

FEATURE ARTICLE:

Getting the Incentives Right: Concerns Associated with Expansion of Cattle Export Markets in Ethiopia

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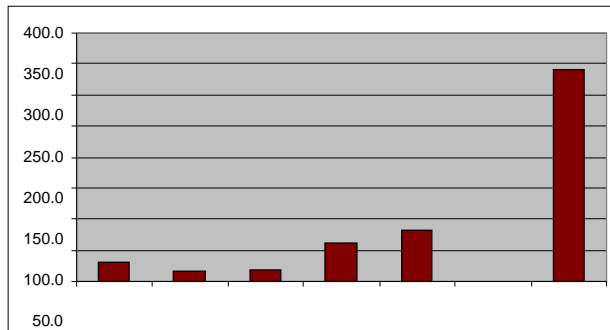
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Incentives drive positive change and continued excellence in all walks of life. Various actors in livestock markets, not least cattle keepers, also see to their additional benefits that accrue to them from their participation in the expanding domestic and export markets. Official data from the Ministry of Agriculture and Rural Development as well as the Ethiopian Customs Authority on the volume and diversity of Ethiopian agricultural exports show unprecedented rises in the size of exports of livestock and livestock products in recent years. The rapidly expanding livestock exports generate greater revenues to the millions of livestock producers and the national economy in general. But the sudden surges in off take raise three issues. First, there are concerns on whether these expansions are sustainable at least in the long term. Second, there are serious concerns about the effects of rising off takes on supplies of replacement breeding stock and plough oxen. Third, there is a growing concern about escalations of prices of meat and live animals in the local market.

During the 2005/06 fiscal year, the total revenue from official exports was close to Birr 350 million, a nearly three fold rise from that of 2004/05, most of which was in the form of chilled goat and sheep meat and live cattle (Figure 1). Yet, the contribution of livestock to the total national export earnings, even during this fiscal year, could reach only a mere 5% (Figure 2). When these are compared with available estimates on the potential off take made available in 2003 by the former Livestock Marketing Authority, there is still a lot more room for expansion and diversification. Based on the estimated national off take rates of 10% for cattle, 38% for goats, 35% for sheep and 6.5% for camels pastoral areas of the country alone, which according to official sources have traditionally been supplying up to 95% of export livestock, could produce 734 thousand heads of beef cattle, 5.4 million goats, 2.3 million sheep and 78 thousand camels per annum. When these are compared to the current demand in the Middle East, they meet only half of

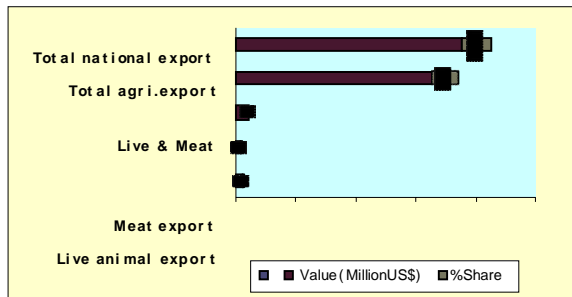
the demand for goats and sheep, 42% for beef and 82% for camel meat, whereas the live beef cattle supplies are well over the demand (144%), requiring new markets outlets. This being the potential for export, the actual performance has remained very low, leaving most (55 to 85%) of the projected livestock off take for the unofficial cross-border export and the domestic market. The unofficial cross-border livestock export of live animals and skins & hides was estimated in 2003 by the former Livestock Marketing Authority to worth over US\$100 million, which is about two and half times more than total export earnings in the whole of 2005/6 fiscal year, the best annual export performance so far.

Recently, Ethiopian exports of livestock products, especially chilled meat, have expanded both within and outside the Middle East. Apart from Egypt, which is emerging as a major meat export market, exports now reach West Africa, parts of Europe and even the Far East. The challenge now is getting easy access to sufficient numbers of good quality meat animals even from pastoral areas. Livestock traders are therefore exploring particularly cattle market opportunities in hitherto underutilized highlands. So much so that because of the attractive market prices, it is feared that the smallholder cattle keepers may give away too many of their young oxen and bulls at risk of compromising their short-term needs for traction and breeding bulls. In other words, current market prices may offer greater incentives in the short-term than the longer-term advantages of retaining inputs for traction and breeding. A more rational approach to understanding the incentives is to consider whether plough oxen and breeding bulls generate better livelihood security in their traditional service functions than in their alternative role as sources of beef. The case of breeding bulls can be more intriguing: if the cattle keepers get the right incentives for raising genetically superior breeding bulls that can serve not just their own herds but also those of their wider community, then the added benefits in owning a high-value genetic material will also come into picture. Individual cattle keepers in both pastoral and highland areas do make management choices in this regard to maximize their net aggregate incomes.



Source: Sintayehu (2003); Belachew Hurriessa, Pers. Comm. (2006)

Figure 1: Size of official livestock export (Million Birr) by year (complete data missing for year 2005)



Source: Belachew Hurriessa, Pers. Comm. (2006)

Figure 2: Contribution of livestock to total agricultural export during first 9 months of this fiscal year

So the expanding export markets should be seen rather as opportunities to individual cattle keepers and indeed to the country's livestock sector in general to raise the contribution of livestock to the household and hence the national economy. Even then, several core technical problems continue to constrain the expanding livestock markets:

- Most of the livestock keepers have a very weak market orientation. Their mode of production is largely subsistent; they do not have easy access to up-to-date market information; they rely heavily on the limited and seasonal domestic livestock markets. These increase their transaction costs even when they get opportunities to participate in livestock markets. As a result, most of market-age animals in smallholder herds and flocks are found in poor shape, as the producers lack the incentives to raise them to desired standards.

- Livestock diseases continue to limit Ethiopia's access to attractive markets. Increasingly stringent Sanitary and Phytosanitary Standards (SPS) are being set for access to major markets, when the country still has a very low capacity for meeting these standards at least in major sources of meat animals.
- Livestock market support services and infrastructure are very weak or non-existent. Public investment in these areas has to grow significantly.
- Up to now, involvement of the private sector in development of the livestock resources has remained very cautious, and still needs more substantial incentives to build investor confidence.
- There is not a single private beef ranch to at least demonstrate the production of prime beef for the export and domestic market. Even beyond their demonstrative role, ranches could also open up markets for young beef stock of surrounding cattle keepers, in order that the young stock can go through conditioning and fattening in the ranches and reach major markets. This effectively means improving market access to individual cattle keepers in remote areas where private cattle ranches may operate. Special policy support and attractive investment incentives, as with the mushrooming private flower farms, need to be put in place, to reassure serious investor confidence in livestock ranches.
- The relatively slow rate of reproduction of livestock, especially cattle, coupled with heavy initial investment requirements, means that the livestock sub-sector is at a disadvantage in attracting substantive investment from the private sector. This needs to be taken into account in policy formulation and development of investment guidelines.

Some immediate interventions, like better delivery of market information to producers, infrastructural improvements in existing major livestock markets, better organized linkages of producers with traders and putting in place long-term strategies for gradually meeting SPS goals could lead to yet stronger rises in the expansion of the livestock export trade through stronger incentives to the range of actors in the market chain. Robust public awareness activities are needed to sensitize policy makers on lost opportunities in untapped development potential of livestock in the country. The concern on limited supplies in the highlands of plough oxen cannot be

served by limiting access to markets. Oxen in any case are productive only for a small part of the year while contributing to share the scarce feed resources for the rest of the year. The logic of individual farmers in keeping plough oxen throughout the year should be explained by their inability to bear the cost of getting oxen traction services during the peak work, i.e. the incentives of keeping them in house are higher than purchasing the service as needed when almost everybody else also needs it. At the time when oxen are already scarce, a more sustainable solution would be to search for alternative sources of traction power.

The desire for maintenance of adequate breeding animals at community level is seen both an individual as well as community development goal. However, the direct costs of maintaining breeding animals should ideally be off set by immediate and medium term benefits for individual breeders. Individual livestock keepers will have to be convinced of the merit of raising and keeping superior breeding animals. In other words, it is the benefits that accrue to the producers that justify the maintenance of breeding stock, and not the longer term need for genetic conservation, a concern not necessarily shared by individual livestock keepers. It is therefore the additional market incentives coming with expanding export markets that encourage individual livestock keepers and communities to raise and maintain superior performing breeding stock that cater for market demand. Limiting participation in export markets, as implied by the widespread fears arising from the growing off takes, does not serve the purpose of conservation, if not become counter-productive. To be consistent with the free-market economic policy of the country, we need to get the incentives right to the range of actors participating in the under-performing livestock sector.

These issues were taken up in a panel discussion hosted by the Ethiopian Economics Association on 12 June 2006 during its International Conference on the Ethiopian Economy. The panel discussion on *"Sustainability issues in diversification and rise of agricultural exports in Ethiopia"* was jointly organized by the Ethiopian Association of Agricultural Professionals (EAAP), the Ethiopian Society of Animal Production (ESAP), the Ethiopian Society of Agricultural Economics (ESAE) and the Ethiopian Crop Science Society (ECSS). The discussion reached a consensus that the issues be raised in similar forums to sensitise the range of relevant stakeholders at national and regional levels.