



**GREEN AGRO**  
SOLUTION P.L.C  
(Sagure Farm Service Center)

AFRIC  VENTURES

# **Ethiopian Market Outlook: Contract Farming to improve export volume and quality**

*February 20, 2019*

*Gulf Food Expo, Innovation Summit*

*Abu Dhabi, UAE*

Green Agro Solution and Africa Ventures are focused on the opposite ends of the agricultural supply chain, creating a complementary relationship.



**Headquarter** : Sagure, Ethiopia

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**Employees** : 21

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**Product Overview** :

- *Farm Inputs*
  - *Mechanization services*
  - *Veterinary Drugs*
  - *Animal Feed*
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**Company Overview** : GAS promotes “one stop farming solution” to small holder farmers and offer mechanization service, farm inputs vet drug and animal feed in its center found in Sagure city of Arsi Zone. We also launched contract farming and digital farming and aims to improve smallholder farmers capacity to produce quality export items.



**Headquarter** : Addis Ababa, Ethiopia

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**Employees** : 5

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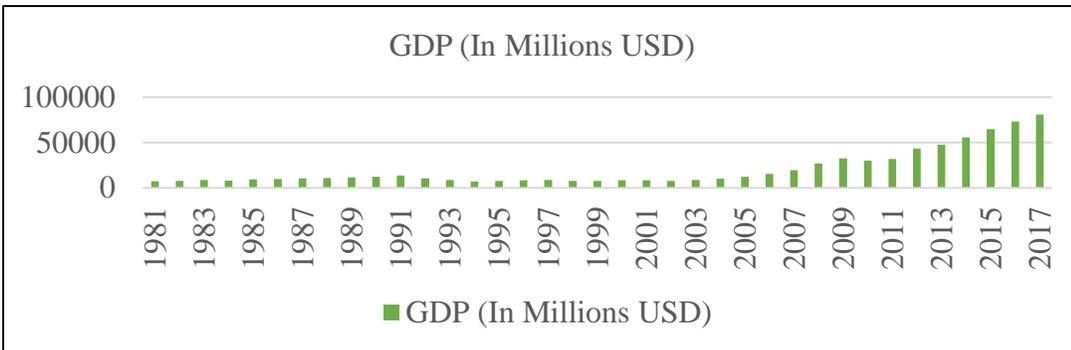
**Product Overview** :

- *Commodities export*
  - *Commodities supply for local market*
  - *Processed foods*
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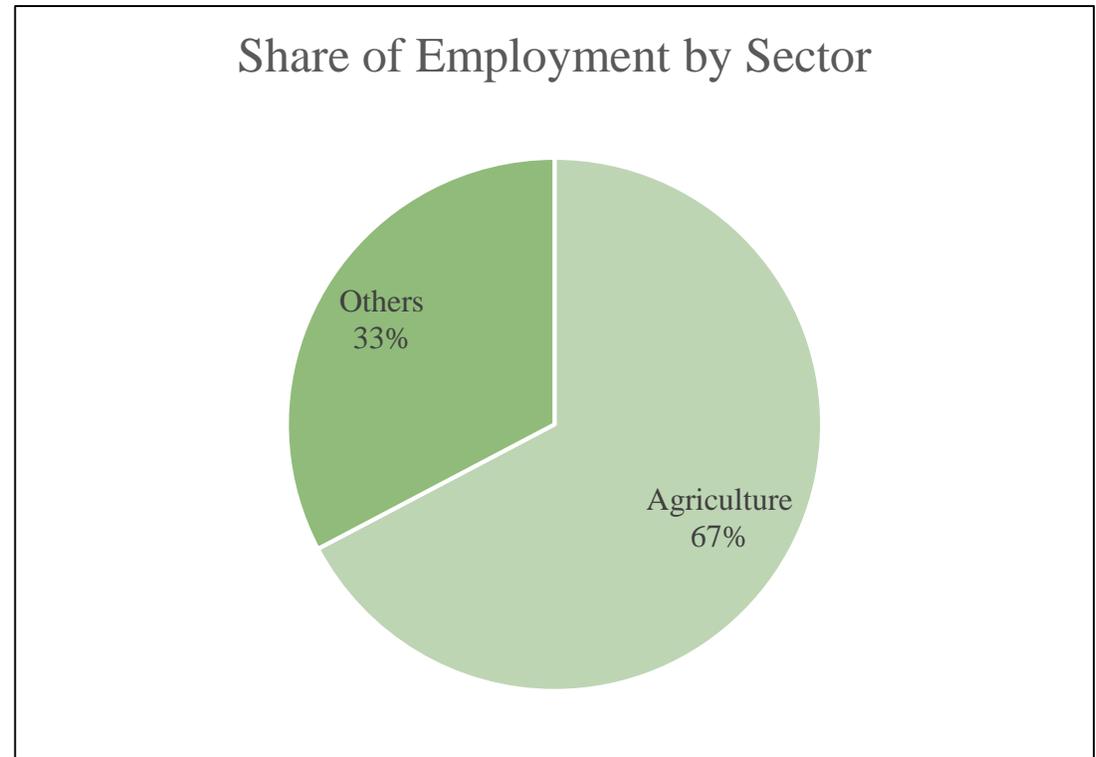
**Company Overview** Africa Ventures was established based on the ever growing global food demands. Following our founders’ previous business success in logistics, transportation and travel. we decided to expand into agri-business and our operations range from supplying agricultural products for both local and export markets to agro-processing.

# Agriculture plays a vital role in Ethiopia's economy

## GDP



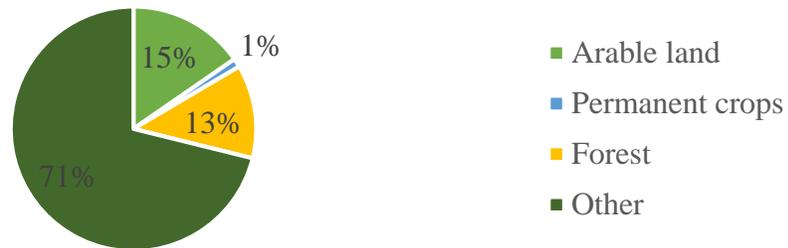
## Employment



However, when compared to global averages, agriculture should play a more significant role in the economy...

### Land use

Land use in Ethiopia



Production of Major Pulse Crops ('000 Metric Tons)

Crop/year	2013/14	2014/15	2015/16	2016/17
Faba beans	992	839	849	855
Red kidney beans	259	312	380	355
Chick peas	424	459	473	343

### Comparison with World average

Year 2016	Quintals / hectare (Ethiopia)	Quintals / hectare (Comparison)	Potential Improvement (%)
Chick peas	~25	~89 (US)	~60%
Haricot bean	~15	~25 (UK)	~40%

... and the country has the potential of producing significant quantities of these commodities

Coverage and Production			
	Coverage		Total Potential (MT)
	Area (Ha)	Area (%)	
Faba bean	25,728,900	22.92	59,176,400
Field pea	23,177,368	20.61	34,766,000
Lentil	18,280,192	16.19	36,560,300
Chickpea	23,665,392	20.96	52,063,800
Haricot bean	22,262,500	19.81	40,072,500
Soya bean	42,148,452	37.50	105,371,100
Cowpea	49,037,264	43.43	102,978,200

The path forward must include contract farming, as it has the potential to improve yields, quality and quantity, as shown in various other countries

### Conventional Farming

“It is a term used to describe companies that own or influence farms and agricultural practices on a large scale. This includes not only corporate ownership of farms and selling of agricultural products, but also the roles of these companies in influencing agricultural education, research, and public policy.

### Contract Farming

Contract farming involves agricultural production being carried out on the basis of an agreement between the buyer and farm producers. Sometimes it involves the buyer specifying the quality required and the price, with the farmer agreeing to deliver at a future date. More commonly, however, contracts outline conditions for the production of farm products and for their delivery to the buyer’s premises. The farmer undertakes to supply agreed quantities of a crop or livestock product, based on the quality standards and delivery requirements of the purchaser. In return, the buyer, usually a company, agrees to buy the product, often at a price that is established in advance. The company often also agrees to support the farmer through, e.g., supplying inputs, assisting with land preparation, providing production advice and transporting produce to its premises.

# However, the sector faces many challenges that are bottlenecks to higher productivity and quality, which can be improved with contract farming

	Conventional farming	Contract farming
Productivity	<ul style="list-style-type: none"><li>Our productivity is lower than global and regional averages</li></ul>	<ul style="list-style-type: none"><li>Significant <b>reductions in cost</b> and <b>increases in productivity</b> have been witnessed due to monitoring</li></ul>
Quality	<ul style="list-style-type: none"><li>Quality could be compromised when traders aggregate commodities from various sources and over a long time.</li></ul>	<ul style="list-style-type: none"><li>The combination of <b>heightened monitoring</b> and <b>follow up</b> leads to increased quality in our experience.</li></ul>
Value to smallholder farmer	<ul style="list-style-type: none"><li>Reduced incomes and margins caused by multiple actors across the value chain.</li></ul>	<ul style="list-style-type: none"><li>Increased incomes for smallholder farmers as they get the market price or close to market price due to dealing directly with the producers or trader.</li></ul>
Scaling	<ul style="list-style-type: none"><li>The farms are constrained by the boundaries of the land. Scaling beyond that would require the purchase or lease of new land.</li></ul>	<ul style="list-style-type: none"><li>The process is outsourced in this scale, allowing for <b>rapid scaling</b> when required.</li></ul>

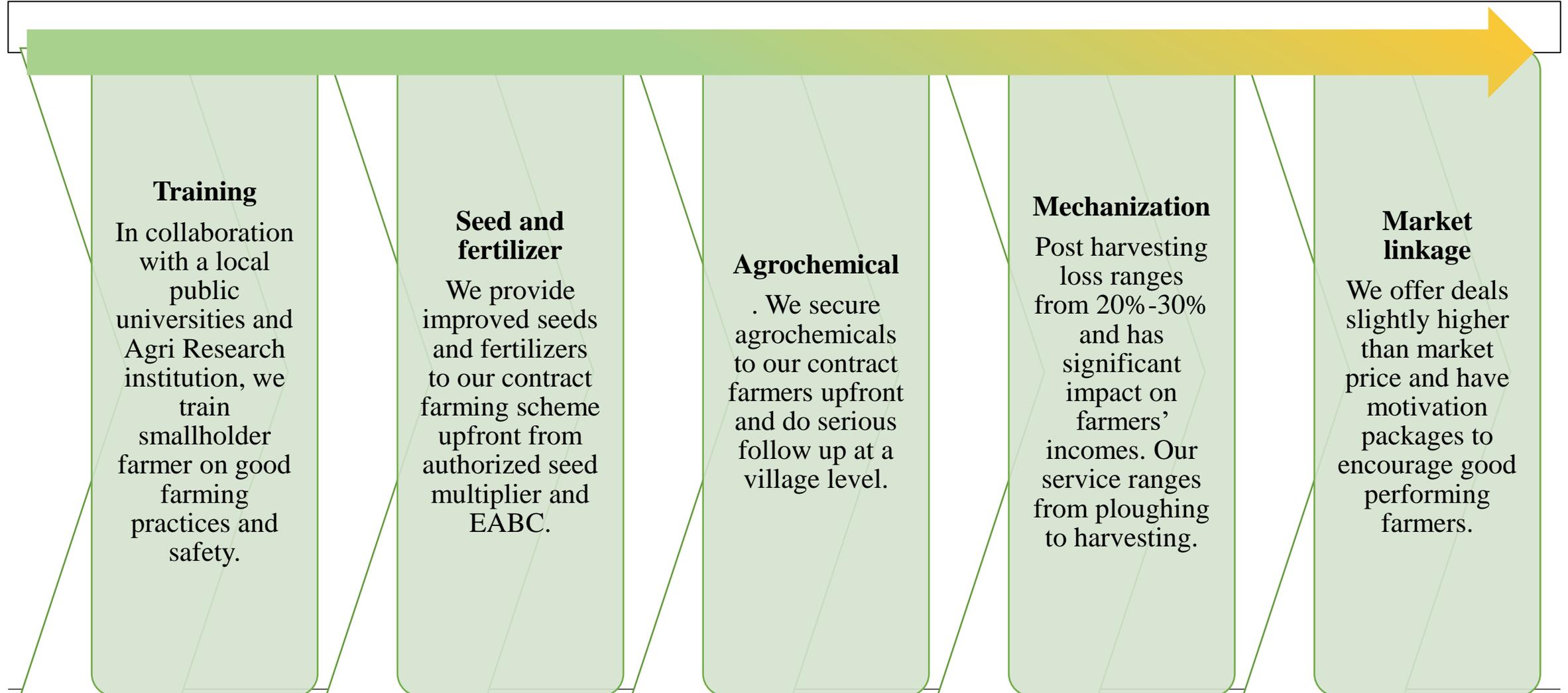
# Contract farming has proven successful globally as it provides a stable income for farmers and a predictable supply source for buyers

	Description	Governing law established	Type of law
India	<ul style="list-style-type: none"> <li>A few companies have been successful, such as PepsiCo with potatoes, basmati rice, chillies and groundnut</li> </ul>	1872	<ul style="list-style-type: none"> <li>General contract legislation</li> </ul>
Kenya	<ul style="list-style-type: none"> <li>Companies like Frigoken limited have proven successful in using CF schemes to grow commodities like French beans</li> </ul>	~1967	<ul style="list-style-type: none"> <li>Product-specific act</li> </ul>
Ethiopia	<ul style="list-style-type: none"> <li>A few companies have attempted contract farming. However, the lack of strict governing laws and difficult framework has challenged many companies</li> </ul>	2018	<ul style="list-style-type: none"> <li>TBD</li> </ul>

# Contract farming law is aimed at strengthening CF efforts in Ethiopia, that have previously been faced with numerous challenges...

	Description	Year	Commodity	Outcome
Acos	<ul style="list-style-type: none"> <li>The scheme was based on agreements with cooperatives and some individuals, guaranteeing them a market.</li> </ul>	2006-2008	<ul style="list-style-type: none"> <li>Haricot bean</li> </ul>	<ul style="list-style-type: none"> <li>Default from farmers</li> <li>Lack of monitoring</li> <li>Lack of government support</li> </ul>
Soreti International Trading Company	<ul style="list-style-type: none"> <li>The agreement with smallholder farmers included inputs credit, technical support and market with a 10-25% price premium</li> </ul>	2006-2007	<ul style="list-style-type: none"> <li>Red beans</li> <li>Speckled beans</li> <li>White beans</li> </ul>	<ul style="list-style-type: none"> <li>Default from farmers due to side selling</li> <li>Lack of contract enforcement mechanisms</li> </ul>
AfricaJuice Tibila S.C.	<ul style="list-style-type: none"> <li>The contract involves providing free seedlings, fertilizer and training. The agreement was done with one cooperative.</li> </ul>	2012	<ul style="list-style-type: none"> <li>Passion Fruit</li> </ul>	<ul style="list-style-type: none"> <li>High maintenance costs for lattice poles, although alternatives exist</li> <li>High labor costs</li> </ul>

# Green Agro Solution and Africa Ventures will work closely on 6 key areas on high demand export oriented commodities (sesame and white beans) and commodities that will substitute imports (malt barley)

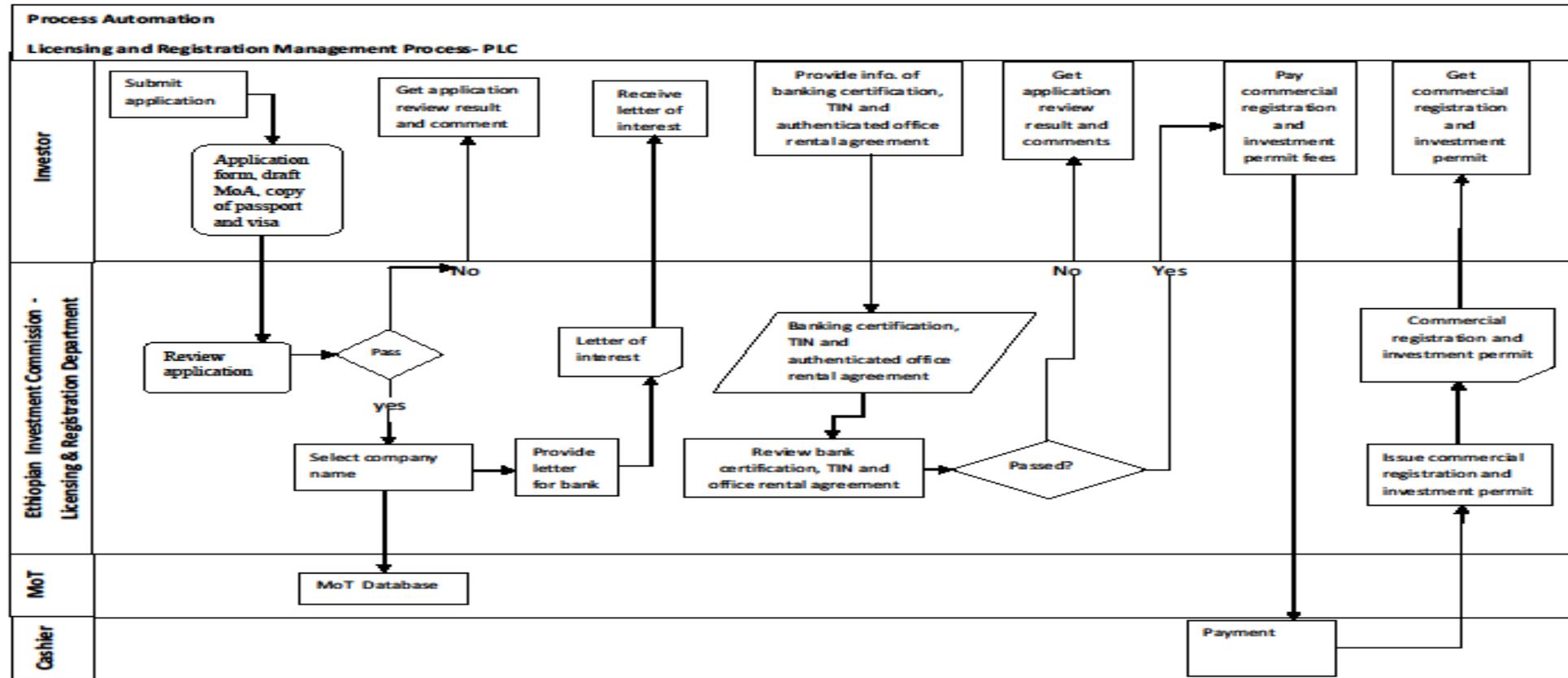


Source: Team analysis

# Interested partner can enter the market with us in one of three forms: input provision, technical advise or output offtake

	Description	Example
Input provision	<ul style="list-style-type: none"><li>The process requires various input from growing the crops all the way to processing and selling them</li></ul>	<ul style="list-style-type: none"><li>Seed</li><li>Agro-chemicals</li><li>Fertilizers</li></ul>
Financial support	<ul style="list-style-type: none"><li>All of these initiatives have financial requirements and we are open to various types of support.</li></ul>	<ul style="list-style-type: none"><li>Equity partner</li><li>Grant</li></ul>
Output offtake	<ul style="list-style-type: none"><li>In order to scale this process, we will need a market that will absorb our desired production. We can start delivering order in 60 days.</li></ul>	<ul style="list-style-type: none"><li>Purchase various commodities</li><li>Partner with us to manufacture the final good locally</li></ul>

# Entering the Ethiopian market as a private limited company: a flowchart

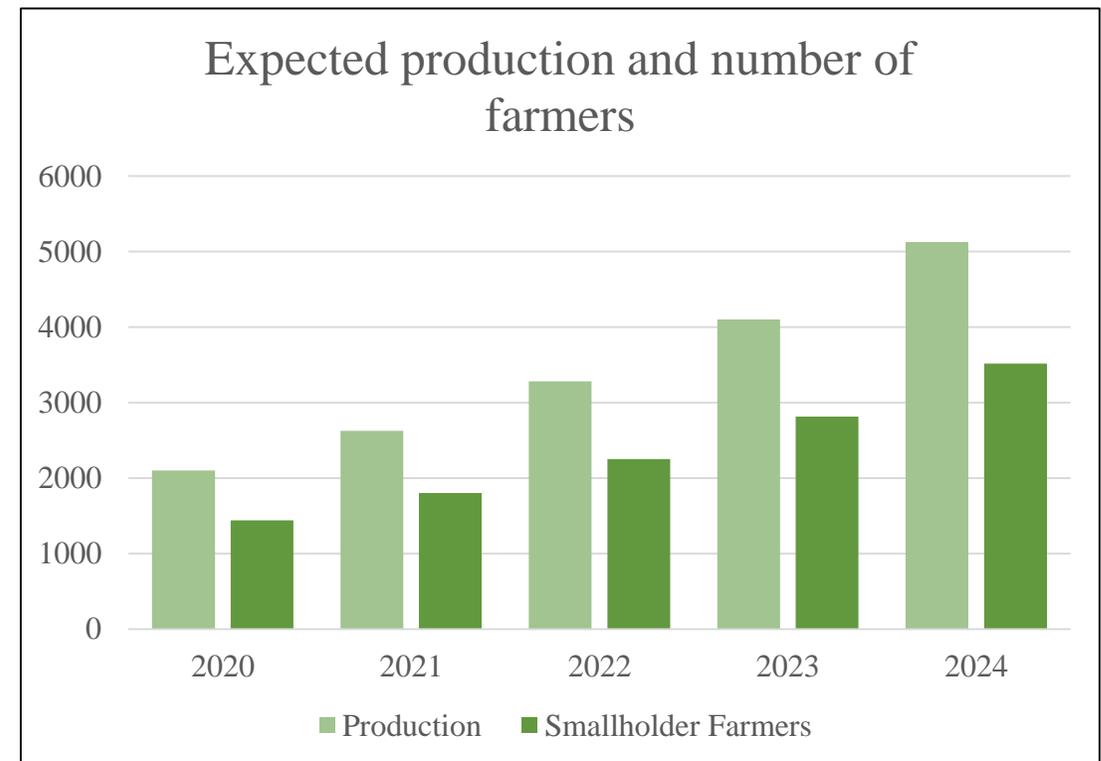


This season, a total of 2,500 farmers will be engaged in our contract farming scheme to produce 2,100 tons of various crops, of which 60% will go to export markets **and** we expect our production to grow from 2,900 tons per year to ~5,000 and the number of farmers from ~1440 to ~3500 in the next 5 years.

### Current year performance (2018/19)

Crops	Farmers	Yield (MT)
Barley	750	11,500
Faba bean	469	5035
Red kidney bean	222	4465
<b>Total</b>	<b>1,441</b>	<b>2,100</b>

### Forecast for the next 5 years



Any questions? Please contact us.

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