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PEA BEANS IN ETHIOPIA: CHALLENGES OF CREATING NEW BUSINESS MODELS FOR SUSTAINABLE LIVELIHOODS

BY DON SEVILLE

Ethiopia is a wonderfully unusual place in Africa. It has never been colonized, only occupied by the Italians during World War II for about five years. With 77 million people, it is one of the larger countries in Africa. While for much of its history Ethiopia has been fragmenting into small kingdoms frequently at war, long periods under emperors have given Ethiopia the rare concept of being a unified country. With only 16 percent of the population urban, Ethiopia is still one of the most rural countries in Africa.

As with many neighboring countries, rural poverty and chronic hunger are extensive in Ethiopia. Over 60 million people (more than 80 percent of the population) live below a poverty line of $2.00 a day. Of those, 24 million live on less than half a dollar a day. Each year around 10 million people are at risk of starvation.

I had the opportunity recently to travel in Ethiopia with colleagues from partner organizations involved in a project within the Sustainable Food Lab called New Business Models for Sustainable Trading Relationships. Through the New Business Models project, we are focusing on improving five food supply chains in different parts of Africa. In Ethiopia, we are working to improve and expand trading opportunities for farmers growing white pea beans (navy beans) in areas that are vulnerable to chronic hunger.

Why Pea Beans?

White pea beans are grown in Ethiopia during two seasons—the short rainy season in the spring and the longer rainy season in the summer. It is not a locally consumed crop; 90 percent of the harvest is sold for export. Over 40,000 farmers were engaged in this export crop during 2007, and participation is expanding rapidly due the recent increase in prices.

Ethiopia's climate, while very dry and vulnerable to extended droughts, is relatively good for pea beans. This and other pulse crops (beans, lentils, and peas) are considered "pro poor." They dry well, can be stored easily, and require less fertilizer than grains such as teff. These qualities make them attractive to farmers with poor access to reliable transportation and little cash for fertilizers.

A Good Market for the Farmers

Prices Ethiopian farmers receive for white pea beans have been sharply increasing—more than 300 percent over the last four years. Before 2005, prices were at or below the cost of production. Currently, farmers expect prices to continue rising and, as a result, are rapidly expanding production areas. Land in Ethiopia is not privately owned; individuals have "use rights" to land as long as they live there. Farmers in Ethiopia typically have use rights to about two hectares, with half planted for food crops and half for market crops. As prices have increased, farmers have moved more of the market area to pea bean production.

Farmers sell their pea beans to traders, and the ability to set prices (market power) is currently in the hands of the farmers. The profit margins for traders and distributors are staying constant, suggesting a rare situation where they don't have as much market power. New exporters, including farmer-owned cooperatives, are rapidly entering the market. With pea bean prices high and rising, the current market is working well for farmers including those in some of the traditionally most food-insecure areas.

Dilemmas of a Boom Market

With market power in their hands, farmers in Ethiopia are not engaging with the exporters in any long-term contracts for white pea beans. Instead, many are banking on the prices increasing even more. Farmers see no reason for building long-term relationships with buyers while the market is booming. Some are even breaking contracts with exporters, in hopes of receiving the latest high price.

But markets tend to correct quickly when demand is short and prices are high, and only slowly when prices are low and supply is too high. There is a real possibility that the white pea bean price will overshoot and collapse. A dramatic "market correction" could mean a rapid drop in prices and incomes in these areas of high poverty and food insecurity. We talked with farmers who were doubling their planting area in beans for 2008, and because they are expecting prices to keep increasing, they are holding all sales to the end of the harvest season in hopes of capturing the highest price. If the harvest overshoots the demand, or the local price shoots past the international

TEAM TIP

Examine together places in which your organization engages in short-term thinking. What would be different if people shifted to a longer-term perspective?

market causing the exporters to leave, the farmers may find a very rapid drop in price at the end of the season. For many families, the cash from sales at harvest time is critical to their ability to get through the year.

When we see this boom market, some of the questions my colleagues and I ask include:

1) What are the limits of price increases? How would farmers know if they were in danger of overshooting the market?

2) If there is danger of overshooting the market, should (and can) we encourage the farmers to be in longer-term contracts?

3) With farmers who are so new to business planning, what does it take for them to think about a five-year plan or to think about contracting as a form of risk management and market stability?

Potential Ingredients of New Business Models

Our conversations with actors all along the supply chain—from farmers to exporters—revealed a number of places where market problems could potentially be addressed through better business models developed in partnership with all the businesses involved.

Seeds. The current variety of pea beans grown in Ethiopia has been in use for over 40 years, but yields are relatively low and variability quite high. Several exporters want to introduce new white pea bean varieties to increase both the average size and consistency of size of the beans. NGOs have been looking at introducing new varieties as a way to increase yields and boost production.

When times are good, Ethiopian farmers traditionally keep a portion of the harvest as seed for the next season's planting. But when farmers need cash, they will sell the pea beans they have saved for seed. Then at the next planting season they will have to take seeds as a loan from traders. This is a problem for introducing new varieties because as soon as the farmer sells all the beans back to the trader, they are mixed in with the existing varieties and the purity of the new strain is lost.

Catholic Relief Services, one of the partners in the New Business Models project, has been supporting farm groups to adopt a new pea bean variety and develop seed businesses. But growing white pea beans for seed is a different kind of business from growing for sale into the food supply chain. Farmers need to hold the seed after harvest and sell to other farmers at the next planting time. Without shifts in business understanding and a level of economic security, many farmers growing seed may fall back on selling the harvest as food when they need money rather than holding it and working the longer-term seed business.

Quality. New pea bean varieties that increase the quality of the crop can also pose challenges when selling into a system of small-scale traders. One new variety promoted for its increased size, higher yield, and drought resistance has brought lower prices to farmers than the old variety. The difficulty lies in finding the right buyer in the very complex system of local traders.

A trader who buys the new, larger-sized pea beans will need to have access to (or create) a separate supply channel that pays a higher price. But traders have not been profiting from the rising prices of pea beans, and have little margin for creating new systems. So, the new variety simply gets mixed with the rest of the pea bean harvest.

The current system—where individual farmers sell to small traders who sell to brokers who sell to exporters—has little incentive for better quality. There is no way for a price signal or even information on better management practices to get through the chain. Neither farmers nor traders are rewarded with higher prices for producing or buying pea beans of uniform size or high nutritional quality.

Contracts. Large buyers like to establish contracts in the beginning of the growing season for supplying seed and buying the grain grown from that seed. But in this time of rising prices, the farmer cooperatives and unions sometimes break contracts and ask for the new higher market price, refusing to deliver at the contract price. These farmer groups do not value the risk-sharing aspect of contracts—that they won't capture all the price increase if prices go up, but they are protected from large losses if prices go down.

Market Information. Though everyone on the production side is very excited and expects prices to continue to increase, the farmers, traders, and cooperative managers say little about the international market in which they all compete. They don't talk about the possibility of shooting past a competitive price point and crashing the market. Better systems of market price information through the chain need to be developed.

There are real opportunities to help set up good systems of price signals and clear communication of quality needs and supporting practices in the Ethiopian communities that grow, buy, process, and export white pea beans. Our goal is to move from short-term thinking where either the farmers maximize price (leading to overshoot and collapse of the market) or the exporters minimize price (leaving the farmer with no profit to invest in farm, family, and community) to developing business models that link the longer-term goals and knowledge of the exporters and farmers. We hope to create a more stable and profitable market for all involved and build the base for sustainable livelihoods in rural Ethiopia.

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