

ToR for Company assessment & action plan development for Seyemti Adiabo Cooperative Union/FCU

Advisory Service nr. AS 8044

Company assessment and (action plan development) for Seyemti Adiabo FCU is an assignment within the framework of **project 17at- 7018**. Liaison officer responsible for this assignment is Desiree Oude Groeniger. In case of changes in the assignment and/or programme the liaison officer has to be consulted immediately.

Agriterra

Agriterra is a network organization of Dutch farmers and their organisations. It has a vision that farmers' associations and cooperatives can have a positive influence on the development of colleague organisations in developing countries through speeding up the process, and ensuring a more equal distribution of income and an enhancement of democratic decision making and relations. The key area of action for Agriterra is the support to these organizations in enhancing the entrepreneurship of their members, improving their advocacy results based on members' interests, and making cooperatives with investment plans bankable. Agriterra uses three approaches; grassroots entrepreneurship, advocacy and agribusiness development.

Agriterra is keen on the transfer of knowledge by offering the hands-on expertise /Agripoolers/ needed in favour of members' interests. Expertise are sourced from a vast network of agribusiness and farmers' organizations in the Netherlands and abroad from different professions.

Agriterra in Ethiopia

In the framework of the Agriterra Farmers Fighting Poverty program (FFP) in Ethiopia, continuous scoping assignments are being enrolled to identify ambitious and entrepreneurial cooperative unions - with a reasonable business track record and good management potential. These scoping missions will be executed in different value chains, among others oilseeds, grains (wheat), barley, dairy, sesame, fattening and chickpeas. Potential (pioneer) cooperatives to be scoped have been identified based on the following criteria:

- organization provides services in the areas of output marketing and has the ambition to increase output marketing performance.
- demonstrable and realistic growth ambitions related to the business case.
- positive track-record with regards to business management and implementation.
- sound financial management.
- qualified management.
- necessary systems and structures in place.
- demand for business development services.
- demand for finance (for investments and/or working capital).

Recently Agriterra in Ethiopia has conducted a scoping round of potential farmer organizations in the Tigray region (Northern part of Ethiopia). So far Agriterra is supporting 3 farmer unions in this Region. Agriterra has the ambition to expand its operations in this area as there seems to be various farmer organizations that show high potential and demand for receiving business development services. Furthermore, the Tigray Cooperative Promotion Agency (CPA) has notified Agriterra that it is highly satisfied with the services delivered to the current 3 unions and it indicated that it would like to see Agriterra become more active in the area. During the scoping round in Tigray Agriterra has scoped 10 potential farmer organizations. The organizations were ranked as high, medium, and low category in potential. Amongst, Seyemti Adiabo FCU has scored as high potential. For this reason, Agriterra has decided to conduct a company assessment at this union to assess in more detail if the organization is eligible for Agriterra support and if that is the case, to make an action plan. Background of the FCU is annexed for further reference.

Objectives

- To conduct a full-fledged company assessment using Agriterra assessment tools.
- To achieve an in-depth understanding of the practice and performance of the FCU and assess whether the investment ambition and related external financing demand are feasible.

If the assessment gives enough confidence to continue, objectives are:

- To jointly develop an action plan/strategy for support from Agriterra.
- To deliver on spot suggestions based on the findings of the company assessment results.

Mission details

General:

- two agripooler/s accompanied by local Agriterra business advisor.
- Agriterra will arrange and cater for flight, hotel, transport, program etc.
- The time frame of the mission will be approximately eight days Excluding international travel days. (between: February and latest March 2017)

Profile of the Agripooler/s:

General profile for both experts:

- Business oriented and entrepreneurial
- Critical and analytical skills in order to be able to screen financial data
- Knowledge about grain marketing and value addition in the chain
- Experience with African context is preferred
- Affinity with cooperative business entity
- Speaks and writes well in English
- Flexible and adventurous

Specific in the profile for the two different experts:

- 1. Knowledgeable on ruminant feeding business (nutritional/feed technical knowledge)
- 2. Knowledgeable on ruminant fattening (fattening related supply chain and marketing knowledge)

Expected results

One mission report containing the following information:

- completed company assessment report.
- advice whether to start up partnership between Agriterra and the FCU.
- if the company assessment shows possible partnership opportunities, possible interventions in the form of an action plan for one year, including midterm milestones and targets to be reached in 2017.

Program-1-(Tentative)

Day	Date	Activity
Day 1		- Local transport
Day 2		- Section 1 (company profile) - Section 3 (management and governance)
Day 3		- section 4 (business case)
Day 4		- section 2 (finance)
Day 5		- Chapter 5 Reputation - Report writing
Day 6		- Discussion on the business case - Report writing
Day 7		- Develop action plan
Day 8		- Discuss Action plan

Annex- Seyemti Adiabo Multi-Purpose Farmers' Cooperative Union.

A. Background

Seyemti Adiabo Union is located approximately 50 km west of Shire city on the road towards the Eritrea border. The union was initially formed in order to provide inputs (mainly fertilizer) to its member PCs. However about 3 years ago the union has also started with output marketing in reaction to demands from mainly the individual farmers that were complaining about good markets for their produce. The union has a strong ambition to upscale the output marketing activities and also become active in various forms of agro-processing in order to add value to the member's produce and develop a more sustainable source of income for the union. Furthermore, as the area is very suitable for cattle, the union would also like to invest in animal fattening. Most farmers of the member PCs of the union are involved in the production of either maize, sesame, or cattle or a combination of those. The area is also suitable for irrigation farming of mainly tomato. The unions fixed assets consist of a warehouse for 3.000 quintal of produce, a large compound with office, and 1 Isuzu truck. The union has recently also bought a mobile trashing machine to provide maize trashing service to the PCs. The union is rather liquid at this moment, it has investment capital available of around 6.4 million Birr.

B. Products and Services

Main commodities dealt with in the business and their degree of processing:

- **Sesame:** The union collects sesame from its member PCs and sells it to the Tigray Marketing Federation. Last year the union collected around 250 quintals.
- **Maize:** The union collects maize from its member PCs and sells it to traders. Last year the union collected around 40 quintals.
- **Finger Millet:** The union collects finger millet from its member PCs and sells it to traders. Last year the union collected around 80 quintals.
- **Sorghum:** The union collects sorghum from its member PCs and sells it to traders. Last year the union collected around 80 quintals.

Besides output marketing and processing of the above mentioned commodities, the union provides the following services to its members:

- **Provision of farm inputs:** Agricultural inputs are provided to the members against a favourable price. The union provides the inputs often on credit to the members who provide it against cash to their farmers. The union also provides vegetable seeds and water pumps mainly to the PCs involved in irrigation.
- **Provision of consumable merchandise:** The union provides consumable goods to members, such as iron sheets, nails, blankets, edible oil, sugar, soap, batteries and shoes. The union sells these goods through their PCs to the farmers.
- **Transport service:** The union owns a small truck to transport inputs to the PC members and collect agricultural produce from the PCs.
- **Provision of credit:** The union provides the inputs to PCs on credit. Also the union provides small loans to the member PCs.
- **Trashing:** The union will from this year on provide trashing service to the PCs against a small fee with the mobile trashing machine the union recently bought. On the long run the union would also like to invest in processing of maize into maize flower.

Input supply (mainly fertilizer and consumable goods) is providing the biggest proportion of profit realized by the union. The output marketing activities are still extremely small compared to the potential of production within the 22 PC members.

C. Business case

Context and problem analysis

The union, mainly under the lead of its current manager has a clear ambition to enter into output marketing and agro-processing of their member's produce. Regarding the output marketing the union has already made small steps in the past 3 years. Nevertheless the total volumes of sesame, sorghum, maize, and finger millet marketed is relatively small compared to the potential and ambition of the union. Nevertheless it has given the union and some of their PCs valuable insight and practical lessons learned in the output marketing business. Regarding agro-processing the union has recently bought a mobile maize trashing machine which it will start operationalizing this year after the maize harvest. However this form of agro-processing is rather small and it is more seen as a service to the members and not as a for-profit activity. The union furthermore has made a small internal feasibility study on becoming active in animal fattening. The plan is to buy animals from the farmers of the member PCs against a fair price, fatten them and sell against a higher price on the market. The union has applied for land at the local government and expects to receive it soon after which they will invest around 250.000 Birr in infrastructure.

A key challenge for the union is the lack and experience of PCs in output marketing. Many of the PCs only have a board and sometimes a purchaser and accountant to run the daily activities. These people have limited capacity on doing output marketing and they are usually rather afraid to enter into cash transaction with their member farmers and the union. It is a pity as both the union and the PCs are rather liquid and have a capital base to easily start up output marketing activities. However on the long run if output marketing figures significantly increase, the union will have to borrow money in order to have sufficient working capital available to do the business. So far the union has never taken a loan for its output marketing activities. Another key challenge hindering the output marketing activities is the lack of warehouses at the PC level. As the PCs have limited capacity of safe and clean warehouses, the transaction of goods between the PCs and the union needs to be very fast.

Regarding the investment plans of the union the key challenge is to get access to sufficient investment capital. For this the union plans to increase its internal capital through recapitalizing profits and issuing more shares to the members. However regarding the agro-processing the union has indicated that it has a clear ambition, but it seems to lack a clear plan on how to start and carry out the proposed business investments.

Business case

The business case of the union is focused on increasing output marketing and investment in agro-processing and animal fattening. For this year the output marketing ambition is 500 quintal sorghum, 500 quintal maize, 500 quintal finger millet, and 1000 quintal sesame. To realize these targets the union plans to assist the PCs in helping by recruitment of a marketing officer and pay part of their salary. The union furthermore plans to strengthen the logistics between PCs and the union. Regarding the investments in agro-processing the union plans to strengthen its internal capital. For the animal fattening the union will receive the land from the local government and has already reserved 250.000 Birr to buy the infrastructure facilities for the fattening compound. The plan is to source the animal feed from different places. Till now the union has no ambition in entering the export market as they believe it is too challenging in comparison to their current capacity. The union would like to put key focus on maize marketing and processing as it has the highest potential in the area. Key buyers for the maize products could be WFP and other local buyers. Regarding maize the union wants to focus on quality and pay a premium to those farmers producing a quality product. This will provide the opportunity for the union to compete with other traders and middlemen.

External support required

The organization identified the following fields on which it believes Agriterra can assist:

- The union has 6.4 million Birr available for the investments, which seems to be a promising starting amount, however the investment ambitions most probably require more capital. The union might lack sufficient collateral to get a bank loan.
- Feasibility studies and business plans and cost-benefit analysis.
- Development of strategic long-term plan.
- Improvement of financial management: Skills and number of employees.
- Knowledge on animal fattening and agro-processing.
- Capacity building on cooperative principles and governance.
- Internal capitalization strengthening.
- Increase capacity in output marketing and agro-processing.
- Increase capacity of PCs and linkage with union.
- Agronomy practices of farmers.

D. Risk and assumptions

The following risks have been identified:

- Lack of skills and experience in output marketing and processing.
- Risk of not receiving the land from the government.
- Price fluctuation and post-harvest crop diseases.

E. Conclusions

A company assessment is **recommended** for the following reasons:

Although there is many room for improvement, the union seems to have a good basis in terms of organizational strength, capital, and profitability. The ambition of the union to divert from mainly input supply also to output marketing and processing looks feasible at this stage. The unions' ambitions are focusing on investing in value addition of the members produce and establishment of animal fattening facility. These activities will be beneficial for the membership of the PCs. The union furthermore complies with all requirements set to become an Agriterra client. The union has a clear demand for support related to the fields on which Agriterra could provide capacity strengthening, such as financial management, business planning, and cooperative governance. The union has sufficient own capital available for investment and their membership is said to be rather liquid and willing to financially support the investment activities of the union.