

The Barren Soya Bean Contract Agreement: actions for improvement



Introduction

Soya bean is a new introduction to northwest Ethiopia. Gonder Agricultural Research Centre, supported by the Sesame Business Network and 2SCALE projects took the leading role in testing, demonstrating and registering of suitable soya bean varieties to the area. Seeds of improved varieties were distributed to farmers freely to encourage farmers to engage in soya production. Zone departments and woreda offices of agriculture have played indispensable role in demonstrating and scaling the crop to farmers. The joint effort of stakeholders gave birth to the wide scale adoption of soya bean technology in the Amhara region.

To meet the ever-increasing demands of oil extracting, protein meal and animal feed processing agro-industries, the Federal and Regional Governments, Ministries, Bureaus of agriculture and trade, the research system and development partners have lent their hands to intensify soya bean production and marketing across the country. In this regard, the Amhara region has taken a serious step in lobbying farmers to grow soya bean widely and supply the processing companies with sufficient raw materials.

Consequently, as of 2021, soya bean production has recorded an upsurge specifically in the Amhara region because of the local and international market demands. Efforts have been made to create a sustainable demand and supply based value chain in the area. To

KEY messages

- Defaulting on the contractual agreement by sourcing companies has significantly contributed to the low soya bean price. As a result, farmers in the northwest have been forced to sell their produce at below market prices.
- Farmers are entitled to compensation for losses incurred as a result of sourcing companies' failure to perform. However, if the contract is formed without due notice and without regard for the mandatory rules and requirements, the contract is subject to cancellation rules.
- Roles and responsibilities of the parties bound by the contract has been stipulated in the agreement, however due to lack of information and knowledge on the provisions, farmers failed to exercise their power of suing the defaulting company.
- The major lesson drawn from the soya bean marketing relationship is the need to make sound and binding contractual agreements for law enforcement.



Figure 1 Soybean produce at GARC

this realization bureaus and woreda offices of agriculture in collaboration with development partners have linked processing companies with producers through contract farming arrangements.

Farmers were highly motivated to grow soya bean due to the 2021 marketing season price, which surpassed 46 ETB per kg seed. This one season price hike has lured growers to make an impetuous decision which resulted in a very significant increase in soya bean production. For example, the soya bean area jumped from 46,892 ha in 2019/2020 to 89,272 ha in 2020/2021 and has tripled to 248,573 ha in the 2021/2022 season. With an average productivity of 2 ton/ha, it is estimated that over 500,000 tons of soya bean has been produced in the 2022 season in the Amhara region alone¹.

To enhance marketing of soya bean, contract farming agreements were facilitated between producers and agro-processing industries. It was anticipated that a sound contractual agreement improves farmers' access to inputs, credit, national and international markets and there-by increase household income.

Likewise, agribusiness companies working in production, processing and marketing of farm products were assumed to ensure a steady supply of raw materials compliant with the agreed quality at reduced administrative costs. Unfortunately, the dramatic increase in production volume has led to a low farm gate price of soya bean, falling to a level of 28-30 ETB per kg (Mekuria et al, 2023).

The 50% drop in farm gate price has been discouraging producers. Four months after is still no sign of price recovery. Surprisingly, the local processing companies that were publicly crying for shortage of raw materials are now silent and are not actively participating in the marketing process. The second conundrum in soya bean marketing is that, out of 265 buyers that entered into contract agreement with 51,138 farmers, only 42 have purchased soya bean as per their respective contracts. Others refused to buy according to the agreement

and it even has been challenging to trace their whereabouts.

Therefore, defaulting of sourcing companies has significantly contributed to the low soya bean price. As a result, farmers in the north-west have been forced to sell their produce to local traders at spot markets, which normally collude and set lower prices (less than 32 ETB per kg) or to village collectors through brokers that deprive the right of price setting to producers.

Who is responsible for the failure?

It is very important to question why the contract agreement in the Amhara region has been barren. Among the many reasons, failure of sourcing companies to meet the stipulated clauses as agreed upon takes the lion share. The first sign of miscarriage was unwillingness of companies to provide the stipulated support services such as seed, fertilizer, pesticides, credit and training during the production season and collect the produce immediately after harvest at 10-15% higher price. Other important indicators include: reluctance of companies to source the produce even after harvest at reduced price; not responding when called and communicated; and changing the physical address are among few to mention.

According to the Ethiopian civil code, lawfully formed contract agreements that fulfil all the essential requirements will have effect and be enforced by the law, unless the two parties terminate amicably before maturity. This is clearly provided under Article 1731 of the civil code of Ethiopia. The provisions of the civil code (Articles 1766-1770) also describe issues as to performance and non-performance including the available remedies for the victims of non-performance.

In the soya bean marketing case, sourcing companies have normally failed to perform and producers have been victimized due to companies' non-performance. Therefore, farmers have the right to claim for losses incurred due to the non-performance of the sourcing companies. Nevertheless, if the contract is formed without giving due notice and

¹ Source: Amhara Region Bureau of Agriculture, unpublished

respect to the mandatory rules and requirements, the contract is subject to the rules of cancellation. In this case, the third party who facilitated the contract agreement is responsible for managing the agreement throughout the implementation period. Moreover, it has an obligation in mending causes of failures before they make damage to the other party.

The main issue that needs understanding by all stakeholders directly engaged in forming the agreement is that, both parties are equal under the law; the damaged party has the right to claim for any loss incurred due to the non-performance of the agreement by the other party; and the non performing party has legal obligation to remedy or compensate the loss. Nevertheless, in the case of soya bean marketing agreement, neither the damaged nor the third party that facilitated the agreement dared to take the case to court. Such deeds shall greatly affect the producers in terms of income and moral. Unless a serious measure is taken on the defaulting party, it has high power in distorting the production and marketing system of soya bean in the area and would cost a lot and it may take long time to bring back to the 2022 production initiative.

Lessons learned from the unsuccessful contract agreement and actions for improvement

- The major lesson drawn from the soya bean marketing relationship is the need to make sound contractual agreements for law enforcement. In the absence of product specific legislations, farmers and agribusinesses could be guided by the 'soft law' which is approved at national level and agreed by the two parties as a binding document. But it should include scope of the agreement, codes of conduct, specification on product quality, services to be supplied by the buyer, a schedule of prices and the conditions for delivery, contract duration and termination.
- Though roles and responsibilities of the agreeing parties has been stipulated in the agreement, due to lack of information and knowledge on the provisions, farmers failed to exercise their power by suing the defaulted company. Such deeds may also encourage defaulters in future contract agreements.
- It is imperative that both parties clearly understand the provisions in the civil code of Ethiopia and agree on the costs of remedies in the case of non-performance before signing agreement;



Figure 2 Hip of soybean produce at Metema woreda

-
- The new contract agreement, if any has to include all legally binding articles and requirements in order to claim for loss or compensation from the non-performing party;
 - Third parties that facilitate the contract agreement have to play the mediation role correctly and be able to help the damaged party in bringing the case to court;
 - There should be a liaison office that communicate with parties and follow the progress of stipulated actions and give feedback to the concerned agencies to take legal actions to remedy the failures.
 - In the case of legal protection, it is essential to have a strong law enforcing institution as the potential advantages that come from sound contractual practices could be fostered by an adequate legal framework that supports the parties in the correct implementation of contracts.
 - Agreements should be made with well-established and resourceful companies that have permanent physical address. Otherwise, some amount of advance payment has to be made or put in block account as guarantee for producers;
 - Generally, there is not as such universal formula or rule for making agreements successful, but abiding oneself to the law; understanding the incidental situations and taking necessary corrective measures

immediately; be willing to support each other and governed under mutual benefiting principles is the basis for effective marketing relationship.

Who should take the lead?

The purpose of this issue brief is to bring the contract agreement challenges to the attention of policy makers and implementing institutions that are legally assigned to lead. For example: Ministry of Agriculture (MoA) is responsible for developing market oriented agricultural production system where sesame and soya bean are the case in the northwest. Ministry of Trade (MoT) is liable for establishing fair and competitive trading system and enhancing enabling environment for business, where soya bean marketing is a good case to raise. Ministry of Justice (MoJ) is accountable for enforcing justice for all.

However, soya bean producers in the northwest lacked knowledge, information and technical support for suing defaulters. Thus collaboration and joint action of ministries of Agriculture, Trade, and Justice can improve the currently observed poor marketing relationship between farmers and buyers.

Policy alignment and coordinated move of the three ministries will greatly help in taking actions when breach occurs and in building strong, mutually benefiting and sustainable marketing relationship between producers and sourcing companies.

Citation: Terefe G., Mekuria A., Yedemie S., and Getaw H., 2023. The Barren Soya Bean Marketing Agreement: actions for improvement. Stichting Wageningen Research Ethiopia, Addis Ababa. SWRE-RAISE-FS-23-003



For more information, please contact either:

Dr. Dawit Alemu
Stichting Wageningen Research - Ethiopia
dawit.alemu.swr@gmail.com

Dr. Irene Koomen
Wageningen Centre for Development Innovation
irene.koomen@wur.nl

www.raise-fs.org