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ETHIOPIA SUSTAINABLE AGRIBUSINESS INCUBATOR

2013 Performance Report

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ACRONYMS

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|------------|--|
| ACDI/VOCA: | Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance |
| AI: | Artificial Insemination |
| ALPPIS: | Addis Livestock Production and Productivity Improvement Services |
| AMDe: | Agriculture Market Development |
| ASPIRE: | Apiculture Scaling up |
| CIC: | Climate Innovation Center |
| CSA: | Central Statistics Agency |
| DA: | Development Agent |
| ECX: | Ethiopian Commodity Exchange |
| EIAR: | Ethiopian Institute of Agricultural Research |
| EDGET: | Enhancing Dairy Sector Growth in Ethiopia |
| EPA: | Environmental Protection Authority |
| ESAI: | Ethiopia Sustainable Agribusiness Incubator |
| ETG: | Economic Transformations Group |
| EU: | European Union |
| FTMS: | Feed the Future Monitoring System |
| GRAD: | Graduation with Resilience to Achieve Sustainable Development |
| HDPD: | Hirut Dairy Products Distributor |
| HR: | Human Resource |
| ICT: | Information Communication Technology |
| LMD: | Livestock Market Development |
| MoFED: | Ministry of Finance and Economic Development |
| MoU: | Memorandum of Understanding |
| NGO: | Non-Governmental Organization |
| PCI: | Precise Consult International |
| PLC: | Private Limited Company |
| USAID: | United States Assistance for International Development |

1. INTRODUCTION

Since November 2012, under a cooperative agreement with USAID-Ethiopia, Precise Consult International has been implementing an Ethiopia Sustainable Agribusiness Incubator (ESAI) in partnership with Economic Transformations Group (ETG) based in New York.

Although agriculture is the predominant economic sector in Ethiopia, it is still in its rudimentary stage of development and the role of private sector in adding value to primary agricultural production still leaves much to be desired. ESAI has been organized and successfully working to transform the Sesame, Honey and Dairy subsectors of Ethiopia. It is making progress in increasing the value which is added to the production of basic farm commodities by supporting the creation and sustained development of new companies which embrace innovative business ideas (incubates) and by working with pioneer enterprises whose business models involve the provision of sustainable business solutions to remediate problems and to supply missing elements in the value chains of the three selected commodities.

The Agribusiness incubator project is the first of its kind in Ethiopia. The project is therefore expected to provide rich business problem/solution experiences which can be disseminated and applied throughout affected sectors and subsequently other sectors as well. The precedent with respect to creating and demonstrating the effectiveness of a new kind of institution, which operates in lieu of markets for corporate development and control, is proving extremely valuable in improving allocative efficiency within the Ethiopian business ecosystem. Importantly as well, the project is on track toward achieving specific targeted goals, including the remediation of specific value chain problems and the rapid competitive upgrading of the three focus sectors.

The business development strategy underlying the project involves first the identification, recruitment and support of pioneer firms. These pioneering businesses serve as test beds for the formation of new kinds of sector wide value addition and as demonstration platforms for new business models which link farms to market in new and more valuable ways. Next, ESAI's business strategy entails stimulating and promoting emerging dynamic entrepreneurs as well as nurturing the creation of their innovative businesses. The new Incubatees which ESAI has launched will fill in missing links in existing farm to market chains and well experiment with the commercial application of new products, new technologies, new business models and the opening of new markets. From a larger social welfare perspective undertaking these experiments with fledgling companies, which are thinly capitalized but highly incentivized makes a great deal of economic sense.

The business strategies which ESAI advanced in 2013 are all analytically supported and empirically tested. The ultimate proof of business viability is a “market test.” An important achievement has been the deep understanding of the microeconomics of each sets of value chains which ESAI has gained, as well as the reengineering and redesign of risk bearing relationships among value chain partners within legacy chains. Also among the notable achievements which ESAI realized this year were the selection of incubatees and the development of startup business plans for each incubatee. ESAI also managed to strengthen financial supports for pioneering companies whose innovative business ideas appear to merit additional investment. The report which follows reviews ESAI’s progress in greater detail over the period November 2012 to December 2013.

2. PROJECT RATIONALE, OBJECTIVES & EXPECTED RESULTS

2.1. Project Rationale

The poverty reduction effects of increasing agricultural productivity are immense. Fortunately, the growth potential of Ethiopian agriculture, since it is starting from a very low base, is equally immense. In recent years, much of the promise afforded by Ethiopia’s agricultural economy has begun to show on the ground via the emergence of a commercial farming industry as well as by the increased productivity of smallholder agriculture. However, Ethiopian agriculture also appears to face a very large gap in the area of innovative private sector actors upstream and downstream which is required to advance the competitiveness of agro industrial sectors in quantum leaps and thus afford the nation much needed employment creating value addition. The near complete absence of chain integrating agribusinesses in Ethiopia is a function of a multitude of challenges, which the Ethiopian private sector faces. ESAI aims at creating an ecosystem that promotes the proliferation of such enterprises and which aims at changing the basis of competition from low cost farm production to pre planting value/productivity differentiation and to post harvest value addition.

Despite much progress, which is currently taking place, Ethiopia’s agricultural potential cannot be realized without the full participation of private actors up and down value chains. Entire new industries need to be formed both upstream and downstream of basic agricultural production. The striking element of Ethiopia’s agricultural sector has been the limited development of its upstream and downstream industries. The number of commercially sophisticated operators who have invested in agribusiness activities is more limited than the number of operators who have invested in other types of business opportunities. With that said, opportunities for investment in upstream inputproviding services and products manifest particularly in areas such as the provision of organic and chemical fertilizers; higher-yielding seeds and planting materials; irrigation systems and their associated post sale maintenance and parts replacement; agricultural tools and

equipment; pest controls systems; and modern cooling and storage facilities. Parallel, equally wide scope exists for downstream industries that add value to basic farm outputs, including for example processed wheat derivatives, dairy products, and the processing of edible oil, fruits, and vegetables.

Private sector participants whose businesses involve value chain integration are few in number and these few are small in scale and many of them are informal. Their access to financing is extremely limited and they suffer from missing managerial and technical skills. These conditions pose myriad barriers to agricultural growth: economies of scale cannot be attained, economies of scope cannot be realized, transaction costs remain high, and insufficient information flows from end markets to farm level producers. As a consequence; little information about customer preferences, competition, or new technologies flows upstream. The input needs of farmers remain unmet, both in terms of volume and coverage. Highly fragmented midstream aggregation and trading impairs funds flow, information and product quality assurance linkages between farmers and markets.

If Ethiopian agriculture is going to be transformed and the poverty reduction potential of agriculture fully achieved, then Ethiopia will need to encourage and support the creation of thousands of new private actors and the scaling up of existing actors through targeted programs like ESAI.

2.2. Objectives

The overall objective of ESAI is the sector-by-sector transformation of Ethiopian agriculture through enhancing the competitiveness of value chains which demonstrate new sources of competitive advantage within each sector. ESAI's approach to sector transformation is "learning by testing." More specifically, the project aims to:

1. Create wealth for rural populations through the development of new productive opportunities, both on farm and off farm
2. Support private sector agricultural innovation and accelerate the development of early growth stage agribusiness companies
3. Reduce transaction costs and increase market links between producers and consumers
4. Enhance the competitiveness of the agribusiness sector and expand local value added agro-processing
5. Increase efficiencies within agribusiness supply chains and ensure a greater share of the final price of end products go to farmers

2.3. Expected Results

In the first year of implementation, the project targets to strengthen six existing pioneer companies, to support the establishment of nine new enterprises and to create 60 direct and 240 indirect jobs in the process. In this regard, in this reporting period, efforts of ESAI were geared to the following four result areas:

- **Baseline assessment of value chains** – conducting in-depth value chain studies in the three sub-sectors
- **Development of incubation systems** – providing multi-dimensional business development support to competitively selected 9 business concepts submitted by innovative and highly motivated entrepreneurs
- **Business development support to existing pioneer companies** – providing technical support to identified change-oriented and dynamic pioneer (lead) companies in each sub-sector
- **Creating and sustaining appropriate sub-sector stakeholders' platform** – engaging business opinion leaders, advisors, universities, research organizations and relevant stakeholders from each sub-sector to jointly bring about the targeted sub-sector transformation.

3. OVERVIEW OF THE DAIRY, APICULTURE & SESAME SUBSECTORS

3.1. DAIRY

Ethiopia's varied agro ecological zones place the country in an advantageous position to leverage its renewable resource base. Ethiopia farmers possess huge numbers of various categories of livestock resources, including dairy animals. According to CSA 2012, Ethiopia currently supports 52 million heads of cattle (10 million milking cows), 22.6 million heads of goats, and 0.99 million heads of camels. Cattle are the primary source for milk though goat and camel milk make a significant contribution and afford an under developed opportunity as well.

Against the scale of the huge livestock resources the country possesses, the production of milk is much less than might reasonably be expected. Indeed, in 2012 it was limited to only 3.3 billion liters. The major limiting factor is the low productivity of the local cattle. Their milk yields are limited to an average of 1.5 liters daily during their six month lactation period.



Raw, unprocessed milk, pasteurized milk, powdered milk, infant formula, butter (cooking and table), cheese, *Ayib*, yoghurt and ice-cream are the major dairy products consumed in Ethiopia. The level of consumption within individual households depends on income, taste and preferences and traditions and customs.

With that said large untapped domestic and export market opportunities doubtless exist for the Ethiopian Dairy industry. For example, with the current shift in food habits from traditional to fast foods, demand for hard dairy products such as cheese and cream is growing. Ethiopia's rapidly growing population is, moreover, creating its own increased demand for liquid and powdered milk. In addition, overseas niche markets for traditional specialty products such as spiced cooking butter offer an opportunity for significant value capture. An untapped market opportunity also exists in caprine based milk products, given the large scale of Ethiopia's goat herd, on the one hand, and the great global opportunities for goat milk derivatives related to world-wide lactose intolerance.

The year 2013 has witnessed several major achievements in the dairy value chain including the establishment of a new Livestock State Ministry and a set of regional Livestock Development Agencies, which have improved interrelations with and between regions by improving communication and information exchange, improved deployment of DAs for all *Kebeles*, and the planting of forage legumes and forage seeds on established watersheds.

In spite of these positive developments, the sector still faces many challenges. These include: i) the low productivity of traditional (local) breeds which account for more than 98% of the country's total cattle population, ii) the limited availability of cross-bred heifers with known pedigree in the market, iii) the lack of veterinary services, iv) the poor quality and the high prices of feed resources, v) the limited coverage and efficiency of AI service, vi) the poor quality of milk...the result of poor handling of cattle/the products and adulteration, vii) the seasonality of consumption which results from fasting traditions and wet/dry seasons (Supply/Demand mismatch), viii) the absence of institutional consumption, ix) poor linkages between research, extension and technology users, x) inadequate extension and training service, xi) low per capita milk consumption, limited availability of credit, xii) scarcity of land, xiii) specific problems related to pastoral areas

(shrinkage and degradation of rangelands and xiv) recurrent drought and conflict. These are only some of the challenges which constrain the growth of the Ethiopian dairy sector. However, these are also the challenges that afford opportunities in the sub-sector—opportunities for finding remedies which can be exploited with innovative business solutions.

3.2. HONEY

Ethiopia is one of the few countries in the world with a long tradition of beekeeping. For large number of rural households in the country beekeeping is a traditional off-farm activity. Ethiopia is endowed with wide-ranging agro-ecological and climatic zones which support diverse and unique natural and cultivated flora well suited for beekeeping. The country has the largest bee colonies in Africa which support five distinct wild bee species each of which involves a colony of 10 to 12 million bees. Of these, only 4.8 million bees are hived. Due to the predominance of traditional beekeeping methods (94% of marketed honey is produced using traditional methods according to 2011/12, CSA), productivity is very low, with an average 7kg honey being produced per colony per year.

Table 3-1: *Traditional beehives*



Ethiopia has the potential to produce up to 500,000 tons of honey and 50 thousand tons of beeswax per year. However, current annual production is estimated at only about 40,000 tons of honey and 400 tons of beeswax. The country is ranked as the world's 10th largest honey producer and 4th largest beeswax producer. About 80-90% of the honey produced in the country is used in the production of local honey wine called 'tej'

Despite its long beekeeping history, good natural environment and large colony size; beekeeping in Ethiopia remains underdeveloped. The knowledge and skills of Ethiopian farmers in honey production and beeswax extraction have remained traditional, unimproved by modern technology and highly inefficient. As a result, the current output

level is only around 8% of the country's overall production potential and this starting point condition affords a large room for growth in the sub-sector.

Although traditional and largely inefficient, the sub-sector continues to contribute significantly to economic and social development. It provides, for example, direct income/employment benefit to: Beekeepers, Input producers/suppliers, processors/tej makers and exporters/wholesalers/retailers. At the production level, honey and beeswax production provides a complementary source of income for an estimated number of 1.8 million smallholder farmers. An estimated 150,000 tej houses exist in Ethiopia and they add significant value to primary honey production. Including more sophisticated processors located further upstream in the value chain it is estimated that the fermentation/distillation of honey generates around \$US 60 million annually for almost 2 million actors.

In addition to employment and income benefits, bee products also realize nutritional, dietary and medicinal benefits and contribute significantly to the generation of foreign exchange earnings. Beekeeping also contributes to environmental stability and helps in poverty alleviation. The activity requires only renewable resources (in addition to equipment and working capital financing), thus enabling the productive engagement of youth and women.

Enormous opportunities exist to expand the Ethiopian apiculture sub-sector, through investment and technology transfer, The country's potential is enormous given the following conditions: i) renewable apicultural resource base (bee colonies and flora), ii) location in proximity to major export market destinations and preferential market access of the largest international markets (EU preferential third country listing), iii) good government policy and support (National Policy Support: Government's sector mission by 2014/15- GTP targets, National Regulatory Support: Apiculture resources development and protection proclamation no. 660/2009 and National Extension Support: Honey and Wax Development Package), and iv) growing international demand for organic honey.

Offsetting these opportunities are several bottlenecks within existing value chains which constrain sub-sector growth. Nonetheless, these bottlenecks also pose opportunities for the development of new business driven solutions. Bottlenecks which also afford business opportunities are outlined in the table below:

Table 3-2: Bottlenecks and Business Opportunities in Honey Value Chain

| Value Chain Bottlenecks | Bottlenecks As Business Opportunities |
|---|--|
| Low Quality, Productivity and Production Volume (Traditional beekeeping) | Production and Marketing of Standard low cost branded beehives, accessories and packaging materials |
| Fragmented Production and Supply (only 8% of production potential!) | Introducing new and inclusive business models that enable bulk supplies |
| At the face of great demand limited access to markets | Access new and Expand markets, (Creating win-win international joint ventures that help local producers to comply with international standard concerning quality, labeling, shipping and trade tariffs.) |
| Entry into new product lines (Only 2 bee products are being produced out of possible 8) | Diversification: Propolis, Royal Jelly, Infused Honey, Specialty Honey (e.g. Coffee honey)... |
| Limited to primary/semi-primary product supply | Value addition: lip balm, floor wax, candle, hand lotion ... |

3.3. SESAME

Ethiopia is the home for several different varieties of sesame suitable for a wide range of applications including oil production, confectionaries, tahini, and bakery products. Whitish Humera type sesame is highly valued worldwide for its distinct aroma and taste. Ethiopia is the fourth largest producer (next to Myanmar, China and India) and the second largest exporter (next to India) of sesame in the world. Almost all of Ethiopia's raw sesame production is destined for export markets and the product is the third largest hard currency generator of the country. Major Sesame producing regions in Ethiopia include Amhara, Tigray, and Oromia and Benishangul Gumuz regions.

Major challenges in the sesame subsector include the following:

- *Very low yield level:* The average yield for sesame in Ethiopia is 3-5 quintal/ha. This is far below potential yields. Over time the yield of individual farms tends to decrease further due to mono-cropping, soil degradation and repeated use of seeds retained from previous production seasons.
- *Access to Technology:* One of the major challenges which Growers and Processors face is limited access to modern technology (e.g. production systems and

machinery) and a shortage of spare-parts and skilled manpower for the maintenance of processing machineries. Operations can at times be interrupted for a month or more due to minor problems with the machinery, which require the import of spare-parts and skilled human-power from abroad.

- *Seed Shattering*: The sesame seed used by growers in Ethiopia is of a shattering variety. The pod which contains sesame seed begins to disintegrate after the crop matures but before it becomes dry enough to be harvested resulting in the spillage of seeds and loss of product. Seed shattering contributes to more than 30% pre-harvest losses.

Table 3-3: *Seed shattering is one of the critical challenges in the value chain*



- *Limited Value Addition in the subsector*: Sesame processing in Ethiopia is restricted to cleaning, and to some extent hulling. The primary beneficiaries of these limited value adding activities are intermediary processors in importing countries.
- *The Trading System*: Sesame is traded principally through the ECX system. Although this exchange system affords many advantages for growers, traders and the country more generally, it also poses serious challenges to the smooth functioning of the commodity's value chain by making traceability and access of homogeneous (in terms of size, color and origin) product impossible and allegedly contributing to sesame market price distortions which are pushed upwards due to exporters' interests in obtaining hard currency entitlements which they can use for importing other commodities which afford even more attractive profit potentials.
- *Challenges Related to Outgrowing Schemes*: Enforceability of contracts or lack of guarantee to get the agreed quality and quantity of sesame after harvest is a serious challenge which all processors face. According to some processors, the volatile or spiking nature of sesame pricing creates an incentive on the part of farmers and/or cooperatives to breach their sales contract with processors and supply to the market for a better price. Side selling is prevalent.

4. KEY MILLSTONES AND TARGETS OF THE YEAR

4.1. Deep Dive studies

It was planned to conduct deep dive studies in each of the three subsectors to thoroughly understand the respective subsectors and to develop priorities for value chain interventions. The deep dive studies will review each subsector to identify and characterize all sector participants, assess global market dynamics, identify sector strengths and weaknesses, and to lay out the entire sector strengthening steps required to move from the industry's baseline conditions to an envisioned future.

4.2. Business concept competition and incubatees selection

A business plan competition will be initiated through which new start-up companies will be selected to be included in the project's incubation program and get all rounded incubation supports. Incubatees will be selected on a transparent competitive process based on their merits of having potential roles of creating significant impacts on the subsectors' transformation. In this reporting period it was planned to select nine incubatees.

4.3. Identifying lead companies

Based on the results of the deep dive analyses described above, the project planned to identify and support six selected "pioneer" existing companies from the three value chains, which have the potential for stimulating significant positive changes in their respective subsectors in terms of technology transfer, products diversification, new business models, product and/or input markets linkage, etc.

4.4. Enhancing business ecosystems

While ESAI will focus a great deal of effort on entrepreneurs and business development aspects of value chain development, it will also play a role in addressing the broader ecosystem of each selected value chain. A major effort will be made to create linkages with key government, institutions, donors, financial stakeholders and relevant networks. This is basically to create fertile conditions for businesses to grow and expand but also to make sure the right connections are in place for ESAI's following support systems. The key achievements in relation to this millstone therefore include: (i) outreach and communication system; (ii) recognition and awards system; and (iii) public policy advocacy in support of value chains.

4.5. Establishing the ESAI Fund

A business Development Fund will be established with the main objective of moving graduates of the incubation program from its first stage (revenue achieved) to stage two (profit achieved).

The relationship between ESAI and the Business Development Fund is purposefully designed to accelerate the second stage development of enterprises that emerge from the incubator and whose initial development justifies second stage investment and additional management support.

The fund will operate at arm's-length from the incubator, with a separate management and a separate board. Its management autonomy is intended to assure objectively based independent investment decisions. By subjecting incubates to a full enterprise review, the Business Development Fund will operate as a surrogate capital market where none currently exists in Ethiopia.

4.6. Sub sector boards formation

The project planned to establish sub sector boards for each of the three value chains. The boards will facilitate the project's implementation process by providing advice and guidance. Board members will include leading business leaders, government officials and other actors who are active in the respective subsectors.

4.7. Providing Incubation Services

Under the incubation program the selected incubatees will get an all-round incubation supports from the project in areas including: facilitating access to finance, company formation, business plan preparation/refinement, market linkages (inputs and outputs), supply-chain management, business development services (business advisory), handholding services (HR, ICT, Financial management, taxation, licensing...), and technology linkages. These all activities will be preceded by conducting an incubation plan to the respective company, to make sure that the services to be provided are relevant to the stage of development of the incubates and to the context they are operating in.

5. ANNUAL PERFORMANCE REPORT

5.1. Deep dive Studies of three sub sectors

The project conducted "Deep Dive" studies for the three identified value chains (dairy, honey and sesame). The studies gathered detailed information on product descriptions, sub sector actors, geographic mapping, input and output mapping, business environment, end markets, international markets, critical challenges and key intervention areas.

The deep dive studies provided deeper understanding on the subsector dynamics, helped to build relationship with value chain actors, defined critical value chain problems and intervention points and outline advocacy agendas. The reports were prepared in electronic copies and distributed to government officials, the incubatees and other relevant players in the chains. Complete versions of the reports as well as a short power point presentation of each study were also uploaded in the web site of PCI (www.ethiopiainvestor.com).

These reports were the basis to define the critical leverage points, where the project should focus at to achieve its subsector transformation goal in the remaining time of the project life. The key intervention areas selected for each subsector include:

Dairy subsector

1. Commercial Heifer Production – supplying the market with heifers of known pedigree. Incubating heifer producing businesses (from concept – grounding marketing)
2. Processing for Extended Shelf-Life Products
 - Developing milk drying plant
 - Developing local powder milk production technology
3. Stimulating Demand for Dairy Products
 - A franchise business model for Milk kiosks preceded by awareness creation commercials on medias
 - School Milk Program (partnering with other projects e.g., ENGINE)
4. Niche Specialty Food Product Exports to the US
 - Working with pioneers to tap the diaspora market (butter and local cheese)
5. Developing and Testing New Business Models for Artificial Insemination (AI) Services (expanding coverage by private sector suppliers)
6. Caprine (Goat) Dairy Product Expansion (diversification)

Honey subsector

1. Facilitate increased complementarity between the modern and traditional system(cost reduction, quality controls, realization of scale economies and innovative business models)
2. Introduce New Business Models (Enabling bulk supply and raising yield)
3. Access/Expand Markets, (Creating international joint ventures to help local producers comply with international quality standard, labeling, shipping and overall entry)
4. Facilitate Entry into New Product Lines and Value Addition (develop adapted, consumer oriented, niche bee products supply)
5. Contribute to the enforcement of the existing sound regulations on apiculture & Advocate for needed changes in policy environment

Sesame subsector

1. Facilitation of Finance for new projects: Identify different fund sources and funding mechanisms (loan finance, equity funds, ESAI fund, and grants) and support incubates to get financial access for their projects.
2. International Market Linkage: The project plans to provide information and facilitate linkage between stakeholders in Ethiopia and suppliers in other markets.
3. Support businesses which will engage in Value Addition activities (Oil, Tahini, Hulling, etc.)
4. Engage in Advocacy activities to improve the business ecosystem (Challenges related to the ECX system and out-grower systems)
5. Support the development and utilization of modern farming technologies based on pre-identified needs which will employ simple and affordable technologies (As an initial step raw planter & harvester).
6. Facilitate the introduction of Non-Shattering & high yielding sesame seed varieties.
7. Technology Linkage: Encourage local manufacturing of machineries and spare parts and provision of maintenance services. The project will serve as a bridge between technology solution providers and processors and growers in needs for such solutions. ESAI will provide information and facilitate agreements between these two parties.

5.2. Relationship building and networking

The project has created working relationships with different partner organizations including the former Environmental Protection Authority (EPA), EIAR, LMD, ACDI/VOCA, SNV- ASPIRE Project, and the Sesame Business Network.

Most importantly, the team was able to establish connections with hundreds of business people who involve in the three subsectors. This relationship was first developed in the course of conducting the deep dive studies. At a later stage, more selective and action oriented connections continued to take place. Most of the business people who came to PCI office were able to get advices and different kinds of important business related information.

The project has also conducted several meetings with NGOs with interventions in one or more or the selected subsectors. Accordingly country offices of World Vision Ethiopia, CARE Ethiopia, Food for the Hungry and Oxfam UK were visited. The purposes of the visits were to familiarize the NGOs about ESAI, to solicit financial support to the project's incubatees and to look in to the possibilities of ESAI's support to develop some of the innovative businesses of their clients, who are engaged in Honey, Dairy and Sesame business. The relationship is still continuing, although concrete results are not yet achieved.

Figure 5.1: *ESAI's Team visited and held discussion with CARE Ethiopia - GRAD project*



The project established subsector boards for the three subsectors. The purpose of forming the subsector boards was to serve as a soundings board to all our actions as well as to create enabling situation for the lead companies and the incubatees to interact. Board members therefore include key business leaders, government officials and other actors who are active in the respective sub-sectors. The boards launching workshop was conducted and the board members had participated in the incubatees' selection process.

Table 5-2: *Subsector boards launching meeting (August 29/2013)*



In the course of conducting the deep dive studies, three Learning workshops organized, one in each of the Dairy, Honey and Sesame Sub-Sectors. Workshop participants include private sector actors, representatives from government institutions and NGOs which are active in the respective subsectors. The workshops contributed to enrich the deep dive studies conducted earlier and helped to shape up the value chain intervention strategies and advocacy agendas.

The learning workshops will continue with the subsector board members (business leaders), upcoming incubates, existing companies that work with PCI in a project mode, relevant projects such as ACDI/VOCA, LMD, ASPIRE, EDGET, as well as relevant government bodies. These events will be used as advocacy platforms as well.

5.3. Business plan competition and selection of incubatees

Call for business concepts

A business plan competition was launched to select start-up companies to be enrolled in the project's incubation program. A draft guideline was developed to help the team organize the incubation processes. International studies made by ETG on successful agribusiness incubators of the world, was very helpful to develop the guideline. The guideline clearly outlines illegibility criteria, the selection process, evaluation criteria, confidentiality of information, etc.

Different targeted promotion strategies have been employed to attract potential applicants:

- Orientations to graduate students and posting advertisements in 8 university campuses
- Post the call on PCI's website,
- Circulate the information through relevant existing networks, □ Publicize the competition on national radio programs etc.

The selection process

A total of 82 applicants' submitted projects for the competition (from apiculture (30), dairy (42) and Sesame (9) subsectors).

The project employed a transparent, multi-stage competitive process which involved subsector board members to select incubatees. After an initial cursory review based on criteria of innovativeness and illegibility, 51 projects were automatically dropped from the competition process. In the first round screening process, which involved subsector board members, 30 projects were selected for the final round of the selection process. The proposed businesses were judged on pre-set criteria of innovativeness, practicality, viability, impact on value Chain/subsector, social inclusiveness and contribution to a green economy.

Table 5-3: *Training to candidate incubatees on business plan preparation*



The project trained the candidates which passed the first round competition in business plan preparation. The training was delivered by experienced consultants and it was organized in four different phases. The first phase was to provide the trainees the basic ideas of business plan preparation. The trainees were given 15 days to develop their own business plan and come back for a review. Therefore the second phase was to review the work in progress and to clarify some of the challenging experiences of the trainees. The third phase was designed to provide one-to-one assistance to the trainees in developing the financial part of their business plan. The last phase was a complete review of the business plan in a panel. A panel of experts assessed and graded all business plans and this led to the final selection of the incubatees. The training has also been used as a platform to assess the applicants' entrepreneurship abilities and their commitments.

A total of 19 incubates were selected using the rigorous process described above. The selection process was completed in November and an inaugural meeting of the first incubates of the project was held on November 21/2013.

Table 5-4: *Inaugural meeting of the first round incubation program (November 21/2013)*



The project continued to refine the business plans and to conduct an incubation plan with each incubates through visiting their work stations. The incubation plans will be the basis for the actions of the project in 2014.

Incubatees who will be admitted in the project's incubation system will receive fullfledged business supports until they graduate as self-standing, vibrant business enterprises. The table below depicts the list of incubates selected for the first round incubation process. A more detail information about the selected businesses is also exhibited in Annex 2.

Table 5-1: List of incubatees selected for the first round incubation process

| No | Name of the Incubatee | Business Type | Region |
|-----------|-----------------------|--|-------------|
| I | HONEY | | |
| 1 | Desalegn Begna | Beekeeping equipment supplies | Oromia |
| 2 | Samuel W/Kidan | Honey and beeswax processing and trading | Oromia |
| 3 | Tsion Abera | Honey and beeswax production, collection and marketing | Oromia |
| 4 | Yewalashet Yigu | Honey and beeswax production, collection and marketing | Oromia |
| 5 | David Mulugeta | Honey and beeswax production, collection and marketing | Oromia |
| 6 | Simret Lulekal | Honey and beeswax production, collection, processing and marketing | Oromia |
| 7 | Solomie Wassie | Infused honey production and trading | Addis Ababa |
| 8 | Solomon Mulugeta | Honey and beeswax production and marketing | Oromia |
| 9 | Meseret Getachew | Honey and beeswax production, collection, processing and marketing | Oromia |
| 10 | Assefa S. Medhin | Honey, honey products, beeswax, beeswax products & other bee products collection, production & marketing | Oromia |
| II | DAIRY | | |

| | | | |
|------------|--------------------------------|---|---------------|
| 11 | Binyam Kassa | High quality Cheese and cream production in stage 1 and powdered milk production in stage 2 | Oromia |
| No | Name of the Incubatee | Business Type | Region |
| 12 | Dawit Walelegne | Processed dairy products for eastern Ethiopia, Somaliland and Djibouti markets | Dire Dawa |
| 13 | Hiwot farm & Maerest Mechanics | Production of mechanical milking machine | Addis Ababa |
| 14 | Tegege Tarekegne | Powdered milk production using local technology | Amhara |
| 15 | Zenebe Tesfaye | Mechanical butter churner suitable for smallholder producers | Amhara |
| III | SESAME | | |
| 16 | Alem Greiling | Value addition by mixing sesame with grains, honey and plants such as Moringa. | Addis Ababa |
| 17 | Wendemagegn Kebede | Sesame seed multiplication | SNNPR |
| 18 | Mussie Tesfay | Manufacturing of briquettes from farm residue of sesame | Tigray |
| 19 | Professor Seifu Belay | Sesame seed transformation using tissue culture technology | Tigray |

5.4. Improving business environment

The project is also working to improve the business ecosystem so that more business enterprises can enter and flourish in the three selected subsectors. Towards this end, the project had already identified different advocacy agendas through the deep dive studies and enriched them in the learning workshops organized for each subsector.

Table 5-2: Identified Advocacy Issues in each subsector

| | Subsector | Identified Advocacy Issues |
|----------|------------------|--|
| 1 | Dairy | <ul style="list-style-type: none"> • 35 – 30% tax (cumulative) on vitamin premixes, • VAT on processed feed, • The establishment of the dairy board |
| 2 | Honey | <ul style="list-style-type: none"> • Integrating business-orientation in the system of beekeeping extension services • Contract enforcement issues in using out-grower schemes by the private sector • Lack of National Geographic Indication Systems to trace bee products |

| | | |
|---|--------|---|
| 3 | Sesame | <ul style="list-style-type: none"> • The difficulty of raw material traceability for sesame processors due to the ECX system • Challenges related to the enforceability of out-grower schemes • Obstacles related to organic sesame production |
|---|--------|---|

Starting from the next implementation year, the project will give due emphasis for advocating on these issues by joining hands with other likeminded actors.

The Agri-Business Investment Forum which is planned to be held on January 16/2013 and on which senior government officials and other key stakeholders are expected to attend, will be one important platform to flag the selected advocacy issues. The project is also aggressively working for the event to get wide media coverage.

The subsector board members, who are also entrepreneurs, will also play a role as champions in advocacy.

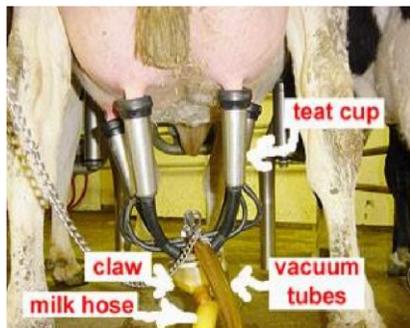
ESAI has developed different communication materials including a brochure, folders, banners, and is using PCI' website to promote the project and the three subsectors. The project has contracted an experienced communication firm (251 communications) to handle its communication activities and together with this firm is finalizing the development of its Communication Strategy.

5.5. Innovation Development: A participatory approach for change

ESAI is supporting a number of businesses in developing and testing innovative business models and/or technologies in the three selected subsectors.

Dairy

Innovative business models have been developed for feed production and commercialization (franchise model to produce feed using innovative ingredients); artificial insemination services (commissioning services to increase coverage while maintaining quality) as well as milk distribution systems (establishing attractive milk retail kiosks in the city to enhance quality milk accessibility). Moreover, the project is also supporting the development of critical technologies. Cases in point here include the development of a mechanical milking machine, promoted by Hiwot farm and Maerest Mechanics and the development of a local milk drying technology, which would be employed to produce powdered milk.

Table 5-5: Innovation on mechanical milking machine

Honey

In the apiculture sub-sector, ESAI has been championing the formation of the first processing plant in the highest honey producing zone of Ethiopia, Jimma, using locally manufactured purification technology. The project has also introduced out-grower based game changing business models in the sub-sector, i.e. entrepreneurs having commercial farms have been encouraged and supported to start engaging in beekeeping by themselves and by also engaging smallholders in their surrounding areas. ESAI has also been encouraging value addition and product diversification through the identification and support of entrepreneurs working in flavored honey (coffee honey, infused honey...), cosmetics (beeswax lotion, chap stick, soap...) and other consumable items (like beeswax candles).

Sesame

ESAI is supporting a business (Transform-Sesame) which seeks to transform sesame seed using tissue culture technology. This technology is the first of its kind and the business is also introducing the private sector's involvement in seed development interventions which hitherto used to be a public sector domain. The project is also supporting businesses which seek to locally develop sesame hulling and cleaning machines and raw planting and harvesting implements.

5.6. Value chain financing

ESAI is working to improve access to finance for companies in three areas: debt financing, equity financing, and grant financing.

In Debt Financing, the project facilitated loans through established relationships with local banks. Brundo International is the first recipient of such facilitation to receive funding to establish an agro-processing plant in Mojo town solely for the export of a variety of commodities, including spiced butter, honey and sesame to the US market.

In Equity Financing, the project signed an MoU with a local based equity fund (AgriVest) and Norwegian-based fund (Voxtra) to match agribusiness companies for equity financing. Another example of equity financing is the formation of a honey processing plant (Yerkisho) in Jimma by equity contribution coming from Marast General Mechanics and a group of local investors.

In Grant Financing, ESAI identifies available grant competitions that fit the needs of its clients and develops concept notes in collaboration with the agribusiness clients.

So far the project supports 20 innovative projects to get investment capital from different sources and positive responses obtained for 50% of the projects.

Table 5-3: *Companies supported to access different grant programs/funding arrangements*

| No | Company Name | Project Type | Donor/Fund | Status |
|----|---|--|------------|---|
| 1 | Alrna Agro Processing & Export Industry PLC | Sesame hulling | ACDI/VOCA | <ul style="list-style-type: none"> • Concept note accepted • Proposal developed and submitted |
| 2 | Marast General Mechanics | Sesame processing by locally manufacturing the plant | ACDI/VOCA | ☐ Concept note not accepted |
| 3 | Dehana Amdework Foundation | Establishment of smallholders' honey marketing cooperatives | ASPIRE | <ul style="list-style-type: none"> • Concept note accepted • Proposal developed • Budget breakdown developed in collaboration with Woreda office |
| 4 | Shilo Trading (Yeshi Mar) | Establishing collection centers to collect, refine and market honey produced using traditional means in SNNPR five Woredas | ASPIRE | <ul style="list-style-type: none"> • Concept note accepted • Proposal and budget breakdown preparation on progress |
| 5 | Emebet Commercial Farming for Environment | Establishing beeswax candle and table producing out-growers | ASPIRE | <ul style="list-style-type: none"> • Concept note accepted • Proposal and budget breakdown preparation on progress |

| | | | | |
|-----------|--|---|---|--|
| 6 | Yerkisho Honey and Beeswax Trading PLC | Establishment of the first honey and beeswax processing plant in Jimma | Equity contribution by a technologist and local investors | <ul style="list-style-type: none"> • Company registered and licensed, • Operation space rented and renovated, • Machinery installation (on progress) |
| 7 | Golla Beeswax PLC | Expansion and upgrading project for improved beeswax refinery and purification | Agrinvest | <ul style="list-style-type: none"> • Business plan developed • All preparatory works completed • Final approval for \$400,000 equity investment is being awaited until January 2014 |
| 8 | Bebeka Coffee Estate SC | Entry of the three coffee farms (Limmu, Bebeka, Gemadro) into honey (coffee honey) production, processing and export | Own | <ul style="list-style-type: none"> • Company has been initiated and is in the process of installing processing equipment at the farm, • Application for grant from ACDI/VOCA not accepted |
| No | Company Name | Project Type | Donor/Fund | Status |
| 9 | Environmental Protection Agency (EPA) | Creation of honey and bee products' marketing cooperatives of landless youth grouped by the EPA in pilot six Woredas of Tigray, Oromia, SNNP and Amhara regions | EPA | <ul style="list-style-type: none"> • Initial concept note and detailed action plan document accepted • However, the initiative has not been implemented according to plan |
| 10 | Ethiopian Natural Gum Producing Enterprise | Engaging in the production of honey at the forest areas of the enterprise | Bank | <ul style="list-style-type: none"> • Concept note submitted to ACDI/VOCA but not accepted • The enterprise is attempting to finance the project through bank loan |
| 11 | Tensay Zerfu Crop Development | Beekeeping on commercial farm | ACDI/VOCA | <input type="checkbox"/> Concept note not accepted |
| 12 | Meaza Mar | Urban beekeeping | ACDI/VOCA | <input type="checkbox"/> Concept note not accepted |

| | | | | |
|----|----------------------------------|--|---|---|
| 13 | Hiwot dairy farm | Mechanical milking machine | LMD | <input type="checkbox"/> Concept note not accepted |
| 14 | Gobe heifer ranch | Commercial heifer production | LMD | <input type="checkbox"/> Concept note not accepted |
| 15 | Awash micro and small enterprise | Modernizing milk processing | Food Security and Rural Entrepreneurship Fund | <input type="checkbox"/> Concept note not accepted |
| 16 | ALPPIS | Artificial Insemination services by commissioning | LMD | <ul style="list-style-type: none"> • Concept note accepted • Proposal developed and submitted |
| 17 | Selale Union & HDPD | Milk retailing kiosks | LMD | <ul style="list-style-type: none"> • Concept note accepted • Proposal developed and submitted |
| 18 | Ethio-feed | Innovative feed solutions | LMD | <ul style="list-style-type: none"> • Concept note accepted • Proposal developed and submitted |
| 19 | Bio T ² | Sesame seed transformation using tissue culture technology | Equity contribution by a local investors | <input type="checkbox"/> Negotiations on progress to form a joint venture |
| 20 | BRUNDO International | Processing and export of agricultural products including sesame, honey and dairy | Bank loan | <input type="checkbox"/> One million Birr loan secured |

5.7. Incubation Services

So far, the project provided different incubation supports to the candidate incubatees in areas including: Business plan preparation, company formation, business modeling, marketing strategies development, access to finance, technology linkage.

The incubation program is expected to run for a one year period and the incubatees will graduate from the program after their business starts to generate revenue. After graduation, the project will continue to work in the areas of scaling up Successful & Promising Businesses (Injecting Equity investments into incubated businesses), facilitating strategic business linkages for graduate enterprises, generating empirical evidences for policy advocacy, and contributing to knowledge creation (Agribusiness incubation model).

5.8. Supported Companies

In this reporting period the project supported 18 existing pioneer companies (Dairy 7, Sesame 3 and Honey 8). The supports provided are in the areas of access to finance, market linkage, technology, business plan preparation, partnership arrangement, etc. The table below depicts the list of companies supported in the reporting period and the types of supports they received.

Table 5-4: List of Supported companies

| Subsector | Company Name | Business Type | Project Supports Provided to the Company |
|-----------|--------------------------------------|--|--|
| Honey | 1. Bebeka/Limmu/Gemadro Coffee Farms | <input type="checkbox"/> Coffee honey production | <ul style="list-style-type: none"> • Orientation and guidance on business plan preparation, • Business model development to make the farms a lead company in coffee honey business in international markets. |
| | 2. B-Honey | <input type="checkbox"/> Urban beekeeping | <input type="checkbox"/> Business plan development training & technical support |
| | 3. Beza Mar | <input type="checkbox"/> Honey processing and export | <input type="checkbox"/> Facilitation for possible partnership with Mexican packaging and marketing company |
| | 4. Atrif alternative energy | <input type="checkbox"/> Beekeeping on a Jatropha farm | <input type="checkbox"/> Proposal development for the CIC grant program |
| | 5. Dehana Amdework Foundation | <input type="checkbox"/> Beekeeping by rural youth farmers | <input type="checkbox"/> Concept note and proposal development |
| | 6. Mare | Cosmetics production from organic Ethiopian beeswax | <ul style="list-style-type: none"> • Linkage with local organic beeswax suppliers, • Business plan development training and technical support |
| | 7. Shillo | Honey collection centers establishment and refining traditionally produced crude honey and beeswax | <ul style="list-style-type: none"> • Concept note development for ASPIRE grant program • Proposal development (on progress) |
| | 8. SYE Agro Industry | Honey, Beeswax and other bee products trading | <input type="checkbox"/> Business plan development training and technical support, Facilitation linkages for accessing loan, and land (ongoing) |
| Dairy | 9. ALPPIS | <input type="checkbox"/> Provision of AI services and VET drugs | <input type="checkbox"/> Business model & Proposal development <input type="checkbox"/> Linkage with grant with a local partner project |
| | 10. Selale Union & HDPD | <input type="checkbox"/> Milk distribution | <ul style="list-style-type: none"> • Business model and Proposal development • Linkage with financing (grants) from local project partner • Facilitating partnership between Selale and HDPD • Facilitation for obtaining land for establishing milk retailing shops |
| | 11. Guts Agro | <input type="checkbox"/> Powder milk production | <input type="checkbox"/> Linkage with local partner NGO |

| | | |
|-----------------------|--|--|
| 12. Ethio-feeds | <input type="checkbox"/> Animal feed production | <input type="checkbox"/> Business model & Proposal development |
| 13. Hiwot | <input type="checkbox"/> Mechanical milking machine production | <ul style="list-style-type: none"> • Linkage with a local technology center for development • Linkage with research center for product testing |
| 14. Gobe Heifer Ranch | <input type="checkbox"/> Commercial heifer production | <input type="checkbox"/> Business model and proposal developed for financing |
| 15. Yemenz Tesfa | <input type="checkbox"/> Butter marketing cooperative | <input type="checkbox"/> Linkage with market |

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|--------|---|---|--|
| Sesame | 16. Marast General Mechanics | <input type="checkbox"/> Agro Industry machinery and implements manufacturing | <input type="checkbox"/> Concept note development, Linkages with different partners and Market linkage with machinery buyers |
| | 17. BRUNDO International | <input type="checkbox"/> Processing and export of agricultural products including sesame, honey and dairy | <input type="checkbox"/> International market linkage with organic sesame farmers, Technology linkage for establishing processing plant and Bank loan facilitation |
| | 18. Alrna Agro Processing & Export Industry PLC | <input type="checkbox"/> Sesame hulling and export | <input type="checkbox"/> Concept note and proposal development |

5.9. Job creation

To date, the project supported the creation of 129 direct and indirect jobs, but fell short of the target of 300 total jobs. The project exceeded the target number of female jobs created (target=90) by 11 female jobs (total=104). The shortfall in the number of total jobs created is due to the 2-month delay in start-up of the incubation process, which was basically caused by some administrative challenges in the first couple of months of the project period (delayed in fund transfer, delayed procurement of vehicle, etc.). We expect that over the next six months, the rate of new job creation will compensate for the shortfall.

6. SUB SECTOR TRANSFORMATION: TRENDS AND HOPES

The various innovative businesses being supported by the project showed great promise for the realization of the desired significant positive changes towards transforming the three sub sectors. The table below summarizes the impacts expected from the implementation of some of these major innovative businesses.

Table 6-1: *Expected impacts of selected innovative businesses on sub subsector transformation*

| Business | Expected contribution for subsector transformation |
|---------------------------------------|---|
| Dairy | |
| Mechanical milking machine production | The product will replace the traditional hand milking practice, which is one of the causes of contamination and masticates |
| Feed production and commercialization | The business will use locally available raw materials to produce high quality animal feeds and will contribute to significantly lower milk production costs. |
| Local milk drying technology | Powdered milk will be produced for the first time in the country and replace imported products. The product will have long shelf life and contribute to reduce milk spoilage particularly during the fasting seasons when the demand for milk products will significantly drop. |
| Milk retailing chains | Milk retail outlets will be established across city centers in a partnership arrangement between milk producers' cooperatives and milk distributors. By making clean milk available close to urban consumers, the business model will contribute to significantly improve the efficiency of the market and will benefit both producers and consumers. Preparations are being made to pilot this business model in Addis Ababa. The model has the potential to be scaled out in to other major cities of Ethiopia. |
| HONEY | |

| | |
|----------------------------|---|
| Out grower business models | This model will fill the gap of the missing middle in the apiculture value chain by enabling the availability of bulk supplies (traceable bulk honey and bulk beeswax). |
|----------------------------|---|

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| | |
|--|---|
| Value addition and product diversification | New value added products will be introduced in the value chain including: flavored honey (coffee honey, infused honey...), cosmetics (beeswax lotion, chap stick, soap...) and other consumable items (like beeswax candles). |
|--|---|

| | |
|--|--|
| Processing plant establishment in the highest honey producing zone of Ethiopia | Significant contribution to increased value addition and export of processed honey. The business will also contribute to improved quality honey production and increased farmers income. |
|--|--|

Sesame

| | |
|--|---|
| Sesame seed transformation using tissue culture technology | Has the potential to revolutionize the Ethiopian sesame subsector by overcoming the problem of sesame seed shattering and by improving existing yield level many folds. |
|--|---|

| | |
|---|---|
| Locally develop sesame processing machinery (hulling and cleaning) raw planters | By manufacturing the processing machine, the business will significantly contribute to increased value addition and export of sesame, which hitherto mostly exported raw. Local capacity will also be built to manufacture agricultural implements including sesame raw planters. This will also improve sesame farming practices which will in turn contribute significantly to increase sesame productivity. |
|---|---|

7. Summary of plan versus achievement

ESAI started implementation in November 2013. The project implemented most of the major planned activities for the reporting period.

The project identified three strategic commodities (Dairy, Sesame and Honey) and conducted deep dive studies along the value chains of the three selected commodities and strategic interventions were designed according to the plan.

Based on the results of the deep dive analyses, the project provided different kinds of supports for 18 existing “pioneer companies” in the areas of access to finance, market linkage, technology, business plan preparation, partnership arrangement, etc. The performance significantly exceeds the planned target (300% plan achievement) because of the exceptional opportunities for development, especially in the honey and dairy sectors.

The business plan competition is launched and the selection of incubatees was made in the reporting period. The number of incubatees selected for the first round incubation program is 19, which is 110% more than the planned target of 9. During the selection process candidate incubatees were provided with different supports including: a training program on business plan preparation, one-on-one technical support on business plan preparation, business modeling, development of marketing strategies and improving access to finance. However, due to the late completion of the selection process of the incubatees planned incubation supports in areas of: Market research, IT and Communication, HR management, and Basic business infrastructure (accounting, tax, legal) and the graduation of the incubatees are postponed to the next implementation year.

As per the project plan, relationships have been initiated, created and being maintained with a number of actors (donor projects, government agencies, research institutions, grant, debt and equity financiers, sub-sector associations and networks). Efforts made towards forging collaboration with universities, however, were challenged by lack of finance for innovation development.

In this reporting period, the project succeeded in identifying advocacy issues in the three subsectors. Actual engagement in advocacy activities however is postponed to the year 2014.

To date, the project supported the creation of 129 direct and indirect jobs, but fell short of the target of 300 total jobs. We expect that over the next six months, the rate of new job creation will compensate for the shortfall.

Remarkable strides have also been made in creating financial accesses to incubatees and existing companies. The project supported 20 companies to access different finance sources, out of which 50% obtained positive responses. The establishment of ESAI fund is still on progress and the organization of an agribusiness investment forum is pushed to January 16 of the next implementation year.

8. CHALLENGES AND LESSONS

The project's key challenges and lessons are described below. The lessons will be used to shape up project implementation for the remainder of the project operation period while the challenges will be subjects of discussion for the ESAI management and USAID.

Challenges related to financing startup incubatees' businesses

ESAI has no budget allocated for directly financing business enterprises. Hence, ESAI is facing difficulties in supporting its start-up businesses to access initial investment finance from conventional sources (primarily due to lack of collateral).

The original idea of ESAI was to raise investment fund that could be used as equity contribution for new businesses. The incubatees, however, can access the equity contribution only starting from their second stage of development (see section 4.5). Therefore the ESAI investment fund could not be a primary source of fund to finance incubatees' startup businesses.

It is imperative to look for other options of financing incubatees' new businesses such as: access grant programs, getting investment partners from investment forums and facilitating bank loans. ESAI, therefore, needs to put significant emphasis to find grants that could be managed by PCI - to stimulate the startup of small but innovative businesses, which could have significant impacts in the value chains. Strengthening partnership with USAID development programs with interventions in honey, Sesame and Dairy subsectors is also very decisive. ESAI hopes to realize the natural synergies between these programs and has tried its best to make such partnerships work, but these efforts did not bear fruits except the recent development with LMD. USAID coordinated meetings and partnership efforts with these players could perhaps yield better results.

Challenges related to sesame trading

Due to the restrictive policy environment in the sesame subsector (the ECX system) companies and entrepreneurs are showing limited interest to engage in innovative value adding sesame processing businesses. The project is preparing to address this issue as an important part of its advocacy agenda.

Targeted selection of incubatees

It was assumed during the project formulation process that the project will run three business plan competitions; one per each implementation year. The project, however selected double the planned number of incubatees in the first round of the competition. In the subsequent two years, instead of running a full-fledged competition process, the project will therefore employ a targeted approach to select innovative businesses which will solve value chain problems which are identified in the deep dive studies but will not be adequately addressed by the businesses of the incubatees' enrolled in the first round incubation program or the existing companies already working with ESAI.

Running a virtual incubation center

The project had envisaged establishing an incubation center in PCI office; assuming that most of the incubatees will be able to come and work in the center, until they get their

own work station. It was presumed that most incubatees will be fresh university graduates who have innovative ideas but constrained by resources limitations and lack work stations to start the business. Based on this assumption the project team visited 8 university campuses to promote the business plan competition mainly to graduating class students. This effort however, succeeded in attracting very few applicants from the university system.

The geographic location of the incubatees also suggested that it will be more convenient for many of them to work from their places instead of coming to the incubation center. ESAI is therefore planning to establish a modest incubation center to be used by incubatees whose location is not too far from Addis. Incubatees from the regions may also use the center when they visit Addis for purposes related to their businesses.

On the other hand the project has learned that it is very important to have more staff (interns and others) to provide on the job supports to the incubatees, who are distributed all over the country.

9. CONCLUSIONS AND PRIORITY AREAS FOR 2014

During the first year of this project, the foundations for successful generation of new companies and new jobs have been established. The deep dive studies conducted laid down the direction for guiding all project actions towards priority value chain intervention areas, framing advocacy agendas, identifying key actors with whom to network, etc. ESAI process results during its first year have been significant. ESAI conducted 234 meetings across engaging more than 1,400 farmers, business and government leaders, entrepreneurs, NGOs and donor representatives throughout all regions in Ethiopia. These foundations have positioned ESAI project as a nexus for creating and sustaining dynamic business enterprises, which are essential for the strategic transformation of our priority three value chains.

During 2013, companies supported by ESAI created 129 new jobs (of which 101 jobs were for women) and these companies, plus the new start-up companies (incubatees) are expected to create double this amount within the coming six months. The pioneer companies, as well as the new start-up companies, are also contributing to strategic breakthroughs in each value chain, by introducing new value added products, opening up new export markets, and contributing to the enhancement of incomes, poverty alleviation, and food security.

With ESAI's strong support in addressing access to financing, seven pioneering businesses/entrepreneurs developed business concepts and received approval for donor funding (i.e., SNV's Aspire Program for honey, LMD for dairy, ACIDI-VOCA for sesame and honey). ESAI also provided support to firms to enable equity and debt investments by

Voxtra East Africa Investment Fund and AgriVest. Companies include: Beza Mar and Golla Beeswax (in apiculture business), Guts Agro Industries (dairy byproducts), and Brundo International (for dairy, honey, and sesame products).

The first round incubatees' selection process the project initiated is in its final stage. The formal inauguration ceremony of the incubation of the selected incubatees is planned to be organized on November 21, 2013. Individual incubation action plans customized on the special needs of each incubatee will be developed. The plan will guide the entire incubation process and will outline the project's supports to the incubatee.

In its second implementation year, the project will capitalize on the achievements made so far and will continue to work to the realization of the projects objectives stated earlier. The project's main areas of focus in 2014 will be:

- Provide incubation services to incubates selected in the first round
- Organize Agri-Business Investment Forum
- Support the implementation of projects already accessed different grant programs with the support of the project
- Identify second round incubates through employing a selective approach to address the remaining critical value chain problems.
- Identify and support pioneer existing companies in the three subsectors (new initiatives with existing companies to address the remaining gaps in the value chains)
- Advocate on issues identified earlier and continue networking with key stakeholders and
- Documentation of project processes and success stories (developing a complete draft manual of Agribusiness incubation in the context of Ethiopia)
- Sourcing grants to provide startup capital for incubates
- Establish ESAI equity investment fund to work with existing companies and incubates transformed in to second and third stages

Annexes

Annex 1: Plan vs achievements

Ethiopia Sustainable Agribusiness Incubator: Innovate -Incubate (I²) Summary performance report of 2013: Based on key planned actions

| No | Planned Activity | Achievement | Status |
|----------|---|---|--|
| 1 | VALUE CHAINS ASSESSED AND STRATEGIC INTERVENTIONS IDENTIFIED | | |
| 1.1 | Value Chain Sector Identification and Initial Value Chain Profiles | Three Value Chains: Dairy, Honey and Sesame identified | Completed |
| 1.2 | Conduct value chain desk studies | Desk studies conducted for the identified three sub-sectors | Completed |
| 1.3 | Conduct “Deep Dive” Value Chain Assessments & Intervention Strategies | <p>"Deep Dive" studies conducted for the three identified value chains and interventions strategies developed. The Deep Dive studies include:</p> <ul style="list-style-type: none"> • Content and framework developed for the deep dive study • Deep dive tool development: • Information gathering, actors mapping and networking: • Survey: • Actor Mapping and profiling: • Subsector and product description: • Case studies: • Geographic Mapping: • Input output mapping: • Business environment study • End market study • International Markets analysis | Completed |
| 2 | INCUBATION SYSTEMS DEVELOPED | | |
| 2.1 | Developing incubation guideline | A draft guideline was developed to help the team organize the incubation processes | First version completed which will be improved as the project progresses and more experiences are gained |

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| No | Planned Activity | Achievement | Status |
|-----|---|--|-------------|
| 2.2 | Advertising to select potential incubatees | Targeted promotion has been conducted to avoid over expectations. The team has provided orientations to graduate students in 8 universities. Former business plan competitions have also been used as a source to identify potential applicant. The call has also been advertised by using PCI's website, passing on information to relevant existing networks, providing press news to national radio programs etc. | Completed |
| 2.3 | Project and Concept note competition launching | Business plan competition launched | Completed |
| 2.4 | Concept note collection and selection | A total of 82 applicants submitted projects for the competition. Through a rigorous multi stage transparent selection process, 19 incubatees selected for the first round incubation program. | Completed |
| 2.5 | Training potential incubatees | Selected applicants have been trained on business plan preparation, after being chosen based on their concept notes. These applicants have had the chance of developing their business plans in the process, which was also supported by a one - on -one consultation with PCI's team. The project would continue to provide customized trainings for the selected incubatees once their needs are properly assessed. | On progress |
| 2.6 | Testing business models | Business models developed and being tested (learning process) | On progress |
| 2.7 | Creating learning platform for incubates | Three Learning workshops organized, one in each of the Dairy, Honey and Sesame Sub-Sectors | On progress |
| 2.8 | Provide access to technology support to incubates/existing companies | Incubatees/existing companies are being supported to get access to critical technologies. So far three companies have already established effective partnerships with Marast General Mechanics on technology transfer. Many more companies were also provided information and relationship is in good progress. A number of local technologies have also been unearthed in the processes which are being supported to go into commercialization. | On progress |
| 2.1 | Provide access to financing support to incubates/existing companies | About 20 businesses supported to get financial access from different sources. Half of these companies (10 companies) received positive responses. | On progress |
| 2.1 | Provide access to HR management support (Basic business infrastructure works) | Not done | |

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| 2.1 | Provide access to Market Research support to incubates | Not done | These activities will be part of the incubation action plans of the individual incubatees. The preparation of the incubation action plans is on progress | |
|----------|--|---|--|--------|
| No | Planned Activity | Achievement | | Status |
| 2.1 | Facilitating market access to incubatees in accordance with business plan | Not done | | |
| 2.1 | Support development of company communication materials | Not done | | |
| 2.1 | Graduation of incubates | Not done | | |
| 3 | APPROPRIATE BUSINESS SYSTEMS CREATED AND SUSTAINED | | | |
| 3.1 | Creating and maintaining working relationships/partnerships with relevant organizations and institutions | Working relationships created with different partner organizations including: EPA, EIAR, ACDI/VOCA, SNV- ASPIRE Project, Sesame Business Network and a number of existing enterprises in the selected three subsectors | On progress | |
| 3.2 | Identify and link product and/or service innovators, enterprise managers and universities | No effective linkages created with Universities although some attempts were made to start working relationship with Holleta research center | Efforts challenged by lack of finance for innovation development | |
| 3.3 | Identify and link private sector players and donors with the group to sponsor innovative solutions | About 20 innovative projects identified and supported to submit their proposals to donors and private investors who show willingness to partner in the projects. | On progress | |
| 4 | DEVELOPMENT AND SUPPORT OF ADVOCACY AGENDA | | | |
| 4.1 | Recruiting and engaging key business opinion leaders | Subsector boards established for each of the three sub-sectors. Board members include business leaders, government officials and other actors who are active in the respective subsectors. The boards' launching workshop is conducted and the boards are participating in the incubatees selection process | On progress | |
| 4.2 | Create champions of advocacy groups | The subsector board members, who are also entrepreneurs, will play a role as champions in advocacy | On progress | |
| 4.3 | Provide support to define advocacy agendas and develop advocacy strategies | The project identified different advocacy agendas through the deep dive studies and enriched them in the learning workshops organized for each subsector. Starting from the next implementation year, the project will give due emphasis for advocating on these issues by joining hands with other likeminded actors | On progress | |
| 4.4 | Generate empirical evidence from the business practices to support advocacy initiatives (Action research | No separate research was organized so far because the deep dive study and the subsequent meetings with the chain actors provide enough information | On progress | |

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| 5 DEVELOPMENT OF ESAI FUND | | | |
|-----------------------------------|--|---|---------------|
| No | Planned Activity | Achievement | Status |
| 5.1 | Raise investment capital | Several activities have been achieved in this aspect. For instance, the Fund has identified, approached, and accepted 5 Board advisors for the Fund. A Private Placement Memo has been finalized to use as a marketing tool to promote investments for the Fund. Developed 50 potential pipeline companies for investments (to be screened). Developed a funders list inclusive of fund of funds, DFIs, Foundations, Donors, and Philanthropist's. All of the steps have been taken to start communicating with the Funders so as to start raising the required capital for the agribusiness fund. The next quarter activities will be dominated by the communication between PCI and funders. It is anticipated that it will take a minimum of 12 months to fully raise the target amount of 10 million USD. PCI has made additional partnerships and agreements with private equity investors that have the mandate to invest in agribusiness and ESAI clients. The private equity investors include foreign firms, as well as locally based equity firms such as AgriVest. PCI's role is to be the link between local companies and foreign investors by providing key company information and reports to attract foreign capital into Ethiopia's agribusiness sector. | On progress |
| 5.2 | Establish norms, regulations and fiduciary guidelines for fund management | PPM document prepared and circulated for comments to the relevant bodies | On progress |
| 5.3 | Provide direct investment to enterprises at stages two and three level | This is waiting the formal establishment of the fund and the development incubatee businesses to stage two and three levels | Not started |
| 5.4 | Facilitate enterprise consolidation and merger when found appropriate | Not done | |
| 5.5 | Provide financial advisory services to MNCs who may be interested in entering Ethiopian agri-business industry and jointly invest with other funds, private investors and financial institutions | Agreement signed with Agrivest and Voxtra (equity investors) and facilitation of investment with Ethiopian companies is on progress | On progress |
| 5.6 | Continued business support to create dense ecosystem | 19 existing companies and people who wanted to start up new business were advised and provided with vital business information | On progress |
| 6 | REPORTING, COMMUNICATION, MONITORING AND EVALUATION | | |

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| | | | |
|-----------|--|--|---------------|
| 6.1 | Develop communication strategy | Agreement signed with 251 Communications to develop a Communication Strategy. The development of the strategy is being finalized. | On progress |
| 6.2 | Develop communication materials | Different communication materials produced including a brochure, folders, banners to promote the project and the three subsectors. | On progress |
| No | Planned Activity | Achievement | Status |
| 6.3 | Develop I ² website | The project is using the website of PCI | Completed |
| 6.4 | Conduct annual sector investment forum | The Forum is scheduled to be organized on December 16/2013 | On progress |
| 6.5 | Prepare quarterly and annual reports | Quarterly reports prepared and submitted to USAID. Annual report also submitted to the FTMS on line reporting system. | Completed |

Annex 2: Detailed information about incubatees to be supported in the first round incubation program

| No | Name of the Incubatee | Business Description | Expected method of financing | Contribution to address identified Value Chain problems | Job opportunities expected to be created | | |
|----------|-----------------------|--|------------------------------------|--|--|----------|-------|
| | | | | | Direct | Indirect | Total |
| I | HONEY | | | | | | |
| 1 | Desalegn Begna | Beekeeping equipment supplies | DBE and Equity investment | Equipment quality problems | 10 | 5 | 15 |
| 2 | Samuel W/Kidan | Honey and beeswax processing and trading | Own and Working capital loan | First processing plant in Jimma area using locally produced processing plant | 7 | 200 | 207 |
| 3 | Tsion Abera | Honey and beeswax production, collection and marketing | Own and bank loan | Commercial farm engaging in beekeeping and also intending to collect honey/beeswax from surrounding farmers-championing bulk supplies | 15 | - | 15 |
| 4 | Yewalashet Yigu | Honey and beeswax production, collection and marketing | Own and Partnership with investors | Commercial coffee farm engaging in beekeeping and also intending to collect honey/beeswax from surrounding farmers – coffee honey production | 30 | 200 | 230 |
| 5 | David Mulugeta | Honey and beeswax production, collection and marketing | Own and bank loan | Commercial coffee farm engaging in beekeeping and also intending to collect honey/beeswax from surrounding farmers – coffee honey production | 2 | 20 | 22 |

Ethiopia Sustainable Agribusiness Incubator (ESAI)

| No | Name of the Incubatee | Business Description | Expected method of financing | Contribution to address identified Value Chain problems | Job opportunities expected to be created | | |
|-----------|-----------------------|--|------------------------------------|--|--|----------|-------|
| | | | | | Direct | Indirect | Total |
| 6 | Simret Lulekal | Honey and beeswax production, collection, processing and marketing | Own and Equity Investment | Honey, other bee products and bee colony supplies to the market | 366 | 100 | 466 |
| 7 | Solomie Wassie | Infused honey production and trading | Own | Introducing infused honey-the pioneer & only supplier | 4 | 40 | 44 |
| 8 | Solomon Mulugeta | Honey and beeswax production and marketing | Own and MFI | Share company of farmers engaging in the production and marketing of honey/beeswax | 120 | 100 | 220 |
| 9 | Meseret Getachew | Honey and beeswax production, collection, processing and marketing | Own and ASPIRE | Commercial coffee farm engaging in beekeeping and also intending to collect honey/beeswax from surrounding farmers – coffee honey production | 17 | 5 | 22 |
| 10 | Assefa S. Medhin | Honey, honey products, beeswax, beeswax products and other bee products collection, production and marketing | DBE | First processing plant adding value on honey and beeswax; honey candy, honey soap, lip balm from wax and the like ... | 47 | - | 47 |
| II | DAIRY | | | | | | |
| 11 | Binyam kassa | High quality Cheese and cream production in stage 1 and powdered milk production in stage 2 | Equity –phase 1 and debt – phase 2 | Extended shelf life products to substitute imports | | | 30 |

Ethiopia Sustainable Agribusiness Incubator (ESAI)

| 12 | Dawit Walelegne | Processed dairy products for eastern Ethiopia, Somaliland and Djibouti markets | Equity/debt | Extended shelf life products for exports | | | 21 |
|------------|--------------------------------|--|------------------------------|---|--|----------|-------|
| 13 | Hiwot farm & Maerest Mechanics | Production of mechanical milking machine | Grants/equity | Reduce contamination of milk by replacing hand milking | | | |
| 14 | Tegegne Tarekegne | Powdered milk production | Equity/debt | Local production of powdered | | | 23 |
| No | Name of the Incubatee | Business Description | Expected method of financing | Contribution to address identified Value Chain problems | Job opportunities expected to be created | | |
| | | | | | Direct | Indirect | Total |
| | | using local technology | | milk to replace imports | | | |
| 15 | Zenebe Tesfaye | Mechanical butter churner suitable for smallholder producers | Equity/debt | Increase butter production efficiency | | | |
| III | SESAME | | | | | | |
| 16 | Alem Greiling | Value addition by mixing sesame with grains, honey and plants such as moringa. | Grant/ Partnership | Value addition to raw sesame | 30 | - | - |
| 17 | Wendemagegn Kebede | Sesame seed multiplication | Bank loan | Alleviation of scarcity of quality sesame seed | 45 | - | |
| 18 | Mussie Tesfay | Manufacturing of briquettes from farm residue of sesame | Grant/ Partnership | Clear crop residues from sesame farms after production seasons and offer new income sources to farmers. | 24 | 96 | 120 |
| 19 | Professor Seifu Belay | Sesame seed transformation using tissue culture technology | Partnership | Overcome problem of sesame seed shattering and improve existing yield level many folds | | | |