New Partnership for Africa's Development (NEPAD)

Comprehensive Africa Agriculture Development Programme (CAADP)

Food and Agriculture Organization of the United Nations

Investment Centre Division

GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

SUPPORT TO NEPAD–CAADP IMPLEMENTATION

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Volume VI of VI

BANKABLE INVESTMENT PROJECT PROFILE

Agricultural Marketing Improvement Programme 2 (AMIP 2)

January 2005

ETHIOPIA: Support to NEPAD–CAADP Implementation

Volume I: National Medium–Term Investment Programme (NMTIP)

Bankable Investment Project Profiles (BIPPs)

Volume II: Water Harvesting and Small–Scale Irrigation

Volume III: Human Resource Development for Agricultural Extension

Volume IV: Client–oriented Agricultural Research for Development

Volume V: Live Animal and Meat Export

Volume VI: Agricultural Marketing Improvement Programme 2 (AMIP 2)

NEPAD–CAADP BANKABLE INVESTMENT PROJECT PROFILE

Country: Ethiopia

Sector of Activities: Agricultural Marketing

Proposed Project Name: **Agricultural Marketing Improvement Programme 2 (AMIP 2)**[1]

Project Location: Surplus woredas in Oromia, SNNPR, Amhara, Tigray and Benishangul–Gumuz

Duration of Project: 5 years

Estimated Cost:
Foreign Exchange.....US$116 million
Local Cost.....US$239 million
Total ..... US$355 million

Suggested Financing:

Source	*US$ million*	*% of total*
Government	287.5	81
Financing institution(s)	18.9	5
Beneficiaries, including non–peasant private sector	48.4	14
Total	***354.8***	***100***

[1] This is a scaling up of a pipeline programme that is in advanced stage of preparation for IFAD financing. Reference is made to the original programme as AMIP 1 and to this programme (under consideration) as AMIP 2.

ETHIOPIA:

NEPAD–CAADP Bankable Investment Project Profile

"Agricultural Marketing Improvement Programme 2"

Table of Contents

Abbreviations

ADLI	Agricultural Development Led Industrialization
AMDAs	Agricultural Marketing Development Associations
AMFIs	Association of Microfinance Institutions
AMIP	Agricultural Marketing Improvement Programme
AMPSC	Agricultural Marketing Policy Steering Committee
BoARD	Bureau of Agriculture and Rural Development
CAADP	Comprehensive Africa Agriculture Development Programme
DAs	Development Agents
DBE	Development Bank of Ethiopia
EGTE	Ethiopian Grain Trading Enterprise
FAMDA	Regional Agricultural Marketing Development Association
FCC	Federal Cooperative Commission
FPCMU	Federal Programme Coordination and Management Unit
GOE	Government of Ethiopia
IFAD	International Fund for Agricultural Development
IFI	International Financing Institutions
IFPRI	International Food Policy Research Institute
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
MIS	Market Information System
MoARD	Ministry of Agriculture and Rural Development
MOTI	Ministry of Trade and Industry
MPCS	Multi–purpose Cooperative Societies
NAEIP	National Extension Intervention Programme
NEPAD	New Partnership for Africa's Development
NMTIP	National Medium Term Investment Programme
QSAE	Quality Standards Authority of Ethiopia
RAMDA	Regional Agricultural Marketing Development Association
RPCMU	Regional Programme Coordination and Management Unit
RUFIP	Rural Financial Intermediation Programme
RUSACCOs	Rural Savings and Credit Cooperatives
SDPRP	Sustainable Development Poverty Reduction Programme
SMEs	Small and Medium Enterprises
SNNPR	Southern Nations, Nationalities & Peoples Region
WHRS	Warehouse Receipts System

I. PROJECT BACKGROUND

A. Project Origin

I.1. The government has made considerable efforts through its dedicated extension services in improving smallholders agricultural production, with little attention to agricultural marketing. Grain producers in particular have experienced repeated loss due to unprecedented market failure when they had bumper harvests. This is paradoxical in a country where there is widespread famine. The recent low international coffee prices have also adversely affected coffee growers. The collapse in agricultural prices discouraged farmers from using fertilizer and improved seeds that led to a low level of production in the ensuing crop years. This situation has devastatingly affected farmers income and exacerbated food insecurity and poverty in large parts of rural Ethiopia (more on this later under the section dealing with the rationale of the project). Such unpredicted outcome drew close attention of the government and the international community. The government in particular has responded positively and acted swiftly to launch a comprehensive study on agricultural marketing.

I.2. IFPRI with funding from IFAD conducted a comprehensive study on *Getting Markets Right in Ethiopia* with special emphasis on the institutional and legal aspects of grain and coffee marketing. The study draws a comprehensive road map for getting agricultural markets right, focusing on the institution, infrastructure and incentive (policy and legal frameworks) issues (the first attempt of its kind). Subsequently, on the basis of this study, IFAD formulated an *Agricultural Marketing Improvement Program* (AMIP 1) for financing.

I.3. The *Ministry of Trade and Industry* (MOTI) had initially played a critical role in guiding and coordinating the study. Since recently, the *Agricultural Marketing Directorat*e under the new structure of MoARD has taken over all the tasks of improving and regulating the agricultural marketing system in the county.

I.4. During the initial discussion with the *Ministry of Agriculture and Rural Development* (MoARD), the study team has firmly established that improvement of the agricultural marketing system is among the top priority areas deserving emphatic attention in the NEPAD–CAADP initiative for seeking support form donors and financing institutions.

I.5. In an effort to learn further the specific areas of marketing that would deserve immediate attention for NEPAD–CAADP support, the team has had opportunity to discuss with all department heads of the Agricultural Marketing Directorate. The discussions provided good evidence that coffee and grain are priority crops and that scaling up of the AMIP 1, which is currently in the pipeline for IFAD financing, would be appropriate. The State Minister of the Directorate further confirmed this.

I.6. AMIP 1 has three major components: (a) institution development; (b) infrastructure development; and (c) programme coordination and management. With a rough coverage of 200 surplus woredas (140 grain and 60 coffee growing woredas) in the four major regions (Oromia, SNNPR, Amhara and Tigray) the total project cost is estimated at US$35.5 million, to be implemented over a period of 7 years. The project formulation report was submitted to the GOE beginning of June 2004. IFAD's appraisal mission has been in Ethiopia recently to review the project and to reach an agreement with the government. The mission has received comments from the coffee and grain departments of the Agricultural Marketing Directorate, Cooperative Commission and the four participating regions. Then, it had discussions with all stakeholders.

I.7. The second Aide Memoir signed on 20 August 2004 by the State Minister and the IFAD's Mission Leader has now become a binding document for the preparation of the appraisal report which

will be due by end of September, 2004. According to the Aide Memoir, agreement has been reached between IFAD and MoARD to exclude some of the components considered in the initial program formulation report.[2] The next appraisal report is expected to incorporate all the changes and the suggestions made by the government and all the stakeholders. It is expected that the project will be ready for implementation shortly. The scaling up of the program will take into account all the changes reflected in the Aide Memoir.

I.8. The outreach and the corresponding financial provisions made AMIP 1 are too low to make discernible improvements in the marketing system as anticipated. As reflected in the Aide Memoir, ***the program is generally conceived as a pilot scheme and considered as a framework for investment rather than an investment "blueprint"***, and hence the cost estimate is an indicative figure for initial budgetary purposes. Thus the financing gap is considerably high. Nonetheless, the project is well designed. Highly qualified and experienced specialists in the area have been involved in the study and it is the result of extensive field assessment and consultations with key stakeholders. Bridging the finance gap is considered as an appropriate strategic option for the purpose of the present exercise. The project goals and objectives are consistent with SDPRP and the long–term objective of ADLI as well as NEPAD–CAADP pillar 2, notably with the rural infrastructure and trade–related capacities for improved market access.

I.9. However, AMIP 1 has strictly addressed the supply side of marketing with a focus on two commodities alone (grain and coffee). It has therefore limitations in disregarding the following pertinent areas: (i) inputs marketing; (ii) deficit areas; (iii) non–traditional high–value commodities (cotton, spices, horticultural products, floriculture, etc.); (iv) livestock and livestock products marketing; and (v) rural roads network linking farmers with markets.

I.10. Neither has this program attempted to fill these gaps due to limited resources and time. The capacity to assemble a comprehensive profile is limited by lack of advanced development ideas and proposals for these areas. They could not be simply incorporated in the present program for various reasons discussed under the project description.

B. General Information

I.11. Agriculture is the mainstay of the national economy supporting the entire rural population, which accounts for about 85 percent of the total population currently estimated at 70 million. It generates about 50 percent of the GDP and it is the major source of raw material for agro–processing industries and of foreign exchange earnings. Grain and coffee production together account for about 70 percent of the agricultural GDP.

I.12. Based on 2002/03 main crop season, the area under grain[3] (major crops) production was about 7.9 million ha, of which cereals, pulses and oilseed roughly account for 80 percent, 14 percent, and 6 percent, respectively. With a total production of about 7.4 million tons, the average yield is estimated at 10 q per ha. The marketable surplus of grain production is on average less than 30 percent; cereals 26 percent, pulses 37 percent and oilseeds 71 percent. Of the total marketable surplus, cereals, pulses and oilseeds respectively accounts on average for 81 percent, 12 percent and 5 percent. The private sector handles over 90 percent of the marketable volume.

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[2]. The government is committed to finance from its own or other sources activities dealing with (i) on–farm storage and post–harvest technologies; (ii) the development of an agricultural market information system (MIS); (ii) the tradable *Warehouse Receipt System Implementation Office*; (iv) piloting of the forward coffee auction; and (v) the establishment of coffee testing and liquoring centres.

[3] Grains include cereals (barley, teff, maize, wheat, sorghum), pulses and oilseed.

I.13. More than 95 percent of the total annual production of coffee, which is estimated at close to 4 million bags is produced by smallholders, with two regions, Oromia and SNNPR, accounting for over 90 percent of total production. About 45 percent of total output is forest and semi–forest coffee; 50 percent garden coffee cultivated by smallholders; and, 5 percent plantation coffee mainly owned by public enterprise. Roughly 50 percent of the total production of coffee is destined for export market. The export coffee constitutes 25 percent washed and 75 percent unwashed or sun–dried. The private sector has had the lion's share (over 90 percent) of the market especially since liberalization of the market in 1992.

I.14. The existing coffee processing infrastructure in the country (610 coffee washing machines and 494 hullers) have a limited capacity and they are generally in a dilapidating condition requiring replacement and maintenance.

I.15. Due to limited technology, the productivity of land and labour is abysmally low and as a result the agricultural production is largely confined to a subsistence level. Despite the huge agricultural resource base, the country is not food self–sufficient; some 5–7 million people on average face serious famine every year and are dependent on food aid. Over 40 percent of the rural population lives below the poverty line.

I.16. Market participants in grain marketing include wholesalers, retailers, part–time farmer–traders, brokers, agents, assemblers, processors, the *Ethiopian Grain Trading Enterprise* (EGTE), and consumers. Wholesalers are the major actors in the marketing channels. Market participants in coffee marketing include mainly producers, collectors (*sebsabis*), suppliers, processors, exporters and cooperatives (as collectors, wholesalers, processors and exporters).

I.17. The *Ethiopian Private Coffee Exporters Associations* and *Pulses and Oilseeds Export Association*, plus a few emerging grain–marketing associations, are in operation to provide market information and to some extent to play an advocacy role.

I.18. Though undeveloped and fragmented, the agricultural marketing system as whole is believed to follow the conventional marketing channel with distinct terminal, regional and local spot markets. The Addis Ababa market is the centre of surplus and deficit regions and serves all regions. Direct interregional market interaction is limited.

I.19. Ineffective and inefficient agricultural marketing system is widely believed to be one of the major factors for the low growth rate of the agricultural GDP. The market failure is attributable to a variety of problems, the outstanding ones being: inadequate market facilities (limited assembly markets); poor transportation and communication networks; lack of standard and grades; excessive post–harvest wastage and losses; lack of integration of farmers to the marketing system; weak market–oriented agricultural extension services; inadequate market information; limited access to finance; food aid distorting the market; lack of effective demand; poor connection with the international markets; and, weak legal system to enforce contracts.

I.20. Due to the absence of systems of grades and quality standards as well as inspection and certification, sacking and handling costs along with transport costs constitute the largest components of the transaction costs. Crop losses reach up to 30 percent due to poor storage and post–harvest facilities. With such poor market linkages farmers have weak temporal and spatial bargaining powers. The bulk of marketable produce (about 80 percent) is sold within a short period of time in a local market immediately after harvest. Farmers are compelled to do so in order to meet their cash needs for various social and economic commitments, including inputs loan repayment. Non–farm income generating opportunities are limited and thus effective demand in rural areas is very low.

I.21. Although participation of the private sector has been conspicuous, it is still in its fledging state. Since very recently, the agricultural marketing cooperatives have been reorganized as business organizations and their participation in inputs and outputs marketing is becoming increasingly significant. They are in particular the single most important institution for inputs distribution in rural areas across the country. Active participation of coffee unions in exporting organic coffee to the various niche markets in the Middle East, Europe, Asia, and USA is also gaining importance. Coffee marketing cooperatives have obtained permission to by–pass the auction market and sell their coffee directly to fair trade. This provides access to high value fair market prices overseas.

I.22. As a whole, cooperatives alongside the private sector are emerging as important market participants. At present, Close to 2,500 grain and 200 coffee primary cooperatives are fully organized and registered. In addition, 45 grain and 4 coffee unions have been established to facilitate the grain as well as coffee marketing activities. All stakeholders now consider active involvement of cooperatives in marketing, without government intervention, positive.

I.23. The public sector involvement in marketing is gradually waning. The only active parastatal involved in grain marketing is the EGTE. With over 200 modern warehouses and a wide grain–marketing network in surplus and deficit regions, this enterprise plays a positive and complementary role. Its price stabilization role and its capacity to export grain in particular complements the role of cooperatives and the private sector; the latter two could not handle this at this stage due to infrastructure constraint and limited financial capacity. The storage capacity of EGTE is estimated at about 1 million tons representing over 30 percent of the total storage capacity in the country. And yet less than 50 percent of this capacity is reportedly in use on a regular basis. There is thus sufficient room for cooperatives and the private sector to access this facility on a rental basis.

I.24. Donors and NGOs are also expected to play a complementary role rather than providing uncoordinated and unsynchronized food aid which leads to distorted domestic market prices.

II. PROJECT AREA

II.1. As indicated earlier, AMIP 1 plans to cover 200 surplus woredas (140 grain & 60 coffee woredas) in the four major regions, namely Oromia, SNNPR, Amhara, and Tigray. This represents about 44 percent of the total woredas (458) in the 4 regions. The potential coverage would be some 5,918 kebeles and a total of about 4 million households. But the depth of coverage at woreda level and the target outreach at household level are conspicuously limited. The program as a whole is considered as a pilot scheme and thus a limited fund has been allocated to it.

II.2. The *Grain Marketing Department* has identified 210 grain surplus woredas that deserve priority attention. Similarly, the *Coffee Marketing Department* has identified 85 coffee producing woredas. This means out of the total 295 surplus woredas, 95 woredas (70 grain and 25 coffee producing woredas) have not been covered by AMIP 1. Identification of surplus target woredas is in line with the recent MoARD's commodity development plans for grains and coffee.[4] With the expected additional financial resources, it would be justifiable to include other deserving surplus woredas within the four regions and in other additional regions with better development prospective.

[4] Surplus areas are defined as areas with significant marketable surplus for supply to other regions of the country, and delineation (identification) of surplus woredas is based on their high agricultural potential and comparative advantage of specializing on a certain priority (major) crops. It is anticipated that the market centres representing each woreda will be the major source or supplier of the crop that the woreda would be specializing based on its comparative advantage.

II.3. This program, which is simply a scaling up of AMIP 1, is intended to:

- Fill the financing gap of the 200 surplus woredas partially covered by IFAD; and
- Expand the program by 95 additional surplus woredas

II.4. As a result of this expansion, one additional region, namely Benishangul–Gumuz will be included in the programme, bringing the total number of target regions to five. Among the emerging states, Benishangul–Gumuz is noted for its sesame production (6 woredas) and limited coffee production (2 woredas) as well as its considerably active cooperative movement.

II.5. In total 295 woredas (210 grain & 85 coffee producing woredas), 8,578 kebeles and nearly 6 million households will be the AMPI 2 programme target within the 5 regions. The 5 regions, with over 95 percent of the rural population, cover about 470 woredas, representing about 60 percent of the total area of the country. The target surplus woredas account for well over 60 percent of the total woredas in the 5 regions. The project would therefore have a national coverage in relatively high agricultural potential areas (see map in Annex 1).

II.6. Deficit woredas have not been considered in the program for lack of defined approach, strategy and policy for improving their agricultural marketing system. Mechanical replication of the approach and strategy adopted for surplus woredas (specialized in certain crops) is considered unrealistic. But it is expected that improvements in surplus areas would have a positive trickledown effect in deficit areas. It is therefore strongly believed that viable market integration between surplus and deficit regions should be promoted, though the latter is not included in the present programme.

II.7. The target populations are multi–ethnic groups living in different agro–ecological zones, with different natural resource base and different socio–economic settings. But all are characterized by stallholder mixed farming system. With average daily per capita income of less than US$0.30, most of them live below the absolute national poverty line. Except some areas with location advantages (in terms of proximity to markets) the large part of the programme areas have weak and inefficient marketing system. As a whole, weak market institutions, poor market infrastructure, and weak market information system are the hallmark of the agricultural marketing system in program areas. Being so, the traditional coping mechanisms in respect to marketing are more or less the same everywhere.

II.8. As pointed out earlier, grain and coffee account for about 70 percent of the agricultural GDP. And the priority given to them in AMIP 1 during the initial phase of streamlining the agricultural marketing system sounds rational. But some regions like Tigray and Amhara don't have good resource base for growing coffee, while Oromia and SNNPR have a huge potential for both crops. In light of this, some regions should be allowed to focus on other agricultural commodities that have a distinct comparative advantage. The proposed institutional framework and capacity of AMIP 1 are flexible and accommodative.

II.9. The stakeholders in the programme areas include individual or group of small farmers, grain and coffee traders both in rural and urban areas including wholesalers and retails, processors and exporters, transporters, agricultural primary and union cooperatives, public enterprises (EGTE) and NGOs.

III. PROGRAMME RATIONALE

III.1. In a country where nearly half of the population is dependent on food grain market to secure the basic food requirements, a conducive market environment is essential for sustainable food security and poverty reduction. As explained in the background section, the existing marketing system is generally inefficient and ineffective requiring a major improvement. The recent unprecedented market failure amply shows that the market capacity is very weak to absorb surplus production.

III.2. Focus of the agricultural development effort to increase production with little or no attention to agricultural marketing over the last couple of years has been found to be utterly a wrong strategy. The extension services have made maximum efforts in helping the small farmers increase their productivity and production through the *National Extension Intervention Programme* (NAEIP). Bumper crop harvests in 1995/96, 1996/97, 2000/01 and 2001/02 were the direct outcome of this effort. But the unprecedented sharp drop of up to 80 percent of farm gate prices was a major shock to the ill equipped poor farmers. As one study shows, there was marketable surplus of some 500,000 tons per year during the bumper harvests of 2000/01 and 2001/02, while the food deficit population of some 5 million people required food aid of up to 530,000 tons.

III.3. Similarly, due to the steadily declining international coffee prices, export earnings from coffee has sharply dwindled and the coffee farmers and exporters have been at a great loss. The combined effect (low grain and coffee prices) has apparently exacerbated the food insecurity and poverty situation.

III.4. Under the circumstances, farmers negatively responded in using fertilizer and improved seeds. Consequently, the production level has dramatically declined in subsequent years, particularly in 2002/003. Coupled with the drought, the low inputs absorptive capacity of farmers precipitated the devastating famine in 2002/2003, which led to a massive food aid. This situation attracted the attention of the government to address the marketing problem in a very decisive way. Thus, addressing the root causes of agricultural market failure has become the current priority agenda of the government.

III.5. As many studies indicate, when farmers are persuaded to use modern farm inputs without the accompanying market services, the result will be disastrous and frustrates the objectives of agricultural commercialization. Ethiopia has demonstrated to the rest of the world that bumper harvests followed by market failure is a disincentive to smallholders to continue using production–increasing technologies.

III.6. The government policy reiterates the role of agricultural marketing in transforming the rural economy in general and in closing the national food security gap in particular. Effective and efficient marketing system is absolutely necessary to extricate the poor farmers from subsistence production. Partnership of the private sector, cooperative and the public enterprises becomes critical in developing a reliable and effective marketing system.

III.7. Although market has been liberalized since 1991/92, so far no concrete and far reaching actions have been taken to improve the agricultural marketing system (in getting the agricultural markets right). The outstanding problems mentioned earlier (see background) have continued unabated. Development of a vibrant private sector in agricultural marketing has been much slower than envisaged. Producers and consumers are equally losers of the system owing to the long and inefficient marketing chain.

III.8. Hence, improving the agricultural marketing system is unequivocally a top priority agenda of the GOE. The long–term development strategy of the country (ADLI), SDPRP, and the *Food Security*

Programme in which all donor communities participate have established a common objective of redressing the agricultural marketing problem.

III.9. In fact, improvement of the agricultural sector to meet the MDGs by 2015 is believed to be dependent on effective and efficient and pro–poor agricultural marketing system. In response, the heavy emphasis on production–oriented extension services has now been shifted to market–oriented.

III.10. In a subsistence agriculture where smallholders are engaged in uneconomic and fragmented production, the role of cooperatives in improving the agricultural marketing system has been fully recognized. Based on the fundamental principle of " the future belongs to the organized" expanding and strengthening of cooperatives is the underlying approach of the government in improving the marketing system. Currently cooperatives have a key role in protecting small framers through regulating the coffee markets by accessing high value fair markets in coffee importing countries. Thus the government is committed to strengthen the institutional capacity of cooperatives to enable them have a prominent role in both grain and coffee marketing, as well as high–value crops and livestock and livestock products. All stakeholders consider this positive.

III.11. The private sector has been given equal emphasis to play a competitive and complementary role in improving the marketing system. The EGTE, a parastatal, has also been charged with the responsibility of price stabilization, maintaining buffer stock and exporting grain, as mentioned earlier. Building the synergy between cooperatives, private and public sectors is becoming increasingly important.

III.12. The establishment of the *Agricultural Marketing Directorate* and the appointment of a State Minister to head the Directorate is a clear demonstration of the strong commitment of the government to improve the agricultural marketing system in the country. The institutional restructuring at federal level is consistent with the efforts and interests of the regional states. Each regional state will have an agricultural marketing department within the BoARD, having similar institutional arrangements made at the federal level. Parallel with this, the *Cooperative Commission* is expanding and strengthening its marketing capacities at all levels. Additionally, the recent initiatives of improving the rural road network and the *Rural Capacity Building Programme* will complement other efforts to improve the marketing system.

III.13. Therefore, in the Ethiopian context, getting markets right5, as recommended by IFPRI, is among the top priority agenda. More specifically, addressing the institutional, infrastructure and incentive issues of agricultural marketing is critically important which this programme is attempting to address. As pointed out earlier, the programme is consistent with NEPAD–CAADP initiative.

IV. PROGRAMME OBJECTIVES

IV.1. The overarching goal of the programme is sustainable food security and poverty reduction. The programme will assist smallholders in the programme area to generate increased farm income that would enable them attain the MDG of at least US$1.00 per day. The programme will in the long–run transform the agrarian economy into commercialized smallholder agriculture.

[5] The objective of getting markets right implies the following: markets in which buyers and sellers are well coordinated, transaction costs are low, contracts are enforceable, risks are manageable, exchange is impersonal, price volatility is dampened, transaction are liquid and highly responsive to shifts in supply and demand, and in which, ultimately, the poor benefit.

IV.2. The primary objective of the project is to improve the effectiveness and efficiency of the agricultural marketing system–making agricultural markets right through appropriate institutions, infrastructure and incentives, with a dual purpose of increasing farmers share of the marketing benefits on the one hand and reducing consumer costs on the other. Through the achievement of this primary objective, the goal of food security and poverty reduction will surely be attained.

IV.3. Improvement of agricultural marketing system will therefore be instrumental in attaining the overall objectives of SDPRP, Food Security Programmes, and further the long–term national policy objective of ADLI in a sustainable manner. The goals and objectives of this programme augur well with NEPAD–CAADP initiatives, more precisely with Pillar 2 dealing with rural infrastructure and trade–related capacities for improved market access.

V. PROGRAMME DESCRIPTION

A. Main Focus

V.1. IFAD's support to AIMP 1 is obviously limited for the wide range of activities covered in the programme. With a limited area coverage and outreach of the target population, the uptake of post harvest technologies, for example, would be roughly 1 percent of the target household population or 10 percent of households trained under the programme. The programme strictly addresses the supply side of marketing with a focus on two commodities alone (grain and coffee). It has thus the following major limitations in disregarding:

- Inputs marketing;
- Deficit areas;
- Non–traditional high–value commodities (cotton, spices, horticultural products, floriculture, etc.);
- Livestock and livestock products marketing; and
- Rural road networks linking farmers to markets.

V.2. Neither does this study attempt to fill these gaps due to limited resources and time. These areas could not be mechanically or simply incorporated in the present programme for the following main reasons:

- ***Inputs Marketing:*** in the Ethiopian context, the issues and constraints involved in inputs marketing are too many and complex (policy, institutional, infrastructure, financial constraints), and its objectives, approaches and strategies are also different from that of output marketing;
- ***Deficit areas:*** without readily available policy guidelines, approaches and strategies for developing a marketing system in deficit areas, a mechanical replication of what is intended to be done in surplus areas might not be realistic;
- ***Non–traditional commodities:*** non–traditional commodities are different from that of grain and coffee in respect to marketing issues and complexities involved, domestic and international market experiences, skills and market intelligence required, as well as the nature of investments involved;

- ***Livestock and livestock products:*** the marketing chains (structures) and actors, issues and investments involved as well as the domestic and international market experiences in livestock and livestock products marketing are different from that of grain and coffee. However, an independent consultant (member of the team) has made an assessment of the sector and has identified priority projects for export promotion, pending further study; and

- ***Rural road network:*** the technical knowledge of planning for rural road network development is beyond the capacity of the study team. Even a mechanical scaling up of the on–going woreda travel and transport networks, currently financed from different sources including the World Bank, requires a lot of resources and time.

V.3. In general, mechanical incorporation of these agricultural market–related concerns as a simple component in the output–marketing programme will totally undermine their importance. A quick fix approach cannot do the job. Therefore, in our judgment all of them deserve an independent and comprehensive study in their own rights.

V.4. This AMIP 2 programme attempts to cover as many woredas as possible with a relatively better outreach of the target population. Its components are however consistent with AMIP 1. The final agreement between the government and appraisal mission of IFAD, as reflected in the 2nd Aide Memoir of 20 August 2004, has been taken into account in the preparation of this programme. Noticeable changes have been made from what was envisaged in the initial programme formulation report. Activities for which the government is committed to finance from its own or other sources and which IFAD will not consider in its financing scheme include: (a) on–farm storage and post–harvest technologies; (b) the development of an agricultural market information system; (c) the tradable *Warehouse Receipts System Implementation Office*; (d) piloting of the forward coffee auction; and (e) the establishment of coffee testing and liquoring centres. To be consistent, activities (a), (b) and (e) are altogether excluded from this programme, while modest provisions have been made for activities (c) and (d) in an effort to further strengthen their capacity.

B. Approach

V.5. The programme approach is more or less consistent with AMIP 1. Infrastructure development will be the overriding component of this programme, however. Smallholders, the non–peasant private sector (traders, small and big), cooperatives, SMEs and the public sector (EGTE) would be given a level playing field, with a competitive and complementary role in improving the marketing system. Most importantly, building the synergy between them would deserve special attention. In the long run, however, cooperatives would have a significant role in agricultural marketing, and it should be tolerable if the level playing field tilts in favour of cooperatives for a simple reason that they have the capacity to represent the overwhelming majority of the rural population.

V.6. EGTE, in collaboration with *Quality Standards Authority of Ethiopia* (QSAE) will facilitate operationalization of the WHRS. The private sector and cooperatives could initially participate as operators and/or depositors of the warehouses and subsequently they would have their own warehouse facilities. The emerging SMEs in rural towns would be provided considerable technical assistance to produce and disseminate the post–harvest technology, storage and transport facilities. The introduction and establishment of forward marketing and the subsequent commodity exchange for both coffee and grain will be given special emphasis to solve the existing shortcomings of the spot auction system.

V.7. Adequate medium and long–term credit facilities would be available for all market participants, with special bias in favour of cooperatives. In addition, short–term credit (working capital) would be provided for both cooperatives and the non–peasant private sector to facilitate their active participation in the marketing activities.

V.8. Though the focus is on grain and coffee, the system is flexible to accommodate all types of agricultural commodities. Thus, high–value commodities, including cotton, spices, horticulture and others would benefit form the capacity building component, especially training and logistics, in order to integrate them with the programme. Also, the market interaction and integration between surplus and deficit regions would be encouraged, despite the fact that the latter is not considered in the programme.

V.9. Last but not least, special attention will be paid to ensure the active participation of women in improving their capacity and in accessing resources including credit.

C. Components and Sub–components

V.10. With the above approach and in line with AMIP 1, this programme will have three major components with diversified but inter–related sub–components.

A. Institutional Development

- *Institutional Capacity Building*
- *Farmer to Market Linkages*

B. Infrastructure Development

- *Post Harvest Processing, Storage and Farm to Market Transport*
- *Appropriate Technology Dissemination*
- *Rural Primary Market Facilities*

C. Coordination and Management

- *Programme Coordination and Management*
- *Monitoring and Evaluation*

V.11. The ***Institutional Capacity Building*** sub–component is intended to improve the capacity of the federal and regional agricultural marketing departments, the FCC and regional cooperative bureaux. In addition, the following activities, as part of the institutional capacity building, will be supported to introduce and establish a better system of agricultural marketing:

- Tradable Warehouse Receipts Systems;
- Forward Market for Coffee and an Ethiopian Coffee Exchange; and
- Establishment of National Traders Associations.

V.12. The ***Farmer to Market Linkages*** sub–component would improve the institutional capacity at woreda/district level, which is the focal centre of rural and agricultural development based on the new regional decentralization process, and grassroots level.

V.13. The ***Infrastructure Development*** sub–component intends to improve post–harvest processing, storage and farm–to–market transport facilities, promote the production and dissemination of appropriate post–harvest technologies, and improve rural primary market facilities. The beneficiaries include individual and group of farmers, agricultural marketing cooperatives and SMEs. There will be credit provisions for the first two sub–components, while the third component will be financed through the woreda development fund that would be set aside from the programme loan funds and partially through community contributions (labour & materials). Beneficiaries of the credit facility are expected to contribute 15–20 percent of the total cost from their own sources.

V.14. The ***Programme Coordination and Management*** and ***Monitoring and Evaluation*** sub–components are key elements in institutionalizing and implementation of the programme from the federal to the grassroots levels (to be elaborated under implementation arrangements).

V.15. All components and sub–components are relevant to the programme goals and objectives and they are also consistent with CAADP (Pillar 2).

V.16. The most conspicuous gaps in AMIP 1 include:

- Limited outreach of both target smallholder population and primary cooperatives
- Low level of uptake of post–harvest processing, storage and farm–to market transport facilities;
- Limited number of artesian (SMEs); only one artesian in 50 percent of the target woredas with a conservative estimate of a single loan size of Birr 20,000 per borrower has been considered
- In respect to farm to market linkages, one motorcycle for two woredas is allocated;
- In respect to primary rural market facilities, only 100 markets in 100 woredas would be developed, excluding the other 100 woredas.
- Medium and large–term loans for big investments, including coffee washing machines, hullers, seed cleansers, etc.) as well as short–term working capital loans have not been provided. On account of this, the credit facility considered in the programme is far lower than what is needed, and
- Limited provisions have been made for cooperatives' staff training (federal and regional levels) and the accompanied logistical support.

V.17. In general, financing of AMIP 1 is skewed in favour of institutional development with little attention to the infrastructure development, which is a critical missing element in the agricultural marketing system, and line of credit for long–term investments and working capital.

V.18. Therefore, in view of the gaps discussed above, the scaling up of the programme will have two major parts:

- Provision of supplementary financing to bridge the financing gap of the 200 surplus woredas in the 4 regions included in AMIP 1; and
- Provision of full–scale financing for the expansion of (additional) 95 surplus woredas (70 grain and 25 coffee) in 5 regions; with one additional region, namely Benishangul–Gumuz.

V.19. ***Supplementary Financing.*** Only essential financing gaps would be considered, including:

- Modest improvements in strengthening the capacity of the various institutions (additional provisions for capacity building would be made at all levels — federal & regional marketing departments, FCC & regional cooperative bureaux, as well as woreda level;
- The outreach target of smallholders and their uptake of the farm to market transport facilities would be substantially increased; that is, at least 10 percent of the target smallholders will be covered with a minimum of 5 percent uptake of the facilities (as part of gaining experience);
- Similarly, the outreach and uptake of cooperatives (primary and unions) of the post–harvest processing, storage and transport facilities would be increased;
- At least one artesian per woreda, with a better single loan size of Birr 50,000, would be considered;
- Motorcycles would be provided to the remaining 100 woredas; and
- Primary markets would be developed in the remaining 100 woredas.

V.20. The financial support for the additional 95 surplus woredas will include:

- Institutional capacity building and additional support for programme coordination and management for the additional region (Benishangul–Gumuz);
- Farm to market linkages (provision for motorcycle and institutional capacity building for all woredas);
- Development of market facilities for all woredas;
- Adequate medium–term credit provision for smallholders for financing farm to market transport facilities;
- Adequate medium–term credit provision for cooperatives for financing the post–harvest technology, storage and farm to market transport facilities;
- Adequate medium–term credit facility for SMEs;
- Support for tradable Warehouse Receipt System to facilitate active participation of cooperatives and the non–peasant private sector; and
- Support to enhance the capacity of the existing coffee spot auction system with ultimate objective of strengthening the forward market and establishment of commodity exchange unit.

V.21. Additional investment components not included under AMIP 1:

- Investment credit lines for cooperatives and the non–peasant private sector (coffee washing machines, coffee hullers, seed cleaners, storage, agro–processing, etc);
- Short–term credit (working capital) for cooperatives;
- Storage, transport and working capital provisions for the non–peasant private sector; and

- Provisions for export promotion in which coops, private and the public sector will participate (international and local trade fairs, study tours, and establishing contacts with potential importers of pulses and oil crops and coffee).

VI. INDICATIVE COSTS

A. Programme Costs[6]

VI.1. As shown in Table 1, the total programme costs including physical and price contingencies are estimated at US$355 million. Of this, supplementary financing accounts for nearly 5 percent. Recurrent costs are negligible (about 1 percent). The programme cost does not include any provision for the development of MIS, on–farm investment for post–harvest technology and storage facilities, and for the development of regional coffee testing and liquoring centres.

VI.2. The infrastructure development component would have a lion share (93 percent) of the total baseline costs (US$323m), followed distantly by the institutional development component which would account for only 7 percent. Cost of the programme coordination and management is negligible. The disproportionately huge cost of the infrastructure (US$299m) is attributed to the significant costs of the post–harvest processing, storage and farm to market transport facilities, which account for 89 percent of the total costs of infrastructure.

VI.3. Of the total programme costs, the local cost component (US$239m) would have a sizable share of about 67 percent while the foreign cost component (US$116m) would account for 33 percent, including physical and price contingencies.

Table 1a: Programme Cost Summary by Major Component

Component	Local	Foreign	Total	% Foreign exchange	% Total base costs
Institutional Development	12,422	10,519	22,941	46	7
Infrastructure Development	203,919	94,867	298,786	32	93
Coordination and Management	580	195	775	25	0
Total Baseline Costs	216,692	105,580	322,501	33	1
Physical contingency	10,846	5,279	16,125	21	5
Price Contingency	10,846	5,279	16,125	21	5
Total Project Costs (US$'000)	238,613	116,138	354,752	33	110

VI.4. Institution wise, cooperatives would have a significant share of approximately 71 percent (US$226m) of the total programme costs; the private sector 20 percent (US$63m); smallholders 4.5 percent (US$18m); capacity building for the federal and regional institutions including for programme coordination and management about 3 percent; and, the public sector about 1 percent.

VI.5. The credit line accounts for about 89 percent (US$286m) of the total base costs, of which the short–term loan (working capital would amount 5 percent (US$14m). The relatively huge credit line is accounted for by cooperatives (75 percent) followed by the private sector (22 percent), including grain and coffee traders and SMEs. The share of smallholders and the public is limited to 2 percent and

[6] All costs are based on current prices, and the proportion of foreign cost component is estimated based on the ratios used in the AMIP formulation report.

1 percent, respectively. The main reason for the low share of the former is due to the exclusion of the on–farm investments on post–harvest technology and storage facilities.

B. Programme Costs by Sub–component

VI.6. The cost structure by sub–component is given in Table 1b. Following the post–harvest processing, storage and farm to market transport costs which accounts for 89 percent (US$286m) of the total base costs, the expenditure for the institutional capacity building accounts for 5 percent of the base costs (US$16m). The next significant sub–component is development of rural market facilities accounting for 4 percent (US$12m) of the base costs. In terms of foreign costs, institutional capacity building, post–harvest processing, storage and farm to market transport facilities, rural primary market facilities and programme coordination and management show relatively high demand. However, in proportion to the total foreign exchange costs (US$116m), post harvest processing, storage and farm to market transport facilities would have a disproportionate share of about 80 percent (US$91.5m).

Table 1b: Programme Cost Summary by Sub–Component

Component Sub–Component	Local	Foreign	Total	% Foreign exchange	% Total base costs
A. Institutional Development					
Institutional Capacity Building	6,414	9,621	16,035	60	5
Farmer to Market Linkages	6,008	898	6,905	13	2
Sub–total Institutional Development	*12,422*	*10,519*	*22,941*	*46*	*7*
B. Infrastructure Development					
Post Harvest Processing, Storage & Farm to Market Transport	19,448	91,521	286,005	32	89
Appropriate Technology Dissemination	905	28	933	3	0
Rural Primary market facilities	8,530	3,317	11,848	28	4
Sub–total Infrastructure Development	*203,919*	*94,867*	*298,786*	*32*	*93*
C. Coordination & Management					
Programme Co–ordination & Management	287	155	442	35	0
Monitoring & Evaluation	293	40	333	12	0
Subtotal Coordination & Management	*580*	*195*	*775*	*25*	*0*
Total Baseline Costs	216,921	105,580	322,501	33	1
Physical Contingencies 5%	10,846	5,279	16,125	21	5
Price Contingencies 5%	10,846	5,279	16,125	21	5
Total Project Costs (US$'000)	238,613	116,138	354,752	33	110

C. Cost Distribution Over Programme Life

VI.7. The proposed distribution is based roughly on IFAD's programme formulation report and consultations with the programme participating institutions.

VI.8. As indicated in Table 2, the programme would be implemented over a period of 5 years. The weight given to the cost distribution of each component over the plan period is greatly influenced by the type of activity; some activities should necessarily be done at the beginning of the programme operation in order to make advance preparations for the ensuing activities. However, with high degree of flexibility the pattern of investment could be adjusted. With this approach, relatively high investments (up to 40 percent of the total project cost) for institutional development and programme coordination and management would be made during the first year of programme operation. Following that, modest investments ranging from 10 percent to 25 percent would be made between years 2 and 4 for both components; with a declining rate in case of the institutional development and with some

mixed pattern or erratic behaviour for the programme coordination and management component. In both cases, however, the least investment (5 percent) would be made in the final year (year 5).

VI.9. In contrast, the investment for the infrastructure development would be very small during the first year of project operation and then picks up in the second year, and it would visibly increase during the third and fourth years. The least investment would be made during the last year of the project life.

VI.10. The demand for foreign exchange would be significant during the first and second year of project operation; with a declining rate varying between 20 percent and 5 percent during the last three years. This is to satisfy the high demand of institutional development and programme coordination and management for foreign exchange during the first two years.

VI.11. As a whole, taking all the three components together, significant investments would be made during years 2, 3 and 4. The cost distribution shown in Table 2 precisely reflects this pattern.

Table 2: Programme Cost Summary per Component per Year

Component	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Institutional Development	9,176	5,735	4,588	2,294	1,147	22,941
Infrastructure Development	14,939	44,818	119,514	104,575	14,939	298,786
Coordination & Management	302	113	113	151	76	755
Total Baseline Costs	24,418	50,666	124,216	107,020	16,162	322,501
Physical Contingencies	1,221	2,533	6,211	5,351	808	16,125
Price Contingencies	1,221	2,533	6,211	5,351	808	16,125
Total Project Costs (US$'000)	26,859	55,733	136,637	117,722	17,778	354,752
Foreign Exchange	*46,455*	*29,035*	*23,228*	*11,614*	*5,807*	*116,138*

VII. PROPOSED SOURCES OF FINANCING

VII.1. The proposed financing scheme is based on the assumptions made in AMIP 1 and agreements with the concerned institutions. Beneficiaries include cooperatives, smallholders, the non–peasant private sector including traders and SMEs and the public sector.

VII.2. As shown in Table 3 below, of the total project costs, financial institutions and donors would cover on average about 81 percent (US$287m), while beneficiaries and the government would cover 14 percent (US$48 m) and 5 percent (US$19m), respectively.

VII.3. Apparently, financing institutions and donors are expected to make a significant contribution of about 82 percent (US$270m) of the total cost allocated for infrastructure development. Contributions of beneficiaries under this component would also be significant, about 15 percent (US$48m) and government contribution would be nearly 3 percent (US$10m). The relatively significant share of the beneficiaries is chiefly attributable to the credit line. Financing institutions and donors are also expected to cover a significant portion of the budget required for farmer to market linkages (91 percent of sub–component total). The government is expected to make relatively substantial contribution to institutional building and programme coordination and management, 46 percent and 80 percent of sub–component total, respectively.

VII.4. Cooperatives are expected to contribute on average 15 percent of the loan, coffee unions 20 percent and grain unions 15 percent. Smallholders would contribute about 9 percent of the cost of

development of the rural market facilities, in terms of labour and material, and 15 percent of the total loan they would borrow for farm to market transport facilities. The non–peasant private sector is also expected to contribute a minimum of 15 percent of the loan they would access.

VII.5. The 5 percent average contribution of the government includes recurrent costs and some contribution for medium and long–term investments as an expression of commitment to supporting of the much–needed improvement of the agricultural marketing system. With forgone taxes and duties government's contribution would be slightly higher.

Table 3: Sources of Financing

Components	IFI/Donors		Beneficiaries		Government		Total
	Amount	%	Amount	%	Amount	%	
A. Institutional Development							
Institutional Capacity Building	9,525	54			8,114	46	17,639
Farmer to Market Linkages	6,912	91			684	9	7,596
Sub–total Institution Development	*16,437*	*65*			*8,797*	*35*	*25,235*
B. Infrastructure Development							
Post Harvest Proc., Storage & Farm to Market Transport	257,976	82	47,191	15	9,438	3	314,605
Appropriate Technology Dissemination	1,006	98			21	2	1,027
Rural Primary Market Facilities	11,729	90	1,173	9	130	1	13,033
Sub–total Infrastructure Development	*270,711*	*82*	*48,364*	*15*	*9,589*	*3*	*328,664*
C. Coordination & Management							
Programme Co–ordination & Management	97	20			389	80	486
Monitoring & Evaluation	238	65			128	35	366
Subtotal Coordination & Management	*335*	*39*			*517*	*60*	*853*
Total Project Costs (US$'000)	287,484	81	48,364	14	18,904	5	354,752

VIII. PROGRAMME BENEFITS

VIII.1. Implementation of the proposed programme would be a milestone in improving the agricultural marketing system in the country. Adopting the fundamental principle of getting agricultural markets right will be a major paradigm shift in transforming the smallholders subsistence agriculture into a viable commercialized agriculture. Introduction and establishment of appropriate marketing institutions, infrastructure, incentives (policy and regulatory framework) are critical to transform the existing traditional, weak, fragmented, personalized and inefficient marketing system into a modern and an effective and efficient marketing system. The streamlined marketing system will bring together all market institutions and actors and coordinate their efforts to enjoy a win–win situation.

VIII.2. The programme will strengthen the institutional capacity of the pertinent government institutions under or affiliated with the newly established *Agricultural Marketing Directorate* and the *Cooperative Commission*. The apex institution MoARD will then be in a much better position to coordinate food aid and to avert domestic price distortions, which undermine producers income.

VIII.3. With improved agricultural marketing system agricultural commodities will be efficiently moved from surplus to deficit areas and thereby the recurring food shortage and the resultant famine will be mitigated. The strengthening of market–oriented extension services, development of rural market facilities and establishment of member owned and managed AMDAs at the grass–roots level will effectively promote farmers linkages with the marketing chains. This will enhance market

integration and the long and inefficient marketing chain will be improved. With improved and shorter marketing chains producers will fetch better prices on one hand and consumers will benefit from reduced transaction costs on the other.

VIII.4. Through this programme 195 additional primary rural markets will be established and all households will be beneficiaries. The Ethiopian rural markets have multiple–functions; a wide variety of commodities are traded in a single market, including grains, coffee, livestock, and fruits vegetables. Parallel with this development, organization of traders associations will facilitate law enforcements and policy dialogue with the government.

VIII.5. In general, the programme will help in improving the quality, grades and standards of agricultural products, particularly grain and coffee. This will have a direct bearing on minimization of post–harvest losses and reducing the transaction costs. Furthermore, the inspection and certification processes would make producers more competitive in both domestic and international markets. This is particularly necessary for forward marketing.

VIII.6. The establishment of tradable WHRS and the introduction of forward market for coffee and *Ethiopian Coffee Exchange* will greatly revolutionize the traditional unfavourable spot auction marketing system. The WHRS will facilitate access of banking services to cooperatives and non–peasant private sector in particular. The coffee forward auction system will, among other benefits, reduce transaction costs, increase producers share of market prices, enhance competitiveness in the market. Similarly, the *Ethiopian Coffee Exchange* will enhance impersonal trades and will make coffee producers and exporters more competitive in the international markets and minimize the high price risks involved. The future market system has in general a significant role in price stabilization. Grain and other commodities would follow suit and become additional forces for the establishment of a broader commodity exchange system.

VIII.7. In the 5 regions, 295 woredas, nearly 8,600 kebeles consisting of about 6 million households would be direct or indirect beneficiaries of the programme. With enhanced institutional capacity at woreda level, substantial number of market development agents, community leaders, members of market development associations, women, market traders and transporters and SMEs will be sensitized and trained. Women in particular would be the major beneficiaries of the programme.

VIII.8. Cooperatives will have the lion's share of the investment and working capital to enhance their role in both grain and coffee marketing. It is envisaged that a considerable quantity of cereals, pulses and oilseeds will be marketed trough cooperatives. Export of pulses and oil crops in particular will grow significantly from the present low level. Nearly 2 million households and 197 primary coops will participate in coffee marketing alone. As a result, it is expected that the share of Ethiopia in export market will increase from the present 2 percent to 5 percent. The proportion of washed coffee will also gradually increase from the present of about 25 percent to 70 percent. In particular, Ethiopia will benefit a lot from export of organic coffee to niche markets in Middle East, Europe, Asia and USA. Cooperatives share in coffee export will substantially grow from the present less than 10 percent to 30 percent. The synergy between cooperatives and the private sector will be strengthened to sustain the development momentum. Both will actively participate in export promotion efforts.

VIII.9. In sum, the programme will significantly improve the efficiency and effectiveness of the agricultural marketing system. For a country like Ethiopia improved marketing system is a linchpin in the backward and forward linkages of agricultural food chain, i.e. inputs–production–processing–marketing, which motivates smallholders produce more than their subsistence needs. Hence, through increased marketable surplus of grain and coffee the programme will significantly contribute towards enhancing food security and increasing income and thereby reduce the poverty level in rural Ethiopia.

IX. IMPLEMENTATION ARRANGEMENTS

IX.1. This programme is an amplification and expansion of AMIP 1, and therefore the implementation arrangements would be exactly the same. As such, no new government institutions will be created. The capacity of the existing institutions under MoARD, especially that of the new *Agricultural Marketing Directorate* and the *Cooperative Commission* at all levels will be strengthened to implement, coordinate and manage the programme. The additional grass–roots institutions outside the remit of MoARD would be the AMDAs and commodity–based national traders associations. The former would be instrumental in forging farmer to markets linkages and the latter would play advocacy role and participate in policy formulation. In general, the programme will be successfully implemented through enhanced synergy between public, cooperative and the private sector.

IX.2. There will be some adjustments in the implementation arrangements of IFAD supported AMIP. According to the last Aide Memoir (20 August 2004), the *Agricultural Marketing Policy Steering Committee* (AMPSC) would be established to provide overall policy guidance in agricultural marketing, including AMIP 1. The Committee would also review and approve the annual work programme and budget for AMIP 1. A *Programme Management Committee* (PMC) within the *Marketing Directorate* will be responsible for day–to–day management of the programme. The *Programme Coordination and Management Unit* (PCMU) acts as a secretariat of this committee (PMC). There will also be a corresponding *Regional Programme Coordination and Management Units* (RPCMUs) that will be integrated with the emerging institutional structures.

IX.3. More importantly, each participating regional government will assign an agricultural marketing expert at woreda level and 3 DAs at kebele level. This is considered critical for the implementation of the programme. The effectiveness of farmer to market linkages and the organization and active participation of the AMDAs will largely hinge on these staff .

IX.4. Since the credit provision constitutes the lion's share of the programme cost, its implementation arrangement is more critical. Since very recently, a PCMU has been established within the *Development Bank of Ethiopia* (DBE) to manage the IFAD and ADF supported *Rural Financial Intermediation Programme* (RUFIP) designed for MFIs and Rural Savings and Credit Cooperatives (RUSACCOs). An extension of RUFIP has been established within the Cooperative Commission to provide direct support to RUSACCOs. Preliminary agreements have been reached that the credit line of AMPI 1 would be channelled though this institution.

IX.5. RUFIP is currently staffed with highly qualified professionals and there is intention to upgrade it to an independent institution outside the remit of DBE. It is therefore believed that RUFIP, with a better institutional capacity, could effectively and efficiently manage the implementation of the credit line proposed in the AMPI 2 programme. DBE might fill the gap for the credit amounts beyond the capacity of RUFIP.

IX.6. Cooperatives would have a big stake in the programme and they are expected to play a crucial role in its implementation. At present, cooperative development is gaining momentum and its institutional capacity is sustainably improving. The private sector which at present is the dominant actor in the marketing of both coffee and grain, as well as other emerging high–value commodities such as floriculture and horticulture, would be a strong partner to the cooperative and the public sector in implementation of the programme. The public sector, particularly the EGTE, is in a unique position to play a complimentary role. It would be a leading institution in operationalizing the WHRS and plays an indispensable role in capacitating the cooperatives and the private sector through renting its underutilized warehouses. EGTE in cooperation with the QSAE are expected to facilitate the rapid promotion of the tradable WHRS.

IX.7. Furthermore, the on–going regional decentralization and the empowerment process at woreda level will expedite implementation of the programme. Organization of the traders' associations and AMDAs alongside cooperatives would be additional forces in the implementation of the programme.

IX.8. The M&E system will keep track of progress of programme implementation and assess the impacts of the programme on: (a) household incomes; (b) food security; (c) family nutritional status; and (d) environment

IX.9. An appraisal report of AMIP 1 will consider all adjustments in institutional structures and implementation responsibilities consistent with the regional decentralization set up, emerging intuitions of the *Agricultural Marketing Directorate* and *Cooperative Commission*. The present AMIP 2 programme will also be implemented within the revised institutional framework. It relies heavily on the institutional development and programme coordination and management support provisions made for AMIP 1, which together account for 70 percent of the total costs of the programme.

X. TECHNICAL ASSISTANCE REQUIREMENTS

X.1. The technical staffs working in MoARD are generally production oriented, with less attention to marketing aspects. Field experts and DAs in particular have not been giving market–oriented services in the past and the extension services are geared towards improving agricultural production. At federal and regional levels, the technical staffs at all levels also have limited knowledge of agricultural marketing. The emerging cooperatives have also a limited exposure to the arts of marketing. The marketing information system as a whole leaves much to be desired. To improve all this, IFAD intends to provide sufficient support for international as well as national technical assistances. Particular emphasis is given to improving the institutional capacity of the Agricultural Marketing Directorate, Cooperative Commission and other associated institutions at all levels. This is indeed justified. The critical international technical assistants considered to implement AMPI 1 include: Agricultural Marketing Specialist; MIS Specialist; Warehouse System Specialist; Commodity Exchange Specialist; Marketing Extension Specialist; Cooperative Marketing Specialist; Post–harvest Specialist; MSE Development Specialist; Monitoring and Evaluation Specialist; Participatory Baseline Surveys Specialist, and specialists for the establishment of FAMDA and RAMDA.

X.2. In addition, counterpart national technical assistances have been considered as deemed necessary.

X.3. This has been found adequate and additional support for technical assistances in this programme will be marginal. And thus, additional support will only be provided for Cooperative Marketing Specialist, MSE Development Specialist, Warehouse Systems Specialist and Commodity Exchange Specialist.

XI. ISSUES AND PROPOSED ACTIONS

- ***Inputs marketing*** is an integral part of agricultural marketing. Adequate inputs supply at reasonable prices and at the right time will enable farmers produce more and generate marketable surplus. The success of the programme largely hinges on increased marketable production. Therefore, a comprehensive study on inputs marketing must be initiated sooner rather than later.

- ***Land security*** has a direct implication for improving the productivity and production of smallholders. Farmers can generate marketable surplus if they can produce more than what they need for home consumption. A reliable and sustainable land security system should be introduced in the programme areas as it has been initiated in some parts of the country.

- ***Uncoordinated food aid*** will entail domestic market distortions. Full cooperation of donors with MoARD to comply with the conditions of food aid management must be underscored towards effective implementation of the programme.

- In addition to grain and coffee, ***other high–value agricultural commodities*** should be considered in the programme. Some regions should be able to concentrate on products for which they have a comparative advantage. So the programme should be flexible in accommodating all deserving agricultural commodities.

- The ***medium and long–term investments and short–term working capital*** provisions for cooperatives and the private sector would be viable if and only if the marketing environment is favourable (in order to repay their loans timely). A careful assessment of their ***debt–absorptive capacity*** needs to be made, and they should also have access to reliable market information before they decide to borrow.

- ***Cooperatives*** should be appreciated or recognized as business and marketing organization and they should independently operate as equal partners with the private sector without government interference. There must be a ***level playing field for all market participants*** in an effort of getting agricultural markets right. But, in the future a modest tilt in favour of cooperatives should be tolerated, as they would be bound to represent the large majority of rural population

- The major stakeholders of the programme will be cooperatives, but the past legacy of bad feelings about cooperatives is still lingering. So donors and financers should be aware of the dramatic and positive changes made in rehabilitating and organizing ***cooperatives as business organizations*** without government interference. The necessary public relation effort should be made to win the appreciation of donors of the critical role of cooperatives in agricultural marketing; without which smallholders will remain marginalized in highly competitive markets.

- The role of ***cooperatives*** should not be undermined by making them members of the proposed traders association and AMDAs. They should rather be given all the necessary technical support to make them a viable alternative marketing institution with a high competitive capacity.

- ***Women*** would have a pronounced role in the programme. Appreciation of women's role in marketing and their participation on a quota basis, if need be, must be a pre–condition for the successful implementation of the programme.

XII. POSSIBLE RISKS

- ***Introduction and development of an integrated agricultural MIS*** is to be financed from other sources and its implementation is to be coordinated by other institutions, including the Ministry of Capacity Building. The proposed programme will be at a great risk if the MIS is not in place as anticipated.

- ***Construction of rural roads*** is financed from different sources, including the World Bank. The scaling up of the woreda travel and transport networks (under the framework of RSDP II) in programme woredas is necessary for effective implementation of the programme. The success of the programme heavily depends on accessible rural roads for both smallholders and cooperatives.

- ***Reliable supply of the post–harvest technology, improved storage, and farm to market transport facilities*** at the scale proposed in the programme.

- ***Exclusion of on–farm storage and post–harvest technology financing*** from this programme would have a direct bearing on the quality and standard of smallholders produces, unless a quick measure is taken to fill the gap.

- ***Establishment of regional coffee testing and liquoring centres*** will be financed from other sources. Unless it is done as expected, facilitation of coffee exports directly from the growing regions will be frustrated and it will be a big risk to the success of the coffee forward marketing and establishment of coffee exchange market.

- ***Focusing on traditional commodities alone*** (coffee and grain) will undermine the potential and competitiveness of high –value commodities with high demand in international markets

- ***Concentration of the programme only in surplus woredas*** would tend to neglect deficit areas which are the potential markets for the former. As a stop–gap measure, i.e. until a comprehensive study is conducted and pertinent programme is designed, the necessary basic marketing facilities and demand stimulation measures need to be considered.

- ***Market–oriented effective extension services*** are critical for the successful implementation of the programme. Hence, training and assignment of adequate number of DAs at kebele level is a pre–condition for promoting market–oriented extension services.

- The tradable WHRS would be effective if financial institutions fully collaborate ***to accept the grain inventory as a collateral***. In the face of volatile market prices and limited experience in forward marketing, banks might hesitate to take the risk.

- ***Implementation delays of the IFAD supported AMIP 1*** will also cause delay of implementation of this complementary programme.

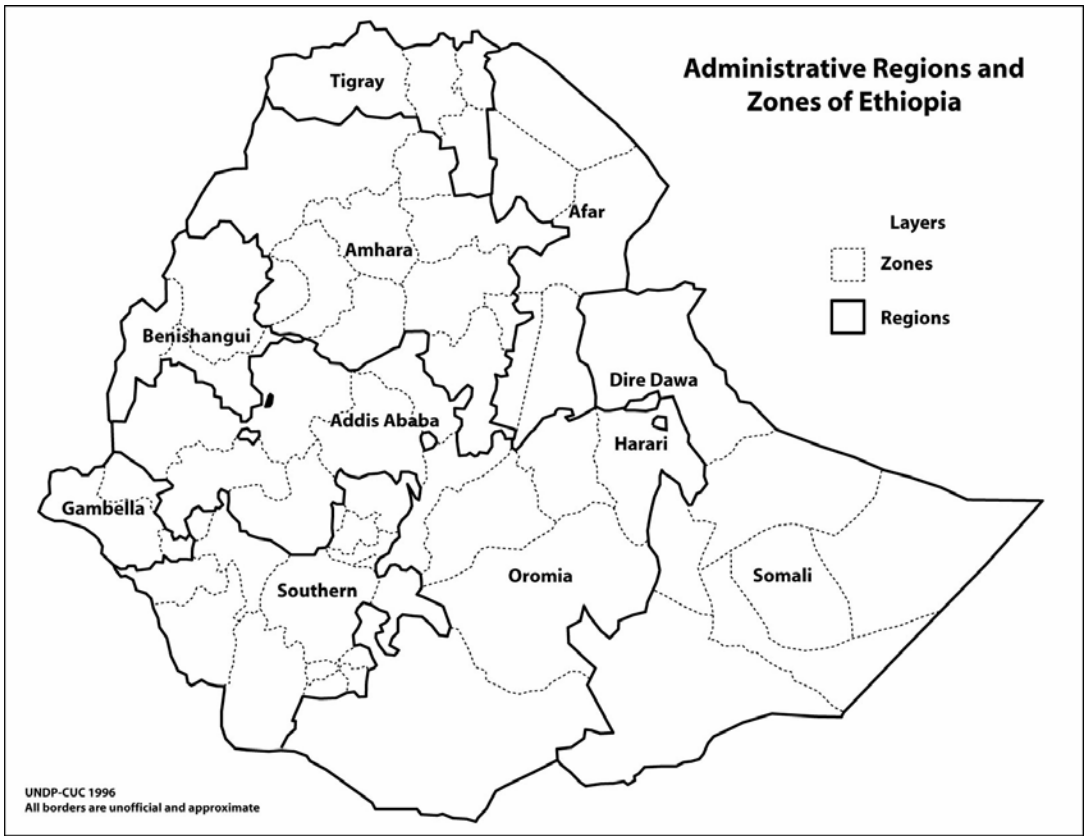
ANNEXES

Annex 1: Administrative Map of Ethiopia

Annex 2: Programme Cost Tables

Annex 3: References

Annex 1: Administrative Map of Ethiopia



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Annex 3: Persons and Institutions Consulted

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Addisu Mherete	Team Leader, Marketing & Credit Study, FCC
Assefa Mulugeta	Head, Grain Marketing Department, Agricultural Marketing Directorate, MoARD
Bedelu Asfaw	Focal person from MOTI for the study of Getting Markets
Eliyas Genete	President, Oilseeds and Pulses Export Association
Gebregzabheir Abaye	Head, Planning Department, EGTE
Getachew Teffera	Senior Expert, Cooperative Promotion, FCC
Getnet Kelkele	Secretary, Ethiopian Coffee Exporters Association
Hedeja Mohammed	Senior Expert, Marketing & Credit Study, FCC
Hunelegn Tigabu	President, Addis Ababa Grain Marketing and Processing Association
Kassahun Hiruth	Head, Coffee, Tea, Spices and Cotton Marketing Department, Agricultural Marketing Directorate, MoARD
Kerub Alemayehu	Senior Expert, Cooperative Promotion, FCC
Melkamu Engeda	Senior Expert, Project Preparation & Monitoring, FCC Getting Markets Right in Ethiopia
Teshale Asfaw	Team Leader, Capacity Building, FCC
Tsega Teka	Head, Planning and Project Implementation Service, FCC
Woday Amha	Agricultural Marketing Specialist and Director of AMFIs (has been a member of the study of Getting Markets Right in Ethiopia and AMIP Formulation and Appraisal missions)
Yoseph Yilak	Secretary, Addis Ababa Grain Marketing Association
Zeleke Agid	Senior Expert, Coffee, Tea, Spices and Cotton Marketing Department,
Zerihun Alemayehu	Head, Cooperative Promotion and Organization Department, FCC
Zewdie Gidaye	Team Leader, Coffee, Tea, Spices and Cotton Marketing Department