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Cooperation versus Competition: Institutional Analysis of Raw Milk Marketing in Ethiopia

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Abstract

Milk is a perishable commodity. Adulteration and poor hygiene compromises quality and food safety. Understanding the implications of market structure and actors' behaviour in marketing such delicate commodity is essential. Differences in exchange arrangements and actors' abilities, initial resource positions, information endowments, and risk preferences could determine market outcomes. New institutional economics of markets stresses the importance of studying structure of specific transaction arrangements and provides frameworks for examining the implications of various constraints in determining market conduct/behaviour and performance. In this study, we examined raw milk marketing in Sululta, Lume and Ade'a districts of central Ethiopia using the new institutional economics of markets framework. Data were obtained through household survey, focus group discussions, and interviews with key informants and experts. Raw milk is the cheapest in Sululta compared to the other districts. Milk collection in Sululta is largely a monopsonistic competition among a few small private traders who lack advanced quality testing tools. Private collectors' inability to precisely detect adulteration creates bounded rationality. This encourages farmers to prefer private collectors to other rather strict buyers. Processors and cooperatives who dominate the market in Lume and Ade'a conduct more rigorous quality tests. The cooperatives in particular create hybrid governance where many suppliers are shareholders or members of primary cooperatives with responsibility to maintain quality. Consumers are also unable to identify adulteration when they get mixed milk from collectors which cannot be traced to a particular source. The bounded rationality encourages opportunism where some farmers add water and other substances to milk especially in private collections. High degree of bounded rationality and opportunism in unregulated markets drives out genuine farmers. This threatens the prospect of improving milk productivity and sectoral sustainability. Besides, the adulteration and deteriorating milk quality increases public health risk. Trust and personal relationships reduces adulteration when buyers get milk directly from local farmers although prices are rather high in such arrangement. Therefore, cooperative marketing, stricter regulations, better quality testing and direct marketing are important. This study showcases how organised marketing such as cooperatives and localised direct marketing could outperform unregulated competition in marketing delicate commodities.

Keywords: Bounded rationality, Ethiopia, milk marketing, new institutional economics, opportunism