

PASTORAL LIVESTOCK MARKETING GROUPS IN SOUTHERN ETHIOPIA: SOME PRELIMINARY FINDINGS¹



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Background

The export strategy in the livestock sub-sector in Ethiopia is increasingly shifting from live animals to chilled/frozen red meat. Among other things, three major factors are attributable to this change of focus: 1) the ban on live animal imports by Middle Eastern countries (most notably Saudi Arabia) in the last few years; 2) the landlocked status of the country; and, 3) the relative ease and less capital requirements associated with chilled meat exports.

There are five export-standard slaughterhouses actively engaged in the meat export business, and perhaps two or three other companies involved in live animal exports, the latter, on intermittent basis. The red meat export is dominated by chilled chevron (goat meat) to a large extent followed by mutton to Middle Eastern countries. Occasionally, frozen beef exports also take place to other destinations in small quantities. Shoats purchased for carcass export are predominantly of 15-25 Kg live weight. In some cases the range may extend up to 35 Kg live weight depending on the export destination. The carcass range therefore varies between 7 and 16 Kg per shoat (at 45% dressing weight). Shoats are sourced mainly from the pastoral areas of the South, Southwestern and Eastern parts of the country for the abattoirs. The catchment area per each purchasing site may extend up to a radius of 200 Kms and more.

The shift towards chilled meat export and the sourcing of supplies from the southern rangelands led to the initiation of establishing pilot pastoral livestock marketing groups along the Yabelo and Negelle supply routes. By the time the project idea was conceived, there was only one exporter (Elfora Plc) purchasing shoats from these supply routes. The pilot project was designed to achieve three main objectives: i) to establish direct marketing linkages between producer groups and the export abattoirs so that the cuts taken by middlemen are transferred to the former; ii) to increase the number of exporters operating in the area; and, iii) to improve market integration and efficiency by reducing unnecessary transaction costs.

Some eleven pastoral groups were selected for the pilot project. These groups have been operating for about three years as savings and credit groups before they were incorporated in the pilot livestock marketing project. These groups have received financial support from GL-CRSP and AFD while operating as savings and credit groups in which their savings were matched with financial grants to enable them operate as Grameen-type groups. Under this set up, alternate members of the group are given loans for a period of six months usually for petty trading. The groups still receive technical support from GL-CRSP, AFD and the relevant Agriculture Bureaus in Negelle and Moyale through the Co-operative department. Their engagement in business and the technical support they receive from the various agencies were the basis for which the eleven groups were selected for this undertaking.

The project was initiated with the active involvement of the Pastoral Livestock Marketing Groups (PLMG), the Livestock Marketing Authority (now Livestock and Fisheries Marketing Department), Global Livestock – Cooperative Research Services Programme (GL-CRSP), Action for Development (AFD) and the Community-based Animal Health and Participatory Epidemiology (CAPE) Unit of African Union – InterAfrican Bureau for Animal Resources (AU-IBAR), which also funded the project. Each PLMG received 23,000 Birr for this undertaking. Three of these groups are located in Moyale, of which two are women groups. Five other groups are located in Did Hara, close to Yabelo, their members constituting both men and women. Three of the remaining groups are located near Negelle. All members of the Negelle groups are women.

Technical and administrative support is provided by the woreda co-operative unit of the MOA for the groups in Moyale and Negelle. The groups in Yabelo receive similar support from AFD, the lead agency for this project. Additional technical assistance is provided for all the groups from the field officer of GL-CRSP. Progress is monitored by the CAPE Unit of AU-IBAR.

The project commenced by introducing the pastoral livestock marketing groups to the owners of export abattoirs and tanneries. First, selected members of the PLMGs were taken on a tour to the abattoirs and tanneries located around Mojo and Debrezeit towns to visit the facilities. This tour served as an eye opener for most of the PLMG members whose social and business interactions were confined within their woredas or districts. Following the tour, a meeting was held between the PLMG members and the exporters in Mojo town. This meeting was facilitated by the then LMA and incorporated participants from GL-CRSP and AFD. This meeting provided a forum both for the PLMG members and the exporters to discuss various issues of mutual interest.

Similarly, a weeklong tour was organized for the abattoir owners to the pastoral areas of Borana and Negele to meet and discuss with pastoralists and individual traders. This tour was facilitated by the then LMA, ADF and GL-CRSP. This tour provided the abattoir owners with the opportunity to assess the potentials of the area. It also enabled both parties including small-scale individual livestock traders to meet and discuss potential business deals at the local level. This led to the operationalization of the PLMGs and the exporters in the project area.

Objective

The objective of this assignment was to assess the performance of the pastoral livestock marketing groups with a view to expanding similar initiatives in other pastoral areas (Guji, south Omo, Oromia, Afar and Somali). By the time the field assessment was conducted, the groups have been in operation for about 6 months – a reasonable length of period to provide some useful indicators if not definite conclusions. It is hoped that the lessons drawn from this assessment will be instrumental in improving the operational modality and efficiency of both the existing PLMGs and those to be established in the future.

Methodology

A field assessment was carried out between 3 and 10 August 2004 in Moyale, Yabelo and Negele. Group discussions focusing on performance and challenges so far along with prospects for the future were held with eight of the eleven PLMGs (3 in Moyale, 4 in Did Hara, Yabello and 2 in Negelle). The financial records of five of the PLMGs were also reviewed. Additionally, third party views were obtained from discussions held with the field officers of the cooperative departments of the respective Bureaus of Agriculture in Moyale and Negelle along with the representative of the ADF in Yabelo, which is providing technical support for the PLMGs in Yabello. Meetings were held with the representatives of the Luna export abattoir in Yabelo and Negelle as well as with Elfora in Negelle² in order to incorporate the exporters views on the PLMGs and the operational modalities of the respective organisations. The representatives also elaborated on their interaction with the local officials. Further opinions were also obtained from the staff of CARE, the cooperative department of the Zonal Bureau of Agriculture and a staff member of VOCA who was in Yabelo at the time. Relevant materials including project progress and updates were also consulted.

² Regrettably, the representative of Elfora in Yabelo declined to hold discussions with the Assessment Team.

Summary of Main findings

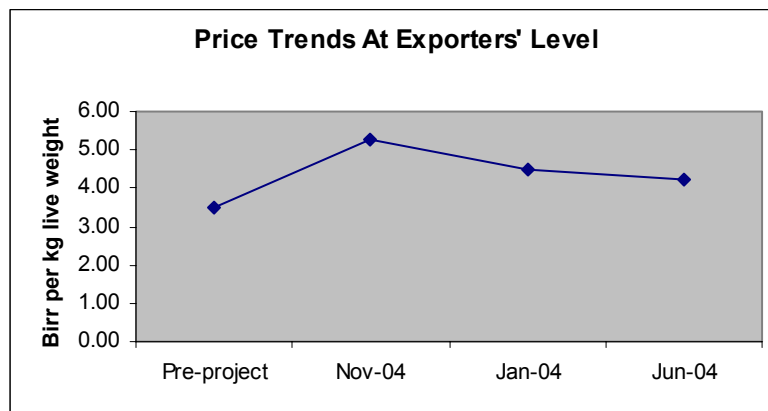
I Impacts

1.1 Increase in the number of exporters operating in the project area

Shortly after the exporters' introductory visit at the launching of the project, two additional exporters namely Luna and Mojo (Safi Trading) began operating in the area. As a result, the total number of exporters operating in the area increased to three.

1.2 Increase in the selling price of the PLMGs and Traders

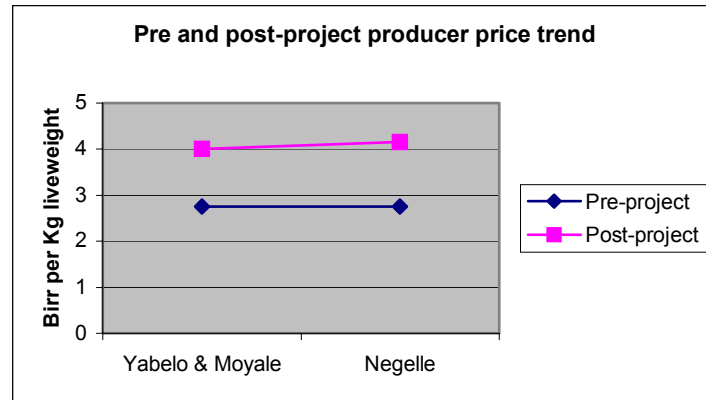
Competition between the exporters following the introductory visit raised the exporters buying price from Birr 3.50 to Birr 5.25 per Kg live weight for a duration of one month. This in turn stabilized at Birr 4.50 for approximately five months. At the time of the assessment, shoats price dropped down to Birr 4.25 per Kg live weight. This price trend shows an increase of 50, 43, and 36 percent respectively from the pre-project period, although a steady downward trend is being observed. However, shoats prices are normally higher during the Ramadan season.



1.3 Increase in the selling price of producers

A significant increase was observed in the price obtained at the producer level following the formation of the PLMGs, which led to fierce competition between the groups and the private traders. As a result, the producer price rose from the pre-project level of Birr 2.75 per kg live weight to Birr 4.00. The producer price stabilized at this level (in Yabello and Moyale) despite the downward trend in the price offered by the exporters shown as in 1.2 above. In Negelle, the producer price further increased to Birr 4.15. This represents a price increase of 45 and 50% for the producers along the Yabelo and Negele supply routes respectively. This, in turn, significantly reduced the gross margin of both the private traders and the PLMGs to Birr 0.50 and Birr 0.35 in Yabello and Negelle respectively while the exporters' buying price was Birr 4.50 per Kg live weight. At the price of Birr 4.25 per kg live weight, the gross margin of the private traders and the PLMGs further reduced to Birr 0.25 in Yabello and Moyale and to Birr 0.10 in

Negelle per kg live weight. Producers, as a result, were receiving 94% of the retail price in Yabelo and Moyale and 97.6% of the retail price in Negelle. By contrast, a 1995 Winrock International study shows cattle producers receiving 55% of the retail price in Ethiopia.



1.4 Market information (price awareness among producers)

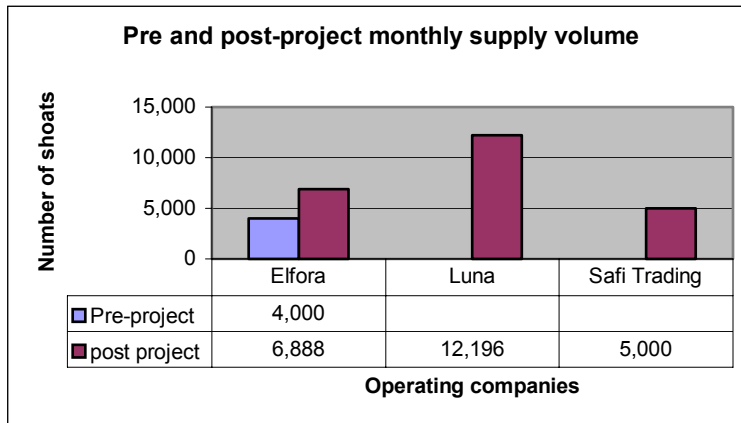
Almost all producers, especially those within a radius of about 100 Kms from the purchasing centers, are well aware of the market price for shoats through word of mouth without the need to use conventional media (radio, TV etc.). This proves that market information works best when there is a demand for a product rather than the vice versa.

1.5 An increase in the number of private traders

It appears that the number of small-scale traders increased in the project area following the meeting held between the exporters and private small-scale traders (actual figures were difficult to obtain as many operate without license). Apparently, this increase created a competitive environment among traders and between them and the PLMGs. This competition, in turn, kept the price paid to the producer at constant level despite the variations in the exporters buying price. The growth in the number of small-scale traders has also expanded the catchment area for supplies to distant and remote areas (see 1.8 below)

1.6 Increased off-take

The increase in the number of private traders and exporters operating in the area combined with the involvement of the PLMGs in livestock marketing resulted in the producer receiving a fair percentage of the retail price. This, in turn, significantly increased the supply volume from the project area. As a result, supply volume increased six-fold compared to an average monthly supply of 4,000 shoats prior to the launching of the project.



Source: Tefera and Makonnen for Luna Yabelo and Negelle; Abdi for Elfora Negelle
 Estimates were made for Safi as agents were not available. See footnote for Elfora Yabello³

Total monthly income of producers⁴ from livestock sales

Yabelo supply route = 12,000 shoats x 20 Kg x Birr 4.00/Kg = Birr 960, 000 (US\$ 111,627)

Negele supply route = 12,000 shoats x 20 Kg x Birr 4.15/kg = Birr 996, 704 (US\$ 115,814)

Total monthly income to producers = Birr 1,956,704 (US\$ 227,441)

Total monthly income of PLMGs and private traders from trading in shoats

At selling price of Birr 4.50/kg (representing a gross margin of Birr 0.50 for suppliers in Yabelo and Birr 0.35/kg for suppliers in Negele)

Yabelo supply route = 12,000 shoats x 20 Kg x Birr 0.50/kg = Birr 120,000 (US\$ 13,953)

Negele supply route = 12,000 shoats x 20 Kg x Birr 0.35/Kg = Birr 84,000 (US\$ 9,767)

Monthly gross margin at Birr 4.50/Kg = Birr 204,000 (US\$ 23,720)

Or

At a selling price of Birr 4.25/kg (representing a gross margin of Birr 0.25 for suppliers in Yabelo and Birr 0.10 for suppliers in Negele)

Yabelo supply route = 12,000 shoats x 20 kg x Birr 0.25/kg = Birr 60,000 (US\$ 6,977)

Negele supply route = 12,000 shoats x 20 Kg x Birr 0.10/kg = Birr 24,000 (US\$ 2,790)

Monthly gross margin at Birr 4.25/kg = Birr 84,000 (US\$ 9,767)

Gross monthly income of transporters

Transport cost of one shoat from purchasing site to the abattoirs = Birr 13 x 24,000 shoats = **Birr 312,000 (US\$36,279)**

³ The Elfora representative in Yabelo was not willing to provide figures

⁴ Figures are rounded to 12,000 shoats for Negelle and Moyale

1.7 Expansion of market shade (catchment area)

Increasing competition between PLMGs and traders resulted in the expansion of catchment areas. Satellite purchasing sites for the Yabelo supply route stretch as far as Moyale in the south (200 Kms from Yabelo). The PLMGs in Moyale in turn source supplies from distant places in Kenya (such as Wajir and Elwak⁵). In a move to expand the catchment area, Moyale PLMG members were observed holding discussions with potential Kenyan suppliers for sourcing shoats from Sololo area. In the West, the Yabelo catchment area extends as far as South Omo making such satellite purchasing sites such as Konso an important point of supply⁶. Similarly, supplies for Negelle come from as far as Dolo and Suftu in the South (a distance of some 300 Kms) and from Delo and Genale areas of Bale⁷ (about 250 Kms)

1.6 Selling shoats for non-members on commission

The Tilie Medo group in Moyale pioneered providing services for non-member producers and producers/traders to sell shoats through them for a commission of Birr 2 per shoat initially, later reduced to Birr 1 per shoat. Out of the group's total net profit of Birr 8,700 as at August 2004, Birr 3,198 was realized through commissions from non-members. Similarly, of the Birr 2,430 net profit realized as at August 2004 by the Meleb group in Moyale, some 400 Birr was raised through commissioned sales. This practice could inspire producers and producers/traders to be directly affiliated within the PLMGs.

1.7 Cash advance from exporters

LUNA export abattoir has agreed to advance 10,000 Birr for Tilie Medo group in Moyale to alleviate their cash flow problem and boost their operational capacity. This gesture from LUNA heralds a new level of relationship with the Tilie Medo group. This is considered as a mile stone in the whole operation since cash flow problem is a major constraint for the PLMGs as their working capital is tied up for a considerable time in the process of purchasing, collecting, assembling and delivering the shoats to the export abattoirs.

1.8 Profit levels – The highest profit level is recorded by the Tilie Medo group amounting to approximately Birr 9,000 at the beginning of August 2004. The five women groups in Moyale and Negelle have also accrued profit levels ranging between 1,500 and 4,500 Birr each at the beginning of August 2004. Of the five groups in Yabelo, one has registered a profit level of Birr 3,500 while another managed to salvage a profit level of Birr 400. Yet, despite the profit earned from trading in shoats, the two groups switched to cattle trading. The remaining three groups each incurred losses not exceeding Birr 800 and yet moved to cattle trading.

1.9 Potentials to work with live animal traders/exporters

Irregular live animal exporters (mainly dealing with calves and cattle) who were introduced to the project area through the LMFD are showing keen interest to developing business partnerships with the PLMGs. This could provide an alternative business for the PLMGs as the trade in shoats is increasingly becoming competitive.

⁵ Interview with Ato Abdi, PLMG chairman, Tilie Medo group in Moyale

⁶ Interview with Ato Makonnen, Luna representative, Yabelo

⁷ Interview with Ato Tefera, Luna representative, Negelle

2.0 Similar initiatives by other agencies

Other agencies are also setting up similar PLMGs. CARE has financed two groups in Dilo and Elwaye (with US\$7,000 for each group) that are now supplying shoats to the exporters. There is a possibility that other agencies might follow suit in which case a harmonised approach will be necessary at some point. VOCA plans to facilitate the establishment of a Union⁸ composed of some seven cooperatives.

II Some Issues of Concern

2.1 *Delays in effecting payments* - While exporters like Luna have shown substantial improvement in effecting payments within a week's time after collecting the shoats (and even in providing advance working capital at least for one group in Moyale), others like Elfora take an average of a month. Such delayed payments severely constrain the group's capacity to purchase shoats. An average delay of one month in receiving payments means that the PLMGs can only be operational for only six months of the year.

2.2 *Delays in the collection of shoats* – At the initial stage of the project, exporters did not collect shoats from the PLMGs on time. The resultant inventory costs and losses due to mortality suffered by some of the PLMGs at the early stage of the operation forced some of them to switch to cattle trading instead of shoats. This was particularly evident with the Did Hara PLMGs in Yabello.

2.3 *Orders not honored* – It was reported that Safi trading failed to honour its verbal order for shoats weighing over 25 Kgs from the PLMGs in Moyale. Apparently, after waiting for two months and loosing 61 shoats due to diseases, predators, feed shortage etc, the PLMGs were forced to sell the remaining shoats at a loss in the local market.

2.4 *Collection of shoats without delivery notes* – It appears that exporters do not issue delivery notes to the PLMGs when collecting shoats. This practice puts the PLMGs at risk, as they are unable to make legal claims in case of breaches due to various reasons.

2.5 *Lack of effective communication between the exporters and the PLMGs* – The exporters tend to lower price without prior communication to the PLMGs. This situation puts the PLMGs at a disadvantage in terms of adjusting their purchasing price accordingly. Apparently, there were two occasions whereby unexpected price declines resulted in significant losses to the PLMGs.

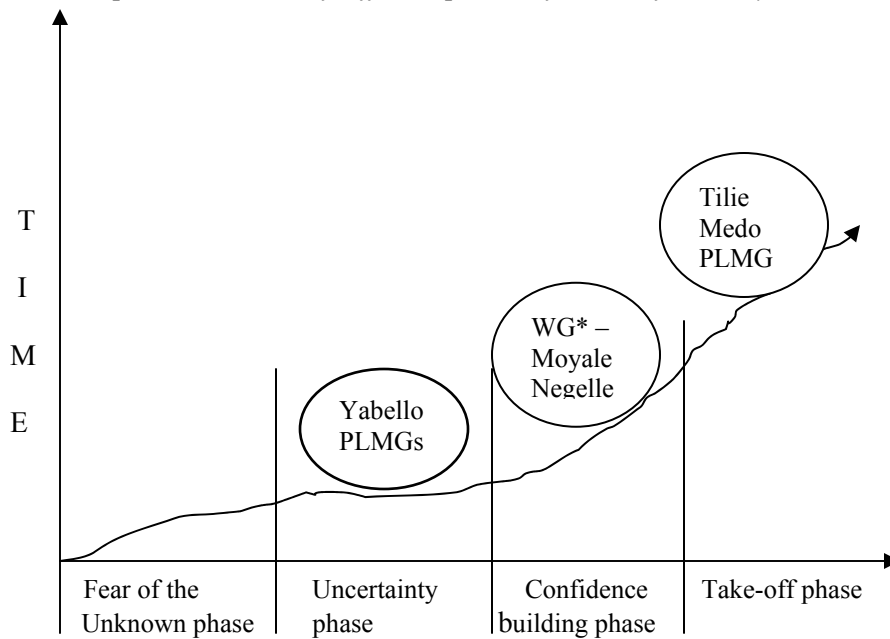
2.6 *Syndicate type operations* – It appears that the competition that existed between the exporters tends to create syndicate type of operations whereby clandestine agreements are being made on price offers to traders and the PLMGs. This practice may have been facilitated through the common forum of the Exporters Association. More recently, however, prices changes seem to be better coordinated among all exporters simultaneously.

2.7 *Group Performance* – The PLMGs have gone through various phases in terms of familiarizing themselves with the abc of trading. As such, they moved from the stages of *fear of the unknown* to *uncertainty* and to *confidence building* before reaching the final take off stage. Nonetheless, of the eleven PLMGs incorporated in this project, five groups in Yabelo are still at the uncertainty phase and as a result have switched to cattle trading in which they are more

⁸ A consortium of Cooperative Associations

confident and familiar. The five women groups in Negelle and Moyale are found in a confidence-building phase and are keen to continuing in shoats trading. The Tilie Medo group in Moyale has reached the take off phase and has even secured an advance working capital from Luna. Also, the Negelle and Moyale groups intend to diversify into cattle trading in addition to shoats if their capital base allows them to do so. However, the fact that shoats trading is becoming less profitable in Negelle could also be the other reason for the groups' intention to diversify into cattle trading.

Graphic illustration of different phases of trade reflected by the PLMGs



* WG = Women's Group

2.8 Institutional support – Despite being the lead agency of this project and directly in charge of the five groups in Yabelo, a local NGO seems to have failed to provide the necessary technical and directional support to the PLMGs. This, in turn, has led to three of the groups incurring losses and ultimately switching to cattle trading. The fact that even the other two profitable groups in Yabelo have switched to cattle trading reflects profoundly the lack of technical and directional support these groups should have been provided. By contrast, despite limited means and shortage of manpower, the respective cooperative Bureaux of the MoA in Moyale and Negelle managed to provide appropriate technical support to the PLMGs under their supervision. This appears to have enabled the Moyale and Negelle PLMGs to be more dynamic and profitable than those in Yabelo. GL-CRSP also provided critical directional support to the PLMGs from time to time.

2.9 Fierce competition with private traders – The formation of the PLMGs raised the price received by the producers and significantly increased the volume of supplies to the abattoirs as a

result of competition between the two parties. However, the PLMGs are not in a position to compete on equal footing with that of the private traders as the latter operate with higher capital base. In addition, the private traders managed to appoint agents in various markets enabling them to make key decisions on the spot compared to the PLMGs that can only implement decisions reached by consensus. Furthermore, the small working capital of the PLMGs is usually tied up due to delayed payments, literally putting them out of market at times, thereby, loosing actual and potential clients. Private traders also employ psychological tactics and sometimes even pay the producers higher prices in order to push the PLMGs out of the market. All these have negatively impacted the performance of the PLMGs.

3.0 Inadequate supplies – There are indications of shortages of supplies for small shoats (below 25 Kgs live weight) for which there is an overwhelming demand. According to the producers, however, the market is non-existent for larger shoats of over 25 Kgs live weight and cattle in general.

3.1 Local government support – Both the PLMGs, private traders and exporters expressed their concern regarding lack of support and in some cases harassment by local officials as one of the factors affecting their operation. These include locally imposed taxes and levies particularly in the Somali Region. In some parts of Oromia, different kinds of harassment by local officials have also been reported.

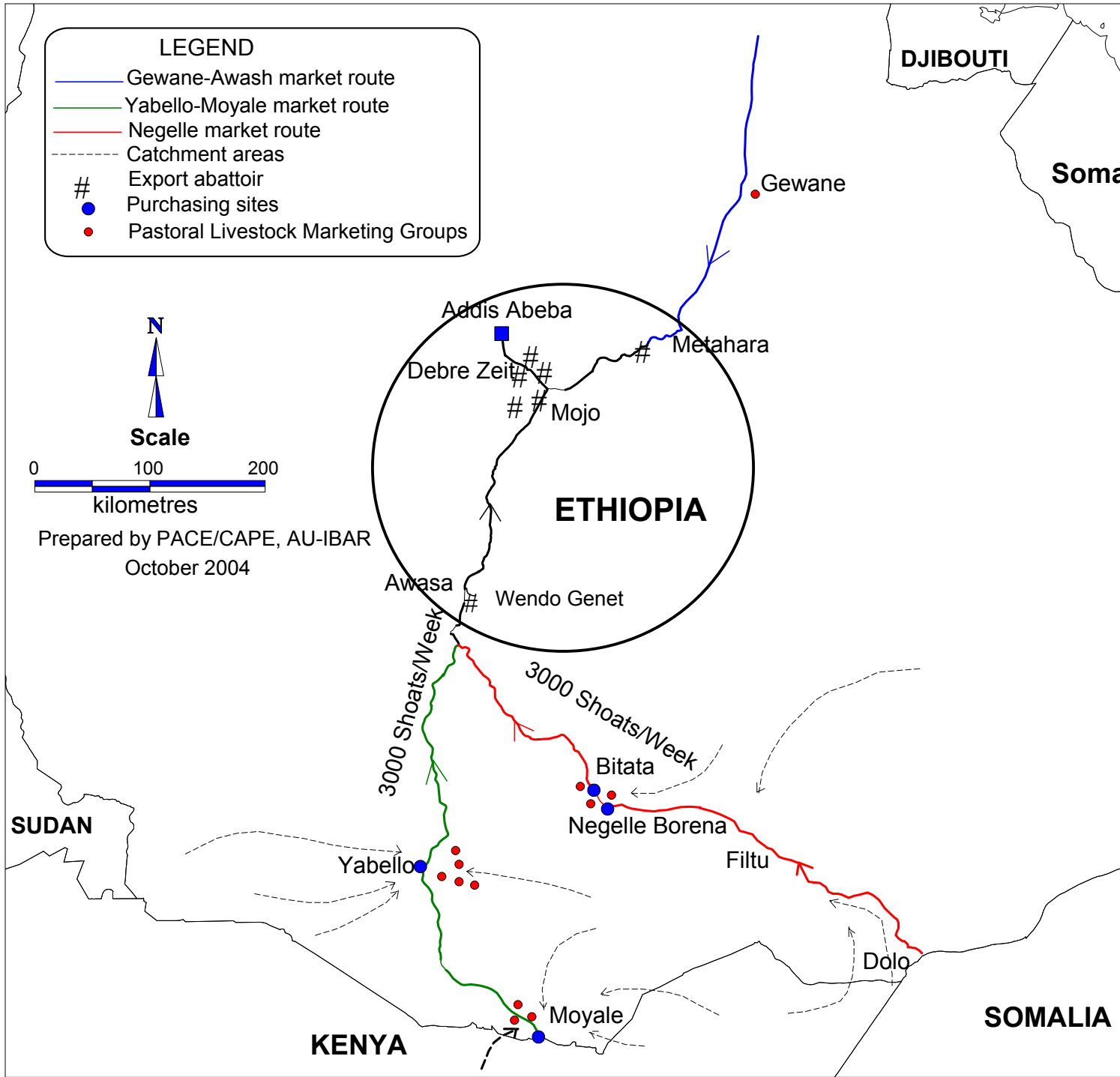
Conclusions and Recommendations

The PLMGs have proved that they can be viable business ventures provided that they obtain adequate financial, technical and management support and that they can be replicated in other pastoral areas. However, the lessons learned from this assessment suggest that a number of measures have to be taken to improve the performance and profitability of the PLMGs. These include:

1. First, it should be emphasized that transforming producers to traders is a difficult task necessitating carefully designed skills training and adequate time. In this regard, the PLMGs require strong and continuous technical support from partner agencies (Co-op departments, NGOs etc) for at least two years. Also, the technical support provided to the PLMGs should be backed by rigorous training on business management, accounting, group dynamics and negotiation, problem solving, strategic planning etc to enable them manage their business effectively through informed decision. As such, the training should incorporate experience sharing by exposing members of the PLMGs to areas outside of their immediate environment such as to terminal domestic markets. This practice could also give PLMGs the opportunity to identify potential businesses (e.g. supplying hides and skins, cattle and large shoats for the terminal markets in Dilla, Awassa and Addis) and business partners including large-scale local traders. The training should also focus on broadening the business horizon of the PLMGs to explore ways of augmenting their income through complementary businesses such as acquiring light trucks that could be used for transporting shoats to the export abattoirs. This additional income could, in turn, be used to promote their businesses.
2. The effectiveness of the technical support and training provided to the PLMGs will

largely depend on the technical capacity and vision of the staff in partner organisations providing such services to the PLMGs. In other words, do those assigned to work with the PLMGs (either through Government or NGOs) have the capacity and commitment to impart their knowledge and provide management support to the PLMGs? Do they need training to upgrade their skills or even bring a change in attitude? Such issues have to be seriously addressed if positive impact is to be seen as a result of the collaboration between PLMGs and partner organizations. Incidentally, it appears that most co-op staff members in the project areas are overwhelmed, as each staff has to cover more than ten associations or cooperatives. This calls for a need to review the number of associations or cooperatives served by each co-op staff member in order to improve the performance of the groups rather than forming new ones.

3. Given the current financial constraints and the increasing competition they face from private traders, the PLMGs need to devise a strategy to significantly increase their turn over volume. For instance, Tilie Medo and Meleb groups have augmented their income by selling shoats on behalf of non-members on commission basis. Can they capitalize on this strategy to turn non-member clientele into affiliate members? Such strategy would enable PLMGs not only to expand their clientele base of part time traders and producers, but it would also command loyalty from this expanding base as potential affiliate members. In sum, if the PLMGs reorganize themselves into sort of loose and broad based organisations, then they will become a force to be reckoned with by the exporters and others in the industry.
4. Finally, continuous dialogue between the PLMGs and the exporters is crucial to sort out contractual issues, timely payments, advance notice on price changes, use of official delivery notes and so on. More over, as this is a continuous process, there is a need to identify appropriate institutions that can facilitate such dialogues between the two parties.
5. Losses due to mortality of shoats arising from simple treatable diseases such as diarrhea could be reduced by employing the services of Community-based Animal Health Workers or by incorporating them as members of the PLMGs.



Main Supply Routes of Shoats from Southern Ethiopia

