Indira Gandhi National Open University

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THE ROLE OF FARMERS' MARKETING ORGANIZATIONS IN COMMERCIALIZING SMALLHOLDERS' AGRICULTURE: THE CASE OF BACHO AREA.

A Thesis Submitted In Partial Fulfillment of the Requirements for the Degree of M.A. in Rural Development (MARD)

By

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DECLARATION

I hereby declare that the thesis entitled **THE ROLE OF FARMERS' MARKETING ORGANIZATIONS IN COMMERCIALIZING SMALLHOLDERS' AGRICULTURE: THE CASE OF BACHO AREA** submitted by me for the partial fulfillment of the M.A. in Rural Development to Indira Gandhi National Open University, (IGNOU), New Delhi is my own original work and has not been submitted earlier to IGNOU or to any other institution for the fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any work done by me or others.

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ACRONYMS

A.A	Addis Ababa
ADLI	Agricultural Development Led Industrialization
AGTP	Agricultural Growth and Transformation Plan
ARC	Agricultural Research Center
ARDI	Agricultural Research and Development Institute
ATA	Agricultural Transformation Agency
BOA	Bureau of Agriculture
CIDR	Center of International Development Research
CPA	Cooperatives Promotion Agency
CSA	Central Statistical Authority
DA	Development Agent
ECX	Ethiopian Commodity Exchange
EFDR	Ethiopian Federal Democratic Republic
ESA	Ethiopian Standard Authority
ETB	Ethiopian Birr
ETCPA	Ethiopian Trade and Consumers Protection Authority
FAO	Food and Agriculture Organization
FC	Facilitators of Change
FCPA	Federal Cooperatives Promotion Agency

FFARM	Facilitating Farmers Access to Remunerative Markets
FGD	Focus Group Discussion
FMOs	Farmers Marketing Organizations
GDP	Gross Domestic Product
GNP	Gross National Product
GTP	Growth and Transformation Plan
GTZ	German Technical Cooperation
HUNDEE	Oromo Grassroots Development Initiative
ICT	Information Communication Technology
IDRC	International Development Research Center
IG	Interview Guide
IIRR	International Institute of Rural Reconstruction
ILO	International Labor Organization
KII	Key Informant Interview
KIT	Tropical Royal Institute
MFI	Micro Finance Institute
MOA	Ministry of Agriculture
MPC	Multi-Purpose Cooperatives
NGC	New Generation Cooperatives
NGO	Non-Governmental Organization
OSRA	Oromo Self Reliance-Association

SNV	Dutch Development Cooperation
T & CA	Tax and Custom Authority
TIRR	Teff Improved Seed, Reduced Seeding Rate and Row Plantation
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VC	Value Chain
WALQO	Oromiya Micro Finance Sh. Co.
WB	World Bank
WDR	World Development Report

ABSTRACT

Commercialization of smallholders' agriculture through promotion of agricultural marketing organizations has been a recent development policy and practice for poverty reduction and rural development in Ethiopia. Governmental and non-governmental organizations have made different efforts to realize this objective. One of such efforts is promotion of Farmers Marketing Organizations (FMOs) in Bacho area in order to help them coordinate the efforts of their members to produce marketable products and create access to reliable markets based on value chain approach.

In spite of the extensive efforts and expectations, empirical researches and documentations are not made on the achievements, challenges and potentials. Therefore, this study attempts to explore how effective the FMOs have been to achieve their objective and the challenges they faced and opportunities they have for future improvement. Interview schedules, focus groups discussions and review of secondary sources have been undertaken to gather information. Descriptive statistics and value chain analysis methods are applied to process information and reach at findings.

The main findings of the study indicated that the FMOs haven't yet played significant role in commercializing their members' agriculture. Their role as facilitators of change from subsistence to commercial orientated agriculture as well as access to reliable market is limited due to the FMOs' limited capacity and lack of market incentives. Value chain as an approach to ensure competitiveness and access reliable markets also didn't work for the main commercial crop -Teff- of the FMOs' members due to its limited value addition possibilities. Based on these findings, the study has recommended the need for introduction and support for market oriented production enhancing technologies and practices, organizational and business capacity building for the FMOs and provision of better business enabling environment for promotion of investor like farmers' marketing organizations and their partnering possibilities with private investors for value addition and better competitiveness.

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

In most developing countries, commercialization of agriculture in general and of smallholders in particular has been a great concern of different groups as an approach to reduce poverty and contribute to rural development. Since some years, commercialization of smallholders' agriculture for poverty reduction, food security, fair and equitable development, etc., is the main concept that has attracted the attention of politicians, researchers, development organizations, private agribusiness organizations, academics and the like of both developing and developed countries (A. Chimbow, 2013).

Developed countries' supporters and financiers of the approach are concerned with the issue for different reasons that include moral obligation to support the disadvantaged communities of the world as part of contribution to Millennium Development Goals (E. Frison and M.S. Swaminathan, 2005) and to source raw materials or commodities for their homeland agro-processing industries and food for their people (M.Ataman Aksoy and J. C. Beghin, 2005). On the other hand, developing countries politicians, researchers and development actors and target communities are concerned with the issue to alleviate their long aged food insecurity problem, increase income of their people and ultimately transform their countries from low income to middle and eventually high income

countries so as to improve the livelihood of their people (Nurul Islam, 2011) through improvement of their agricultural production, productivity and commercialization systems.

Pursuant to these objectives that the Government of Ethiopia (GoE) has adapted a strategy of Agricultural Development Led Industrialization since 2001 in general to give priority attention for the sector development. Particularly, the Ministry of Agriculture of Ethiopian Government has introduced market oriented agricultural development as a strategy of rural development approach in 2003 (GebreMedhin et.al, 2006). Besides the government policies, strategies and intervention programs to improve the sector performance, different national and international development organizations (NGOs) have also applied market oriented development promotions and facilitations in their interventions through their development programs such as promotion of Farmers Marketing Organizations (FMOs) (HUNDEE/CIDR, 2006).

Ethiopia with its population of over 95 million (World Population Review, 2014), of which over 80% earn their livelihood from smallholding agriculture and the sector contributes over 45% to the GDP and 70% to the export value (UNDP, 2013 and FCA, 2012) is duly concerned with the need to commercialize its smallholders' agriculture and helped promotion of farmers marketing organizations in order to facilitate economic transformation in general and improve the livelihood of the rural people in particular.

One of the areas where such intervention is made both by the government and the development service provider Non-Governmental Organizations (NGOs) is Bacho area in

south western zone of Oromiya National Regional State. Facilitators of Change (FC) and Oromo Self-Reliance Association (OSRA) - two local NGOs -, being backed by international donor NGOs, have promoted FMOs in the area for the last over ten years. The main assumption of the NGOs in promoting those FMOs was that if the smallholder producers could get organized in a specialized activity, in this case agricultural marketing, and bulk their marketable outputs to a significant scale, they can easily attract buyers and make good income from their output sales. With this assumption and the objective to contribute to improvement of the livelihood of the smallholders of the area through improved income, the NGOs have promoted 35 primary FMOs and their union that have gathered about 34,000 members and provided all the financial, material and technical capacity building supports for the FMOs and their union.

Besides promotion of the FMOs, the NGOs have also introduced Value Chain (VC) approach as an effective method for commercialization of smallholders' agriculture and fair benefit sharing among the chain actors. Value chain, as a method of consistent value addition on outputs of agriculture all the way through the product flow chain from product inception up to consumption and a joint risk taking mechanism for mutual benefit, is expected to create stable market and price for all the involved actors. Accordingly, it is believed that if the smallholders' agriculture is commercialized and fairness in benefit sharing among business chain actors is ensured, rural poverty could be alleviated and overall development can be achieved.

Nevertheless, after about ten years since promotion of the FMOs' launched, the role they played in commercializing agriculture, the challenges they encountered and their future

potential are not certain for most of the stakeholders since, other than project performance evaluations, in depth studies and documentations have not been made on these aspects. Therefore, this study has attempted to fill this gap. By undertaking the research, findings are made and recommendations are given for future better engagement in commercializing of smallholders' agriculture through promotion of specialized agricultural marketing cooperatives that apply value chain approach. This in turn is expected to help develop upgrading strategy for the FMOs and review of their intervention programs and policies for both the government and the NGOs. Furthermore, it contributes to expansion of the frontiers of research works in the field.

1.2 Statement of the Problem

As agriculture becomes more commercialized and markets for agricultural products grow, smallholder farmers individually face constraints to meet new demands of the markets because buyers see their initial production volume as too low (John W. Mellor, 2010). To mitigate such challenges, promoters and supporters of cooperatives approach to commercialize smallholders' agriculture advocate that if farmers are effectively organized and linked to reliable buyers based on value chain system, they can benefit from aggregated links to markets (FCA, 2012). Global experience has also showed that many countries like Taiwan, Korea, The Netherlands, France, etc., whose agricultural products mainly marketed through cooperatives made significant achievements in increasing their production of staple crops as well as cash crops including for export (FCA, 2012). Similarly, it is reported that in Ethiopia farmers who are organized in

cooperatives tend to achieve higher yield both in staple crops and commercial crops for which they have attained a price premium of 7-8% (FCA, 2012).

Nevertheless, as the Ethiopian cooperatives development history indicates, in most cases the role of agricultural cooperatives couldn't exceed supply of inputs to their members. The importance of agricultural cooperatives as inputs suppliers was also realized when government decided that supply of inputs should be through cooperatives in the post Derg regime of Ethiopia.

Accordingly, to get access to inputs, almost all farmers of the country got (re)-registered in multi-purpose cooperatives as otherwise they can't access supply of fertilizers and chemicals. As a result of the situation, over 10,000 agricultural cooperatives that gathered over 6 million smallholders were formed in Ethiopia (FCA, 2012). For many years, the activities of about 7,000 cooperatives were limited to input supply although their mandate has also included serving as market outlet for the agricultural products of their members. The remaining 3,000 cooperatives were established and/or re-strengthened for single agricultural commodity (coffee, dairy, livestock, grain, etc.) marketing (FCA, 2012) and these are the ones that have gained premium of price on sales of their produces. Nevertheless, the government policy and promotion practice couldn't appreciate their achievements and give adequate attention to those single purpose cooperatives.

Instead, as the re-organized and newly formed agricultural multi-purpose cooperatives couldn't prove their importance in agricultural outputs marketing at the same level with inputs supply, marketing challenges for agricultural products became severe and the need

to strengthen all the multi-purpose cooperatives for agricultural products' marketing was taken up as a priority by the government as well as development aid providers (Bernard.et. al. 2008). In line with that, the government of Ethiopia and some development support provider NGOs massively engaged in strengthening the capacity of the multi-purpose agricultural cooperatives to engage them in the agricultural products' marketing as well. Unfortunately, only few or no multi-purpose cooperative has significant success history in achieving sustained and large scale increment of agricultural production as well as marketing (CFA, 2012) as a result of these moves.

Differently to the massive move of the government and some of the NGOs to strengthen the multi-purpose cooperatives for agricultural marketing, some other development support service providers NGOs that work in capacitating farmers and farmers' organizations argued that marketing needs special attention and require unique acumen and therefore multi-purpose cooperatives can't be effective in marketing of agricultural products. Based on their arguments, those development organizations initiated promotion of FMOs, which are specialized in agricultural outputs marketing only (HUNDEE and CIDR, 2006). With their commercial or profit oriented objective, such farmers organizations seem to be similar with the New Generation Cooperatives (NGCs) though they are different in some of their features and practices. The idea of promoting commercial oriented cooperatives has been gradually endorsed by the government as well and resulted in establishment of a number of such specialized cooperatives which are even currently organized into unions to capitalize their activities by bulking products of the primary FMOs and further integrating activities of the downstream actors in the value chain.

Those single purpose agricultural products' marketing cooperatives also could not be free of complaint for their failure to perform as per they have been expected. Inability to access remunerative and sustainable markets for their products remains to be critical problem of their members. Because of this, the total quantity of marketable agricultural products channeled from each member through the farmers' marketing organizations, especially in this study area, remains to be insignificant (Haagisma, 2011). Because of this, significant change is not observed on both production system and income of smallholder farmers and the overall effect of the FMOs' is not well realized. The value chain approach preferred for the FMOs which has been expected to ensure value addition and fair benefit sharing among the chain actors that includes the producers and their FMOs also didn't work and because of that no reliable linkage is established with markets. Despite all these complaints of the FMOs' members and other stakeholders, there is no empirical evidence to what extent the FMOs have achieved their objectives or failed as in depth studies and documentations are not made on their performance, challenges or constraints and potentials they have for future improvement. Therefore, valuation of the FMOs' achievements, identification of factors that hindered their effectiveness and existing potentials for future improvement and recommendation of appropriate actions to mitigate the factors that affect the role of FMOs is paramount importance of this study.

1.3 Objectives of the Study and Research Questions

1.3.1 General Objective

The general objective of this study is to explore the role of FMOs in commercialization of smallholders' agriculture and indicate how to address challenges encounter them in getting linked to remunerative and sustainable markets to sell their products and assume appropriate position in the value chain. Accordingly, the study has assessed existing practices of the cooperatives through value chain approach and indicated ways in which these cooperatives could improve their situation in the future.

1.3.2 Specific Objectives

The specific objectives of the study are to:

1. To assess achievements of the FMOs in commercializing their members agriculture,
2. Identify main strengths and weaknesses or limitations of FMOs and their members,
3. Analyze the existing production and marketing approach and appropriateness of the organizational set up of the FMOs to undertake agricultural products' marketing, and
4. Investigate the weakness or limitation of the current FMOs promotion approach.

1.3.3 Research Questions

The main research questions dealt with in this study are the following:

1. What are the requirements of the market or buyers that the farmers marketing organizations failed to fulfill to get linkage with reliable buyers?
2. What are the internal conditions and/or capacity shortfalls that limit the FMOs and their member producers to reorient their production system from subsistence to market orientation and create access to reliable markets through FMOs?
3. Why value chain approach is preferred for smallholder farmers and the FMOs? And is it an appropriate approach for the commercial products of the FMOs?
4. What are the external opportunities for the stallholders and the FMOs to help their effective production and marketing system?
5. What are the facilities and services available or lacking for the producers and the marketing organizations to tap?
6. What are the external influences and pressures and constraints that limit the producers and their FMOs from re-orienting their production and marketing system effectively?
7. Can farmers' and their organizations be effective and competitive in business?
8. What are the missing links that require external support and policy revision to make the farmers marketing organizations and their members' effectiveness in agribusiness value chain development?

1.4 Scope of the Study

This study is undertaken in Oromiya region, South West Shewa Zone, Bacho area where FMOs have been promoted for more than 10 years to commercialize agricultural products of their members. The study is made on selected smallholder farmers who are members of the FMOs and the FMOs' leadership in connection with other actors. Selection of the farmers and the FMOs is made based on their membership size and age of operation, their distribution over the study area, accessibilities to their sites and permission of concerned bodies to meet the FMOs members and collaboration of the subjects of the study to provide information.

Bacho area is known for its *Teff, Chickpea and Wheat* (the major staple and cash crops) production in the country. Teff is the major product in this area both for income and consumption for the local people. As all these three products are also among the major products all over the country, the outcome of this study is presumed to be implied to all cereal crops produced and marketed through farmers marketing organizations in relation to commercialization of agriculture in the country at large.

1.5 Significance of the Study

A lot of studies have been made on the role of cooperatives as providers of economic and social services for their members. Nevertheless, their role as investor like entity, especially for the specialized marketing organizations in commercialization of agriculture is not well studied and documented.

In fact, globally, the difference between traditional cooperatives and investor like specialized cooperatives which are considered as new generation cooperatives (Harris et. al 1996) is clearly known. In Ethiopia such organizations and experiences are not yet well established though agricultural outputs marketing cooperatives are in promotion. Therefore, all promoters and supporters of cooperatives do not understand the difference of the two approaches. The attempts made by the development organizations to differentiate FMOs from other forms of cooperatives also didn't take further steps to create clear understanding on the two approaches for the policy makers as well as the practitioners. Besides, value chain as a business model for better competitiveness and fair business development is a new arena that much is said about it than done in the context of the FMOs. There are minor attempts to link the FMOs to regular buyers. But none of them are successful and no regular market linkages are established.

Therefore, this study has clarified the conceptual frameworks of both the new generation cooperatives in relation with FMOs and the value chain business model and its practical application. Moreover, it checks the potential effectiveness of the approaches in Ethiopia by taking grain marketing, the main activity of the FMOs, into account. Finally, the study makes recommendations for the FMOs and their members, the government and the supporting NGOs as well as the academics for their future activities, policy considerations and intervention programs' designing.

1.6 Limitations of the Study

It is often indicated by researchers that farmers are reluctant to provide accurate information on some variables, such as their income level, farm size, age, production quantity, livestock number and the like due to the fact that taxes and other government contributions are imposed on them based on these factors. This study is also not free of such limitations.

In addition to that due to shortage of time and resources to carry out extensive research on the subject under study, geographic coverage, FMOs and their members considered for the study are limited and taken as representatives for the case. Hence, the study is not expected to generate the whole gamut of information about FMOs and their value chain approach. However, since by and large the overall situation of the farmers as well as their products market is the same, it is believed that the overall recommendations and policy implications made for the study area can be applied to similar situations in other areas.

1.7 Organization of the Study Report

The study thesis is organized in six chapters. Chapter one introduces the study by dealing with background, problem statement, study objectives, research questions, scope of the study, significance of the study and organization of the study report into chapters. Chapter two dwells on review of literature in which concepts of cooperatives' role in general, new generation cooperatives and FMOs in particular, commercialization of agriculture, value chain and related concepts are addressed. Chapter three addresses

conceptual framework of agribusiness value chain and possible alternative positions of smallholders in value chain system. Chapter four deals with research methodology in which background of the research work, data collection, review and processing, interpretation and reporting, etc., processes of the study are discussed. Chapter five presents findings along the objective of the study. Chapter six is dedicated for conclusions and recommendations.

CHAPTER 2

LITERATURE REVIEW

The concept of commercialization of smallholders' agriculture has emerged and got significance in literature with the objective to promote development in general and reduce rural poverty in particular. In order to ensure pro-poor development in the rural economic and social environment, development practitioners, policy makers, support services providers, etc., have adopted the concept in different approaches and strategies that include promotion of agricultural marketing cooperatives of smallholder farmers, facilitation of agri-business value chain development, etc. Definition of the concepts and main theories behind the strategies and approaches pursued to realize the concepts are explained as follows.

2.1 Commercialization of Agriculture and Related Concepts

Commercialization of agriculture can be defined as the process by which farmers intensify their use of production and productivity enhancing technologies on their farms, achieve greater output per unit of land and labor expended, produce greater farm surpluses (or transit from deficit to surplus producers), expand their participation in markets, and ultimately raise their incomes and living standards (T.S. Jane et. al, 2011). Commercialization of agriculture, as opposed to traditional subsistence agriculture, is modern, specialized and market oriented (Todaro & Smith, 2006). Subsistence agriculture mainly produces for family consumption although part of the produce may be

sold for some financial needs of a family. In such production system, producers do not take risk to use modern inputs and techniques to improve their production and productivities as they do not expect return on their investments.

Contrary to traditional farming system, in modern and commercialized farming, producers take risk to invest in their production activities so as to enhance their production and productivity as they produce for market to generate income as high as possible. In order to attain this objective, they try to produce as much as they can since their production is not limited by the family need only but also by demand and supply function in the market. Eventually, the process of market orientation of agriculture leads to agricultural transformation and growth of a country. Brihanu et al (2006) confirmed this statement by indicating that the rate of agricultural growth of a country depends on the speed with which the existing subsistence system is transformed into a market oriented production system.

Since in most traditional societies, subsistence agriculture is not only an economic issue but also a way of life, transforming such system to modern system may not be an easy task. In addition to improvement of agricultural production and productivity system and reorienting it towards market demand, it also needs changes in the entire social, political and institutional structure of the rural societies (Todaro & Smith 2006) in a way it could not only accommodate the new change but also facilitate its farther development.

Besides re-orienting their production system, smallholders also need to attain certain level of production volume that can interest buyers. As agriculture becomes more

commercialized, smallholder farmers are constrained by small volume of their production to meet new demands of the market individually as private marketers see the initial production volumes too low (J. W. Moller, 2010). It's not uncommon for large buyers to find it easier and more profitable to import from already organized markets instead of collecting small quantities from fragmented smallholders that entails high transaction cost on them. Such experience is very common for Ethiopian "*Duram*" wheat processors who prefer to import from Australia in bulk than to collect in small quantities from Ethiopian smallholders.

Moreover, commercialization of agriculture in the era of globalization has entered sophisticated and very complex stage. Supplying agricultural products to the markets required fulfillment of different conditions among which a "license to deliver" based on professionalism in production, logistics and risk management in order to ensure food safety and quality (Joosten, 2007). Ethiopian producers, especially smallholders who are the main producers of agricultural products for the country are not yet well aware about all these requirements on the one hand and are not technically capable to fulfill the requirements on the other. Without fulfillment of those necessary conditions and requirements, leave alone to attain competitiveness, market entrance itself is already a challenge.

Therefore, policy makers, financiers, supporters or facilitators and local practitioners engaged in commercialization of smallholders' agriculture need to also understand not only the social, political and institutional structures and constraints of the community they target but also the dynamics of market conditions. The whole purpose of

commercializing smallholders' agriculture lays on the concept of "Making Markets Work for the Poor" (Tschumi and Hagan, undated). However, its practical application is not easy. The problem arises on how to practically make the smallholders capable to produce what the market want, link them with the appropriate markets and make them successful as most of the time market tends to work against the poorest segment of a society. There is already a body of research that indicates the poor and often remote farmers who have limited land, limited on-farm investment and financial resources and low education levels are not benefiting from markets unless they are differently well equipped and organized to exploit the new market opportunities (Andrew, 2007).

2.2 Marketing Cooperatives in Commercializing Smallholders Agriculture

The concept of cooperatives in general is defined in various ways. According to a research group formed in Wisconsin University to undertake a study on US cooperatives, to properly describe the multidimensional character of cooperatives and then identify firms and economic sectors that fit with the cooperatives dimensions, identification of criteria were required (Steven Doller et al, 2006). Accordingly, the group identified universal principles of cooperatives, self-identification of a firm as a cooperative, incorporation status, tax-filing and governance structure as main criteria for identification of an entity as a cooperative. Dr. Veerakumaran (2007), an associate professor at Mekele University, in his exploratory study on Ethiopian cooperatives movement, explained cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and democratically controlled enterprises. According to the Ethiopian cooperatives society proclamation No.147/1998, cooperative

society means ‘a society established by individuals on voluntary basis to collectively solve their economic and social problems and democratically managed by the same’.

Despite their minor differences, all the three definitions indicated above commonly signify that a cooperative is an association of persons established voluntarily to address their members’ common needs or problems and managed democratically by members. Therefore, for smallholders to commercialize their agriculture, qualify to interest buyers and win in the market, which is their common economic challenge, they need to get organized into agricultural marketing cooperatives. From the general definition of cooperatives, the meaning of agricultural marketing cooperatives could also be implied. As the term goes, agricultural marketing co-operatives have been the most popular traditional mode of co-operatives development that has linked producers both with local markets and the rest of the world, through export commodity trading (S.A. Chambo, 2009).

In agriculture, cooperatives are meant to play a central role in efforts to develop the sector and address rural poverty. For example, in Ethiopia’s Sustainable Development and Poverty Reduction Program (EFDR, 2002), it was sought to organize, strengthen and diversify autonomous cooperatives to provide better marketing services and serve as a bridge between small farmers (peasants) and the non-peasant private sector (T. Bernard, 2013). In the same manner, the pillar of the country’s rural development strategy has been founded on the active promotion of marketing cooperatives as a means of commercializing smallholder agriculture (T. Bernard, 2007). Accordingly, it was envisaged that most farmers of the country would have access to cooperatives by 2010,

through which 60% of the marketable surplus will be commercialized, from 10% in 2005 (FCA 2005). Whether this target is achieved or not, concrete information is not available. However, according to ATA 2013 annual report, significant arrangements are made between different agricultural cooperative unions and buyers including WFP and big commercial buyers for different crops sales. This shows that if unions could bulk the products of their members' big buyers could also be interested in their supplies.

2.3 New Generation Cooperatives

New Generation Cooperative (NGC) is the term that has been applied to the value-added processing of agricultural commodities and selected membership cooperatives that have been formed in different states of the US since the early 20th century. The new cooperatives have sprung up in virtually every sector of agricultural production in the USA. They were being formed by producers involved in emerging niche markets, such as bison processing, tilapia production, organic milling, and specialty cheese processing, as well as in more traditional, value-added activities such as corn sweetener production, sugar beet processing, pasta production, and hog operations (Harris et al, 1996).

The distinguishing features of NGCs might simply be summarized as closed membership and delivery shares (ARDI and University of Manitoba, undated) which are by implication in opposition to open membership principle of cooperatives. Membership is "defined" or "closed" as it accepts only those who are capable to buy initial shares which is up to 30-50% initial investment cost of the cooperative (Harris et al, 1996). The share is called delivery share as it specifies the contractual obligations of the producers or

members to supply raw products and the cooperative enterprise to purchase the delivered product in proportion to the share value the member bought. In other words, the delivery shares have three distinct features: i) shares represent a high level of initial investment to which delivery rights tied, ii) shares embody these delivery rights within contracts which define both rights and obligations of the producer and the cooperative and iii) these shares are transferable or tradable at market price that can appreciate or depreciate in value depending on stock market situation (D. Coltrain et al, 2000). As these features of the new generation cooperatives help rise of initial investment capital on one hand and give incentives for the cooperatives' members, opportunistic behaviors of the members and failures of the cooperatives to meet their commitments are also minimized in the system of NGCs.

NGCs are like investor owned firms in their capital raising techniques and the incentives they give to their members through provision of residual earnings on the shares of delivery rights. However, they also maintained their cooperative features by keeping other cooperative principles like members control - though this aspect is still debated, members' economic participation, autonomy and independence, cooperation among cooperatives, etc., (ARDI and University of Manitoba, undated). Accordingly, NGCs are the type of cooperatives that are emerged as investment oriented and commercial risk taking ventures of membership organizations.

2.4 Farmers Marketing Organizations (FMOs)

Farmers Marketing Organizations (FMOs) are specialized single purpose local cooperatives in Ethiopia formed to address agricultural products marketing problem of their members based on cooperatives principles (HUNDEE/CIDR, 2006). Traditional cooperatives of farmers which are defined as organizations of groups of people formed by a free will of members to address their specific needs had been promoted mostly by outsiders support. Leadership of such cooperatives are also elected democratically by members and the organization is independent organization owned and controlled by its members to achieve its desired objectives on equitable basis (A. S. Chambo, 2009). These types of cooperatives are mainly meant to defend the interest of their members by jointly addressing their members' social and economic challenges.

Unlike the self-defending traditional cooperatives, commercial cooperatives such as the FMOs opted for proactive roles in which they aim to capture different opportunities in the economy. ILO defined evolution of cooperatives from self-defense to commercial approach as a change of objectives of a cooperative society from member promotion or self-defense to profit maximization which is increasing its market share by expanding its business with non-members and reorient its business approach to investor-oriented enterprises (Munker & Txapartegi, 2011). With such change of orientation, most of the agricultural marketing cooperatives seem to emerge as the NGCs. The FMOs are one of such types of cooperatives with their objective. But they missed to consider the main features of NGCs which are based on selected membership and investment on shares of delivery rights.

FMOs are organizations formed with commercial orientation by specific groups of farmers on the basis of cooperative principles to get access to remunerative markets for their agricultural produces. They are specific because the interest they want to address is basically on how to get access to market in their joint efforts for their agricultural produces. Their problem arises from their individually being smallholder to bulk enough quantity to attract buyers, their lack of market information to produce and supply according to market demands and lack of experience and management capacity to negotiate with buyers and market institutions. Therefore, the main purpose of such cooperatives is to jointly overcome their common problem of marketing and competitively penetrate the market for better income (Haagisma, 2011).

Although the marketing problem existed with the farmers for years, the farmers themselves were not able to form such specialized cooperatives by their own initiatives. Development organizations that understood the problem mobilized the producers and helped establishment of the cooperatives. Such support provision is normal in the process of cooperatives development. Normally, according to Fairbairn et al (1993), as cited in A. Harris (1996), while economic and social conditions in rural areas provide motivation for cooperative formation, the process of forming agricultural cooperatives is aided by outsiders who provide help for the target community understanding the problem by providing cooperative as a model of solution for the perceived problem and assist the new cooperative in capacity building. Accordingly, the development organizations who supported formation of the FMOs in Ethiopia differently to the traditional cooperatives have argued that agricultural marketing can only be successful if it is led by specialized cooperatives and supported capacity building of those cooperatives. But the development

organizations didn't pay enough attention to the importance of the delivery share purchase by each member which would have served as selection mechanism of market oriented farmers among from the population. Because of this, membership was open to everybody who has different interests and capacity. The working capital of the FMOs was also mainly contributed by the organizations.

Besides organization of specialized farmers marketing cooperatives, it was also believed that to achieve their objectives, those specialized cooperatives first need to generate market information and accordingly adjust their production and jointly supply it to the market according to demand. Secondly, in addition to bulking, adding values on their produces for their better position in the value chain of their products was another foreseen situation. Thirdly, by gaining business experiences and organizational capacities that would enable them to properly manage their business and get linkage with support service providers and reliable chain actors, the agricultural marketing cooperatives which are like the FMOs are expected to improve the situation of their members in the agri-business market (Andrew, 2007).

Therefore, this study has tried to value achievements of the FMOs as smallholders' marketing cooperatives along their objective of commercializing their members' agriculture, analyze the challenges, limitations and constraints and propose possible alternative ways to improve their market access systems based on opportunities and potentials. Moreover, it has briefly analyzed how the FMOs were established, their membership composition in terms of activities and the relevance and capacity of the FMOs to supply demanding urban (e.g. hotels or supermarkets) or export markets which

are newly emerging markets. The appropriateness of the cash products of the FMOs for value chain approach is also analyzed.

2.5 Value Chain (VC)

Value Chain is a business approach supposed to be pursued by the FMOs for accessing reliable and fair market for their produces. There is confusion between supply chain and value chain which need to be clarified at this stage. Supply Chain is a set of linkages between actors where there are no binding or sought-after formal or informal relationships except when the goods, services and financial agreements are actually transacted (KIT & IIRR, 2008,). According to supply chain theory, we all are part of it since we sell something and buy some other thing to resell or to use. Since time immemorial, goods and services have been transacted among different groups of people in the same way. But this system of transaction has not been fair for all involved actors especially when market failed in its efficiency to properly function and benefit all for different reasons.

Different to this, value chain approach has been introduced as a fair and competitive business approach since some decades. It is defined as "a specific type of supply chain-one where the actors actively seek to support each other so that they can increase their efficiency and competitiveness" jointly (KIT & IIRR, 2006).

The International Development Research Center (IDRC) defined value chain as the full range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various

producer services), delivery to final consumers, and final disposal after use (http://www.globalvaluechains.org/concepts.html, date accessed 12/02/2014). Another source compared the concepts of supply chain and value chain and put supply chains as ways to focus on cost and efficiencies in supply, while value chains focus more on value creation, innovation, product development, and marketing (M. Webber, 2006).

Therefore, value chain approach is introduced against the traditional supply chain because of its arrangement to provide possibility for long-term cooperation between chain actors or people that involve in the process of transaction of goods and services and its value addition concern beyond efficiency in business. In this arrangement, chains actors invest their time together for shared vision, pool their efforts together for synergy and jointly commit their resources for better and mutual benefits (KIT & IIRR, 2006). Because of this, value chain is believed to be instrumental to overcome failures of market and enhance competitive advantage of the economy in general and that of the involved actors in particular (R. Kaplinsky and M. Morris, 2000). Besides, value chain does not focus only on value creation within an organization (specific actor) but also in the value chain system or among chain actors. It tries to identify constraints of each actor and opportunities to jointly tap and resolve constraint(s) of an actor as problem of a system since its impact will affect all the involved actors. Furthermore, it is also considered as a pro-poor business model, since it addresses the interests of the bottom of the pyramid by creating opportunities in which they make efforts in organized way (GTZ, 2007).

In the value chain promotion or development, three different stakeholders are involved. These are direct actors (like producers, traders, processors, retailers and consumers)

among which the smallholders are one, indirect actors or service providers (input suppliers, financial service providers, other service providers, etc.) and providers of enabling environments (policies, infrastructures, legal system etc.) (H. Debebe, 2010). GTZ (2007), in its *Value Link* manual emphasizes that if value chain has to be effective four important stakeholders - micro or chain actors, meso or support service providers, micro or enabling environment providers and mega or sociocultural settings - should be coordinated. The current study tried to explore how the value chain approach could address the interest of smallholder farmers or the bottom of the pyramid through their marketing organizations and the possible constraints or challenges need to be dealt with to upgrade their appropriate positions in the value chain by exploiting given opportunities.

2.6 Development

The concept of development has got different meanings. Traditionally, development has been dominantly understood as "the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its **Gross National Product (GNP**) at rates of 5-7% per annum" (Todaro & Smith, 2006). It was also seen as planned alteration of the structure of production and employment from agriculture domination to industrialization, even at expense of agriculture (Ibid). This definition of development has sometimes been supplemented by some social indicators such as improvement in literacy rate, health condition and services, provision of housing, etc., for the people.

The old concept of development which is mainly about measured economic growth, structural change in economy and improvement in some social indicators has been redefined in the new economic view in terms of elimination of poverty, inequality, unemployment and improved quality of life within the context of a growing economy (World Development Report, 2000). Therefore, according to the new definition, development must be conceived as a multi-dimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth for improved human wellbeing.

Consistent to the above evolution of definition in the concept of development, FAO (2011) defined development as an event constituting a new stage in a changing situation or the process of change. Putting implicitly, development is something positive or desired change in human life. This could be improvement in general situation of a society or in some of its elements. UNDP (2014) in its annual report indicated that development is about human concern in which its capability to overcome challenges of vulnerability, extreme difficulty and deprivation need to be improved through creation of enabling environment for continuing human development. To bring about such change in life of all the segments and groups of people, the need to approach development with distributive justice is paramount.

2.7 Rural Development

The concept of rural development evolved and changed from time to time as perception of development mechanisms and/or goals changed over time. According to a reasonable

definition, it is the process that benefits rural population from the overall development; where development is understood as a sustained improvement of the population's standard of living (FAO 2007). According to earlier development theories, rural development and modernization of agriculture are inter-related. However, since 1970s it has taken the meaning of structural transformation characterized by diversification of the economy away from traditional agriculture and even at later stage, it is associated with the promotion of standards of living as a precondition for reducing poverty

In the case of Ethiopia, rural development and modernization of agriculture are inseparable as agriculture is the single most important sector for the rural economy of Ethiopia (ADLI, 2001). To improve the overall living condition of the rural people, the need to improve agriculture, especially the small scale agriculture which is the subject of this study, goes without saying. Improvement of agricultural production and productivity depends on three important things: appropriate technology and innovation, favorable government policies and supportive social institutions (Tadro and Smith, 2006). But according to the approach to commercialize agriculture, these all are production side ideal conditions and facilities. Therefore, if agriculture has to grow and contribute to the improvement of the smallholders' livelihood through their improved income, its production system has to also take the market needs and desires into account (FFARM, 2008) and producers should fulfill conditions and prerequisites given by the markets.

One of the important factors for modernization of agricultural production is application of modern technologies and innovation. Agricultural technologies are of two types: mechanization of agriculture which uses different machineries and could appropriately fit

only to large scale farming and scale-neutral technologies that include application of improved seed, fertilizers and chemicals and related innovative things (Tadro and Smith, 2006). The second category of technology which is scale neutral can be applied by smallholders if they want to increase their production and productivity on their limited size of land. Nevertheless, for the farmers to apply such costly technology on their farming system, they need not only favorable institutional arrangements and government policies to boost their production but also price incentives in the form of fair market price for their produces. In absence of these situations, smallholder farmers neither will be able to afford the cost of the technology nor will be motivated to invest in their agriculture by taking any risk.

In general, if development is about improvement in economic, social, behavioral and institutional situation of the people, rural development is about specific development strategy that targets rural and conditions bring about significant change in the life of the rural people. Accordingly, commercialization of smallholders' agriculture through different approaches including promotion of FMOs is one of the rural development programs. The effectiveness and constraints that challenges the program are analyzed and possible improvement measures are forwarded by this study.

CHAPTER 3

CONCEPTUAL FRAMEWORK OF AGRIBUSINESS VALUE CHAIN

3.1 Description of the Agricultural Value Chain Concept

Michael Porter when he first applied the concept of value chain in his book entitled 'Competitive Advantage: Creating and Sustaining Superior Performance' (1985), he tried to explain value chain as activities performed by an organization and their links to the organization's competitive position. In other words, it is the process in which a particular activity is performed in order to add value to the organization's products or services. Therefore, according to this definition, the organization ability to perform particular activities and manage their linkages to value additions on its products or services for which consumers or users are willing to pay their money are source of competitive advantage for the organization under concern.

In most industries, a single organization can't perform all activities from product designing up to delivering to its final consumers or users. Most often, organizations are elements of a value system in which different actors play their roles and share benefits. In a traditional supply chain system, each member of the system tries to use its market position and negotiating power to get a higher proportion of the profit margin without being worried about other actors. In the value chain system, actors need to cooperate to

jointly improve their efficiency and reduce costs in order to gain higher total margin out of which their individual shares could also be higher.

Competitiveness and pro-poor developments are two concepts that might not be always consistent and achieved together. To be competitive, actors need to invest in technologies for better efficiency and quality production on one hand and commit more resources to extend their scale of production to meet volume of the market demand on the other. These might not be affordable by the poor and in that case it could be excluded from the system. This is how competitiveness and pro-poor approach may trade-off each other.

Nevertheless, having understood this situation, value chain analysts have extended the concept of value chain to creation of opportunities or tapping existing opportunities while addressing constraints of competitiveness. Accordingly, essences like horizontal collaboration instead of competition among actors in similar activities are incorporated to the system to optimize competitiveness and opportunity creation. That is how agribusiness cooperatives could be relevant in agri-business value chains. Business oriented cooperatives, like the FMOs, are expected to pull their resources and know-how on one hand and public resources also need to be mobilized to augment the cooperatives resources on the other to overcome their problem of resource poorness. That is how competitiveness and pro-poor nature of value chain could be maintained consistently.

According to GTZ (2007), *Value Link* manual, efficiency and competitiveness of business organizations can't be ensured within the value system alone. The environment of the value chain in which the legal system, infrastructural services, and the socio –

cultural systems on one hand and business development services on the other are also required to be facilitated. Accordingly, the simple value chain schematic presentation constructed below (Figure 1) indicates three important elements of the value chain environment that are important for effectiveness of any value chain. These are macro, micro and meso elements. The main role of each of them in a value chain system is elaborated following the scheme presentation.

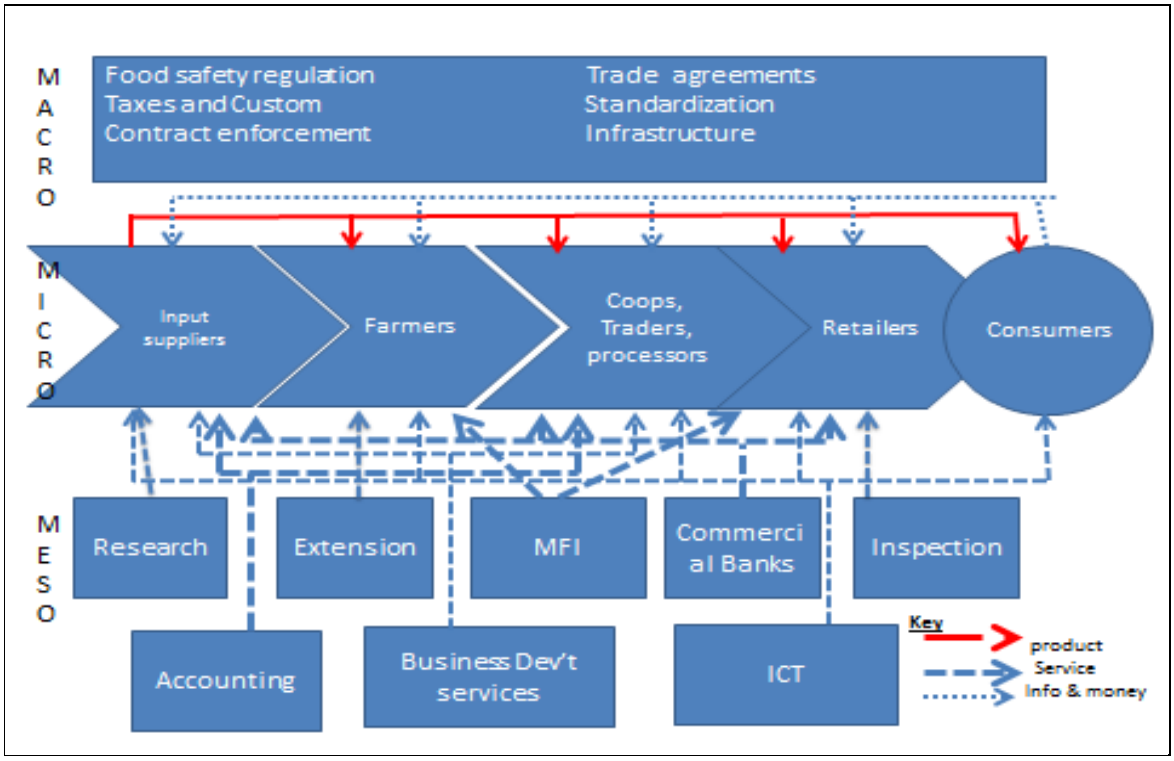

Figure 1: Simple Agri-Business Value Chain Scheme

Source: Constructed with idea from KIT, IIRR and SNV Agribusiness value Chain Mappings

3.1 Value Chain Context

The context of a value chain refers to the overall economic situation (growth, inflation, competition, etc.), political system, security, infrastructure, natural environment, the legal system and the like in which the value chain operates. This level of the value chain is labeled as macro level environment of a value chain system and indicated on the top side of figure-1 above. A value chain context may help the value chain effective performance by creating conducive situation or hinder it if it doesn't have the convenient facility or even it may impose restrictions and/or permit some undesirable situations like system of corruption.

The Ethiopian economic development policies, in general, favor rapid agricultural growth which is presumed to help accumulation of capital, supply raw materials, etc., for the eventual industrialization process of the country from the agricultural sector. Nevertheless, as the country's agriculture is dominated by smallholders who are more in subsistence economy, whether the desired accumulation of capital and the raw materials are generated at adequate amount or not is to be studied. Furthermore, the focus of the Ethiopian agriculture development practice is on staple food crops productions that are bounded to address the national food security need. In line with that, most of the staple food crops are restricted from export. Only, limited food crops such as pulses and oil seeds are currently exported. Therefore, if this is what briefly the value chain context means for Ethiopian agriculture value chains, whether the context is favorable for cash crops of the study area or not needs to be explored.

3.2 Value Chain Actors

Chain actors are main operators of the business who produce and/or add value on products or services, own them and transfer to others in an exchange process. In figure-1 above, this level of the value chain is indicated as micro level. It is labeled as micro because each actor operates at firm level although the value chain system interlinks them and facilitates systemic performance. The actors in the value chain, starting from input suppliers up to consumers or users, are interlinked and take products or services from one another in the line from upstream of input supply up to downstream of consumption. Accordingly, the FMOs and their members are chain actors as they produce, own and transfer agricultural products.

The flow of products from source to next level or actor, indicated by straight line and the flow of market information and money from buyers to suppliers in exchange of the delivered product or service are indicated by broken arrows in the scheme to imply irregularity of their flows as the situation in Ethiopia currently prevails in such a way. In a situation where consolidated value chain system is established and regular flow of products or services in one direction and in exchange information and money flow in another direction is maintained, the arrows also get solid and continuous and the business relation is based on order-contract.

The number of chain actors and their inter link varies depending on the value chain type and its level of development. In the real world, there is no straight line value chain system as indicated above. A single actor may perform different activities by integrating

activities or it may be linked with different level actors in different directions depending on the type of the value chain and the capacity of the actor. Therefore, we shouldn't expect hard and fast formula for their inter link. Rather, what is very important is how they cooperate and exert their efforts jointly by committing their time and resources for mutual benefits. In a situation where one chain actor has better opportunity or capacity than the other in certain aspect(s), they can support each other in addition to their business engagement. Such support system is called business embedded service provision in which a service provider could recover its costs in the process of the actors' joint business or value chain system (USAID, 2002). According to this framework, the FMOs and their members were expected to integrate with other actors in the value chain on sustainable basis overcome their market access problem and ensure better income.

3.3 Value Chain Supporters

Value chain supporters are service providers like banks, microfinance institutions, insurance companies, transporters, brokers, business development service providers and other supporters including, NGOs, government agencies, and research centers that help the chain actors in their effort to produce or add value and exchange the product or service they deal with competitively in the market. In the above simple value chain scheme, this level is labeled as meso, which is meant support service provider for the chain actors. According to the scheme, each actor gets service from different service providers depending on its needs and capacity to access them.

In early times, smallholders or small enterprises were considered to be incapable and do not have capacity to access business service providers in order to produce and market competitively unless they are supported by public means. Because of this presumption, governments and development NGOs used to provide free services and subsidies for their target development groups. Nevertheless, at later stage specially starting from beginning of this century, governments and donor agencies are convinced that to ensure sustainability and fairness in the business world, market based solutions are sought to provide services for value chain actors (ILO, 2001).

3.4 Agri-Business Value Chain Analysis

The development and business communities involved in agriculture and agribusiness sectors have recently experienced a tremendous resurgence of interest in promoting agribusiness value chains as a way to add value, diversify rural economies, and contribute to increasing rural household incomes. Value chains are increasingly recognized as a means to reduce the rural poverty prevalent in the developing regions (M. Webber, 2006). For proper promotion of agri-business value chain approach and its effective results, value chain analysis is an important step to be taken by business undertakers. Value chain analysis is the process of identifying constraints and opportunities for development of the business under concern. Based on the identified constraints and opportunities in the value chain system, proper upgrading strategies could be designed. In this process, they can be helped by external experts to avoid biases and any potential conflict of interests among the chain actors (USAID 2002). Undertaking value chain analysis helps answering questions like, “where in the value chain should my business be positioned to improve its

performance?" To answer such a question, the value chain analysis raises different analytical questions. Those questions should, therefore, attempt to identify main constraints encounter the business competitiveness and available opportunities that could be tapped for better performance.

3.5 Value Chain Upgrading Strategies

Value chain is not a static system. Chain actors' relative role changes from time to time depending on changes in market demand and technology and/or capacity of the actor to engage in a new role or give up its existing role (Haggblade, 2014). Accordingly, value chain upgrading is required based on value chain analysis in which opportunities and constraints could be identified and upgrading strategies are proposed. Value chain can be upgraded through different ways (KIT and IIRR, 2006). Process upgrading in which actors improve their efficiency and effectiveness through implementation of cost minimization approaches and application of improved systems is one way. The other is product upgrading. This is the way of improving quality and/or quantity of the product to meet the requirements of the buyers. Functional upgrading is another upgrading strategy help to initiate new value chain which is mainly possible when an actor has consolidated its capacity and managed the existing value chain very well. Therefore, choice of upgrading strategy depends on the types of constraints encountered, opportunities available to tap and more than anything capacity of the actor to implement a specific upgrading strategy.

3.6 Agri-business Value Chain in Perspective

Agriculture is still expected to carry much of the bludgeoning number of population in sub Saharan Africa in general and especially the vulnerable groups of the societies-smallholders, women and youth (Haggblade, 2014). Nevertheless, African agriculture lacks strong chain relations among chain actors and market institutions (KIT and IIRR, 2008) to ensure its efficiency and effectiveness in performance and create space in which those vulnerable groups could be carried. According to KIT and IIRR, African agricultural markets are characterized by four situations. All of them are influenced by the type of products marketed, level of interactions and trusts established and built among the chain actors, the institutional frameworks and capacity of the market. Each of them is presented as follows:

a) **Ad-hoc Spot Market Trading**. This is the type of market in which traders and producers engage in short term transactions. Trust, quality assurance, value addition according to market needs and desires, service provision among chain actors, innovation, etc., are very low. The level of risk for both buyers and producers is very high. This is the dominant type of market in Africa including Ethiopia in general.

b) **Stable Trade Relations**. Such types of actors' relation could be established between producers and traders for any reason. For instance in Ethiopia such market relation could be established between farmers and traders on the basis of social bondage or prior supports that the trader may give to the farmer. In some

places, traders extend money to farmers during lean periods and collect their agricultural products in kind at harvest as repayment mechanism for the money they extended to the farmers (H. Debebe, 2010). In this case as well, though the level of trust is high, the effort of producers to innovate, add value, ensure quality, etc., are minimal since the producers do not get adequate price incentive for their efforts.

c) **Formalized Markets-** Buyers and sellers engage in short term transactions based on institutionalized standards and regulations. Prices are set as a function of general supply and demand and seller no longer meet buyer in person to do business, because market prices are transparent, quality grades are standardized and contracts are enforced by third-party institutions, such as an auction authority (G.W. Meijerink, 2014). The best example for this model of market is the Ethiopian Commodity Exchange (ECX). Since the market performs its functions on the bases of pre-set standards and regulations and actors do not meet and discuss in person, there is no room for joint innovation, niche markets' opportunity tapping and working for better standards.

d) **Chain Partnership -** this is the situation in which both chain actors' relations and market institutions are strong. Farmers, traders, processors, end market buyers, etc., establish long-term business relationships with formal contracts to jointly work on and invest in innovation, scaling up production, quality improvement, market development, value adding, service provision for one another, risk

reduction, etc., (KIT and IIRR, 2006). This type of market is rare and only established between and among actors deal with unique or niche products.

The Ethiopian agriculture, especially the crop production agriculture, which is predominately smallholders' business, is dominated by the ad-hoc spot market system. This is mainly on one hand, because of the types of products supplied by the producers are mainly cereal crops which do not require any special arrangement and could be bought from open markets. On the other, buyers in the domestic end markets are also not in a position to demand special features of products such as organic, products of specific agro-ecologies, etc. On top of that, market institutions which are expected to set standards, regulate the business actors' behaviors, etc., are also weak (KIT and IIRR, 2008). Therefore, there is no compelling reason that could necessitate establishment of chain partnership.

CHAPTER 4

RESEARCH METHODOLOGY

4.2 Description of the Study Area

The research is conducted in four districts of South West Shewa Zone of Oromiya National Regional state. The four districts are in name Bacho, Dawo, Sadan Sodo and Ilu districts and all are located adjacent to one another in the belt of Bacho plane surrounding Tulu Bolo town which is about 80 kms from Addis Ababa in the south west.

According to the districts' offices of finance and economic development, the total population of the districts is over 336,700 out of which 51% are male and the rest are women. According to CSA (2007), over 90% of the districts' population dwells in the rural areas and the main source of livelihood is agriculture. Important crops of the districts, though there are minor differences between the districts in terms of degree, are Teff, wheat, chickpea and rough pea or vetch both for the household consumption and sales. Barley is also important for Dawo and Sadan Sodo districts to some extent. The total land size of the districts is estimated at 179,473 hectares out of which over 66% is cultivable every year. In their altitude, about 70% of the districts land is classified as middle land and the land scape is plane which is very convenient to apply any type of technology for crop cultivation. Over 65% of the districts soil type is black which is suitable for growing of the main crops listed above. Annual rainfall is also said to be

adequate in total quantity although producers complain about its erratic nature, mainly for its late coming and early stopping.

The FMOs which are the subject of this research have been promoted in the districts by two local NGOs, namely Facilitators of Change (FC) and Oromo Self-Reliance Organization (OSRA), over the last ten years. The main objective of the FMOs is commercialization of their members' agriculture with their joint efforts to ultimately improve their livelihood through improved income while the NGOs have been facilitating achievement of the FMOs objective through provision of material, financial and technical supports for the FMOs. Accordingly, 35 FMOs which have mobilized about 3,390 members are established in the four districts and recently, the FMOs have managed to establish a grain marketing union to jointly supply their products to the market.

The researcher is interested in the FMOs for two main reasons. The first one, as such specialized agricultural marketing cooperatives are new in their nature in the country, to explore how effective they are, challenges they encountered and their potential for the future in order to draw lessons and contribute to knowledge in the field. The second one is convenience of the study area for limited time and budget of the study undertaker.

Accordingly, the study is exploratory in its nature and applied research in its type since it tries to address practical issues of the FMOs. It is also analytical since it analyzes different issues of the FMOs such as their organizational set up, strengths and weaknesses, effectiveness in achieving their objectives, constraints or challenges they encountered in the process, potentials and opportunities they can tap in the future, etc., using different analytical tools.

4.3 Data Collection: Tools and Procedures

Assessment, discussions and interviews have been made with different actors and stakeholders of the FMOs. In the process, data related with achievements, challenges and constraints, potentials and opportunities of the FMOs in commercializing their members' agriculture have been collected. Emphasis is made on how much the production and marketing system of the smallholder farmers have been improved and contributed to their increased income as a result of the FMOs promotion. Moreover, how could it be improved in the future according to the informants' view is another area of information collection. The main methods applied for data collection are face-to-face interviews for selected FMOs' members, leaders, key informants and traders and focus group discussion with selected members, leaders and stakeholders. Key informants interview was also made with the districts cooperatives promotion office experts and the promoter NGOs officers. Moreover, secondary data collection is also made to support the primary information collected through the interview and discussion processes. Accordingly, interview guides for members, leaders and key informants and group discussion guide or checklist for focus groups discussion were prepared and applied.

The interview guides and checklists were tested before they are applied at full scale. The pilot tests were made with one trader, five FMOs' members and one FMO leader. The testing process has helped to check the tools capacity to generate the required information and their understandability by the interviewees and the discussants. Accordingly, necessary improvements have been made on the tools based on the feedback gathered during the pilot testing process.

Interviews: Face- to- face interviews were made with FMOs' members, leaders, traders, NGOs' staff members and districts' cooperative promotion experts. As end market buyers, consumers' cooperatives representatives are also interviewed. Key informant interview was also conducted with knowledgeable persons on cooperatives promotion and agricultural marketing of smallholders in the districts cooperatives promotion offices and the promoter NGOs.

Discussion: Focus group discussions were organized in two places. In both groups 8 and 10 people have participated in the discussion respectively. Participants were drawn from FMOs and their union leadership, members and districts' cooperative promotion organizers**.** Issues discussed were organizational and business management capacities of the FMOs and the union, services provided to members in order to support enhancement of members production and productivity, their level of linkage with reliable markets, incentives obtained by members from FMOs, challenges encountered and potentials and opportunities foreseen for improvement of the FMOs' marketing service.

Document Review: Different documents found on commercialization of agriculture and agribusiness value chain development in general are reviewed. In particular, project documents, performance and evaluation reports prepared on FMOs are reviewed. Policies, strategies and regulations prepared by the government on rural and agricultural development, cooperatives promotion, agricultural marketing, etc., are also assessed.

4.4 Sampling Technique

Mix of techniques is applied to identify target interviewees from among FMOs' members which are about 3,400. Ten percent of the total number of membership was decided to be selected for the members' interview. To minimize possible bias in the selection process, first 10 FMOs were identified based on their age and number of members. Accordingly, 340 potential interviewees were decided to be interviewed from ten FMOs in proportion to their number of members. One of the non-probability sampling techniques which is known as event-sampling is applied to identify each interviewee. When the interview was conducted, FMOs were in grain purchase campaign and the interview schedule was conducted at the purchase site with whoever came to the site to sell his or her crop first irrespective of their gender or any other difference of character. The number of people participated in interviews and focus group discussions are summarized in Table 1.

Table 1: Summary of Interviewees and Focus Group Discussion Participants

No	Descriptions	No of participants
1	Interview FMO members	340
2	Interview FMO leaders	10
3	Interview NGO Staff	5
4	Interview traders	3
5	Interview Consumers Cooperatives	2
6	Key Informant Interview with NGO Leaders and CPA officers	5
7	Focus Group discussion -1	8
8	Focus Group discussion -2	10
	Total	**383**

Source: Own compilation from research plan and implementation

FMOs' leaders, union leaders, and traders, representatives of the consumer cooperatives, NGOs' staff members and selected districts' cooperatives promotion offices staff members are also interviewed on the basis of their availability and willingness. Focus group discussion participants were also selected from among already interviewed individuals on the basis of their relevance and willingness to participate in the meeting for in depth analysis of common issues in their joint meeting.

4.5 Methods of Data Processing and Analysis

The collected data has been processed, analyzed and interpreted using different processing and analytical methods and tools. Statistical Package for Social Scientists or SPSS software is used to process the collected data. Descriptive statistics is applied to critically analyze achievements, challenges and constraints, potentials and opportunities for commercialization of smallholders' agriculture through FMOs. Value chain analysis of the main cash crop of the target FMOs is another tool and method used for this research to augment the findings of the descriptive analysis. The two main tools of analysis used for the research are described as follows:

Descriptive Statistics: This method of data analysis refers to ratios, percentages, means, ranges, variance and standard deviations and ranking. Different variables such as members land holding, production and productivity, cash crop production, FMO as members' main sales outlets, sales prices, and income of members from sales through FMOs, etc., is analyzed and presented using this method.

Value Chain Analysis: Value chain analysis is used to show functions and inter linkages of different actors through value chain, identify distribution of benefits to different actors using simple economic analysis model, analyze constraints and opportunities and propose upgrading strategies and finally analyze market governance and the role of the FMOs in the system. The analysis is made by considering Teff as the main cash crop of the target farmers and FMOs.

Based on the results and findings of the analytical tools, conclusion of the study regarding the FMOs' current role in commercializing their members' agriculture is made. Recommendations for future improvement are also proposed.

CHAPTER 5

FINDINGS OF THE STUDY

5.1 Descriptive Analysis

5.1.1 Overall Situation

The research area which is commonly known as Bacho Plane is an extensive landmass covers the greatest part of South West Shewa Zone of Oromiya National Regional State. It is found in the upper stream of the Awash River Valley where the slope of the land is very gentle and water flow is very slow to the extent of overflowing from its small gorge and over-floods the plane especially during the main rainy season. All the streams originate from the surrounding hills and tributes of Awash River bring alluvial soil to the plane and deposit there when they flow in a very slow speed. Because of this situation, the potential of the area is very high for production of different crops during different seasons. Crops that require adequate moisture and fertile soil to germinate and grow such as Teff and wheat are planted during wet season and chickpea, rough pea and lentil that need fertile soil but only limited residual moisture are grown during the dry season setting in time.

Despite the high natural potential of the area, the smallholder farmers of the area were not getting adequate benefit from their agriculture for long time due to different reasons. According to FC and OSRA, the local NGOs supported promotion of the FMOs in four

of the districts in the area, one of the important reasons why the smallholders were not getting adequate benefit from their agriculture is the subsistence nature of the agriculture which has depended on traditional practices for generations (FC and OSRA, 2005). Therefore, according to the NGOs, one of the efforts to be made is to improve growth of production and productivity of the smallholders and thence, ensure better livelihood for the smallholder producers through commercialization of their agriculture by facilitating their access to reliable markets. That was how promotion of FMOs has been started in the four districts –Bacho, Dawo, Sadan Sodo and Ilu districts – of the area. Accordingly, up to this study date (2015), 35 FMOs have been established in the four districts and gathered about 3,400 farmers in membership. Since 2012, the FMOs are also organized into a union to consolidate their common efforts to get access to reliable and remunerative markets.

Similar initiatives have also been taken by the same and other different NGOs in different parts of the country nearly since from the same time. The FMOs, though their main objective is creation of access to reliable markets for their members' products, have also contributed to improvement in production and productivity of their members by facilitating supply of some improved seeds and provision of agronomic skill trainings. In the areas like Bacho, improved varieties of kuncho Teff, kabuli chickpea, etc., seeds were distributed to members and that has significantly contributed to improvement of production and productivity. On top of that creation of access to reliable buyers or markets for their members' products by bulking their supplies is the main objective of the FMOs.

The level of their success, challenges and constraints they have faced, strengths to be consolidated and weaknesses to be rectified and potentials and opportunities to be tapped are subjects of this study. Since addressing all the FMOs in all the places is not feasible both in terms of time and budget, the study is decided to focus on Bacho area and, even from Bacho area specifically to address 10 FMOs only. The study findings made on selected members of the 10 FMOs, which could also be implied to other FMOs as well, are presented as follows.

5.1.2 Demographic Characteristics of Respondents

Out of different characters may explain about the respondents, only limited and selected characters that are thought to be relevant for the research issues are addressed. The following Table 2, which is constructed from the survey response of the FMOs' members, indicates the selected character that could directly or indirectly impact on a particular member capacity to commercialize his/her agricultural activities.

Since level of commercialization is directly related to the members' ability to understand the market environment and produce adequate quantity and quality of products accordingly, variables like the interviewees' available labor force for agricultural production activities and their education level are analyzed as critical variables. Variables like family size, age of respondent, gender, etc., are also seen as important factors for the capacity of the individual farmers in commercializing their agriculture. Other variables like marriage status, dependency ratio in the family, etc., are also seen as indirectly impacting factors on commercialization efforts of members.

Table 2: Demographic Characteristics of Respondents

No	Descriptions	Male	Female	Total
1	Number of total respondents	297	43	340
2	Average family size	6.83	6	6.73
3	Age Completed by year and category: 20-34	72	15	87
	35-49	129	23	152
	50 and above	96	5	101
4	Educated members	198	23	221
5	Average grade completed	7	7	6
6	Marital status by category: Single	10	1	11
	Married	285	30	315
	Divorced	0	3	3
	Widow/er	2	9	11
7	Average number of family members involved in agricultural activities	3.58	3.28	3.54

Source: Own computation from survey data

According to the agricultural practice of the study area, the main source of labor for agricultural activities is own and family labor. Only during collection of crops, some well to do farmers hire additional labor from outside. In male respondent families, the average number of persons directly engage in agriculture is 3.58 while it is 3.28 for female respondent families and the overall average is 3.54. Table 2, which is constructed from the interview information, shows that only about 50% of the family members are directly involved in the agricultural production. The rest 50% are dependents who are consuming what others have produced. In their age category, more than 70% of the respondents are within the range of 20 to 49 years which is a very active age group to understand what the

market needs and produce accordingly. In terms of education as well, 65% of the interviewees are educated and the average grade completed is 6. This level of education is also adequate to understand market information and accordingly adjust one's own production system. Therefore, in general the demographic characteristics of the respondents could be concluded as potential for commercialization of their agriculture.

5.1.3 Asset Base and Means of Livelihoods of Respondents

Main productive assets of the respondents are land and oxen other than their labor including that of their family labor analyzed above. Land is a very critical asset for commercialization of agriculture. All respondents to the survey have got land which they acquired either by their right to use from the government or rented-in from others or both. According to the survey result, 310 (91.2%) of the respondents have got their own land and the rest 30 (8.8%) are fully dependent on rented-in land. Even from among those who have their own land, significant number of them (60.9%) rent-in land from others. The average own landholding in hectare is 2.4, 2.1 and 2.38 hectares for male, female and overall respondents respectively. When this is distributed based on age category or group of 20-34, 35-49 and 50 and above years, their average holding is 1.58, 2.1 and 3.3 hectares respectively. This situation shows that the landholding size increases with increment in age and this in turn indicates that the active age groups have less landholding. The total average of land cultivated per respondent, including the rented-in, is 3.27 hectares while in gender disaggregation it is 3.33 hectares and 2.87 hectares for male and female respondents respectively.

Oxen are other important assets for crop production in the area. Other cultivation means like tractor or any other mechanisms are not widely known to the farmers. Only this year, the FMOs' union introduced one tractor which users can access on hourly payment basis. It is not yet fully in operation and most of the FMOs' members only heard news about it. Therefore, oxen as means of traction power in preparation of crops field are the only dependable means not only for all the respondents but also for the whole farmers of the area. Accordingly, 319 (93.8%) of the respondents have got their own oxen and the remaining 21 (6.2%) who do not have their own oxen rent from others.

The livelihood of the respondents mainly depends on either only crop production (55.3%) or mixed farming (44.1%). Only the remaining 0.6% depends on occasional labor and petty trades. The very high level of dependence on agriculture for their livelihood indicates that agriculture is a critical sector for the respondents. Therefore, in order to improve their livelihood, improving their production and productivity and getting access to reliable markets for their produces is the critical importance for them.

5.1.4 Production and Productivity

The varieties of crops produced by the respondents, according to their importance, are Teff (99.4%), chickpea (95%), wheat (87.1%) and rough pea (57.6%) and among these crops, Teff is the main cash crop for the great majority of the respondents (98.8%) followed by chickpea (0.9%). The importance of Teff as a major cash crop has been explained by different factors among which: a) suitability of the soil and climate of the area for the crop and long experience of the farmers to produce it, b) marketability of the

crop and c) advices of agricultural development agents and the FMOs' leaders on production of the crop are said to be important.

Despite Teff is predominantly cash crop, producers do not like to specialize in it only and still they want to commit their small land and other meager resources for production of different crops. This is mainly for: a) both Teff and other crops are also used for both sales to get income and household consumption; b) crop rotation is required to maintain soil fertility and crop health and c) minimization of risks related to mono-cropping that could be encountered due to changes in market and/or weather. The first reason is an indication that still the producers are subsistence oriented though they have some market orientation while the other reasons also indicate that their behavior of risk aversion at high level which needs to be gradually overcome by entrepreneurial or risk taking behavior of the farmers. The overall production and productivity of the producers has been increasing over the last four years and this has been explained by relatively improved seeds and production enhancing inputs application of the farmers as a result of improved incentives for the farmers through better price for their produces. The incentive of the market has also been complemented by extension service of the government and the market orientation of the FMOs for their members.

The average productivity of land by gender disaggregation and age groups has also been analyzed. Despite their lesser landholding, both females and people in young age have better productivity of land than their men and older age counterparts respectively. This is because of their close follow-up and the care they take for their crops and better risk taking to buy and apply production enhancing inputs. Therefore, the overall increment in

production and productivity could be due to the gradual change in their attitude from subsistence orientation towards commercialization of their agriculture. Their change of attitude and gradual risk taking to invest on their land through using better productivity enhancing inputs is the foundation of commercialization of their agriculture. The following Table 3 indicates increment in productivity of land by gender, age groups and household average total production over the last four years.

Table 3: Summary of respondents' production and productivity

No	Descriptions	2014	2013	2012	2011
1	Productivity (Qt)/ hectare by gender				
	Male	8.55	8.2	8.1	7.7
	Female	8.88	8.5	8.1	8.2
	Total	8.59	8.24	8.11	7.78
2	Productivity (Qt)/ hectare by age group				
	20-34	9.5	8.89	8.76	8.4
	35-49	8.6	8.39	8.2	7.8
	50 and above	8.59	8.24	8.1	7.8
3	Average total production (Qt) by household				
	Male	26.74	25.06	23.66	21.93
	Female	22.3	19.77	19.44	19.42
	Total	26.18	24.39	23.14	21.61

Source: own computation from survey result

If the average total production (for instance 26.18 quintals for 2014) is compared with average family size, i.e. 6.73 for the same year, the average surplus for market could be

only about 6 quintals per household, assuming that annual per capita consumption is 3 quintals of food. Similarly, if productivity per hectare both in gender disaggregation and age group are compared with national productivity, which is 13.65 quintals for Teff and 21.92 quintals for all cereal crops (CSA, 2013/2014), the productivity result of this survey is much lower. The difference could be because of, among other things, limited reliability of the information provided by the respondents. The other reason could be inappropriate or sub-optimal usage of inputs mainly fertilizers, chemicals and improved seeds by the respondents due to the inputs high cost as complained by the respondents. Otherwise, if the CSA data is trusted, the average productivity of Bacho area, which is one of the home lands of Teff in the country, at least can't be less than the national average of Teff productivity per hectare.

Production enhancing services provided by office of agriculture development, FMO promoter NGOs, multi-purpose cooperatives and micro-finance institutions are extension service, supply of improved seeds, fertilizers and chemicals and financial credit provision respectively. All the technologies and services provided are fit to the smallholders' agriculture. However, according to the respondents, none of these services are adequately provided.

The office of agriculture assigns development agents to advice farmers on new agricultural practices and technologies. The service, on one hand, is provided by limited personnel that can't address all the farmers and even in some cases not well qualified for commercializing agriculture. According to Gebre Medhin et al (2006), extension service that has been organized for food security objectives has not yet been adapted, both in

capacity and organization, to provide extension service required for transforming subsistence agriculture to marketed oriented agriculture. On the other, even if the development agent gives proper advice for the farmers properly, to practice accordingly, either the required input or technology is not available and/or not affordable. Accordingly, the supply shortage of improved seeds and unaffordable price of fertilizers and chemicals are the most complained challenges that reduce productivity of the smallholder farmers. The credit service of the local micro finances –Harbu and WALQO MFIs – are also under rated by the respondents for their very high interest rate and inadequacy of the amount provided.

5.1.5 Objectives of FMOs Establishment and their Achievements

The main perceived expectations of the FMOs' members upon their establishment, according to their importance, were to: a) get access to better market for their produces (83.2%), b) jointly voice and protect their rights (57.9%), c) jointly sourcing improved agricultural inputs and technologies they can't find individually and/or even not available in the local supply (50.6%), d) get any other benefit provided by the promoters (49.4%) and the like. From the list of objectives, it is easy to understand that the level of members' orientation towards commercialization of their agriculture is in mixed situation. Accordingly, although majority of the members (83.2%) have the objective to access better market for sales of their produces, still nearly half of the members (49.4%) have also other expectations. Even if the objective reality on the ground necessitated establishment of the FMOs to address market access problem of the smallholders, the very fact that they were promoted by NGOs has also deceived some members and made

them feel that it was the means to access some other supports from the NGOs in the form of handouts. Therefore, for those who joined the FMOs for some other benefits other than capacity building on commercialization of their agriculture, their motive could be different and their membership activity also depends on achievement of those expectations than achievement in commercialization of their agriculture. In terms of commercializing their agriculture and generating benefit for their members through the market mechanism, the roles that have been played by the FMOs over the last four years are summarized in the following Table 4.

Table 4: Summary of FMOs' Achievements

No	Description of FMO achievements	2014	2013	2012	2011
1	Average quantity of crops sold through FMOs/person in quintals	5.7	4.62	4.06	3.92
2	Number of members sold crops through FMOs	132	175	155	137
3	% of quantity sold through FMOs to total cash crops produced	36.89	37.43	32.49	34.55
4	Average price offered by FMOs/quintal (Birr)	1234.29	1236.04	1195.21	1144.42
5	Average price offered by private traders for similar type and quality products (Birr)	1199.75	1211.35	1185.65	1136.87
6	Benefit gained on market price difference (Birr)	34.54	24.69	9.56	7.55
7	Dividend distribution (Birr)	205.16	279.13	113.23	85.51
8	Number of members declared their acceptance of dividend	25	24	47	24

Source: Own computation from survey result.

From the above table, it can be understood that less than 50% of the interviewed members sell their crops through the FMOs and the share of their sales through the FMOs to the total cash crops production is at most 37.43% which is achieved only in 2013. The average price gain made due to sales through the FMOs is also within the range of ETB 7.55-34.54 per quintal. Dividend distribution is also not significant both in terms of value and the number of members declared that they got it. All these show that the incentives that the FMOs provided for their members are very limited. Therefore, if only limited number of members feel that the FMOs have fully achieved their objectives, it is consistent with the indications observed from the above table 4. Accordingly, the majority of the respondents indicated that their expectations were not fully realized. Only 30.3% of the respondents indicated that they are fully satisfied with their FMOs' activities and services. Accesses to better market and sales for higher price are rated 67.1% each for the minimal price they gained on sales and better customer handling of the FMOs' leaders. Increased understanding of members about the market and marketing and minimized cheating of the private traders as a result of FMOs' entry to the market are also rated at 62.4% and 59.7% respectively. Most of the members have also commented that the FMOs have provided them the opportunity to sell their crops in nearby without incurring transport and other related costs to find market. These levels of rating can be taken as indicators of positive achievements of the FMOs given their limited presence in the market. The FMOs are present in the market to buy supplies of their members only for few days during harvest season in a year.

In terms of trade arrangement as well, limited attempts and no concrete achievement is made in establishing linkage with regular and reliable buyers, since the market of Teff is

predominantly characterized by ad-hoc market. According to the focus group discussions, there were some efforts made to link the FMOs with local processors for Teff and with exporters for kabuli variety of chickpea through facilitation of the promoter NGOs to establish value chain based partnership among the chain actors. Nevertheless, since the products do not have any niche character and buyers can easily find them in bulk and good quality in the open spot market any time they want, the buyers are not interested to enter into contract arrangements with the FMOs. Therefore, the FMOs couldn't bring-in any new market access strategy that can make them different from traditional private traders. The only differences they have brought are absence of cheating, good treatment for their suppliers, minimal gain on sales price and dividend distribution and creation of the sense of competition in the market as private buyers start feeling that if they cheat or mistreat farmers they could resort to their FMOs. However, despite the low levels of the FMOs' objectives achievement and their weak presence in the market, still the majority of the FMOs' members are optimist and that they believe their FMOs will achieve their objectives and contribute to improvement of their position in the agri-business.

Commercializing one's own business is about investment and risk taking in expectation of returns. However, starting from their establishment FMOs were not fully founded by "investment ready[1]" members as membership recruitment was more based on willingness to join than their capacity to contribute. The amount of capital contributed by each member on establishment was limited. The working capital of the FMOs was raised mainly by matching funds and grants provided by the promoter NGOs and this situation

[1] "Investment ready", for this study, means having the attitude of working for profit and having the capacity in all the required skill, knowledge, resource, etc., for investment.

has had its own impact on the ownership feeling of members. Especially, for those who joined the FMOs with expectation of other benefits that could be provided by the promoter NGOs, commercialization effort of the FMOs might not give interest and even the background of most of those groups of members could be asset poor people who do not produce surplus for market and do not have appetite for market orientation in their agricultural activities. On top of that there is no any condition that puts obligation on the members to supply their products through the FMOs and on the FMOs as well to purchase supplies of members and from them only. With this situation, though they seem the new generation cooperatives in their objectives, the FMOs are not at that level in practice.

Because of such laxity in the organization and development process of the FMOs, members choose their sales outlet on their own will. Accordingly, the majority (more than 50%) of the FMOs members always sell their products out of FMOs channel. According to 92.1% of the respondents' indication, members sell their products to private buyers due to their availability in the market any time they want them while FMOs operate only for limited time in the year and even for limited hours on a day they are in duty. 53.5% of the respondents have also indicated that FMOs do not have enough capital to purchase all of their supplies even when they are in the market. Therefore, because of these and the like limitations, they couldn't use FMOs as their dependable sales outlet even if they knew that they can get better price at sales and dividend at the end of the year.

However, still over 92.9% of the respondents prefer and expect their FMOs to be their products' sales out let. The great majority (94.1%) of the respondents feel they are denied their rights to get fair price by the private traders through different mechanisms including swindling on scale, hiding market information, unnecessarily disqualifying their crops and colluding against them even not to let them choose a buyer among from different buyers and negotiate on price. Because of this, hostility to the private traders prevails in the mind of the FMOs members and everybody wants alternative channel. This situation is not unique to farmers in Bacho area. G.W.Meijerink (2014) revealed the same situation by saying that prevailing hostility to the traders' results from a focus on trading margins they take rather than functions they perform as business actors. Although blind hostility to private traders could be a danger to effective development of agribusiness, the situation on the ground is like that. Therefore, at least for the time being, provision of alternative outlet is required and that is why the famers expect their FMOs to improve their ways of operation and provide them appropriate marketing service.

5.1.6 Understanding Agricultural Marketing and Market Conditions

FMOs' members understanding of marketing has been enhanced as a result of their membership. One of the high rated (62.4%) among the FMO achievements, by the survey respondents, is better understanding of members about the market. This understanding is assessed from different angles. One of the angles is their understanding of quality as one of the critical factors to be competitive in the market. Accordingly, about 82.9% knew that the price of their agricultural product is determined by its quality standard. The main indicators of quality, according to the respondents of the survey are purity of the product

from any other admixtures or impurities, homogeneity of the crop variety, color and seed size and moisture content of the crop. Therefore, those who are conscious on the quality standard and its indicators are seriously trying to fulfill them since they knew that the price they get is determined on the basis of quality standard. Knowing and fulfilling the required standards, those producers are also able to negotiate with their buyers on the price they have to get. On the other hand, they also understood that their FMOs have created sense of competition in the market among the traders or has helped break of traders' collusion since the producers can go to their FMOs as an alternative market if the private buyers deny them appropriate price or treatment.

The other indicator about better market understanding of members is their level of investment in agricultural production and productivity enhancing activities in expectation of better return from sales of their agricultural outputs. 69.4% of the respondents have made different investments to improve their agriculture. Some of those investments made by the FMOs members are use of improved seeds and other inputs (45.9%), renting-in additional land (60.9%), using improved agricultural tools like Broad Bed Maker in farm fields (10.3%) and the like from among the interviewed members. Besides, the informants of the survey have indicated that they took from their respective FMOs the newly introduced improved quality and better productive Teff and chickpea varieties of seeds in expectation of surplus production for sales.

Therefore, although it is not yet enough, the trend of the FMOs and their members' effort to improving their agricultural practices to get surplus products for market is an indication of improvement in their market orientation and better understanding of the

market. This is well confirmed by the survey districts' cooperatives promotion office experts as well as by the promoter NGOs and the FMOs union management during focus group discussions and the key informant interviews. The cooperatives promotion offices and the NGOs' experts believe that the FMOs' members have better opportunities in awareness rising on commercializing their agriculture through different programs organized by the promoter NGOs. It is also indicated that the primary FMOs and their union should be more effective in the agricultural marketing as they have better capacities and facilities like significant working capital and appropriate stores at each FMO level which can support their marketing activities.

The current trend which the FMOs' union is taking is also said to be promising and needs to be strengthened. The union regularly gives market information to each FMO and guides them on how to purchase and what to purchase from the suppliers or FMOs members and finally gives guarantee to collect the products from the FMOs with some margin. Moreover, the union provides information to buyers on the variety, quantity and quality of products that it can collect from its members and supply to them on the basis of their order. Accordingly, it has established regular relations with some consumers' cooperatives in Addis Ababa and with institutional buyers like universities, armies, and the like organizations, though such attempts and arrangements yet need to be formalized to the level it can give guarantee for producers. Moreover, the union is also aiming to identify possibilities to add value on the agricultural commodity products and engage in processing in the long-run. If such approaches are consolidated, it is believed that the market condition of the FMOs and their members is expected to significantly improving.

5.1.7 FMOs Organizational and Business Capacity

One of the important things that could determine the role of the FMOs in commercializing their members' agriculture is their formation and development situation. At the core of any collective action lays a key group of individuals who recognize the problem they face and accordingly commit themselves for collective action to overcome their problems. Similarly, at initial stage some enlightened individuals who perceived their problem of market access approached the local NGOs (FC and OSRA) to support them in forming the FMOs for jointly getting access to market. The request was accepted by the NGOs and program to provide financial and technical supports and accordingly the FMOs formation was prepared and launched with open membership principle of cooperatives. These situations, which are open membership and the NGOs' support agreement for the FMOs for and capacity building, have opened up the possibility of gross membership without necessarily having common understanding and shared objectives among the members and disguised the role the members should have played to establish and run their FMOs. Because of that from the very beginning FMOs were established by members who do not have homogenous interests and strong motivations to take their own responsibilities for themselves.

In the development process of the FMOs, the NGOs have invested a lot in capital formation, skill transfer to the FMOs' members and leaders on commercial agronomic practices, organizational capacity building and business management, market linkage facilitation with buyers at different levels and creation of access to different governmental and private service providers. This investment of the NGOs for

organizational formation and capacity building of the FMOs has helped better understanding of the FMOs' leaders about the market and commercialization of their agriculture and possession of better infrastructure, equipment and facilities for marketing of their produces. On the other hand, it has also created two unintended internal and external effects. Internally, because of significant investment and benefiting hands of the NGOs, the FMOs' members and leaders have developed heavy dependency syndrome. According to some discussants on focus group discussion made for this research, 'the very existence of the FMOs is fully dependent on the NGOs and they will wither away on the next day of the NGOs phasing out day from the program'. Externally, the cooperative promotion offices of the government at different level neglected the FMOs considering them as informal groups that do not follow cooperative principles for they were not organized by the cooperative promotion officers. Because of this, until very recent they were not willing even to legally register them and still they do not provide them adequate services like annual financial audit service from the government according to the cooperatives promotion law. Understanding this situation, 34.7% of the respondents to the survey feel that the enabling environment is not favorable to them. This in turn has created some problem of confusion among members and their leadership in suspicion of some of the FMOs leadership for abusing associational resources.

Despite their better knowledge and skill in terms of business management capacity, the motivation of the leaders is also limited. Although they attended different trainings and other capacity building supports they gained from the NGOs, the FMOs leaders still do not have proper planning and follow-up practices. According to some of the leaders and the district cooperatives promotion office experts, most FMOs' leaders are not committed

for common activities since they do not have incentive and they have also their own individual activities for which they give priority. 46.8% of the survey respondents feel that the FMOs objectives are not met due to limited capacity and lack of commitment of their leaders.

Another business management problem of the FMOs is that members expect them to buy everything they supply while the FMOs have adequate market demand only for limited crops. On top of that they demand the FMOs to pay them higher price than the private buyers which in turn reduces the FMOs price competitiveness in the end market. Besides, the cooperatives promotion rule orders the FMOs to buy only from members and sell either to consumers' cooperatives or through open bid. This is to avoid co-optation of the FMOs leaders by the potential buyers and possible effect on tax interest of the government. Nevertheless, from business effectiveness point of view, all the members' demand and the government regulation to limit the cooperatives business relations only to members and cooperatives affect price competitiveness of the FMOs in the market and their profitability as this situation puts them under inflexible bureaucratic decision making process.

The long-run aim of the FMOs' union to establish regular business linkages with consumers' cooperatives and institutional buyers on one hand and add value on part of its commodities and transform into semi-processed or fully processed products on the other expected to minimize those effects. For this purpose, the union has identified private potential co-investors. However still due to lack of clarity and guidance on how to cooperate with private businesses, especially with international social investors who can

help the FMOs not only in financing but also in knowledge and skill transfer, the possibility to capture the opportunity is remote.

5.1.8 Recommended Future Action for Improvement of FMOs Role

In general, most of the members are not satisfied with their FMOs services and objectives achievement. However, still the majority of the FMOs members recognize the need to work through organized approach for smallholders to commercialize their agriculture. Over 85% of the respondents to this survey believe that, if properly managed, the FMOs can commercialize their members' agriculture. Accordingly, 53.8% of the respondents think, FMOs are appropriate organizations for supply of improved agricultural inputs and seeds that are important for commercialization of agriculture but not available in the local supply while 34.1% believe FMOs are also uniquely important for training of their members on agribusiness development. According to members, to improve the FMOs role in providing better services and commercializing their members' agriculture, improvements to be made are recommended and the rate at which each activity is recommended by the survey respondents is indicated in brackets as follows:

1. Increase supply of improved seeds, fertilizers and other improved technologies (42.6%),
2. Remobilize and raise awareness of members on commercialization of agriculture and harmonize interest of members to ally them on the same objectives (41%),
3. Create linkage with reliable markets and purchase regularly from members (37.9%),

4. Enhance capacity of the FMOs' leaders by training and support their business development (planning, monitoring and implementation) role (37.9%) efforts, and
5. Ensure transparency and accountability of FMOs' leaders by conducting regular audit, re-election and disclosure of the FMOs' performance (27%).

The focus group discussion conducted with different groups and interviews made with other people out of FMOs' membership have also confirmed the same thing. According to those groups and people, the initiation of FMOs' promotion is an innovative business idea in smallholders' agribusiness development arena although its objectives are not well achieved. Therefore, they recommended that the FMOs should be revitalized and promoted to better level through implementation of the following activities:

1. Train or refresh FMOs' leaders on business development skills,
2. Support committees' service with employed professional staff,
3. Introduce and capitalize on improved seed and fertilizers supply and good agricultural practices that help better production and productivity in agriculture,
4. Re-orient the current cereal crops production practice of the FMOs' members to exportable crops like kabuli chickpea in order to gradually engage in niche market products,
5. Initiate possibilities for processing or value addition on farmers' products at local level by the FMOs' union,
6. Improve support of the enabling body and ensure regular election of committee members, timely audit of financial accounting and disclosure to members.

5.2 Value Chain Analysis

Teff-e*ragrostis tef*- is the most dominant cash crop of Bacho area as 98.8% of the survey respondents confirmed and the researcher has also observed from the whole practice of farmers in the area. Because of that, it will be unwise if its value chain is not analyzed in this research activity to propose appropriate upgrading strategy for its value chain development. Scant research documents are found on Teff as much is not done on the crop both by researchers and other actors. Sometimes it is called 'an orphan crop' for its being forgotten by agronomists and commercial growers so long (ATA, 2013) despite its very long existence as a main food and cash crop for many Ethiopian farmers. As it is unique to Ethiopia, researchers of the other world also didn't give attention to it until very recent. It is used to be said poor in nutrition and this was one of the reasons to be forgotten or why it couldn't attract attention of the researchers and business growers other than the traditional smallholder growers.

In spite of weak research and little efforts to develop the crop, Ethiopian smallholder growers committed over 2.8 million hectares or 27% of their cultivated land and other resources to grow the crop (ATA, 2013/4). Because it has been neglected for so many years and no significant production enhancing efforts were made by researchers and agronomic practitioners, the yield of the crop has also remained below 1.3tone/hectare. However, due to high cultural attachment of the people to the crop beyond its economic value and the taste developed for its food, Teff has remained to be the main food and cash crop of the Ethiopian people at large.

But since few years, the attention of researchers and business people has been changed. The old paradigm about the crop has also been shifted and replaced by new findings that confirmed the crop has high nutrition value and it is natural which is not modified by any human touches (Albert, 2006). Especially, the natural character of the crop is taken as its healthy food crop character. As it is confirmed that it is also gluten free crop, many consumers who have gluten allergy problem are attracted and want to give attention to it (ATA, 2013/4).

Because of the established culture and the new attention given to the crop by consumers while its production and productivity is nearly remained the same, the demand and supply of the crop has become out of balance which is resulted in a very high price that common people can't afford. This is the crop which has been the main cash crop of the research area and it is this nature of the crop that incited its value chain analysis. Accordingly, the value chain analysis has addressed one of the value chain channels of the FMOs among from different chains using a value chain mapping, economic analysis, constraints and opportunities identification and alternative upgrading possibilities. The chain is selected to be simple and practically applicable to the FMOs' business engagement both from their business operation and management capacity and the enabling environment provisions point of view. Otherwise, in the real practice, the value chain of the crop is not in straight line as simple as it is indicated below.

5.2.1 Bacho Teff Value Chain Mapping

Value chain mapping is used to indicate sequence of functions in the value chain system, main chain actors involved in in undertaking the functions, the value chain specific

support service providers and providers or influencers of the value context. Figure 2 is the scheme of simplified Teff value chain mapping that attempts to show main functions to be performed starting from Teff inputs supply up to consumption table, main actors involved to perform the functions, support services required and providers and finally the enabling environment or the value chain context providers.

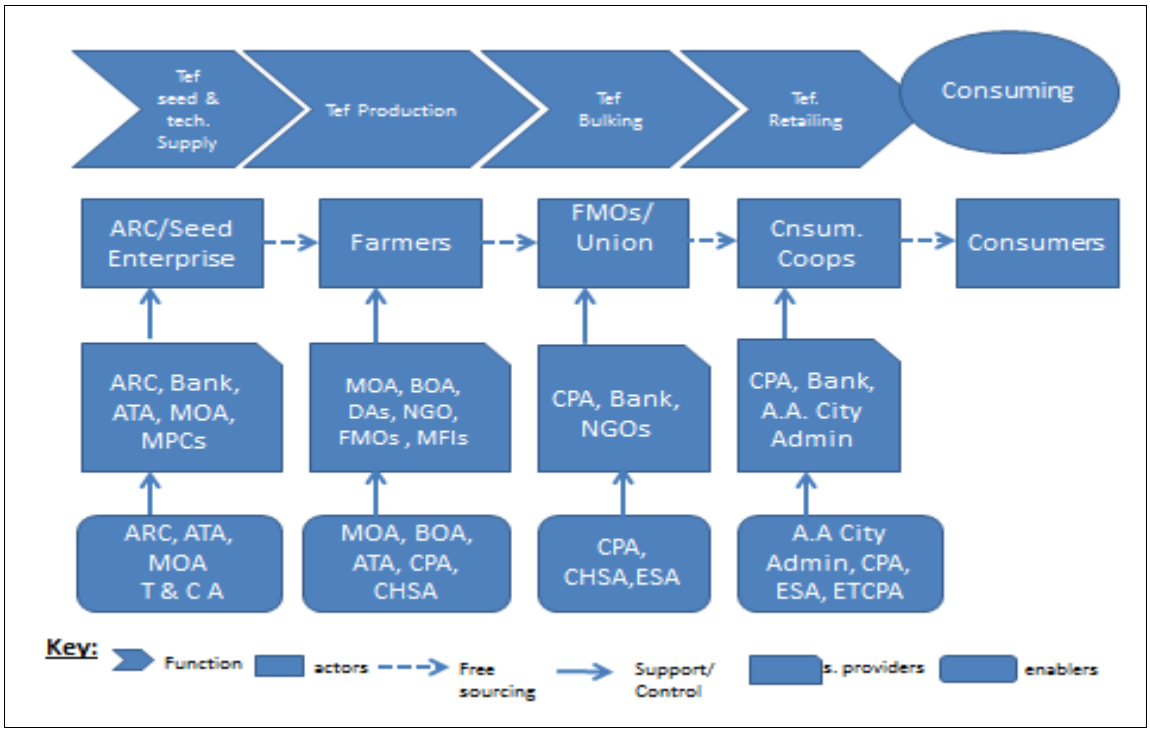

Figure 2: Teff Value Chain Mapping

Details of each component (chain actors, support service providers and enabling environment providers) of the value chain map are explained one by one as follows:

Chain Actors

The main chain actors are input suppliers, producers or farmers, farmers' marketing organizations and their union, consumers' cooperatives and the individual consumers. Each of them has as role to perform in the value chain are presented as follows:

Input suppliers: Input supply needs identification, development and supply of appropriately improved quality seeds, fertilizers and chemicals for the producers. The activities of seeds identification and development are done by the agricultural research institutions at initial stage. Accordingly, Debre Zeit, Holota, Melkasa, etc., agricultural research centers are among the pioneers in undertaking research and developing improved varieties of seeds (ATA, 2013). Following the research findings and approval for use, certified commercial seed enterprises were expected to multiply and distribute to the users. However, as such commercialized seed enterprises are mainly parastatals and are not interested in Teff seed multiplication, shortage of seed is a critical problem of the farmers. Some farmers get improved seeds directly from the research centers through facilitation of some development organizations like OSRA and FC in Bacho area. In absence of such facilitation, farmers themselves select their own seed from the better performing varieties of their Teff on the field and use it for next season.

Other inputs like fertilizers, chemicals and technologies are supplied mainly through multipurpose cooperatives found almost everywhere to which all farmers are also members. According to the survey result and discussions made in focus groups, supply of fertilizers and chemicals is not a major problem in terms of availability. But, the price of

those inputs is ever increasing and becoming beyond capacity of the smallholders to afford. For the new technologies, both for growing and post-harvest, there is no properly designated body to supply. Such improved technologies are demonstrated and distributed, only in a very irregular ways and limited quantity, by Offices of Districts' Agriculture Development and/or other development organizations to some model farmers. The majority of the farmers still struggle with traditional technologies and techniques.

The other critical input is farm land. The average land holding of farmers, as indicated under the asset base of the interviewees, is little more than two hectares. In a situation where farmers are struggling between subsistence and commercialization of their agriculture, such small landholding is a critical factor, especially for young farmers who do not have enough land holding. To fill this gap, most active producers who have financial possibilities rent-in land from old-ages and others who can't cultivate their land because of their limiting physical capacity.

Farmers: Teff is mainly grown by smallholder farmers in the country in general including in the study area. The production average of those smallholders on their very limited land holding, although gradually increasing, is not much higher than the consumption need of their household. However, some farmers, who are active and capable both physically and financially, rent- in land from others and invest as much as they can, to get bigger volume of production. There are some farmers who rent in large size of land from different people and produce up to 12 tons of Teff per year. These types of farmers try to use all kinds of production and productivity enhancing inputs and technologies and their quantity of supply to the market is also significant. The problem,

as it has been indicated under input suppliers above, is availability and lack of access to improved inputs and technologies that the producers could have applied on their agriculture for better production and productivity. Because of this, the producers face different problems in growing, and harvesting and maintaining quality of their Teff produces. The cumulative effect of the problems is low productivity and poor post-harvest handling of the crop.

FMOs: They are primary societies of Teff farmers organized mainly to jointly get access to reliable market for sales of their Teff and other commercial produces. 35 such organizations that have gathered about 3,400 members in total, where each FMO's membership is ranging from as low as 60 to as high as 200, are organized. The FMOs in total have got over ETB 3,250,000.00 in working capital and each of them has storage facility with the capacity to store up to 500 quintals at a time.

The FMOs collect different crops supplied by their members and non-members to supply to forward buyers. Until they were organized into a union in 2012, the FMOs were operating individually both on decisions like what to buy and to whom to sell. In their business operation, most of them were not successful up to their expectations due to their limited scale of activity and lack of business acumen to penetrate the market and identify reliable buyers for their supply. Since they couldn't get reliable buyers, their motive to buy as much quantity as supplied was also limited. However, since they were organized into a union in 2012 to pool their supply together and meet volume requirements of buyers and search for new markets and sustainable trade arrangements by employing permanent professional staff to the union business operation, improvements are made.

The volume of products purchased by the FMOs at a time and the number of turn overs are all increased. But still it is very far to reach the required expectation of their members.

FMOs' Union: It is the union of the primary FMOs organized to vertically coordinate their business activities. It was established in 2012 by 32 primary FMOs with the initial capital of ETB 755,000.00 raised by members in the form of share capital. In 2013/14, the total capital of the union has raised to ETB. 3.7 million and its annual turnover is also increased to over ETB 9,000,000.00.

The main objective of the union is in general to consolidate the efforts of the primary FMOs in commercializing their agriculture and specifically to bulk members' supply and facilitate access to reliable and remunerative markets by ensuring competitiveness of the FMOs. Accordingly, in relation to bulking the FMOs supplies and channeling to the downstream actors, the union provides market in formation to its members and guidance on what to buy and how to control quality to meet market needs and desires. Besides the marketing, it also provides for its members different services that can enhance their production and productivity and build business capacity of the primary FMOs. Some of the services are provision and support for access to improved agricultural inputs and technologies, training for members on different skills, market information provision and facilitation of access to financial services. These efforts of the union are also supported by the promoter NGOs. Accordingly, the union in collaboration with the NGOs has channeled supply of different varieties of improved seeds such as 'Kuncho Teff' and 'Kabuli Chickpea' to help production and productivity enhancement of members.

Moreover, it has recently started provision of tractor and mechanization services which it aims to maximize gradually.

In terms of achievement, still much is not realized since the union is still at stage of internal organization. However, in terms of market linkage, it has established linkages with consumers' cooperatives in Addis Ababa City Administration with whom it has already started business. Attempts to get linkage with other buyers such as institutions like universities, processing companies, exporters, etc., not only for Teff but also for other crops like kabuli variety of chickpea are underway. Moreover, the union undertakes assessment of possibilities to differently upgrading the activities of the union such as engaging in processing and coordinating its business activities with other social investors. But lack of clarity on the legal provisions for cooperatives on how to be coordinated with private investors is found to be a bottleneck.

Consumers Cooperatives: It is a type of retailer society or organization formed by individual consumers with the objective to protect their interest of access to quality goods or products for fair price. Most of the members of the cooperatives are middle and low income groups who are not able to afford when price of basic products is increasing. Therefore, the main objective of the cooperatives is to avail basic products including food crops for lower price as much as possible. Although quality assurance is part of their objective, concern for price gets priority over it. Accordingly, such cooperatives search sources of supplies, purchase and transport to their stores and distribute to members at pre-determined price. For the buyers of Teff, they also provide milling service.

Four such cooperatives from Addis Ababa city are in the process of establishing supply relationship with the union of the Bacho FMOs. As both are organized according to the cooperatives promotion law of the government and they have the role of market stabilization in their mandates, their business linkage is favored from the regulators point of view. Nevertheless, for the purpose of better competitiveness and higher price that the FMOs and their members were looking for, the consumers' cooperatives are not found to be attractive since they are more of price oriented than quality by which the FMOs could fetch better price for their products. To look for alternative markets, the FMOs are constrained by the law which prohibits them from free sales in the market without bid or direct linkage with other cooperatives.

Support Service Providers

Each specific chain actor is related to specific support service providers such as government line departments, financial institutions, technology centers, training and capacity building institutions, development NGOs and the like to get required services. The type of services required could be related to technology for product development, market access system, organization and management capacity building, finance and the like. Such services could be provided either by the privates in market on the basis of competitiveness or by the public service providers like the government line departments and the development NGOs that are given operation permit by the government. Moreover, embedded services could be alternative service source. Accordingly, the union of the FMOs in the study area attempts to provide some services to their members who

are also the chain partners in collaboration with the promoter NGOs although its services are not yet adequate.

In cooperatives promotion in general and particularly for the FMOs, there is no possibility to access most of the required services from the private sector. On the one hand, the cooperatives are financially incapable to buy services from the private sector on competitive price basis. On the other, the mindset of the government promoters and the cooperatives' leadership is also not ready for purchase of the services from the market. Therefore, the only sources of services for the cooperatives are the government line departments such as office of cooperative promotion and offices of agricultural development based on their headquarters or their upper echelon guidance and the development NGOs. In fact, the development supporters NGOs sometimes sponsor the FMOs to access services from private providers. But it is not enough to ensure sustainability since the NGOs resource will be available only for limited services and durations.

Because of the overall economic and attitudinal reasons, the FMOs are waiting either for their districts relevant line departments or the NGOs for most of the services they need, except for finance. Even for finance, instead of directly dealing with local financial institutions, they mainly wait for the NGOs to provide them with money in any way. In fact, to get access to financial institutions, the FMOs need to prove their activities in the business and submit fixed asset for collateral which is also a challenge for the FMOs. Such dependency on limited source of service providers has two negative effects on the effectiveness of the organizations. On one hand, it promotes sense of external patronage

and erodes the organizations self-reliance. On the other, it limits their access to tailor made and effective services since most of the services provided by the public service providers are mostly generic and do not help for practical applications to address specific needs.

The Enabling Environment

Each actor is operating in a given legal formwork using the given infrastructures and facilities within the given socio-cultural and economic environment. The legal environment for the cooperatives promotion is, by and large, conducive. According to the cooperatives promotion law of 147/1998 and its amendments, whoever had commonly perceived social and economic problem can initiate cooperative and strive to overcome his/her problems. In addition, the law has provisions for tax exemption of cooperatives on their incomes and the right to get material, technical and organizational capacity building support services for free from the cooperatives promotion agencies at different levels. Free audit service is one of such supports provided by the government. The legal system also provides possibilities to engage in different relevant business activities without necessarily being registered and licensed for each type of business activity.

The problem is how to interpret and apply the law in the practical situation and limited capacity of the mandated agency to provide the required services. Because of this, there is always confusion between different competing interests such as promoting single and multi-purpose cooperatives, business competitiveness and market stabilization role of cooperatives, integration with the private business and maintenance of cooperatives

principles, and the like. To clear out such confusions, guiding rules, regulations and directives are required which are not yet in place. On top of that, the capacity of the cooperatives promotion agency, especially in human resource, is limited to provide timely services for all the cooperatives. Because of that most of the primary cooperatives, including the FMOs under study couldn't get some of the services they need such as financial audit service in time.

Other elements of the enabling environment such as food safety regulation, contract enforcement mechanisms, trade agreements, standardizations, infrastructures development, etc., are neither well developed nor applied in their full scales. Therefore, they are not uniquely worrying the FMOs. The socio-cultural setting and level of economic development of the country are also at take-off stage and accordingly do not impose much requirements like the need to meet high quality standards though they are also not provide favorable conditions for agri-business promotion and development. Therefore, although it might not be able to provide adequate enabling conditions, equally the macro level situation doesn't impose heavy challenges on the FMOs

5.2.2 Bacho Teff Value Chain Economic Analysis

The economic analysis of a value chain can provide different information including overall market size of the value chain product, market share of the system under study, value added along the chain and contribution of each actor to the value, profitability of each actor and possibilities for bench marking of the value chain cost, labor, competitive advantages, etc. Gathering all these information will help designing of workable up

grading strategies of the value chain. Nevertheless, for this particular exercise, emphasis is given for the contribution and benefits of each actor along the value chain of Teff. For this purpose, the simple value chain map of Teff depicted above is considered as the base of the exercise.

Accordingly, it is clear from consumption culture of the people and the new trend of recognition for Teff as a valuable food crop, the local market for Teff is very wide and ever increasing. Because of this, the equilibrium between demand and supply of Teff is always out of balance and its retail price for first grade quality is up to ETB1650.00 or about USD 82.00 per quintal in Addis Ababa market during this research is underway. The share of the FMOs in the general market is very insignificant due to their limited quantity supply. However, for the recently emerging consumers' cooperatives market in the urban centers, it can become one of the dominant suppliers. The problem of this market is its high attention for lower priced products which by implication is favorability for lower quality products. Such preference doesn't motivate producers for better quality products on one hand and could also encourage side sales of the suppliers whenever better price is offered.

The following Table 5 summarizes economic benefits gained and contributions made by each actor in the process of value addition to get the final product at the end market. The value chain system is established between farmers, farmers' organizations, consumers' cooperatives and consumers. Therefore, the value chain economic analysis indicates benefits of each of these involved actors in the system and the contributions they made to the value addition.

Table 5: Teff Value Chain Economic Analysis

	Farmers	FMOs	Union	Consumers Coops	Consumers
Sales price/quintal	1250.00	1300.00	1400.00	1500.00	
Cost of inputs/quintal	420.00	1250.00	1300.00	1400.00	
Material Cost/quintal	35.00	15.00	20.00	20.00	
Net Value added	805	35.00	80.00	80.00	
% of value added	80.50	3.50	8.0	8.0	
Op. cost	350.00	12.50	45.00	20.00	
T. Cost	805.00	1277.50	1365.00	1440.00	
Op. Benefit	445.00	22.50	35.00	60.00	
Op. Margin (%)	55.27	1.76	2.56	4.16	

Source: Derived from interview, group discussion and secondary source review.

The above table of Teff value chain economic analysis, though it is constructed for a specific chain established between producers and consumers in the end market through their respective cooperatives and doesn't represent the private traders market, it can indicate the overall picture since value addition process on Teff is limited in any chain. The only difference between this and the private market which is based on spot open market is that in the open market all groups of buyers and all different quality grades of Teff[2] are found while in the cooperatives market the groups are defined by membership and the quality grade is also more or less uniform.

[2] Teff quality is determined by sellers and buyers' common understanding based on its color, origin, free of admixtures, etc. Otherwise, there is no any universally accepted standardization norm.

The comparative advantage of cooperatives and regular linkages between buyers and suppliers are different. Cooperatives have legally recognized and applied rights and privileges that the private businesses do not have. Moreover, regular linkages minimize transaction costs and risks. But in terms of business flexibility and experience, the privates are superior and even if they do not have some of the privileges given for the cooperatives, they can easily cover their costs and be at better profitability position than the cooperatives.

5.2.3 Teff Value Chain Constraints and Opportunities

Constraints

Constraints of the value chain vary at different levels and accordingly, the analysis is also made for different aspects as follows:

Product development: Most of the constraints of Teff value chain are related to product development. On one hand researchers and agronomists gave limited attention for development of the crop and on the other, the unique nature of the crop made difficult transfer of technologies developed for other crops to this crop. Access to improved seed, better agronomic technologies and practices, post-harvest management, etc., are some of the bottlenecks of the value chain product development at producers' level (ATA, 2013). This situation has resulted in producers' low productivity, high cost of production, poor post-harvest management practice, etc., which have minimized return of the producers from Teff farming.

Processed products from Teff are also limited. Almost in all high and middle land Ethiopian households, Teff is eaten only in the form of 'enjera'[3]. No adequate research is made to diversify the products of the crop into different forms. For the same purpose, Ethiopians in diaspora and some other people in the neighboring countries like to import Teff to their country of residence. However, since export of Teff in its commodity form is restricted by law, some private companies like Mama Fresh (ATA 2013/4) bake enjera and export it to those countries.

A Dutch company by the name of 'sport bread' has also developed about ten different processed products from Teff (H.Albert, 2008). Some of those products were bread, breakfast cereals, breakfast bar, performance bar, drinks (including beer), pancakes, pasta, bake-off bread and cake. Although there is no enough evidence whether these products are well developed and widely marketed, they can be seen as starting point for the possibilities to develop new and diversified products out of the crop in the future.

Market Access: Market access is one of the serious challenges of Teff value chain. According to ATA (2013), limited or constrained market access of producers is a critical problem manifested in different forms. Some of those forms are:

1. Producers are forced to sell immediately after harvest for financial income need and due to lack of appropriate storage facility,
2. Fragmented value chain and limited transparency of the system that exposed the producers to low share from the end market price of the product,

[3] Pancake like thin bread baked from Teff flour.

3. Inefficient access to market due to disorganization of producers and their limited scale of economy in production volume,
4. Limited value addition and export restriction, and the like.

These constraints have minimized the potential benefits of the value chain not only for the producers but also for the whole actors in the system and the country at large. On top of that lack of reliable market information especially at farmers and their FMOs level exacerbated those constraints by creating information asymmetry between the upper and downstream actors.

Organization and management: Smallholders as main producers or value creators and suppliers of the crop in Teff value chain system, are very important actors. Their limited organization and management capacity is another constraint of the value chain. Their disorganization and supply of limited quantities from each producer reduces the bargaining power of the producers on one hand and increases the transaction cost of buyers which ultimately reduces efficiency of the value chain system and escalates the consumers' purchase price in the end market. In such inefficient system, the beneficiaries are transporters, brokers, traders, etc., instead of producers and consumers.

The FMOs and their union which are supposed to overcome the constraints of organization and management are also not free from the problem. The perception of most members on the importance of cooperation and on how to best cooperate and their level of trust for their leaders are very weak. On the other hand, notwithstanding their limited skill in business, the leaders of the FMOs' commitment and punctuality to provide

service for the members is also weak and that has further eroded the confidence of members on their FMOs.

The downstream chain actors- consumers' cooperatives, other buyers and/processors- organization and management situation could be better than the situation of FMOs. But in terms of organizing the value chain system and creating a situation in which all contribute to value addition through shared efforts for mutual benefits and satisfying the end market customers, they are no better than the FMOs.

Finance: This is a cross-cutting constraint for all actors. Smallholders and primary FMOs do not have the facilities to access financial services from formal institutions. The only means they have is MFIs which are found in their localities. But producers and the FMOs use their credit service at a very limited level in spite of their needs to finance some of the required expenses for Teff production and marketing. According to the discussions and interviews conducted with FMOs' leaders and some members, credit financing cost of FMIs is not bearable by farmers for agricultural activities. Because of this, most farmers prefer either to sell their valuable assets to finance some of the required expenses like purchase of seeds and other inputs or give up use of those inputs.

Other chain actors, including the FMOs' union, can access loan from commercial banks depending on their extent of activities and collateral asset they could avail. But still its processing cost and conditions to get access to the service is not easy.

The Enabling Environment: The overall economic policy of the country in general and the rural development priority of the government lays the ground of favorable environment both for private economic development and the promotion of agricultural cooperatives. All the chain actors identified in the value chain do not have any legal constraint to operate except for those missing rules, regulations and directives for cooperatives to freely operate business on one hand and resolve some inefficiencies observed in enforcing contractual agreements (G.W. Meijerink, 2014). In general, though underdevelopment and weak in application of some of the elements of the enabling environment such as food safety regulation, quality standards, etc., could affect attention and incentive for quality, they do not appear as constraining factors to engage in and develop the value chain under concern for local markets. However, if export restriction is up lifted, the limitations could be serious constraints to enter international markets.

Opportunities

Against all the above identified constraints, there are also some opportunities that could be identified. Accordingly, the following are some of the opportunities:

Product development: understanding the constraints of the value chain in this regard and the increasing demand for Teff, agriculture research centers have massively engaged in undertaking researches to develop improved seeds and other related production and productivity enhancing technologies. Accordingly, ATA (2014) has planned to support doubling Teff production from its current about 13 quintals/hectare to 26 Quintals/hectare on average before the end of the first Agricultural Growth and Transformation Plan

(AGTP) period which extends from July 2010/11-June 2014/15. This doubling of production is aimed to be achieved through implementation of a support package known as 'Teff Seed Improvement, Reduced Seeding Rate and Row Plantation (TIRR)' and optimum application of blended fertilizer according to the soil conditions of each agro-ecology. The final product diversification efforts of the international private businesses are also other eye openers for the better future of Teff value chain.

Market Access System: Market access is also planned to be achieved through strengthening cooperatives of smallholder farmers. For this also cooperative development strategy for the period of 2012 to 2016 is prepared and applied. Moreover, the ever increasing demand for the crop, both locally and internationally, and the emerging diversification effort on the final products of the crop are also expected to stimulate alternative market access systems to which the FMOs need to consciously adopt themselves.

Organization and Management: To enhance the organization and management capacity of the FMOs, in addition to the government legally provided privileges, the development NGOs are also providing capacity building services. The service of those NGOs should also be appropriated by the FMOs and their union for improvement of their business development.

For other constraints, like finance and restriction of export, there are no specifically identified opportunities. However, it is hoped that different measures will be taken to improve the production and productivity of the producers and their market access system

by all the responsible bodies. Therefore, producers and their cooperative FMOs need to wisely exploit the commitment of the government and opportunities that will emerge in the market.

5.2.4 Proposed Upgrading Strategies

Based on the constraints and opportunities of the value chain identified here above and the capacity of the producers and the FMOs, alternative upgrading strategies can be foreseen. According to KIT and IIRR (2006), there are four different but not mutually exclusive ways of upgrading strategies in a value chain. We shall see each of them in the context of FMOs under study as follows:

1. **Process upgrading:** this is about how better to organize one's own activities to bring about efficiency in production system. Accordingly, the first thing to be done is to identify which cost is to be avoided and which factor of production could be better utilized. In this regard, each FMOs' member and leaders should diagnose their cost elements through proper calculation of their cost of production. Such process can provide them with which cost element is significant in their production system and which cost is unnecessary cost and could be avoided or minimized. In fact, the purpose shouldn't be always cost minimization. With existing cost or even additional cost, how better one can improve its productivity is also another way of looking into the matter. The whole purpose of the strategy is to identify and take better competitive advantage.

2. **Product upgrading**: it needs to understand that the need and desire of customers in the market changes from time to time with changes in the overall socio-economic changes. Accordingly, demands of Teff buyers could also change over time. Therefore, which varieties are more preferred, do people demand organic or inorganic, etc., are some of the issues to be addressed within this strategy through re-orienting the production system of the members and the collection of the FMOs. It is known that Bacho Teff has got established goodwill in the market. Branding and availing it in the market by indicating its unique features could also be some of the things the strategy could address.

3. **Functional upgrading**: it is about the whole process of value adding on the product based on the demand of the customer. Since customers are also not homogeneous, the need to segment them and accordingly identify their needs and desires is also an issue of this strategy. Accordingly, the strategy may entail activities like sorting and grading the product, bulking and/or dividing into small units of measurement according to the buyers need, processing, etc.

4. **Inter-chain upgrading:** the main value chain product addressed in this study is Teff and the established experience of the producers and their FMOs in production and marketing is also on Teff. Nevertheless, either for additional benefits or risk minimization or both reasons, the FMOs can also consider other value chains beside Teff. Introduction of the kabuli variety chickpea into the FMOs' production and marketing system is the best example of inter-chain upgrading system. Similarly, other varieties like lentil could also be considered based on market opportunities.

One or mix of these strategies is already in the mind of the FMOs and their union leaders. For instance, some FMOs want to establish milling machines to grind and sell flour in the local market instead of raw Teff. Similarly, the union is in the process of looking for possibilities of processing Teff. The ideas as ways of thinking new businesses are very good. But they need to be appraised with the possible strategies to be followed based on the market opportunities-needs and desires of buyers- and capacity of the FMOs to deliver on that. For any business initiative taken up without business feasibility study, the likelihood to fail is very high.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

For effective economic structural transformation process in countries like Ethiopia where smallholders' agriculture is dominant, commercialization of smallholders' agriculture has a paramount importance. It is only by enabling the smallholders, who are the great majority of the countries' population, produce surplus and make financial incentives out of their surplus that the development process of the country could be ignited on sustainable basis. For this very purpose, the FMOs promotion approach to commercialize smallholders' agriculture is ideally an appropriate choice. As they are small in size and specific in operation, their activities of commercialization wouldn't be diluted in any other activities and overlooked or missed in the process of implementing different activities like in the case of multipurpose cooperatives (MPCs). They can also easily identify any mistake they may commit and rectify it timely. Similarly, promoters can also prepare tailor made specific services and supports to build the capacity of the FMOs. With such concentration and specific intervention, the FMOs' approach should have been as effective as desired.

However, according to the findings of the research, the FMOs are not found as effective as expected. According to the analysis of the interview result, production and productivity level of the FMOs' members is less than the national average. In terms of market access as well, less than half of members sell their cash crops through the FMOs

and the quantity they sell has also not exceeded 37.43% of their average total cash crop production per annum at most. FMOs business activities and the incentives they provide for their members through price gain on sales and dividend distribution is also insignificant. The efforts to create reliable market linkages and value chain development also didn't attain their optimal level. With this situation and the like, it could be concluded that the FMOs are not yet fully effective.

Nevertheless, there are also areas where the FMOs have made achievements and glimmered hopes of success. To begin with, market conscious of the majority of the members have increased because of different orientations provided through the FMOs. Even if they do not sell through the FMOs, most of the members gained awareness on how to deal with buyers and negotiate on their price. Introduction of new varieties of improved seeds such as kuncho Teff, kabuli chickpea, etc., which are better yielding varieties and have better demand in the market are also credits of the FMOs. On top of that establishment of market infrastructural facilities such as construction of satellite stores at each FMO site and one main store with the capacity to store over 40,000 quintals at the union level are also considered as foundations for the commercialization activities of the FMOs and their union. More than all, the strong will of most of the members to work through the FMOs' approach and their preference to access market through FMOs for the future keeps the hope on track.

Based on the general situation summarized above, specific conclusions in relation with FMOs' strengths and weaknesses to meet market needs and desires, FMOs members efforts and constraints in re-orienting their practice of subsistence agriculture to market,

appropriateness of the value chain approach for commercialization of the types of products handled by the FMOs and constraints and opportunities for FMOs' promotion and commercialization of smallholders agriculture in the future are also summarized as follows.

1. **Understanding market needs and desires**

Understanding the market needs and desires and accordingly responding to it is the starting point for any business to be successful. As Teff is the main cash crop that the FMOs deal with and this crop has got different varieties ranging from low grade red Teff to high quality white Teff (according to local consumers grading), the FMOs need to identify which variety and quality is required by which market and market segment. In fact, the market of Teff is predominantly spot market in all places in which sellers and buyers meet by chance and transact based on price agreement. In such market, transaction costs and risks are very high and they are not preferred by the FMOs. For institutions like FMOs, preferred markets are either regular relations through linkages facilitated ahead of time or other mechanisms such as bids. Therefore, for FMOs like their union has already started with Addis Ababa city consumers' cooperatives, buyers need to be identified according to their preference and based on that regular linkages should be established. Such linkages could be with processors, segmented consumers' groups or cooperatives, and the like.

2. Appropriateness of the FMOs' setup to commercialize agriculture

FMOs were established to run a specific business, i.e. commercializing their members' agriculture through creation of access to reliable and remunerative markets. With this objective, the FMOs were similar with the new generation cooperatives (NGC) established by business oriented producers and flourished recently in other parts of the world, especially in North America. NGCs are different from other cooperatives in their objective of profit motive and features of capital rising from members up to 30-50% of the required initial investment capital and their attachment of members' delivery rights to their capital contribution. The approach is tacitly violating the open membership principle of cooperative by favoring those who can buy the delivery share. Moreover, such cooperatives give incentives to their members through dividend distribution on the members share and provision of the right to sell their share according to the stock market price at any time they want. With this approach, they broke the opportunistic behavior and limited horizon problems of most cooperatives members. NGCs work on niche products that are required by specific buyers instead of ordinary products that can be found from the market easily.

In this regard, although the idea of promoting FMOs for commercialization of agriculture has been new insight, the way they were organized and promoted was not the same to NGCs. From the very beginning most of the FMOs' members didn't have business orientation from their own. They borrowed it from outsiders and thence, were not ready to contribute enough of the required capital which could have strengthened their commitment for their FMOs. Instead, more than 50% of the primary FMOs' working

capital was contributed by the promoter NGOs and satellite stores of each FMO were also fully constructed by the NGOs' fund. The incentive schemes of the FMOs are also not clear as they are indicated for the NGCs. Moreover, as all members were not mobilized on the basis of felt need and shared objective, difference in interest among members is also another factor that limits success of the FMOs. More importantly, the commodities (Teff and other crops) the FMOs are dealing with are not different in any standard from the similar products held by the private traders in any market. Therefore, there is no any unique sales point of FMOs to be seen differently by their customers at this time. This situation demands development of diverse products from Teff as 'Sport Bread' attempted on one hand and segmented approach of raw Teff supply to the market on other.

On top of that FMOs' activities are run by elected committee members who have their own individual activities to be performed. Unlike other social services, business activities require devotion of time to execute them on day to day basis. This is not easily affordable by elected committee members without adequately being compensated for their contributions. Moreover, business activities require special ability or knowledge and skill to properly organize and manage them which is not possible for most of the FMOs' leaders who do not business operation and management skills and experiences. Because of that most FMOs either do not have it ready or are not guided by strategic business plan and operation plan in running their activities.

3. Re-orientating production system from subsistence to market

Commercialization of agriculture requires changes in mind or attitude of farmers and their practices. The research findings have revealed that much is not done in this regard, other than limited efforts in providing orientations for awareness rising of members and introduction of some better yielding varieties of seeds. Teff has been produced in the area for generations using traditional techniques and technologies for on-farm consumption and income generation for the producers. Still the same processes and practices have continued without much change.

Commercialization process can go up to total replacement of staple crops' field by commercial crops if the income of the marketable crop is more beneficial for the producers in terms of cost benefit analysis. In the case of FMOs' members, there is no much change observed both in their mindset and their practice in production and marketing. The farmers still grow different crops on their limited landholding for the sake of ensuring own family consumption security by one's own production instead of committing their land, other resources and efforts for the commercial crop and buy other crops with the income they could make from growing the commercial crop. This position of the producers is mainly explained by two reasons. The first reason is that their generations' old mindset of securing one's own food by own effort or the old way of life is not yet changed and the second reason is that raw Teff as commercial crop also couldn't provide enough incentive for the farmers for its low productivity and limited value addition along the value chain system.

Limited availability of improved technologies and their weak dissemination to the producers is the main cause for Teff production and productivity to remain low. Nevertheless, those new approaches started by the union to introduce other commercial crops like kubuli chickpea and new technologies such as tractor both for land preparation and threshing of Teff can gradually improve the situation.

4. Value chain approach and its appropriateness for the FMO products

Value chain is a business management system that has been developed and pursued by business actors to ensure competitiveness in their operation. Competitiveness in turn is about being favorably different in the market to be chosen by customers and making better business benefits. This difference could be gained by specially combining effectively and efficiently one's factors of production and supplying special product or service that can maximize the customers' satisfaction better than others. To attain this level, a number of different activities need to be jointly accomplished by the value chain actors. These activities include minimization of transaction cost through joint efforts for price competitiveness and joint innovation and value addition to be able to supply unique quality products with superior service provision to customers.

The FMOs were expected to mobilize smallholder farmers for horizontal collaboration, which is required for bulking of their products in order to meet volume requirements of the buyers and link themselves with downstream buyers on the basis of the value chain modalities. Nevertheless, both conditions are not fulfilled. The level of collaboration among members is very much limited and even the trust some members have on their

leaders is very weak. The FMOs' effort to get linkage with the reliable buyers in the downstream is also not successful because of their inability to minimize cost for price competitiveness and the possibility for innovation and value addition is also limited or not well explored yet.

5. Services and the external environment

Services and the external environment are also not adequately favorable for the FMOs. Those unfavorable situations are externally imposed or encountered constraints in the process of FMOs' formation and development and their operation towards commercialization of their members' agriculture. They are either imposed or encountered with lack of access to needed services or challenges in the enabling environment.

To begin with service access related challenges, lack of access to improved techniques and technologies for enhancement of production and productivity and post-harvest management of the value chain crops are on the top of the list. Lack of access to financial service and unaffordability of the inputs price are other important service related challenges especially for the producers. Because of lack of clarity on modalities of partnering with private businesses, the FMOs and their union couldn't establish business partnership with private business organizations from which they could have learnt a lot of business acumens. Cooperative promotion law favors only cooperation between cooperatives in any form than with privates.

Similarly, tax authority doesn't accept cooperation between privates and the cooperatives as they are differently treated for tax purpose. This situation hampers development of

competitive agribusiness value chain for smallholders who can't be entertained in the value chain system without being organized into cooperatives because of the scale. Lack of provision in the cooperatives legal system to selectively organize only business oriented and capable farmers who can contribute initial investment capital for the business and incorporate an incentive system for such members due to open membership and non-discriminatory principle of cooperatives is also another challenge for cooperatives to be effective in the business of the FMOs.

6. Opportunities for Improvement

Despite a lot of challenges, still there are a number of opportunities for the FMOs and their union to engage and develop in business. Government commitment for development of Teff value chain, the cooperatives tax exemption privilege and services provided by the government for free and efforts of the different national and international development organizations or NGOs in providing resources and capacity building services for cooperatives promotion and development are some of the opportunities that could be tapped. Moreover, because of Bacho's proximity to Addis Ababa which is the main market center and suitability of the agro-ecology of the area for Teff and other related commercial crops production are opportunities of the FMOs to develop and attain their objectives.

In addition to that, the orientation of the international market on quality and traceability of products origin has necessitated working through smallholders that are organized into groups. As Teff is also one of the crops that attract the international consumers and its

possibility of being processed into diversified products by business organizations like 'Sport Bread', its international tradability will not be far and therefore, the same opportunity could be tapped by the FMOs.

6.2 Recommendations

It is universally agreed that there is no way other than organizing smallholders into market cooperatives if their agriculture has to be commercialized. Otherwise, the market or buyers will not be interested in small scale productions and supply of smallholders as the transaction cost of dealing with such fragmented suppliers will not make competitive. On top of that, homogeneity of products will not be maintained to meet quality and safety standards of buyers. Therefore, to commercialize their agriculture and alleviate rural poverty, promotion of market oriented farmers' organization or agricultural marketing cooperatives is an indispensable feature for economies dominated by smallholders like Ethiopian economy. For the attainment of this objective, the following recommendations are forwarded to be applied by producer farmers, FMOs and their union, promoters, researchers and policy makers:

1. **Enhance production and productivity of Teff:** this will require a number of activities to be performed by different stakeholders. Accordingly, agricultural research institutions should be awaked and engaged in aggressively researching on identification and development of improved varieties of the crop with all the required characteristics such as high yielding, disease resistant, etc. Following that commercialization of the seed is also another thing that needs attention. Besides

research on improved seeds, identification, development and dissemination of appropriate technologies and agronomic practices such as maximization of the proposed TIRR package use with easy access of smallholders is required for enhanced production and productivity and better post-harvest management.

2. **Remove the export restriction policy**: international market for Teff and Teff products is ever increasing. This should have been taken as an opportunity for all the stakeholders of Teff business including for the government as it earns foreign exchange beyond serving the poverty alleviation and rural development objectives in the local economy. If export is permitted, efforts of technology development for improved productivity and quality maintenance will also be supported by the international actors.

3. **Give adequate attention for FMOs or cooperatives engaged in single business:** either due to misunderstanding of the principles of cooperative or some intention, cooperative promotion offices do not favor single purpose cooperatives like FMOs. Moreover, if cooperatives are supported by anybody out of government, the tendency to neglect and deny them supports is also observable. This situation will not affect the cooperatives only. It affects the whole essence of agricultural commercialization policy of the country and competitiveness of the business. Therefore, the researcher recommends not only equal attention for existing single business cooperatives with multipurpose cooperatives but also possibilities for promotion of private investor like new generation cooperatives.

4. **Capacity building for FMO leaders and clarification of operation modalities with private businesses**: business operation and management can't be an easy task for elected leaders of the FMOs who are only cleaver at their farming level. Business operation and management is another level and it requires different caliber. Therefore, to give them this ability and/or augment their efforts with some other means, there should be mechanism in place which they can get it on sustainable and effective ways. Moreover, elected leaders have their own life for which they give priority over the FMOs' responsibilities. Therefore, to harmonize the different interests and capabilities, acceptable incentive mechanism should be in place for their services on one hand and needs to be supported by employed professional workers under their close follow-up for daily activities on the other. Besides, for exchange of business skill from privates and other resource sharing, clarity on partnering with privates is lacking. Therefore, responsible bodies should develop clear rules, regulations and directives in this regard.

5. **Establish regular market information access system for farmers, FMOs and their union:** market information is critical to understand what the market or buyers' needs and desires are and accordingly orient and/or re-orient the agricultural production system of the smallholders. The existing market information system is not reliable due to its inaccessibility by all, its inconsistency, difficulty to interpret, and delay in time and limited coverage.

6. **Encourage value addition:** the economic analysis of Teff in the selected value chain analysis has indicated that value addition on Teff product is limited. Its wholegrain

reaches consumers' house from production site without making any transformation on the crop in between. According to some scant information, Teff can be transformed into different products and it is said to be healthy food crop. Therefore, research should be conducted to identify possible diversifications and value addition activities.

7. **Encourage inter-value chain functions**: although Teff is a dominant crop for the FMOs, other crops like chickpea, lentil, etc., can also be promoted depending on their marketability and production potential of the area. Therefore, identification of the potential for other crops both in their market demand and production potential requires research and application of research outputs.

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Annexure I: DATA COLLECTION TOOLS

THE ROLE OF FARMERS' MARKETING ORGANIZATIONS (FMOs) IN COMMERCIALIZING SMALLHOLDERS' AGRICULTURE

GENERAL INSTRUCTION FOR THE INTERVIEWER

- *Please, make sure that the interviewee has fully understood the objectives of the interview and the information she/he gives will be confidential,*
- *It is absolutely necessary to win the confidence of the interviewee by creating climate of friendship and trust, and asking his/her convenient time and place to get reliable information.*
- *Please, skip questions you feel sensitive or the interviewee is reluctant to answer,*
- *Don't make any promises of help in relation with this interview engagement, and*
- *Write any additional information the interviewee may give on note book or the bottom of the questionnaire,*

INTRODUCTION AND INFORMED CONSENT

Hello. My name is _____ and I am working for Mr. Sorsa Debela as a data collector. Mr. Sorsa undertakes his study on the Role of FMOs in Commercializing Agriculture in partial fulfillment for his study of Master's Degree in Rural Development. For this purpose, I'm collecting data from FMOs' members, leaders, grain traders and other stakeholders. I would very much appreciate if you cooperate me in this data collection.

I would like to ask you about some important information related to agricultural production and marketing. This information will help the study undertaker to analyze the role of the FMOs to commercialize agriculture, identify constraints and opportunities and then recommend improvement mechanisms at different levels for the future. This interview will take us about **30 minutes** to complete. Whatever information you provide will be kept strictly confidential. Participation to this data collection is voluntary and you can choose not to answer any personal issue or all of the questions. However, I hope that you will participate since your views are important for the study purpose. At this point, do you have anything unclear thing that you want to ask me?

May I begin the interview now? 1. Agree 2. Disagree

RESPONDENT AGREES TO BE INTERVIEWED . . . . . 1 GO TO 101
RESPONDENT DISAGREES TO BE INTERVIEWED . . . . . 2 END

Name of the interviewer: _____
Signature of interviewer: _____Date:_____
Date checked by supervisor: _____
Supervisor's Name_____ Signature: _____

IDENTIFICATION

Questionnaire No._____ Région _____Administrative Zone: _____
District_____ Kebele Administration:_____
Village/locality of the Interviewee _____
Name of organization_____

Tool- 1: QUESTIONNAIRE TO INTERVIEW FMO MEMBERS

Section 1: Socio-Demographic Characteristics of the Respondent

No	Questions and filters	Coding Categories	Skip
101	Sex of the respondent	Male……..1 Female…….2	
102	How old are you?	Age in completed years_____	
103	What is your marital status?	1. Single 2. Married 3 Divorced 4. Widow/Widower 5. Separated	
104	What is your total family size (including you)?	1. Male _____ 2. Female_____	
105	How many of your family members are directly involved in agricultural activities?	1. Male_____ 2. Female_____	
106	Have you ever had any formal education?	Yes…….……1 No……..2	→ 201
107	What is the highest grade you completed?	Grade _____	

Section 2: Respondent's Asset Base and Livelihood.

No	Questions and filters	Coding Categories			Skip
201	What is the major source of livelihood for your household?	Occasional labor.....……1 Petty trade .....2 Crop cultivation ……..……3 Mixed farming……...……..4 Others (specify) _____5			
202	Do you have your own land?	Yes …….1 No……..….2			→ 204
203	If yes, what is your total land holding size? (In hectares)	**1.** Cultivated land _____ hectare **2.** Grazing land _____ hectare **3.** Wood land _____ hectare **4.** Others (Specify) _____ hectare			
204	Do you rent-in others land?	Yes …….1 No……..….2			→ 206
205	If yes, how many hectares?	_____hectare			
206	What are the types of crops you grow on yours and the rented land? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***		**Yes**	**No**	
		1. Teff	1	2	
		2. Wheat	1	2	
		3. Chickpea	1	2	
		4. Lentil	1	2	
		5. Others (Specify)_____	1	2	
207	What is the major/main cash crop you produce?	1. Teff 2. Chickpea 3. Wheat 4. lentil 5. Others (Specify) _____			
208	If you produce different crops for cash, why didn't you specialize in the most potential one? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***		**Yes**	**No**	
		1. Fear of crop failure risk	1	2	
		2. Lack of market information	1	2	
		3. Partly to use for food	1	2	
		4. Lack of skill to produce others	1	2	
		5. Lack of input (improved seed)	1	2	
		6. To rotate crops	1	2	
		7. Others (specify)_____	1	2	

209a	Do you have oxen of your own for traction power?	Yes …….1 No…..……2 → 209c	
209b	If yes, how many oxen do you have?	_____ oxen	
209c	If no, how do you prepare the land?	1. With rented tractor----------1 2. With own tractor ……..2 3. With rented oxen…….. 3 4. Other (specify)..... 4	
210	What is the total land size you cultivated for crop production during the last four years?	1. 2014---------- ha 2. 2012 ---------- ha 3. 2013---------- - ha 4. 2011---------- ha	
211	What is the total crop you produced on average?	1. 2014---------- qt 2. 2012 ---------- qt 3. 2013---------- qt 4 .2011---------- qt	

212	What is/are the major problem(s) associated with production of crops in the locality? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible problems**	**Yes**	**No**	
		1. Shortage of improved seed.	1	2	
		2. Shortage of other inputs supply.	1	2	
		3. High price of inputs	1	2	
		4. Shortage of labor force for planting	1	2	
		5. Shortage of labor for harvesting.	1	2	
		6. Low productivity of land	1	2	
		7. Lack of information on demand.	1	2	
		8. Pest infestation.	1	2	
		9. Others (Specify) _____	1	2	
213	If you produce one most significant cash crop, what is your main reason to choose it? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible reasons**	**Yes**	**No**	
		1. My fellow farmers do the same thing	1	2	
		2. My skill and experience is limited to it.	1	2	
		3. The climate and soil type is suitable for it	1	2	
		4. I am advised by Development Agents	1	2	
		5. It is most marketable crop	1	2	
		6. The FMO advised me to select it.	1	2	
214	Do you get any production enhancing services?	Yes----------1 No----------2 → 301			
215	If yes, what are the main services you get? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Service types**	**Yes**	**No**	
		1. Extension service	1	2	
		2. Credit service	1	2	
		3. Improved seeds supply	1	2	
		4. Fertilizers and chemicals supply	1	2	
		5. Others (specify) ----------	1	2	

Section 3: Background to FMO membership, Grain Marketing and Achievements

No	Questions and filters	Coding Categories			Skip
301	Are you member to the FMO in your village	Yes……....1 No……..2 → 304			
302	If you are a member to the FMO, what are your main reasons to be a member? (***More than one response is possible. Circle "1" for mentioned and "2" for all not mentioned)***	**Possible reasons**	**Yes**	**NO**	
		1. To be with friends on the same page	1	2	
		2. To jointly source inputs	1	2	
		3. To get benefits provided by promoters	1	2	
		4. To access better markets for my outputs	1	2	
		5. To jointly voice on common concerns	1	2	
		6. (Other) specify ----------	1	2	

303	Because of your membership, what are the advantages you gained? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible advantages**	**Yes No**	
		1. Access to regular and reliable buyers	1 2	
		2. Better price for products	1 2	
		3. Cheating and mistreatment of buyers minimized	1 2	
		4. Better access to inputs/services	1 2	
		5. Increased understanding of market	1 2	
		6. Others (specify)----------	1 2	
304	Do you feel you have got the advantage you expected from your FMO?		Yes…..…1 No……..2 → 306	
305	If no, what are the main reasons? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	Possible reasons	Yes No	
		1. FMO leaders lack skill to deliver on expectations	1 2	
		2. Private traders sabotaged the FMOs	1 2	
		3. Required services can be obtained from other providers	1 2	
		4. FMOs enabling support is lacking	1 2	
		5. Others(specify) ----------	1 2	
306	How many quintals of cash crop did you produce in the last four years?	1. 2014---------- qt 2. 2012---------- qt 3. 2013 ---------- qt 4. 2011 ---------- qt		
307	What type of trade arrangement do you use to sell your cash crops? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible alternatives**	**Yes No**	
		1. Through FMOs	1 2	
		2. Directly to nearby local market	1 2	
		3. To regular buyer	1 2	
		4. At main market to wholesalers	1 2	
		5. To collectors at my home	1 2	
		6. Others (Spec.)_____	1 2	
308	From the different types of sales arrangements, which one do you prefer most?	1. Selling through the FMO.....1 2. Directly to nearby local market.....2 3. Through contract farming arrangement. .....3 4. At far away market..... 4 5. To collectors who come to my home……..5 6. Others (Specify) _____ 6		
309	How many quintals of grains did you sell through the FMO?	1. 2014---------- qt 3. 2012 ……..qt 2. 2013 ……..….qt 4. 2011 ……...qt		
310	What is the average price FMO offered you for the main cash crop per quintal?	1. 2014 ---------- birr 3. 2012 ----------birr 2. 2013 ---------- birr 4. 2011 ---------- birr		
311	How much did you get in the form of dividend from your FMO?	1. 2014 ---------- birr 3. 2012 ---------- birr 2. 2013 ---------- birr 4. 2011 ---------- birr		
312	What is the average price others offered you for similar cash crop/quintal?	1. 2014 ---------- birr 3. 2012 ---------- birr 2. 2013 ---------- birr 4. 2011 ---------- birr		
313	Do you feel private buyers deny you appropriate marketing service and fair price for your products?		Yes…….1 No……..2 → 315	
314	If yes, how did they deny you getting appropriate price for your product? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible mechanisms**	**Yes No**	
		1. Swindling on the scale	1 2	
		2. Hiding price information	1 2	
		3. Unnecessarily disqualifying	1 2	
		4. Buyers collude against producers	1 2	
		5. Others (specify)_____	1 2	

315	What are the main reasons to sell to different buyers other than FMOs ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned correctly)***	**Possible reasons** 1. I can easily get private buyers at any time I want to sell 2. Private buyers provide me money in advance 3. FMOs do not have enough capital to buy all my supply, 4. I do not see any difference to prefer FMOs to private buyers 5. Other (specify)_____	**Yes No** 1 2 1 2 1 2 1 2 1 2	
316	How do you negotiate about the price and quality of your products with buyers? ***More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned correctly)***	**Possible Negotiation Mechanisms** 1. Price is fixed on quality bases 2. Price is fixed by buyers' goodwill. 3. I bargain with my buyer 4. Other (specify)----------	Yes No 1 2 1 2 1 2 1 2	
317	If quality is considered for price fixing what are the quality indicators buyers' use? ***More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned correctly)***	**Possible indicators** 1. Level of admixture---------- 2. Color (homogeneity);---------- 3. Size of the seed---------- 4. Others (specify)----------	**Yes No** 1 2 1 2 1 2 1 2	
318	Do you get any service from the FMO other than sales outlet?	Yes……1 No……2		➔320
319	If yes, what are they?	**List of services by type**: 1) _____ 2) _____ 3) _____		
320	Did you make any new investment to improve your production or productivity and quality as a result of your better access to market?	Yes--------1 No…….2		➔322
321	If you make new investment, what are they?	1. _____ 2. _____ 3. _____		
322	If not, why not?	1_____ 2. _____ 3. _____		
323	Do you still believe the FMOs can serve as means to commercialize your agriculture?	Yes……1 No…….....2		➔325
324	If yes, what are your main justifications?	1. ---------- 2. ---------- 3. ----------		
325	If not, again what are your points of arguments?	1. ---------- 2. ---------- 3. ----------		
326	If you think there are ways to improve the FMOs service for the future, please list them.	1) ---------- 2) ---------- 3) ----------		

Tool-2: QUESTIONNAIRE TO INTERVIEW FMOS' LEADERS

Section 1: Socio-Demographic Characteristics of the Respondent

No	Questions and filters	Coding Categories	Skip
101	Sex of the respondent	Male……..1 Female…….2	
102	How old are you?	Age in completed years_____	
103	What is your marital status?	1. Single 2. Married 2. Divorced 4. Widower/Widow 5. Separated	
104	What is your position in the FMO/union?	----------	
105	How long have you served in this Position?	----------	
106	How did you assume the position (s)?	----------	
107	Have you ever had any formal education?	Yes……..……1 No……..2	→ 201
108	If yes, what is the highest grade you completed?	Grade _____	

Section 2: FMO Objectives, Business Activities, Achievements and Challenges.

No	Questions and filters	Coding Categories			Skip
201	What are the main objectives for which the FMO was established initially? ***More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible Objectives**	**Yes**	**No**	
		1. Food Security	1	2	
		2. Inputs supply facilitation	1	2	
		3. Access to reliable markets	1	2	
		4. Outsiders (NGOs) promoted it.	1	2	
		5. Not well clearly set	1	2	
		6. Others (specify) _____	1	2	
202	To achieve its objectives, what are the main activities the FMO supposed to accomplish? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible Activities**	**Yes**	**No**	
		1. Introduce improved inputs/ technologies,	1	2	
		2. Create access to production & marketing services,	1	2	
		3. Facilitate linkage of market for outputs	1	2	
		4. Others (Specify)_____	1	2	
203	Do you think the FMO objectives are achieved?		Yes ….1 No…...2		→ 205
204	If yes, what are the achievements? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible achievements**	**Yes**	**No**	
		1. Food security of members ensured,	1	2	
		2. Inputs supply problem resolved,	**1**	**2**	
		3. Better market linkage is created,	**1**	**2**	
		4. Access to services is established,	**1**	**2**	
		5. Others (Specify) _____	**1**	**2**	
205	If no, what are the main reasons/factors for failure? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible reasons**	Yes	No	
		1. Diverse members' interest,	1	2	
		2. Lack of clarity on objectives of FMOs			
		3. Limited leadership commitment,	1	2	
		4. Leadership lack of knowledge/ skill,	1	2	
		5. Limited enabling support,	1	2	
		6. Limited finance & other services,	1	2	
		7. Lack of competitiveness in the market,	1	2	
		8. Others (specify) ----------	1	2	

206	Which of the expected activities of the FMOs are better achieved? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Achievements**	Yes No	
		1. Improved inputs & technologies supply	1 2	
		2. Creation of market linkage for outputs	1 2	
		3. Improvement on quality of products for better competitiveness.	1 2	
		4. Others (specify) ----------	1 2	
207	What are the main products your FMO deals with? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	1. Teff	1 2	
		2. Wheat	1 2	
		3. Chickpea	1 2	
		4. Lentil	1 2	
		5. Others (specify)----------	1 2	
208	If you deal with different crops, why didn't you specialize in a most potential one? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible reasons**	**Yes No**	
		1. Fear of price failure risk	1 2	
		2. Lack of market information	1 2	
		3. Members pressure to buy their supplies.	1 2	
		4. Others (specify)_____	1 2	
209	How many quintals did you buy annually on average?	1. 2014----------qt 2. 2012 ---------- qt 3. 2013---------- qt 4 .2011---------- qt		
210	Of different crops, which one is the main cash crop you purchase?	1. Teff ……1 2. Wheat …… 2 3. Chickpea …… 3 4. Other (specify) …… 4		
211	What is/are your bases to decide on your purchase by type and price? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible reasons**	**Yes No**	
		1. Market price	1 2	
		2. Promoters advice	1 2	
		3. Supply of members	1 2	
		4. Prior agreement with buyers	1 2	
		5. Others (specify)----------	1 2	
212	What is/are the problem(s) associated with collecting, storing and marketing of the main cash crop? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible problems**	**Yes No**	
		10. Shortage of storage.	1 2	
		11. Shortage of product supply.	1 2	
		12. Competition with private traders,	1 2	
		13. Shortage of working capital,	1 2	
		14. Lack of information on market demand.	1 2	
		15. Others (Specify) _____	1 2	
213	Because of FMO establishment, what are the advantages farmers got? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible advantages**	**Yes No**	
		7. Access to regular and reliable buyers	1 2	
		8. Better price for products	1 2	
		9. Minimized cheating and mistreatment,	1 2	
		10. Better access to inputs/services	1 2	
		11. Increased understanding of market,	1 2	
		12. Others (specify)----------	1 2	
214	What type of trade arrangement do you use to sell your crops? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible alternatives**	**Yes No**	
		1. To nearby local market	1 2	
		2. Through contract arrangement	1 2	
		3. To spot buyers on price negotiation	1 2	
		4. Through bid to any winner	1 2	
		5. To processors/consumers cooperatives	1 2	
		6. Others (Spec.)_____	1 2	

215	From the different types of sales arrangements, which one do you prefer most?	1. Through bid to any winner..... 1 2. Directly to nearby local market.....2 3. Through contract arrangement. ..…….....3 4. To spot buyers on bargaining..... 4 5. To processors/consumers cooperatives …5 6. Others (Specify) _____ 6	
216	What is the average purchase price/quintal for the main crop?	3. 2014 ---------- birr 3. 2012 ----------Birr 2. 2013 ---------- birr 4. 2011 ---------- birr	
217	What is average sales price/quintal for the main crop you deal with?	1. 2014 ---------- birr 3. 2012 ----------birr 2. 2013 ----------birr 4. 2011 ---------- birr	
218	How much dividend did you distribute to members over the last four years?	1. 2014 ---------- Birr 3. 2013 ---------- birr 2. 2013 ---------- birr 4. 2011 ---------- birr	
219	How much capital did you use for grain purchase activity per annum?	1. 2014----------birr 3. 2012 ----------birr 2. 2013 ----------birr 4. 2010 ----------birr	
220	Do private buyers give you trade service and pay appropriate price to you/your members?	Yes------1 No-------2	→222
221	If no, mainly how did the private buyers deny you getting appropriate service & price? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible mechanisms**: 1 Swindling on the scale (Yes 1 / No 2); 2 Hiding price information (1 / 2); 3 Unnecessarily disqualifying (1 / 2); 4 Buyers collusion (1 / 2); 5 Others (specify)_____ (1 / 2)	
222	Do you have one client buyer?	Yes ….1 No…...2	→224
223	If no, what are the main reasons to sell to different buyers other than one client buyer? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned correctly)***	**Possible reasons**: 1. They come at different time (1 / 2); 2. To sell to those provide us advance (1 / 2); 3. One buyer doesn't have enough capacity to buy all (1 / 2); 4. Buyers do not engage on regular bases (1 / 2); 5. Other (specify)_____ (1 / 2)	
224	How do you negotiate on price and quality with buyers? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Price fixing options**: 1. Price is offered on bases of quality----- (1 / 2); 2. Price is offered on quantity of product (1 / 2); 3. Price is offered on prior relations------ (1 / 2); 4. Other (specify)---------- (1 / 2)	
225	Do you get any business service from the buyers?	Yes ….1 No…..2	→ 228
226	If yes, what are they?	**List of services by type**: 1) _____ 2) _____ 3) _____	
227	If you get business services, what are the conditions to get those services?	Conditions 1)_____ 2) _____ 3)_____	
228	Do the buyers consider your product on the bases of its quality?	yes---------- 1 No----------2	→230
229	If yes, what quality indicators do buyers use?	**Quality indicators**: 1. Level of admixture---------- (yes 1 / No 2); 2. Color (homogeneous);--------- (1 / 2); 3. Size of the seed ---------- (1 / 2); 4. Others (specify)---------- (1 / 2)	

230	Did you make any new investment to improve your collection process, product quality preservation, market integration, etc. according to market demand?	Yes---------1 No…….2	➡232
231	If you make new investment, what are they?	1) _____ 2) _____ 3) _____	
232	Do you still believe the FMOs can serve as means to commercialize smallholders' agriculture under existing situation?	Yes……1 No….....2	➡239
233	If yes, what are your main justifications?	1) ---------- 2) ---------- 3) ----------	
234	If not, again what are your points of arguments?	1) ---------- 2) ---------- 3) ----------	
235	Do you get any policy/regulatory support and/service from the government?	Yes.....1 No..…2	➡237
236	If yes, what are they?	1_____ 2._____ 3. _____	
237	Do you think your leadership has adequate knowledge and skill?	Yes…1 No....2	
238	If no, what are the main knowledge and skills you lack?	1. _____ 2. _____ 3. _____	
239	If you think there are ways to improve or measures to be taken to improve FMO services please list them.	1) ---------- 2) ---------- 3) ----------	

Tool-3: QUESTIONNAIRE TO INTERVIEW BUYERS

SECTION 1: Profile of the buyer

No	Questions and filters	Coding Categories	Skip
101	Sex of the respondent	Male……..1 Female…….2	`
102	How old are you?	Age in completed years_____	
103	What is your marital status?	1. Single 4. Widow/widower 2. Married 5. Separated 3. Divorced	
104	What is your status as grain buyers?	Collector……..…1 Wholesaler……..……2 Retailer----------3 Exporter……4 Represent consumers' association----5	
105	Have you ever had any formal education?	Yes……..……..……1 No……..…..……..2 ➡ 201	
106	What is the highest grade completed?	Grade _____	

SECTION 2: Trade Arrangement and Transaction Related Issues

No	Questions and filters	Coding Categories			Skip
201	For how long did you work as a grain buyer?	_____ years			
202	From whom mainly do you buy/collect grains?	From farmers at their homes ……..……1 From farmers in the market ……..…2 From cooperatives/FMOs stores……..3 From other traders……4 Others (Specify)_____5			
203	Do you always buy from the same suppliers?	Yes……..……..……1 No……..…..……..2 ➡ 205			
204	If yes, why do you buy from the same suppliers? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible reasons**	**Yes**	**No**	
		1. Long-term relationship	1	2	
		2. To save transaction costs	1	2	
		3. Contractual agreement	1	2	
		4. I know and trust the suppliers	1	2	
		5. Other (specify)_____	1	2	
205	If no, why do you buy from different suppliers? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible reasons**	**Yes**	**No**	
		1. Depends on harvest	1	2	
		2. Depends on prices	1	2	
		3. Agreement with other collectors	1	2	
		4. Agreement with my buyer	1	2	
		5. Other (specify) ----------	1	2	
206	Do you have experience of buying from FMOs or their union?	Yes ……..1 No.----------2 ➡ 209			
207	If yes, how do you evaluate their business activities?	1. ---------- 2. ---------- 3. ----------			
208	If yes, under which trade arrangements do you buy from them?	1---------- 2.---------- 3.----------			

209	If no, why not?	1---------- 2. ----------	
210	If you observed weaknesses or challenges to buy from FMOs/unions, list them.	1.---------- 2---------- 3.----------	
211	How do you set purchase prices with your suppliers?	1. ---------- 2. ----------	
212	How do you assess quality of grains you buy? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Possible ways of assessment** — **Yes** **No** 1. By level of purity..... 1 2 2. By origin..... 1 2 3. By seed size…..... 1 2 4. By color..... 1 2 5. Other (specify)_____ 1 2	
213	What are the main crops you buy?	----------	
214	How many quintals did you buy for the last for years?	2014. ----------quint. 2012. ----------quint 2013. ----------quint 2011. ---------- quint	
215	On average what was your purchase of teff price/quintal?	1. 2014 ----------birr 3. 2012----------birr 2. 2012 ----------birr 4. 2011---------- birr	
216	Do you make price difference on the bases of difference in quality?	Yes……..……..……1 No……..…...……..2	
217	If yes, what is the price for different grades teff this year?	1. Grade _____Birr/quintal 2. Grade. 2_____Birr/quintal 3. Grade 3._____ Birr/quintal 4. Others (specify)_____Birr/quintal	
218	If no, why not?	1. _____ 2. _____ 3. _____	
219	What is the total amount of money you used for purchasing grains last season?	_____ birr	
220	Do you have enough working capital of your own?	Yes ----------1 No……2	
221	If no, how do you fulfill your need?	1.---------- 2.---------- 3.----------	
222	If no, what is the amount you need in addition every season?	----------birr	
223	To whom do you mainly sell the grains you collect?	1---------- 2.---------- 3……	
224	Do you always sell to the same buyers?	Yes……..……..……1 No……..…...……..2	
225	If yes, why?	1.---------- 2.---------- 3.----------	
226	If no, why?	1.---------- 2.---------- 3.----------	
227	Do buyers offer you price according to the quality of the grain?	Yes----------1 No----------2	
228	If not, why?	1. ---------- 2. ---------- 3. ----------	

229	Do you negotiate on price with buyers?	Yes ……1 No……..….2	
230	If yes, how?	1. _____ 2. _____ 3. _____	
231	What are the most important factors to determine the price of grains?	1. _____ 2. _____ 3. _____	
232	What are the main problems/ challenges you face as a grain trader/seller? ***(More than one response is possible. Circle "1" for all mentioned and "2" for not mentioned)***	**Problems related with transaction** — **Yes** **No** 1. Working capital shortage..... 1 2 2. Price fluctuation..... 1 2 3. Lack of information on price..... 1 2 4. Strict regulation and taxation..... 1 2 5. Limited skill on quality controls 1 2 6. Limited supply from producers. 1 2 7. Competition among buyers..... 1 2 8. Lack of storage..... 1 2 9. Lack of transport to market place 1 2 10. Others (specify)_____ 1 2	
233	Do you get any financial service from your buyers	yes---------- 1 No---------- 2	
234	If you get what are the conditions you have to fulfill	1.---------- 2. ----------	
235	Other than purchase, what are your other important costs of grain trade?	1. ---------- 2. ---------- 3. ----------	
236	What kind of supports/services do you get from government or other service providers?	1---------- 2. ---------- 3. ----------	
237	Do you give any support/service to you suppliers?	1.---------- 2. ----------	
238	Any recommendation you want to give for improvement of grain trade business?	1.---------- 2. ---------- 3. ----------	

Tool-4: CHECKLIST FOR FOCUS GROUP DISCUSSION AND KEY INFORMANT INTERVIEWS

1. DISCUSSANTS GENERAL INFORMATION

Name of respondent and organization_____
Location/Address: _____
Contact information: _____
Type of discussant/role in relation with FMO promotion: _____
How long has s/he been in the position: _____

2. ISSUES OF DISCUSSION/INTERVIEW

2.1 Main objectives for FMO establishment: ----------

2.2 Achievements of the FMOs:

2.3 Internal strengths and weaknesses of the FMOs and their members:

2.4 Opportunities and threats for FMOs:

2.5 Evaluating the business relationship and competitiveness of farmers and FMOs with private service providers and buyers:

2.6 The difference between FMOs and Multi-Purpose Cooperatives in commercializing their members agriculture:

2.7 The nature of dualities of cooperatives and their effect on business performance:

- Social interest and business effectiveness,
- Professional management and unprofessional Board of Directors,
- Defensive Vs proactive roles of cooperatives in business, etc.

2.8 Adding value (value chain integration) Vs specialization in certain product. ----------

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2.9. Farmers and their organization capacity to influence the value chain in their favor:

2.10 Possibilities and challenges to produce and sell in contract agreement:

2.11 The business environment:

- Policy issues
- Legal environment requirements
- Competition, etc.

2.12 The role of different institutions to make FMOs effective in business:

2.13 Availability of necessary services (finance, training, inputs supply, etc.)

2.14 The farmers and their organizations Attitude, Knowledge and Skill (ASK) to manage agribusiness:

2.15 Recommendations for future improvement:

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3. Secondary Data Collection Checklist

3.1 Socio-economic information of Sadan Sodo, Bacho, Dawo and Ilu Districts from the districts offices of finance and Economic Development,
3.2 Project proposals and performance reports of FMO promoter NGOs,
3.3 Review any relevant laws, policies and regulations prepared by CPA.

PROFORMA FOR SUBMISSION OF M.A. (RD) PROPOSAL FOR APPROVAL

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Date of Submission	January 20, 2015
Name of Study Center	St. Mary University College-Addis Ababa
Name of Guide	Dr. Milkessa Wakjira
Title of the Project	The Role of Farmers' Marketing Organizations in Commercializing Smallholders' Agriculture: The case of Bacho Area
Signature of the student	----------

Approved/Not Approved

Date:----------.

Annexure II: RESEARCH PROPOSAL

INDIRA GANDI NATIONAL OPEN UNIVERSITY
SCHOOL OF CONTINUING EDUCATION

THE ROLE OF FARMERS MARKETING ORGANIZATIONS TO COMMERCIALIZE SMALLHODERS AGRICULTURE: THE CASE OF BACHO AREA.

A research Proposal Submitted
In Partial Fulfillment of the Requirements for the Degree of
M.A in Rural Development (MARD)

By
SORSA DEBELA GELALCHA

Jan, 2015
Addis Ababa, Ethiopia

1. INTRODUCTION

1.1 Background to the Proposal

In most developing countries, commercialization of agriculture in general and of smallholders in particular has been a great concern of different groups as an approach to reduce poverty and contribute to rural development. Commercialization of smallholders' agriculture for poverty reduction, food security, fair and equitable development, etc., is the main concept that has attracted the attention of politicians, researchers, development organizations, academics and the like of both developing and developed countries. Developed countries' supporters and financiers of the approach are concerned with the issue for different reasons that include moral obligation to support the disadvantaged communities as part of contribution to Millennium Development Goals (MDGs), to produce and source raw materials or commodities for their homeland agro-processing industries and to source food for their people. On the other hand, the developing countries politicians, researchers and development actors and the target communities are concerned with the issue to alleviate their long aged food insecurity problem, increase income of their people and ultimately transform their country from low income to middle and eventually high income countries so as to improve the livelihood of their people.

It was in line with these objectives that the Ministry of Agriculture of Ethiopia introduced market oriented agricultural development as a strategy of rural development approach in 2003 (GebreMedhin,,et.al. 2006, P.3). Accordingly, besides the governmental intervention programs, different national and international development organizations (NGOs) have also applied market oriented development promotion and facilitations in their interventions to help agricultural value chain development through promotion of Farmers Marketing Organizations (FMOs) (HUNDEE/CIDR, 2006, P.12). Ethiopia with its population of over 95 million (World Population Review, 2014. P. 2), of which over 80% earn their livelihood from smallholding agriculture and the sector contributes over 45% to the GDP and 70% to the export value (UNDP, 2013, P. 3 and FCA, 2012, P. 10) is duly concerned with the need to commercialize its smallholders' agriculture and helped promotion of farmers marketing organizations in order to

facilitate economic transformation in general and improve the livelihood of the rural people in particular.

Despite all the efforts made by different concerned bodies, the level of poverty and food insecurity is still very high in the country. The main purpose of this study is, therefore, to identify and analyze the role of FMOs' in commercialization of smallholders' farming system and the main challenges and constraints encountered the approach. Promotion and facilitation of Value Chain (VC), as a method for commercialization of smallholders' agriculture and fair benefit sharing among the chain actors, is considered to be important for commercialization of smallholders' agriculture. It is also believed that if the smallholders' agriculture is commercialized and fairness in benefit sharing is ensured, rural poverty could be alleviated and overall development will be achieved. The question is if the approach is such an important economic system that can end poverty and bring about development in general and rural development in particular, how still a considerable number of rural people in the country remain poor is an issue of investigation in this research.

By undertaking this research, it is desired to identify potentials for commercialization of smallholders' agriculture through promotion of marketing cooperatives that apply value chain approach for marketing on one hand and critical challenges and impediments on the other. This will in turn help review of intervention programs and policies in this regard for both government and NGO actors for both practical activities and research works in the field for long-term considerations.

1.2 Statement of the Problem

Promoters and supporters of cooperatives approach to commercialize smallholders' agriculture advocate that if farmers are effectively organized and linked to reliable buyers based on value chain system, they can benefit from aggregated links to markets and services to improve their production and income and their collective voice can also influence their environment including policy formulation of the government (FCA, 2012, P. 10). Global experience has also showed that many countries like Taiwan, Korea, The Netherlands, France, etc., whose agricultural

products mainly marketed through cooperatives made significant achievements in increasing their production of staple crops as well as cash crops including for export (FCA, 2012, P. 11). Similarly, it is reported that in Ethiopia farmers who are organized in cooperatives tend to achieve higher yield both in staple crops and commercial crops for which they have attained a price premium of 7-8% (FCA, 2012. P.11).

Nevertheless, if we refer back to the history of cooperative promotion in Ethiopia, it doesn't seem successful at all. Historically in Ethiopia cooperative, as a legal institution, first came into being in 1960s and achieved significant level, both in organizational coverage and economic activities, only since the communist military regime (1974-1991) came to power (Emana, 2012, p. 6). Violation of the principle of voluntary membership has created significant disincentive on the member farmers and led to decline in their production (Emana 2012. P.6). Following the change of government in 1991, the farmers were allowed to freely decide whether to join or leave the cooperative and because of that the number of cooperatives dramatically dropped (Emana 2012. 6).

However, in no time as the government withdrew from input supply and other forms of subsidies to farmers on one hand and the private suppliers were also not allowed to engage in such business on the other, the importance of cooperatives as input suppliers has become significant. Accordingly, to get access to inputs, almost all farmers of the country got re-registered in multi-purpose cooperatives as otherwise they can't access supply of fertilizers and chemicals. As a result of that, over 10,000 agricultural cooperatives that gathered over 6 million smallholders were formed or re-strengthened from their previous weak or nearly dismantled situation (FCA, 2012, P. 11). For many years, the activities of about 7,000 cooperatives were limited to input supply although their mandate has also included serving as market out let for the agricultural products of their members. The remaining 3,000 cooperatives were established and/or re-strengthened for single agricultural commodity (coffee, dairy, livestock, grain, etc.) marketing (FCA, 2012, P. 12).

The re-organized and newly formed agricultural cooperatives have played important roles in channeling inputs supply to their members. Nevertheless, they couldn't prove their importance at

the same level in creating access to outputs markets for their members. Accordingly, as time goes on, marketing challenges for agricultural products became severe and the need to strengthen all the multi-purpose cooperatives for agricultural products' marketing was realized not only by the farmers but also by the government as well as the development aid providers (Bernard.et. al. 2008, PP. 147-161). In line with that, the government of Ethiopia and some development support providers have been massively engaged in strengthening the capacity of the multi-purpose agricultural cooperatives to engage them in the agricultural products' marketing. Unfortunately, only few or no multi-purpose cooperative has significant success history in achieving sustained and large scale increment of agricultural production as well as marketing (CFA, 2012, P. 12) as a result of these moves.

Differently to the massive move of the government and some of the development support providers to strengthen the multi-purpose cooperatives for agricultural marketing, some other development support providers that work in capacitating farmers and farmers' organizations argued that marketing needs special attention and capacity and therefore multi-purpose cooperatives can't be effective in marketing of agricultural products. Based on their arguments, the development organizations initiated promotion of FMOs, which are specialized in agricultural outputs marketing only (HUNDEE and CIDR, 2006, P.29). This idea was gradually endorsed by the government as well, and as a result a number of such cooperatives which are even currently organized into unions to capitalize their activities have been promoted in different places in the country.

However, those single purpose agricultural products marketing cooperatives also couldn't perform as per their expectations. Inability to access remunerative and sustainable markets for their products remains to be critical problem. Because of this, the total quantity of marketable grain products channeled from each FMO member through such farmers' organizations, especially in this study area, remains to be less than 10% (Debela and Haagisma, 2011, P. 20). Because of this, significant change is not observed on both production and income of smallholder farmers and the overall effect of the FMOs' is not well realized. Therefore, the main objective of this study is to identify the underlying challenges and constraints of the smallholder

farmers and their FMOs to access and get linkage with reliable markets for better income and propose workable approaches for future endeavors.

1.2 Objective of the Study and Research Questions

1.2.1 General Objective

The general objective of this study is to identify potentials for commercialization of smallholders' agriculture and address the main challenges and constraints encountered by the farmers and their marketing organizations in getting linked to remunerative and sustainable markets to sell their products and assume appropriate position in the value chain. It will accordingly assess existing practices of the cooperatives through value chain approach and indicate ways in which these cooperatives could improve their situation.

1.2.2 Specific Objectives

The specific objectives of the study are to:

1. Identify main strengths and weaknesses or limitations of FMOs and their members,
2. Analyze the existing production, marketing system and appropriateness of the organizational set up of the FMOs to undertake agricultural products' marketing,
3. Investigate the weakness or limitation of the current cooperatives promotion approach including the government policy and the development organizations strategy, and
4. Propose options for future improvements.

1.2.3 Research Questions

The main research questions to be dealt with in this study are the following:

1. What are the requirements of the market or buyers that the farmers marketing organizations failed to fulfill to get linkage with reliable buyers?

2. What are the internal conditions or capacity shortfalls that limit the farmers marketing organizations and their member producers to reorient their production system from subsistence to market orientation and create access to reliable markets?
3. Why value chain approach is preferred for smallholder farmers and the FMOs? And for which agricultural products and under which conditions does it work for the smallholders?
4. What are the external opportunities for the stallholders and the FMOs to help their effective production and marketing system?
5. What are the facilities and services available or lacking for the producers and the marketing organizations to tap?
6. What are the external influences and pressures and constraints that limit the producers and their marketing organizations from re-orienting their production and marketing system effectively?
7. Can farmers' and their organizations be effective and competitive in business?
8. What are the missing links that require external support and policy revision to make the farmers marketing organizations and their members' effectiveness in agribusiness value chain development?

1.3 Scope of the Study

This study will be undertaken in Oromiya region, south-west Shewa zone, Bacho area where FMOs have been promoted by different development organizations for more than 8 years to commercialize agricultural products of the smallholders in the area. The study will be made on selected smallholder farmers who are members of the FMOs and the FMOs themselves. Selection of the farmers and the FMOs will be made based on their age in membership to FMOs and operation of the FMOs, their distribution over the area, accessibilities to their sites and permission of concerned bodies and collaboration of the subjects to provide data for the study.

Bacho area is known for its *Teff, Chickpea and Wheat* (the major staple crops) production in the country. Teff is the major product in this area both for income and consumption for the local people. As all these three products are also among the major products all over the country, the

outcome of this study can represent all cereal crops produced and marketed through farmers marketing organizations in relation to commercialization of agriculture in the country at large.

1.4 Significance of the Study

A lot of studies have been made on the role of cooperatives in providing economic and social services to their members. Nevertheless, the role of cooperatives, especially the role of farmers' marketing organizations in commercialization of agriculture which is independent and private business like task of cooperatives is not well studied and their achievements are also not documented. In fact, globally some efforts are made to differentiate such cooperatives from conventional or traditional cooperatives by labeling them as second or new generation cooperatives (Harris, et. al 1996. P.3). The distinguishing features of the new generation cooperatives from the traditional cooperatives are linking producers' capital contributions and producers' delivery rights in defined or closed membership situation. In Ethiopia such experience is not yet well established and therefore, all promoters and supporters of cooperatives do not make and/or understand the difference.

Besides, value chain as a business model for fair business development is a new arena that much is said about it than done in the context of the FMOs. Therefore, this study will also clarify the conceptual frameworks of the value chain business model and its practical application in the context of FMOs. Moreover, it checks the potential effectiveness of the approaches in Ethiopia as well as elsewhere based on existing experiences. Finally, it makes recommendations for the cooperatives and their members, the government and the supporting NGOs for improvement of their future activities, policy considerations and intervention programs designing. The research is also expected to generate and elaborate new insights and findings for other researchers in the field to fill their gaps in their previous researches and use as input for their future works.

2. LITERATURE REVIEW AND CONCEPTUAL FRAMWORKS

The concept of commercialization of smallholders' agriculture has emerged and got significance with the objective to promote development in general and reduce rural poverty in particular. In order to ensure pro-poor development in the rural economic and social environment, development practitioners, policy makers, support services providers, etc., have adopted different approaches and strategies that include promotion of farmers marketing organizations, facilitation of value chain development, etc. The concept and main theories behind some of those main approaches are explained as follows.

2.1 Farmers Marketing Organizations (FMOs)

Farmers Marketing Organizations (FMOs) are single purpose local cooperatives formed to address economic need of their members based on common cooperatives principles as autonomous association of persons (HUNDEE/CIDR, 2006, P. 4). Traditionally, farmers used to produce different agricultural commodities and whenever they need to make joint efforts to produce them, they form traditional informal groups. This process finally led to formation of different forms of farmers' cooperatives in which they aimed to pool their efforts for better performance and defend their interests. Accordingly, they used such cooperatives for building the capacity of their members through organization and getting links with service providers and business partners (Emana, 2012, PP. 4-5). Accordingly, cooperative of farmers which is defined as an organization of a group of people formed by a free will of members to address their specific needs had been promoted. Leadership of such cooperatives is elected democratically by members and the organization is independent organization owned and controlled by its members to achieve its desired objectives on equitable basis (Suleman, 2009, P. 3-4).

Unlike the self-defending cooperatives, commercial cooperatives such as the FMOs should opt for proactive roles in which they aim to capture different opportunities in the economy. ILO defined evolution of cooperatives from self-defense to commercial approach as a change of objectives of a cooperative society from member promotion or self-defense to profit maximization which is increasing its market share by expanding its business with non-members

and reorient its business approach to investor-oriented enterprises (Munker & Txapartegi, 2011, p.14).

FMOs are organizations formed with commercial orientation by specific groups of farmers on the basis of cooperative principles to get access to remunerative markets for their agricultural produces. They are specific because the interest they want to address is basically how to get access to market in their joint efforts for their produces. Their problem arises from their individually being smallholder to bulk enough quantity to attract buyers, their lack of market information to produce and supply according to market demands and lack of experience and management capacity to negotiate with buyers and market institutions. Therefore, the main purpose of such cooperatives is to jointly overcome their common problems and competitively penetrate the market for better income (Ben Haagisma, 2011, P.8). Accordingly to achieve their objectives, first they need to jointly generate market information and accordingly adjust their production and supply to the market demand, secondly, bulk and add values on their produces for their better position in the value chain of their produces and thirdly, gain business experiences and organizational capacities that enables them to properly manage their business and get linkage with support service providers and reliable chain actors (Andrew, 2007. P. 40). Accordingly, in this study an attempt will be made to value the achievements of the FMOs as smallholders marketing cooperatives along their objectives, analyze challenges, limitations and constraints encountered and propose possible alternative ways to improve their market access systems. In this attempt, it will be proved if the use of producers' groups like FMOs can take over the role of existing marketing intermediaries and integrate the value chain or not. Moreover, it will be briefly analyzed how the FMOs were established, their membership composition in terms of activities and the relevance and capacity of the FMOs to supply demanding urban (e.g. hotels or supermarkets) or export markets effectively. The appropriateness of the products (teff, wheat and chickpea) for the market they approached and effectiveness of the value chain marketing approach for such agricultural products will also be analyzed.

2.2 Commercialization of Agriculture

Commercialization of agriculture can be defined as the process by which farmers intensify their use of productivity enhancing technologies on their farms, achieve greater output per unit of land and labor expended, produce greater farm surpluses (or transition from deficit to surplus producers), expand their participation in markets, and ultimately raise their incomes and living standards (T.S. Jane, et. al, 2011. P.2). Commercial agriculture, as opposed to traditional subsistence agriculture, is modern, specialized and market oriented (Todaro & Smith, 2006, pp.474). Subsistence agriculture mainly produces for family consumption although part of the produce may be sold for some financial needs of a family. In such production system, producers do not use modern inputs and techniques as they do not make capital investments to improve their production and productivities.

Contrary to traditional farming system, in modern and commercialized faming, producers invest in their production activities to enhance their production and productivity as they produce for market to generate income as high as possible. In order to attain this objective, they try to produce as much as they can since their production is not limited by the family but only by demand and supply function in the market. Since in most traditional societies, subsistence agriculture is not only an economic issue but also a way of life, transforming such system to modern system may not be an easy task. In addition to improvement of agricultural production and productivity system and reorient it towards market demand, it also needs changes in the entire social, political and institutional structure of the rural societies (Todaro& Smith., 2006, PP 483).

Moreover, commercialization of agriculture in the era of globalization has entered sophisticated and very complex stage. Supplying agricultural products to the markets required fulfillment of different condition among which a "license to deliver" based on professionalism in production, logistics and risk management in order to ensure food safety and quality (Joosten, 2007, P. 22). Ethiopian producers, especially smallholders who are the main producers of agricultural products for the country are not yet well aware about all these requirements on the one hand and are not technically capable to fulfill the requirements on the other. Without fulfillment of those necessary conditions and requirements, leave alone competitiveness, market entrance itself is already a challenge.

Therefore, those financiers, supporters or facilitators and local practitioners engaged in commercialization of smallholders' agriculture need to also understand not only the social, political and institutional structures of the society they are targeting but also the dynamics of

market conditions. The whole purpose of commercializing smallholders' agriculture lays on the concept of "Making Markets Work for the Poor" paradigm (Tschumi and Hagan, undated. P. 11). The paradigm may sound desirable in theory but may be less feasible in practice. The dilemma arises from application of the theory is that conditions for successful linkages with markets sometimes tend to work against the poorest. There is already a body of research that suggests that poor and often remote farmers, with limited land, limited on-farm investment and financial resources and low education levels are not well equipped to exploit the new market orientation (Andrew, 2007. 31).

2.3 Value Chain (VC)

The confusion between supply chain and value chain need to be clarified at this stage. Supply Chain is a set of linkages between actors where there are no binding or sought-after formal or informal relationships except when the goods, services and financial agreements are actually transacted (KIT & IIRR, 2008, p. 4). According to supply chain theory, we all are part of it since we sell something and buy some other thing to resell or to consume. Since time immemorial, goods and services have been transacted among different groups of people in the same way. But this system of transaction has not been fair for all involved actors especially when market failed in its efficiency to properly function and benefit all for different reasons.

In response to this failure, value chain approach has been introduced since some decades. Value chain is defined as "a specific type of supply chain- one where the actors actively seek to support each other so that they can increase their efficiency and competitiveness" (KIT & IIRR, 2006, p. 3). Value chain approach is introduced against the traditional supply chain because of its arrangement to provide possibility for long-term cooperation between chain actors or people that involved in the process of transaction of goods and services. In this arrangement, chain actors invest their time together for shared vision, pull their efforts together for synergy and jointly commit their resources for better and mutual benefits (KIT & IIRR, 2006, PP. 3-4). Because of this, value chain is believed to be instrumental to overcome failures of market and enhance competitiveness of the economy in general and that of the involved actors in particular. Furthermore, it is considered as pro-poor business model, since it addresses the interests of the

bottom of the pyramid (GIZ, date unspecified, p.4) if they make efforts in organized way. Nevertheless, some scholars consider the present emphasis in developing countries on the "value chain" approach and associated activities as vaguely defined concept that NGOs favor more and practically don't have much significance in terms of contributing to improvement of the livelihood of the poor (Andrew, 2007, P. 32).

In the value chain promotion or development, three different stakeholders are involved. These are direct actors (like producers, traders, processors, retailers and consumers) among which the smallholders are one, indirect actors or service providers (input suppliers, financial service providers, other service providers, etc.) and providers of enabling environments (policies, infrastructures, legal system etc.) (Hailu D. 2010, PP.1-2). The current study will try to explore how the value chain approach could address the interest of smallholder farmers or the bottom of the pyramid through their marketing organizations and the possible constraints needs to be dealt with to upgrade their appropriate positions in the value chain and possible failures of the approach.

2.4 Development

The concept of development has got different meanings. Traditionally, development has been dominantly understood as "the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase in its **Gross National Product (GNP**) at rates of 5%-7% per annum" (Todaro & Smith, 2006, 49). It was also seen as planned alteration of the structure of production and employment from agriculture domination to industrialization, even at expense of agriculture (Todaro & Smith, 2006, PP. 49-50). This definition of development has sometimes been supplemented by some social indicators such as improvement in literacy rate, health condition and services, provision of housing, etc., for the people.

The old concept of development which is mainly about measured economic growth, structural change in economy and improvement in some social indicators has been redefined in the new economic view in terms of elimination of poverty, inequality, unemployment and improved

quality of life within the context of a growing economy (World Development Report, 2000). Therefore, according to the new definition, development must be conceived as a multi-dimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth.

2.5 Rural Development

Rural development and modernization of agriculture are inseparable as agriculture is the single most important sector for the rural economy of Ethiopia (ADLI, 2001, P.2). To improve the overall living condition of the rural people, the need to improve agriculture, especially the small scale agriculture which is the subject of this study, goes without saying. Improvement of agricultural production and productivity depends on three important things: appropriate technology and innovation, favorable government policies and supportive social institutions (Tadro and Smith, 2006, PP. 475-476). But according to the approach to commercialize agriculture, these all are production side ideal conditions and facilities. Therefore, if agriculture has to grow and contribute to the improvement of the smallholders' livelihood through their improved income, its production system has to also take the market needs and wants into account (FFARM, 2008, PP. 4-5) and producers should fulfill conditions and prerequisites given by the markets.

One of the important factors for modernization of agricultural production is application of modern technologies and innovation. Agricultural technologies are of two types: mechanization of agriculture which uses different machineries and could appropriately fit only to large scale farming and scale-neutral technologies that include application of improved seed, fertilizers and chemicals and related innovative things. The second category of technology can be applied by smallholders if they want to increase their production and productivity. Nevertheless, for the farmers to apply such costly technology on their farming system, they need not only favorable institutional arrangements and government policies to boost their production but also price incentives in the form of fair market price for their produces. In absence of these situations, smallholder farmers neither will be able to afford the cost of the technology nor will be motivated to invest in their agriculture by taking any risk.

In general, if development is about improvement in economic, social, behavioral and institutional situation of the people, rural development is about specific development strategy that targets rural people and conditions. Accordingly, commercialization of smallholders' agriculture through different approaches including promotion of FMOs is one of the rural development programs. The effectiveness and constraints that challenges the program will be analyzed and possible improvement measures will also be forwarded by this study.

3 RESEARCH METHODOLOGY

3.1 Research Design

This study is planned to be exploratory research in which the performance and effectiveness of FMOs or Agricultural Marketing Cooperatives organized in over 35 primary cooperatives in four districts of Bacho area and their members' production and marketing practices will be assessed. The total number of members of these cooperatives is more than 3,400 of which over 25% are female headed households. The cooperatives are organized according to the cooperative law of the country, although they are specialized agricultural products' marketing cooperatives and have been operational for over 8 years in the area. Their organization and operation is financially and technically supported by different Non-Governmental Organizations (NGOs). The Cooperative Promotion Agency (CPA) is also another important stakeholder of the cooperatives. Therefore, the purpose of this study is to explore the role of the FMOs in commercializing the agricultural products in the study area. In relation with this, information will be collected and analyzed on achievements, potentials, constraints, opportunities and future direction of the FMOs and their members. Furthermore, the study will collect data and opinions from different stakeholders with regard to the role of the FMOs and their members. The type of data to be collected are both quantitative and qualitative and their sources will be mainly primary that are members, leaders and the main stakeholders of the FMOs. Accordingly, data collection methods, tools and processing will also be diverse.

3.2 Sampling

Since both the economic status and living condition of the members of the cooperatives is homogeneous and the agro-ecology of the study area is also the same, application of different sophisticated sampling techniques and big sample size are not required. From each district covered by the cooperatives, 10% of their respective cooperatives members will be randomly selected for interview based on acceptable sampling techniques. That will make about 340 total people targeted for interview out of the total number of the cooperatives members.

Three top leaders (chairperson, secretary and a person responsible for marketing) from randomly selected primary cooperatives, five union level leaders (management body and board of the union) and some members will be invited for focus group discussion.

In addition to these, district level cooperative promotion agency experts, NGOs field level and headquarters experts and management representatives and relevant universities and research institutions engaged in cooperative related works in the area will be engaged to give their opinions and views.

3.3 Data collection: Tools and Procedure

For this study, multiple tool and method of data collection will be applied. To properly reach all the proposed data providers and extract the required information, different tools and methods will be applied. Accordingly, review of secondary sources, quantitative survey using pre-coded and open ended questionnaires, in-depth interview, focus group discussions, key informant interview and extraction of expert opinion methods planned to be applied.

In line with methods, scheduled interview, in-depth interview guide, key informant interview guide and checklists will be the main tools used to extract the required data and information. The data and information collection tools will be prepared in office based on the research objectives and the research questions. Following that, they will be tested in the field before actual application to check the length of time they will take with their respective interviewee or information provider, their understandability, relevance to the subject under study and if some

questions are missing or redundancy is found. Based on the test results, necessary adjustments will be made before applying the tools in the field.

3.4 Data Processing

The completed interview questionnaires and information collected using different tools and techniques will be sorted, checked, edited and arranged in their order for processing. The overall information will be categorized and coded according to their sources and processed for comparisons and triangulations of findings. All the information collected will be processed in computer using Statistical Package for Social Scientists (SPSS Statistics) software, except those can't be coded for computer entry for processing due to their qualitative nature. The software is chosen for its convenience for descriptive statistics presentations and user friendly nature. Based on the results of the processed data and literature review, the research report will be prepared.

4 CHAPTERIZATION

The study thesis is planned to be organized in 6 chapters. The planned chapters of the thesis are organized based on the objectives of the study. Accordingly, the following chapters are proposed:

Chapter one introduces the study. It mainly deals with background, problem statement, study objectives, research questions, scope, significance and organization of the study.

Chapter two dwells on review of literatures in which the theoretical aspects of cooperatives' role in general and of FMOs in particular in commercializing agriculture shall be addressed. In this chapter, concept of cooperatives as business organization with the thought of new generation cooperatives shall be explained. Furthermore, how smallholders should be organized and operate in cooperatives to get their fair share of income through the market shall be elaborated. Moreover, how commercialization of smallholders' agriculture could contribute to alleviation of rural poverty and development in general will also be discussed.

Chapter three shall be about conceptual framework of agribusiness value chain. Value chain as an economic system to enhance competitiveness through minimizing risks, costs and coordination of efforts of chain actors shall be explored.

Chapter four shall be about the research methodology. In this chapter background of the research work, data collection, discussion, document review and processing, interpretation and reporting, etc., in which the whole procedures and steps of the research has taken will be discussed.

Chapter five shall present findings of the study. The findings of the study will be on FMOs capacity, market related potentials, constraints, challenges or limitations.

Chapter six is dedicated for conclusions and recommendations of the study. The conclusion and recommendations of the study shall be made on the bases of the study findings to contribute to the improvement of the agribusiness in general and specifically to the farmers marketing organizations.

5 ACTIVITY PLAN

Main activities of the research and the time schedule for the activities are presented as follows.

S/N	Main Activities	Estimated number of days	Completion date
1	Preparation of research proposal	10	Jan. 20, 2015
2	Preparation of research tools	3	Jan. 26, 2015
3	Test research tools	1	Jan. 28, 2015
4	Field data collection	25*	Feb. 7, 2015
5	Data coding, arranging, entering to computer and processing	15	Feb. 25, 2015
6	Research report writing and submission to Advisor	30	Mar. 25, 2015
7	Receive comment of the advisor	-------	Apr. 15, 2015
8	Edit the research report based on the advisor comment	15	Apr. 25, 2015
9	Submit final thesis	-----	Apr. 30, 2015

*5 data collectors will be deployed and collect the required data in five days that makes 25 person days in total while the rest of the activities shall be done by the researcher.

6 BUDGET

The budget of the research work is prepared for costs to be paid by the research undertaker. The researcher work days for all the activities he will perform and the opportunities he will forego because of his engagement in the research are not included. Accordingly, other activities based budget proposal of the research work is presented as follows:

Cost in ETB

S/N	Main Activities	U.M	Quantity	Unit Cost	Total Cost
1	Printing and binding research proposal	Copies	2	100.00	200.00
2	Printing questionnaire papers	Copies	400	20.00	8,000.00
3	Data collectors fee	P. Days	25	200.00	5,000.00
4	Data entry clerk fee	P. Days	10	250.00	2,500.00
5	Social and transport costs	L. Sum			10,000.00
6	Thesis paper printing and binding	Copies	3	750.00	2,250.00
7	Miscellaneous costs	L. Sum			3,000.00
	Total cost				30,950.00

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