



Bringing farmers and buyers together: options for innovating sesame business relations and modalities

Most of the Ethiopian sesame is exported in bulk, **with** China as the predominant destination. Exporters focus on volume rather than quality. The vast majority of sales (98%) is channelled through the ECX. Buyers and producers do not know each other, except for the recent direct deals of cooperative unions and international buyers. Production cost price reduction, **one of the three first pillars of the SBN**, remains important for price competitiveness. The presence of cooperatives at spot markets, important for farmers to get a good price and reduce dependency on traders, requires both input and output credit solutions. A strategic challenge is to (re-) position the white sesame of northwest Ethiopia as a quality product for the international bakery and tahini sectors. Competition on quality, which is likely to become more important, requires improvement of harvested and stored sesame, cleaning and processing. Different options for farmer-buyer relations exist. A step-by-step and case-by-case approach is proposed to innovate the sesame business sector and to improve the quality and reputation of Ethiopian sesame. Practical cases and possible pilots are suggested.

Quick facts on the 2013-14 marketing season

- ◆ 2.3 million quintals recorded trade in 2013-14
- ◆ Export earnings went through the 10 billion ETB barrier (> 400 million Euro)
- ◆ ECX prices ranged between 3,500 and 4,500 ETB/quintal
- ◆ Prices rose to historic high in January 2014. This was followed by a remarkable price decline in the months that followed
- ◆ High price volatility and remarkable price decline in period during which prices 'normally' rise created uncertainty
- ◆ The main market for Ethiopian sesame was China (61%). Other important markets are Israel (16%), Turkey (6%), Jordan and Saudi Arabia (each 2%). Other countries represented 12%
- ◆ 98% of the sales went through ECX and 2% through the cooperative channel
- ◆ For the first time, 4 Tigray and Amhara unions sold directly to international buyers (20 deals, around 45,000 quintals)
- ◆ Government facilitated Union direct marketing with >100 million ETB in loan guarantees
- ◆ Unlike the preceding year, cooperative marketing through ECX was limited (10% of cooperative sales)
- ◆ Between November and January, cooperatives were present at local spot markets; this seems to have positively influenced prices for farmers. Afterwards, traders' collusion and price setting was again observed
- ◆ Farmers would prefer to sell to cooperatives but can't because of limited capital of cooperatives and farmers' debts with informal moneylenders

Local stakeholder proposals

Local stakeholders have relatively few proposals for product and market development (20% of proposals of 19 clusters). Proposals for post-harvest value creation were mostly expressed in terms of improved quality (moving up one grade, from the current average of grade 2-3 to an average of grade 1-2). Marketing proposals translated the intention to sell more via cooperatives (instead of spot market traders) and direct marketing of Unions (ambitious target of 50% of the production). These proposals suggest an emerging orientation on quality and on the marketing role of cooperatives and Unions.

'There is a lot of market at the production side'

The SBN Support Programme concentrates on strategies for improving farmer income. Two major strategies are pursued: production cost price reduction and product and market development. At short notice, the most important gains can be achieved by concentrating on yield improvement, credit cost reduction and harvest and transport loss reduction (the first three pillars of the SBN). This is reflected in the proposals of the local cluster action planning: 80% of the proposed actions relate to the mentioned three pillars. Currently, the sesame market is driven by the search for volumes. Quality is hardly rewarded. The price for grade 1 is often lower than the price for grade 2 or 3. At local spot markets, farmers that bring more quintals often get a higher price than those who bring small quantities.

In the current situation, increasing production is thus a sound strategy, both from a macro- and micro-economic point of view. As for now, yield improvement is the best bet for improving farmers' income and national foreign currency earnings. At current prices, 50% yield improvement would increase annual export revenues with 4 billion ETB and 30% harvest, transport and storage loss reduction would translate in 300 million additional revenues. For farmers, higher yields, lower losses and credit cost reduction translate in a significantly lower cost price per quintal. As price takers in a bulk market, this would seriously improve their net revenues. Lower costs of production are of course also important for the price competitiveness of the Ethiopian sesame sector.

Monitoring of sesame marketing season and prices

The 2012-13 and 2013-14 marketing seasons have been closely monitored. Data are available for the Metema, Gondar and Humera ECX centres. Until January 2014, the market showed an upward trend. The 2013-14 marketing picked up with the highest prices realised in 2012-13. ECX prices went through the 4,000 ETB/quintal barrier in the second week of November 2013 and reached a historic high of 4,500 ETB/quintal. Prices have since shown a decline and went down to 3,500 ETB/quintal. The graph below shows the price trends from October 2012 to September 2014 (average monthly prices for the Humera, Gondar and Metema ECX prices).

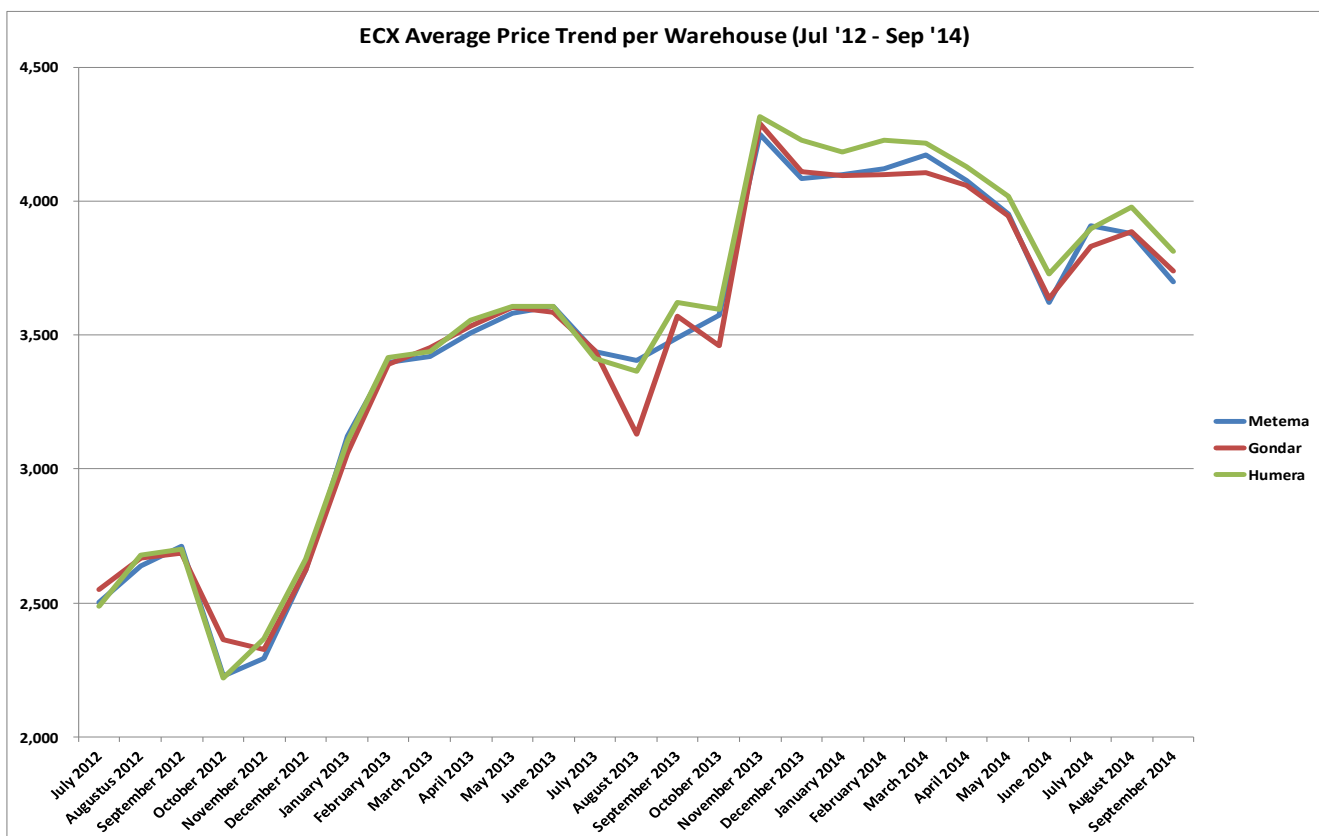
Level playing field?

The articulation of ECX prices to sesame world market prices needs to be more deeply understood. As compared to world market prices, exporting trading houses seem to pay high ECX prices. The assumption is that they

seem to accept break-even or even losses, as these can be compensated with the profits trading houses make with importing commodities with the hard currency they earn with exporting sesame. This implies that there is not a level playing field, because Unions do not have the opportunity to earn money via imports.

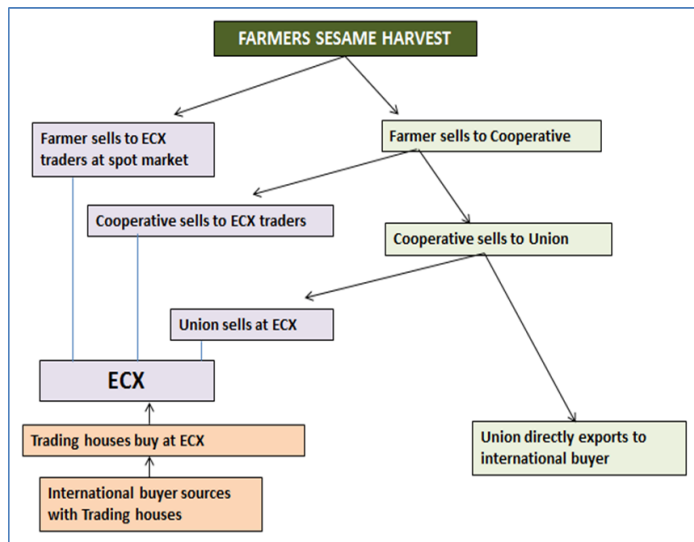
Spot markets: the challenge of higher transparency and farmer negotiation power

Spot market prices are lower than the ECX prices, because of transport and handling costs. Remarkable differences between different spot markets are observed. Differences between spot markets and ECX market centre prices do always seem to justify the traders' transport and handling costs. A recent survey among farmers, cooperatives and traders operating at spot markets suggests that the presence of cooperatives influences price setting. Traders complain about 'unfair competition of cooperatives' and farmers and cooperatives complain about 'collusion/conspiracy of traders' when the cooperative no longer operates at the spot market. Getting fair prices at spot markets requires price transparency and farmers' bargaining power. It is therefore important to have real-time information on ECX prices, as well as more prolonged presence of cooperatives at spot markets. The SBN Support Programme is setting up a spot market monitoring system, with involvement of cooperatives and ECX. This would be an important service of cooperatives to their members, especially when we consider that 98% of the trade is not going via cooperatives. ECX, who approached SBN for collaboration, is willing to collaborate on this subject.



Three decision moments on the direct marketing chain

On the direct marketing chain, from farmers to Unions, there are three important moments for decision making: (i) Farmer level: sale to traders or cooperative? (ii) Cooperative level: sale to Union or to traders?; (iii) Union level: sale to ECX or to international buyers? These three choices are visualised in the figure below.



The first choice is at spot market level, where both cooperatives and traders operate and have stores. Traders and cooperatives are competitors. Forcing farmers to sell to the cooperative will not create lasting change; the choice of farmers should be based on the benefits they derive from the sales option. The second level choice is comparable; cooperatives should have the choice to sell to the Union and to traders who supply exporters through ECX. The third option is possible since the Unions have obtained a seat in ECX and have the option to supply exporters through ECX. This is an important safety valve since Unions do not always succeed in finding international buyers.

There are several considerations that play a role in the farmers' decision-making: (i) Does my cooperative have the means to buy the produce (which is often not the case); (ii) Does the cooperative offer an interesting price and perspective on dividend, as compared to prices offered by traders (which are generally high) and (iii) Do I need to reimburse (formal or informal) credit? For the promotion of the marketing role of Unions, conditions have to be created that farmers and cooperatives give an affirmative answer to the first two questions and are not tied to money lenders. In that case, they can make a motivated choice to purposively sell to their cooperatives and Unions.

Linking input and output finance

The credit system is crucial to make cooperatives more competitive to spot market traders: (i) formal input credit for farmers, to reduce dependency of farmers on traders and informal moneylenders and (ii) output credit for cooperatives to have a more prolonged presence on the spot market. Agribusiness system innovations require financial system innovations. System change in the credit sector is the joint that connects agricultural production to marketing

and a key factor for achieving the five economic objectives of the SBN stakeholders.

A point that requires specific attention is input and output finance, e.g. credit for the production cycle and credit for marketing). This year, the Government of Ethiopia, the Ethiopian Commercial Bank and Agriterra have made a lot of efforts to improve Unions' access to output finance. The number one priority of farmers is however access to input/production credit. This is a very important limiting factor for increased yields. The relatively low production per hectare translates in relatively high production cost prices per quintal, hence less net profit. Income improvement for farmers can be most importantly achieved by yield increase (lower cost price per quintal), reduction of the very high input credit costs and very high post-harvest losses. The challenge is thus to improve input credit. A key question is whether the tens of millions of ETB available for marketing credit could be availed before the production season. Farmers would certainly consider this as a major service of their organisations. Production credit would 'bind' farmers to their cooperatives and Unions, not only as a constraint (need to reimburse production credit), but also as a moral obligation (we have to deliver to 'our' cooperative). This is a very important strategic issue that requires more networking.

Need for innovating market relations

Internationally, sesame production is increasing, especially on the African continent. The price decline of the first semester of this year may have been a first warning that the market is saturating and that the suppliers' market of the past years is becoming a buyers' market. This may lead to structurally lower prices and to increased competition on quality. This would put Ethiopia in a more challenging position. It is in this context that it is strategically important to work on quality improvement and on product and market development. This requires the build-up of relations between buyers and suppliers.

Agribusiness system innovation progressively implemented through practical cases

Currently, the Ethiopian sesame market is dominated by sales via spot markets to ECX. Exporters buy in bulk at the ECX and offer a relatively inferior product. Because of high domestic prices – likely induced by the search for badly needed hard currency – there are hardly incentives to produce superior products. On the contrary, supply in bulk is rewarded. Anticipating on likely new emerging trends, it is however important to diversify the value chains and market channels. What are the possibilities? The next paragraphs discuss seven possible value chain innovations. The SBN Support Programme, in collaboration with its partners, proposes to accompany practical cases with the aim to innovate supplier-buyer relations and promote sesame product and market development.

1. Cooperative sales through ECX

This was the predominant cooperative marketing strategy in 2012-13. Unions have a seat at the ECX in Addis Ababa and facilitate sales through the ECX. The lead-time is relatively short allowing cooperatives to use their working capital several times during the marketing season. Compared to exporting trading houses, cooperatives and Unions can be competitive in the logistics of the supply chain (lower costs for commissioners, less loading and unloading, more efficient transport, and less weight losses at store). In most areas, members can use warehouse facilities of cooperatives or Unions. Compared to the ECX traders, this efficiency gain is estimated at 70-80 ETB/quintal. This marketing modality is thus an option for farmers to get a slightly higher price and some dividend. Cooperatives must of course have the funds to buy sesame from their members and the authorisation to sell via ECX. This was not the case in Amhara, where government offices did not allow Unions to sell to ECX. This left only one option: selling to the Union for direct export, which is a more risky endeavour that requires export marketing competencies.

2. Cooperative Unions directly exporting to international buyers.

This option has been strongly facilitated by FCA and CBE in 2013-14. Farmers remain owner of the sesame until final delivery. Unions are relatively new to sesame exports. The first direct transaction was of Selam Union during the 2012-13 marketing season. The experiences of last marketing season show that direct marketing by inexperienced Union leaders and managers is very hazardous (cf. box). All problems notwithstanding, Amhara unions made an average profit of around 100 USD per MT (240 ETB/quintal). The experiences of last season show that important measures are needed to reduce risks and improve performance. Key issues are: market intelligence, deal brokering and contract negotiation, communication and feedback to clients, quality management, conditions for faster decision making, respecting shipping instructions, knowledge and handling of export documentation (...). It is impossible to acquire these skills in a short time, and it is questionable whether Unions are capable/willing to hire own specialised staff. Intensive advisory support and outsourcing of certain functions seem therefore inevitable.

Unions' 2013-14 experiences with direct exporting

In 2013-14, 4 cooperative Unions made 20 deals (44,859 quintals for a value of over 10 million USD, representing 2% of the market. 90% of the deals were with trading houses. Experiences show a very long lead between farmer purchase and export conclusion (4 months). This implied that marketing funds were stalled. Unions have limited market intelligence. Deal brokering was mainly done by buyers' brokers, ATA, commission agents and C4C. One deal was concluded by a Union. During the negotiation process, there were long delays in decision making, especially on price setting. Union managers could not proceed without board consent. This phenomenon, often encountered in farmers' organisations, was aggravated because of the declining market. The average time for responding to clients was around 12 days, whereas the industry

standard is 1 day. This has led to client dissatisfaction, missed markets and opportunities. The export process and paper work proved to be a huge challenge. Also for this, the Unions were helped out by the mentioned organisations. In the past season, 75% of the deliveries were too late, on average 15 days after the latest day of shipment stipulated in the contract. Two deals were with processors, who are in principle interesting clients for farmers' organisations as they are more interested in traceability and quality. Unfortunately, these processors provided negative feedback (process and product quality) and are reluctant to continue the business relation.

Without a proper vision and gradual implementation plan, this option is very risky and may come down to gambling with farmers' money. On the other hand, it bears the potential of creating more added value and dividend for cooperative members. A long-term perspective (not less than 10 years) is to arrive at a farmer-established export company that has trustful relations with buyers that want quality, need to be able to trace back the product they buy, and are sensitive to sustainable production systems and contribution to socio-economic development. Such a company could ensure farmer ownership along the international value chain and create additional value, part of which accrues back as dividend to farmers.

Important first steps in this direction are:

- ◆ Identification of best cooperatives and production zones. SBN Support Programme and partners may conduct basic performance assessments to rate cooperative performance. Field observations can help identifying the best production zones.
- ◆ Producing quality sesame. SBN, through its field presence can accompany the adoption and respect of best agricultural practices.
- ◆ Proper storage, conservation and bagging. USAID has supported Unions and some cooperatives with the construction of warehouses. These are not always registered as cooperative property, nor used to their potential. This requires administrative action and solutions for the rural finance problems. SBN Support Programme and partners can train and monitor conservation practices.
- ◆ Cleaning up to international standards (less than 0.5% impurity). Clean sesame starts at field level and requires subsequent post-harvest operations. In the coming year, four sesame exporting Unions will have their own cleaning machine, purchased from Turkey by means of national bid. Selam, Metema and Tsehay Unions in Amhara region and Dansha Union in Tigray aim to have their cleaning machine functional for the 2014-15 marketing season. Setit Union already has its own cleaning machine for quite some years. Having these resources at hand, Unions are expected to be less vulnerable for delays in export processing.
- ◆ Sourcing in of professionals to implement crucial tasks and train Union staff. This requires decision making within the cooperative movement, both for institutional issues, by-law change, hiring of specialised staff and sourcing of specialised services.

- ◆ Preparing for traceability and certification.
- ◆ Adapting rules and regulations at different levels. At short notice, the adaptation of Union by-laws seems to be important in order to improve board and manager response to clients.

Cooperatives and Unions have comparative advantages

Cooperatives and unions have the comparative advantage that they are closer to the farmers than traders and exporters. They can invest in the production of quality sesame (pure unmixed varieties, field operations, bagging and storage). The SBN Support Programme and its partners (Unions and cooperatives, C4C and Agriterra), have the strategy to support cooperatives and Unions to exploit their unique market window for the development of preferred buyer-supplier relations. Key elements of that strategy are: use of (unmixed) quality seeds of preferred varieties, field operations, bagging and storage, maintaining/improving cleaning (less than 0.5 % impurity; respect of moisture level, management of storage pests,...) and preparing for traceability and certification (organic and possibly non-organic market).

3. Sales of Unions to Ethiopian exporters, through ECX

Currently, the ECX market is the bulking node where two separate supply and procurement lines come together. At the supply side are the sesame producers and their organisations. At the procurement side are exporters and international buyers. These two worlds are living apart together. The only connections are (informal) relations between exporters and ECX registered traders operating at spot markets.

In this option, exporters express their needs to Unions and cooperatives, who would then supply through the ECX. This would be an important first step to bring buyers and producers together and to translate client demand in production decisions. According to the current policies and regulations, this option is not yet possible. The ECX treats all sesame suppliers the same. Farmers' and traders' deliveries are graded and stored. Exporters buy according to the volume and grade they need. Farmers and buyers thus cannot come to know each other.

Exporters are key actors for linking of producer supply to consumer demand and vice versa. Exporters and trading houses are in contact with international buyers and know market requirements (both in terms of volume and quality). In the current system, exporters can only specify volume and grade, but they are not sure of getting a homogenous quality product. It is evident that at least certain exporters would like to know more about the sesame they are buying and to track down from where and whom it is coming from.

A very important strategic question is therefore whether the ECX market system could handle the articulation of buyers' demand to producers' supply and vice versa. Answering this question requires dialogue between multiple stakeholders in order to see if exporters' orders to farmers can be handled via EXC and if the delivery of farmers can be followed through the ECX process towards the already identified buyer. ICT

solutions (bar codes) and store management practices could be applied for this purpose.

To bring this option on the table, the SBN Support Programme could share the ideas with all relevant stakeholders. A first action would be to approach Ethiopian exporters, most of them associated in EPOSPEA, and ECX to find out if they are possibly interested.

4. Local sourcing of processing companies at spot markets

This is a new opportunity that recently has been allowed. It goes a step further than the previous option and is only open for exporting companies that create added value through processing, e.g. more than storage and cleaning. Quite some exporters seem to be interested to develop processing activities; for instance 6 of the 12 exporters that participate in the CBI training and coaching trajectory are reportedly interested. This is a major opportunity for more direct links between producers and buyers, as processors need to pay more attention to quality and traceability. The SBN Support Programme and its partners could pro-actively approach exporting companies engaging in or planning for processing and ask them if they would like to know what they are buying (before May -April 2015). If so, the demand can be linked to best production zones and farmer cooperatives. These can be intensively trained, coached and monitored, so as to provide the best possible product and to satisfy their buyers.

5. Contract farming arrangements with domestic processors

This option is still very limited. There are only two companies that directly source with 4 primary cooperatives: Dipasa Agroprom and Selet Hulling. Both are Ethio-Dutch joint ventures that target the organic niche market (and therefore have to work with farmers for traceability reasons). Both cases provide very important possibilities for developing farmer-company relations, input and output credit provision, farmer training by company staff, traceability and certification of quality sesame.

Dipasa and Selet Hulling: contract farming arrangements

Agroprom International PLC, generally referred to as Dipasa, is involved in sesame processing and trade. The company works with two cooperatives of Setit Union in Kafta Humera woreda. Miebale cooperative selected 700 out of 1,700 members based on performance and reputation. Dipasa is providing the following services: training for farmers, provision of inputs and credit for weeding and harvesting, trade finance to the cooperative in order to buy sesame from the farmers. Selet Hulling PLC has its own seed cleaning and hulling factory just outside Addis Ababa. It meets international food standards for certified organic sesame, which allows for a premium price in Japanese, European and North American markets. The company is a producer and seller of JAS, EU and NOP certified organic hulled Humera type sesame. It has plans for further product

development: roasted sesame; tahini, halva and sesame oil. Selet Hulling PLC has 300 hectare of own land in Humera, and also sources from out-growers in Kafta Humera woreda (Fana and Shewit cooperatives), involving hundreds of farming families. In 2013, Dipasa and the SBN Support Programme jointly organised farmer training. Collaboration with Selet Hulling has not succeeded yet. Creating conditions for more intensive collaboration, two existing clusters in Tigray will be split. Upon demand of the companies and/or farmers, the SBN Support Programme can provide services to further improve the business relations.

Opportunities for working on other cases will be proactively pursued. An opportunity that can be explored (as a next step after option 4), is outgrowing arrangements between primary cooperatives and Ethiopian exporters/processors. Although this option is very promising, and again a step further, it is not easy to realise. In the 2012-13 production season, Olam International has explored the opportunity to engage in contract farming. Contract agreements however did not come to fruition. Other international organisations have explored direct relations with producers and producer organisations but stranded because forward contracting is prone to delivery defaults, due to the volatility of market prices. Contracts could however specify that prevailing ECX prices will be taken as a reference (with a possible bonus).

6. Direct export of investor farmers or investor farmers' associations

Investor farmers have land ranging from 100 up to 2,000+ hectares. They are allowed to directly export. This option is however not yet very common: only in the Humera area, a few investor farmers export their produce directly. Not all investor farmers can individually produce enough to export directly; in 2012 this was the reason for some 100 investor farmers to establish the Kafta Humera Sesame Production and Sales Cooperative. KHSPSC works together with a local cleaner to make the product export ready. Like directly exporting Unions (option 2), this cooperative is likely to face the challenges of deal brokering and handling the export process. KHSPSC is still unique. However, investor farmers in Abderafi, another huge investment area, have showed interest to establish a comparable organisation. The advantages of investor farmer associations are that they have relatively few members, can organise homogenous quality more easily, may more easily recruit professional staff or hire in specific service providers. On a demand-driven basis, the SBN Support Programme can provide advisory services or be an intermediary for finding suitable advisors (for instance PUM managers).

7. On-demand farmers' supply to international buyers

This option comes close to option 2, as it is about the direct link between cooperative Unions and international buyers. The difference is that in option 2 the Union has production in store and is looking for an international buyer and that in this option, the international buyer expresses his demand (before the agricultural season) and the Union, cooperative and farmers organise the production and subsequent delivery.

This option allows for intensive dialogue with the client. Knowing the requirements (and the importance of doing well in order to maintain the client), the organised farmers (should) do everything to ensure compliance with the requirements.

For Unions, competition on price is difficult, even if Unions have comparative advantage and efficiencies in the area of logistics. Unions better compete on price, quality and traceability, which is more difficult for trading houses, because they are far from fields and farmers. The so-called 'triple value creation' is important in this context. The triple values are: (i) delivering a quality product for a competitive price, which is the traditional competitive edge of a product; (ii) ecological sustainability; and (iii) decent labour (fair wages and no child labour). Although sesame is not a 'feel good product' such as coffee or chocolate, there are definitely buyers that appreciate and compete on these three values. Efforts will be made to identify some buyers who are interested to try this option, even if it is for small quantities. This interest would need to be identified before April 2015, so as to prepare in time for a perfect delivery by the end of the year. If there are possible cases to work on, the SBN will intensively accompany the identified producers and cooperatives. C4C will operate at the Union level.

Facilitation of market relations

The SBN support programme and C4C, through their visibility and communication activities, can be a facilitator of business relations. An example is a question from a Korean buyer, triggered by the SBN website, how to import sesame from Ethiopia through direct linkage with producer cooperatives, for apparently corporate social responsibility reasons. The SBN support programme mediated by contacting different Unions and KHSPSC, who are having stock to sell, and asking the Korean company about delivery terms and quality requirements. Unfortunately there was no follow-up. Another example is the contact of C4C with an American buyer who wants to build long-lasting relations with farmer suppliers. Being part of the CBI training trajectory, 3 staff members of the SBN Support Programme will visit the EXPRO in Paris (large oilseeds trade fair) and some companies in the Netherlands. This is an opportunity to try to identify potentially interested buyers.

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