

8045R for Company assessment & action plan development for Simret Farmers' Cooperative Union/FCU

Advisory Service AS nr.8045

Company assessment and (action plan development) for Simret FCU is an assignment within the framework of project **17at-7018** assessments. 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 (North of Ethiopia). So far Agriterra is supporting three 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 three 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 ten potential farmer organizations. The organizations were ranked as high, medium, and low category in potential. Amongst, Simret 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 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:

- one Agripooler 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. (latest February 2017).

Profile of the Agripooler/s:

- business oriented and entrepreneurial
- good financial and analytical skills to help define the feasibility of the business case
- knowledge on fattening supply chain and marketing
- acquaintance to African agricultural context is desired
- knowledgeable on feeding science (HAS Animal Feed Specialty)
- affinity with cooperative business
- speaks and writes well in English
- flexible and adventurous

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- FCU background

1-Semret Multi-Purpose Farmers' Cooperative Union.

A. Background

Focus of Semret union has always been on input provision (mainly fertilizer and consumable goods) to their member PCs. Previous AGM has however decided and approved a plan in which the union has to become more active in marketing and processing mainly of the member's cattle related activities (animal fattening, milk collection, and animal feed processing). The union wants to focus on cattle related activities as all member farmers of the PCs are highly involved in the activity of producing, herding, and milking their own cattle. The idea for becoming active in cattle marketing and processing activities is coming from the PCs. The PCs have a clear demand for these activities in order to add value to their products. The area seems very suitable for cattle business related activities. There is a good climate for fattening and raising cows and raw materials for feed are well available. The area is expected to become a cattle hub. Various leather companies and dairy processing facilities have recently been established at veracious places. The union owns fixed assets in the form of a small equipped office, a truck, and a warehouse for 10.000 quintals used for fertilizer storage. The union has furthermore available 5.2 million Birr capital which it would like to use for investment in the activities.

B. Products and Services

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

- **Raw milk:** Many of the members are involved in milk production, however the union so far has not been involved in any form of marketing or processing of milk. The union has the ambition in the future to become involved in collection and distribution of raw to processors and consumers. The union also has the plan to buy 10 milk cows to start its own milk production activity.
- **Animal Fattening:** Union links the cattle from the member PCs to farmers in Shere area. This business activity has only recently started as the union has through FAO auction project only sold 30 cows so far. The union has the ambition to continue this business in combination with the fattening of the animals on their own premises. Sell cattle to traders, universities, and others.
- **Feed:** Provision of straw and bran to the PCs. The union buys straw and bran from flower factories in the area. Last year they distributed 1050 quintal to PCs. The union makes very limited profit on this activity. The union has the ambition to enter into concentrate feed processing in the future through building its own processing facility. Concentrated feed is expected to be sold to members and to other traders at a profit margin. The union has already visited other unions involved in feed processing. The union believes all required raw materials can be sourced in the area.

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 offered to the members against favourable prices. The federation provides the inputs like seeds for vegetables and fertilizer often on credit to the members who provide it against cash to their farmers.
- **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 members sell these goods through PCs to the farmers.
- **Transport service:** The union owns a truck to transport inputs to the PC members.
- **Provision of credit:** The union provides the inputs to PCs on credit.

Input supply (mainly fertilizer) is providing the biggest proportion of profit realized by the union.

C. Business case

Context and problem analysis

Ethiopia has the largest cattle staple of Africa. It provides a big opportunity for various value adding activities related to cattle raising business. In the area where the union is operating cattle is the most important income activity for the farmers. Besides cattle related the activities the farmers generate income from bee-keeping, and growing of various crops, with focus on wheat, vegetables, and maize. A single farmer household on average owns 10 cows. The members of the union would like to invest in value adding activities related to cattle. However, the union has indicated that it has a clear ambition, but that it does not have a clear plan on how to start and carry out the proposed business investments. The union now is on the initial focus stage of acquiring approx. 2.5 acre of land from the government, but the follow up steps are unclear and the union seems to lack knowledge and skills on making a sound plan and investigate the feasibility of that plan. The union furthermore only has experience on input marketing/distribution, but seems to lack the knowledge and capacity on output marketing and processing in the areas the business ambitions are focusing on. The union also lacks manpower to operate these planned activities. Although the union has an impressive amount of capital available for the investments, it still believes that the amount is not sufficient and therefore wants to assess opportunities of raising internal capital and perhaps accessing a bank loan. However, the union lacks skills and capacity on how to achieve these plans of accessing capital.

Met opmerkingen [DOG1]: If I read this paragraph, I get the feeling there is still a lack of focus and no clear business case priority defined.

Met opmerkingen [Y2R1]: Trues but that is ok, as it later will get refined during the assessment, a scoping does not tell a lot.

Business case

The business case of the union is focused on investment in cattle related activities, which on the short term include the activity of animal fattening and the production of concentrate feed. The production of concentrated feed is expected to be a profit making activity where the end product will be delivered to the member PCs and their farmers and also to other traders/customers in the area. Key challenge in the feed business is to get access to the resources to produce the feed. These inputs should be of sufficient quality, of competitive price and well-available all around the year, in order to make a competitive quality product that is demanded and appreciated by the farmers/consumers. Regarding the animal fattening activity, the union plans to buy the cattle from the farmers through their member PCs at a competitive price and use its own produced feed to strengthen the cattle and after a certain period sell it at a higher price. On the longer term the union also plans to collect raw milk from its members and sells it in bulk first to traders and later on they have the aim to enter dairy processing themselves. For these activities the union expects to receive the land in 2-6 months.

External support required

The organization identified the following fields on which they believe Agritertra can assist:

- Experience sharing for management and staff.
- Improvement of financial management: Skills and number of employees.
- Knowledge on animal feed processing.
- Capacity building on cooperative principles and governance.
- Feasibility studies and business plans and cost-benefit analysis.
- Internal capitalization strengthening.

Current and past donor support

In the past the union has received from World Vision who constructed and co-financed building the office.

F. Risk and assumptions

The following risks have been identified:

- No clear focus or consensus on the business case
- Availability of quality raw materials for feed
- The union has 5.2 million Birr available for the investment, 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.
- Lack of skills and experience in output marketing and processing.
- Risk of not receiving the land from the government.

G. 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 towards output marketing and processing looks feasible at this stage. The unions ambitious are focusing on investing in value addition to cattle related activities such as animal fattening, animal feed production, and milk collection. These activities will be beneficial for the membership of the PCs. In the area of operation there is a vast staple of cattle which offers various opportunities for value addition. Already various dairy processing and leather manufacturers have recently started operations in the area. The union furthermore complies to all requirements set to become an Agritererra client. The union has a clear business case and demand for support related to the field on which Agritererra could provide capacity strengthening, such as financial management, business planning, and cooperative governance. The PC has sufficient own capital available for investment and also their membership is said to be rather liquid and willing to financially support the investment activities of the union.



Office of Semret Union