



Post-harvest value creation: a fundamental challenge for the Ethiopian sesame sector

Case overview

In past 5 years, Benefit-SBN has made efforts to promote post-harvest value creation, value chain development and supplier-buyer relations. Studies were done and specific initiatives were supported. Based on the rather disappointing results, this note shares some lessons learned. It appears that, in the current situation, it is most realistic to export raw, undifferentiated sesame and it is almost impossible to develop feasible business initiatives.

Background

More than 95% of the Ethiopian sesame is exported in bulk with the purpose to earn hard currency. This leads to highly inflated domestic market prices: the domestic sesame market price is higher than the international market price. Ethiopian sesame exporters are generally importers of other scarce products. Foreign currency earned with sesame export is used to finance the import business. Losses on sesame exports are recovered from the high margins on imports.

Low value international markets, mainly China, are the main destination of Ethiopian sesame. Current clients buy large volumes and are less concerned with quality. Higher value markets (Middle East, Europe, North America, Japan and Korea) have clear requirements for the appearance, aroma, taste, oil content and purity of the product. Buyers from these markets are currently hardly interested to buy Ethiopian sesame, mainly because of quality and food safety problems. Ethiopia has comparative advantages for producing highly valued white varieties (suitable for bakery industry), tasty varieties (suitable for tahini and halva consumers) and varieties with high oil content. There are opportunities for value added products such as hulled, toasted, roasted, and grounded sesame, oil, tahini and halva.

The Ethiopian Commodity Exchange (ECX) system considers seed purity and colour as grading criteria. Other parameters, such as oil content and seed size are ignored, hindering buyers who would like to target specific markets. For the current exporters, volume is more important than quality. Higher quality does not fetch a higher price. As a result, farmers and traders mix any kind of sesame quality before offering it to the market.

The limited domestic market for sesame products is further exacerbating the situation. Sesame-based food products are not rooted in the national food culture. Considering the market for edible oils and the current heavy reliance on imports, sesame oil production for the domestic market could be an option. Imported palm oil is however subsidized to make it accessible for the Ethiopian population, while locally produced oils are taxed. This hinders a transformation to Ethiopian production of edible oils.

The consequences of the current market organisation are that: (i) farmers can get a relatively high domestic price; (ii) farmers are not rewarded for producing quality sesame (iii) sesame is an expensive input for local processing; in- post-harvest value creation is virtually absent and mainly confined to cleaning and artisanal oil production.

Objectives

It is this context that Benefit-SBN seeks to contribute to the development of a competitive, sustainable and inclusive sesame sector to improve farmers' income and create economic spill-over effects. Product and market development could contribute to achieving this goal.

Initiatives

In the past years, Benefit-SBN, in collaboration with different stakeholders, has undertaken the following support activities to support business initiatives:

- Collection and analysis of international, ECX and spot market prices. Multi-annual data are available.
- The analysis of the grading system helped to assess the reality of the current marketing system.
- Study the option of putting crop residues to value (use of stalks for production briquettes).
- Study of the existing storage and cleaning infrastructure in NW Ethiopia.
- Training of Unions in the requirements of international markets and support for their participation in the annual EPOSPEA meetings and an international fair in Paris.
- Support of an investor cooperative to visit potential business partners in Israel.
- Co-organisation of a visit of Dutch entrepreneurs to the Ethiopian sesame zone.
- Support to different entrepreneurs to develop local sesame oil extraction for the local market.
- Support to an entrepreneur to develop and test a local cleaning machine suited for the spot market and managed by a local cooperative.
- Support to Selam Union to mobilize internal capital put an idle large cleaning machine into operation, followed by technical and financial support.
- Support to organic sesame production and development of farmer-company relations, in Tigray and Belessa.
- Business development training and coaching for different entrepreneurs: among others women groups and briquette production.
- Support to entrepreneurs to develop a concept note for grant competition.
- Cooperative marketing training for sesame cooperatives and unions, with support to their participation in bazars for promoting cooperative products in regional towns.
- Promotion of sorghum, mung bean and soy bean production and facilitation of marketing and sales.
- Support to the development of recipes for sorghum and pulses for food preparation, with the aims to add value to the primary produce, to create local small enterprises, mainly run by women, to nutrition of farming households and labourers.

Achievements

The results obtained with the mentioned initiatives are very limited. In the current context, post-harvest value creation is hardly feasible, even if local entrepreneurs are motivated. Only the support to sesame cleaning and the processing and marketing of rotation crops worked relatively well. The business relation of several unions with to supply Deber sorghum and soya was successful for two years, but collapsed after increased domestic market prices, leading to farmer default. Soy bean and mung bean now have to be traded through ECX. For organic sesame value chains, the current situation is that farmers are merely organic producers by default and that companies engaged in organic sesame business cannot offer significant premiums in the context of the inflated domestic market.



Recommendations in the context of the current market system

In the current system, wherein the country primarily exports low-quality sesame to low-value markets and domestic prices are inflated, it is most realistic to focus on the following strategies for the improvement of farmer income and export earnings:

- Focus on selling to the ECX for farmers to take advantage of inflated EXC prices. This implies avoiding efforts for quality improvement and direct market linkages, which have so far failed.
- Reduce the cost of sesame production by yield improvement, which is profitable for farmers (higher margins) and for the country at large (higher production);
- Improve access to formal input credit to reduce credit costs, to enhance the uptake of recommended agricultural practices and to reduce the dependency on informal money lenders;
- Enhancing the presence of cooperatives at spot market level to reduce the risk of traders' collusion;
- Promote the production, processing and marketing of current rotation crops, for sustainable production, risk spreading, nutrition improvement and employment creation;
- Explore the potential for other rotation crops, such as sunflower and others.



This scenario is not necessarily to the disadvantage of farmers. However, without market reform value chains are not developed and Ethiopia increasingly loses its competitive position in the international sesame market.

Recommendations for system change

For developing post-harvest value creation and to establish real value chains with collaboration and transactions among different operators, a package of fundamental changes is required, among others:

- Export licenses for professional sesame exporters, of which the business depends on successful market relations and who are not allowed to be engaged in import business as well. This would create a level playing field, as cooperatives and unions are also not allowed to import.
- Alternative sources of hard currency for importing companies, who are then no longer creating additional inflation for consumers of import goods, as currently the losses of sesame trade are compensated by high prices for imported goods.
- A grading system that facilitates improved traceability and quality and market differentiation, with additional parameters like oil content, seed size and free fatty acid. This would allow for market segmentation and price differentiation according to quality.
- Promotion of direct farmer-trader/company relations and a quality-based marketing system, which starts at field and spot market level.
- Stopping the subsidies on imported edible oil and tax exemption for locally produced oils.
- Promotion of sesame based consumer goods for the domestic market.
- Policies for required mixed farming systems in the sesame production zone, to avoid mono-cropping, reduce risks of soil fertility losses and pests and diseases, increase production, processing and marketing of pulses and oil crops for edible oil production.

In this scenario, ECX prices would be aligned to international market prices, which in the short run is not to the advantage of farmers. Conditions for feasible post-harvest value adding activities would however be created: cleaning, storage, tracing and certification, processing, branding and labelling, packaging, wholesale and retail of food products. An important challenge to develop these activities in a farmer-inclusive manner, e.g. to develop cooperative business activities.