

# AGRICULTURAL GROWTH PROGRAM - AGRIBUSINESS AND MARKET DEVELOPMENT (AGP-AMDE) PROJECT

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THIRD QUARTERLY REPORT  
JANUARY 1 – MARCH 31, 2012



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# **AGRICULTURAL GROWTH PROGRAM- AGRIBUSINESS AND MARKET DEVELOPMENT (AGP-AMDE) PROJECT**

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## **DISCLAIMER**

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# CONTENTS

|  |           |
|--|-----------|
| <b>EXECUTIVE SUMMARY .....</b>   | <b>1</b>  |
| <b>COMPONENT 1: IMPROVING THE COMPETITIVENESS OF SELECTED VALUE CHAINS.....</b>      | <b>5</b>  |
| <b>INPUT SUPPLY ANALYSIS .....</b>   | <b>5</b>  |
| <b>WHEAT VALUE CHAIN.....</b>  | <b>5</b>  |
| <b>MAIZE VALUE CHAIN.....</b>  | <b>7</b>  |
| <b>COFFEE VALUE CHAIN .....</b>  | <b>8</b>  |
| <b>SESAME VALUE CHAIN .....</b>  | <b>11</b> |
| <b>HONEY VALUE CHAIN .....</b>   | <b>12</b> |
| <b>CHICKPEAS VALUE CHAIN.....</b>  | <b>14</b> |
| <b>COMPONENT 2: IMPROVING ACCESS TO FINANCE .....</b>                                | <b>16</b> |
| <b>COMPONENT 3: IMPROVING THE ENABLING ENVIRONMENT OF SELECTED VALUE CHAINS.....</b> | <b>18</b> |
| <b>COMPONENT 4: STIMULATING INCREASED INNOVATION AND INVESTMENT.....</b>             | <b>20</b> |
| <b>M&amp;E AND BASELINE STUDY .....</b>  | <b>21</b> |
| <b>CROSS-CUTTING THEMES .....</b>  | <b>23</b> |
| <b>GENDER.....</b>   | <b>23</b> |
| <b>NUTRITION &amp; HIV/AIDS .....</b>  | <b>24</b> |
| <b>TRANSPORTATION AND LOGISTICS .....</b>  | <b>25</b> |
| <b>ENVIRONMENT/NRM.....</b>  | <b>25</b> |
| <b>PROJECT ADMINISTRATION .....</b>  | <b>27</b> |
| <b>COMMUNICATION AND INTEGRATION STRATEGIES.....</b>                                 | <b>30</b> |
| <b>QUARTERLY BUDGET .....</b>  | <b>31</b> |
| <b>ANNEXES .....</b>   | <b>32</b> |

# ACRONYMS

|          |   |
|----------|---|
| AEMFI    | Association of Ethiopian Micro Finance Institutions                         |
| AESE     | Ethiopian Agricultural Economics Society                                    |
| AGP      | Agricultural Growth Program   |
| AGP-AMDe | Agricultural Growth Program – Agribusiness and Market Development           |
| ARC      | Agricultural Research Center  |
| ATA      | Agricultural Transformation Agency  |
| B2B      | Business to Business  |
| BCC      | Behavior Change and Communications  |
| CAADP    | Comprehensive Africa Agriculture Development Programme                      |
| CCA      | Competitiveness constraints analysis  |
| CQI      | Coffee Quality Institute  |
| CSA      | Central Statistics Agency   |
| DA       | Development Agent   |
| DCA      | Development Credit Authority  |
| EAB      | Ethiopian Apiculture Board  |
| EAFCFA   | Eastern African Fine Coffees Association                                    |
| EBA      | Ethiopian Beekeepers Association  |
| ECEA     | Ethiopian Coffee Exporters Association                                      |
| ECX      | Ethiopian Commodity Exchange  |
| EHBPEA   | Ethiopian Honey and Beeswax Producers and Exporters Association             |
| EIAR     | Ethiopian Institute for Agricultural Research                               |
| EPOSPEA  | Ethiopian Pulses, Oil Seeds and Spices Processors and Exporters Association |
| ESE      | Ethiopian Seed Enterprise   |
| FCA      | Federal Cooperative Agency  |
| FCU      | Farmer Cooperative Unions   |
| FTF      | Feed the Future   |
| GAP      | Good Agricultural Practices   |
| GIS      | Geographic Information System   |
| GoE      | Government of Ethiopia  |
| Ha       | Hectare   |
| HQ       | Headquarters  |
| HIV/AIDS | Human immunodeficiency virus/acquired immunodeficiency syndrome             |
| ICARDA   | International Center for Agricultural Research in the Dry Areas             |
| ICT      | Information and Communication Technology                                    |
| IFC      | International Finance Corporation   |
| IFDC     | International Fertilizer Development Center                                 |
| IFPRI    | International Food Policy Research Institute                                |
| JMA      | John Mellor & Associates  |
| M3       | Money, Membership, and Management   |
| M&E      | Monitoring and evaluation   |
| MFI      | Microfinance institution  |
| MoA      | Ministry of Agriculture   |
| MoT      | Ministry of Trade   |
| MOU      | Memorandum of Understanding   |

|         |  |
|---------|--|
| MT      | Metric tons  |
| NGO     | Nongovernmental organization                       |
| NRM     | Natural resources management                       |
| P4P     | Purchase for Progress                              |
| PERSUAP | Pesticide Evaluation Report & Safe Use Action Plan |
| PMP     | Performance Monitoring Plan                        |
| PPP     | Public–private partnership                         |
| SACCO   | Savings and credit cooperatives                    |
| SMFM    | Sell More For More                                 |
| SNNPR   | Southern Nation Nationalities People Region        |
| SOW     | Scope of work                                      |
| Sr.     | Senior   |
| STTA    | Short-term technical assistance                    |
| TA      | Technical assistance                               |
| TMPMF   | Tigray Multitpurpose Marketing Federation          |
| ToH     | Taste of Harvest                                   |
| ToT     | Training of trainers                               |
| USAID   | U.S. Agency for International Development          |
| WFP     | World Food Programme                               |
| VC      | Value chain  |

# EXECUTIVE SUMMARY

Agricultural Growth Program – Agribusiness and Market Development (AGP-AMDe) is the flagship project under USAID’s Feed the Future (FTF) Strategy for Ethiopia and is USAID’s largest contribution to the government of Ethiopia’s (GoE) Agricultural Growth Program (AGP). AGP supports the Comprehensive African Agricultural Development Program (CAADP) framework by strengthening agricultural productivity and markets in the high rainfall regions of Amhara; Oromia; Southern Nations, Nationalities, and People's Region (SNNPR); and Tigray.

In line with the overall objectives of AGP, AGP-AMDe works to sustainably reduce poverty and hunger by improving the productivity and competitiveness of value chains that offer jobs and income opportunities for rural households. Target value chains are maize, wheat, sesame, coffee, honey and chickpeas. Highlights of activities and results achieved during the reporting quarter for the target value chains include the following:

**Wheat**—In order to address shortage of certified wheat seed supply and lack of improved wheat seeds, the AGP-AMDe team is working with the Ethiopian Institute of Agricultural Research (EIAR) to increase the volume of foundation seed for multiplication. This activity is focused on scaling up the multiplication of yellow rust-resistant varieties through the research institutes, including the Centers of Excellence at Kulumsa and Debre Zeit. A memorandum of understanding (MOU) was drafted between AGP-AMDe and EIAR and is expected to be finalized in April 2012.

**Maize**—AGP-AMDe began to link Farmer Cooperative Unions (FCUs) with potential maize buyers. The process included the identification of seven FCUs and four milling firms in the regions of SNNPR, Oromia, Amhara and Addis Ababa. Money, Membership, and Management (M3) assessments of four FCUs were completed with three to be finalized next quarter. These FCUs will participate in contractual delivery of 15,000 MT of maize to the World Food Program (WFP) under the Purchase for Progress (P4P) program.

**Sesame**—AGP-AMDe helped Ethiopian Pulses, Oil Seeds and Spices Processors and Exporters Association (EPOSPEA) to hold its first international conference in Addis Ababa, attended by 29 international buyers and 100 local members. AGP-AMDe also initiated discussions with the Ethiopian Seed Enterprise (ESE) as part of the project strategy to upgrade basic seed multiplication and production of certified seed. ESE anticipates that it will collect 30 MT of newly released sesame varieties to be produced through smallholder farmer outgrowers for certified seed multiplication.

**Coffee**—Addis Ababa played host to the 2012 East African Fine Coffee Association (EAFCA) Conference. AGP-AMDe focused several activities around the conference, including revising grading and standards used in Ethiopia; hosting regional cupping competitions; bringing to the forefront the discussion of ‘Naturals’ coffee and how the industry can better assess and promote the unique characteristics of these Ethiopian coffees; promoting the sale of Ethiopian coffees in cooperation with Ethiopian Coffee Exporters Association; a buyer’s Coffee Caravan tour to southern coffee growing regions; Taste of Harvest competition and; and training and continuing education for Ethiopia’s professional coffee cuppers. AGP-AMDe conducted a mission of 11 international specialty coffee buyers, who purchased \$274,000 of coffees from smallholder-owned cooperatives as of March 28.

**Honey**—The AGP-AMDe team recently facilitated a new market opportunity for AGP-AMDe participant and beneficiary Beza Mar Agro-Industry. The project introduced the honey trader to two new cooperatives in the Amhara region, Agunta and Ediget Chora Bees Products Development and

Marketing cooperatives, which were interested in expanding their market opportunities. As a result, Beza Mar bought 8 MT from the cooperatives last month, which represents improved market opportunities for the agribusiness and cooperatives alike. Efforts now are underway to introduce Beza Mar to Zembaba Bees Products Development & Marking, a cooperative union with nine member cooperatives.

**Chickpea**—AGP-AMDe continued its collaboration with USAID, PepsiCo, the Agricultural Transformation Agency (ATA), and WFP to facilitate development of an improved production and marketing model for chickpeas in Ethiopia. It is anticipated that the potential public-private partnership will increase the competitiveness of the sector by addressing impediments in availability of improved seeds; increasing the management capacities of farmers' organizations; upgrading and expanding post-harvest handling and storage; and introducing agro-processing, marketing, and market linkages. It will also address impediments to access to finance across the chickpea value chain and identify innovative investment opportunities in the value chain, such as the introduction of mechanization for harvesting and privately owned/managed warehouse and storage facilities to increase the overall performance and sustainability of the sector.

Other highlights from the January 1 – March 31, 2012 period include:

**Component 2: Improving Access to Finance**—The AGP-AMDe team reached a partnering agreement with the Association of Ethiopian Microfinance Institutions (AEMFI) to conduct trainings to microfinance (MFI) professionals, produce new financial products and facilitate the further development of MFI capacity. The finance team also continued to work with the chickpea and maize value chain teams to develop financing for partnership initiatives with the WFP P4P program.

**Component 3: Improving the Enabling Environment of Selected Value Chains**—The AGP-AMDe team helped move forward issues regarding the fertilizer enabling environment with focus groups and comparative analysis with other countries using the Competitiveness Constraints Analysis (CCA) concept. From this process, AGP-AMDe facilitated the development of an action plan for fertilizer policy that provided a central place to improving the capacity of the cooperatives to efficiently deliver a rapidly increasing supply of fertilizer to farmers. This approach fits into the much broader approach of ATA to strengthen cooperatives.

**Component 4: Stimulating Increased Innovation and Investment**—The grants management team held strategy meetings with team leaders in each value chain (VC) to flesh out a detailed strategy for the grants program rollout. The teams developed several SOWs for grantees the team has identified as priority partners. Stakeholder workshops in which grant proposals and innovative ideas are to be solicited were designed and arranged. The grant manual is still pending USAID approval as of March 31, 2012.

**Monitoring and Evaluation (M&E)**—The AGP-AMDe team made significant progress on M&E activities during the quarter, and completed several baseline survey milestones, including questionnaire design, pilot testing, enumerator training and commencement of the field survey.

**Gender**—AGP-AMDe collaborated with ATA and other partners to organize the first gender consultation on promoting women's participation in cooperatives on January 25 and 26. The purpose of the consultation was to recognize the critical need of cooperatives to offer competitive and inclusive opportunities for women. Key stakeholders such as the Federal Cooperative Agency (FCA) and Chambers of Commerce presented, as well as ACDI/VOCA's HQ Senior Gender Specialist. Key findings and program implications were identified and shared. Field-based and secondary data on women's participation in cooperatives was collated, analyzed and presented.

# PROGRAM SUMMARY

## ***AGP-AMDe Background***

USAID has joined the GoE, the World Bank (as lead donor) and other donors in developing the AGP goals, which also align with the FTF goal to “sustainably reduce poverty and hunger.” AGP-AMDe is part of USAID’s commitment to join and leverage this program and support a country-led initiative for agricultural growth. The objective of AGP-AMDe is in line with the overall objective of AGP and can be summarized in the following vision statement: *Work to sustainably reduce poverty and hunger by improving the productivity and competitiveness of value chains that offer jobs and income opportunities for rural households.*

In Amharic, AMD means “centerpiece,” reflecting the fact that this component is the centerpiece of AGP. The project acronym, AMDe (pronounced “AHM-day”) means “the pillar of my home”—a fitting portrayal of what AGP-AMDe hopes to be in Ethiopia’s endeavors to bring about lasting solutions to the challenge of poverty.

## ***AGP-AMDe Value Chains***

The AGP-AMDe initiative in Ethiopia uses a value chain approach to increase the competitiveness of select agricultural products, enhance access to finance, and stimulate innovation and private sector investment. Targeted value chains are wheat, maize, sesame, chickpeas, coffee and honey. Ethiopia is identified among the top 10 producers in Africa for each of the AGP-AMDe target value chains. For several of these crops, Ethiopia is famed not only for the quantities produced, for but the product characteristics that are unique to the country.

Unfortunately, these comparative advantages are not currently being exploited to the benefit of the country and its smallholder producers. Value chain products are produced inefficiently and sold locally and/or exported as agricultural raw materials to commodity markets, rather than as semi-processed or finished consumer goods, which have relatively higher and more stable prices. The AGP-AMDe team works in coordination with AGP, cooperatives and unions, private processors and other partners to transform *comparative* advantages into *competitive* advantages.

## ***AGP-AMDe Components***

The project is strengthening agricultural productivity and markets in the high rainfall regions of Amhara, Oromia, SNNPR and Tigray. The project has four primary components, the first of which, as the largest component in the program, contains three intervention areas:

- Component I: Improving the Competitiveness of Selected Value Chains
  - Intervention I: Enhance Marketing and Market Linkages
  - Intervention II: Assist Transformation of Cooperatives/Unions, Private Sector Associations and Agro-Dealers to Become Effective Service Providers
  - Intervention III: Increase Reliable and Commercial Access to Improved Inputs and Farm Technology
- Component 2: Improving Access to Finance
- Component 3: Improving the Enabling Environment of Selected Value Chains
- Component 4: Stimulating Increased Innovation and Investment



### ***AGP-AMDe Operating Principles***

In implementation, AGP-AMDe seeks to leverage prior experience, learning and proven strategies in agricultural marketing, productivity and value chain projects. In so doing, we:

- leverage investments of GoE, donors and the private sector
- build in flexibility to respond to new opportunities and changing condition
- reduce the risks of upgrading for the poor by using small “riskable” steps
- ensure results by applying a learning cycle of piloting, evaluating and adjusting intervention design
- rely on market facilitation wherever possible, rather than direct provision
- facilitate learning among value chain actors
- foster public-private partnerships that result in investment
- address environmental stewardship, conservation and climate change
- improve gender equity at all levels of the value chain and across all project components

### ***AGP-AMDe Implementation Team***

**ACDI/VOCA**, as the prime contractor and lead organization of the implementation team, is the technical lead for the project. Consortium partners are listed below.

- **International Fertilizer Development Center (IFDC)** brings its extensive experience in the development of commercial agro-input systems to address constraints in this area.
- **John Mellor & Associates (JMA)** assists with the enabling environment component and provides technical assistance (TA) on agriculture policy reform.
- **Danya** is providing a strategic communications plan to guide AGP-AMDe’s use of communication tactics to increase behavior change, promote technology adoption, facilitate learning and increase overall project outcomes.
- **Kimetrica** brings its ki-projects™ platform to strengthen the monitoring and evaluation (M&E) system.
- **Coffee Quality Institute (CQI)** is delivering targeted technical support to develop the coffee value chain.
- **Crown Agents** provides demand-driven TA to improve transport and logistical efficiency.

### ***AGP-AMDe Key Strategic Partners***

AGP-AMDe also partners with a number of key, strategic bodies in implementation, including:

- The AGP Secretariat at the Federal and Regional Levels
- The Agricultural Transformation Agency
- The Ethiopian Commodity Exchange
- The Federal Cooperative Agency
- The Ministry of Agriculture (MoA)
- The Ministry of Trade (MoT)

### ***AGP-AMDe Results***

AGP-AMDe will result in benefits to over one million smallholder producers. Gross margins for these farmers will double and losses will be dramatically reduced. AGP-AMDe will make a significant and lasting contribution to the agricultural transformation of Ethiopia and the reduction of poverty and food insecurity in 83 woredas.

# COMPONENT I: IMPROVING THE COMPETITIVENESS OF SELECTED VALUE CHAINS

Component 1 seeks to increase the competitiveness of value chains and the productivity of actors all along the chains, including large numbers of smallholders, commercial farmers, traders, agro-processors and exporters. This component also contributes to food security by improving the availability of food through value chain development.

## INPUT SUPPLY ANALYSIS

During this quarter, implementation focused on activities aimed at improving the competitiveness of selected value chains through increases in input use. AGP-AMDe held 15 meetings with multiple stakeholders to promote and assess use and status of multi-nutrient fertilizer. Stakeholders participating in the meetings included soil testing laboratories; EARI; local officials from Amhara, Oromia and SNNPR; the MoA; cooperatives and Tigray Research Center. Subcontractor IFDC carried out the following activities:

- Surveyed and analyzed market value of multi-nutrient fertilizer products suited to wheat, maize, sesame and chickpea in the target regions
- Collected and analyzed 400 soil samples in the four AGP-AMDe regions
- Held cooperation/partnership meetings on soil sampling activities with the National Soil Laboratory, MoA and ATA
- Identified crops for demonstration plots in consultation with relevant public, private and cooperative enterprises. Crops for the demonstration plots include wheat (48), maize (26), sesame (16) and chickpea (9)
- Conducted four training of trainers (ToT)—one each in Oromia, Amhara, Tigray and SNNPR—on soil sampling techniques for 30 trainers
- Collected data for the establishment of the GIS database

## WHEAT VALUE CHAIN

### *Background*

Ethiopia is Africa's second largest producer of wheat after South Africa. Production volumes and land area sown under wheat have been increasing annually. It is estimated that between 2001 and 2008, total national production volumes increased by almost 50 percent; however average yields per hectare remain low by international standards. Wheat production, by almost 4.3 million smallholders across Ethiopia, remains subsistence-based with little surplus available for downstream utilization. A significant amount (20 percent for cereals) is lost due to post-harvest handling and storage problems. Due to production shortfalls, Ethiopia complements its domestic production by importing wheat. Annual imports are projected to grow, given the rise in demand for wheat-based products.

### *Vision and Strategy*

#### A VISION FOR CHANGE

AGP-AMDe's vision for the wheat value chain is for Ethiopia to become self-sufficient in wheat production by the end of five years.

In order for Ethiopia to achieve this result, it will require, *inter alia*, doubling current productivity from average yields of 20-25 quintals per hectare to 40-50 quintals per hectare, reducing post-harvest losses from their current average of 20 percent to less than 10 percent, and increasing the volume of high-quality wheat made available to the industrial sector to 800,000 MT per year. End-market analysis has indicated that to achieve self-sufficiency will require stronger private–public partnerships with government research centers, cooperatives and private sector agro-business.

### ***Activities during the Quarter***

In further analyzing the wheat value chain, the AGP-AMDe team identified the most significant constraints as shortage in supply of certified wheat seed and lack of improved wheat seeds. These constraints are mainly due to a lack of foundation seed for further multiplication of improved wheat by private seed multipliers and national/regional seed enterprises. To alleviate this problem, the AGP-AMDe wheat value chain team held discussions with EIAR to increase the volume of foundation seed for multiplication. As part of this effort AGP-AMDe will work with the International Center for Agricultural Research in the Dry Areas (ICARDA) to develop a short- and long-term plan for scaling up the multiplication of yellow rust-resistant varieties through research institutes, primarily focusing on the Centers of Excellence at Kulumsa and Debre Zeit. An MOU was drafted between AGP-AMDe and EIAR and is expected to be finalized in April.

The wheat value chain team has conducted M3 assessments of the key FCUs of Secomendo and Galema. AGP-AMDe will conduct M3 assessments of Raya Wakana, Gozamen, Damot and Lecha, Erer FCUs and cooperatives next quarter. Preliminary information from these assessments shows that the majority of FCUs have a shortage of working capital, insufficient warehouse capacity, lack of expertise in warehouse management and post-harvest handling, and lack of training and experience in business and financial management and commercial commodity marketing.

AGP-AMDe also conducted assessments of four milling firms who are interested in buying wheat from the FCUs. The millers are DH Geda, KOJJ, Kality Foods, and Afiya. Part of the project’s approach to market-led, sustainable development is to link the FCUs with reliable buyers of wheat, specifically private millers. The wheat VC team designed a strategy to facilitate the transformation of private processors to full service providers and input suppliers by establishing contractual farming and introducing warehouse receipt systems. The strategy also includes partnering with stakeholders to develop demand-driven industrial wheat varieties as an innovative way to upgrade the wheat VC.

AGP-AMDe is finalizing the technical MOU with Morrell Agro Industries, PLC, to facilitate the introduction of drought-tolerant wheat varieties in selected AGP woredas. The final draft includes three key areas of technical assistance which AGP-AMDe will provide to facilitate Morrell’s engagement with smallholder producers of wheat:

*Value Chain Development*—AGP-AMDe will select lowland areas of AGP woredas and develop demonstration sites to introduce Jefferson wheat. Morrell will make available the required seed for demonstration sites. Through these market linkage demonstration sites, AGP-AMDe will facilitate Morrell’s engagement with smallholder farmers in lowland areas of AGP woredas to demonstrate dry land farming. The project anticipates that the linkage with Morrell will improve access to markets for FCUs and primary cooperatives that will gradually improve overall extension services and the livelihoods of rural communities.

*Cooperative Develop and Farmer Group Formation*—To enhance purchasing of inputs and marketing outputs in rural communities and to help smallholders add value to their crops, AGP-AMDe will

organize farmers in rural communities to form primary/secondary level cooperatives and groups, as appropriate. In areas, where such activities are initiated, the activities will be strengthened to improve efficiency, production quality and marketing services.

*Training and Technical Support*—AGP-AMDe will organize trainings tailored to the needs of farmers, development agents and value chain operators. The training will include cooperatives, traders, millers, food processors and end marketers to help bring to scale the adoption and use of improved crop varieties, technologies and best food processing practices. This will expand markets and build market linkages. Morrell will participate and share its Ethiopian experiences during the trainings.

## MAIZE VALUE CHAIN

### *Background*

Ethiopia is Africa’s third largest producer of maize. It is the most widely produced crop in Ethiopia in terms of numbers of households involved in its production, the number of hectares planted and volume of quintals produced per hectare. Maize plays a critical part in Ethiopian food security, providing approximately 20 percent of caloric intake. Despite its agronomic significance, the maize market continues to be dominated by a large number of small, localized transactions, trading a poor quality product in the months immediately after it is harvested. A relatively small proportion of total maize produced is consumed by urban-based end-market consumers manufacturing human or animal feed products, although this proportion is increasing as both value-added maize-based products and the dairy industry are developing. Presently maize prices are approaching import parity levels due to structural failures in the market and the high cost of transporting maize within the country.

### *Vision and Strategy*

#### A VISION FOR CHANGE

AGP-AMDe’s vision for the maize value chain is to increase the volume and quality of maize to meet demand in the expanding domestic and potential regional exports markets.

To realize this vision, AGP-AMDe is contributing to and complementing AGP strategies to accelerate the development of the maize sector through a series of interconnected activities, including the following:

- Working with input suppliers to increase availability and supply of fertilizer and improved seed.
- Creating a clear role for cooperatives in the maize value chain and provide the necessary tools for them to be effective.
- Catalyzing the growth of latent demand in end markets, such as the processed food and feed industries.
- Fostering the emergence of strong, licensed traders to stabilize the market through appropriate regulatory structures and initiatives in collaboration with ECX.
- Defining a clear and transparent role for government in maize markets, gradually shifting away from *ad hoc* stabilization efforts.
- Improving storage management practices and equipment on- and off-farm.
- Continuing efforts to improve market information flows.
- Improving farm management practices of complementary crops.

### **Activities during the Quarter**

During the quarter, AGP-AMDe began to link FCUs with potential maize buyers. This process included the identification of seven FCUs in the regions of SNNPR (3), Oromiya (1) and Amhara (3) for participation in this program. The FCUs identified are Gozamin, Merkeb, Damot, Gibe Dedesa, Admas, Licha Hadya and Sidama Elto. The M3 assessment was completed for four of these FCUs, with three others to be completed next quarter. These FCUs will participate in contractual delivery of 15,000 MT of maize to the WFP under the Purchase for Progress program. This initiative, based on a forward contracting mechanism, will be critical for developing the capacity of FCUs and will help transform them into strong market participants. Through the program, more farmers will be engaged in organized supply chains, which will directly impact post-harvest losses, quality and quantity of production, and prices received at the farm level. To meet the supply needs of the buyer, AGP-AMDe will work with the FCUs to improve their capacity in post-harvest and supply chain activities. The delivery period for the dry maize will commence in March 2013 and continue until June 2013.

*Table 1: Estimated Commitment of Maize Output Production by each FCU*

| <b>FCU</b>                   | <b>Gozamen</b> | <b>Merkeb</b> | <b>Damot</b> | <b>Gibe Dedesa</b> | <b>Admass</b> | <b>Licha Hadya</b> | <b>Sidame Elto</b> |
|------------------------------|----------------|---------------|--------------|--------------------|---------------|--------------------|--------------------|
| <b>Estimated output (MT)</b> | 2,000          | 3,500         | 3,500        | 2,000              | 1000          | 500                | 2,500              |

## **COFFEE VALUE CHAIN**

### **Background**

Coffee is the country's largest hard currency-earning industry. Ethiopia produced 400,000 MT of coffee in 2010/2011, and exported 196,000 MT, representing 3 percent of global exports. Despite Ethiopia's reputation as being one of the world's top producers of quality coffees, prices received are currently below similar qualities coming from other markets. The main reason for this price discounting is the current lack of confidence amongst international buyers that they will receive the grade of coffee actually paid for. This has been further complicated by the introduction of the ECX, through which over 85 percent of Ethiopia's coffee is now exported. Given the many domestic origins and quality levels of coffee that are recognized internationally, it is a very complex commodity to trade within an exchange. Lack of traceability and poor quality control issues occurring under the ECX's administration has exacerbated the price discounting situation.

### **Overall Vision and Strategy**

#### **A VISION FOR CHANGE**

AGP-AMDe's vision for the coffee value chain is to maximize commercial returns for unique Ethiopian coffees in export markets.

AGP-AMDe is implementing a strategy concentrating on three main areas of intervention:

- 1) In collaboration with AGP partners and coffee cooperative unions, tackling low productivity and poor quality control at the smallholder level;
- 2) Working in collaboration with the ECX and key coffee stakeholders to simplify the current coffee standards and grading system to arrive at a leaner, more efficient, quality-focused system that will help ensure higher prices on export markets; and

- 3) Implementing activities to raise stakeholders' awareness of international market opportunities for the superior coffee produced in Ethiopia currently not being realized.

AGP-AMDe is providing focused support for women in the coffee sector, enabling them to increase their contribution as coffee producers, processors, exporters and business service providers. In addition, AGP-AMDe works to increase the number of women Q cuppers in Ethiopia.

### *Activities during the Quarter*

Addis Ababa played host to the 2012 EAFCA Conference in February 2012. AGP-AMDe focused several activities around the conference, including organizing and encouraging a research and development agenda that is supported by influential coffee institutions; improving the enabling environment in cooperation with ECX and industry stakeholders; revising grading and standards used in Ethiopia; hosting regional cupping competitions; bringing to the forefront the discussion of 'Naturals' coffee and how the industry can better assess and promote the unique characteristics of these Ethiopian coffees; promoting the sale of Ethiopian coffees in cooperation with Ethiopian Coffee Exporters Association (ECEA); holding a buyer's Coffee Caravan tour to southern coffee growing regions; hosting a Taste of Harvest (ToH) competition; and training and continuing education for Ethiopia's professional coffee cuppers. AGP-AMDe conducted a mission of 11 international specialty coffee buyers, who purchased \$274,000 of coffees from smallholder-owned cooperatives as of March 28, 2012. The strategic impacts of these activities are outlined below.

During this quarter, ACDI/VOCA subcontractor CQI conducted additional in-depth assessments of the existing Ethiopian coffee value chain situation, including analysis of current research and policy issues. The coffee value chain team developed a five-year implementation plan for AGP-AMDe's coffee VC activities. An Ethiopian Coffee Institution Model was created which strategically ties in with the enabling environment strategies through John Mellor and Associates and other AGP partners.

Ethiopian growers submitted an impressive 83 samples for the ToH competition, representing a broad array of growing regions and processing methods, for detailed evaluations of coffee to provide initial data for developing flavor profiles for various regions. Ethiopian coffees won the top three places in the Regional Africa ToH at the EAFCA conference, which further demonstrates the potential for growth in the coffee sector. Tracking sales data after the competition showed that 21 lots of Ethiopian coffee sold well above the average C Market price of \$1.80. The 21 lots, sold in volumes ranging from 18 to 72 tons, sold for an average of \$3.60/lb. The winning ToH coffee from Mormora sold for \$4.90/lb.

During the Arabica Naturals Workshop & Cupping Competition, three technical papers were presented to educate coffee buyers about natural coffees. A new grading system and cupping format for naturally processed coffees presented at the conference was well received and used in the competition. A total of 96 samples were evaluated. High demand for this educational work will be continued in conjunction with the standards activities in May and September 2012.

Two international coffee buyers (Willem Boot, Boot Consulting and David Pohl, Farmer Brothers) worked with ECEA at the EAFCA Trade Show to promote Ethiopia's coffees and market linkages and facilitate discussions between buyers and Ethiopian coffee exporters. The AGP-AMDe team created a contact list for follow up in a new Ethiopian Coffee Buyers Guide.

Willem Boot and David Pohl led a group of 11 international coffee buyers to southern Ethiopia to meet with Ethiopian coffee producers at their mills, cooperatives and farms. The team visited seven

cooperative washing stations and field cupped 58 coffees side-by-side with the farmers that produced them. This buyers experience can be viewed at [www.youtube.com/watch?v=7QuOz71aVKI&sns=em](http://www.youtube.com/watch?v=7QuOz71aVKI&sns=em)

The coffee value chain team held a Standards & Grading Assessment Workshop. This one-day workshop reviewed worldwide coffee standards and grading procedures, as well as Ethiopia's historical and current grading system. Workshop participants developed an agenda for a more in-depth international coffee standards meeting slated for later in 2012. This open dialogue is an important first step to improve grading, export, volume and value of Ethiopia's coffee. The relevance and use of CQI's Q Graders as part of the current ECX grading processes was also discussed.

The coffee value chain team implemented a Q grader course and examination as well as calibration of Ethiopian Q graders and laboratory inspections. Continuing education, building on activities previously implemented, and ongoing development of Ethiopia's professional coffee cuppers is a critical component of AGP-AMDe. ECX, ECEA, private exporters and many others rely on skilled cuppers to assess coffee quality. Ensuring international confidence in these cuppers and their results is a foundational goal to increase the quality and volume of Ethiopia's coffee. CQI's Q Grader Course, which is rigorous and notoriously difficult to pass, along with required calibrations of Q Graders, will be an ongoing process throughout the life of the project.

*Table 2: Summary of Coffee VC Activities during the Quarter*

| Description  | Location                         | Date                   | Participants                               |
|--|----------------------------------|------------------------|--|
| <b>R &amp; D for Coffee in Ethiopia Strategic Planning Meeting</b> | Jimma ARC                        | January 20 – 22, 2012  | 36   |
| <b>AGP-AMDe Coffee Intervention Consultation Meeting</b>           | ACDI/VOCA Addis Ababa            | February 8, 2012       | 12   |
| <b>Ethiopia's National Taste of Harvest</b>                        | ECX Lab in Addis Ababa           | January 6 – 10, 2012   | 83 samples<br>8 Q Graders                  |
| <b>Arabica Naturals Workshop &amp; Cupping Competition</b>         | Addis Ababa<br>(AFCA Conference) | February 14 -15, 2012  | 20<br>18 Q cuppers<br>96 - Arabica samples |
| <b>Ethiopia Trade Promotions at AFCA Conference</b>                | Addis Ababa<br>(AFCA Conference) | February 16 – 18, 2012 | Trade Show attendees                       |
| <b>Cupping Caravan to Southern Ethiopia</b>                        | Sidama, Yergachefe, Amaro        | February 21 – 25, 2012 | 11<br>(10/1)                               |
| <b>Ethiopia Standards &amp; Grading Assessment Workshop</b>        | ECX Lab<br>Addis Ababa           | February 20, 2012      | 35   |
| <b>Ethiopia Q Grader Course and Exam</b>                           | ECX Lab<br>Addis Ababa           | February 21 – 25, 2012 | 24<br>16 men/8women                        |
| <b>Calibration of Ethiopian Q Graders and Lab Inspections</b>      | Addis Ababa,<br>Hawassa, Jimma   | March 5 -16, 2011      | 52   |

Work on the enabling environment for coffee commenced in this quarter. AGP-AMDe held a conference on constraints to coffee quality and quantity expansion in Jimma in January 2012. The

enabling environment team participated and engaged actively in the discussions and related field trip. Through the findings of the conference, it became clear that women were the dominant actors in all aspects of production, and to some extent marketing, of coffee from the “gardens”—the high proportion of all coffee produced near the home sites. Participants proposed a tentative plan to give priority in our work to garden production of coffee and hence to the role of women in the VC. A plan was developed to pursue CCA focus groups in coffee in June/July 2012. Additionally, AGP-AMDe held a series of meetings on coffee VC marketing with ECX—a major player in all aspects of coffee. (For more on AGP-AMDe’s work on coffee this reporting quarter, please see Annex V.)

## **SESAME VALUE CHAIN**

### ***Background***

Sesame is now Ethiopia’s second largest agricultural export after coffee in terms of foreign revenue earnings. National production estimates for 2008/09 show that about 320,000 MT was produced, two-thirds of which was by smallholder farmers and the balance by larger commercial farmers. Continued growth in international demand, particularly in the Far Eastern and Middle East markets, offers significant growth potential for Ethiopian sesame. Ethiopian growers have responded to this strong demand. However output growth has been a result of increased areas planted (extensification), which grew by almost 50 percent between 2007 and 2009, with little or no productivity gains achieved over the last ten years.

### ***Overall Vision and Strategy***

#### **A VISION FOR CHANGE**

AGP-AMDe’s vision for the sesame value chain is to expand quality production to increase Ethiopia’s share in international markets.

AGP-AMDe is supporting increased yield and efficiencies through adoption of a combination of improved varieties and agronomic practices and better post-harvest handling, storage, grading and sorting practices. AGP-AMDe helps agribusinesses to upgrade and increase the range and quality of services they can offer to their clients or farmer members, including embedded extension services that can significantly improve both the quality and volume of sesame available for export. AGP-AMDe works with ECX and its exporter clients to enhance communication among actors and increase trust through transparency in relationships. The project works closely with EPOSPEA to raise the profile of Ethiopia as a leading exporter of consistently high-quality sesame.

### ***Activities during the Quarter***

Several stakeholder meetings were completed in this quarter for the sesame value chain including meetings with the AGP-AMDe Regional Manager in Tigray, the Sesame Value Chain Officer in the Regional Bureau of Agriculture, the Regional Cooperatives Agency, the Tigray Multipurpose Marketing Federation (TMPMF), four FCU managers and three commercial farmers. The meetings focused on AGP-AMDe’s implementation activities and developing AGP- AMDe partnerships.

Discussions with the Tigray Bureau of Agriculture, AGP focal person, two zonal and four woredas Steering and Technical Committee Chairmen and other AGP focal persons focused on AGP-AMDe’s sesame value chain work plan and integration with AGP activities. Additionally, a stakeholder meeting was held with 31 attendees to discuss important issues impacting the sesame value chain as well as discussion and development of partnership activities.



Through meetings with four FCUs (Setit Humera, Dansha Aurora, Lemlem and Tekeze) it was concluded that success of these FCUs depends on the proper support and linkage of the Regional Cooperatives Agency and TMPMF in input supply and output purchase, starting from smallholder farmers to primary cooperatives. Also, AGP-AMDe will facilitate improved support from FCUs to the smallholder farmers in generating income and will help strengthen FCU services to reduce the number of intermediaries in the value chain. Additional discussions were held with institution officials and the FCU managers on how to strengthen vertical value chain linkages, and the need for TMPMF to provide all required facilities such as input supply, credit for product purchases, and agro-processing directly involved in export market development. Also discussed was the role of AGP-AMDe project technical assistance to primary cooperatives and FCUs to increase access to improved seed supply and support in capacity building, post-harvest handling, warehouse management, quality control and standardizations, warehouse receipt systems and technical trainings.

To demonstrate Global Agricultural Practices (GAP) and fertilizer application trails based on soil tests and newly released varieties, AGP-AMDe selected nine model smallholder farmers and commercial farmers for demonstration sites that will be developed in coordination with the Humera Agricultural Research Center and woreda AGP development agents (DAs). Additionally, AGP-AMDe initiated the identification of 60 soil sample sites and 12 additional demonstration sites.

EPOSPEA held its first international conference in Addis Ababa from February 27–29, 2012. Twenty-nine international buyers and 100 local members participated. Successful business to business (B2B) discussions were held and contract deals were discussed. AGP-AMDe was one of the organizers of the conference. AGP-AMDe also completed an M3 assessment of EPOSPEA to identify future priority areas for capacity building engagement.

AGP-AMDe initiated discussions with the ESE as part of the project strategy to upgrade basic seed multiplication and production of certified seed. ESE anticipates that it will collect 30 MT of newly released sesame varieties (Setit 1 and Humera 1) to be produced through smallholder farmer outgrowers for certified seed multiplication. Primary cooperatives and FCUs will buy the seed and sell it to smallholder farmers for production and linkage to export markets.

## **HONEY VALUE CHAIN**

### ***Background***

Ethiopia is Africa's largest producer of honey and ranks tenth in the world, with a current national estimated honey production of 43,700 MT. About 5 percent of honey produced is consumed at home by rural households, and 80 percent goes to the *tej* sector. There are currently no regulations, guidelines or standards associated with honey production for the local market, and, as the *tej* market is made up of undiscerning consumers, there has until recently been little incentive to address issues related to quality. However, a fledgling export business for top quality organic honey and a growing local market for superior quality table honey have the potential to raise the profile of the Ethiopian honey sector, transforming it from a traditional low-quality sector to a high-value export-oriented one.

### ***Overall Vision and Strategy***

#### **A VISION FOR CHANGE**

AGP-AMDe's vision for the honey value chain is to improve productivity and competitiveness through increasing the volume of quality table honey for the domestic and export markets.

Key AGP-AMDe interventions in the honey value chain are as follows:

- Support modernization of the traditional practice of raising bees and harvesting honey to improve quality
- Promote the establishment of standards and guidelines, helping to establish quality parameters for the production, processing and product differentiation of honey
- Improve market linkages and networks for consolidation, packaging and labeling to enhance niche market opportunities for table honey in both domestic and export markets
- Conduct ongoing market research to verify appropriate and lucrative long-term markets for exports
- Assist the development of marketing campaigns and promotion to raise the profile of high-quality Ethiopian honey in both domestic and international markets
- Provide technical and financial support to the development of nutritional awareness campaigns to increase household demand for high-quality honey

AGP-AMDe will proactively target women beekeepers, as well-managed bee colonies are an excellent source of additional household income, which usually remains within the domain of the female actors managing the activity.

### ***Activities during the Quarter***

During this quarter, the AGP-AMDe honey VC team assessed cooperatives and associations to identify organizational constraints related to marketing products and to develop partnerships and proposals to work with AGP-AMDe. In this quarter, the majority of activities were geared towards establishing foundations for priority interventions that will be implemented in year one to enhance the technical, managerial and leadership capacity of the individual beekeepers and cooperatives, private sector actors, and other stakeholders.

AGP-AMDe provided technical guidance to associations, such as the Ethiopian Apiculture Board (EAB), on compliance with standards requirements of EU markets. Specifically, the project partnered with the EAB to finalize Ethiopia's third country listing and international standards certification to export honey to EU member countries. A team of consultants collected the honey samples and sent them to a certified testing laboratory in Uganda. The results in April 2012 will inform the final proposal for certification to the EU.

The team helped facilitate a new market opportunity for AGP-AMDe participant and beneficiary, Beza Mar Agro-Industry. The project introduced the honey trader to two new cooperatives in the Amhara region, Agunta and Ediget Chora Bees Products Development and Marketing cooperatives, which were interested in expanding their market opportunities. As a result, Beza Mar bought 8 MT from the cooperatives last month, which represents improved market opportunities for the agribusiness and cooperatives alike. Efforts now are underway to introduce Beza Mar to Zembaba Bees Products Development & Marking, a cooperative union with nine member cooperatives.

The second African level ApiExpo Africa 2012 organizing committee meeting was facilitated by AGP-AMDe and the event organizer was supported to promote ApiExpo Africa 2012 in Oromia, Tigray and Amhara regions

AGP-AMDe provided assistance to the Ethiopian Honey and Beeswax Producers and Exporters Association (EHBPEA) and EAB to assess areas for technical support and develop proposals to be submitted to the project for targeted technical assistance. In addition, SOWs were developed and the first volunteer trainers on export requirements were selected together with Winrock International. The

honey VC team also developed terms of reference for market research, bee product development and packaging consulting assignments to be carried out next quarter

## **CHICKPEAS VALUE CHAIN**

### ***Background***

Chickpeas are produced by approximately one million households, mostly subsistence farmers. The crop is leguminous, requires low levels of inputs and management, and is a relatively drought-resistant crop. From a nutrition and food security perspective, chickpeas are a good source of protein and women are typically the custodians of the crop following harvest. While local demand is stable, export demand is increasing, which translates to high farm-gate prices and a good opportunity for smallholder producers. Nevertheless, downside risk remains relatively high due to low domestic market growth, with limited buffering for bumper harvests; the dominance of informal market channels with a lack of transparency, quality standards and reliable market information; lack of production and marketing financing for cooperatives; and limited information flow from export markets related to expected quality and demand.

### ***Vision and Strategy***

#### **A VISION FOR CHANGE**

AGP-AMDe's vision for the chickpea value chain is for Ethiopia to expand improved production to meet domestic demand and growing regional and export demand.

AGP-AMDe is engaging in several activities that will increase the competitiveness of the sector, such as the following:

- Addressing impediments to the availability of improved seeds
- Strengthening modern management capacities of cooperatives and unions
- Supporting the upgrading and expansion of post-harvest handling and storage, including capacity building on warehouse management practices and awareness creation on quality and standards
- Facilitating the introduction of agro-processing
- Strengthening marketing skills and market linkages
- Addressing financing constraints along the value chain

AGP-AMDe will introduce new international buyers to exporters and processors and will stimulate input suppliers and other agribusiness partners to scale up their capabilities to offer new technologies, products and services to smallholder farmer clients. These interventions will include the introduction and multiplication of improved seeds, specifically the Kabuli types; variety and fertility trials; access to credit for the purchase of seed and fertilizer; trainings by cooperatives in harvest and post-harvest handling techniques; the introduction to mechanized systems for tillage, planting and harvesting; the expansion of cleaning, handling and storage facilities; and linkage to ECX marketing, warehousing and receipting systems.

### ***Activities during the Quarter***

AGP-AMDe continued its collaboration with USAID, PepsiCo, ATA, and WFP to facilitate development of an improved production and marketing model for chickpeas in Ethiopia. It is anticipated that the potential public-private partnership will increase the competitiveness of the sector by addressing impediments in availability of improved seeds; improving management capacities of

farmers' organizations; upgrading and expanding post-harvest handling and storage; and introducing agro-processing, marketing and market linkages. It will also address impediments to access to finance across the chickpea value chain and identify innovative investment opportunities in the value chain, such as the introduction of mechanization for harvesting and privately owned/managed warehouse and storage facilities to increase the overall performance and sustainability of the sector. USAID/Ethiopia will also work towards improving the enabling environment for the chickpea value chain. The final draft of the MOU is expected to be executed next quarter.

AGP-AMDe has assessed three FCUs in Oromia (Dembia, Becho and Lumek), which were jointly identified by ATA and AGP-AMDe. Together these FCUs are made up of 4,800 smallholder farmers. Becho FCU is partnering with Omega Farms as a lead commercial producer and will host a demonstration site on behalf of PepsiCo. The AGP-AMDe team visited Omega to develop the collaborative plan for the demonstration site and the introduction of mechanization, and to develop a marketing strategy. The project anticipates similar plans for market linkage facilitation and improved production in the next quarter with all three FCUs. Through the on-going collaborative planning with ATA and other stakeholders, it is anticipated that AGP-AMDe will provide technical assistance to the cooperatives in the following areas: input supply (primarily seeds), training of cooperative union and primary cooperative suppliers in the handling and storage of the chickpeas, contract negotiation with WFP and private buyers, and the introduction of mechanization for tillage, planting and harvesting.

# COMPONENT 2: IMPROVING ACCESS TO FINANCE

## *Background*

Activities under component 2 improve access to finance for participants along the value chain to enable increased investment, improved productivity and expanded trade. AGP-AMDe takes a financial systems approach, but emphasizes activities that finance critical and specific agricultural transactions and investments. Through support to specific commodity sales contracts or investments in equipment that allow value chain actors to upgrade their services and the quality of their output, AGP-AMDe helps to generate a pipeline of financial transactions that can be submitted as loan applications to financial institutions. These transaction-focused efforts will lead to interventions at a broader level, by identifying those constraints related to structure capacity, risk mitigation and policy that make upgrades and transactions in the targeted value chains most difficult. Lessons learned will be communicated to policy makers, industry associations and a network of interested financial institutions.

## *Activities during the Quarter*

During this quarter, AGP-AMDe focused its access to finance interventions around several key activities. The access to finance team held discussions with AEMFI to develop partnership opportunities. As a result of these discussions, AGP-AMDe will work on conduct trainings with MFI professionals to facilitate development of new financial products and technical capacity that the MFIs lack. AGP-AMDe conducted a field assessment in Tigray to analyze the rural finance service provision systems and capacities of Dedebit MFI and its two sub offices. As part of the field assessment, the team determined that rural savings and credit cooperatives (SACCOs) are performing at an average level, and will also require careful technical assistance and training to build their capacity to be viable businesses.

The team held discussions with the USAID Development Credit Authority (DCA) representative on collaboration and integration of the project goals and identifying potential DCA banks, Zemen and Abyssinia, for partnership. The collateral system and requirements were also identified and prioritized. The goal of this process is to facilitate increased agricultural and equipment lending from partner banks to enable the accumulation of capital assets by smallholder farmers to allow for improved farming productivity and increased income.

The access to finance team developed tools to assess the value chain products of MFIs and a more detailed survey will follow during the next quarter. The team identified 26 unions (10 wheat, 7 maize, 4 sesame, 2 chickpea and 3 coffee) and 3 primary cooperatives to begin capacity building programming, which started with M3assessments. In an attempt to make leasing financing more functional in Ethiopia, several meetings were held with stakeholders. Meetings included Serengeti Capital, John Deere Financial, Gedeb Engineering, USAID/DCA and ACDI/VOCA regarding partnering with cooperatives on the transformation to mechanization. Some activities discussed were technical assistance, serving as a point of contact for DCA, business development assistance, cash flow projections, business planning, and assisting potential borrowers to improve understanding of the financing process.

The financial needs of the seven unions selected for participation in the WFP P4P program were identified and assessed. These included particular needs in input marketing and output marketing.

Initial linkages with financial service providers are in process (MFIs, banks, leasing and warehouse receipt system).

The AGP-AMDe access to finance team established partnerships with three private banks (Abyssinia, Cooperative Bank of Oromia and Zemen Bank) and one public bank, Commercial Bank of Ethiopia. Eleven MFIs (PEACE, Dedebit, ACSSI, OCSSCO, OMO, Eshet, SFPI, Wisdom, Busa Gonofa, Wesasa and Africa) were identified as potential partners. The team is in the process identifying the gaps that these MFIs have in terms of capacity, and designing possible partnership activities to address these gaps. The team discussed with the MFIs the potential of expanding to rural areas where financial service providers have no presence.

A field assessment was completed on the wheat value chain financing for two unions (Galama and Sekemando in the Oromia region) and financing gaps were identified. AGP-AMDe completed another assessment on chickpea value chain financing for one union, Becho-Weliso. An assessment and discussions of investment loan or leasing products for critical equipment, improved cleaning machines and leased planting and harvesting equipment to increase mechanization and improved post-harvest handling of wheat, maize, sesame and chickpea, is in process. The assessment includes MFI or in-kind financing of small-scale equipment such as modern bee hives.

As identified through various assessments, many cooperatives, FCUs and commercial farmers do not use proper cash flow formats or systems for their businesses. AGP-AMDe is using ACDI/VOCA's Value Chain Cash Flow Analysis Tool as part of our Sell More For More (SMFM) training package. The access to finance team is also working on the introduction of legally enforceable purchase and sales agreements and ways to improve the flow of agricultural market and production information so that financial institutions such as banks, MFIs and SACCOs can make more informed lending decisions.

FCUs, cooperatives, and MFIs voiced concerns about constraints in financial services that prevent transformation and urged AGP-AMDe, ATA, USAID and other organizations that are working at the policy level to facilitate improvements with the regulatory system for access to finance. AGP-AMDe held meetings with ATA and concerned government bodies to discuss potential solutions to the 27 percent capital investment requirement in the development activities of private banks, including options to show some exemption on the 27 percent requirement when banks are financing agricultural sectors. (See Component 3 for more details.)

# COMPONENT 3: IMPROVING THE ENABLING ENVIRONMENT OF SELECTED VALUE CHAINS

## *Background*

Component 3 works closely with the GoE on various policies related to improving the enabling environment for value chain development, including improved private sector agribusiness performance, greater access to inputs, and increased value-addition of services. Given the critical importance of facilitating an effective enabling environment, initially AGP-AMDe's work is focusing in the following interrelated areas: 1) tripling fertilizer usage growth; 2) massive expansion of the seed industry; 3) acceleration of the generation and application of improved technology for increasing soil fertility, with emphasis on raising on-farm productivity and hence the profitability of fertilizer; and 4) increasing women's access to new technologies and information to garner their support to increase fertilizer and improved seed demand.

To ensure coordination in our efforts, the AGP-AMDe team is collaborating with representatives from AGP, ATA and the Director of the Planning Directorate within the MoA. Additionally the team will hold stakeholder meetings to include appropriate representatives of the private sector and of the cooperative sector to explore the integrated complexity of fertilizer, seed, improved technology and gender issues.

## *Activities during the Quarter*

In the first quarter of 2012, the enabling environment team held two major conferences on issues concerning a national vision and strategy and gender policy (for more details on the gender conference, see the Cross-Cutting Themes section of this report and Annex III). The national vision and strategy conference was the centerpiece of an effort to enhance capacity among high level directors in the MoA to analyze and draw conclusions in the context of the broad vision and strategy of the national government.

AGP-AMDe initiated lengthy discussions with a wide set of stakeholders as to how we could best utilize our experienced staff to facilitate capacity building for public institutions in the analysis of enabling environment issues. The first thrust was the January 2012 meeting that involved a representative of the MoA and almost all of the directors of directorates in the ministry. The base effort was a paper by John Mellor on the Ethiopian vision and strategy with quantitative projections on the implications of specific policy actions on the national vision and strategy. A presentation by Dr. Kumar-Range of JMA viewed the same issues from a gender perspective. Spirited discussion with broad participation occurred on these topics. A capacity to understand these large issues that cut across directorates was enhanced. Survey of the participants showed a universal view that the exchange had been useful. AGP-AMDe is planning a series of such meetings with broadening participation of civil society. See Annex III for report on the MoA Directors' Meeting on Vision and Strategy for Agriculture.

The work to improve the fertilizer enabling environment moved ahead with the results of the first round of focus groups organized around the CCA concept. Examination and fact gathering on the fertilizer enabling environment continued with pursuit of the CCA approach and related focus groups,

analysis of other countries, and further analysis of the situation in Ethiopia. From this came an action plan for fertilizer that provided a central place to improving the capacity of cooperatives to efficiently deliver a rapidly increasing supply of fertilizer to farmers. This approach fits into the much broader approach of ATA to improve cooperatives. It was proposed that an experiment be conducted with participation of private grain traders in fertilizer distribution. Discussions were held with IFPRI about the feasibility of doing experimental research in this context. The results are summarized in Annex I which states the action plan in summary form. After further discussion, consideration will be given to modifying the action plan.

AGP-AMDe also began engaging ATA on improving the enabling environment for access to finance, specifically the issue of liquidity problems in private banks in Ethiopia. The liquidity problem is due to the National Bank of Ethiopia Directive that requires private banks to invest 27 percent of their gross loan disbursements in government bonds and it has discouraged and continues to discourage private bank financing of the agricultural sector, including AGP target value chains. As part of its continuous engagement and coordination with ATA in improving the enabling environment for the selected value chains, AGP-AMDe has discussed with ATA the issue of liquidity problems in private banks in Ethiopia to seek a cohesive way forward towards addressing this issue. After consultations with ATA, IFC/World Bank Warehouse Receipt Credit Guarantee Program and USAID DCA Program on the liquidity problem of private banks, AGP-AMDe facilitated a roundtable discussion with partner banks of IFC/World Bank and USAID DCA Program and ATA. The roundtable discussants have proposed the following two recommendations to address the liquidity problem in private banks as it relates to agricultural finance; a) private banks should be exempted from the requirement to invest 27 percent of their loan disbursements in government bonds when they lend to agriculture sector; and (b) allow private banks to access foreign finance when it goes to the agriculture sector. The roundtable discussants have also proposed that ATA and AGP-AMDe coordinate to further analyze the liquidity problem in private banks and articulate the issues including actionable recommendations. See Annex IV on AGP-AMDe's engagement with ATA to address liquidity problem that discourages lending to the agricultural sector.

In this quarter the enabling environment team has further explored the complex issues of capacity building in the public sector with respect to the enabling environment. See Annex II for AGP-AMDe's memorandum on how to advance capacity building activities under the enabling environment component. It is important to note that in all of this work, numerous interactions took place among a large number of government officials and members of the academic community and civil society in Ethiopia.



# COMPONENT 4: STIMULATING INCREASED INNOVATION AND INVESTMENT

## *Background*

The Innovation and Demonstration Fund aims to facilitate the introduction of and investment in a broad range of competitiveness-enhancing activities. The goal of the grants funding is to provide flexible mechanisms to reduce risks, introduce innovations, leverage resources, stimulate private sector investment and mitigate constraints in the target value chains. Project staff works closely with the PPP advisor and the grants/PPP manager to identify the most appropriate collaborating partners for innovative grants on a cost-sharing basis. The potential partners represent a cross-section of both public and private stakeholders. Women-owned business applicants and organizations that can demonstrate improved gender equity are encouraged to apply.

## *Activities during the Quarter*

The grants management team held strategy meetings with team leaders in each VC to flesh out a detailed strategy for grants rollout. The teams developed several SOWs for grantees the team has identified as priority partners. Stakeholder workshops in which grant proposals and innovative ideas are to be solicited were designed and arranged. Deborah Hanley, ACIDI/VOCA Vice President of Awards and Compliance, traveled to Addis Ababa in late March 2012 for discussions with the team and USAID on streamlining the grant approval process. The grant manual is still pending USAID approval as of March 31, 2012.

AGP-AMDe held several meetings with potential investors in the sesame processing sector from Egypt (Juhayna Food Industries) as a part of the Public Private Partnership (PPP) strategy. Additional meetings were held with PepsiCo in coordination with ATA on moving forward the chickpea PPP activity. PepsiCo plans to redefine its strategy and coordinate with USAID and ATA to roll out a larger-scale activity.

# M&E AND BASELINE STUDY

## *Background*

Kimetrica is undertaking the baseline, midterm and endline studies and identifying project metrics and indicators. The baseline study is based on a household questionnaire that includes modules capturing data on characteristics of household farming practices; health and behavior and attitudes; nutrition, stunting and wasting; and household income, which is based on methods used in the World Bank’s Living Standards Measurement Surveys. The baseline survey also includes a treatment (project beneficiaries) and control (non-beneficiaries) group, as this will greatly facilitate impact surveys that may take place during and at the end of the project. Given that the project is targeting 1 million smallholder farmers in 83 woredas, the baseline survey covers 2,100 households, randomly selected from three clusters within each woreda in addition to approximately 30 focus group interviews with community leaders, including traders and innovators.

## *Activities during the Quarter*

The AGP-AMDe team made significant progress on M&E activities during the quarter, and completed the baseline milestones set out in the work plan (see table 3). The ACIDI/VOCA HQ Senior M&E Director worked closely with subcontractors Kimetrica and Danya to prepare the baseline survey and design the household and institutional questionnaires. In preparing the questionnaires, the team carefully took into consideration the survey work being completed by IFPRI and the Central Statistics Agency (CSA) to avoid duplication and ensure collection of quality baseline data.

**Note:** In order for the AGP-AMDe baseline survey team to avoid duplication of work already completed, the project will require a confirmation letter, with support from USAID, stating that the AGP baseline data will be shared with AGP-AMDe.

The sampling frame AGP-AMDe developed for the household questionnaire consisted of 35 AGP target woredas, representative of each of the four project regions. This sample was also a subset of the sample used by CSA in 2011, which ensures the survey is representative of AGP target beneficiaries. The institutional questionnaire was also targeted at the woreda level, and included woreda officials, primary cooperatives, FCUs, financial institutions (including MFIs), traders, research institutions, processors, agro-dealers, and other VC related actors.

*Table 3: Completed Baseline Milestones*

| USAID/Ethiopia AGP-AMDe Baseline Milestones |                   |           |
|---|-------------------|-----------|
| Pilot Questionnaire                         | February 26, 2012 | Completed |
| Enumerator Trainings                        | March 5-9, 2012   | Completed |
| Field Survey                                | March 12, 2012    | Completed |
| Data Entry                                  | March 30, 2012    | Completed |

Once the design and translation of the questionnaires into Amharic was complete, AGP-AMDe conducted the pilot questionnaire to test validity and reliability before the full field survey. The team interviewed 24 farmers in the North Shoa Zone of Amhara—Mojana woreda, Engidasha kebele and Tarmaber woreda, Sina kebele—and conducted two focus groups with 22 farmers in these woredas. The pilot for the institutional questionnaire included institutions at the zonal and woreda level. The

process informed improvements to both questionnaires in regards to content, clarity, standardization, format, methodology, and more.

With the improved household and institutional questionnaires, AGP-AMDe administered the field survey and completed the data entry of results. The team provided enumerator training to seven teams of five people, including one supervisor in each team, the first week of March. The field work began by March 11, 2012 and is ongoing through late April (Table 4).

*Table 4: Upcoming Baseline Milestones*

| <b>USAID/Ethiopia AGP-AMDe Baseline Milestones</b> |                            |
|--|----------------------------|
| End Field Work                                     | April 21, 2012             |
| Data Entry Finalized                               | April 28, 2012             |
| Final Report                                       | May 31, 2012               |
| Presentation of Baseline Results to USAID          | June 13, 2012 <sup>1</sup> |

Once the field work is finalized, AGP-AMDe will perform data entry of results and Kimetrica will populate the M&E system ki-projects™ with the survey data, including indicators, baseline values, and targets. The project anticipates completion of the final baseline report by May 31, 2012 and presentation of the results to USAID/Ethiopia, AGP, GoE and other key stakeholders in early June. ACDI/VOCA’s Senior Director of M&E will travel to Ethiopia to train staff in M&E and lead the presentation of results to USAID/Ethiopia. ACDI/VOCA Regional M&E Specialist will also travel to Ethiopia to train staff on data quality, in the next quarter. The final PMP with target indicators will be included in a comprehensive M&E plan, along with performance indicator reference sheets.

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<sup>1</sup> Date subject to change based on USAID/Ethiopia and AGP-AMDe partner availability

# CROSS-CUTTING THEMES

The AGP-AMDe team and subcontracting partners are addressing cross-cutting issues and themes that touch on all value chain activities and project components. While they have in part been integrated into the value chain interventions in the above sections, there are also cross-cutting issues that are applicable to all the value chains, as summarized below.

## GENDER

### *Background*

AGP-AMDe will mainstream gender equity across all program components, in addition to ensuring that a targeted approach is employed, designating specific activities and resources towards lessening the inequality between women and men. AGP-AMDe's overall approach is to support the development and adoption of organizational systems and tools to identify and address inequality, build public and private sector awareness and capacity, strengthen networks of individuals and organizations promoting gender equity, create public awareness and target innovation investments in areas of benefit to women. Specifically, AGP-AMDe's goal is to achieve at least 30 percent women's participation—with a corresponding share of the benefits accruing to them—in all program-supported interventions measured by the number of female stakeholders participating in program activities, returns to female participants and the amount of investment made by the project.

### *Activities during the Quarter*

During this quarter, the first gender consultation on promoting women's participation in cooperatives was held on January 25<sup>th</sup> and 26<sup>th</sup> and was facilitated by the AGP-AMDe gender and enabling environment team in collaboration with ATA. The purpose of the consultation was to recognize the critical need of cooperatives to offer competitive and inclusive opportunities for women. Key stakeholders such as the FCA and Chambers of Commerce presented as well as ACDI/VOCA HQ Senior Gender Specialist. Key findings and program implications were identified and shared. Further information on the consultation and outcomes and findings can be found at the following website: <http://www.acdivocacoopex.org/acdivoca/CoopLib.nsf/whycoopsandassociations/gender-consultation-ethiopia-2012?opendocument>.

In order for the baseline survey to include gender considerations, the AGP-AMDe team did the following:

- Reviewed the baseline questionnaire developed by Kimetrica to ensure gender concerns were incorporated
- Held a session on gender perspective awareness during the baseline survey preparation
- Delivered a ToT for survey supervisors and enumerators, including aspects of gender
- Jointly reviewed the Amharic-translated questionnaire for clarity and consensus on areas that need to be improved and maintain gender balance on the selection of enumerators

A one-day multi-stakeholder symposium titled “Empowering Women in Value Chains” was organized and facilitated on March 15, 2012 and brought together key stakeholders including donors, women entrepreneurs and women's associations. The symposium was linked to marking International Women's Day. Areas of discussions included a perspective and plan for gender of donors; a perspective of gender in the AGP-AMDe project; the experience of others on the theme in question;

obstacles faced by women-owned businesses; and USAID's gender integration experience and instruments.

Participants reflected strongly that women-owned businesses face many more constraints and receive far fewer services and less support than those owned by men, have limited market and networking opportunities, and are challenged when entering and enforcing contracts with producers and end market actors. Noting USAID's current commitment to women's empowerment and entrepreneurship, discussions focused on AGP-AMDe's commitment to support efforts on improving access to finance for women, in particular with private banks.

AGP-AMDe held a half-day gender awareness event for 42 staff (19 females) on International Women's Day, March 8, 2012. Included in the program was the following: 1) gender concept and ACDI/VOCA's corporate commitment to gender; 2) inclusive gender programming in AGP-AMDe value chains; 3) testimony of women cuppers and coffee owners; and 4) viewing of two gender documentary films.

Progress was made towards integrating gender into the grants innovation fund and value chains, and a gender tool/checklist was developed and shared for use in the grant announcement, assessment and implementation process.

AGP-AMDe facilitated further networking and partnership development with organizations such as Women in Coffee, Agro-Pro-Focus, Ethiopian Women's Exporters Association, Association of Gender Equality and women in leadership.

## **NUTRITION & HIV/AIDS**

### ***Background***

Ethiopia has one of the world's highest incidences of undernutrition and chronic malnutrition among children—a staggering 47 percent. The goal of AGP-AMDe nutrition and HIV/AIDS interventions is to contribute to the overall sustainability of the achievements of the project in reducing poverty and hunger by improving the nutritional status and reducing the prevalence of HIV/AIDS in target woredas. The AGP-AMDe team works to improve the nutritional status of households engaged in the target value chains and PLWHA by increasing their household food production and/or income. In order to mitigate the prevalence of HIV/AIDS and malnutrition, especially among children and women, awareness-raising activities will be directed to the communities in the target woredas. The team will also focus on HIV prevention strategies through decentralization of training events and input supply and marketing linkages to reduce travel and family separation. Each training event will incorporate HIV prevention messages for wider dissemination and outreach. All components will seek appropriate inclusion of disadvantaged people, including PLWHA.

### ***Activities during the Quarter***

During this quarter, AGP-AMDe registered ACDI/VOCA as a member of the Nutrition Technical Working Group at the Federal Ministry of Health. A list was compiled of potential HIV/AIDS self-help groups the project will reach out to for potential engagement in project interventions. Discussions on nutrition and HIV/AIDS were held with Save the Children USA, the ENGINE project and Nutrition and Livelihood Advisor, Ato Kebede Tafese,. Discussions centered on the status of the baseline survey to be done in AGP woredas; how to collaborate to avoid overlap of interventions (particularly around the livelihood activities of ENGINE), and establishing recurring meetings in order to share field results, experiences and challenges.

The AGP-AMDe team participated in a multi-stakeholder consultative research workshop on March 21 and 22, 2012 organized by ENGINE with universities, Ethiopian Health and Nutrition Research Institute and partners working in nutrition and livelihoods. The following topics were discussed in the two-day workshop:

- Introduction to and background on nutrition in Ethiopia
- Strengthening the nutrition policy environment
- Improving effectiveness of programs to address acute malnutrition
- Improving effectiveness of multi-sectoral interventions for nutrition
- Prioritizing the research agenda and formulating research questions

Meetings were also held to discuss the AGP-AMDe project goals with the Oromia Regional Bureau of Health, Federal HIV/AIDS Prevention and Control Office, Federal Dawn of Hope, and the MoA HIV/AIDS Mainstreaming Unit office.

## **TRANSPORTATION AND LOGISTICS**

### ***Background***

Crown Agents is participating in several activities focused on transport, customs, roads, railways, ports, warehouses and policies that govern transportation within Ethiopia. Route analysis will be performed to identify problem areas, transport bottlenecks, including nontariff barriers and issues related to customs and custom practices. Initial analysis indicates a mix of institutional and capacity constraints across various private and public sector stakeholders. The project prioritizes areas that need to be addressed in the short, medium and long term to enable produce to be transported, stored and sold domestically and abroad in an increasingly efficient manner. AGP-AMDe is identifying and assessing stores and warehouses and determining their availability and adequacy in terms of capacity, location, safety and security.

### ***Activities during the Quarter***

During this quarter, AGP-AMDe subcontractor Crown Agents made preparations for the warehouse and transport assessment they will conduct starting in the end of May. A detailed scope of work was developed and discussed and will be finalized in early April. Delays in the assessment have occurred due to the availability of consultants to complete the scope of work.

## **ENVIRONMENT/NRM**

### ***Background***

AGP-AMDe tracks environmental impact through its Environmental Compliance. Cumulative impact of anticipated intensification of agricultural production is mitigated by promulgation of environmentally sustainable agricultural practices and technologies. It is anticipated that these practices and technologies will lead to increased productivity and minimize the need to increase land area under cultivation. Inputs provided to farmers include seeds and fertilizers. Only available, in-country-certified seeds are provided, and only fertilizers approved by the local regulatory authorities are introduced and utilized. Potential users are trained in proper fertilizer handling, storage, use and application, and fertilizers are employed according to the best practices, promoting integrated soil fertility management. There are currently no plans to demonstrate or distribute pesticides; however in the event that demonstration of pesticides is deemed necessary, the project will develop or adapt an existing PERSUAP.

### ***Activities during the Quarter***

The AGP-AMDe team completed and submitted an Environmental Review and Report on March 21, 2012. The report highlights the potential environmental risk or lack of risk in relation to AGP-AMDe project interventions. Additionally the review included background information on the regions in which AGP-AMDe is working including environmental determinations. The AGP-AMDe team also developed a scope of work to outsource the completion of the PERSUAP and discussions were held with several consultants to finalize consultancy details. The PERSUAP consultancy is expected to begin at the end of April and be completed by July 2012.

# PROJECT ADMINISTRATION

The AGP-AMDe team has continued to make significant progress in not only completion of office set-up but also in recruitment. The home office had several support staff travel to Addis to assist with M3 assessments, communication strategies, recruitment, operational procedures and reporting structures. From ACDI/VOCA's home office, specialized support for Component 2 was provided by Managing Director for Financial Services Bob Fries and Technical Managing Director Doug Leavens.

Additionally, Senior Vice President of the President's Office Paul Guenette, Vice President of Program Operations Joyjit Deb Roy, and Senior Director of Communications and Program Operations Sandra Bunch arrived in Addis Ababa on March 26, 2012. Project Coordinator John Madigan also arrived on March 14, 2012. These staff provided specialized technical and operational capacity building assistance to project staff in several areas including value chain finance, cooperative development assessment, public relations and communications, recruitment, procurement and reporting. The senior PPP advisor, Alex Pavlovic, was approved by USAID and he arrived in Addis on March 19, 2012. A short-term consultant, Tadele Galen, was recruited and hired to conduct value chain financing assessments. Please see Appendix VI for the consultant's final report.

The head office in Addis and all four regional offices have been furnished since March 1, 2012. The AGP-AMDe project completed the bidding process to purchase six additional vehicles and sent a waiver to USAID to support the purchase of project vehicles. Additionally the team prepared bids for a high capacity printer, two servers for the Addis office and three microservers for the regional offices for shared file space, and procured computers and printers for the regional offices.

Recruitment of the remaining positions continued and many have been submitted to USAID for approval and/or approved by USAID during this quarter. As of March 30, 70 percent of long-term project staff have been hired, and we have finalized candidates for 21 of the 29 remaining vacant positions. AGP-AMDe has interviewed and shortlisted additional candidates for the remaining positions. USAID will receive from ACDI/VOCA all final employee approval requests of positions in the approved award for both the head office in Addis and the four regional offices in April.

Through internal discussions and through discussion with USAID, AGP-AMDe also identified several new positions that are necessary to meet project objectives and ensure successful implementation. These positions include the following: operational DCOP, senior cooperative development specialist, senior communications specialist, senior chick pea value chain specialist, regional chickpea value chain specialists, senior procurement specialist, fleet manager, and several junior level administrative and operations positions. ACDI/VOCA will submit a matrix outlining these new positions, which positions these will replace in the approved award, and an explanation of why these positions are necessary to effectively implement the project. ACDI/VOCA has also revised the organizational chart accordingly (Figures 1 and 2).

Also during this quarter, AGP-AMDe has established improved field reporting mechanisms to ensure managers and USAID are kept fully abreast of activities, successes, potential setbacks and lessons learned. Understanding the high profile of AGP-AMDe, we will provide USAID with brief monthly summaries of project activities and a steady stream of descriptions of project achievements. In addition, we will ensure appropriate, positive media coverage that recognizes USAID's substantial investment in agribusiness and market development in Ethiopia.



Figure 1: AGP-AMDe Organizational Chart—Addis Ababa Office

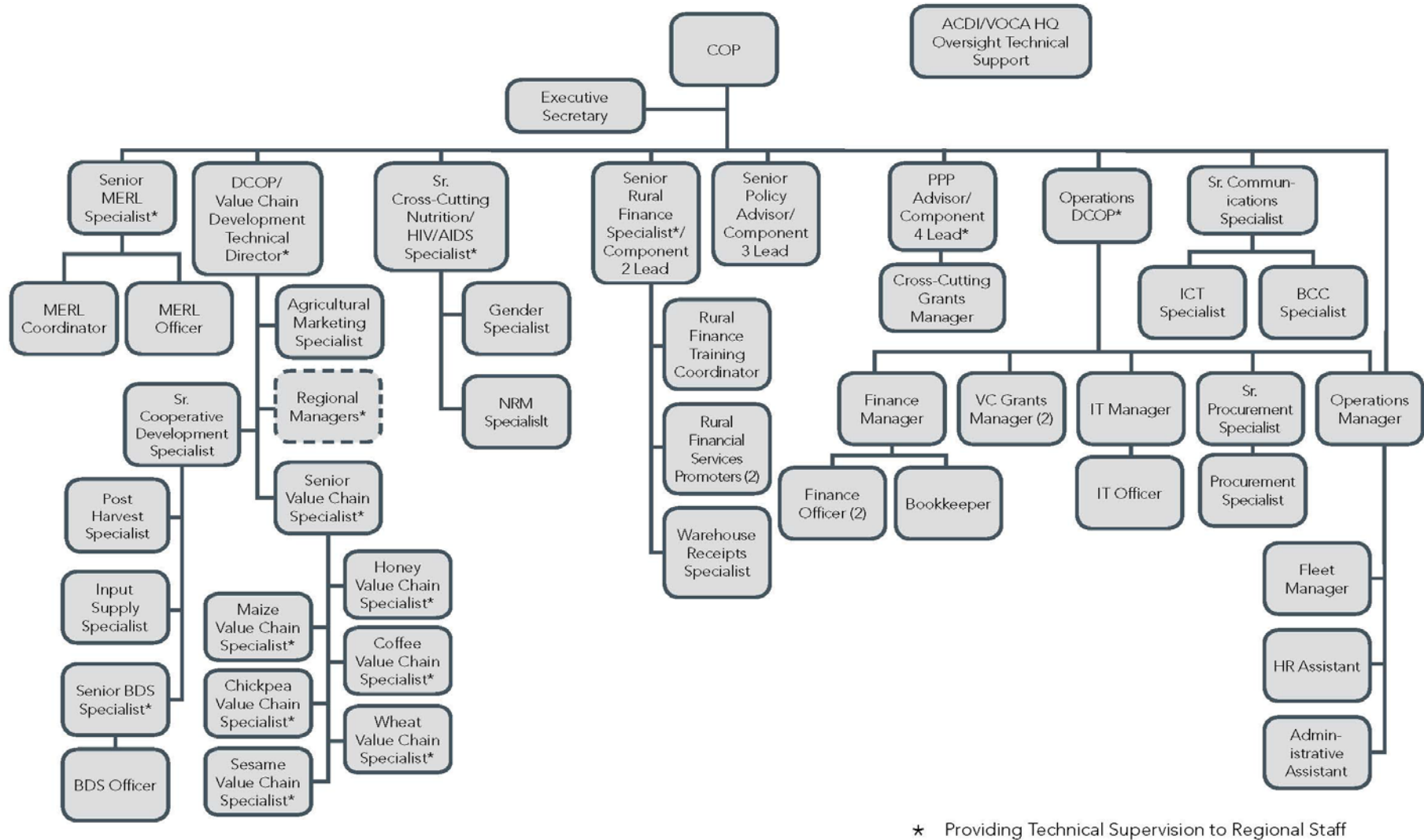
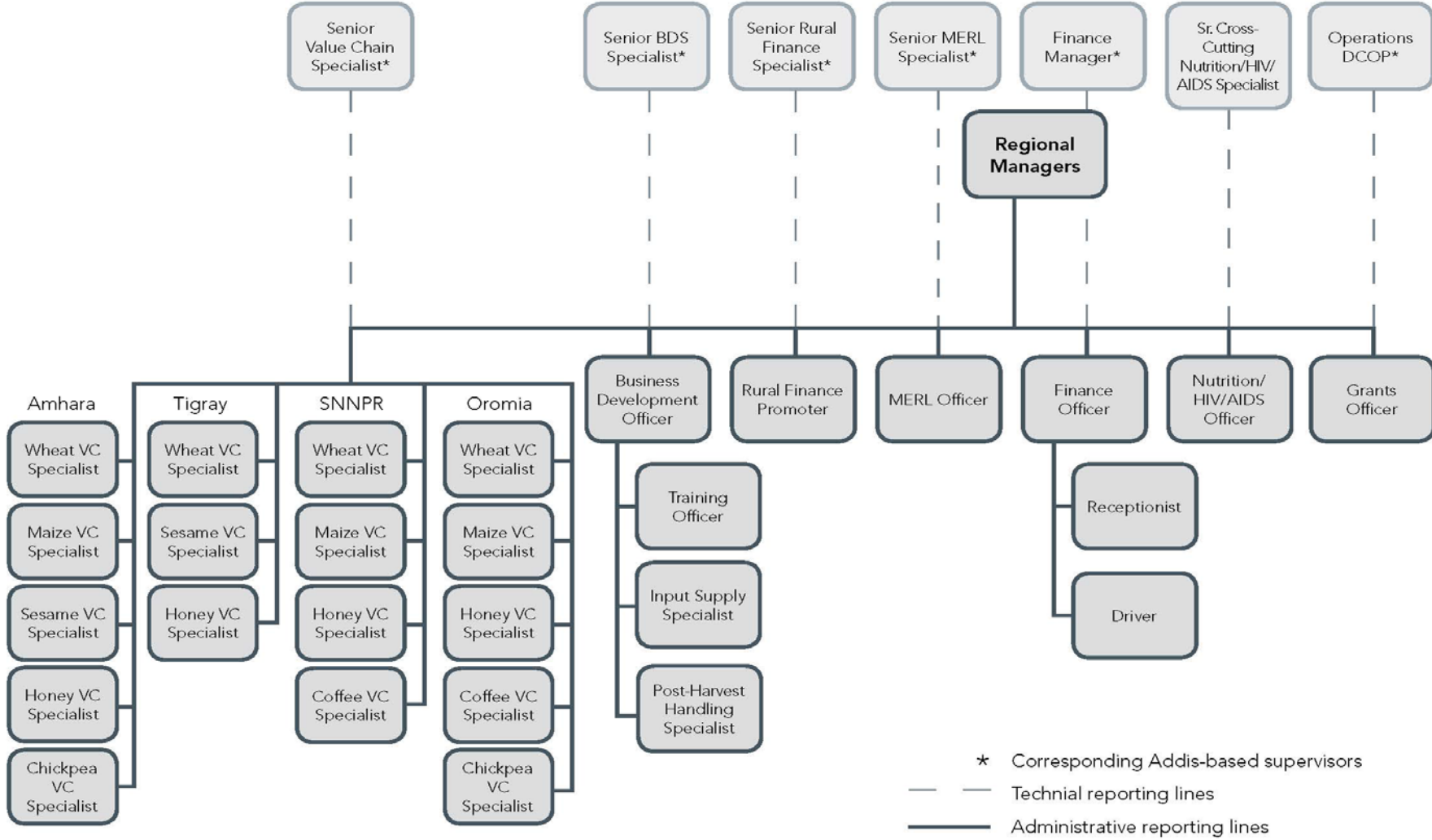


Figure 2: AGP-AMDe Organizational Chart—Regional Offices



# COMMUNICATION AND INTEGRATION STRATEGIES

## *Background*

AGP-AMDe's communication and integration strategy is designed to serve as a tool that ensures maximum coordination with all partners implementing the different components of AGP and other USAID-funded projects engaged in supporting development endeavors in the country. AGP-AMDe communicates with all its partners and stakeholders along the value chain proactively at federal, regional, zonal and woreda levels giving two-way feedback to the stakeholders involved, thus effectively integrating the activities of all those involved.

## *Activities during the Quarter*

In November and December 2011, candidates for both of Danya's full-time positions, behavior change communication (BCC) manager and information communication and technology (ICT) manager were identified and submitted to USAID/Ethiopia. These two staff positions are integral to Danya's success on the project. Unfortunately these candidates have not yet been approved. Due to this significant delay, Danya lost the BCC manager candidate to another USAID-funded project, and has experienced delays in the development of the project website, the planned communications assessment and further development of behavior change communication messaging.

# QUARTERLY BUDGET

| Line Item                                     | Total Budget        | Previous Costs     | Current Quarter (Jan - Mar 2012) | Wheat            | Maize            | Coffee           | Honey            | Sesame           | Chickpeas        | Total Costs May 2, 2011 - Mar 31, 2012 | Remaining Funds     |
|---|---------------------|--------------------|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|---------------------|
| <b>Salaries and Wages and Fringe Benefits</b> | <b>\$8,608,234</b>  | <b>\$470,437</b>   | <b>\$240,832</b>                 | <b>\$184,930</b> | <b>\$170,704</b> | <b>\$120,916</b> | <b>\$92,465</b>  | <b>\$78,240</b>  | <b>\$64,014</b>  | <b>\$711,269</b>                       | <b>\$7,896,965</b>  |
| C1 - VC Competitiveness                       |                     | 322,849            | 165,277                          | 126,913          | 117,150          | 82,981           | 63,456           | 53,694           | 43,931           | \$488,126                              |                     |
| C2 - Access to Finance                        |                     | 73,794             | 37,778                           | 29,009           | 26,777           | 18,967           | 14,504           | 12,273           | 10,041           | \$111,572                              |                     |
| C3 - Enabling Environ.                        |                     | 73,794             | 37,778                           | 29,009           | 26,777           | 18,967           | 14,504           | 12,273           | 10,041           | \$111,572                              |                     |
| <b>Subcontracts</b>                           | <b>\$17,103,982</b> | <b>\$211,973</b>   | <b>\$317,774</b>                 | <b>\$137,734</b> | <b>\$127,139</b> | <b>\$90,057</b>  | <b>\$68,867</b>  | <b>\$58,272</b>  | <b>\$47,677</b>  | <b>\$529,747</b>                       | <b>\$16,574,235</b> |
| C1 - VC Competitiveness                       |                     | 145,472            | 218,080                          | 94,524           | 87,252           | 61,804           | 47,262           | 39,991           | 32,720           | \$363,552                              |                     |
| C2 - Access to Finance                        |                     | 33,251             | 49,847                           | 21,605           | 19,943           | 14,127           | 10,803           | 9,141            | 7,479            | \$83,098                               |                     |
| C3 - Enabling Environ                         |                     | 33,251             | 49,847                           | 21,605           | 19,943           | 14,127           | 10,803           | 9,141            | 7,479            | \$83,098                               |                     |
| <b>Sub-grants</b>                             | <b>\$14,200,000</b> | <b>\$0</b>         | <b>\$0</b>                       | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>                             | <b>\$14,200,000</b> |
| C4 - Innovation & Invest                      |                     | -                  | -                                | -                | -                | -                | -                | -                | -                | -                                      |                     |
| <b>Other Direct Costs</b>                     | <b>\$3,788,536</b>  | <b>\$414,202</b>   | <b>\$211,706</b>                 | <b>\$162,736</b> | <b>\$150,218</b> | <b>\$106,404</b> | <b>\$81,368</b>  | <b>\$68,850</b>  | <b>\$56,332</b>  | <b>\$625,908</b>                       | <b>\$3,162,628</b>  |
| C1 - VC Competitiveness                       |                     | 284,256            | 145,289                          | 111,682          | 103,091          | 73,023           | 55,841           | 47,250           | 38,659           | \$429,545                              |                     |
| C2 - Access to Finance                        |                     | 64,973             | 33,209                           | 25,527           | 23,564           | 16,691           | 12,764           | 10,800           | 8,836            | \$98,182                               |                     |
| C3 - Enabling Environ                         |                     | 64,973             | 33,209                           | 25,527           | 23,564           | 16,691           | 12,764           | 10,800           | 8,836            | \$98,182                               |                     |
| <b>Indirect Costs</b>                         | <b>\$4,214,901</b>  | <b>\$300,777</b>   | <b>\$153,863</b>                 | <b>\$118,206</b> | <b>\$109,114</b> | <b>\$77,289</b>  | <b>\$59,103</b>  | <b>\$50,010</b>  | <b>\$40,918</b>  | <b>\$454,640</b>                       | <b>\$3,760,261</b>  |
| C1 - VC Competitiveness                       |                     | 206,416            | 105,592                          | 81,122           | 74,882           | 53,041           | 40,561           | 34,321           | 28,081           | \$312,008                              |                     |
| C2 - Access to Finance                        |                     | 47,181             | 24,135                           | 18,542           | 17,116           | 12,124           | 9,271            | 7,845            | 6,418            | \$71,316                               |                     |
| C3 - Enabling Environ                         |                     | 47,181             | 24,135                           | 18,542           | 17,116           | 12,124           | 9,271            | 7,845            | 6,418            | \$71,316                               |                     |
| <b>Total Estimated Cost (1 to 5)</b>          | <b>\$47,915,653</b> | <b>\$1,397,389</b> | <b>\$924,175</b>                 | <b>\$603,607</b> | <b>\$557,175</b> | <b>\$394,666</b> | <b>\$301,803</b> | <b>\$255,372</b> | <b>\$208,941</b> | <b>\$2,321,564</b>                     | <b>\$45,594,089</b> |
| Earned Fixed Fee (up to the ceiling amount)   | \$1,969,783         | \$69,869           | \$46,209                         | \$30,180         | \$27,859         | \$19,733         | \$15,090         | \$12,769         | \$10,447         | \$116,078                              | \$1,853,705         |
| <b>Total Estimated Cost plus Fee (6+7)</b>    | <b>\$49,885,436</b> | <b>\$1,467,258</b> | <b>\$970,384</b>                 | <b>\$633,787</b> | <b>\$585,034</b> | <b>\$414,399</b> | <b>\$316,893</b> | <b>\$268,141</b> | <b>\$219,388</b> | <b>\$2,437,642</b>                     | <b>\$47,447,794</b> |

# ANNEXES

Annex I. Fertilizer Growth Plan – John Mellor Associates

Annex II. Memo to USAID on Enabling Environment - John Mellor Associates

Annex III. Ministry of Agriculture MoU - John Mellor Associates

Annex IV. ATA Collaboration on Liquidity of Private Banks

Annex V. Additional Detail on Coffee Activities

Annex VI. Access to Finance Consultant Report – Tadele Galen for ACDI/VOCA

## **ANNEX I. PROPOSAL FOR PLAN OF ACTION FOR ACHIEVING A 15 PERCENT GROWTH RATE FOR FERTILIZER**

### **Background**

Our interpretation of Government of Ethiopia's position is that it is committed to a major, perhaps dominant role for an efficient cooperative movement meeting the needs of its farmer members. There is of course a commitment to meeting the growth targets.

### **Focus Group Findings**

The focus groups were clear that

1. Farmers are not well informed on key elements of fertilizer use that affect profitability, e.g. the complementarity of organic and inorganic fertilizers, the most profitable mix of DAP and Urea, the profitable levels of fertilizer use. etc.; but they have a favorable view of the extension agents (confirming an earlier IFPRI finding).
2. Farmers have a tendency to be distrustful of private traders.
3. Farmer access to fertilizer is highly variable.
4. Private traders cannot get licenses for distributing fertilizer but are greatly interested in selling fertilizer and have the warehouse capacity, knowledge and capital access for large-scale trading in fertilizer.
5. Primary cooperatives are varied in coverage of fertilizer sales (some areas are not served) and state problems in availability of warehouses and financing as constraints.

### **The Proposal**

#### **1. An experiment**

It is proposed that an experiment be carried out to test three interventions within AGP woredas on a substantial scale with a level of inputs reproducible on a national basis. Woredas to be grouped in large enough units to provide scope for full network of grain traders (may be as few as three to four woredas.)

#### **2. The variables**

Three variables to be introduced:

- a. Intensive analysis and demonstration of best fertility practices by the Research/Extension system
- b. Intensive upgrading of cooperative (Union and Primary) capacity to distribute fertilizer with emphasis on optimal management and including provision of adequate financing and warehouse capacity.
- c. Entrance of private sector (most likely grain traders) into fertilizer distribution

#### **3. The experiment**

- a. One region or more than one—to be decided.
- b. One woreda selected as a control with “normal” AGP treatment, or outside AGP—a woreda with similar physical conditions.
- c. One woreda with intensive research/extension demonstrations on optimal soil fertility practices—need substantial budget support for demonstrations and TA from AGP-AMDe

- d. One woreda (a set of contiguous?) with research/extension as above plus intensive support of union and primary cooperative for management skills, finance for fertilizer, warehouse capacity—IFDC within AGP-AMDe
- e. One set of woredas (three or four) with research/extension, intensive cooperative development, plus private-sector (grain traders will likely be major as this is a bulk commodity )
- f. Experimental research to be carried out to measure the impact on fertilizer use (and production) of each of the treatments—IFPRI has the requisite experience in doing surveys in Ethiopia and researchers fully acquainted with up to date experimental research. Requires budget. In general terms IFPRI is willing to take this on—discussed informally. Must be involved in the design.

#### **4. Replication**

- a. About 7 woredas for each replication.
- b. Minimum of two replications = 14 woredas
- c. Desirable to repeat two replications in each region for total of 56 woredas.
- d. Should not be a small non-reproducible pilot.

#### **5. Timing**

Start as soon as possible. The programs require a lead time of several months to set up and need to run for a full year prior to initiation of the “test” and much of a year to analyze the data—that is, minimum of two full years.

#### **6. Requirements**

- a. Choose and finance a research organization so they can help set up the experiment.
- b. Select woredas = a complex
- c. Set up the research/extension demonstration programs in the test woredas, agreement from those government bodies and technical assistance and budget
- d. Set up the TA and financing for the cooperatives and agreement of cooperatives.
- e. Ensure required facilitation for private sector (grain traders are the ones with large existing capacity)
  - i. Word from the top (and follow-up) that they are to provide licenses, under normal rules, for private fertilizer distributors (explicitly including grain traders).
  - ii. Word from top (and follow up) that private distributors (explicitly grain traders) are able to purchase desired quantities from Agricultural Input Supply Enterprise at port of entry, or initially from Agricultural Input Supply Enterprise stocks
  - iii. Provide access to demonstrations
- f. AGP-AMDe and AGP, research organization (IFPRI provide overview that comparability is maintained throughout)

#### **7. Additional knowledge we are working on**

- a. Size of trading area for private sector (grain traders)
- b. Full requirements of the cooperatives

## **ANNEX II. MEMO TO USAID ON CAPACITY BUILDING -ENABLING ENVIRONMENT**

### **Two Aspects of Capacity Building**

1. Technical – largely skills in specialized areas, e.g. accounting, soil science, etc.
2. Intellectual – thinking in broad terms about major issues, including big picture, strategy and priorities, leading to specific policy issues. JMA, in the context of the “enabling environment” is concentrating on this aspect for which we have unique capabilities.

### **Aborted Attempt with Planning Directorate of the Ministry of Agriculture**

The Enabling Environment team had extensive discussion in September 2011 to enter into a more skills building approach with the basic staff of the planning directorate. The director doubted the value of such an exercise. The first problem is that none of the staff were expected to remain for five years and more typically they left after two years; normally to foreign NGOs at large increases in pay. The second problem is that the director has a very heavy work load which he has learned to handle through careful management of his young staff. Pulling time off for skills development would make it impossible to meet the work load. We found both these arguments correct and persuasive.

### **Approach through the Ministry of Agriculture**

The team carried on extensive discussion in the MoA as to how we might help build “enabling environment” capacity in the ministry. After considerable constructive discussion it was agreed that the ministry would call a meeting, January 14, of all directors of directorates in the ministry at which John Mellor would present a paper for discussion quantifying the Agricultural Development-Led Industrialization strategy, pointing to its critical link to poverty reduction, its past progress (one-third reduction in poverty on the past 15 years), and carrying from that to logical quantified requirements on the purchased inputs side and problems that might be encountered in meeting those requirements. Staff member Shubh Kumar-Range also presented a paper on gender issues, with emphasis on their role in meeting national growth targets. Very strong interest was shown in an introduction to international consultants experienced in these areas as well as some of the factual findings from the focus groups that we have been conducting.

The meeting was held, the entire body of the MoA’s directors attended throughout, and the large amount of time devoted to open discussion brought forth vigorous, spirited and highly intelligent discussion. In a survey following the meeting a great deal of appreciation for the meeting was expressed with emphasis on what they learned and the encouragement of their own thought processes. It is expected that the Ministry will call for a series of such meetings over the next few years, to address constraints to achieving the growth targets and means of dealing with those constraints, with once again an emphasis on quantified international experience. The call for the latter is a regular feature of the GoE.

### **The Ethiopian Agricultural Economics Society (AESE)**

The team has carried out extensive discussions with leader in the AESE as to how we might strengthen leadership and capacity in this important institution. We have had a protracted meeting with the President of the Society and have made a number of suggestions as to how we might be helpful. JMA and AESE will pursue this at a meeting in June at which JMA will present a paper that will draw on international experience, present its relevance to Ethiopia, and lead to means of analyzing some of the critical enabling environment issue facing the Ethiopian agricultural growth effort and the Agricultural Development-Led Industrialization strategy.



## **ANNEX III. REPORT ON MINISTRY OF AGRICULTURE DIRECTORS MEETING ON VISION AND STRATEGY**

### **1. Topics and participants**

Professor John Mellor and Dr Shubh Kumar-Range made presentations on the following topics:

- a. Gender Approach to Transform Agriculture: An International Perspective. By Shubh Kumar-Range
- b. The National Vision and Development Strategy: An Outside Perspective and Quantification. By John Mellor

The participants were from the MoA and AGP-AMDe, the state minister of MoA, directors, and heads of agencies, for a total of 21 from MoA and 3 from JMA.

### **2. Presentations**

#### ***a. Gender Approach to transform Agriculture: An International Perspective***

The presentation started with quotes from the World Bank Development report, 2012. It was pointed out that the Food and Agriculture Organization estimates that equalizing access to productive resources between female and male farmers could increase agricultural output in developing countries by as much as 2.5–4 percent.

The presenter also gave justification why gender is considered, and indicated that gender is an important part of the agricultural transformation issues since agriculture is a family enterprise that requires division of labor, be it physical or in the form of skill and knowledge. In an agricultural family, the woman takes responsibility both at home and outside, at farms and related enterprises. Studies indicate that there is a still male dominant decision making situation in most agricultural families. The presentation also touched up on about employment segregation and equity issues, challenges of women and the way forward.

***Segregation and equity*** In view of employment segregation it was presented and discussed that in traditional agriculture informal division of labor, skill transfer and networks do exist. Women are more likely to work in agriculture production (37 percent against 33 percent of employed men) and agribusiness, including marketing activity and small-scale trading than men. Besides, despite the existence of gender disparity women are good farmers. On top of this women are also dominant in off-farm informal business in the rural areas. However, it was pointed out that women are less engaged in manufacturing ventures.

The presenter emphasized that large and significant gender disparities exist in access to factors of production especially land and capital (credit), and in asset ownership. These have been documented as critical bases to the gender productivity gap. Studies in different parts of the world indicated that when access to productive inputs is taken seriously and appropriate corrective measures are taken, yield differences between female and male farmers disappear. As countries grow and become prosperous, increasingly more women and men who have been subsisting on agriculture shift to non-agricultural enterprises.

It was also stressed that empowerment of women is key element to the attainment of the Millennium Development goals. Empowerment of women also relates to equity issue specifically when development is considered as the core goal of the agricultural transformation process and gives inspiration to recognize women's role in agriculture.

**Challenges faced by women** During the presentation it was pointed out that women do still have the following considerable challenges to be addressed:

- Labor burden of women. This could be addressed in part through collective actions such as cooperatives.
- Multiple reinforcing barriers to gender equality.
- Informal institutions and paradigms, e.g. most sub-Saharan countries recognize customary laws. Ethiopia among others recognizes customary law, although it doesn't accept overruling the rights of women because of the policy environment that acknowledges the overall aspects of gender.

**The way forward** The presentation on gendered approach to transform agriculture offered the following statements as a way forward:

- Correcting discriminatory laws, this is of paramount importance to bring radical changes in attitude
- Addressing implementation issues of gender equity policies
- The inclusion of women in decision making processes
- Making formal institutions transparent
- Strengthening support to mitigate gender-related problems and challenges broadly, and those affecting rural agricultural women specifically.

#### ***b. The National Vision and Development Strategy: An Outside Perspective and Quantification***

The presentation started by indicating that in any developing country a leader having a vision of taking agriculture as the core of the pillars of the development strategy does make significant positive changes in the shortest possible time. Ethiopia is lucky enough in this regard. This introductory remark was followed by highlighting other countries experiences, particularly that of India.

**The grand Indian experiment** It was indicated that the Indian green revolution showed huge economic reforms in the 1990s with massive urban-based growth and industry expansion which brought huge impact on economic growth that tripled overall economic growth rate. Share of agricultural GDP falls down by one-third in 20 years, while the non-agricultural sector share, urban based economy, GDP rose by 70 percent, but mostly driven by agriculture. The experience of India showed that urban growth pulls agriculture forward partly because of increased demand for agricultural inputs and outputs. For this to lead to the poverty reduction process, however, public goods, which include *agricultural universities, research and extension should be strengthened*. It was emphasized that these three public goods are quite important throughout the world. Otherwise growth /development may not be sustainable. Put differently, decreasing the role of public goods in developing economies may lead to low agricultural growth and in turn to low overall economic growth and retarded reduction of poverty.

After highlighting the Indian experience, the presenter discussed issues related to agricultural employment and poverty; the need to emphasize on high potential area; the importance of small scale commercial farms; the critical role of physical inputs; the role of cooperatives and private sector input dealers and product traders; and the need to give proper attention to irrigated agriculture.

**Agricultural employment and poverty** Agricultural growth is meant dispersed urbanization and growth. Without agricultural growth economic activities may concentrate in the capital city or few other cities. It was elaborated why countries like Ethiopia has to give importance and focusing more

on high potential areas to enhance fast growth. It was pointed out that modern agriculture tends to increase the output in moisture reliable areas.

It was also pointed out that the small commercial farmers do sell a substantial portion of output, they have some capital and will take risks to raise income. In this case, specialization may have an advantage. Commodity compositions in fast growing small commercial farming enterprises is significantly important and thus to bring fast growth focus shall be made on limited commodity be it from cereals, livestock and exportable products. This will give an opportunity to the countries with immense resources to select and give due emphasis on specific ones. Coffee, as lead exportable commodity, still deserves special emphasis for the future enhanced improving interventions.

It was indicated that one should not overlook the importance of physical inputs (fertilizers, seeds, etc.) as it all come back to the public institutions. Rapid growth removes huge quantities of nutrients from the soil and this has to be replaced. In order to maintain the fertility of soil using organic fertilizer may be inadequate thus increasing in organic fertilizer is essential, and this in the case of Ethiopia's agricultural growth targets may require a fertilizer consumption growth rate of 15 percent (i.e., 3 times).

In terms of fertilizer supply, it was pointed out that though cooperatives are playing remarkable role, they are also confronted with problems among which are lack of storages/warehouses, credit facilities and poor geographical coverage within the nation. With this respect, designing a fertilizer strategy is highly needed, which goes from top level to the bottom/kebele cum primary cooperatives level. The other challenge of cooperatives is their own poor financial management practices.

Grain traders were considered to complement cooperatives role in the distribution of fertilizer. It was argued that unlike the cooperatives the grain traders do understand better to manage bulk commodities with huge aggregate impact and with good access to finance. They can be involved with flexible geographic coverage and with no storage problem. Thus strengthening of such stakeholders will be an opportunity for fast fertilizer use growth rate.

By strengthening cooperatives and opening up for the private sector involvement to fertilizer distribution, still work has to be done for the application of fertilizer to be done on the basis of recommendation meticulously. Beyond this farmers should also be exposed to understand very well the fertilizer technology specifically in view of the correlation between the organic and inorganic fertilizers. In this respect research and extension services have to be given due emphasis in order to maintain fast economic growth in agriculture. Particularly the extension system should work more in preparing packages that address the problems of productivity and production of small-scale farmers whose land holdings are below one hectare.

Alongside to addressing the fertilizer issue it is also important to recognize the critical shortage of improved seed in terms of quantity and quality. It was stressed that seed issue in Ethiopia is found to be disastrous.

As Ethiopia is endowed with huge irrigation potential and as it is significantly well addressed in the PIF document, it has to be seriously nurtured, implemented and increased at all levels throughout the country. For the better exploitation and management practices this may require foreign technical assistance. The presentation also highlighted the importance of dealing with climate change issues to sustain agricultural development endeavors.

### **3. Remarks and Discussion**

#### ***Remark by H.E Ato Wondiard Mandefro, State Minister of MOA***

Before an open discussion started, H.E the State Minister did explain about the importance of the intra-ministry top management discussion forum and lessons learnt from the two presentations. He said that the GoE, specifically the MoA, know the contribution of the agriculture sector growth to the overall economy wide growth in the last 10 years. This, however, should not be a reason for not reassessing the how of agricultural sector performances, whether more could have been achieved or not. Efficient and effective ways of doing things need more efforts and resources mobilization (internal and external) to make agricultural transformation within itself and in the direction of creating an industrialized middle income country by 2020-23. Lessons learnt from the presentations and discussions of this forum must be used in the implementation of the on-going sectoral GTP with a particular emphasis to make Ethiopia excel by exchanging experiences with other good performing countries be it in Asia or in other parts of the world. Finally, he underscored that there is a need to validate the recent performances, investigate if there are gaps that should be addressed immediately. This indeed should be a challenge to accept and reckon with. The system that prevails could be updated if the change sought is relevant and appropriate given the available resources and prioritization of interventions. The discussions to follow, therefore should be based on a rationale that instead of standing to refute some of the findings and points of change proposed by the presenters, it should be a genuine and professional exchange of experiences and knowledge and where necessary being open to take the advices of the presenters and make use of the same for the betterment of those who live with agriculture and the nation at large.

#### ***Discussions on the gendered approach in agricultural transformation***

One of the participants asked the presenter about the issue of “gender” versus “women” in development. Specific explanation was sought on the need to talk about women in development and what the implication of this is?

The response was that In modern economies, with modern agriculture, labor force in agriculture declines. Any modern agriculture is either land saving or time saving, which will be ultimately address women interventions. The need for more labor will require gender, women and men, but loaded with modern education and skill. In this case, women demand for knowledge and skill will increase even in decision making. That is women role in development increases significantly with increased demand for modern knowledge and skill too.

Overall, one has to consider both the strategic gender issues and the practical gender needs, while looking at gender concerns. Besides, there will be a move to change the roles of women from traditional agriculture to modern technology. Then the issue is to identify the roles women play in modern agriculture.

A participant also raised a question on the relative productiveness of women and men, as was pointed out during the presentation. As men and women are similarly taking part in the production process, how possible is it to say that women are less productive than men? How come the roles of women be justified separately in this case?

In response, it was pointed out that it is a matter of planning for and quantifying the contribution of women in agriculture productivity and production. In the planning phase there has to be a gender target setting prior to implementation. This will eventually empower women economically and decision making and also enable us to get the appropriate data and information on productivity and

production variables but never disempowering the man to empower women but look at as an issue of equality (gender balance).

### ***Discussion on the National Vision and Development Strategy: An Outside Perspective and Quantification***

Directorates dealing with fertilizer and seed pointed out that currently there is no shortage of fertilizer because of the effort made to improve the supply system. However, they concurred with the presenter's observation that utilization of fertilizer still remains a challenge. With regard to seed though progress is made in line with the production of improved seed for the last two - three years, the seed system still needs additional effort to be improved. Cooperative unions do not have major problem of getting credit since they have access to it through the regional states collateral guarantee system. Besides most areas are addressed by cooperative distribution systems since they are present throughout the nation. However, the participants concurred that serious management problems might exist and these should be identified and resolved soon.

On the other hand the presenter and some of the participants pointed out that there is a shortage of seed, in particular basic seeds, and emphasized these needs to be well addressed. The issue of seed has to be seen from the perspective that the country needs to achieve so far. With regard to credit facility he also indicated that credit may not be available to all small holder farmers as microfinance institutions are not expanded throughout the country. Thus he suggested that it is good to accept the draw backs and try to take actions accordingly.

Some participants raise questions about the experiences of other countries in search of an apt mechanism to link the three public goods mentioned (education, research and extension) in solving farmers and other actors in the agriculture sector.

Prof Mellor said that there is no doubt on the need to strengthen the linkage between the three public goods and specifically addressing the integration problem. He said the integration mechanism should take a bottom – up approach. Agricultural research activities should be focused to solve problems of farmers and research results should be availed for demonstration at farmers' plots, which builds the bottom-up linkage mechanism. He gave focus on his speech by indicating that to maintain the rapid growth in a sustainable manner the government has to give priorities for the physical infrastructures (roads/rural roads, power, communication etc), as they are key for growth and development endeavors.

Participants also sought opinion on the merits and demerits of joining The WTO since Ethiopia is in the process joining this international organization.

Prof Mellor gave extensive explanation. In short he stated that in the modern world, integration with the international market is not a choice rather it is a necessary one and Ethiopia can have a huge advantage in joining The WTO as it has adequate agricultural commodities to trade in the international market.

Issues on the appropriateness of targeting areas for rapid growth intervention (potential areas, deficit and pastoral areas) were also raised. In general, the presenter pointed out that with regard to targeting areas one should give focus to the area in terms of its potential with high yielding outputs. This is critical especially when resource is scarce. However, it is also worth to address the low potential areas for social reasons. Specific remark was made that livestock and other high value commodities must be given due attention from policy, institutional and development framework perspectives. It was also noteworthy to integrate the crop development with fodder development for the sustainable livestock development.

Further explanation was also sought on the issue of rural - urban linkage in promoting agricultural growth. It was explained that if small towns at district/kebele level are growing faster than large cities then things can change fast with increased demand for agricultural inputs that may further give provision of more products to cities, and in the process creating greater opportunity for a fast growing economy.

A participant also questioned why in this presentation the issue of market has not been addressed since increasing production and productivity without market issue will not be feasible. Prof. Mellor recognized that *market* system and issues of value-chain are among the tasks AGP-AMDe project to focus on and made a remark that it will be addressed in the context of linkage issues too.

The issue of having a special extension package to address of small holders having less than one hectare land is also discussed further and agreed that the on-going program focusing on intensification and increasing productivity at these levels could be further improved. Similarly the efforts on irrigated agriculture development is discussed and pointed out that capacity is the major challenge and capacity building supports will be highly appreciated. Specifically the technical limitation in the management of boreholes and other water resources need to be addressed to make agriculture contributes more to the building of a food secure nation. On top of this, building institutional capacity at all levels shall remain compulsory.

#### **4. Conclusions**

The discussion forum came to close with the following as a way forward:

- Learning lessons from other countries is important and it is advantageous for Ethiopia to assess its performance in attaining the goal of having a rapidly growing economy led by agricultural sector growth and to sustain high growth rates.
- Such type of a discussion forum shall be continuous and even broader forums should be arranged.

## **ANNEX IV. AGP-AMDE ENGAGEMENT WITH ATA TO ADDRESS LIQUIDITY PROBLEM OF PRIVATE BANKS**

### **Background**

As part of its continuous engagement and coordination with ATA (through it the GoE) in improving the enabling environment for the selected value chains, AGP-AMDe project management raised and discussed with ATA the issue of liquidity problem in private banks in Ethiopia currently due to the National Bank of Ethiopia Directive that requires private banks to invest 27 percent of their gross loan disbursements in government bonds and how it has discouraged and continue to discourage them (private banks) to finance the agricultural sector including our value chains.

We highlighted to ATA that the liquidity problem in private banks is so severe that they are not any longer interested to entertain agricultural finance for loan guaranty programs supported by donors( not to mention regular requests for loan by actors in agricultural sector) namely the IFC/World Bank Warehouse Receipt Financing Guaranty ( risk-sharing) Programme with Nib International Bank and DCA program of USAID with Abyssinia and Zemen Banks, a risk-sharing agreement for loans extended to equipment leasing for agriculture sector that covers 50 percent of the collateral requirement. Needless to say, if banks indeed are not and will not be lending to our value chain actors, it will significantly affect goals and objectives of AGP-AMDe in general and access to finance component in particular.

ATA indicated to us that if the liquidity problem in private banks is affecting lending to agricultural sector, it would like see cases developed and would look into them, and then propose specific actionable recommendation(s) to its Transformation Council, which is chaired by the Prime Minister.

Following the meeting with ATA, AGP-AMDe project management have had bilateral consultation with the respective project managers of USAID DCA program and IFC/World Bank Warehouse Receipt Financing Programme to get better sense of the liquidity problem in private banks and how it has affected the implementation of their programs. We found that IFC/World Bank has attempted give external finance to alleviate the liquidity problem of Nib International Bank to make the Warehouse Receipt Financing Programme work. Unfortunately, Nib International Bank could not take loan from IFC/World Banks because the National Bank of Ethiopia Directive does not allow domestic banks to access external credit.

After these consultations, AGP-AMDe project management proposed to ATA that we convene a small roundtable discussion with partner banks of IFC/World World and USAID DCA programs, managers of the two programs, ATA, and AGP-AMDe which ATA agreed to.

### **Roundtable Discussion**

The roundtable discussion was held on March 5, 2012 at ATA office. The following have attended the meeting:

1. Khalid Bomba- Director General , ATA
2. Nega Wubeneh- Director, Input-Output Markets Program, ATA
3. Tim Durgan, Chief of Party, AGP-AMDe
4. Mengesha Tadesse, Policy Team Leader, AGP-AMDe
5. Lazare Pottier, Senior Private Sector Manager at USAID Mission
6. Mamo Mihretu, Warehouse Receipt Financing Programme Manager, IFC/World Bank
7. Solomon ketema, Credit Manager, Zemen Bank

8. Gashawtena Amdetsion, VP for Credit Management and Branch Operations, Nib International Bank
9. Anteneh Assefa, Vice-President, Abyssinia Bank

Mr. Khalid Bomba opened the roundtable discussion by welcoming everyone. He stated that ATA's mandate is to address systemic bottlenecks in the agricultural sector. It does so by leading the problem solving efforts to facilitate identification of solutions to address systemic bottlenecks in the priority areas and access to finance is one of the priority areas of ATA under its Input-Output Markets Program. He underscored that the roundtable ought to focus its discussion on liquidity problem in private banks as it relates to agricultural sector and come up with specific actionable recommendation(s).

Following background information by program managers of IFC/World Bank Warehouse Receipt Financing and USAID DCA facility on the design of their program, partner entities, and how the liquidity problem in private banks has effectively halted the implementation of these two programs, the representatives of the three banks made cases how the liquidity problem has hindered and continue to hinder them from giving new loan in general and agricultural finance in particular. They mentioned three main reasons why they do not extend loan to the agriculture sector at the moment:

- a. the National Bank of Ethiopia Directive that requires private banks to invest 27 percent of their gross loan disbursements in government bonds has seriously affected their ability to extend loan. As a result, they are only giving loan to existing clients and are not processing requests for new loan;
- b. Aggressive expansion of branches by Commercial Bank of Ethiopia has resulted in decline in deposit in private banks; and
- c. Agriculture credit is difficult to manage when compared with industry and services sectors. Private Banks in Ethiopia do not have experience of managing agricultural lending.

The National Bank of Ethiopia has recognized the liquidity problem that private banks are facing due to the Directive that compels them to invest 27 percent of gross loan disbursements in government bonds and has responded by lowering the reserve requirement down to 10 percent from 15 percent and the liquidity requirement to be held by commercial banks from 25 percent to 20 percent. The representatives of the three banks have stated that the lowering of both the reserve and liquidity requirements has increased liquidity and loanable funds in the banking sector. But, it is temporary relief from the strain of illiquidity and does not address the liquidity problem in long term.

Participants of the meeting underlined that they do not question the wisdom of the National Bank of Ethiopia Directive that requires private banks to invest 27 percent of their loan disbursements in government bonds as it intended to channel domestic resources to productive sectors of the Ethiopian economy. They, however, hold the view that there should be an exception to the rule when private banks lend to productive sectors of the economy, which is in line with the Government development objectives. Since agriculture is a productive sector of the economy, private banks should be exempted from investing 27 percent of their loan disbursements when they loan to the agricultural sector.

### **Proposed Actionable Recommendations**

The roundtable discussants have proposed the following two recommendations to address liquidity problem in private banks as it relates to agricultural finance.



1. Private banks should be exempted from the requirement to invest 27 percent of their loan disbursements in government bonds when they lend to agriculture sector;
2. Allow private banks to access foreign finance when it goes to the agriculture sector

The roundtable discussants have also proposed that ATA and AGP-AMDe should coordinate to further analysis the liquidity problem in private banks and articulate the issues including actionable recommendations.

## ANNEX V. ADDITIONAL INFORMATION ON COFFEE ACTIVITIES

### R & D for Coffee in Ethiopia Strategic Planning Meeting

Location and Date: Jimma ARC – January 21 -22, 2012

Number of participants: 36

**Deliverable:** Nine technical papers were presented by regional agricultural offices and coffee experts. A synopsis of group discussions, as well as recommended applied research for the coffee sector was prepared by CQI.

This two-day workshop was held at Jimma ARC and covered research, development and improving the enabling environment for the coffee industry. Regional authorities, researchers and AGP-AMDe team members presented technical papers. The goal was to create a five-year implementation plan for AGP-AMDe. All presentations were followed by in depth discussions. One of the main issues discussed was the extension service and its relationship with research and development in the coffee chain. Marketing and the processing issues were key components of the discussions.

Participants included personnel from ACDI/VOCA, JARC, Technoserve, CPDE, SNNP, Kafelimu, Limu Enariya Coop, Oromiya Agricultural Office, OCFCU, ECEA, Jimma University, ECGPEA, CQI, JMA, and private consultants and farmers. Discussion points included production, processing, quality, internal and external marketing, institutional analysis, research and statistics, and cross-cutting actions.

The list of suggested interventions represents a shared vision for the future of Ethiopia’s coffee sector, and provides a clear path for intervention and creating an enabling environment.

### AGP-AMDe Coffee Intervention Consultation Meeting

Location and Date: ACDI/VOCA, Addis Ababa – February 8, 2012

Number of participants: 12

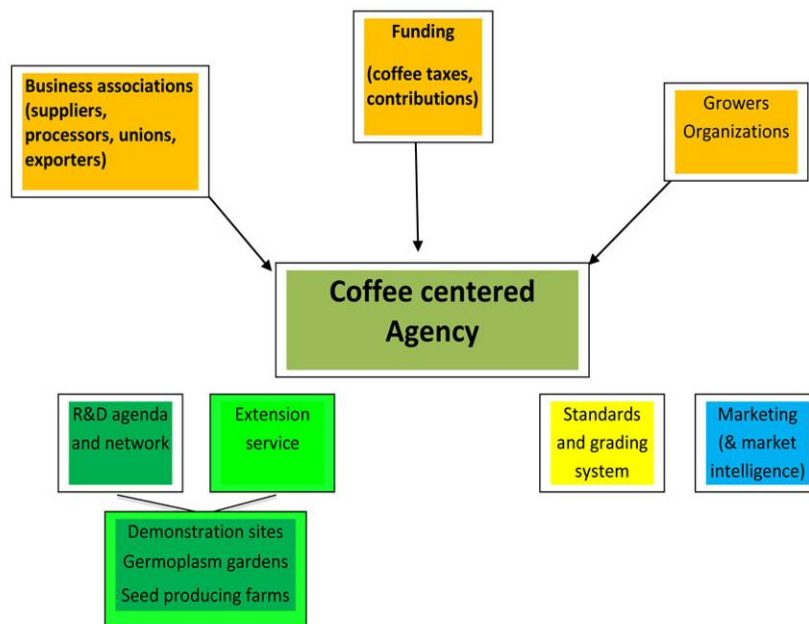
**Deliverable:** This one-day meeting was an opportunity for CQI to present the results of January’s technical meetings in Jimma where Ethiopian coffee industry experts presented technical papers, and suggested a five-year intervention plan for the AGP-AMDe project in Ethiopia. Attending this meeting were staff from Amaro Gayo Coffee, ECGPEA, Oromiya Coffee Farmers Union, CLU, MoA Extension Service, Yirgacheffee Coffee Farmers Union, ACDI/VOCA, and CQI.



ECEA general manager Ato Tesfaye Kenea addresses his colleges during AGP-AMDe strategic planning meeting in Jimma. Pictured with Mr. Kenea is: Ato Desalegn Olijira, Marketing Manager for Enaria Coffee Farmers Cooperative Union in Djimma; Ato Akmel Nuri and Ato Girum Tamirayehu, coffee farm owners in Djimma Limu and Jimma ARC researchers.

Major issues discussed which effect Ethiopia's coffee value chain include: underlying causes of low productivity and value, lack of farm-gate incentives for growers who produce quality coffee; underinvestment in productive capital and limited access to credit; long supply chain from farm to export; insufficient production of selected land race varieties with desirable characteristics.

### New Ethiopian Coffee Institutions for Competitiveness and Quality



AGP-AMDe put forth a theoretical institution model (illustration A) which shows possible changes to create an enabling environment for Ethiopia.

**Illustration A:** Theoretical institutional model for Ethiopia's Coffee Value Chain, as presented at February 8, 2012 meeting with AMDe team.

Major issues to consider when discussing this model for Ethiopia are funding, research and development and extension services; standards and grading system and; marketing.

### Ethiopia's Taste of Harvest Competition

Location and Date: ECX Lab in Addis Ababa – February 6 – 10, 2012

Host: ECX

Number of samples: 83

**Deliverable:** An impressive 83 samples were submitted by various Ethiopian stakeholders, representing a broad array of growing regions and processing methods. Over the course of the week, samples were evaluated by a national jury of eight Q Graders. The top 10 scoring coffees were re-evaluated on the final day, to determine the top five Taste of Harvest winners, which would advance to the regional Taste of Harvest competition the following week.

Tracking sales data (see below chart) after the competition shows that 21 lots of Ethiopian coffee sold well about the average C Market price of \$1.80; these



Ethiopia's Taste of Harvest samples being cupped by an international panel of judges.

21 lots, sold in volumes ranging from 18 to 72 tons, sold for an average of \$3.60/lbs. The winning ToH coffee from Mormora sold for \$4.90/lbs.

### Ethiopian Coffees Sold After AFCA Conference (February 2012)

#### Information provided by Coffee Quality Institute

| Name of Company              | Processing type | Origin       | Price/lb (USD) | Ton |
|------------------------------|-----------------|--------------|----------------|-----|
| 1 Wato coffee plantation     | Natural         | Lekempti     | 4.25           | 18  |
| c Ibrahim coffee plantation  | Natural         | Limu         | 3.75           | 18  |
| 3 Ibrahim coffee Pl.         | Natural         | Limu         | 3.25           | 18  |
| 4 Bizuayehu Shone Coffee Pl. | Natural         | Limu         | 3.00           | 18  |
| 5 S. Sara coffee export      | Natural         | Sidamo/Uraga | 3.50           | 18  |
| 6 Amaro Gayo coffee pl.      | Natural         | Amaro/Sidamo | 4.00           | 18  |
| 7 Amaro Gayo coffee Pl.      | Natural         | Amaro/Sidamo | 3.60           | 72  |
| 8 Negele Gurbitu Coop.       | Washed          | Yirgacheffee | 4.25           | 54  |
| 9 Duromina coop.             | Washed          | Limu         | 3.60           | 54  |
| 10 Gole Coop                 | Washed          | Limu         | 3.40           | 0.5 |
| 11 Alage Coop                | Washed          | Limu         | 3.35           | 36  |
| 12 Wekito Coop               | Washed          | Limu         | 3.05           | 18  |
| 13 Camp coop                 | washed          | Limu         | 3.50           | 18  |
| 14 Yukro coop                | washed          | Limu         | 3.60/75        | 54  |
| 15 Kechotirtira coop         | washed          | Limu         | 3.40           | 27  |
| 16 Harawagitira coop         | washed          | Limu         | 3.38           | 36  |
| 17 Welinso coop              | washed          | Limu         | 3.15/23        | 36  |
| 18 Nigusie Lema coffee farm  | natural         | Limu         | 3.30           | 18  |
| 19 Guji coffee               | Natural         | Sidamo       | 4.30           | 18  |
| 20 Doye coop                 | washed          | Limu         | 3.35           | 36  |
| 21 Mormora coffee pl.        | Natural         | Sidamo/Uraga | 4.90           | 36  |

The cupping data compiled from the Ethiopia ToH competition is invaluable. The Q Graders/judges submitted detailed evaluations of all 83 Ethiopian coffees, which is a tremendous amount of information that will be helpful in developing flavor profiles for various growing regions within Ethiopia; particularly pertaining to the effect sun dried natural processing has on cup character in different regions.



Ethiopia's 2012 Taste of Harvest judges.

### Recommendations for future Ethiopia ToH Competitions:

1. Review/train in use of SCAA cupping form.
2. Full day of calibration cuppings for next season's ToH judges using coffees from other coffee producing countries as well as a round of washed Ethiopian coffees.
3. Address 'Mocha' character.
4. Cup washed coffees separately from sun dried naturals
5. Review 2012 ToH data to develop appellation profiles using both scores and descriptors

| Ethiopia 2012 Taste of Harvest Winners (top 5) |                |   |                            |                         |                  |         |
|--|----------------|---|----------------------------|-------------------------|------------------|---------|
|  | Sample Ref. No | Owners Name   | Coffee type                | Region/ Zone            | Specific Place   | Average |
| 1  | 36             | MORMORA COFFEE PLANTATION PLC   | Sun-dried Natural (Sidamo) | Southern Ethiopia(Guji) | Oda Shakiso      | 90.50   |
| 2  | 15             | OROMIA COFFEE FARMERS COOPERATIVE UNION(OCFCU)/Negele Gurbitu Cooperative | Washed Yirgacheffee        | Borena (Gelana Abaya)   | Abaya District   | 89.53   |
| 3  | 6              | GUJI COFFEE EXPORT PLC  | Sun-dried Natural (Sidamo) | South Oromia (Guji)     | Gerbicho Regicha | 88.94   |
| 4  | 67             | BNT INDUSTRY & TRADING PLC  | Washed (Sidamo)            | Oromia (Hagere-Mariam)  | Deri Kocha       | 88.91   |
| 5  | 49             | DUROMINA COOPERATIVE  | Washed (Limu)              | West Ethiopia (Jimma)   | Goma District    | 88.38   |
| 1  | 36             | MORMORA COFFEE PLANTATION PLC   | Sun-dried Natural (Sidamo) | Southern Ethiopia(Guji) | Oda Shakiso      | 90.50   |

### Arabica Naturals Workshop & Cupping Competition

Location and Date: AFCA Conference – February 14-15, 2012

Hosts: AFCA and CQI

Number of samples: 96

**Deliverable:** On February 14 the CQI team managed the workshop (*Advanced Class on Sensory Evaluation of Arabic Naturals*) on Arabica naturally processed coffees. This was in preparation for the following day's international naturals cupping competition. AGP-AMDe presented a new grading system and cupping format for naturally processed coffees, which has been in development for several years. This was followed by the Naturals' International Cupping Competition where 96 samples were evaluated using the suggested evaluations standards. The completion included a three-sample calibration exercise.

## Presentations:

1. *What We Know about Naturals* – Mario Fernandez, University of Otago and Manuel Diaz, CQI
2. *Arabica Naturals* – Ahmed S. Haggam, Yemen
3. *Effect on Sun Drying Methods and Layer Thickness on Quality of Selected Unwashed Arabica Coffees in Jimma Zone* – Berhanu Tsegaye, Jimma University

Mario Fernandez comments that, “This Arabica conference is very important for both Ethiopia and Yemen and any effort to assure its continuity is worthwhile. Funding for future events should be a priority. CQI needs to facilitate the ‘Across-the-Sea’ Arabica Naturals Conference idea that would rotate between Ethiopia and Yemen.

Mr. Fernandez continues, “The impact of the continuity of the Naturals Conference is easy to predict. Until now, there have been three editions of the International Conference on Arabica Naturals and the impact has been very satisfying: some awareness has been created both among some roasters and among naturals producing countries policy-makers about the importance of naturals and the need of fair market practices towards naturals. Moreover, from the scientific point of view we now know a lot more about naturals than we did when the first conference was held. We have witnessed excellent networking among the participants, we could not have dreamed about a joint proposal from Yemen and Ethiopia four years ago. So, we can anticipate a similar impact in the future if the Conference on Arabica Naturals keeps up with the present level.”

Beth Ann Caspersen, Coffee Corps Volunteer and Quality Control Manager at Equal Exchange remarked that, “As a buyer of naturally processed coffee, I was astounded by the work the presenters had been engaged in and I found myself feeling very privileged to be in the room. Each presentation and presenter brought thought provoking ideas and they provided us with new information that was beyond my expectations. This work has helped me to think about the natural coffee movement in a completely different way and I am excited to see what is to come in the future.”

David Pohl, Product Development Manager for Farm Brothers, participated in the workshop and natural cupping. He suggests



Ms. Tera Bekele, ECX senior coffee roaster, expertly prepares another round of naturally processed coffees to be cupped as part of CQI’s Naturals Cupping Competition.



Desse Nure, part of AGP-AMDe’s on-the-ground team in Ethiopia, slurps and spits during the Naturals Cupping Competition held during the AFCA Conference in February 2012. 83 samples were submitted for this event.

that, “Improving the quality and yields of natural coffees is extremely important in a drought prone coffee producing country like Ethiopia. A grading system for naturals and cupping the separately from washed coffee is extremely important. The broader effort to disseminate the research on naturals is timely. I recommend certification courses on grading of naturals in both Africa and in consuming countries.”

The naturals competition was also highlighted at the subsequent AFCA conference and the winning coffees were presented at the closing dinner.

### Ethiopia Trade Promotions at AFCA Conference

Location and Date: AFCA Conference – February 16-18, 2012

Host: Ethiopian Coffee Exporters Association (ECEA)

**Deliverables:** AGP-AMDe provided two coffee experts to support the trade and promotion work of the ECEA during the AFCA conference in Addis Ababa in February 2012. Mr. Boot and Mr. Pohl were able to staff the booth during show hours to talk with attendees about Ethiopia’s fine coffees, introduce buyers to Ethiopian exporters, and discuss the market for Ethiopian coffees. They created a contact list of interested buyers from the USA, Europe, Asia and Africa, and will follow up by sending them the *Ethiopian Coffee Buyers Guide* when it is available in mid-2012.



Sample lot of an Ethiopian naturally processed (unwashed) coffee.

Mr. Pohl feels that, “I was a cultural bridge between the Ethiopian exporters, many of whom did not speak English, and potential buyers. The impact of this type of work is significant and I recommend a similar arrangement for next year.”

### Cupping Caravan to Southern Ethiopia

Location and Date: Sidama, Yergachefe and Amaro, Ethiopia – February 20 – 25, 2012

Number of participants: 11

**Deliverables:** Willem Boot and David Pohl led a group of 11 influential coffee buyers to southern Ethiopia to meet with Ethiopian coffee producers at their mills, cooperatives and farms. They visited 7 cooperative washing stations and cupped 58 coffees side-by-side with farmers that produced them. This was a unique experience for buyers and a chance for producers to interact with the people who ultimately buy their coffee. Cupping was an integral part of this experience. Caravan leaders report that this was a tremendous success in terms of introducing buyers to interesting coffees, regions and grower organizations.



The Coffee Caravan visited the Belekara Coffee Cooperative in the Yergachefe region

The caravan made use of ECX cupping facilities in Awassa, Dila and Addis. In the field, cupping sessions were held in temporary tents at the washing stations.

This event can be viewed in this on-line video: [www.youtube.com/watch?v=7QuOz71aVKI&sns=em](http://www.youtube.com/watch?v=7QuOz71aVKI&sns=em)

David Pohl comments that, “Southern Ethiopia has many wonderful coffees, regions and coffee organizations. While innate quality is high, investment in processing equipment as well as training is clearly lacking. Also, the system of export in Ethiopia presents a barrier to direct instance, in Aleta Wondo, one of the communities we visited, there is no way to buy the coffee directly from the local mill. Finding a way to buy and export coffee directly from private mills is a top priority for many coffee buyers.”



Asnakech Thomas explains the drying protocols of Amara Gayo coffee to coffee buyers during the caravan.

### Ethiopia Standards & Grading Assessment Workshop

Location and Date: ECX Lab, Addis Ababa – February 20, 2012

Number of participants: 35

**Deliverables:** This one-day workshop reviewed worldwide coffee standards and grading assessments, Ethiopia’s historical and current grading system, and developed ideas for a more in-depth international coffee standards meeting slated for later in 2012. The following presentations were delivered to attendees:

| Presenter       | Topic  |
|-----------------|--|
| Mario Fernandez | <i>Methodological Issues</i>                             |
| Manuel Diaz     | <i>Historical Perspective</i>                            |
| Endale Asfaw    | <i>Pre-ECX Grading System in Ethiopia</i>                |
| K.C. O’Keefe    | <i>ECX Grading System and SCAA Standards Integration</i> |
| Sunalini Menon  | <i>The Liberalization Experience of the ICP in India</i> |

K.C. O’Keefe’s contribution included explaining the current ECX Arrival Q Grading System; during his presentation he highlighted specific technical struggles faced during the SCAA/ECX integration process. He notes that, “during this workshop there were many questions from the educated coffee society in Ethiopia regarding the ECX process, which demonstrates a lack of understanding of the technical ECX process.” He also perceived some doubt regarding the abilities of EXC Q Graders and confidence in Q Graders. This, he notes, “is a healthy reminder to maintain the rigorous integrity of the Q Grader Exam and process.



Recommendations include:

- Follow up questionnaire or survey to participants (as well as to other industry players) to continue the discussion as to the need to evaluate Ethiopian coffee standards and the Ethiopian coffee model. This would document support for reassessment of Ethiopian standards and how to improve the ECX model. On-line survey, such as surveymonkey, would be appropriate.
- Multi-day conference agenda based on above feedback. Develop proposed agenda and send to interested parties for feedback. Publish final agenda four months prior to conference to stimulate international participation.



Sunalini Menon shared her personal experience and knowledge of the pre and post liberalization for coffee quality, grading systems and coffee marketing in India.

### Ethiopia Q Grader Course and Examination

Location and Date: ECX Lab, Addis Ababa – February 21-25, 2012

Number of participants: 24

**Deliverable:** The Q Grader Testing and Training course was completed for 19 new students and 5 retake students. While all of the students had cupping experience, the majority had little if any knowledge of SCAA cupping protocols and use of the SCAA cupping format. This reflected in the relatively low passing rate for the cuppings, yet high rate of passing on the triangulation exams. Further familiarity with the SCAA cupping form prior to the Q Course would have increased the passing rate in this class. In the end, no students were able to pass all of the tests for Q Grader licensure.



Q Grader roast color evaluation exam

The students who filled the course were very low-level entry cuppers. In the future more qualified cuppers within the Ethiopian coffee community should be given the opportunity to become Q Graders. A Q Courses should be promoted two months in advance in order to maximize the participation of qualified cuppers. As well, a pre-Q or SCAA Introduction to Cupping offered before the Q Course will help students do better in this difficult course.

### Calibration of Ethiopian Q Graders and Lab Inspections

Location and Date: Addis Ababa, Hawassa and Jimma – March 5 - 16, 2012

Number of participants: 52

CQI's team in Ethiopia is working very closely with its in-country partner, ECX, on calibration training and testing for Ethiopian Q Graders. Currently Ethiopia has 91 licensed Q Graders. To maintain this professional certification, all Q Graders must pass calibration tests every three years.

**Deliverable:** 1) Consolidated Ethiopia's Q Grader Database to determine necessary calibration schedule; 2) Q Grader Calibration exercises conducted at three locations with the following (see below for results) and; 3) conducted laboratory assessment of the all three cupping labs and recommended actions to improve labs to achieve SCAA certification.

| Location  | # of participants | # of calibrated Q Graders |
|---|-------------------|---------------------------|
| Addis Ababa, ECX Lab                                    | 19                | 14                        |
| Hawassa, Center for Dilla, Sodo and Hawassa Labs        | 14                | 12                        |
| Djimma, Center for Gimbe, Bonga, Bedele and Djimma Labs | 19                | 11                        |
| <b>Total</b>  | <b>52</b>         | <b>37</b>                 |

For each lab visited, AGP-AMDe has prepared a list of materials, equipment and infrastructure improvements to improve cupping at these locations.

## **ANNEX VI. ACCESS TO FINANCE CONSULTANT, TADELE GALEN'S FINAL REPORT**

### **1. Introduction**

#### **1.1 Economic environment and availability of alternative source of fund in Ethiopia**

A significant change is observed in Ethiopian economic environment in recent year with a real GDP growth averaging 11.2 percent per annum. Along with this growth, the number and types of private sector enterprises have been growing in almost all sectors of Ethiopian Economy driving an increase the demand for credit.

Although the credits/products provided by the existing financial institutions and the sources of credit the private enterprises can tap has increased, there is still a substantial demand for service expansion and a greater need for non-standard financial instruments other than collateralized loan services to new and existing area of private sector as well as government undertakings. Many of the enterprises specially SMEs, today are highly constrained by shortage of capital, which often means that they are not able to come-up with the full amount of capital required to expand their business to optimal size or to fully establish new business.

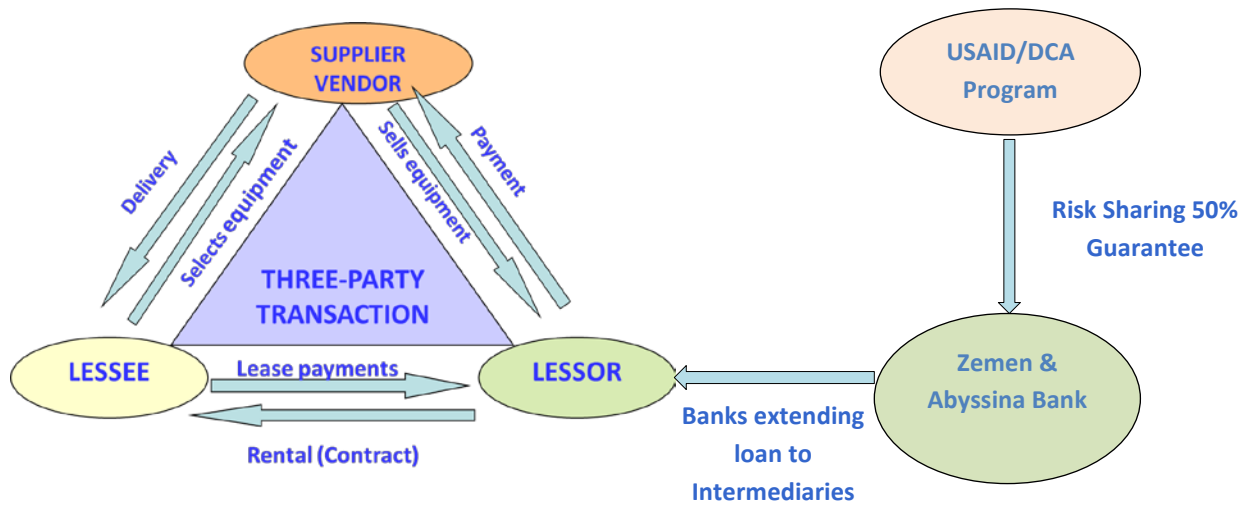
Leasing (Equipment Financing) is one of the most complex forms of financing in developed countries, involving sophisticated concepts often understood only by experts. Despite its complexity, leasing fosters economic development and job creation, by providing access to financing to micro, small and medium business that often cannot access other forms of financing. The development of leasing entities (Financial or Non-Financial) will in some form address the issues highlighted in here.

The report will discuss the framework of USAID/DCA backed leasing program, update on the leasing program, deliverables and time table.

#### **1.2 Background**

USAID/Ethiopia envisioned the use of DCA to address the financing needs of private sector stakeholders in several region/sector through Equipment Financing arrangement. The main objective of the program is to introduce leasing/equipment financing as alternative financing tool available to SMEs in agriculture sector who do not have the collateral base required by financial institutions and find it difficult to access finance for expansion of existing business or increase productivity.

## Structure of USAID/DCA Backed Leasing Program



### Review of Leasing Finance Mechanism under design through USAID loan guarantee program:

After the risk team sent by USAID/US have submitted their findings back in August, the Loan guarantee Program was approved in September. Following the approval the USADI/Ethiopia has signed the agreement with Zemen and Abyssinia Bank on September 22<sup>nd</sup>, 2011.

Under the contract, the banks will have to identify and select the leasing companies they want to work with and send the list to USADI/Ethiopia for approval. Once USADI/Ethiopia carries out its own appraisal of the selected leasing companies, it will approve or reject the companies.

In order to manage the program momentarily the USAID has procured a short term consultancy service to work the following tasks:

- Assist BEAT team in vetting prospective leasing intermediaries proposed by participating banks
- Assist selected intermediaries with Business Start-up and Risk Management framework
- Development of Standard Operating Procedure
- Report on viability of bank-sponsored subsidiary and private/public pension fund as potential source of leasing in Ethiopia

### 1.3 Project progress since signing the agreement with the banks

The loan guarantee program has been active since first of October 2011.

**The Consultants:** The consultants organized a forum two month ago in which potential customers and intermediaries were introduced to the program well as John Deer (One of the largest agricultural equipment supplier) program. Since then, the consultants have received 15 applications and of which 3 have been approved and submitted to both Zemen bank and bank of Abyssinia.

**Banks:** Both Zemen and Abyssinia are going through their own internal credit approval process that I think will take at least two to four weeks to complete before approving the loan and signing the contracts.

As you may all know the 27% mandatory bond purchase requirement imposed upon the private bank is taking its toll on the lending activities of all private banks. Though the loan applications by the leasing intermediaries are approved by both banks, in my opinion the disbursement of fund will either be slow or small.

## **2. The need to establish leasing sector in Ethiopia**

### **2.1 The benefit of leasing to SMEs in the agricultural sector**

Although leasing in general, is used as a means of asset financing by all business types, its key benefit is the access it provides those without a significant asset base: leasing enables small enterprises to leverage an initial cash deposit, with the inherent value of the asset being purchased acting as collateral. These small businesses do not have other assets that could serve as collateral for loans or other types of secured lending in a country where unsecured lending is not an option. For example a customer applying for a bank loan will have to put 30% to 50% collateral whether the loan is for the purchase of equipment or expansion of business. This requirement automatically excludes majority of small business, small farmers and co-operatives.

Leasing allows these excluded communities specially small holders and co-operatives in agricultural sector and small businesses that support them to become more economically active by enabling access to finance—and subsequently, access to income-producing assets. In long run, leasing offers an important advantage in Ethiopia where business environments can be said weak or still developing and collateral laws and registries have only been practiced for a few years primarily in the banking sector.

Because of the above reasons, leasing is sometimes the only financial tool available to provide small and medium businesses, especially those small hold farmers and co-operatives, with medium term finance to support investments in productive and logistic assets.

Leasing also plays a critical role in bringing in small businesses into the formal financial system as informal businesses have access to lease financing, they start building a history of financial transactions. As and when the National Bank of Ethiopia decides to expand the use of its credit information system that is currently being used only by banks, the information collected by leasing companies can be accessed by financial institutions improving their risk management process and start providing more comprehensive financial services to these small businesses. With this new opportunity, small businesses also find a new incentive to join the formal sector.

The government of Ethiopia has put agricultural development as a priority in both the Agricultural Growth Project (AGP) and Growth Transformation Program (GTP) document recognizing that agriculture is crucial for the Ethiopia's food security and the sector is the largest contributor to overall economic growth and poverty reduction. Both documents highlight the need for agricultural productivity increase. Leasing can play a significant role in facilitating access to equipment that would enable farmers to increase productivity

Today, the Ethiopian leasing industry is still in its infancy. Leasing represents less than one percent of private sector capital formation in Ethiopia as compared to the average of 14% in emerging markets and 31% in USA.

The National Bank of Ethiopia is pushing both government owned and private banks to enter into leasing. So far only commercial Bank of Ethiopia has committed into setting up leasing entity.

Though this is an encouraging development, NBE has failed to give guidance as to what structure those leasing entities will have in their relation to the banks and hence why there seem to be lack of interest from the private banks.

## **2.2 What is Leasing (Equipment Financing)**

There seem to be confusion as to what leasing mean in Ethiopia. In many discussion we had with agricultural and construction equipment rental companies as well as equipment users, repeatedly refer to operating lease and have shown lack of understanding or even the existence of other forms of leasing. It would be beneficial to discuss what leasing mean as well as different forms of leasing.

### **2.2.1 Leasing as defined in Ethiopian Capital Goods Proclamation:**

“Leasing is a financing in kind for production and services purpose by which a lessor provides lessee with the use of the specified capital goods on financial or operating or hire-purchase agreements basis, without the requirement of collateral, for a specific period of time and collects in turn a certain amount of installment in periodical payments over the specified period”.

### **2.2.2 International Finance Corporation (IFC), which is widely acclaimed to be the pioneer in popularizing leasing service, describes it as follows:**

“Leasing is a medium-term financial instrument for the procurement of machinery, equipment, vehicles and/or properties. Fundamentally, it is asset-based financing with the asset providing (in most situations) the security for the financing. Leasing institutions (lessors) whether banks, leasing companies, insurance companies, equipment producers or suppliers, or nonbank financial institutions—purchase the equipment that has usually been selected by the lessee, and then allow the lessee use of that equipment for a specified period of time. For the duration of the lease, the lessee makes periodic payments to the lessor, at an agreed rate of interest and in an agreed currency. At the end of the lease period, the ownership (title) in the equipment is transferred to the lessee at a pre-agreed residual value, or the equipment is returned to the lessor, which may then sell it to a third party or declare it worthless and obsolete”.

The description IFC document seems to focus on Finance Lease whereas the proclamation describes the three major forms of leasing (Finance Lease, Hire Purchase and Operating Lease).

## **2.3 Types of Leasing**

Significant differences exist among the above lease types. Finance lease represents a long term lease commitment in which the sum of the rents due will approximate the equipment’s purchase cost. Decision to enter into a financial lease should be part of a company’s financial, as opposed to operating, policy considerations. All equipment leases not fitting within the financial lease category can be put into the operating lease category. Because operating lease involve shorter term financial commitment, decisions as to their use typically come within the scope of a company’s operating policy.

### **2.3.1 Finance Lease:**

A finance lease is a contract that allows the lessor, as owner, to retain the legal ownership of the asset while transferring substantially all the risks and rewards of economic ownership to the lessee. Because the primary lease terms usually run for the most of the equipment’s useful life, finance lease is considered to be long term lease. Typically, the total cash flow over the term from the rents and end of lease equipment residual resale or re-lease value will be sufficient to pay back the lessor’s investment, take care of the administrative, other expenses and provide profit.

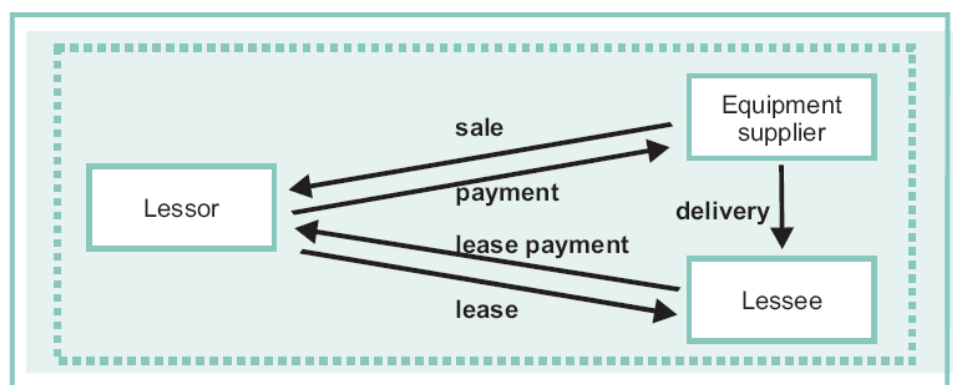
Because they are entered into by lessors as long-term financial commitments, finance lessors usually impose substantial repayment penalty for a lessee's early lease termination in an amount that will assure the lessor of a return of its investment and a profit, at least up to the date of the termination.

In Finance Lease, the fundamental ownership responsibilities, such as maintaining and repairing the equipment, paying for the necessary insurance and taking care of property and use are placed on the lessee. The lessor's basic responsibilities are to pay for the equipment, lease it to the lessee for the agreed-on term, and not interfere with its use.

One of the lessor's principal concerns is the protection of its investment in the event of a lease default. There are a number of measures that a lessor can take to protect itself. 1) Regular customer dialogue to ensure early signs are detected, and there is not significant change in the lessee's business, 2) Market surveillance to ensure changes in the market condition are not impacting lessee's ability to make payment, 3) Have a well organised collection and repossession team that can react effectively in the event of default.

Below is standard Finance Lease Operation showing the flow of transactions between parties to the lease contract including the supplier of the equipment.

**Standard Finance Leasing Operation**



Source: A guideline for designing and managing leasing schemes in developing countries.

**2.3.2 Operating Lease**

When a lease's primary term is significantly shorter than the equipment's useful life, the lease is called an Operating Lease. Operating Leases typically span a few months to a few years. The Ethiopian leasing proclamation states Operating Lease as a type of leasing for a period of time not exceeding two years.

Because of the lease terms are relatively short, an operating lessor usually cannot earn much of its equipment investment back through the rent from one lease transaction, therefore it must either sell or re-lease on attractive term to be profitable. Their short lease terms and easy cancellation provisions makes operating lease attractive to users for several reason. One is if the lessee anticipates using the equipment for short time, another is when the user wants the ability to change equipment if something better comes out (e.g., office equipment).

### 2.3.3 Hire Purchase

Hire Purchase Lease means a type of leasing by which the lessor provides a lessee with the use of an equipment, against payment of mutually agreed installment over a specified period under which, with each lease payment, an equal percentage of the ownership is transferred to lessee

### 3. Demand Assessment for leasing services in Agricultural sector

A cursory review of the market in Addis Ababa clearly shows that there are a number of individuals engaged in the provision of Operating Lease service especially for the road and building construction sector. There is however, no formally undertaken and official study on the demand that might exist for this type of financial service in Ethiopia.

#### **Agricultural Equipment:**

The agricultural sector has been growing consistently for the past five years driven by the GOE effort to reduce poverty through higher productivity and increased commercialization. This effort has resulted in increased investment in agricultural equipment both by the public and private sector. Below is summary of investment in agricultural equipment between 2007 and 2010 showing growth from \$14.2MM in 2007 to \$35.7MM in 2010.

| Year                  | Value(USD Million) | Growth |
|-----------------------|--------------------|--------|
| 2007                  | 14.2               |        |
| 2008                  | 12.5               | -12%   |
| 2009                  | 27.4               | 120%   |
| 2010                  | 35.7               | 30%    |
| <b>Average Growth</b> |                    | 26%    |

The GoE has also indicated in its five-year plan that Agricultural sector will continue leading the economic growth through continued investment in higher productivity measures and commercialization. In addition to the government effort, emphasis is being put by international aid organization to revitalize the agro processing industry through investment to private sector participants.

This shows an increase potential for agricultural equipment financing beyond the \$35.7 MM we have seen in 2010.