EXECUTIVE BRIEF: Commercial imports in Somalia

September 15, 2011

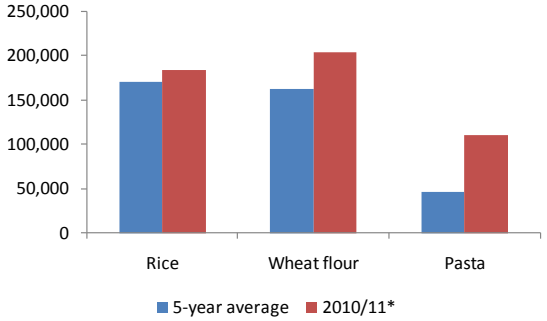
***Disclaimer**: This paper addresses some of the issues related to the market feasibility of using monetized food aid or conducting other supply-side, market-based interventions to improve food availability and food access. It does not consider issues related to the mechanism by which such interventions could take place nor does it explore other aspects of the local context, including security and conflict, which would affect the overall feasibility of a supply-side, market-based program. As with all information on Somalia, the situation is changing constantly and available information may not fully reflect current conditions.*

- Commercial import volume has increased this marketing year. Imports through the monitored El Ma'an port of Mogadishu are up significantly for rice, wheat flour, and pasta. Trader import behavior suggests that there is potential for additional food supplies to commercially flow into both rural and urban markets in famine-affected areas of southern Somalia.
- Traders have the ability to serve areas inaccessible to humanitarian agencies despite facing many obstacles.
- Traders face many risks in trying to import sorghum or maize by sea. Non-traditional supply routes are very risky, and traders have few connections with these markets. Traders also face the uncertainty of how humanitarian response may impact markets.
- Historically, in East Africa and Southern Africa, monetized food aid has had some positive effects on market development and, in the case of Somalia in 1992 and 1993 and of Mozambique in the early 1990s, some positive effects on both staple food prices and availability.
- Responses that rely on the performance of import markets will have to balance the risks of market disruptions and diversion of supplies to non-target markets with the potential to save lives through adequate response.

Import Market Trends

In a typical year, even without a severe production shortfall, Somalia commercially imports around half of its total cereal supply. Along with food aid, imports play a significant role in ensuring an adequate cereal supply (Figure 5). The role of imported staple foods in the diet varies by livelihood zone and by wealth group. Imported sugar is found across all markets and consumed in some quantity by all wealth groups. In contrast, imported rice is a staple in urban areas, among most pastoralists, among the better off, and in northern areas of Somalia. In southern Somalia, local cereals dominate the diet though some imported rice is found in the typical diet in many livelihood zones. Wheat flour is consumed in most livelihood zones across Somalia at breakfast in the form of *anjera*, a pan-cooked flatbread often made with a mixture of wheat flour and sorghum or maize meal though typical recipes vary by region, livelihood zone, and the relative cost of ingredients. Imported pasta is increasingly found in Somalia's markets though it is primarily consumed in urban areas and by the better off.

Figure 1: Import volumes through Berbera, Bossasso, and El Ma'an (Mogadishu) in metric tons (MT) per marketing year



**Includes September 2010-July 2011 and is still missing the August 2011 import data*

Source: Food Security and Nutrition Analysis Unit-Somalia (FSNAU)

Imports of sugar, rice, wheat flour, and pasta occur through the deep water ports of Berbera and Mogadishu. Smaller ships also trade through Bossasso and Kismayo. Port activity is curtailed during the monsoon winds which start as early as April

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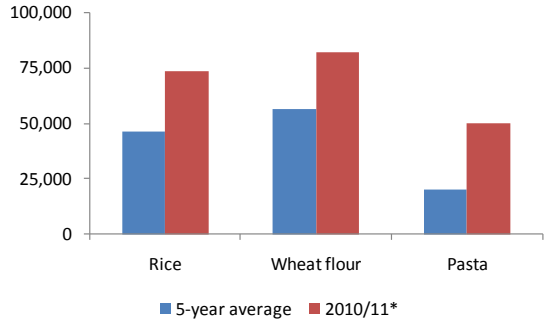
and continue until mid-September. The winds prevent smaller ships from operating, so they especially curtail activity in Bossasso and Kismayo. The winds, along with changing demand due to local cereal grain production, give a somewhat seasonal pattern to import volumes. Typically, import volumes are highest during the *Gu* rains from April to June and following the end of the monsoon winds in October. By sea, commercial importation focuses on two sets of products—those consumed in urban areas and by the better off such as rice and pasta and those consumed by all income groups for which there are few locally produced substitutes such as wheat flour and sugar. Staple cereals that are locally produced such as maize and sorghum are not typically imported through the ports. In very small volumes, border areas also import staple foods from Ethiopia and Kenya depending on the season, prices, and other conditions enabling this trade. This cross-border trade does include some maize and sorghum.

Due to a severe production shortfall of both the *Deyr* 2010/11 and *Gu* 2011 harvests of maize and sorghum over the past year, traders have responded by increasing the volume of imports. Since the marketing year started in September 2010, importers have increased their volume of key imported substitutes for local grains. Through the ports of Berbera, Bossasso, and El Ma'an (Mogadishu), import volumes of rice, wheat flour, and pasta over the current 2010/11 marketing season through July are 16, 40, and 154 percent respectively above the sum of the five-year averages (2005/06 to 2009/10 marketing years) for these months (Figure 1). Reflecting the shifts in demand toward local grain substitutes, sugar as a percentage of imports has had a decreasing since January 2011 as it is being displaced by rice, wheat flour, and pasta (Figure 3). On a national scale, sugar import volume in the 2010/11 marketing season actually declined 17 percent compared to the sum of the five-year averages for 2005/06-2009/10. The share of imports coming through El Ma'an port in Mogadishu has also increased since January reflecting the high demand in southern Somalia following the failure of the *Deyr* 2010/11 (Figure 2). From January to July 2011, at El Ma'an port in Mogadishu, rice importation volume was 119 percent above the same period in 2010.

Informal cross-border trade is not a major source of supply for southern Somalia, but the ability to trade with Kenya and Ethiopia may serve an important function in regulating prices in border areas. Prices of red sorghum and white maize in reference markets of districts that border Ethiopia or Kenya have increased significantly over the past year. In both June and July, in nominal terms, prices were often twice their level of the previous year. However, for these commodities, the highest percentage rises have been concentrated in areas further away from borders with reference markets in Bay, Lower Shabelle, and Middle Juba for red sorghum and white maize in June and July being over three times more than nominal prices from a year ago. While volumes of cross-border trade observed at six monitored points do not indicate large flows (Figure 4), the possibility of trade may constrain trader behavior and enable competition in these areas. These small cross-border importers are also responding to the crisis. In July, for the first time since observation began in April, small quantities of sorghum were imported into Beled Weyne in Hiran region from Ethiopia. Since April, monthly total flows of grain and pulses through all border points have been higher than in April and were up 38 percent from April to June. In Beled Weyne, over 1,000 metric tons (MT) of maize have been imported from Ethiopia. Nearly 3,000 MT of maize have crossed the border into Beled Hawa from across the river in Kenya though these supplies are believed to originate in Ethiopia. Of course, high prices in border regions of Ethiopia and Kenya constrain both the volume and the price effects of cross-border trade.

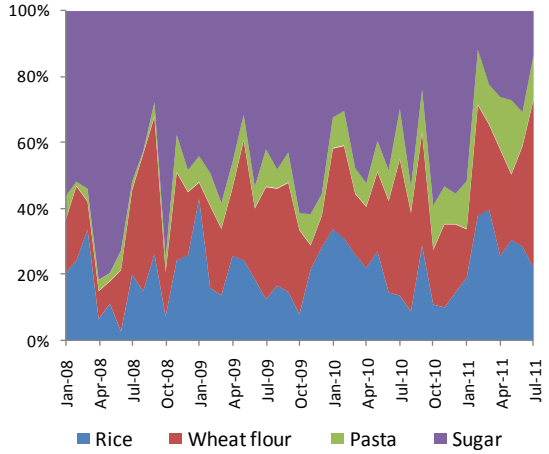
Figure 2: Import volumes through El Ma'an (Mogadishu) in metric tons (MT) per marketing year



**Includes September 2010-July 2011 and is still missing the August 2011 import data*

Source: FSNAU

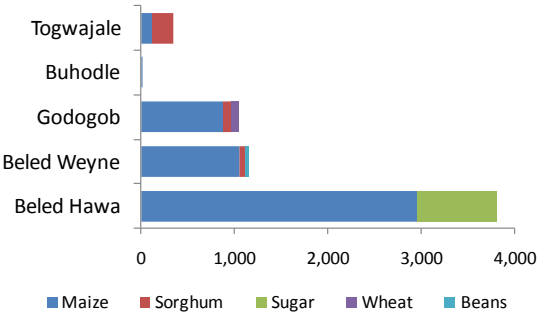
Figure 3: Percent import share of major commodities January 2008-July 2011



Source: FSNAU

Trader Behavior and Risks of Increased Importation

Figure 4: Composition of informal cross-border imports from Ethiopia and Kenya April-July 2011



Source: FEWS NET/World Food Program (WFP)/Food and Agriculture Organization of the United Nations (FAO)

With prices for maize and sorghum being so high, commercial importation of these products would seem to be a potentially profitable way to increase supply, lower prices, and provide relief. Traders maintain access to all major markets of southern Somalia including those controlled by Al Shabaab. Through payment of fees, it is possible to ship commercial goods across the whole country. Imported goods from Mogadishu, Kismayo, and even Bossasso reach areas with limited humanitarian access. However, traders face several risks associated with the novel trade possibilities of bringing in commercially procured maize or sorghum from outside of Somalia. First, traders fear the potential large-scale flow of food aid into the country displacing their supplies. An order from the Persian Gulf could take up to 45 days to reach Mogadishu for medium-scale traders that depend on contracting shipping. During that time, if the markets a trader were intending to serve had received large-scale distributed food aid, demand for the commercially imported commodity might be limited. In the recent past, food aid has supplied around a quarter of total cereal supply (Figure 5).[1] As a major source of supply, increases of food aid impact markets and prices. Some food aid always becomes available to commercial markets, and while previous work has suggested this has not changed the market structure in Somalia,[1] commercial traders face the risk that commodities from food aid will become available in markets in the near future at even lower prices.

Also, white maize and red sorghum are not typically widely available in the wholesale markets frequented by Somali traders. Dubai is a key wholesale market for traders from Mogadishu, and while Dubai is certainly a major trading platform for rice from South Asia and Southeastern Asia along with commodities from Europe and the rest of the Middle East, it tends not to be a key trading platform for white maize or maize meal from Sub-Saharan Africa. Traders from northern Somalia have been increasingly selling livestock in Egypt, but Egypt is net grain importer and not a major exporter of maize or sorghum. While sorghum is certainly on the export markets in Sudan and much of Southern Africa and East Africa have recently completed harvests of both maize and sorghum, Somali importers are most familiar with markets in the Middle East and South Asia. Finding new supplies for a new import route presents great risks, and traders would have to invest great deal of time cultivating new trading partners in order to open these novel trade routes. Official food export bans in Ethiopia and Tanzania also discourage traders from seeking out new suppliers or re-exporters in these nearby commercial centers. Tanzania has supplies available, but these appear to be earmarked for government-to-government purchases. While current levels of competition within Somalia keep imported commodities at levels that reflect international prices, local grain prices vary more by season and by local growing conditions. While several large volume imports could gain traders market share, they could also increase supply to an extent that prices for maize and sorghum fall. For this reason, traders concerned with the price risk, both from flows of food aid and from imports, may shy away from non-traditional import commodities.

Another risk traders face have to do with demand for these commodities. While implied demand in southern Somalia is certainly high following the recent poor harvests, incomes and livelihoods damaged by the drought and by other disruptions may not offer effective demand. Households may lack cash to buy food. Traders seem to believe some demand continues to exist and the continued functioning of markets implies some households still have effective demand. Humanitarian interventions that distribute food vouchers or provide cash support also help create effective demand. However, these programs do not cover all areas of southern Somalia. However, even with lower prices, not all households will gain access to these goods even if they are physically available on the market.

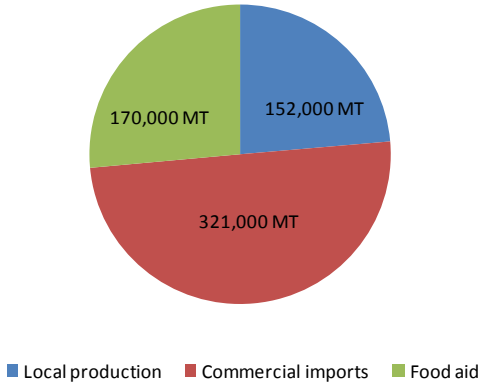
Brief Literature Review of Historical Performance of Food Aid Monetization in Emergencies

In several cases, using monetizing food aid to better supply markets has been a key strategy employed by humanitarian

[1] Godiah, Lawrence Mugunieri. *An Analysis of the Structure, Conduct, and Performance of the Cereal and Sugar Markets in Somalia: Understanding the Impact of Food Aid on Market Performance*. Nairobi, Kenya: World Food Program Somalia Country Office, January 2010.

agencies. By selling additional grain to the commercial sector, these interventions hope to increase supply and thus decrease consumer prices. Prior to the collapse of the government of Somalia in 1991, importation of food commodities was tightly regulated through an import tender system. To help spur on the creation of a commercial import sector following the collapse of this system and to lower the extremely high price of staple food commodities, large-scale monetization in Somalia was attempted in 1992 and 1993 to dramatically increase cereal grain supply on markets in Somalia. The intent was both to drive down prices and to increase the security of monetized and non-monetized food aid which was often stolen and by factions of the civil war.[2] While an in-depth study including econometric analysis has not been conducted, various reviews of humanitarian response cite monetization as an area that had some effect. One conclusion of post-mortem analysis by the Refugee Policy Group conducted in 1994 was that "monetization could have had a more dramatic impact on market prices and the economy in general, as well as on security, if it had been implemented earlier."[3]

Figure 5: Composition of cereal balance, estimates from calendar year 2008 in MT



Source: WFP 2010[1]

Another example can be found in monetization programs in Mozambique, also in the early 1990s. In this case, monetized yellow maize was a key source of supply keeping prices of white maize in line through substitution. Monetized yellow maize helped the informal, small-scale traders supply both rural and urban markets.[4] The poor were able to maintain some purchasing power at this time due to the availability of commercially marketed food aid.[5] Also, during the period of hyperinflation in Zimbabwe, targeted sales of a commodity primarily consumed by the poor were used as one way to help control prices. Following the success of these types of program, the U.S. Agency for International Development (USAID) even put out special guidelines for using P.L. 480 Title II programs through markets called the Market Assistance Program (MAP).[6] The positive price and supply affects of these programs, like the markets themselves, do not distinguish between programs that involve sales by governments and sales by non-governmental organizations (NGOs) or international organizations.

This method of increasing supply on markets is appealing in that it takes advantage of the relatively resilient, small-scale, informal trade and processing sectors, and several case studies provide evidence of successes. However, humanitarian agencies have traditionally focused their efforts on distributing supplies to fill availability gaps. Unlike other aspects of food aid and humanitarian response, both the academic literature and the gray literature produced by NGOs and international organizations on the use of monetized food aid to meet emergency needs is not particularly large. The available evidence suggests that monetization of food aid into commercial markets can play an important role in increasing supply, ensuring grain availability during the emergency, and improving the purchasing power of the poor.

Implications for Response

Many implementation issues could limit the effectiveness of supply-side, market-based interventions. Interventions could involve credit for traders, monetizing food aid for commercial sale, subsidies for traders, connecting traders to new sources

[2] Nastios, Andrew S. "Humanitarian Relief Interventions in Somalia: the Economics of Chaos." *International Peacekeeping* 3: 1, pg. 68-91. 1996.

[3] Sommer, John G. *Hope Restored?: Humanitarian Aid in Somalia.* 1990-1994. Refugee Policy Group, pg. 99. 1994.

[4] Tschirley, David, Cynthia Donovan, and Michael T. Weber. "Food Aid and Food Markets: Lessons from Mozambique." *Food Policy* 21: 2, pg. 189-209, 1996.

[5] Tschirley, David and Julie Howard. "Title II Food Aid and Agricultural Development in Sub-Saharan Africa: Towards and Principled Argument for When, and When Not, to Monetize." Michigan State University International Development Working Paper No. 81. 2003.

[6] Diskin, Patrick. "Market Assistance Program (MAP) Field Manual for USAID P.L. 280 Title II Programs." Washington, DC: USAID, Office of Food for Peace, February 2008.

of supply, or even simply using donor resources to share some risk as traders open novel trade routes. For supply-side, market-based interventions to increase food supply and to reach poor households both supply-side and demand-side interventions would be necessary to revive or jump-start trade. The positive effects would depend on the impact on prices. As the prices of some staple foods fall, the poor who still have some cash income are able to purchase more food and reduce their food deficits. Without any income, increased market supply is of no utility for the destitute. In cases of collapse of livelihoods, the poor have incredibly limited purchasing power. Parallel programs such as cash-for-work or other livelihood interventions that provide income support would complement the increased supply of commodities and help address the food access needs of the poor.

The timing and volume of supply-side, market-based interventions also has a huge impact on supply and thus price. One-time or unpredictable shipments of food commodities to the commercial sector would not give confidence to traders that supply was increasing and steadily available. For this reason, the uncertainty associated with the shipment may cause traders to maintain these supplies as stocks and not release them immediately into the open market. If one or a few traders were able to buy all of new supplies, they could behave in a non-competitive manner and maintain market power. Another possible implementation failure would be if large-scale volumes of commodities were to arrive at the time of the *Deyr* 2011/12 harvest in January and February. These new supplies could drive down producer prices for maize and sorghum to the extent that there was a disincentive for future planting and production. However, as supply is currently very limited, the risks of prices this low would probably be limited to the peak post-*Deyr* sales period and to very large volumes of new supplies that were a perfect substitute for locally produced cereal grain. Previous recent studies of food aid have shown little or no market disruption of large food aid deliveries in Somalia,[1] but over the longer term, large volumes of food aid, whether commercially distributed or distributed directly to beneficiaries can reduce incentives for increasing agricultural productivity or putting additional land under cultivation. Volume also remains a potential issue for agencies interested in monetizing food aid or other market-oriented interventions. Small volumes similar to that imported through informal cross-border trade, even if in a reliable flow, have little likely impact on prices across an area as large as southern Somalia. Cross-border flows of 1,000 to 2,000 MT within a month do not appear to have noticeable impacts on prices upon arrival. Larger volumes would be necessary to move prices. However, large volumes present higher security risks for importing and conducting sales and greater risk of unintended market disruptions.

Distributed food aid presents its own set of risks. Many of the security risks are faced by staff and partners distributing food to their personal security. Food can be a valuable commodity, and the risk of looting or aid diversion can be high in a civil war. Supply-side, market-based interventions, generally, avoid similar security risks since local businesspeople conduct most of the operations, logistics, and distribution functions. However, in the worst case, food from market-based interventions can be diverted by the markets to non-target areas with higher demand or higher prices. However, even in cases where food reaches markets for which it was not intended, the security risks are borne almost entirely by the traders involved.

Conclusion

Import market performance suggests that importers have been responding to the crisis by increasing the supply of commonly imported goods. They have been able to do this in an environment of relatively steady prices for these goods suggesting that these are competitive import markets. While non-traditional imports such as maize or sorghum present an array of risks, there may be traders who are able to import these goods to help increase overall cereal grain availability. In some emergency situations in the early 1990s, monetized food aid to increase supply on markets was used with some level of success. To implement a program like this in southern Somalia would require special attention to the risks presented by the program and potential problems of timing and volume. Market interventions may be able to reach populations not currently served by food access interventions. Responses will have to balance the risks of market disruptions and diversion of supplies to non-target markets with the potential to save lives through adequate response.

Notes on data and analysis timeframes: *This paper primarily reports volumes and other measures on a September-August marketing year. For this reason, these figures differ from recent reports from the Food Security and Nutrition Analysis Unit—Somalia (FSNAU), FEWS NET, and others that are based on calendar year-to-date calculations. Five year averages calculated by FSNAU use the monthly averages for 2005-09. The ones used in this paper use take monthly averages from September 2005 (the first month of the 2005/06 marketing year) through August 2010 (the last month of the 2009/10 marketing year). However, the underlying data are the same and are available at www.fsnau.org. Cross-border trade data for the WFP/FAO/FEWS NET is available from Food Security and Nutrition Working Group's Market Analysis Subgroup at* http://www.disasterriskreduction.net/east-central-africa/mas/xbt.