

1 CHALLENGING IMPOSSIBLE-LOOKING HURDLES

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CHALLENGE

Arbaminch Zuria, a district (*woreda*) in the Gamogofa administrative zone of the Southern Region of Ethiopia, is known for its high potential in tropical fruit production (mainly mango, banana, lemon and papaya). The area contributes 10 to 15% of the estimated 135,000 tonnes national fruit production. However, its potential is much higher and supply to the Addis Ababa market could be as high as 40% of the total amount delivered to the capital city.

There are nine major mango producing *kebeles* (villages) in the *woreda*, with an estimated 8000 households. The average number of mango trees per household is 16 (ranging from 2 to 85 trees). Most of the farmers have planted two types of local varieties, which are not identified by names. These local varieties are fibrous and have large kernels compared to the ratio of fruit flesh. Since 2004, attempts



have been made by different actors to introduce improved varieties. As a result, smallholder farmers have planted about 16,000 seedlings of Kent, Tommy Atkins and Apple mangoes with an estimated 90% success. These seedlings have begun to bear fruit this year (2009). SNV's BOAM programme is supporting the introduction of new and faster technology (top-working) to change the old mango trees into improved

and marketable types.

Presently, mango sales contribute 10% of the household income in Arbaminch Zuria *woreda*. The estimated total annual mango production in the *woreda* is 32,384 tonnes¹. Out of this, 25% (8,096 tonnes)² is the estimated post-harvest loss. Thus the marketable amount of mango per annum from the *woreda* is estimated to be 24,288 tonnes. From this potential marketable amount, only 1,440 tonnes³ (6%) are formally marketed through Addis Ababa fruits and vegetables wholesalers. The rest is retailed and consumed locally in Arbaminch and other towns in the region (Wolayita, Shashemene, Awassa, etc.).



The marketing structure of mango is has only a few dominant buyers. A small number of fruit wholesalers in Addis Ababa decide on the price and indirectly on the volume of supply to the Addis Ababa retail shops. They use middlemen to influence market equilibrium and farm gate prices for their own benefit. Because of poor institutional strength, producer organisations have not been able to challenge this situation. This situation points to the need for structured market arrangements and strengthened local market actors (producers organisations) so as to increase the volume of sales in the formal markets and add to the income of the smallholder producers in the area.

¹ Total number of mango-producing households in the *woreda* is 8,000 (in 9 *kebeles*). Total production is calculated assuming 0.253 tonnes per tree and an average of 16 trees per household for the total of 8,000 households.

² Post-harvest losses are attributed to unripe mango harvesting, the use of sticks to harvest the fruits from big trees and the mulching process used to force the mangoes to ripe under heat pressure.

³ Formally marketed volume is calculated on the basis of 10 trucks/week, 6 tonnes of fruit/truck over a 6-month mango production period in a year (source: Addis wholesalers).

The Lante Fruits and Vegetables Marketing Cooperative

The Lante Fruits and Vegetables Marketing Primary Cooperative is one of the nine cooperatives established in the Arbaminch Zuria *woreda* to improve the smallholder producers' market access, primarily their members but also the surrounding farmers. The cooperative was established in August 2007 and has currently 104 active members (95 male and 9 female). It is engaged in the marketing of mango, banana and vegetables and provides different goods and services to its members and the surrounding community. The cooperative has, within its short lifetime, demonstrated promising progresses in business growth and membership.

An assessment survey commissioned by SNV identified the major problems constraining mango production and marketing in the Arbaminch area, and proposed some leverage intervention strategies. These strategies were validated and prioritised in two consecutive consultative stakeholders meetings. Strengthening producer organisations was one of the five priority intervention areas identified by the stakeholders. This has formed the base of SNV's intervention with the Lante Fruits and Vegetables Marketing Cooperative.

A formal engagement agreement was signed and became effective in January 2008 for a period of one year. The understanding, however, was that strengthening producers organisations to the level of building "entrepreneurship or business-oriented thinking" might take longer than one year and the agreement could be extended depending on the interest of both parties, hence the extension to 2009.

METHOD / SNV INTERVENTION

The general thinking of cooperatives development promoters and cooperatives themselves focuses more on addressing social needs than achieving economic objectives. Given the current market dynamics, such thinking needs to shift if cooperatives are to be competitive. At the same time, care has to be taken not to compromise the members' interests and their control over their organisation.

In order to strengthen its marketing effectiveness and improve its competitive position, the Lante cooperative needed to develop a sound and bankable business plan. With the intensive participation of the management and some selected members, a 10-year business plan was developed. Conceptual briefings for all business plan contents (business and industry scanning, visioning, competitors analysis, marketing strategy development, financial forecasting, etc.) were provided for a step-by-step build-up of their plan. The process was facilitated and compiled by a local capacity builder⁴ commissioned by SNV. The government's cooperative promotion desk was involved in the process, so as to ensure a sustainable technical support during implementation of the business plan.

The cooperative was also trained in general cooperatives management (leadership) principles and values, marketing strategies development, and human and financial resources and property management. It has received support in promoting its business through various media and has been linked with the Rural Finance Fund Agency (government support for financing rural development initiatives). Discussions on preconditions for access are facilitated by SNV in the CG meetings and in bilateral talks with the cooperative and the agency. In Addis Ababa, the cooperative had various discussions with the fruits wholesalers with a view to improving market linkages and market information sharing.

⁴ Bafana Bafana Business consultancy and training organisation.

Box 1: Constraints and priority interventions identified for mango production and marketing in the Arbaminch area

SNV in collaboration with consultants from Global Development Solutions identified the major constraints and opportunities in mango production and marketing in the Arbaminch area. Constraints include:

- Lack of knowledge, skills and facilities in production, harvesting and post harvest handling
- Limited mango varieties in the area, and limited capacity in R&D and extension services to promote improved and marketable mango varieties introduction;
- Prevalence of mango fruit diseases and pests
- Limited market access for smallholder producers (weak institutional capacity of producer organizations)
- Limited (lack of) processing industries in the sub sector.

In a two-step consultative meeting of major stakeholders, including representatives of smallholder producers, producers organisations, agriculture and rural development offices at all levels, cooperatives promotion offices, locally located NGOs, regional marketing agencies, and private traders, validated, enriched and prioritised those constraints and suggested strategic interventions.

Accordingly, five intervention areas were given top priority and are the bases for the SNV BOAM programme support in the Arbaminch area. These priorities are to:

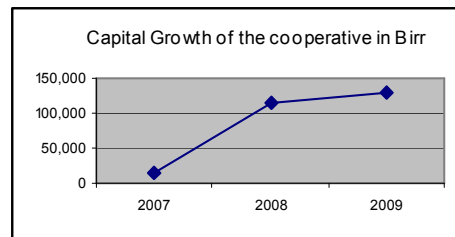
OUTCOME

Improved marketing strategies. Following the training and the business planning process, the Lante cooperative reduced its dependency on the Addis Ababa wholesalers and expanded its marketing outlet to other towns and companies in the country. Having recognized the significant role of transport in its business, the cooperative decided to buy its own truck to overcome transportation problems.

Increased membership. As a result of its strong selling position, the number of active cooperative members increased from 60 in 2007 to 104 in 2009. While still low, the number of female members nevertheless increased (from 2 in 2007 to 9 in 2009).

Increased income for members. Before the intervention of SNV, the farm gate price of mango was 0.50 birr/kg. Thanks to the improved marketing capacity of the cooperatives (particularly the Lante cooperative) and the business linkages created with both new and existing buyers, the price of mango increased to 1.00 birr/kg, thus doubling the members' income. An unintended effect was observed on the price of banana. The cooperative's improved marketing and leadership capacity generated a stiff competition for banana with private traders. As a result, the price of banana increased from 0.80 birr/kg to 2.00 birr/kg at farm gate.

Improved financial position of the cooperative. At the time of its



establishment in 2007, the Lante cooperative's capital was 20,000 Birr, coming from membership fees and the sale of extra shares to existing members. With increased membership and the capital retained from the sales of mango and banana, the cooperative's capital has currently reached 130,000 Birr, a

more than sixfold increase within two years. In addition, the cooperative made a second payment (share of profit) to its members in 2008 and 2009.

In 2008, the Lante cooperative for the first time sold 467 tonnes of mango to Etfruit, the bulk buyer of fruit in Ethiopia. Never before had mango been marketed through a primary cooperative. In 2009, however, the total volume sold through the cooperative dropped to 60 tonnes. This is because the cooperative terminated its contract with Etfruit in order to trade with other buyers in different regional towns. As a result, the net gain from mango trading in 2009 is lower than in the previous year (effect of economies of scale).

Improved collaboration among cooperatives and negotiation power over wholesalers. The cooperatives' negotiation power over price setting has improved substantially vis-à-vis the Addis Ababa wholesalers. The Lante cooperative is currently selling its produce in Mekele and Nazareth. It established business relationships with three similar cooperatives in the Arba Minch area (Abayamile, Chanochalaba Erze and Chanodorga) to strengthen collaboration in addressing common marketing problems. This is giving the cooperatives the possibility to negotiate prices with wholesalers and their middlemen. As a result, they are now able to challenge the unshakable and impossible-looking position of the Addis Ababa wholesalers with regard to price, volume of sales, and alternative markets for their products.

IMPACT

With the small support provided by SNV, the Lante Fruits and Vegetables Marketing Primary Cooperative has walked a long way and made quite significant progress in terms of membership mobilization and business growth. By exploring new markets, the cooperative has reduced its dependency on a handful of buyers in Addis Ababa. Its bargaining strength has improved substantially.

LESSONS LEARNED

Adherence to long-term contracts between producers organisations and formal buyers continues to be challenged by the influence of local traders creating artificial price increases when buying from smallholder producers. Intensive participation in the business plan preparation process, especially the internal assessment and business environment scanning, has strengthened the management's commitment to running the cooperative's business in a competitive manner. During result measurement, the executives explained that members too are becoming increasingly supportive of improving the cooperative's business positions. This confirms that with tailored capacity-building interventions, producers organisations (cooperatives) easily make use of the support made available and produce change.

Undoubtedly, being organised in cooperatives fosters collective action towards integrating smallholder farmers into dynamic markets, and provides opportunity for increased bargaining power *vis-à-vis* other actors in the value chain. This is witnessed by the Lante cooperative as well. However, to properly deal with new emerging consumer demands, stricter market requirements and price instability, the Lante cooperative will need more entrepreneurial attitude and skills.

Conclusion

The major challenge cooperatives face when moving towards economic entrepreneurship is dealing with the inevitable trade-offs between engaging in new entrepreneurial relations while remaining an organisation that is truly controlled by, and works for the benefit of, its members. The ability and commitment to manage the right balance between business orientation and social goals requires unique entrepreneurship skills and management. Support from the government and other actors should therefore foresee strategies that enable cooperatives to develop a democratic, inclusive and transparent management system and build leadership that represents members' interests.