

Streamlining retail regulation to improve farmers' access to agricultural inputs

Smallholders in Ethiopia are responsible for more than 90% of the country's total agricultural output. A thriving smallholder economy is therefore a key driver of development in Ethiopia as a whole. In recognition of this, the Ethiopian government is promoting smallholder agriculture as the engine of national economic growth, through its Growth and Transformation Plan.

Using a 'making markets work for the poor' (M4P) approach, Land Investment for Transformation (LIFT) is working with the Ethiopian government to enact this plan and build a free, open market to improve smallholder productivity. M4P means improving access to affordable and reliable agricultural inputs and technologies by developing a competitive retail market. This, in turn, depends on policymakers creating an enabling environment through regulatory changes.

IMPROVING MARKET ACCESS TO AGRICULTURAL INPUTS

In Ethiopia, supply of agricultural inputs has historically been dominated by the public sector, distributing through cooperatives and unions. This involves the calculation of national aggregates of demand in order to supply, and often import, the required quantities of inputs. Cooperatives and unions obtain inputs from their federations and supply them at fixed prices that are low compared to private retailers, but do not meet demands for the required volume of inputs.

To help fill these gaps in supply, the government's Agricultural Transformation Agency has more recently supported the establishment of farm service centres as one-stop suppliers of inputs, although these centres are not allowed to sell chemical fertilisers. Farm service

How can policymakers improve supply of agricultural inputs to increase farmer productivity?

- **Simplify licensing:** Currently, retailers of agricultural inputs may need up to six different licences, and obtaining these licences is complicated by the requirements to hold a Tax Identification Number (TIN) and, in some cases, relevant certificates of competence (COCs). This process is hard for people to navigate and can be expensive and time consuming, since retailers have to apply to different institutions, from woredas (districts) to regional bureaus of agriculture, to obtain TIN, COCs and licences. Introducing a generic licence for agricultural inputs that requires one or two COCs would allow retailers to supply a wider range of products under the same trade licence.
- **Develop markets:** The market is underdeveloped and fragmented, and some woredas have no agricultural input retailers or retailers limited to the woreda capital. Developing market linkages between big suppliers and local retailers and supporting larger retail outfits in the model of farm service centres would improve the supply of agricultural inputs.
- **Build capacity:** There is a shortage of skills among agricultural retailers on how best to manage their businesses. Government support could help encourage better functioning and growth in the private retail market. Examples of support include building the capacity of business people to quality control, financial management and recordkeeping, and building the capacity of woredas to carry out quality control checks.

centres supply private retailers with inputs and some centres have satellite retail shops too. Private retailers further fill market gaps by distributing inputs through their shops, satellite shops and sub-retailers and also via mobile services that sell to commercial farms. Retailers often sell more diverse products, providing farmers with greater choice as well as access to more expensive inputs that cooperatives do not stock.

Farm service centres have greatly improved the supply of agricultural inputs to Ethiopian smallholders. However, various restraints remain for individual agricultural inputs, each of which has a distinct supply chain with specific constraints. An overview is given below.

Distribution channels of agricultural inputs in Ethiopia

Chemical fertilisers¹ are imported by the government through its Agricultural Inputs Supply Corporation, at quantities based on national aggregates, and supplied direct to commercial farms or via cooperatives and unions to smallholders. Private sector operatives, including farm service centres, are not allowed to sell chemical fertilisers.

Bio-fertilisers are organic liquids or powders that are handled by the private sector as well as cooperatives. Access to bio-fertilisers through the extension system and retailers is neither well promoted nor widely distributed. Regional governments in Ethiopia are currently developing directives to control chemical and bio-fertilisers.

Improved seeds¹ are distributed by either the centralised system or the direct seed marketing system. The centralised system creates a national aggregate of demand, and seeds are distributed by cooperatives. In the direct seed marketing system, producers who hold trade licences sell seeds through agents, who might be private traders or cooperatives. More seeds are distributed by the direct seed marketing system than the centralised system, and retailers supply seeds that require high capital input whereas cooperatives do not. The seed law in Ethiopia is unclear on who should conduct the trade in seeds, and increasing clarity in this law would improve business. Promoting access to seeds by facilitating direct seed marketing would also enhance technology uptake.

Vegetable seeds are imported and distributed by private companies and cooperatives. Since cooperatives rarely supply expensive varieties, farmers have to travel far to buy high-input seeds if they do not have local suppliers.

Pesticides¹ are imported by cooperative federations and local agents that represent international manufacturing companies. Efforts are made by cooperatives to distribute more pesticides each year, but larger volumes are distributed by private retailers, who obtain them from wholesalers and cooperative unions. Regional governments in Ethiopia are currently developing directives to control pesticides.

Farm tools and machinery are distributed by individual private retailers and cooperatives. Simple tools and machines are distributed by farm service centres and retailers at woreda level. More expensive machinery¹ that requires expertise is not commonly available at woreda level beyond the woreda's capital.

Veterinary drugs¹ are sold to livestock producers by veterinary drug stores and rural veterinary drug shops, which source them from wholesalers, who import most drugs. Periodically, woredas source drugs in bulk from wholesalers and distribute them through public veterinary clinics and health posts.

Feeds¹ can take the form of hay and crops that smallholders themselves supply to the market. Industrial by-products are supplied by private retailers, who source feeds from processing plants, wholesalers and grain or oil mills.

¹ Retailers must have a COC to trade in this input.

REGULATORY CONSTRAINTS: SIMPLIFICATION AND STANDARDISATION REQUIRED

Currently, private retailers of agricultural inputs face a myriad of regulations with which they need to comply, and which can act as a deterrent to trade.

Licensing is one key area of regulation. Obtaining a licence is complicated by the requirements to hold a Tax Identification Number (TIN) as well as relevant **certificates of competence** (COCs) in some cases. Applications are time consuming and it is expensive for retailers to navigate the process, which involves different institutions issuing COCs and TIN.

Regions in Ethiopia take different approaches, so there is no consistency of regulation throughout the country. Both Amhara's and Tigray's regional bureaus of agriculture have delegated issuing COCs to woredas; Oromia has delegated to zonal level the issuing of some COCs (pesticides, vet drugs, animal feed and farm implements); and the Southern Nations, Nationalities, and Peoples' region has not delegated the issuing of COCs. In some regions, the issuing of TIN is carried out by woreda offices as an online process. In other regions, TIN is issued by the zonal offices of revenue.

In 2011, one result of the Ethiopian government's 2007–10 Business Process Re-engineering programme was the development of the **Ethiopian Standard Industrial Classification** (ESIC), which is modelled on internationally accepted standards. In 2013, the revised ESIC specified the institutions responsible for issuing COCs as a precondition to obtaining a licence. COCs ensure that retailers maintain product quality and safety, deliver quality services and handle products such as pesticides safely. In 2019, the third ESIC revised the number of licences down from 1,352 to 519 but did not address licensing requirements for agricultural inputs beyond combining the licences for crop-seed and grain-seed trade and combining the licences of pesticides and agro-chemicals with that for chemical fertilisers. There is little understanding of how this will affect the fact that no private retailer is allowed to sell chemical fertilisers but is allowed to sell pesticides. Also, COCs are no longer required for trading in machinery and implements, but a licence is still required.

This complicated licensing system encourages retailers to focus on inputs with better profits, and either to not provide less profitable inputs or to distribute them informally. **Informal trade** impacts negatively on tax

revenue and service quality and raises concerns about possible public health issues. Furthermore, retailers are officially directed to limit their business in one shop to the type of input specified by the COC registered there, and most retailers do limit their business to single inputs, such as pesticides. Due to the seasonal requirements of inputs, however, retailers often informally sell two or three types of input together.

By increasing supplier–retailer linkages, LIFT encouraged the consolidation and expansion of existing retailers into woredas with limited local market access. However, farmers in many remote areas still have no local retailers and continue to experience poor access to inputs. Further links between large suppliers and local retailers need to be created to develop the local markets. Current efforts to **develop these agricultural input markets** into new areas are impeded by licensing and **capacity-building challenges**.

Building capacity in operating an effective business encourages business expansion, improving the local supply of affordable and reliable agricultural inputs. Retailers with knowledge of how to maintain thorough records on the movement of stock, customer details, purchase price of inputs, sales volume, costs and profits can make evidence-based decisions and grow their businesses accordingly. However, knowledge alone is not enough; complicated licensing systems mean that business owners often do not have time to keep such records and accounts, even when they know how to do so.



SPECIFIC POLICY RECOMMENDATIONS

Although Ethiopia has made some progress on improving market access to agricultural inputs through the establishment of farm service centres, much remains to be done on simplifying regulations in order to encourage private retailers to trade. Policy improvements would not only help develop a robust private market, improving the quantity and quality of the supply of agricultural inputs, but would also better ensure their safety. Specific recommended changes include the following:

- **Provide a generic licence** that requires one detailed combined COC or two COCs – one for livestock inputs and another for agro-chemicals. Separating out the COCs will not compromise public health and safety regarding product handling.
- Improve the capacity of the regulatory system to achieve product safety and quality, by **developing**
 - Standard Operating Procedures (SOPs)** on service provision and product handling. This will include SOPs for the handling of agro-chemicals and livestock inputs, including livestock drugs and feed.
 - **Develop the retail market of agricultural inputs** by increasing the links between big suppliers and local retailers, encouraging the expansion of input retail to improve local market access.
 - **Support farm service centres** and similar developments as larger retail outfits, as well as other **private retailers** of equivalent or smaller size.
 - **Build capacity** by training business owners and staff in quality control, basic accounting principles and financial reporting.
 - **Develop clear regulatory framework for seed retail.** The Ministry of Agriculture should also develop federal directives for controlling pesticides and chemical fertilisers.
 - **Enable farm service centres and private retailers to distribute chemical fertilisers.**



Land Investment for Transformation (LIFT) is funded by the UK's Department of International Development and works with the Government of Ethiopia to make rural land tenure more secure, drive rural investment and increase productive land use. LIFT also champions a market systems approach to improve the productivity and incomes of smallholders – 'making markets work for the poor' (M4P).