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 "Dhiyeessa Amansiisaa fi Qulqulina Qabu Gatii Madallawaan"



# 2SCALE

## Local drivers of inclusive agribusiness development: cases from Ethiopia

Photo: IFDC | Meki Batu vegetable brand

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Editing



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### KEY MESSAGE

Agro input dealers usually play a key role in distributing important farm inputs like seeds, agro chemicals and fertilizer to farmers in rural areas. Off-takers perform a similar role, while also directly aggregating the surplus produced by smallholder farmers. The role of these local actors is critical in inclusive development. In situations where there are no such actors in the agricultural sector, as is the case in Ethiopia, market linkages are mediated through farmer cooperatives and unions. However, weaknesses in these organizations not only limit growth, but also inclusiveness. This can be overcome by developing and applying tailor-made solutions while cooperatives and unions remain in the driver's seat.

### Introduction

In Ethiopia, the 2SCALE program has focused on cooperative unions and their members, the primary cooperatives, as the main drivers of inclusive development. Such organizations offer opportunities for economic development at scale and facilitate vertical integration in the value chain. Two Ethiopian partnerships established through 2SCALE, in the sorghum and vegetable sectors, demonstrate the potential of farmers' organizations as hubs for innovative technologies (improved seeds, agro chemicals, farm technologies and fertilizer). With quality

control mechanisms linked with farmers' production activities, farmers' organizations also offer potential as points of primary and secondary aggregation to generate the volume of produce needed to attract companies and big buyers. Both partnerships show how cooperatives and unions can be suitable business partners for large companies and enhance inclusive agribusiness development. In the Ethiopian context, inclusive agribusiness development can be viewed as the extent to which companies, cooperatives and unions are able to tailor their offerings to smallholder farmers; i.e. access to specific cost-effective technologies, an increased share of the final commodity price, and, most importantly, the empowerment of farmers to make informed decisions.

## Cooperatives as local drivers for inclusive agribusiness

In Ethiopia, it made sense for 2SCALE to focus on farmers' organizations as local drivers because the country's agricultural development policy and strategies explicitly favor cooperatives as a means for input distribution and access to markets. Cooperative membership is usually open for anyone in the village as long as they are farmers. However, membership of women remains relatively low. The fact that the primary cooperatives are owned by the individual member farmers and these cooperatives are the shareholders of the unions, offers an opportunity for any benefits to trickle down (generated from the sale of inputs and the marketing of outputs) to smallholder farmers in a transparent manner. In addition it is often a challenge to find small or medium enterprises with a strong presence at the grassroots level and a clear inclusive business perspective. This is equally true for primary cooperatives and unions, which in practice also face the challenge to be or to become inclusive; e.g. the low membership of women.

## Partnerships

The partnership in the sorghum sector deals with four farmers' cooperative unions (Setite Humera, Dansha Auraro, Selam and Metema, including 60 primary cooperatives with a total of 25,495 smallholder farmer members), which were confronted with the challenge of an appropriate rotation crop for sesame. Once sorghum was identified as a suitable rotation crop, the multi-national Diageo entered into an agreement with the unions for the sourcing of white sorghum. Diageo is a leading premium drinks company, globally trading in over 180 countries. The company entered Ethiopia by acquiring Meta Abo Brewery SC in 2012 and immediately embarked on local sourcing, which is a key business goal for Diageo. Meta Abo Brewery SC supports barley value chain development in partnership with the Government of Ethiopia, private and non-governmental organizations. The company has started to use sorghum for the first time to produce a beer branded "Azemera". Diageo already works through the unions – even though many of them are not

well-organized – and buys relatively large volumes from each of these unions; it thereby delegates a large part of the collection and aggregation to the unions and their cooperatives.

In the vegetable sector, organizations like the Meki Batu Fruits and Vegetables Growers Cooperative Union (FVGCU) (made up of 69 cooperatives involving 6,835 smallholders) have the ability to produce vegetables all year round with irrigation facilities, allowing the union to respond to the regular demand throughout the year. By spreading the production plan across the year, the union manages to supply constant volumes of vegetables. The union is strongly committed to improve service provision to its members and develop and implement an inclusive agenda. The partnership with Meki Batu FVGCU aims to support a large number of smallholder farmers in order to professionalize and enhance the inclusiveness of the vegetable production system. 2SCALE's support aspires to develop a competitive market-oriented vegetable production system and enhance marketing professionalism in farmers' organizations. The focus of this partnership is not on supplying one particular buyer, but on developing the competitiveness of the union and primary cooperatives to enable them to compete in the market.

## Interventions by 2SCALE

Interventions by 2SCALE aimed at improving the key comparative advantages as well as the inclusiveness of the unions and cooperatives (i.e., generating an economy of scale to attract large buyers, providing information to their members in order to meet the quality standards of the buyers) and reducing their competitive disadvantages (i.e., limited business-to-business relationship management experience and inadequate capabilities to respond to market signals). Hence the development of a commercially viable and inclusive business model at the heart of interventions.

2SCALE's intervention started with the facilitation of agribusiness clusters (ABCs) of primary cooperatives in the sorghum sector (29 ABCs) and the vegetable sector (4 ABCs). Depending on the membership base and proximity between cooperatives, a different number of cooperatives were involved under each cluster. In addition to the cooperatives and their members, the clusters include other actors involved in the commodity value chain, such as agricultural extension offices (advice), the Cooperative Promotion Agency (CPA) – which supports farmers to organize into cooperatives – microfinance institutions, transporters, etc.

## Sorghum

Prior to the 2SCALE intervention, there were no organized white sorghum marketing activities by the unions. The partnership emerged as an answer to the outstanding issue around sustainable sesame

farming, given the decline in soil fertility due to mono-cropping and the high level of price fluctuation in the sesame market. All cluster actors understood the importance of crop rotation, i.e. with sorghum, but farmers were unable to sell their sorghum and hence develop a competitive market-driven cropping system. Since Diageo already intended to source sorghum from the unions, it was a challenge for the unions to maintain this multi-national company as a buyer. Therefore understanding the standards required to keep the buyer on board was critical.

Together with 2SCALE, the Sesame Business Network (SBN) of Wageningen University and Research (WUR), Gondar and Humera Agricultural Research Centers (ARCs), the CPAs and agricultural extension offices, the four unions initiated research on crop rotation. The trials of the different potential rotational crops were led by SBN, the ARCs and the agricultural extension offices. Once sorghum was identified as a potential rotational crop, 2SCALE took the lead in identifying large scale buyers of sorghum, while the unions, the primary cooperatives and the CPAs created awareness among farmers on the use of sorghum as a rotation crop. Sorghum for brewing was a non-existent market in Ethiopia since all beers in the country were made exclusively from malt barley. The unions collected different varieties of sorghum for analysis by Diageo and in the end two varieties were selected. The whole process – the selection of varieties, the different lab analysis and ‘designing’ the cropping system – took two and half years.

The unions and primary cooperatives were committed to meeting the quality standards of the brewery. In partnership with 2SCALE, the ARCs, and SBN, the four unions have rolled out a cascading training program on sorghum. Training was provided for 20 experts who then trained 150 agents of the agricultural extension system. These agents trained 2,545 farmers on good agricultural practices and the marketing of sorghum. In addition 2,793 demonstration plots were established across the 29 ABCs. On these plots, 8,591 farmers were trained.

In the agreement with Diageo, the unions and cooperatives distribute the required inputs for growing sorghum and organize farmers for training and demonstrations. At the time of harvest, primary cooperatives collect produce from their members and supply it to the unions, who are responsible for most of the value additions in terms of sorting, cleaning and re-bagging, after which the sorghum is supplied to the company.

In 2016, all four farmers’ cooperative unions were able to have a white sorghum supply agreement with Diageo. The contract brokered offered a significant advantage to the smallholder sorghum farmers as price was based on pre-selected reference markets and set by a joint price determination committee (including Diageo, the farmers’ union and CPA, with 2SCALE as a facilitator). Farmers were able to get an additional 7 % as an incentive for meeting the quality standard. Other add-ons for the primary cooperatives and unions was also agreed in a transparent manner. Since there was no advance payment



IFDC | Marketing banner and branded retailer outlets of Meki Batu



Joris Maatman | Soil preparation, Ethiopia

by Diageo to the unions for pre-financing the aggregation from the cooperatives and farmers, an arrangement was made to cover the cost of credit by the unions. Hence Diageo paid an additional four-month commercial interest rate that allowed the unions to cover the cost incurred in the aggregation process.

The unions have all successfully supplied the contracted amount with the agreed quality, within the required time of delivery. This improved the income of smallholder farmers from the sale of sorghum as the cooperative members have received 77 % of the final price of sorghum, while non-member farmers were only getting 60 %.

Though Diageo became the main off-taker of white sorghum, there was another opportunity to further develop the sorghum partnership. Each year almost half a million laborers travel to the area for sesame farming, which demands labor for planting, weeding, thinning and harvesting. Most of the laborers consume sorghum-based meals with very low nutritional value. To support better nutrition, create an additional market for producers and generate an employment opportunity for women groups the idea of using nutritive recipes, such as '*Genfo*', '*injera*', '*ambasha*', '*atmite*', to feed laborers was developed. Together with the four unions involved, 2SCALE supported the development of four small women-led enterprises, involving some 120 women, that produce different nutritive dishes.

### **Vegetables**

In the case of the Meki Batu FVGCU, the business model aimed to enhance competitiveness in the wholesale market for vegetables and offer clear value propositions for different customer segments. The Meki Batu union and its' member cooperative, Bekelle Gerrisa, developed the business idea. They were aware that the cost of vegetable production within the primary cooperatives had risen significantly and affected its competitiveness. The market study had also confirmed this and further analysis indicated that the main contributors to high production costs were unsuitable pest and disease management, inappropriate fertilizer application and poor water and irrigation management.

Accordingly, locally adapted extension manuals were developed on appropriate fertilizer and irrigation management. The union was able to train 3,491 farmers and extension agents on the extension package and also set up 156 demonstration plots for the training of 1,176 additional farmers. In parallel, 2SCALE partnered with CropLife Africa Middle East ([www.croplifeafrica.org/](http://www.croplifeafrica.org/)) to set up a spray service providers system within the clusters for phytosanitary treatments of crops. CropLife Africa Middle East is a professional organization representing the plant science industry. It is an association for international companies that manufacture pesticides and sell their

products in Africa and the Middle East. From 14 primary cooperatives, 25 spray service providers were trained and fully equipped to provide a spraying service to control diseases and pests. These three activities have reduced the cost of production by 28 % and hence given the farmers a competitive edge in the market.

With support from 2SCALE, Meki Batu FVGCU identified three customer segments in the vegetable market, characterized market actors and developed marketing strategies accordingly. The three customer segments selected were: i) wholesalers as the main market for farmers produce to match the vast production capacity; ii) institutions as a secondary target segment to secure consistent market for outputs; and iii) consumers to support the brand building effort while also giving better margins for the union and the producers.

The study outcomes were presented and discussed in a workshop, which resulted in a draft marketing strategy. The union's management team refined the strategy, which was then endorsed by the board. Each customer segment now had its own value proposition and the union marketing team was trained on the different marketing strategies for each segment.

The business strategy proposed for the Meki Batu FVGCU focused on redefining the value of vegetables in Ethiopia. This was to be achieved by empowering smallholders to drive loyalty from brokers to the union, through the development of trust and transparency in the vegetable sector by facilitating access to free market and production information and ensuring consumers pay only for actual value delivered through the chain.

Before this, the union did not have specific strategies for particular customer segments; rather they employed one approach across the board. Part of the strategy to increase the union's capacity in facilitating market linkages was to give products more visibility through branding. A branding strategy was developed, involving the development of a logo and upgrading the union's retail outlets which connect them directly with consumers. This meant developing visual merchandising guidelines for banners, uniforms, signs, the modern outlet shelves and billboards.

Meki Batu FVGCU has six retailer outlets in the towns of at Adama (1 outlet), Addis Ababa (3 outlets) and Dire Dawa (2 outlets). The outlets, however, did not have the facilities required for product display and storage. The exterior appearance of the outlets gave no indication of ownership and product offering. The outlets were known and frequented during the holidays by nearby urban dwellers to purchase onions, but remained closed most of the year.

**Table 1 | Data on commodity sales by unions**

Union (FCU)	Commodity	Volumes traded (MT)	Farmers involved (nb)	Production costs (ETB/100kg)	Price paid to union (ETB/100 kg)	Price paid to members (ETB/100 kg)	Price paid to non-members (ETB/100 kg)
Selam	Sorghum	400	330	343.50	834	642	500
Dansha Auraro	Sorghum	400	335	369.80	777	583	450
Metema	Sorghum	460	370	353.00	777	583	450
Setite Humera	Sorghum	1,160	1,000	319.25	777	583	450
Meki Batu	Onion	3,341	1,085	550	1050	935	800
	Tomato	2,784	887	450	1055	945	900

After the intervention of 2SCALE, the union added other vegetables and fruits to the assortment sold through the shops. Additionally, four of the outlets are now branded to help maintain the quality and appeal of produce offered.

In addition, the union has become a regular supplier to Ethiopian Airlines, which is a premium customer that will not negotiate on quality. Under the strict quality supervision of trainers-coaches (hired by the Union on a cost sharing basis with 2SCALE) at different points – during seed variety selection, field practices, harvesting schedule, value addition at the pack house and cold truck management – Meki Batu FVGCU has been able to maintain a constant supply of ready to use vegetables on a weekly basis for the last two years. The market outlet provided by Ethiopian Airlines has allowed the union to provide jobs for 33 women in the value addition activities at the pack house.

### Increased marketing and share of final prices by farmers

When 2SCALE started working with Meki Batu FVGCU, only 5 % of the total harvest of the farmers was marketed through the union, but by the end of 2016 this had increased to 24 %. The percentage of sorghum marketed collectively during 2016 is relatively low, since it was the first year of production and only a pilot. As the unions continue to improve their supply efficiency, the brewery has promised to fully depend on them for their sorghum demand. The unions also have engagements with other buyers and, hence, not all marketing activities can be attributed to facilitation by 2SCALE. Therefore, the data provided represents the commodity sales achieved as a result of the 2SCALE partnership (Table 1).

Farmers' share of the final price increases when they sell their produce through the unions compared to when sold through middle men. Particularly, the agreements established with the large companies (Diageo and Ethiopian Airlines) enables the

cooperatives to raise the farmers' share in the final price paid by the buyer (Table 1). This contributes to higher incomes for the farmers. In addition, any profit generated by the primary cooperatives is paid back as a dividend to their members, while unions pay out further dividends to the primary cooperatives who in return pay back to the member farmers. These dividends result in a multifold income increase for the member farmers.

### Professionalization of cooperatives and unions

In order to strengthen the capacity of the unions to respond to the demands of the primary cooperatives and member farmers, 2SCALE supported the professionalization of marketing activities, restructuring the marketing wings and, more importantly, helping the unions to attract, maintain and grow their customer bases. For this purpose, 2SCALE employed the Business Model Canvas method ([www.strategyzer.com](http://www.strategyzer.com)) to develop marketing strategies specific to the different market segments. Emphasis was given to improving the relationship of the unions with member farmers and, hence, creating a mindset at the union level that the most important customer of the union is the farmer. In this respect there are still challenges ahead for transforming these organizations into viable enterprises that are led by farmers' needs, at the service of their members and accountable to them.

One of the major challenges is the low level of professionalism, especially at the primary cooperative level. The cooperatives are managed by smallholder farmers and most of these farmers have a relatively low level of education. This limits their ability to seek a new method of management that will eventually transform the cooperatives.

The lack of transparency and minimal accountability among the primary cooperatives and unions is another challenge. Consequently, the loss of sense of ownership has been observed between members and their organizations. Though the membership base of the cooperatives and unions is increasing, a considerable number of farmers who are nominally members do not actively participate in the

activities of the cooperatives and hence, the unions. This is a challenge in terms of realizing the full potential for organizing smallholder farmers for sustainable value chain development.

Finally, the endless government support to unions and cooperatives also represents a challenge. On the one hand, this has almost led to a perfect vertical integration in value chains. On the other hand, it has created dependency and in many cases farmers' organizations expect the government to solve their problems. Currently the majority of the primary cooperatives and unions are working on input distribution (fertilizers, seeds etc.), while they handle the last mile distribution of the inputs, the cooperatives and unions expect the controlling government body to handle any problems that arise.

### Lessons learned

The experience of 2SCALE in supporting the unions and primary cooperatives to become drivers of inclusive agribusiness development has shown their potential and the extent to which changes can be realized by tailoring activities to the particular conditions of smallholder farmers. Understanding the particular challenges and circumstances in which smallholder farmers operate is the key starting point. Knowing their unique mindset and perceptions of the risk factors is critical to tailoring interventions.

2SCALE avoided 'one size fits all' and 'top down' approaches, instead supporting the cooperatives and unions in identifying and understanding their core problems, and then engaging other key actors when solutions were proposed. However, during the implementation of activities, the unions remained the primary leaders. A committed ownership of the partnerships by the cooperatives and unions was critical to realizing the targets that were defined by the partnership.

Improving professionalization at the union level is fundamental to translating theory into practice. Overcoming the weakness of farmers' organizations in their mindsets and business orientation, together with raising their level of professionalization, will attract different segments of buyers who are interested in the scale of production and keen to influence the production system to meet their quality parameters. The experience of 2SCALE clearly indicated that with a little strategic support, cooperatives and unions are able to tailor their services to the particular conditions of smallholder farmers and at the same time attract big buyers. In doing so, the cooperatives and unions play a key role as drivers of inclusive development with the ability to tailor their services to the particular needs of smallholder farmers, who would otherwise not be able to integrate themselves into well-functioning value chains.



IFDC | Practical irrigation water management training, Ethiopia



Joris Maatman | Onions produced by Meki Batu, Ethiopia

This paper is part of a series in which 2SCALE facilitators and coordinators share their experiences. Contributors: Abalo Adodo, Grégoire Oniankitan Agai, Mathias Ahounou, Geneviève Audet-Bélangier, Tekalgn Ayano, Judith Chabari, Assefa Degefu, François Dossouhoui, Peter Gildemacher, Olugbenga Stephen Idowu, Alhassan Issahaku, Peter Kiriimi, Eric Lakoussan, Arnoldus Maatman, Janet Macharia, Douglas Magaja, Jacqueline Ndambuki, David Njenga, Irene Njogu, Francis Nthuku, Thompson Ogunsanmi, Gabriel Olengo, Kwame Pipim, Hiwot Shimeles, Faoussa Tadjou, Addis Teshome, Baba Togola, Mahamane Toure, Youssef Traore, Niek van Dijk, Ajay Varadachary, Raphael Vogelsperger, Allan Wayira and Bertus Wennink.

2SCALE manages public-private partnerships (PPPs) for inclusive agri-business in Africa. Partnership agreements are developed with companies with inclusive business agendas. 2SCALE offers support services to companies, farmer groups and other relevant stakeholders – enabling them to produce, transform and supply quality food products to local, national and regional markets, including Base of the Pyramid consumers. 2SCALE strengthens the capacity of grassroots and value chain actors, supports innovation and coordinated action, and improves skills to assure effective participation in markets. The focus countries of the programme are Benin, Ethiopia, Ghana, Ivory Coast, Kenya, Mali, Mozambique, Nigeria and Uganda.

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