



Tackling Side Selling in Malt Barley Cooperatives

Introduction

Self Help Africa (SHA) has been implementing a project since 2010 targeted at increasing the income of malt barley farmers in Ethiopia through more effective cooperative management in Arsi and West Arsi Zones of Oromia region. The project has been supporting Galema and Raya Kejewa cooperative unions to ensure efficient aggregation of products, better access to markets for purchase of inputs and sale of product, and better prices. Through the project it has been noted that member farmers of the unions, with a total of 66 primary co-ops, are selling about 90% of their malt barley to traders rather than to and through the co-ops. In addition, approximately 90% of their sales are immediately after harvest rather than at a later time when prices are higher. The side-marketing of malt barley seems to be exacerbated due to the unions' and coops governance related challenges and inefficient contract arrangements.

Under the current market situation, only 13.57% of the malt barley produced enters the formal malt and brewery industry. The operation of the formal malt barley market that is linked with the brewery industry involves smallholder farmers, farmer traders, primary cooperatives, unions, traders, Assela malt factory, and in recent years breweries directly (Heineken and Diageo). The major buyers in the area use contract arrangements with cooperative unions to ensure the supply of quality malt barley grain. In general, the contents of the contract arrangements made by different buyers is more or less similar, where issues related to unit price, volume, quality, delivery time and place, and dispute settlement mechanisms are clearly stated although there are some differences associated with the contract implementation arrangements.

In 2015, Self Help Africa in association with the Overseas Cooperative Development Council decided to undertake a multi-year flexible research project designed (i) to assess challenges and opportunities of marketing malt barley by member farmers of cooperative unions and primary cooperatives with due emphasis on the extent and determinants of side selling; (ii) to identify investment options that can be made in building the capacity of co-operatives to best serve members; and (iii) to identify possible mechanisms to build trust at all levels that can be employed to encourage member farmers' loyalty to primary cooperatives, their unions and to the linked contract providers cooperatives?

Project Location



Factors which contribute to side selling in cooperatives

Since 2010 Self Help Africa (SHA) has been implementing a project targeted at increasing the income of malt barley farmers in Ethiopia through more effective factors which contribute to side selling in cooperatives.

In general, the challenges can be categorized as those related to:

- ensuring production of required quantity of malt with required quality,
- managing the free rider problem,
- ensuring timely purchase of produced malt barley, (relationship of primary cooperatives with contract providers esp. with unions,
- competitiveness in marketing service provision compared to other market actors
- the need for wider stakeholder engagement

The extent of side selling depends on the household level of production that fulfils the required quality. This in turn is determined by the extent of application of

recommended production technologies and practices, which is affected by the farmers' know-how and also the extent of technical backstopping provided. Thus, it is recommended to strengthen and/or establish technical backstopping of farmers through stronger and timely provision or facilitation of access to required inputs and associated extension services.

Ensuring timely purchase of produced malt barley is reported to be the key challenge facing cooperatives. This is associated with a shortage of finance, shortage of storage facility, disincentive due to cost of storage and product management, and also logistical obstacles of ensuring product collection from farmers.

The controversial marketing relationship of primary cooperatives with their respective unions is also a very serious challenge that creates fertile ground for other market actors to operate and enhance side selling.

The issues in this regard are reported to be

- unmatched benefit sharing compared to service provision between primary cooperatives and unions
- time lags in the transfer of payments and benefits from unions to primary cooperatives
- disagreements over quality assessment for price setting

Recent contract arrangements made by the ultimate buyers of malt barley (malt processors and breweries) with cooperative unions indicate that there is a clear statement of benefit sharing (premium price). As indicated in the contract agreements, the union's share of the premium is approximately 30%. However, this was found to be disproportionate to the extent

of value added provided by the union compared to the primary cooperatives. Given the important role of timely purchase from farmers, the financing capacity of primary cooperatives is crucial. In this regard, cooperative unions are expected to support primary coops through the timely transfer of finances and/or facilitation of access to finance. The existing contract arrangements base product pricing on quality assessment including product rejection. In this regard, the legitimacy of quality assessment considerably affects the trust among actors. Though it also applies to the relationship between farmers and primary cooperatives, the challenge is more pronounced between primary cooperatives and unions.

The competitiveness of primary cooperatives in marketing service provision compared to other market actors is also one of the challenges. This is associated with the limited incentive for primary coops to purchase product in a timely manner due to storage costs, the inconvenience of point of sale for farmers that the primary cooperatives provide, limited overall skill of managing contract arrangement with farmers by primary cooperatives, and the systematic engagement of local traders. Local traders were found to leverage the challenges facing the primary cooperatives, and manipulate market information in a way that influences farmers' marketing decisions.

Finally, the need to empower the whole value chain influences primary cooperatives to act independently. In this regard, the main challenge is the fact that any investment in ensuring quality production and its delivery to end users (malt factory and breweries), creates a serious free rider problem.



Dejene Melka, Dirma village, Abichu Gna'a district, Oromia, Ethiopia. 2015.

Suggested strategic interventions to minimize side selling

The results of this study indicate the need for strategic interventions in six major areas to minimize side selling and further strengthen market arrangements through contracts, which are presented in the below table.

In the coming years, Self Help Africa will take these recommendations forward by engaging with multiple stakeholders in the brewery industry in Ethiopia and by integrating the learnings from the research into programme design for its work in malt barley and other relevant value chains.



Strategic area	Suggested strategic interventions
Boosting production and productivity	<ul style="list-style-type: none">Enhancing access to and use of better performing varieties
Free rider problem	<ul style="list-style-type: none">Promotion of wider stakeholder engagement and strengthening of the entire malt barley value chainPromotion of direct engagement of local traders
Quality assessment for pricing	<ul style="list-style-type: none">Promote an independent and credible quality standard assessment approachStrengthening fair prevailing price identification approach
Time and place of sale	<ul style="list-style-type: none">Build capacity of cooperatives to purchase at a regular time and convenient place for majority of farmersAssessment and announcement of purchase price as early as possible (immediately after harvest)
Physical and human capacity of primary cooperatives	<ul style="list-style-type: none">Facilitate the management of cooperatives by professionals with required skill and incentivesFacilitate the availability of required facilities for cooperatives
Market relationships between primary cooperatives and their unions	<ul style="list-style-type: none">Facilitate the clear delineation of roles and responsibilities with associated benefits
Finance	<ul style="list-style-type: none">Facilitate access to finance for timely purchase and distribution of required inputs (seeds and fertilizers)Facilitate access to finance for timely purchase of produced malt barley from farmersFacilitate access to finance for construction/purchase of required facilities (storage, cleaning facilities, and quality measurement)

Research credit: Dawit Alemu

Cover photo: Getachew Miko, Dirma village, Abichu Gna'a district, Oromia, Ethiopia.