the other hand, the food and non-food commodities market comprise of wholesaler and retailer stores, a built up area with market stalls as well as an additional open air trading area in the centre of the town.

The road network is very poor limiting access to the market during the wet season. While there are banks on the Ethiopian side of the border, none exists on the Somali side and traders use money transfer agencies known as the *Hawala*. The market has continuous electricity provided by three private companies. In addition, the market is well served with mobile phone telecommunications from four companies.

**Importance of the market to food security:** The market is key to food security of households in the catchment area who sell livestock and livestock feed (mainly crop produce left-over) in order to buy food and non-food items. Imported food and none food commodities from Berbera port are transported to Togwajale, where some are repackaged before crossing over into Ethiopia, while livestock is trekked from Ethiopia into Togwajale and then trucked to Berbera for export. This cross border trade provides direct employment to several groups of people including traders, brokers, loaders, transporters and livestock trekkers among others.

**Figure 1. Togwajale market catchment area**



**Table 1. Number of livestock traders in the Togwajale market**

Livestock	Type of trader				
	Cross-border traders	Exporters	Agents of exporters	Brokers	Local traders
Cattle	30	10	10	90	120
Sheep & Goats	30	5	15	85	100

## 2. Main commodities traded across the border

- Livestock and livestock products:** They include cattle, sheep, goats and fresh milk (from camel and cattle). Very few camels are transacted.
- Local food commodities:** Include white sorghum produced within the market catchment; and yellow maize, cowpeas and sesame oil sourced from southern Somalia.
- Imported food products** Include rice, wheat flour and wheat products, sugar, canned fish and vegetable oil.
- Non food items:** Include charcoal, firewood, textiles and fabrics, electronics, shoes, hand bags, cosmetics and household utensils.

**Livestock market:** Table 1 summarizes the structure of the livestock market in Togwajale. Livestock is trekked mainly from Somali region of Ethiopia through a series of clan based corridors, across the border into Togwajale. In Togwajale, the export quality livestock are purchased by export traders or their agents (*wakiil*), while local quality animals are purchased by local traders (*faashle*). Brokers (*Dillaal*), who are respected by the community, guarantee the provenance of traded livestock. During transactions, one broker represents the seller, while another represents the buyer. The two brokers negotiate to settle on the appropriate price of livestock.

The Togwajale livestock market segment for local quality animals is competitive ostensibly due to its low concentration ratio (CR4 less than 10%). On the other hand, the export livestock segment (mainly to the Middle East) is controlled by two big export traders. Women traders

participate more in domestic trade of small stock than in the large animals. For example, about 15 out of the 120 local quality cattle traders are women, compared to 35 out of 100 for sheep and goats. Exporters, agents and brokers are usually men. But women livestock traders have knowledge of the trade language and do not usually use brokers to represent them.

**The food market:** The traders involved in cross-border trade of food include wholesalers, brokers, formal and informal cross-border traders and retailers (Table 2). There are two main wholesalers (or importers) who are involved in the importation of food commodities (rice, wheat flour, sugar and vegetable oil) from overseas into Berbera where they are temporarily kept in warehouses<sup>1</sup>. From Berbera, part of the food commodities are transported to Togwajale, where wholesalers own five warehouses (measuring between 16 X 16 square meters and 22 X 24 square meters). From here, the wholesalers transport the food commodities into Somali region of Ethiopia via formal channels. They also sell to the formal and informal cross-border traders and local retailers within Togwajale.

The formal cross-border traders (mainly Ethiopian Somali) purchase from the wholesalers using guides (brokers) who are known to both the buyers and sellers. Formal cross-border traders transact in both imported food and non-food items and locally manufactured items (like canned fish, bottled drinking water and washing powder). Just like wholesalers, they transport food commodities into Ethiopia using trucks (locally known as *Waraat*).

Informal cross-border traders specialize more in the trade of more high value non-food items (i.e. cloths, electronics, shoes, hand bags, cosmetics and household utensils) than food commodities. They buy from the wholesalers in Togwajale (or Berbera), remove original packaging and labels and repackage the commodities to reduce weight as well as conceal the origin and status of the commodities. They normally conduct their activities at night and use four-wheel drive pickup cars, camels and donkey carts to transport their good across the border. The routes they use include Garbahadlay and Godka. However, when caught by the border security, their merchandise is usually confiscated, but they at times pay bribes to the border security to avoid arrest.

Local retailers and hawkers purchase food and non-food items from wholesalers and sell them within Togwajale market to consumers from both side of the border.

There are numerous medium stores (about 10 meters square) used by retailers. There are also smaller stores known as *wankare* used by informal traders moving goods across to Ethiopia. *Wankare* stores offer temporary storage and are accessible to all traders. The *wankares* are organized by commodity types and owners.

Traders rely on one another to access market information using mobile phones. At times, they also get information from market programs in the mass media (TV and radios). Traders usually finance their businesses by using their own savings or acquiring credit from family, friends and associates. Women traders were also noted to generate capital from the sale of their personal assets such as their gold jewelries.

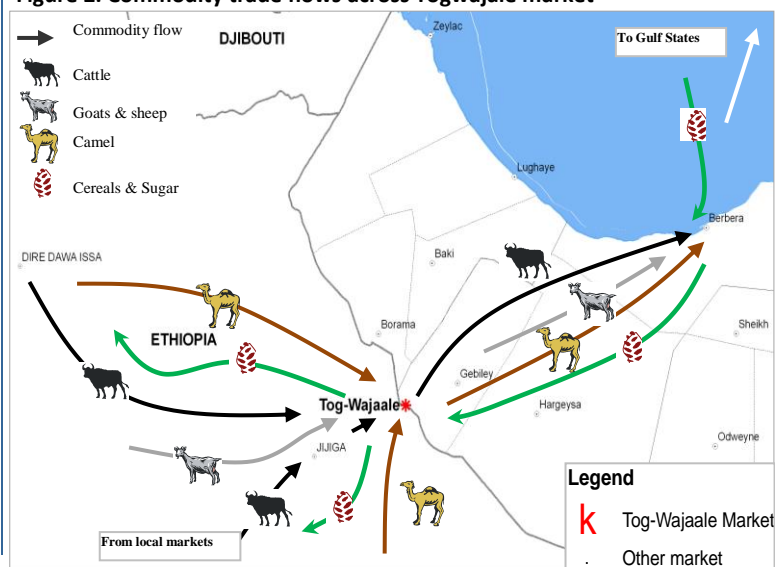
### 3. Commodity trade flow

**Livestock trade flow and trade volumes:** Figure 2 summarizes the trade flow of main food commodities and livestock across the border via Togwajale. On average around 6000 cattle (both export and local quality) originating from Babile in East Hararghe and the Somali region of Ethiopia cross to Somalia through Togwajale every month. In addition, about 2000 heads of sheep and goats originating from the Harta Sheikh area in the Somali region of Ethiopia and brought to Togwajale on monthly basis. The cattle is trekked (during the wet season) or transported by trucks (during the dry season) to Togwajale. Sheep and goats, on the other hand, are trekked to Togwajale using herders. Large scale traders exporting cattle via Berbera often use trucks to transport the livestock from Togwajale to Berbera.

**Table 2. Number of traders dealing in imported commodities in Togwajale market**

Imported commodities	Type of trader				
	Wholesalers (Importers)	Guides (Brokers)	Formal cross-border traders	Informal cross-border traders	Local retailers
Red rice, vegetable oil, wheat flour and sugar	2	5	20	100	60

**Figure 2. Commodity trade flows across Togwajale market**



<sup>1</sup> Another two wholesalers dominate the importation of electronics and textile goods

**Livestock marketing costs:** Livestock traders incur a number of expenses that include:

- i. Veterinary costs - 2.5 US Dollar per head for cattle and 1.5 US Dollars per head for sheep & goats (main exporters employ Veterinary doctors who examine the livestock and provide certification before they are shipped to the Middle East).
- ii. Herders charge 30,000 Somaliland shillings (SISh.)/(5 USD) or (60 Birr) in October per head for cattle and 15,000 SISh (30 Birr) or (3 USD) per head for Sheep and goats.
- iii. Loading and off loading livestock on and off trucks - 3000 SISh (0.5 USD) per head for cattle and 1500 SISh (0.2 USD) per head for sheep & goats.
- iv. Minders who travel with the animals in trucks cost 20,000 SISh (3 USD) per head for cattle and 10,000 SISh (2 USD) per head of sheep and goats.
- v. Overnight fenced compounds cost 2000-1500 SISh (0.3-0.2 USD). per head of cattle
- vi. Fodder and water cost 15,000 SISh (2.4 USD) per head for cattle, or 200 SISh (0.1 USD) per head for sheep and goats.
- vii. Brokers fees - 50 Birr per head of cattle and 15 Birr per head of sheep and goats
- viii. Agents of exporters are paid 10 % commission.
- ix. Market tax costs are 5000 SISh(0.8 USD)per head for cattle and 2000 SISh (0.3 USD) per head for sheep and goats
- x. Trucks transporting the livestock cost 2 million SISh(323 USD) per load for cattle and 1 million SISh (160 USD) per head of sheep and goats.

In total, livestock traders will incur approximately 500,000 SLsh (81 USD) as the direct costs related to the sale of one cattle. If a trader sells one export quality cattle at about 2,500,000 Sish, then the ratio of marketing costs to total selling price approximates 20%.

**Food commodity trade flows and volumes:**

Approximately 300 MT of rice (6000 50 kg bags), 350 MT of sugar, 200 MT of wheat flour and 6000 liters of vegetable oil are traded across the border into Ethiopia every month. The main source of these commodities is Dubai via Berbera Port. Other exports to Ethiopia include 100 MT of locally manufactured washing powder and unknown quantities of locally produced canned fish. Main destinations of these commodities are the Somali regions of Ethiopia and East Hararghe zone of Oromia Region.

**Marketing costs for food commodities:**

Costs related to the marketing of food and other commodities include tax and transportation

expenses. Tax on rice, wheat flour and sugar is charged on tonnage. For instance, tax for 150 tons of sugar (3000 bags) is 50,000 SISh (8 USD), while tax on 3000 litres vegetable oil is 15,000 SISh (2.4 USD). Regarding transport, a truck load costs 400 US Dollars/2 million SLsh (400-500 bags in the case of sugar, wheat flour and rice and 3000 liters in the case of vegetable oil).

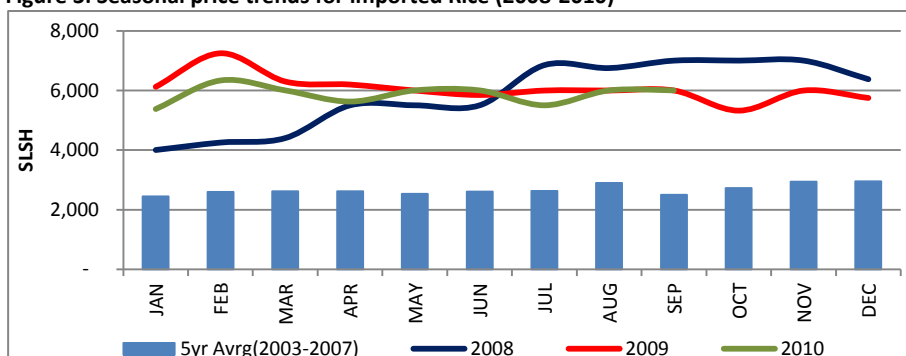
**4. Seasonal variation in market supply and prices**

Table 3 summarizes the seasonal supply of food commodities traded in Togwajale. Imported food commodities are available all year round. It is apparent that supplies do not significantly change during the Monsoon season (August to October) when the sea is rough and impossible for the ships to sail since importers have sufficient storage capacity. The continuous availability leads to general price stability (Figure 3).

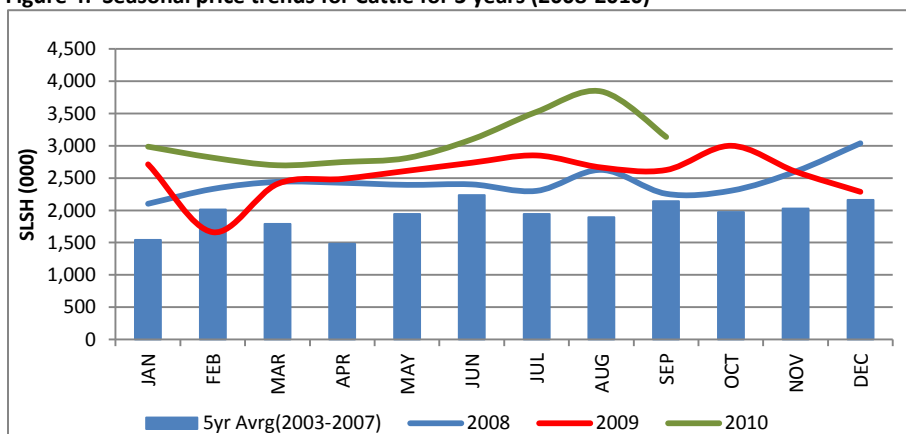
**Table 3: Seasonal variation per commodity supplied in the market in a normal year**

Commodity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cattle	Scarce		Available			Scarce		Available				
Goats	Scarce		Available			Scarce		Available				
Sheep	Scarce		Available			Scarce		Available				
Red rice						Available						
Vegetable Oil						Available						
Wheat flour						Available						
Sugar						Available						

**Figure 3: Seasonal price trends for imported Rice (2008-2010)**



**Figure 4: Seasonal price trends for Cattle for 3 years (2008-2010)**



Livestock is usually available in the market during the wet seasons when the environment is conducive to trekking animals for long distances. During the dry seasons (December to March and July to August) livestock supply is limited. In the wet season (April, May June), the market is revitalized with active trade often leading to price increases, and then it slows down in July, with the beginning of the dry Hagaa season. Despite the seasonal availability of livestock in the market, the price of export quality cattle has been rising steadily during 2010 reaching its peak in August 2010 (Figure 4). The average price for February 2010 was 62% higher than that of the same month in 2009 and 12% higher than that of 2008. This is due to a number of reasons including improved livestock body condition, increased demand for export quality livestock including cattle and most importantly the termination of the Saudi import ban. During August the average price of the local quality goat matched that of the export quality goat. This was due to the increased demand for goat meat during Ramadan. The demand for goat meat has also increased due to the presence of Oromo laborers resident in Togwajale who consume goat meat.

Beginning March 2010, the terms of trade have been steadily improving due mainly to lifting of Saudi import ban that increased prices of livestock. This improvement in the terms of trade has led to the improvement of food security among the rural households in the Togwajale and nearby border areas. Before the lifting of the ban and with repeated seasons of poor rains in most of the livestock source areas, decline in livestock prices and increase in price of imported cereals had negatively affected the livestock-cereal terms of trade (TOT) in Togwajale market for three years between 2008 and 2010. The terms of trade were much lower than the 5-year mean (Figure 5).

### 5. Shocks to the market

#### **Natural disasters in international source markets:**

Natural disasters reduce food supplies to the world market and in turn affect food availability and prices in Togwajale. For instance, there was shortage of rice in India and Thailand at the beginning of the year which are the traditional source markets for Somalia. This prompted the wholesalers to revert to Pakistan. However, the flooding that occurred in Pakistan in August affected availability of the commodity and this may have partly contributed to slight price increase in August and September.

#### **Poor road infrastructure:**

The road from Berbera to Togwajale is poor and always impassable during wet season (Figure 6). This limits supply of commodities from the port to Togwajale.

#### **Exchange rate fluctuations**

Cross border traders often experience challenges related to fluctuations in currency exchange rates as they deal in different currencies. In the case of Togwajale three currencies are used (Somaliland shilling, Ethiopia Birr and US Dollars). For example the devaluation of the Ethiopian Birr in September 2010, resulted in exchange rate fall which negatively impacted the cross border activities. The majority of the laborers on both sides of Togwajale town are Oromo Ethiopians and they are paid in Ethiopian Birr. Hence, following the devaluation of the Ethiopian Birr, the terms of trade between labor and cereal dramatically declined, necessitating increase in wage rate from 30 Birr to 60 Birr a day.

#### **Other risk factors**

Informal traders smuggling goods to and from Ethiopia are exposed to risk of loss of their products to the border security officials. There had been cases when vehicles transporting the commodities have been confiscated. The bribe they pay increase prices of food commodities or alternatively reduce the profit margins of the traders.

Figure 5: Terms of trade: Export quality cattle to imported rice (2008-2010)

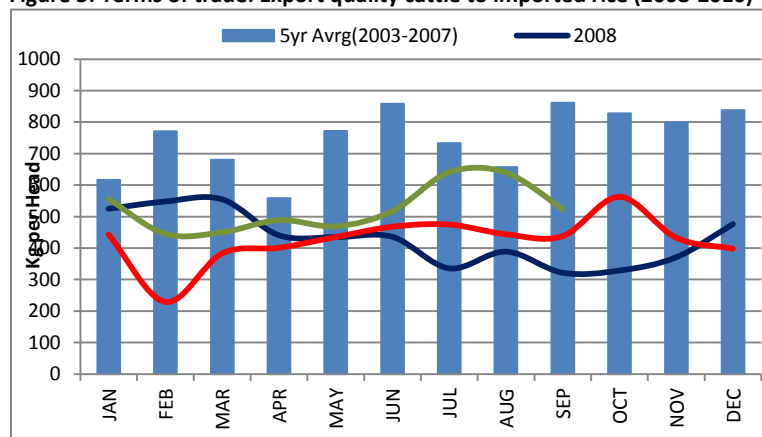


Figure 6: State of the Togwajale-Berbera road during wet season

