LIFT
LAND INVESTMENT FOR TRANSFORMATION PROGRAMME

CASE STUDY
SEPTEMBER 2019

Strengthening agricultural input distribution channels through rural input retailers

This case study highlights lessons learned from interventions implemented by the Land Investment for Transformation (LIFT) programme in Ethiopia to improve the functioning of environmentally sustainable agricultural input markets. It analyses how the programme supported the development of agricultural input distribution channels in rural areas in partnership with agricultural input supply enterprises in Ethiopia. In this note we present Hamlin Trading PLC as an example of the wider impact of this intervention.

1. Context

The UK Aid-funded LIFT programme works with the Government of Ethiopia to provide second level land certification (SLLC) to smallholder farmers, and to improve the functioning of its rural land administration system (RLAS). Improved security of land tenure for smallholder farmers is expected to lead to an increase in demand for, and more investment in, sustainable agricultural inputs and practices.

In Ethiopia, 85% of the population is rural, and relies either directly or indirectly on subsistence and partially commercial agriculture. Many smallholder farmers strive to move away from subsistence farming towards competitive, market-oriented farming. Ethiopian farmers face challenges in access to quality inputs, instability in financial markets and underdevelopment of output markets, all of which limit their productivity and competitiveness.

Smallholder farmers currently rely on primary cooperatives, cooperative unions and, most significantly, informal markets to access agricultural inputs and seeds. Primary cooperatives and cooperative unions are often unable to deliver in a timely and efficient manner, while informal markets expose farmers to poor-quality products in general, and poor-quality seeds in particular, resulting in significantly lower yields and even, in some cases, no yield. Informal markets may also introduce hazardous weed seeds. The use of such markets poses a big challenge to the development of a competitive private sector that is able to develop distribution and sales networks across all rural areas. Additionally, most input suppliers usually market their inputs at government or non-governmental organisation (NGO) auctions, where they can sell large quantities. As a result, many do not seek out opportunities to expand their market, leaving an untapped customer base of smallholder farmers. Such auctions do not adequately cover the needs of smallholder farmers, due to erratic quality, poor business continuity (demand exceeds supply on a regular basis) and the challenges of access.

2. LIFT's business model

In order to make quality inputs available on time and accessible to smallholder farmers, LIFT partnered with selected input suppliers to develop new business models that would allow them to expand their input distribution networks and enter underserved rural areas. The objective was to demonstrate to input suppliers that there is a commercially viable market in providing inputs for smallholder farmers in order to diversify their business away from government or NGO auctions.

Many input suppliers were initially hesitant to test this new business model, as the risks of supplying smallholder farmers in rural areas seemed very high. To reduce this risk and to incentivise input suppliers to test the new model, LIFT provided de-risking grants. These grants were issued on a cost-sharing basis and were only paid on achievement of agreed milestones. A total of 10 grants were issued by LIFT, allowing the programme to pilot new rural distribution models (see Figure 1). This case study follows the journey of Hamlin Trading PLC, one of LIFT's partners.

3. Hamlin's journey with LIFT

Hamlin Trading PLC was established as a family business in Addis Ababa in 2011. Over time, it has established itself as a key importer of agrochemicals (insecticides and fungicides), sprayers and protective equipment. It currently employs 25 full-time staff, and has been steadily expanding over the past few years, with 35% annual year-on-year growth prior to the LIFT partnership. It is also a significant exporter of agricultural commodities, and this has been instrumental in accessing foreign currency, which in turn can be used to import agricultural commodities.

Prior to signing a cost-sharing agreement with LIFT, Hamlin was mostly selling its agricultural inputs through government and NGO auctions. These distribution channels guaranteed regular sales with very limited marketing efforts. Hamlin felt that selling through input retailers was costly and risky. The LIFT partnership provided the company with the opportunity to pilot the potential of retailer distribution at woreda level with reduced financial risk, and it therefore agreed to an

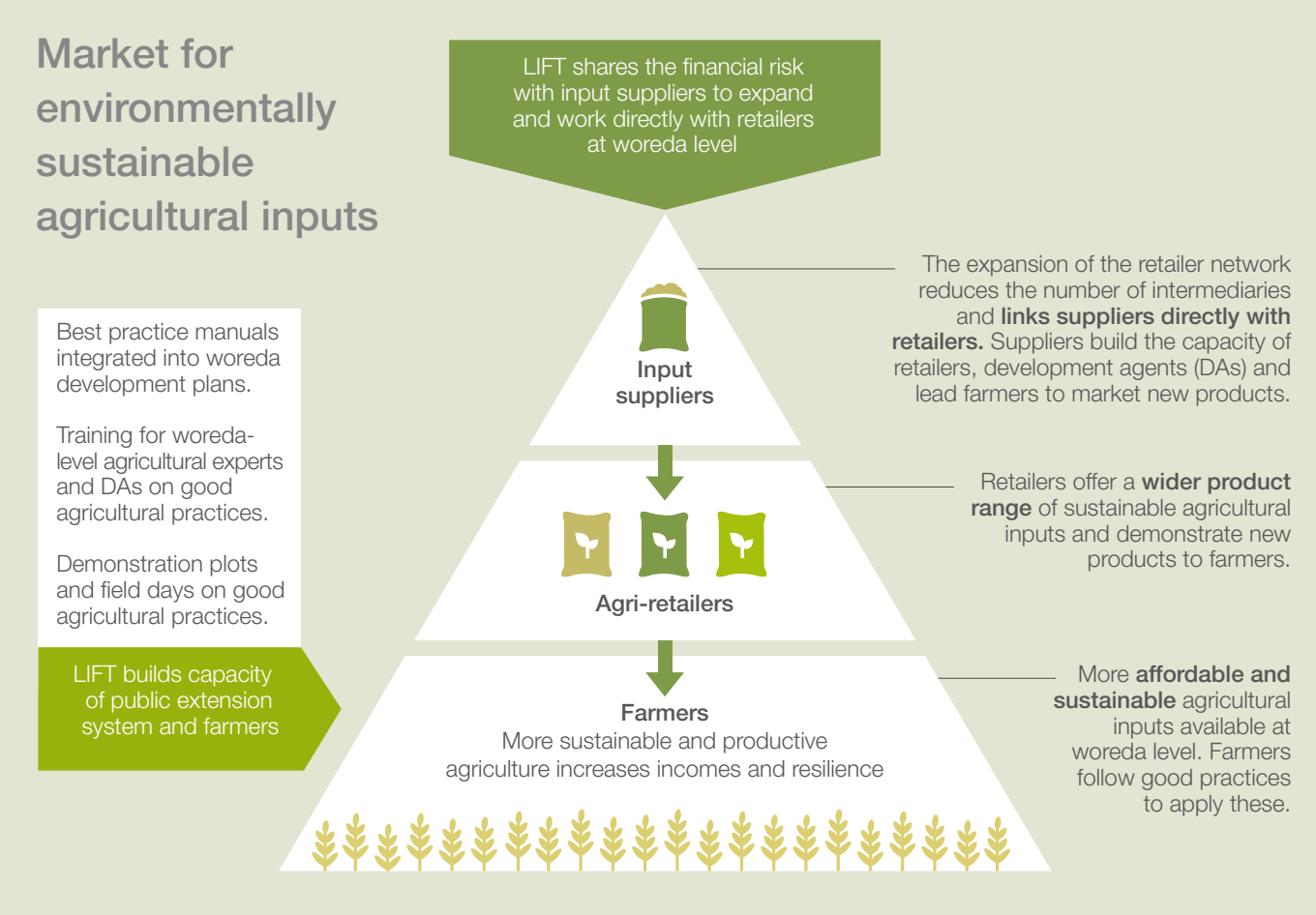


Figure 1. LIFT market strategy for environmentally sustainable agricultural inputs

On the relationship at woreda level

"We want to manage the relationships; our name is important."

Hamlin Project Manager

ambitious expansion plan. A total of 20 woredas across the four project regions – Amhara, Oromia, the Southern Nations, Nationalities, and Peoples' Region (SNNPR) and Tigray – were targeted.

During the initial phases of the project, the focus was on generating demand and raising awareness across government and the agricultural community. This was achieved through inception workshops across the four regions attended by over 150 participants. Participants were drawn from different government structures, including agricultural experts and development agents (DAs) as well as model farmers and retailers. In addition, a focal person in each region was assigned to ensure buy-in from local communities and government. Hamlin recognised the importance of this buy-in early on, in particular to establish the reputation of the firm, and it continues to invest in strengthening its reputation on the ground.

Following this initial phase of engagement, agreements were signed with retailers at woreda level to ensure that demand generated would be converted into actual transactions. An intensive phase of technical training followed, during which Hamlin was able to put forward one of its key competitive advantages: the skill set of the team, which included several agronomists and other technical experts with an in-depth knowledge of the specific products the company was marketing. This underlines another important aspect of the retailer model: retailers do not simply sell the product and leave it to the farmer to apply the inputs correctly. Through technical training on the specific products sold, knowledge is transferred to retailers, who in turn are able to better advise farmers on the application of inputs. In addition to the retailers, more than 150 model farmers, more than 100 DAs and more than 2,500 farmers were trained in the use of Hamlin's products.

However, demand generation and knowledge transfer did not stop there. As farmers need to see the benefits for themselves for genuine demand to be generated, demonstration plots and follow-up field days were organised to showcase the productivity gains resulting from the use of Hamlin's high-quality products. At demonstration plots across the different woredas, experts from Hamlin showed farmers how to apply the inputs, including when and in what quantity, going beyond their own products to cover aspects such as land preparation. Farmers were impressed with the yield increments observed on subsequent field days. In addition, both during and prior to these activities, more than 7,000 promotional folders and brochures were distributed to farmers and other stakeholders.

By the end of the project, Hamlin had exceeded its original targets: it signed memorandums of understanding (MoUs) with 31 retailers, expanding its network by more than 50% above its original target. Sales from all retailers with whom Hamlin established relationships both during and prior to the LIFT grant totalled more than ETB 10 million over a one-year period. These sales have contributed to the significant growth Hamlin has experienced over the past year. While its sales were only around ETB 7 million in the Ethiopian fiscal year 2016/17, this grew to ETB 20 million in 2017/18. In the course of the LIFT partnership, growth accelerated by almost 150% to ETB 49 million.

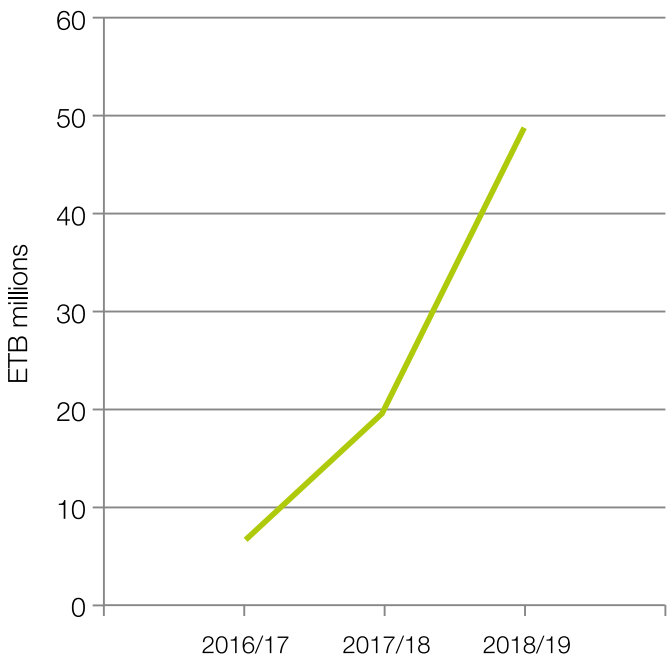
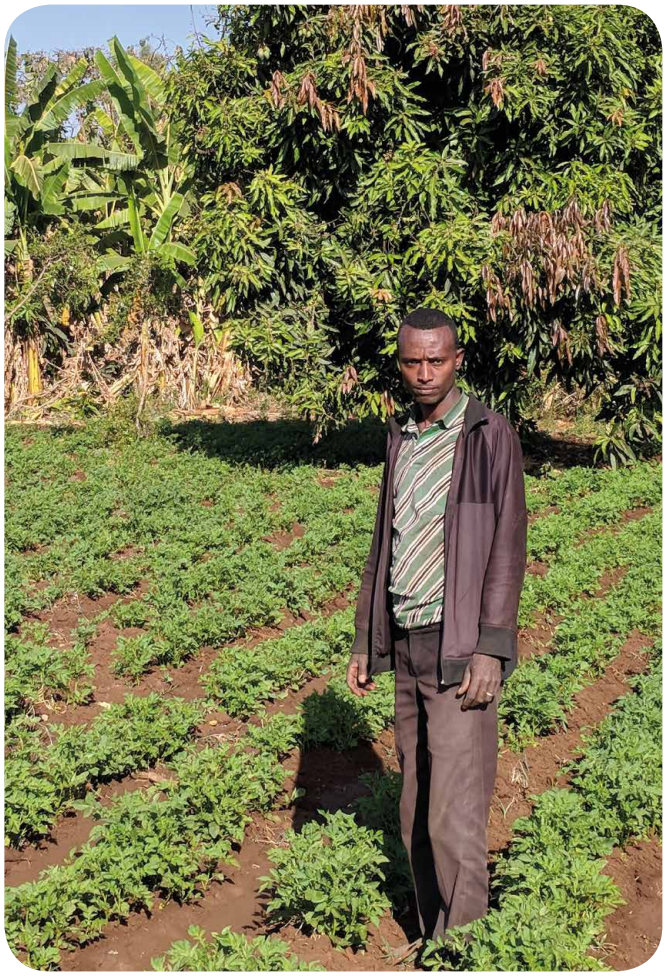


Figure 2. Total sales for Hamlin over three fiscal years

4. Adaptation of the model by Hamlin

In order to further expand this market, Hamlin is trying to find sustainable ways to create demand. Having successfully adopted the pilot distribution model in the target woredas, it is looking to build on this new business model. The grant agreement with LIFT has recently ended, but it will continue to deploy this business model in years to come. For the woredas in which Hamlin signed MoUs during the LIFT project, it is planning to continue distribution through retailers in the next season.

In applying the new business model, Hamlin realised the importance of providing retailers with embedded services, including training. While it initially implemented this because of the LIFT partnership, it realised during the project that such services help create demand and improve the visibility of the company and its products. Hamlin is therefore now paying for these promotional activities itself. In addition, it has separate staff for its partner retailers: one sales representative, through whom retailers can place orders, and one agronomist, for technical advice on its products.



On continued use of the retailer business model

"We built relationships with communities and it is hard to just quit that at the end of a project."

Hamlin Project Manager

Looking to the future, Hamlin is planning to set up regional outposts in the four targeted regions, as well as in Benishangul Gumuz (it is also considering Afar). These will serve as regional agents through which links with new retailers can be established, in addition to serving as distribution points to these retailers. This adaptation of the original model shows Hamlin's dedication to strengthening existing relationships and building new ones. While Hamlin's engagement with LIFT ended in May 2019, it expects to continue to deploy the model for years to come.

Hamlin is also planning to incorporate some of the lessons learned during the LIFT project. The company realised that the selection of appropriate retailers is key to successfully selling more products. While it mainly depended on agricultural offices for retailer selection during the LIFT project, it plans to be more proactive in the selection and due diligence process of retailers. Ensuring retailers are legally allowed to sell their products and have the necessary entrepreneurial drive will help Hamlin to expand its sales in new target woredas. In addition, the company recognised the importance of organising demonstration plots and field days in a timely manner, ensuring they are aligned with the agricultural season. Timely execution will be key to the future success of the model.

5. Scaling up the number of input suppliers and retailers

Over the past one and a half years, nine other input suppliers have signed cost-sharing agreements with LIFT to pursue similar paths to Hamlin. They cover a wide range of products and woredas, as detailed in Table 1. In total, they cover 68 different woredas, and work with 92 retailers.

Table 1: LIFT partner input suppliers

SUPPLIER	LOCATION	REGIONAL PRESENCE	PRODUCTS	# OF WOREDAS
AMIO Engineering	Addis	Oromia, Amhara, SNNPR	Farm machinery, irrigation equipment	7
Asmamaw Ambaye	Bahir Dar	Amhara	Farm tools, irrigation equipment, seeds	5
Aybar Engineering	Addis	Oromia, Amhara	Farm implements	5
Eshot	Bahir Dar	Amhara	Vegetable seeds, farm implements, beekeeping equipment, poultry materials	6
Hamlin Trading	Addis	Oromia, Amhara, SNNPR, Tigray	Crop protection chemicals	20
Harvest General Trading	Addis	Oromia, Amhara, SNNPR, Tigray	Vegetable seeds, sprayers	30
Jema Agro Tech	Bahir Dar	Amhara	Hybrid maize seeds, onion seeds	5
Menagesha	Addis	Oromia, Amhara, SNNPR, Tigray	Bio-fertiliser	20
Mulu Araya Import	Mekele	Tigray	Dairy and beekeeping equipment, veterinary drugs	18
Walta Workshop	Mekele	Tigray	Small farm machinery (threshers, shellers, planters)	6

To date, input suppliers have supplied retailers with products with a combined value of over ETB 10 million, an amount that is expected to increase significantly in the coming years as the use of improved inputs and services by LIFT farmers is adopted by other farmers, through the demonstration effect.

There are early signs of expansion. Just like Hamlin, many input suppliers are not only continuing to supply the woredas they have targeted under the LIFT partnership, they are also venturing into more woredas. For example, Jema Agro Tech, which only targeted six woredas under the LIFT grant, has started to sell in an additional four woredas.

6. Findings, achievements and impact

A recent survey conducted among retailers in all four regions indicates that they are very satisfied with their new partnerships with the input suppliers. All of the retailers surveyed indicate that they are selling more as a result of their links with input suppliers, with most (75%) estimating that their market has increased by more than half. Two other key findings stand out:

- 90% of retailers report that the supply of products is very consistent.
- 100% of retailers believe that the products supplied are of better quality than those from their previous sources.

In addition to being able to market higher quality products, retailers have benefitted from their partnerships with LIFT input suppliers in numerous ways. Some input suppliers offer (partial) credit to their retailers when they place their orders, as well as commission for sales. Others offer discounts to the retailers: many input suppliers believe this helps them create demand and get farmers interested in their products. In addition, promotional materials are provided for retailers to display in their shops. Most input suppliers also offer free delivery once an order has been placed.

These strong relationships between input suppliers and retailers accrue significant benefits to farmers. For example, in Tahtay Koraro woreda, Tigray, farmers noted how the products supplied through the retailers had led to significant yield increases in comparison to the products they had previously used. In addition, the advisory services provided by the nearby retailer are very valuable, as many farmers were previously unaware of the correct dosages, or did not pay enough attention to product expiry dates.

LIFT's intervention has planted the seed of viability for an inputs market for smallholder farmers. The business model is commercially viable, and through replication and crowding-in is expected to lead to more input suppliers developing distribution networks in rural areas. By changing the way input suppliers do business, systemic change at the industry level is expected, leading to increased access of improved inputs and services for smallholder farmers in Ethiopia.

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