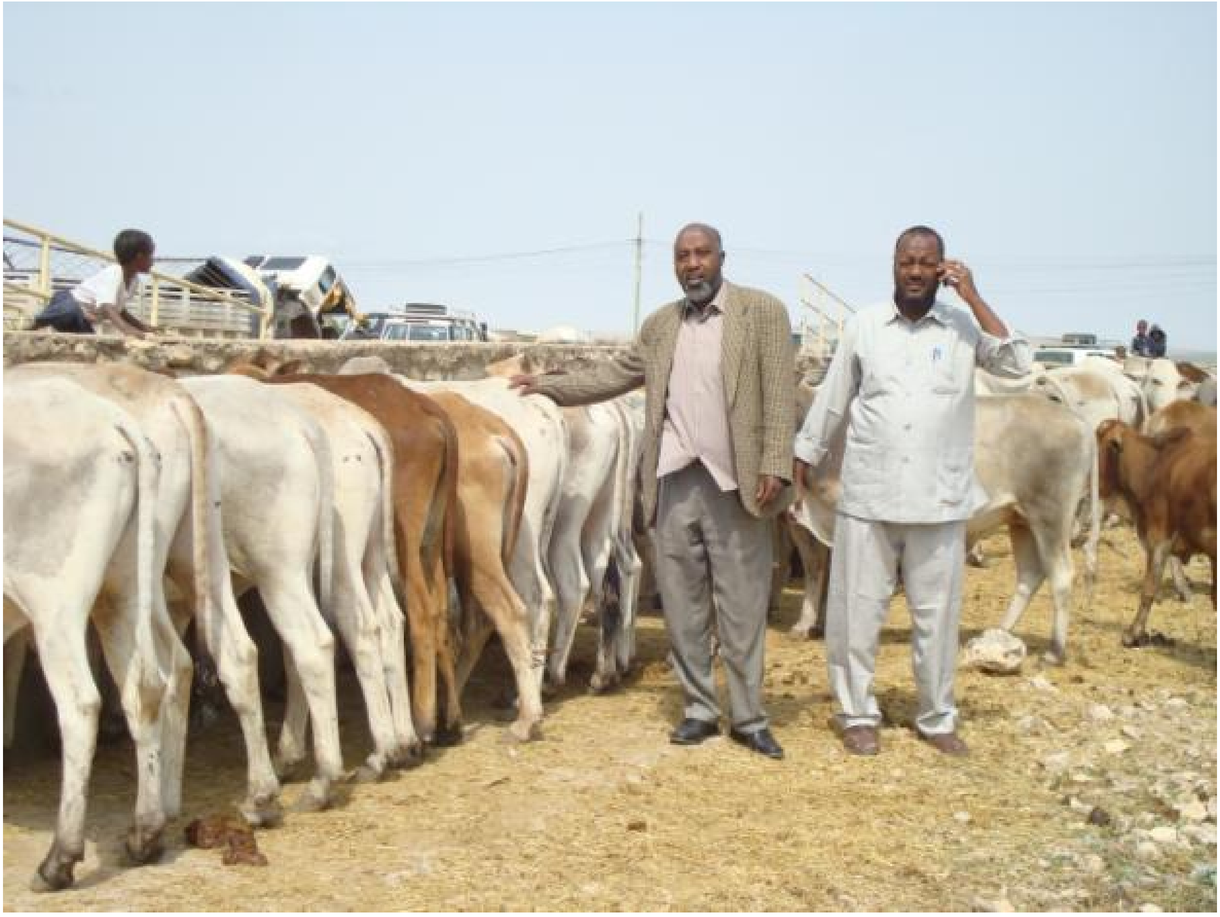
Commercial Destocking Operations in Somali Region, Ethiopia

An Assessment of Design Compliance with the Livestock Emergency Guidelines and Standards (LEGS)



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In collaboration with Mercy Corps and the International Rescue Committee

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Abbreviations

e.c.	Ethiopian calendar
IRC	International Rescue Committee
LEGS	Livestock Emergency Guidelines and Standards

Exchange rate - an exchange rate of 17 Ethiopian Birr to 1 US$ has been used.

1. Introduction

1.1 LEGS and commercial destocking

The *Livestock Emergency Guidelines and Standards* (LEGS)[1] are a set of international good-practice guidelines for the design, implementation and evaluation of livestock projects in humanitarian crises. LEGS was published in early 2009, and became a Companion Module to Sphere – the Humanitarian Charter and Minimum Standards in Disaster Response[2] - in May 2011. LEGS acts a reference point for donors and implementing agencies when reviewing new funding proposals, or for evaluating projects.

Commercial destocking involves the commercial off-take of livestock during the early stages of a slow onset crisis, such as drought in pastoralist areas. Private traders are linked to pastoralists who wish to sell livestock, and market forces can determine the types of animals that are purchased and the price. Although few systematic impact assessments of commercial destocking are available, one study in Ethiopia calculated a benefit-cost ratio of 41:1 for a project in southern Ethiopia in 2007[3]. Based on this experience, and other commercial destocking projects in east Africa, Chapter 4 of LEGS includes guidance on "accelerated livestock off-take".

This report describes an assessment of the design of commercial destocking projects in the Somali Region of Ethiopia, using LEGS as a point reference.

1.2 Background and project overviews

The Somali Region of Ethiopia is a largely pastoral and agropastoral region in the east of the country, bordering Djibouti, Somaliland, Somalia and northern Kenya. It is a region where the commercialization of livestock production has been taking places since the early 1900s, but where a marked expansion of livestock exports became evident from the 1970s. Most of these exports take place through the northern Somali ports of Berbera and Bosasso. The Somali Region is also characterized by high levels of political instability, chronic conflict and drought, and has been subject to various large-scale humanitarian programmes since the mid 1970s.

The International Rescue Committee (IRC) and Mercy Corps began commercial destocking operations in the Somali Region after conducting needs assessments following the failure of seasonal *Gu* and *Deyr* rains in 2010/11. By early July 2011, both agencies had provided loans to livestock traders, but had used different approaches.

- The IRC loans were channeled to livestock marketing cooperatives, who were expected to repay the loan in 10 quarterly payments (over 2 ½ years). Each cooperative was given a loan of 80,000 Birr (approximately US$4,706).
- Mercy Corps provided loans to individual traders and the repayment period was limited to four months. The loan amount given to each trader was substantially higher than the IRC loans, at Birr 250,000 (approximately US$14,706).

The IRC operation began in March 2011 while that of Mercy Corps began operating five weeks before this field assessment took place. As a result, the scope of the assessment was limited to the compliance of the programme design to LEGS. Although both the co-ops and the individual traders had destocked

[1] http://www.livestock-emergency.net
[2] http://www.sphereproject.org
[3] Abebe et al. (2008). Livelihoods impact and benefit-cost estimation of a commercial de-stocking relief intervention in Moyale district, southern Ethiopia. *Disasters* 32/2, 167-189

considerable numbers of livestock within this short period, in July 2011 it was too early to do a full impact assessment.

Secondary sources related to pre-intervention assessments and programme designs were consulted for the assessment. This was followed by interviews with the field staff of IRC and Mercy Corps, members of the four co-operatives in Kebribeyah woreda, and individual traders in Jigjiga, Lefe Isa and Fafem.

2. The IRC commercial destocking programme with cooperatives

2.1 Programme design

Following the failure of *Deyr* and *Gu* rains in Somali Region, IRC assessed the situation in December 2010 and January of 2011, and decided to undertake commercial destocking programmes in Kebribeyah and Deghabur woredas (districts).

Livestock marketing cooperatives were chosen as the vehicle for implementing the commercial destocking process, through the provision of loans from IRC for "transport subsidy". Nine cooperatives were chosen from the two woredas as implementing partners. These cooperatives were selected on the grounds of being licensed livestock marketing cooperatives, actively operating in the market, owning an office and operating a bank account. Each cooperative was given a total of 80,000 Birr (US$4,706) as a loan, in two phases (the first in March 2011 and the second in May 2011) to support them in meeting transport costs. A tri-partite agreement was signed between each cooperative, IRC and the government Regional Livestock Bureau. Repayment modalities were specified in the agreement as 10 quarterly payments at the rate of 10% of the total loan, thereby allowing complete repayment in 2½ years. A provision in the agreement also stipulated that a joint bank account would be opened by IRC and each cooperative, where repayments would be deposited, and for future withdrawals of the fund as needed by the cooperatives and with IRC approval.

This loan arrangement was envisioned to provide financial liquidity for the cooperatives by enabling them meet 50% of the livestock transport cost (or 20 Birr) for each shoat they transported to Jijiga or Togo Wuchale. An assistant livelihood officer was assigned to monitor the activities of the co-ops

2.2 Background information on the co-ops

Discussions were held with four of the cooperatives in Kebribeyah woreda during the assessment. Two of these were mainly female groups, one was mixed gender, and one was an all-male group.

Table 1 indicates that the co-ops had been operating for between three to eight years, and were formally registered as co-ops in the last one to three years. However, the Baxnaano group (composed entirely of male members) appeared to have been the most active in business terms, as evidenced by the growth of its capital assets over time. This group was also licensed for livestock imports and exports, and was engaged in importing consumer commodities in return for livestock sold to Somaliland.

The co-ops were generally engaged in trading sheep and goats, although the Baxnaano co-op occasionally traded cattle. Most of the small ruminants were sold across the border at Tog Wuchale although some were sold in Jijiga. Occasionally, sheep and goats were also sold to traders from Jijiga. The coops rented pasture on which purchased livestock were fed for few days before they were resold. Rental rate differs according to seasons. A quarter hectare of grazing land cost around 50 Birr in the dry season and 30 Birr in wet months. Some groups like Baxnanno rented up to 25 hectares to feed some

350 sheep and goats for a period of two to three months. The rental period lasted until the grass was finished. The co-ops also purchased water at the rate of 200 Birr per barrel (for 20-25 small ruminants or 3 cattle) during the dry season. The Baxnanno coop also owned two *birkeds*[4].

Table 1. Information on the cooperatives involved in commercial destocking

Name	Number of operational years	Date registered as coop	Members	Initial capital in March 2011 (Birr)	Capital in July 2011 (Birr)
Idil	8	1999 e.c	101(all female)	20,200	47,000
Federation	3	2002 e.c	31 (30 female, 1 male)	22,000	43,000
Baxnaano	8	2003 e.c	24 (all male)	52,000	600,000
Hilaac	5	2003 e.c	11 (5 female, 6 male)	6,600	22,000

The cost of keeping animals on rented pasture, the purchase of water, and the administration of veterinary drugs (like Albendazole) varied between 25 and 100 Birr per sheep or goat. Three of the coops kept animals on rented pasture for only 5 to 7 days to minimize their costs, and they purchased animals from the local market. The Baxnanno co-op kept animals for far longer period on rented pasture land, and they also collect sheep and goats from as far as Gode.

Transactions were usually carried out in cash although livestock were also purchased and sold on a credit basis by all coops, and particularly by the Baxnanno group who are largely engaged in trading across the border. Credit sales usually entailed a price increment of 100 Birr per sheep or goat to make up for lost time.

The IRC loan was intended to be used to partially cover transport costs (because transporters demand upfront cash payments) of purchased animals to Hargeisa, at the rate of 40-45 Birr/small ruminant and 100-120 Birr per cattle.

2.3 Implementation

Almost 11,000 sheep and goats were purchased and sold since the programme started. Most of the purchases took place in June, due to some improvements in the body condition of the animals and an increase in supply levels by agro-pastoralists who needed the money to purchase farm inputs.

Table 2. Number of sheep and goats purchased by the co-ops, April to June 2011

Co-op	Sheep and goat purchases			
	April	May	June	Total
Idil	370	321	730	1,421
Hilac	380	314	1,806	2,500
Baxnanno	1,000	428	3,090	4,518
Federation	750	154	1,386	2,290
Total	*2,500*	*1,217*	*7,012*	*10,729*

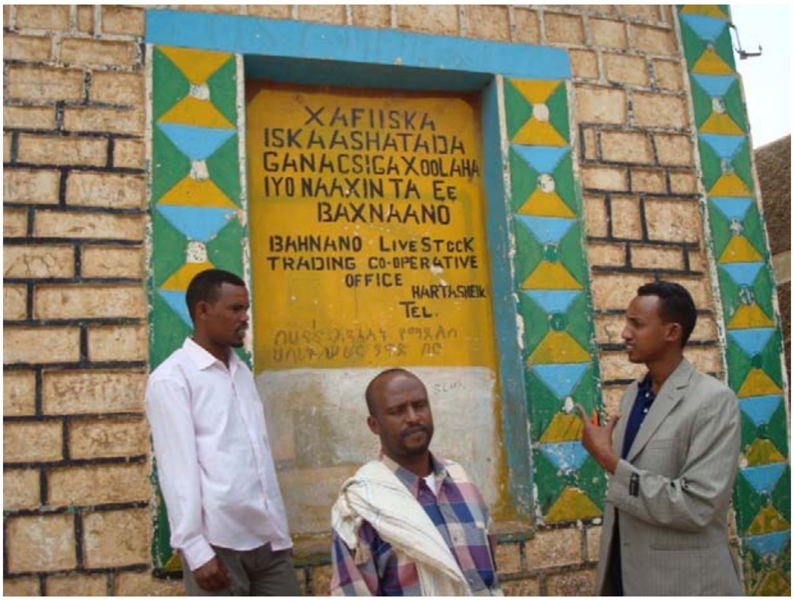
[4] Concrete-lined water storage facilities.

In the three months since the program started, the value of animals purchased amounted to 8,046,750 Birr (US$473,338), assuming a price of 750 Birr per animal). If IRC loan was strictly used for transport costs as reported, the loan availed to the four coops (total 320,000 Birr) enabled them to meet 75% of the costs required for transporting the animals to terminal markets during this period.

However, the loan amount given to Idil and Federation co-ops was nearly twice the value of their assets in March 2011, and for Hilac, nearly four times their assets. When combined with the short turnaround time it takes to complete transactions, some proportion of the loan was probably used for the purchase of animals in addition to using the loan for transport purposes. That said, if objective of the program was to increase the off-take of drought stricken animals and provide cash to herders, it probably does not matter whether the loan was used for purchasing or transport. It will be important that mixed use of the loan is reported by IRC. It seems likely that the Baxnanno coop, which had the largest capital base of all groups (600,000 Birr) used the loan fund solely for transport purposes.

2.4 Profit and loan repayments

The tripartite agreement stipulated that the co-ops should repay back 10% of the loan on a quarterly basis, which stretches the repayment period to 10 quarters over 2½ years. The first repayment was scheduled to be made in September 2011 for the cumulative first two quarters, in an effort to extend the grace period to six months after the start of the programme. When asked about preparations to service loan repayments, three of the co-ops expressed their readiness to repay on time, while the Baxnanno coop (the one with the largest capital base) stated that timely repayment would depend on receiving repayments from their debtors on time (for animals sold on credit to Somaliland traders).



The Baxnanno co-op office

It appears that the co-ops are making substantial profit from the livestock trade. They admitted making a profit margin of between 50 and 150 Birr per shoat after accounting for expenses. However, nearly all the co-ops calculate profit/loss statements on six monthly bases. Given that the amount to be repaid per quarter is limited to 8,000 Birr, each co-op needs to sell a minimum of 300 shoats per month to service the loan and stay in the business (even at the lowest profit margin of 50 Birr per shoat). This seems easily achievable when considering their three month performances on average.

2.5 Compliance with LEGS

The decision tree in LEGS stipulates five pre-conditions for commercial destocking (see diagram below).

LEGS decision making tree for commercial destocking

Are some livestock in salable condition?

↓

Yes

Do traders exist with interest in purchasing livestock?

↓

Yes

Do terminal (Internal/export market exist?

↓

Yes

Does the necessary infrastructure exist?

↓

Yes

Is the internal or external policy context conducive?

↓

Yes

Accelerated livestock off take (Commercial Destocking)

The intervention under review[5] met nearly all steps of the LEGS decision tree for undertaking a commercial destocking programme. Specifically,

[5] As this assessment took place within the first three months of programme intervention and the intended duration of the programme extends for another 27 months, this assessment duly focuses on the design of the programme only.

- Animals for sale were available
- Interested traders were available in the form of livestock marketing co-ops
- The operation took place close to terminal and export markets
- The area was accessible by road
- Both the internal and external policy environment is fairly conducive for undertaking commercial destocking at the time.

The programme design complies with LEGS, but with the following exceptions and issues to consider.

- Recognize the dual use of the loans
  During the programme assessment, members of the co-ops identified transportation costs as their main problem. This was understandable for three of the co-ops which were operating on low financial base, as they had to allocate a high proportion of their capital for paying for transport that could otherwise have been used for purchasing animals. As such, the loan was designed to help co-ops meet their transport costs and the facility was named 'transport subsidy'. However, this was not really a subsidy but a loan that has to be repaid regardless of whether it is used for transporting or purchasing animals. Also, the loan amount was nearly four times the financial capital of two of the co-ops and almost twelve times that of another co-op. This implies that the loan was used for both for purchasing and transporting animals. There is nothing wrong with this dual use of the loan given the objective of maximizing destocking and providing cash to needy pastoralists. It only needs to be duly acknowledged that the loan fund is not limited to meeting transport expenses only.
- Loan sanction by the Regional Justice Department
  IRC should look into the merits of involving the Regional Justice Department in the future if they intend to disperse larger amounts of loans (see the Mercy Corps approach in section 3 below).
- Future use of funds
  The programme design stipulates joint accounts to be opened by co-ops and IRC, where due repayments will be deposited for future use by same co-ops or others. In all likelihood, the currently beneficiary co-ops will avoid payments to other co-ops from accounts in which they are co-signatories. The arrangement may also give them the impression that the loan fund belongs to them, and could potentially tempt them from effecting repayments since they know it goes into accounts in which they will be co-signatories. This arrangement needs to be reviewed e.g. loan repayments should be deposited in a special account to be operated only by IRC, who can then decide how to disburse the money in future in collaboration with the appropriate local government agencies.

2.6 Lessons for LEGs

The involvement of livestock marketing co-ops

In areas where livestock marketing co-ops operate, the disbursement of loans to such groups either on a short or long-term basis, can boost their financial base to procure more animals in times of emergencies.

The conditions in which such loans can be disbursed and used would obviously differ from one country to another, and local norms and regulations under which such groups operate should be reviewed carefully in the program design stage. One common requirement in all cases is access to livestock feed sources for recovering, drought stricken animals.

<u>Relief to development continuum</u>

The loan repayment period of the IRC programme stretches for 2½ years. This is, obviously, beyond the currently anticipated crisis phase. This protracted loan period provides three specific advantages for the beneficiary groups and the programme. In the short term, it allows the purchase of more drought stricken animals from the region; the repayment modality on quarterly basis will allow the co-ops to repay the due loans without being hard pressed while the extended loan period (2 ½ years) enables them to build their capital base in the long run. With increased capital base, the co-ops would be in a position to operate on a relatively substantial scale in both normal and crisis times.

3. Mercy Corps commercial destocking programme with individual traders

3.1 Programme design

Mercy Corps decided to undertake a commercial destocking programme following an assessment related to the failure of the *Deyr* and *Gu* rains in Somali Region, and they chose to implement through individual traders[6]. Some key features of the design were as follows:

- Traders were identified through a value chain assessment that was carried out previously, in connection to setting up Income Generating Groups (IGGs). Out of a total of 64 livestock traders listed in the IGG scheme, 17 from Jijiga, Degahbur, Fik and Warder zones were selected on certain criteria to participate in the commercial destocking operation. These traders were then organized into two umbrella groups under two leaders.
    - One group was tasked to purchase drought stricken cattle, target 1,008 head
    - The other group was assigned to purchasing sheep and goats, target 16,500 head.
- A one day workshop was held with the traders on the types of animals to be purchased; where to buy them and how to calculate returns.
- Discussion was also held between Mercy Corps and the Regional Government to avail part of the fund from the RAIN Project on loan to traders for the commercial destocking operation. Agreement was duly reached by the parties on condition that the loan repayment is used for the original RAIN programme as planned. The loan period was set for four months.

3.2 Implementation

A tri-partite agreement was signed between each trader, Mercy Corps and the Regional Livestock Bureau, and the agreements were then sanctioned by the Regional Justice Bureau. Collaterals were provided by the two lead traders acting as guarantors for member traders in each group. The total loan disbursed to the two groups amounted to 4,250,000 Birr (US$250,000), with each trader receiving 250,000 Birr (US$14,706). The agreement also stipulated to cover 20% of feed costs for the cattle group,

[6] Prior to this intervention about a year and a half ago, MC gave a loan of 100,000 Birr each for 10 cooperatives. The cooperatives failed to repay the loan in due time and MC had to go through a lengthy procedure to recoup the loan. Because of this experience, MC chose to work with individual traders. The failure of the coops to repay in time may have partly resulted from the short loan period (4 months).

for the purchase of concentrate feed up to a maximum value of US$8,000. The loan was disbursed on 21st May 2011.

By the time the field visit took place in early July 2011:

Cattle group - had purchased 478 head for a price range of 1,700 to 3,200 Birr (US$100 to US$188)from Moyale, Dolo Ado, Negele, Babile and Fik. The low price range confirmed that these cattle were actually drought affected. There were eight deaths from the 478 animals purchased.

The cattle were kept in a rented feedlot in Nazareth for 40 days. They were then moved to Lefe Issa, close to the Somaliland border. Here, they will be fed on hay bales brought from Sululta (north of Addis Ababa,) and on wheat bran and total mixed ration purchased and transported from Nazareth. The total cost up to this point was 5,200 Birr (US$306) per head. Eventually, the cattle will be sold to traders from Somaliland, and a profit margin of 1,000 Birr (US$60) per head is anticipated (total profit of around US$ 28,200).

Sheep and goat group - purchased animals from various locations in the region including Shekosh, Degahabur, Bukot, Degahmado, Raso, Afder, Salhat, Jgjiga, East Emi, Segeg, Gerbo and Fik areas. This shows that individual traders are ready to travel long distances if they anticipate profit. This group uses rented pasture land in Degahabur and Fafem, where they keep drought-stricken sheep and goats for a month or so to recover. By the time of the field visit, this group had purchased 3,761 animals of which 3,383 were sold following recovery. There were eight deaths and 450 animalss in stock. This group has made a profit of 431,611 Birr (US$25,389) from the sale of 3,383 sheep and goats, all being sold in Hartisheikh market for the cross-border trade to Somaliland.

Purchased goats recovering on rented land at Fafem

Whether the groups can reach the targeted numbers of livestock for destocking i.e. 1,008 head of cattle and 16,500 sheep and goats, remains to be seen. Regardless, the groups should be commended for destocking 3,761 sheep and goats, and 478 head of cattle within five weeks of operation. The cattle group could possibly reach the target if they finish and sell the cattle in Nazareth rather than taking them to Lefe Issa. If the sheep and goats group fails to reach the target, this should be viewed against an ambitious goal set at the design stage, rather the failure of the traders as they are left with only 11 weeks to wind up the programme. In either case, the groups are set to make substantial profits from this operation.

3.3 Compliance with LEGS

Referring back to the decision tree for LEGS on page 5, the intervention met nearly all the pre-requisites by LEGS for undertaking a commercial destocking programme.

- Animals for sale were available
- Interested traders were available and carefully screened to participate in the intervention
- Terminal and export markets were in close proximity; source and end markets were accessible by road (infrastructure)
- Both the internal and external policy environment is fairly conducive for undertaking commercial destocking at the time.

The programme design complied with LEGS with the following exception.

- There was probably no need for the cattle group to transport the cattle all the way to Lefe Issa after keeping them in a rented feedlot in Nazareth for 40 days. Nazareth is the terminal market for most fattened cattle exported from Ethiopia. This group could have kept the cattle until they were ready for sale in Nazareth perhaps for a better price than in Lefe Issa. By moving the cattle to Lefe Issa, this group incurred unnecessary transport expenses, not only for the cattle but also for hay and concentrate feed.

3.4 Lessons for LEGS

<u>Flexibility in program budgeting</u>

If agencies design flexible programs to cater for unforeseen or anticipated crises, then they will be in a position to borrow money from other programs for undertaking short-term commercial destocking operations by providing loans to traders. However, great care should be taken in the design stage to ensure the repayment of the loan in order not to jeopardize the program for which the money was originally allocated.

<u>Legal cover for loan agreements</u>

Mercy Corps has used a new and useful approach, by working with the Regional Justice Department to sanction the loan agreements. This serves as a deterrent to the notion generally held by borrowers that NGOs are not serious about loan repayments. Where feasible, the ratification of such agreements by the relevant Justice Departments should be recommended for loans to be disbursed to livestock traders.

<u>Use of loan guarantees</u>

The loans which were provided to the individual traders were guaranteed by collateral provided by the leaders of the two groups. This was a clever move by Mercy Corps, in passing the risk to the two group leaders to whom the individual members in the groups owe allegiance. LEGS should consider the use of this approach in commercial destocking loans in order to pass the risk to a few group leaders (community leaders) owning assets that could be used as collateral.

Livestock feed costs

Mercy Corps also made an agreement with the cattle trading group to cover 20% of the feed costs for concentrate feed, up to a ceiling of US$8,000. This prompted the cattle trading group to make use of concentrate feed for the first time, with good results. This experience would hopefully persuade the traders to be engaged in value-adding through the provision of concentrates even in normal times in the future. This establishes that commercial destocking can be used for disseminating innovative ideas.

4. Conclusions

Good progress and lessons learned have been generated by both the IRC and Mercy Corps projects so far. Both projects would benefit from a full impact assessment close to, or after completion, to provide a full account of the activities of the co-ops (IRC) and traders (Mercy Corps), but also, the livelihoods impacts on people who sold livestock during destocking. To make the final impact assessments run as smoothly as possible, both IRC and Mercy Corps should try to record the names and locations of people who sold livestock to the co-ops and traders, thereby enabling a sample of these beneficiaries to be interviewed at an appropriate time.