



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Project of FDR of Ethiopia

Project number: SAP 130144
Project title: Valorisation and improved sustainability and inclusiveness of the Ethiopian coffee value chain

Thematic area code

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Duration: 3 years
Project site: Addis Ababa
Government Co-ordinating agency: Ministry of Industry
Counterparts: Ministry of Industry, Ministry of Agriculture, Ministry of Trade
Executing agency/cooperating agency: UNIDO
Project Inputs:
- UNIDO inputs: Euro 3,640,000
- Support costs (13 %): Euro 460,000
- Counterpart inputs: -
- Grand Total: Euro 4,100,000

Brief description: The Ethiopian coffee sector, is very important for the country and for its economic development due to the reasons that: (i) as a major source of cash income and provider of employment, it supports millions of farming families... The coffee sector can contribute to the growth of the industrial sector share in the national GDP... The Project is aimed at contributing to reach the MDG 1, Targets 1.A, 1.B and 1.C.

Approved:

Signature: Date: Name and title:

On behalf of Mol: \_\_\_\_\_

On behalf of UNIDO: \_\_\_\_\_

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## ACRONYMS

ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance
ACE	Agriculture Commodity Exchange for Africa
ADLI	Agricultural Development Led Industrialization
AGP	Agricultural Growth Program

AGP-AMD	Agricultural Growth Program – Agribusiness and Market Development
APR	Annual Progress Report
BoA	Bureau of Agriculture
CFC	Common Fund for Commodities
CIP	Coffee Improvement Program
CORDAID	Catholic Organisation for Relief & Development Aid
CSA	Central Statistical Agency
CTA	Chief Technical Advisor
DST	Direct Specialty Trade auction
EAFCFA	Eastern African Fine Coffee Association
EARI	Ethiopian Agricultural Research Institute
EC	European Commission
ECDP	Ethiopian Coffee Development Program
ECEA	Ethiopian Coffee Exporters' Association
ECRA	Ethiopian Coffee Roasters' Association
ECX	Ethiopian Commodity Exchange
EFY	Ethiopian Fiscal Year
EGTE	Ethiopian Grain Trade Enterprise
EWEA	Ethiopian Women Exporters' Association
FAO	Food and Agriculture Organization of the United Nations
FAOSTAT	FAO Statistical Database
FLO	Fairtrade Labelling Organizations International
GDP	Gross Domestic
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
ha	Hectare
HDR	Human Development Report (of UNDP)
ICE	Inter Continental Exchange (New York)
ICO	International Coffee Organization
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
JNCRC	Jima National Coffee Research Center
KFCFCU	Kaffa Forest Coffee Farmers Cooperative Union
kg	kilogram
LMC	LMC International Ltd. (consulting company)
MoA	Ministry of Agriculture
MDG	Millennium Development Goal
MoFED	Ministry of Economic Development and Cooperation
Mol	Ministry of Industry
MoT	Ministry of Trade
MoTI	Ministry of Trade and Industry (now subdivided into Mol and MoT)
NGO	Non Governmental Organization
NPC	National Project Coordinator
NPM	National Project Manager
OCF	Organized Coordination Forum
OCFCU	Oromia Coffee Farmers Cooperative Union
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PCU	Project Coordination Unit
PSC	Project Steering Committee
SCAA	Specialty Coffee Association of America
SCAE	Specialty Coffee Association of Europe
SCAJ	Specialty Coffee Association of Japan
SCFCU	Sidama Coffee Farmers Cooperative Union
SDPRP	Sustainable Development and Poverty Reduction Program
SNNPR	Southern Nations, Nationalities and People Regions
t	metric tons
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USDA-FAS	United States Department of Agriculture – Foreign Agricultural Services
WB	World Bank
YFCU	Yirgacheffe Coffee Farmers Cooperative Union

## A. CONTEXT

### **A.1. The coffee in Ethiopia: history, production systems, peculiarities and importance**

The Arabs first developed the coffee culture in Yemen in the 14<sup>th</sup> and 15<sup>th</sup> centuries. They brought the coffee there from South-Western Ethiopia. Islam then spread coffee consumption by bringing coffee from its production places to the Red Sea or Aden Gulf ports. At the end of 19<sup>th</sup> century, Ethiopia considerably developed the exploitation and commercialisation of coffee. This long period of coffee history and the fact that Ethiopia is the centre of origin and diversification of Arabica coffee lends the Ethiopian coffee sector some peculiarities, like: (i) wild coffee still grows in different areas, and forest and semi-forest coffees constitute an important segment of the country's production, (ii) 95 per cent of Ethiopia's total production is attributed to smallholders and most of them make no use of agrochemicals where manure is their main fertilizer; therefore Ethiopian coffee can be qualified as "organic" and could<sup>1</sup> command premium prices in the international market, (iii) a long and strong tradition of coffee drinking in Ethiopia implies that domestic consumption represents a considerable part (about 50 per cent) of coffee production, and (iv) different qualities of coffee beans produced in various regions of the country are recognized internationally and marketed as blends or as 100 per cent Ethiopian products and, consequently, possess the potential to fetch high premium.

In Ethiopia, the following four coffee production systems coexist:

- **Forest Coffee** (about 10% of the total production) grows in the wild mainly in South-Western Ethiopia. It grows under the shade of natural forest trees, and no one can claim exclusive ownership.
- **Semi-forest Coffee** (about 30-35% of the total production), it also grows under forest canopy in the same region but with limited human intervention and accounts for a third of total production. Semi-forest coffee farming is a system where farmers thin and select forest trees to let sufficient sunlight in for the coffee trees and provide adequate shade. A farmer who prunes and weeds the forest area once a year claims to be the owner of this coffee.
- **Garden Coffee** (more than 50% of the total production) is grown by smallholder farmers and it is usually inter-cropped with cereals, fruits, and vegetables, mainly in the southern and eastern parts of the country. Garden coffee is normally found in the vicinity of a farmer's residence and it is normally fertilized with organic materials.
- **Plantation Coffee** (about 5% of the total production) is grown on large state-owned or commercial farms for export purposes. Agro-chemicals are usually used in this farming system.

Coffee is mostly grown in two regions of the country, namely Oromia and Southern Nations, Nationalities and People Regions (SNNPR). Ninety five per cent of Ethiopia's coffee is produced by smallholder farmers on an average of less than 0.5 hectares of land while the remaining five per cent is grown on modern commercial farms.

The four production systems mentioned above, combined with diverse genetic wealth, make Ethiopia home to some two thousand indigenous strains or cultivars. Research has also established 24 formal varieties of *Arabica* coffee, giving Ethiopia a broader genetic spectrum than any other coffee producing country in the world. Ethiopian coffee, besides, is characterized by rich aroma and flavour that make it preferable for blending with coffee from other countries. The several varieties, all with distinctive tastes, sizes, shapes and colours, are cultivated in different coffee growing areas of Ethiopia having specific environmental conditions such as altitude, temperature, amount of rainfall and soil type. Among these, the major types of coffees are: Yirgacheffe, Harar, Sidamo, Limu, Djimmah, Tepi, Bebeke, Lekmpti, Illubabor, Ghmbi, Keffa Forest, Gemadro, Godere, Bench, Bale, Anderacha, Amaro, Aris and Kochere.

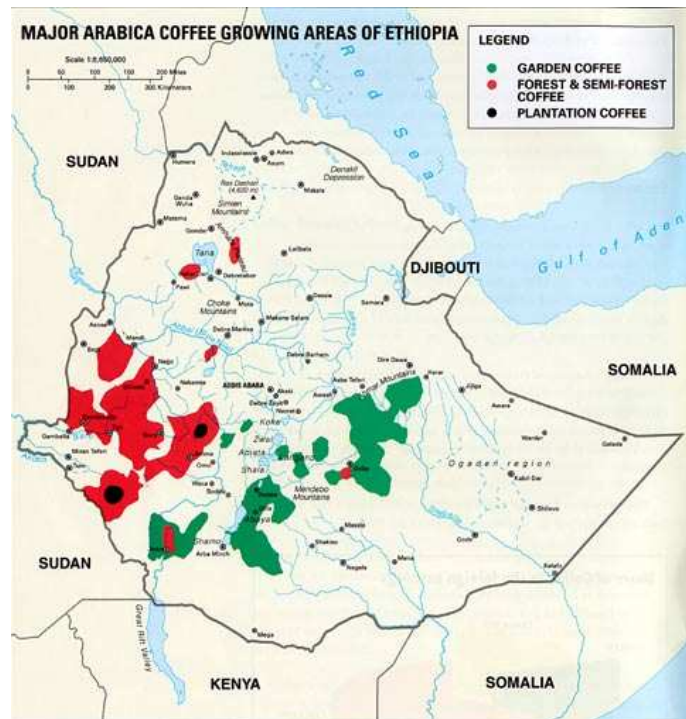
The unique features of some of these growing areas qualify the coffee produced there as "specialty coffee". Although there is no universally accepted definition for specialty coffee, from a commercial standpoint, specialty coffees are those with a particular characteristic, or set of characteristics, that command a higher price. In Ethiopia, the unique tastes of high quality origin coffee such as Harar, Yirgacheffe or Sidamo qualify them as inherently superior coffees. Also included under specialty coffees are coffees certified as organic, "fair trade" and shade grown.

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<sup>1</sup> *Ethiopian coffee farmers and traders claim that their coffee is organic, but "organic" coffee can command premium prices only if it is certified as such by an international organic commodities certifying agency. In most cases, the Ethiopian coffee is not certified.*

Figures 1 and 2 below provide the maps of Ethiopia with the location of the major coffee growing areas and production systems, as well as the location of some coffee types growing areas.

Figure 1. Major coffee growing areas and production systems in Ethiopia



Source: <http://www.trecrops.org/country/ethiopia.asp> (2009)

Figure 2. Growing areas of some coffee types in Ethiopia



Source: <http://www.trecrops.org/country/ethiopia.asp> (2009)

Ethiopians are heavy coffee drinkers, ranked among the largest coffee consumers in the world, such that about half of Ethiopia's coffee production is locally consumed. Coffee in Ethiopia has both social and cultural value. It is mainly consumed during social events such as family gatherings, spiritual celebrations, and at times of mourning.

A new development in the Ethiopian major cities regarding coffee consumption is the increase in

regular coffee shops and the emergence of small roadside stalls selling coffee to passer-by customers. These small roadside stalls serve coffee in a traditional manner.

An accurate estimate of the total coffee land and national production is difficult because of two main reasons: (i) a good proportion of the harvest (about 45 per cent) is semi-wild or wild, and (ii) a remarkable part (about 50 per cent) of the crop is consumed on-farm or locally. As a consequence, estimates of the total land dedicated to coffee and of the total production obtained differ substantially from source to source. More reliable and consistent figures from different sources are available only for the marketable portion of the produced coffee. In the following Table 1, the main data on coffee production for the 2011/2012 coffee season<sup>2</sup> are exhibited.

Table 1. Significant features of coffee production in Ethiopia, 2011/2012 coffee season (rounded figures)

No	DATA	UNIT	QUANTITIES	SOURCES
1	Area under Private Peasant Holdings	ha	516,000	CSA (a)
2	Number of Private Peasant Holdings	n	4,042,000	CSA (b)
3	People depending on coffee for livelihood	n	20,000,000	Own estimate (c)
4	Production	t	407,880	ICO (d)
5	Yield for Private Peasant Holdings	t/ha	0.73	CSA
6	Domestic consumption	t	202,980	ICO (e)
7	Exportable quantity	t	204,900	ICO
8	Exports	t	169,392	MoT (f)
9	Export value	US\$	833,000,000	MoT
10	Share of coffee on total export value	%	25,57	WB (g)

The major sources utilized for the data in Table 1 are the following: Central Statistical Agency (CSA), Ministry of Trade (MoT), Ethiopian Coffee Exporters' Association (EFY 2012/13 Annual Coffee Export Performance and Export Price Analysis Report), International Coffee Organization (ICO), United States Department of Agriculture – Foreign Agricultural Services (USDA-FAS), USAID, World Bank (WB). Figures for the same data from the above and other sources often present differences that can also be substantial. However, the figures above are those that seem more realistic. Nevertheless, the following observations, relevant to these items, must be taken into consideration:

- (a) The area given by CSA as relevant to Private Peasant Holdings, presumably refers to smallholder farmers and probably includes all garden coffee area and some portion of the forest and semi-forest coffee areas. However, it does not include plantation areas. Some sources put the total area dedicated to coffee at about 700,000ha.
- (b) This should be the number of smallholder farmers in 2011/2012.
- (c) Many sources report a total number of people depending on coffee for their livelihood to be 15-16 million. It has been found that all these sources base this figure on an estimate made by the consultant Global Agrisystem Pvt. Ltd. and completed by the consultant LMC International Ltd.. According to these sources (e.g. USAID): "Agrisystems (2001) estimates the number of coffee farmers in Ethiopia at 1.3 million. With an assumed family size of six to seven people, the number of Ethiopians associated with coffee growing can be as large as 7–8 million. Moreover, coffee is labour-intensive during harvesting and processing and provides an important source of income from casual labour for poor rural populations. Adding those employed in transporting coffee and ancillary activities, LMC (2000, 2003) estimates that 15 million people are involved in the industry in one way or the other.". The above estimate needs to be updated: (i) to make it consistent with the about 4 million involved smallholders reported by CSA in 2011/2012, which largely differ from the 1.3 million considered by Agrisystem and, (ii) to take into account the increase of the Ethiopian population from about 67 million (WB, UN) in 2001 to about 85 million (CSA, UNDP-HDR 2013) in 2012, (iii) to take into account the increase in the period of the total production of coffee in Ethiopia that, according to ICO, registered an increase of 2.2 times, passing from 186,900 t in 2000/2001 to 407,800 t in 2011/2012. In addition, in the twelve-year period from 2000 to 2012, according to UNDP-HDR 2013, the number of births per woman changed substantially from 6.1 to 3.9 and, presumably, the average family size in the countryside

<sup>2</sup> According to the ICO for Ethiopia, the coffee season or crop year starts on the first week of October and ends on the 30<sup>th</sup> of September. The Ethiopian calendar starts on the 11<sup>th</sup> of September and ends on the 10<sup>th</sup> of September of the following year while the Ethiopian Fiscal Year (EFY) starts on the 8<sup>th</sup> of July and ends on the 7<sup>th</sup> of July of the following year. Some of the differences on coffee production data from the various sources could be linked to these variations in the periods in reference.

has been reduced from 6-7 people to 4-5 people<sup>3</sup>. In consideration of all the above-mentioned variations, the updated number of people depending on coffee should be to day, at least, in the range of 20 million.

- (d) Differences for the 2011/2012 production have been noted among the various sources; for instance: (i) CSA's 376,823t from Private Peasant Holdings, (ii) Ethiopian Coffee Exporters' Association's 498,767t, (iii) MoT's 391,000t, (iv) ICO's 407,000t, (v) USDA-FAS' 379,200t. However, 407.000t in the table from ICO is the figure more consistent with other data.
- (e) USDA-FAS gives a figure of 183,000t for domestic consumption in 2011/2012.
- (f) Differences for the 2011/2012 exports have been noted among the various sources, i.e.: (i) MoT's 169,392t, (ii) USDA-FAS' 188,400t and, (iii) ICO's 169,920t. It is also worthy of note that export quantity plus domestic consumption can be different from the total production, due to variation in the coffee in stock.
- (g) According to the World Data Bank of the World Bank (WB), the total export value for the country in 2012 was about US\$ 3,258 million.

Ethiopia has huge potential to increase coffee production as it is endowed with suitable elevation, temperature, soil fertility, indigenous quality planting materials, and sufficient rainfall in the coffee growing belt of the country. Coffee is a shade-loving tree that grows well under the large indigenous trees such as *Cordia Abyssinica* and *Acacia* species. Despite Ethiopia's immense potential for increasing coffee production, the land area dedicated to coffee remains limited at about 3.7 per cent of the total area under crop<sup>4</sup> and the average yield remains very low, 0.73t/ha.

The major factors causing low coffee production and negatively affecting coffee quality in Ethiopia are:

- 1) Prevalence of production by smallholders and limited production in large plantations where a higher yield can be achieved.
- 2) Smallholders' lack in technical skills and knowledge. The problem is worsened by: (i) the prevalence low farmers' receipts (farmers earn 1-2 US\$/day) and, (ii) low quality and lack of a widespread availability of the extension services provided.
- 3) The coffee farm management system and the agronomic practices in the country are by far traditional.
- 4) absence of streamlined specialized public body dedicated to the provision of extension support for coffee production; in general, there is poor coordination among institutions and organizations involved in coffee production.
- 5) The coffee cherries sold to washing stations are often of poor quality.
- 6) The storage facilities at farm level are absent or inadequate.
- 7) Khat<sup>5</sup> (*Cata edulis*) is increasingly competing with coffee for farmlands, particularly in the eastern part of the country, i.e. Hararge.
- 8) An increase in production requires not only the enlargement of planted areas, but also a proper replanting of aging trees. Both the activities are hindered by: (i) farmers' low capacity, (ii) coffee trees' long gestation period (requiring 3 to 4 years to yield), which imposes additional economic hardship on coffee farmers and, (iii) lack of credit facilities, necessary for investment in agriculture.
- 9) The shortage, in some of the coffee growing areas, of labour is prevalent during the coffee season.

In addition to the above problems, coffee production can be affected by the following threats:

- 1) The above-mentioned competition from other more rentable crops.
- 2) The climate change that could negatively affect the production.
- 3) The continuing fragmentation of smallholder farms.
- 4) The negative consequences of increasing population, resulting, inter alia, in the conversion of more farmland into built-up areas.

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<sup>3</sup> This is indirectly confirmed by the survey conducted in 2007 by the CSA (Household Income, Consumption and Expenditure Survey) where it was assessed an average household size in Oromia of 5.2 individuals.

<sup>4</sup> According to WB, the total "arable land" in Ethiopia was about 14 million ha in 2009. According to CSA, the total land for coffee production under Private Peasant Holdings was, in 2011/2012, equal to 516,000 ha. Therefore, the area dedicated to coffee should be about 3.7 per cent of the total "arable land".

<sup>5</sup> It is a fresh leaf that is chewed as a stimulant in many towns in Ethiopia and in neighbouring countries. Khat is developing a growing demand in major Ethiopian towns and countries such as Somalia, Kenya, Yemen and Djibuti; those countries import Khat from Ethiopia. Khat is a crop with relatively high resistance to drought, disease, and pests. It can be harvested three or four times a year and generates better income for farmers than other cash crops including coffee. Several small-scale farmers in the Hararge region have switched from coffee production to Khat production. The fact that coffee farms are changing into Khat farms has offset newly planted coffee farms in other regions resulting in very marginal increase in overall size of coffee-planted area in recent times.

Despite all the problems and threats underscored above, it is evident that the coffee sector is of high importance in Ethiopia from the social, economic, political, environmental and cultural point of views.

## A.2. Coffee processing

Almost all the coffee produced in Ethiopia is sold on domestic and international markets in the form of green coffee after undergoing only primary processing. Two types of primary processing are in use in Ethiopia: wet and dry processing. Needless to say, the process used has a significant effect on the flavour and aroma of roasted and brewed coffee.

Coffee is harvested in Ethiopia from November to February in the form of cherries that have to be processed in order to remove (see Figure 3) the outer skin, the pulp, the pectin layer and the parchment and to obtain the “green coffee” ready for the market. Several hundred thousand workers are employed in processing of either red cherry (*key eshet*) or dried pulp coffee (*jenfel*) in hundreds of washing stations and hulling mills around the country and, therefore coffee processing is a major source of employment and income in the country.

**In dry processing**, from which unwashed Arabica (or sun-dried coffee) is obtained, the cherries are dried on mats, concrete, or cement floors after picking. The sun-drying may take up to four weeks to reach optimum moisture content, where the cherries must be moved so often to ensure even drying. After drying to moisture content of about 11.5 per cent, the outer layer of the bean is removed by hulling and the green bean thus obtained is ready for marketing. Smallholder producers mainly use sun-drying methods while in the large plantations coffee is mechanically dried in driers. **In wet processing**, once the cherries are harvested, they are brought to “washing plants” where they are de-pulped, fermented in tanks and then washed in clean water to remove the mucilage. The wet parchment coffee (the coffee “bean” with a thin layer of skin) obtained is then dried in the sun on raised beds to moisture content of 11.5 per cent. This process requires specialized equipment for removing the pulp and substantial quantities of water for fermentation and washing<sup>6</sup>.

In both dry and wet primary processing, after drying parchment coffee, the last step is “coffee milling”, which means mechanical hulling or de-husking (removal of the parchment skin) and includes polishing, grading and bagging of clean coffee.

Historically, over 90 per cent of Ethiopian coffee was sun-dried. However, since washed coffee sells at significant premiums over sun-dried coffee<sup>7</sup> and it is more practical to control quality under wet processing, the government and several collaborative programs have been making efforts to increase the number of washing stations for smallholder produced coffee. Unwashed coffee commands a lower price in many markets including the US, where the image of washed coffee being somehow “cleaner” is strong. Some countries specifically require unwashed coffee for better and richer taste, especially in the Japanese market. The government, by encouraging cooperatives and traders to invest in machinery, intends to raise the output of washed coffee. Farmers’ groups, cooperatives, union of cooperatives, non-governmental organizations, private individuals and government farms are involved at the higher level and mainly own coffee washing stations and hand pulpers. In 1980/81, washed coffee was only 9.1 per cent of total coffee export. According to MoT, the share of washed coffee over the total coffee export remained in a range between 27 and 32 per cent in the period from 2004/2005 to 2009/2010 and it reached 33 per cent in 2010/2011.

Expanding washed coffee processing has been a sector development objective for many years. Ethiopia has promoted large scale washing stations rather than small-scale de-pulping machines and village-scale processing. While there is a place for both, large-scale processing plants must, however, be guaranteed minimum volumes to ensure sound financial operations. A shortage of raw material supply has forced large-scale plants to run well below capacity, consequently entailing substantial financial losses.

Table 2. Number of washing stations and dry mills in Ethiopia in 2012/2013, their distribution among Regions and according to type of ownership

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<sup>6</sup> For one kg of fresh cherries, from 2 to 10 litres of water are required. The ratio in weight between a fresh cherry and a green bean is about six. Therefore, from 12 to 60 litres of water are required to produce 1 kg of washed green coffee.

<sup>7</sup> According to various sources, the premium that washed coffee can obtain over the sun-dried coffee varies depending on the coffee type and varies from year to year. In recent times, washed coffee has been sold at a price higher than sun-dried coffee. The incremental difference ranged from 10 to 65 per cent.



Regions	Washing Stations				Dry Mills			
	Private	Union	Public	Total	Private	Union	Public	Total
Oromia	297	95	15	407	524	20	6	550
SPNN	470	146	-	616	136	4	-	140
Gambela	3	-	-	3	6	-	-	6
Amhara	-	-	-	-	1	-	-	1
<b>Total</b>	<b>770</b>	<b>241</b>	<b>15</b>	<b>1,026</b>	<b>666</b>	<b>24</b>	<b>6</b>	<b>696</b>

Source: Ministry of Agriculture, 2013

According to the “Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009”, that was developed by the Ministry of Trade and Industry (MoTI)<sup>8</sup> in collaboration with MoA and with the support of UNIDO (in partnership with FAO and UNDP), there were (presumably in 2008) 728 washing stations. About 20 per cent were estimated to be out of operation due to local competition (in some areas), obsolescence, lack of working capital, inefficient management, lack of skilled technical staff, etc.. Capacity utilization in operating washing stations was estimated to be about 60 per cent.

A study dated June 2010 and commissioned by USAID<sup>9</sup>, gives the following numbers of dry mills and washing stations, presumably for the year 2008 or 2009:

- There were over 488 sun-dried coffee processing plants with a combined capacity of over 273,000t/annum. In Oromiya Region, there were 273, in Southern Nation 113 and in Gambella, 2. Since the liberalization of coffee processing, the private sector accounted for roughly 68 per cent of the milling capacity, farmers’ cooperatives 15 and estates 17 per cent.”.
- There were more than 637 washing stations with a combined capacity of 102,200t/year. Estate coffee farms owned 32, farmers’ cooperatives 169 and private sector owners 406.

A comparison between the Coffee strategy and the USAID study can be done only for the number of washing stations, which is available in both documents. Accordingly, an approximate number of about 640 operational washing stations existed, considering the two figures 728 (less by about 20 per cent for being out of operation) and “more than 637”. In any case, the number of washing stations in 2008 should have been in the range of 640 and 720. Since the total number of washing stations given by MoA for 2012/2013 is 1,026, there was, in the five-year period from 2008 to 2013, a substantial increase in washing stations, in the range of 40 to 60 per cent.

The increase of washing stations is the result of the effort put by governments, cooperatives and unions and donors. For instance, the NGO TechnoServe (with funds of the Bill & Melinda Gates Foundation), between 2008 and 2011, contributed to the increase by supporting about 110 washing stations (including new wet mills installed and existing ones improved). Despite this increase, the share of washed coffee over the total coffee export remained 33 per cent in 2010/2011.

Concerning **secondary processing (e.g. roasting)**, only a small portion of the coffee produced (less than 1 per cent of the total production)<sup>10</sup> undergoes an industrial process carried out by local roasters who roast, grind and package the coffee for retail sales either in the domestic market or for export.

Coffee processing in Ethiopia is facing several problems and constraints, the most important ones being:

- 1) The amount of washed coffee remains small compared to sun-dried (74 per cent of the coffee is unwashed).
- 2) The storage facilities at the farm level are inadequate.
- 3) Infrastructure (roads, electricity and communications) is mostly inadequate owing to the fragmented nature of the smallholder supply base and due to the fact that the location of farms is distant from processors.
- 4) High post-harvest losses are also caused by the poor status of storage facilities and infrastructure.

<sup>8</sup> The tasks of the Ministry of Trade and Industry have now been assigned to the Ministry of Industry (MoI) and to the Ministry of Trade (MoT).

<sup>9</sup> Ethiopia Coffee Industry Value Chain Analysis, Chemonics International Inc., 18 June 2010

<sup>10</sup> According to the “Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009, in 2007/08 a total of 231t of roasted coffee has been exported, which represented about 0.135 per cent of the total export volume for that year (171,000t). It has not been possible to assess the present roasting capacity in Ethiopia both for the domestic and the export market. It can be reasonably assumed that such capacity is still below 1 per cent of the total volume of exported green coffee.

- 5) Technical skill and maintenance capacity, both for wet and dry coffee processing, are lacking since the labour force consists mostly of unskilled workers.
- 6) Both for washing stations and sun-dried coffee processing plants, increase in their number and improvement of the existing units is thwarted by the low value addition of the processing operations as well as by the lack of credit facilities.
- 7) In **sun-drying primary processing**, coffee is dried on the ground with negative consequences on the quality of green coffee. This we owe to the tradition of smallholder farmers and their inability to construct drying beds due to the prohibitive cost of doing so. Some donor-financed projects aim at introducing or increasing the practice of using drying beds. The results are encouraging since the sun-dried coffee obtained has a better quality and fetches better price.
- 8) In **wet primary processing**: (i) access for many smallholder farmers to washing stations is difficult due to distance and/or poor road network, as this raises transports costs and hinders immediate processing, a key requirement in wet processing, (ii) about 20 per cent of washing stations are obsolete and not all are operational, (iii) many washing station lack skilled personnel and/or need maintenance and, (iv) there exist substantial threats of river pollution in the vicinity of coffee pulping and washing stations;
- 9) In **secondary processing**, problems of low industrial capacity are plenty due to: (i) low domestic demand for processed coffee owing to the tradition of home roasting and grinding the coffee (commercially packaged coffee is uncommon in Ethiopia and even hotels and restaurants usually buy fresh green beans and do their own roasting and grinding), (ii) lack of skills and experience in coffee roasting, grinding and packaging, (iii) very limited export volume of roasted coffee due to the domination of the market by big multinationals that prefer to carry out their own processing and, (iv) difficulty for the Ethiopian entrepreneurs to acquire a good knowledge of the coffee characteristics required in markets abroad, which often are sophisticated in terms of roasting, blending, etc.

In addition to the above problems, coffee production can be affected by the following hitches or stumbling blocks:

- 1) Technology transfer is a slow process, in particular, with regard to skills.
- 2) Immense market power possessed by buyer-processors already in the market.

### **A.3. Coffee domestic trading and export**

At the farm level coffee can either be sold as fresh, red cherry beans, to be eventually delivered to wet coffee processing, or as sun-dried. The bulk (about 75 per cent) of the coffee in Ethiopia is harvested, dried on the farm and sold in dried form. The coffee parchment is sold through an auction system to the major coffee processors (millers)/exporters, whose activities include de-husking, cleaning, grading, packing and exporting.

Primary coffee collectors (*sebsabies*) are locally licensed coffee traders that purchase coffee from individual farmers. They play an essential role of bringing coffee from remote areas to the market. More often than not, they possess no warehouses of their own and, therefore, immediately transfer the coffee in their custody to suppliers/wholesalers (*akrabies*). According to the mentioned study of 2010 commissioned by USAID, there were over 2,291 legal collectors in Ethiopia. Suppliers/wholesalers acquire coffee cherries from collectors or producers and process their coffees before bringing them to auction. They are not allowed to export on their own account. Some have storage facilities as well as their own hullers or pulperies. According to the same study, there were over 1,068 *akrabies* in the country.

Alternative trading channel for farmers vis-à-vis collectors is represented by the cooperatives, which play an important role in organizing farmers. Many cooperatives have their own washing stations and warehouses and are organized into cooperative unions. Currently, there are six cooperative unions, among which, the four major unions are: the Oromia Coffee Farmers Cooperative Union (OCFCU), the Sidama Coffee Farmers Cooperative Union (SCFCU), the Yirgacheffe Coffee Farmers Cooperative Union (YCFCU) and the Kaffa Forest Coffee Farmers Cooperative Union (KFCFCU). These four unions comprehend the great majority of the organized smallholder farmers. Table 3 has in display the number of cooperatives and member farmers under each of the four Unions in 2013.

Table 3. Number of cooperatives and smallholder farmers organized under the four major cooperative unions (rounded figures) in 2013

No.	Unions	Date of foundation	Cooperatives n.	Farmers n.
1	OCFCU	June 1999	204	211,000
2	SCFCU	July 2001	46	80,000
3	YCFCU	July 2002	26	30,000
4	KFCFCU	March 2004	26	4,000
<b>Totals</b>			<b>302</b>	<b>325,000</b>

Source: Unions' websites and brochures

Considering the present number (see Table 1) of Private Peasant Holdings, according to CSA (4,042,000), and the number of farmers organized under unions (about 330,000 including those under the other minor unions), the share of farmers that can benefit of the advantages of being organized remains low and close to 4 per cent of the total.

Cooperatives and unions are allowed to bypass ECX and **export coffee directly to overseas buyers**. Their main functions are to assist in developing producer/buyer linkages (by facilitating organic and fair trade certification, for example), to export members' coffee directly, to provide warehouse and transport services, to promote high-quality coffee production, and to avail saving and credit services, as well as to make available training and education programs for members.

### A.3.1. The domestic coffee market: wholesale and retail

A large proportion of the coffee produced in Ethiopia is consumed domestically. This consists of: (i) coffee consumed at village level by farmers or by other village members, (ii) coffee with grading inadequate to qualify as exportable. After grading, once coffee is dehusked, it can be sold to wholesalers. Dry coffee beans can be bought from grocery stores or local markets either packaged or otherwise. Nonetheless, wholesaling and distribution of coffee is thus unfortunately marred by poor quality control and such that different varieties are mixed, resulting in lack of homogeneity in the final product.

### A.3.2. The Ethiopian Commodity Exchange (ECX)

Substantial transformations took place in the last decade regarding coffee marketing in Ethiopia. Recent initiatives to increase value and benefit the coffee sector include: (i) fair trade certification by cooperatives, (ii) organic and specialty coffee promotion and, (iii) trade-marking and licensing initiatives that managed to successfully establish international branding of three of Ethiopian major coffee types: Sidamo, Yirgacheffe, and Harar.

The most important innovation to date we owe to Proclamation No. 602/2008, enacted in 2008, which replaced the coffee quality control and marketing legislation that had governed the sector for the last forty years. According to this legislation, all supplies of coffee, except for direct exports by growers (or their organizations, i.e. cooperatives or their unions), are to be traded on the official market established for this purpose, the Ethiopia Commodity Exchange (ECX), which handles the marketing of agricultural commodities like coffee, sesame, and beans. In Figures 4 and 5 below, the coffee trading structure and its working modalities are illustrated.

A large share of all the produced coffee is sold on the ECX floor either through organized coffee farmers' cooperatives/unions or middlemen. Among ECX's board members are GoE officials, providing them with an opportunity to have a regulatory hand in the coffee marketing process. The main reason for establishing ECX was the elimination of a huge number of middlemen involved in coffee distribution and to enable coffee farmers to benefit from prevailing market prices. Coffee sold through ECX is considered as commodity coffee and is not entitled to possible premiums benefitting organic coffee.

An important task of ECX includes coffee quality control and grading that is carried out via liquoring and inspection units located in the major coffee producing localities where the coffee is also weighed and inventoried in ECX operated warehouses.

All the coffee has to be inspected and graded by ECX before it is consigned to warehouses. This is a requirement for both direct exports (namely, by cooperatives and producers or their organizations) and coffee sold through ECX. Grading is mainly conducted by analysing two aspects of coffee beans: (i) visual evaluation for defects of raw green beans, and (ii) identification (by cupping by taste testers) of the sensory aspects of roasted beans, including aroma, taste, acidity, and other flavours. ECX quality certification is based on coffee classes, types, and grades.

Figure 4. Trading Structure within ECX<sup>11</sup>

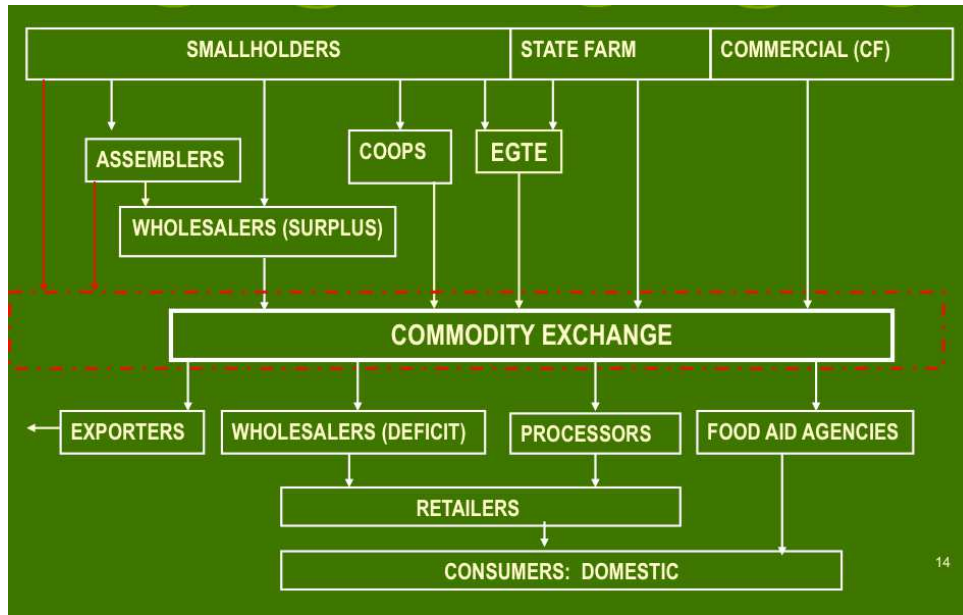
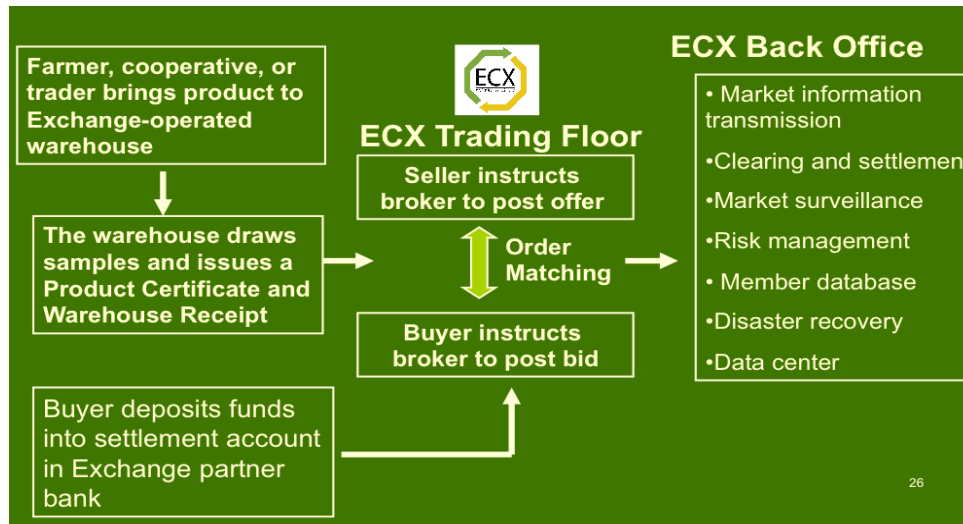


Figure 5. How ECX works



The two processing classes (washed and unwashed) and types are determined according to regional and sub-regional origins. Coffee is graded according to nine grade distinctions: coffee with grades 1 to 5 must be exported and only lower quality coffees, from grades 6 to 9 can be sold on the domestic market. ECX's bidding system is an "Open Cry Out" system where sellers and buyers meet on an open trading floor to negotiate and finalize sales deals. ECX is a modern trading system based on standard coffee contracts, using established standard parameters for coffee grades, transaction size, payment and delivery and trading order matching, while, at the same time, preserving the origins and types of coffee as distinct.

### A.3.3. Exports

<sup>11</sup> EGTE, is the Ethiopian Grain Trade Enterprise, works under the auspices of MoT. Its declared mission is to work "to create domestic and export market for cereals, pulses, oil seeds and coffee beans" in pursuance with the direction of the country's strategic and development policy besides creating "markets for producers and consumers in remote areas by opening purchase/sells channels in surplus producing and deficit areas in the country". (<http://egtemis.com/>)

ECX has over 450 registered buyers/exporters that are members of the exchange with licenses to bid for and export coffee. Unlike other producing countries in the region, Ethiopia does not allow multinational companies to register as exporters. Table 4 below shows exports during the period from 2004/05 to 2011/13 (Ethiopian Fiscal Years – EFY).

Table 4. Coffee export by volume (metric ton), export revenue (million US\$) and average unit price (US\$/kg), for the period from 2004/05 to 2012/13 (EFY).

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Export volumes	159,800	153,200	176,400	171,000	133,900	172,200	196,100	169,400	198,700
Export revenues	335	366	424	525	376	528	842	833	745
Average unit price	2.1	2.4	2.4	3.1	2.8	3.1	4.3	4.9	3.7

Source: MoT

The figures in Table 4 are rounded and they were taken from MoT. Other sources, like ICO and FAOSTAT, give different figures; the differences could depend also from using different period of the years considered (e.g. “crop season” instead of the EFY). As indicated in Table 3, the volume of exported coffee has demonstrated a generally increasing trend for the last nine years, except in year 2008/09 when a decrease was registered which, however, quickly recovered in the following year. Export revenue doubled in the period, but this was due more to an increased selling unit price than increase in volume. According to the Ethiopian Coffee Exporters’ Association (ECEA)<sup>12</sup>, in 2012/13 EFY:

- a) Export in washed coffee accounted for 25.4 per cent in volume and 26.9 per cent in value and in the previous nine years averaged 26 per cent. As a consequence, increase in washing capacity in the country, mentioned in paragraph A.2 above, was sufficient to realize an increased coffee production, but it did not allow for an increase in the share of washed over sun-dried coffee.
- b) Specialty coffee which fetches premium price in the international coffee market accounted only for 3.1 per cent of the traded volume in which specialty washed held 2.62 and specialty unwashed a 0.63 per cent share. Local coffee types which are sold for local consumption held more than 12 per cent share of the total coffee volume traded for the year.
- c) A record volume of close to 200,000t was exported during the year with revenue for the country of US\$ 745 million.
- d) The coffee export income obtained accounted for 24.2 per cent of the total national export earnings of the year (US\$ 3.08 billion). This share was the lowest so far observed in the export income of the country, which implies that other commodity exports, especially gold, have become important items. Coffee and gold alone accounted for more than 43 per cent of the country’s total export income for EFY 2012/13.
- e) The export volume was a historic level that exceeded the previous year’s export of 169.400t by 17.3 per cent. This export revenue, however, was less by 10.6 per cent compared with the previous year. Therefore, despite a significant rise in volume, the coffee export performance in value terms was lower. The decline in revenues was caused by the reduction by more than 30 per cent in the price of *Arabica* coffee in the global coffee market. As a result, the average price went down to 3.7 US\$/kg from 4.9 US\$/kg in 2010/11 and 4.3 US\$/kg in 2011/12. Price of *Arabica* coffee in the international market continued to decline due to the sustained structural over-supply of coffee from Brazil, Colombia, Honduras, Vietnam etc., in the face of an economic recession in the developed economies of the north and a shift in coffee consumption behaviour of coffee importing developed countries. As a result, the price of *Arabica* coffee at the New York Inter Continental Exchange (ICE) which started at 4.0 US\$/kg monthly average price in July 2012 continued to fall to reach 2.7 US\$/kg in June 2013. This shows that the monthly average *Arabica* coffee price fell by about 46 per cent in a twelve months period. Similarly, ECX export coffee price, which registered a monthly average price of 4.4 US\$/kg in July 2012 also continued to decline, reaching 3.3 US\$/kg in June 2013. Although Ethiopian coffee is not generally sold or traded on the international market in line with the trading value of *Arabica* coffees at ICE markets, the ICE daily market price is considered as the basis for negotiating most contract sales prices between Ethiopian coffee exporters and international buyers. Comparing ECX and ICE coffee trading values, all washed coffee export sale deals are normally struck at plus 0.44 US\$/kg, for Yirgacheffe washed export coffee at plus 0.88 US\$/kg above the ICE price and for all unwashed coffees at below 0.38 to 0.66 US\$/kg. The monthly weighted average prices of July – June 2012/13 at both ECX and ICE markets for all coffees show that the two markets were fairly interrelated or connected. But though they are correlated, the price-declining rate for the two markets was not similar.

<sup>12</sup> EFY 2012/13 Annual Coffee Export Performance and Export Price Analysis Report.

On the other hand, since specialty coffee can obtain prices above the ICE average, one important achievement, probably more important than Organic or Fair Trade certification, is the accomplishment recorded in trademarking fine Ethiopian coffees. The initiative, which began in 2004, managed to register trademarks for Sidamo, Harar and Yirgacheffe coffees in more than 30 countries, including the EU, Japan and the USA and a number of other applications are pending.

Coffee is exported almost exclusively in the form of “green coffee” because roasting activity, and consequently, the quota of exported roasted coffee has been very limited (below 1% of the total export volume). Although the roasted world coffee market is dominated by multinationals, Ethiopia, due to its high domestic consumption, has a processing base on which it can build on and target geographically convenient markets in Africa, the Middle East and the Gulf.

In the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009" the following, among others, is reported: "The international coffee trade is dominated by few multinational companies. The top four multinational coffee roasters are Procter & Gamble, Nestle, Sara Lee and Philip Morris, which account for 40 per cent of the trade. The largest share of the retail value of coffee is captured during the second stage of processing, which occurs outside the producing countries. Less than 30 per cent of the value of world coffee sales remain in coffee producing countries, while 70 per cent is shared among multinational companies who control most of the international coffee supply chain. Analysing why these intermediaries capture the lion's share of profits is critical to understanding what can be done to help Ethiopian coffee farmers capture a higher share of the retail price. The share taken by international intermediaries is increasing as shown by the growing gap between consumer and producer prices over the last two decades. For instance, as the international price of coffee has declined on world markets, the price paid by the consumer has increased, thus the producers absorb the negative effect of the lower prices. Coffee manufacturers attribute the growing gap to increasing costs, but increasing costs appear to justify only part of this difference. The increasing gap between producer and consumer prices also cannot be explained by increasing trade barriers, because both the European Union and the US have low tariffs on coffee. It seems reasonable to assume that most of the price gap results from coffee manufacturers increasing their margins. Within the framework of the Lomé Convention, coffee from Ethiopia is exempt from import duties for unprocessed and processed coffee."

#### **A.3.4. Stock**

According to "Ethiopia Coffee Annual Report", dated May 2013 and issued by USDA-FAS, coffee cooperative unions and ECX primarily hold coffee stocks. Most cooperative unions have their own stores whereas ECX has established between ten and twenty coffee warehouses; most of these warehouses are leased from private owners near production areas. GoE has recently endorsed a directive that imposes severe penalties for hoarding coffee in individual coffee exporter warehouses. Private exporters are only allowed to store coffee not exceeding 500t. A trader who wants to store more than 500t, should first sign a written contractual agreement with an importer. This regulation is, however, not applicable to local cooperatives and ECX.

#### **A.3.5. Policy**

According to the above report from USDA, the coffee policy of GoE revolves around trade and controlling the hard currency earned from exports aiming the maximization of foreign exchange. There are virtually no policies affecting coffee production. However, there are some regulations that impinge on the marketing process such that it is illegal to sell export quality coffee on the local market in spite of better local prices. Any coffee related business requires a special license for domestic wholesaling, coffee exporting, or coffee roasting. In May 2011, GoE introduced coffee storing and exporting regulations limiting the amount of stock that an exporter can store. Any exporter found storing more than 500t of coffee without having a shipment contract with an importer will be penalized with revocation of the trader's right to buy or sell coffee at ECX for three months.

#### **A.3.6. Export destinations**

In Table 5, the twelve major countries constituting the destination for Ethiopian coffee export are listed in order of importance for EFY 2012/13. Germany, Saudi Arabia and Japan are the largest importers followed by US and Belgium. France, Italy and Sudan also import significant quantities. It is worth noting that in 2008/09, exports to Japan fell drastically from over 20 per cent of Ethiopian exports to less than 1. Japan placed restrictions on importing coffee from Ethiopia due to high traces of pesticide residue on beans. Japanese pesticide requirements are 100 times stricter than US requirements. The chemical contamination was blamed on bags imported from Bangladesh. Japan has subsequently

lifted this import ban and imports from Japan are recovering their position before the ban. It should be noted that Europe represents the most important market with a share of about 50%.

Table 5. Ethiopian coffee export by country of destination in metric tons and in per cent, for the period from 2008/09 to 2012/13 EFY.

No.	Countries/Years	2008/09		2009/10		2010/11		2011/12		2012/13	
		t	%	t	%	t	%	t	%	t	%
1	Germany	42,172	31.49	57,237	33.24	66,290	33.80	53,305	31.47	52,596	26.47
2	Saudi Arabia	25,935	19.37	28,958	16.82	24,101	12.29	27,364	16.15	27,500	13.84
3	Japan	944	0.70	5,836	3.39	8,433	4.3	7,172	4.23	22,978	11.56
4	United States	9,449	7.06	14,168	8.23	20,311	10.36	9,662	5.70	15,798	7.95
5	Belgium	10,946	8.17	12,254	7.12	15,351	7.83	10,398	6.14	15,391	7.75
6	France	5,290	3.95	7,967	4.63	11,150	5.69	11,299	6.67	10,226	5.15
7	Italy	7,121	5.32	9,239	5.36	11,586	5.91	8,426	4.97	9,332	4.70
8	Sudan	9,032	6.75	9,816	5.70	4,972	2.54	9,593	5.66	8,196	4.12
9	Korea, Rep. of	890	0.66	2,079	1.21	2,648	1.35	3,444	2.03	5,031	2.53
10	Sweden	1,460	1.09	3,782	2.20	8,559	4.36	4,919	2.90	4,486	2.26
11	U.K.	2,608	1.95	2,119	1.23	4,619	2.35	3,981	2.35	4,008	2.02
12	Australia	1,466	1.09	2,291	1.33	2,406	1.23	2,789	1.65	3,415	1.72
	Others	16,581	12.40	16,454	9.54	15,674	7.99	17,048	10.08	19,743	9.93
	<b>Total</b>	<b>133,900</b>	<b>100</b>	<b>172,200</b>	<b>100</b>	<b>196,100</b>	<b>100</b>	<b>169,400</b>	<b>100</b>	<b>198,700</b>	<b>100</b>

Source: MoT

The business of coffee export in Ethiopia is dominated by private sector participants; however, cooperatives and unions have assumed a growing role in coffee exporting activity. Some of these cooperatives have begun to take advantage of certification of organic coffee and fair trade coffee, which command higher prices.

### A.3.7. Ethiopia's position among coffee exporting countries

In Table 6 the fifteen top coffee exporting countries are listed in order of their coffee export in 2012. Volumes of export for the same countries are also provided for 2010 and 2011. The major exporters are Brazil and Vietnam that cumulatively account for almost 50 per cent of the total world export. Ethiopia is the tenth world exporter with a share of 2.83 per cent and the largest in Africa. It should be noted that this ranking of Ethiopia among the exporting countries is in spite of the fact that Ethiopia, unlike many other coffee producing countries, has a very high domestic consumption of coffee (more than 50 per cent of the total production).

Table 6. The top fifteen coffee exporting countries with volumes of export in metric tons, calendar years 2010 - 2012.

No.	Country	2010	2011	2012	% 2012
1	Brazil	1,981,740	2,010,480	1,699,980	25.04
2	Vietnam	853,740	1,060,500	1,528,500	22.51
3	Indonesia	329,340	369,540	636,840	9.38
4	Colombia	469,320	464,040	430,200	6.34
5	Honduras	200,940	236,820	330,480	4.87
6	India	277,860	350,400	317,280	4.67
7	Peru	229,020	281,820	258,600	3.81
8	Guatemala	208,080	221,820	225,000	3.31
9	Mexico	149,880	174,420	213,360	3.14
10	<b>Ethiopia</b>	<b>199,440</b>	<b>160,500</b>	<b>192,180</b>	<b>2.83</b>
11	Uganda	159,420	188,520	161,100	2.37
12	Nicaragua	102,720	88,080	119,220	1.76
13	Cote d'Ivoire	114,720	46,320	102,720	1.51
14	Ecuador	72,120	91,920	94,800	1.40
15	Costa Rica	72,000	74,580	82,440	1.21
	Others	235,859	454,180	396,720	5.85
	<b>Total</b>	<b>5,815,620</b>	<b>6,274,380</b>	<b>6,789,420</b>	<b>100.00</b>

Source: ICO

Major problems and constraints associated with domestic trading and export of coffee in Ethiopia are:

- 1) Low share of washed coffee (only about 25 per cent) and of specialty coffee<sup>13</sup> with the following consequences: (i) achieved export revenue lower than what would have been possible with increased quality obtainable through higher quota of washed coffee and, (ii) prices obtained are very sensitive to fluctuations in international market prices. Ethiopia has a substantial potential to increase the proportion of higher priced washed coffee; more investment in washing, therefore, promises a high payback potential.
- 2) Extensive illegal border trade in coffee (such that some non-producing neighbouring countries actually export coffee)
- 3) Access to market is often difficult because of distance, road quality and consequent high transport cost.
- 4) Low level of business skill and knowledge, especially at farm level such that smallholders risk selling to middlemen that pay them below market price.
- 5) Number of smallholder farmers organized in cooperative is still low (about 4 per cent of the total) and can be increased.
- 6) Exporters can only look for quality in auction but cannot work with producers and processors at the farm level to build quality.
- 7) The share of smallholder production not yet covered by quality and origin certification is low.
- 8) Quota of coffee directly exported by producers is still low.
- 9) Low publicity and poor marketing strategy vis-à-vis special and differentiated qualities of Ethiopian coffee, entailing persistence in the international coffee industry's "ignorance" of such inherent qualities.
- 10) Valorisation of peculiar growing conditions (e.g. "organic" and "forest farming") can be improved.
- 11) Strong competition from other coffee producing countries especially when the competition take place in the same market segment where major exporting countries are focused (due to the low valorisation of Ethiopian coffee peculiarities); potential differentiation in marketing hasn't been successfully implemented in the export strategy.
- 12) Ethiopia hasn't been able to obtain significantly higher prices for its highest quality *Arabica* beans (grade 1, 2 and 3).
- 13) The quantity of grade 1, 2 and 3 beans filtering out is low (protocols of ECX need review and refining)
- 14) Continuing margin squeeze by powerful international buyers.
- 15) Protectionism and tariff walls still represent an obstacle to the development of sound marketing.
- 16) Market for specialty coffee is only 6 per cent of the world market.
- 17) Difficulties and major obstacles encountered by the buyers, like:
  - a) procuring specialty coffee beans from Ethiopia requires a major level of due diligence by the buyers;
  - b) lack of traceability is conspicuous;
  - c) unreliable logistics are aplenty (with delays in shipment);
  - d) inconsistent quality discernable (non-conformance between pre-shipment sample and arrival lot);
  - e) complicated and time consuming exporting procedures loom large; and
  - f) impossible for exporters to carry out cupping before buying at ECX.
- 18) Traceability, which is becoming increasingly important for organic coffee and in EU regulations, is not feasible in the present Ethiopian auction system. The rigidity of the auction and export processes, including the inability of buyers to taste the coffee in advance of sales, perpetrates a highly inefficient marketing chain.
- 19) Local consumer demand for higher quality export beans has created an illicit market that yields higher profits than exporting, albeit paid in local currency.
- 20) When there are signals of depressed international prices, increase in domestic consumption is encouraged and this, in turn, negatively affects export revenue, especially when international prices are good.
- 21) A rather widespread practice of cherry theft, a state of play which imposes on farmers untimely collection, i.e. before the cherry is ripe enough for collection, thus entailing inferior coffee quality, more so for semi-forest and forest coffees.
- 22) The legislation that established ECX in 2008 ("Coffee Quality Control and Marketing Proclamation") calls for the aggregation of all beans by regions of production, which threatens demand for specialty coffee, besides blighting traceability.

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<sup>13</sup> According to USAID AGP - AMD 2013, of Ethiopia's coffee exports, less than 20 per cent currently meet the standards to receive the value-added prices due to specialty coffee. Ethiopia has land, labour and varieties to increase the export of quality coffees to more than 75 per cent. Reaching this level of specialty coffee exports would bring an increase of earning greater than US\$ 250 million annually to Ethiopia's coffee farmers.



- 23) Quality<sup>14</sup> is also eroded during marketing due to adulteration of coffee origin as well as improper bagging and storage practices.
- 24) Inadequate market information due to inefficient communication infrastructure (e.g. slow internet connections) hampering coffee trade.
- 25) The international market is dominated by big multinationals.
- 26) In general, Ethiopian coffee is undersold; often, by dint of the fact that marketing options for exporters are limited to global traders/intermediaries who are less likely to pay price premiums for quality and most exporters know not their clients and conduct their business in bulk volumes, "FOB Djibouti".
- 27) Concerning domestic and export marketing of roasted, ground and packaged coffee, Ethiopia is facing the following additional problems: (i) glaring lack of skills and experience in coffee roasting, grinding, packaging and exporting, (ii) marketing of ground coffee is more complex than green beans because of its short shelf life, (iii) presence of high custom and tariff levies for processed coffee, (iv) very limited export volume of roasted coffee and, (v) domination of the international market by big multinationals.

#### **A.4. Institutions and Coffee Value Chain Actors**

The main stream of the coffee value chain involves a number of actors: producers, middlemen, traders, processors, exporters, importers, roasters and retailers. All these actors directly add value to the product. Furthermore, there are other bodies and organizations that give important contributions and support to the value addition. This second group of actors include government institutions at federal and regional level, public institutes, international organizations, bilateral donors and national and international NGOs.

##### **A.4.1. Direct Actors**

###### **A.4.1.1. Producers**

Producers in the four coffee production systems prevalent in the country (i.e. garden, forest, semi-forest and plantation coffees) can be grouped together into two broad categories of actors:

- (i) Smallholder farmers that, according to CSA consist of about 4 million Private Peasant Holdings. They are involved in the first three types of coffee production systems and account for about 95 per cent of coffee production in Ethiopia. Smallholder farmers with an average of less than 0.5ha of land have a mixed farming system, producing food for subsistence and some for local sales, with coffee as their main cash crop.
- (ii) Owners of large plantations. They include the Ethiopian state itself (i.e. the state-owned farms) and a few private individuals/companies (for farms operating on commercial basis). The plantations produce the balance 5% of the national coffee production.

###### **A.4.1.2. Cooperatives and unions of cooperatives**

In view of the characteristics of Ethiopian agriculture and, in particular, its fragmented nature, farmers' cooperatives have proved valuable in limiting the negotiating power of middlemen when they are the only possibility for the farmers to sell their harvest. In particular, in the coffee sector, cooperatives and their unions provide invaluable service and advice and, therefore, are becoming an important link in integrating smallholders into the marketing chain by providing input supplies, extension services, coffee processing, links to markets by offering better prices, sources for soft loans and savings accounts, avail facilities for health and educational services, advocacy for smallholders and links to the rest of the world. In addition, cooperatives introduce the farmers to profit oriented, professional management techniques.

According to the Oromia Coffee Farmers Cooperative Union, both private collectors and cooperatives pay the same price for the coffee at farm gate. But the advantage for the farmers to sell their harvest to the cooperatives consists in the fact that, after the cooperatives and their unions sell the coffee to exporters or to wholesalers for the domestic market, 70 per cent of the revenues collected are paid back pro quota to farmers. In practice, the money farmers receive from cooperatives is higher than the one they collect from private collectors.

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<sup>14</sup> For this reason, Ethiopia's export coffee lacks deliverable grade status on the international market (New York), which requires maintenance of consistent and relatively high quality set of coffee, which would be priced with a constant differential in respect to New York price. Thus, despite its status as a relatively important producer country, Ethiopia is unique in not having acquired this status in contrast to most producing countries.

At present, there are four major unions: OCFCU, SCFCU, YFCU and KFCFCU. Under these four unions, which have incorporated a large majority of the organized smallholder farmers, there are about 300 cooperatives and about 325,000 farmers. The Oromia Coffee Union was established in June 1999 but the other three, Sidama, Yirgacheffe and Kafa Forest Coffee Unions, were established from 2001 to 2004 (see Table 3) with direct support by ACDI/VOCA<sup>15</sup> under Agriculture Commodity Exchange for Africa (ACE)<sup>16</sup>. The pooling of effort and resources enables enough critical mass to make possible investments (e.g. washing stations, hulling stations and warehouses) which no member alone could accomplish.

A measure of the value and success of this kind of organizations is given by the following facts and figures:

- a) In eight years, the number of associates of the four unions is almost doubled. In fact, at the end of 2005, there were altogether 154 cooperatives in the four unions with nearly 180,000 farmer members.
- b) Looking at the oldest and biggest union, OCFCU, from the date of its foundation in June 1999 to 2013, the following progresses were registered:
  - number of cooperatives grew from 34 to 240;
  - number of farmer members passed from 22,503 to 210,588;
  - washing stations increased from 32 to 60;
  - hulling plants surged from 3 to 26;
  - initial capital, which was only US\$ 90,000, ballooned to the current capital of US\$ 15,500,000;
  - from 2001 to 2013, the volume of sales passed from mere 126t to about 5,500t;
  - in the same period, the value of sales spiralled from about US\$ 126,000 to about US\$ 35,350,000; and
  - from 2004 to 2013, the number of cooperatives certified for "Fair Trade" hiked from 11 to 28 and the corresponding fair trade premium that they managed to receive passed from about US\$ 49,000 to about US\$ 1,478,770.

Despite the impressive progress registered by the cooperative and union system, its weight is still a pittance compared to the total national coffee sector. This applies to all aspects: quantity of coffee produced, number of smallholder farmers, number of washing stations, number of hulling plants, size of traded coffee, value of sales and certification for Fair Trade. For almost all the above aspects, the weight of unions ranges from 6 to 15 per cent, except for the number of the washing stations (which is about 30 per cent of the total) and for Fair Trade certification. These two aspects are relevant to areas where the efforts of cooperatives and unions are particularly focused.

#### **A.4.1.3. Collectors**

Primary coffee collectors (*sebsabies*) are locally licensed coffee traders that purchase coffee from individual farmers. They play an essential role in bringing coffee from very remote areas to market. More often than not, they have no warehouses of their own and, therefore, immediately transfer the coffee in their possession to suppliers/wholesalers. According to a study of 2010, there were over 2,291 legal collectors in Ethiopia. The assembling of the coffee produced by smallholders involves a long chain of these actors. Often, the increase in product price that they cause is much higher than the actual value of their service. This disproportion represents a financial disadvantage that could easily be pocketed by farmers whenever this is eased or eliminated with the intervention of cooperatives.

#### **A.4.1.4. Assemblers/Suppliers/Wholesalers (*akrabies*)**

Wholesalers constitute the final step in the coffee collection process and in the domestic market; they are the suppliers to retailers. According to the same study of 2010, there were over 1,068 *akrabies* in the country. They acquire red coffee cherries from collectors or producers, which they process before bringing it to ECX. Some have storage facilities as well as their own hullers or pulperies. They are not allowed to export on their own account. All coffees have to be inspected and graded by the ECX before moved to the warehouses. This goes for both direct exports (by the producers and their organizations) and coffee sold through the ECX.

#### **A.4.1.5. Primary Processors**

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<sup>15</sup> ACDI/VOCA is an NGO based in Washington, D.C. - USA.

<sup>16</sup> The Agriculture Commodity Exchange for Africa is a program funded by USAID.

These are owners of washing stations and dry processing plants (hulling stations). There were 1,026 washing stations with an annual estimated capacity of about 120,000t. In the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009", it was estimated that of the 700 washing stations existing at that time, about 80 per cent were operational. It has not been possible to update the estimate of the number of the operational washing stations, but it is likely that it has not changed very much. The bulk of washing stations are owned either by private individuals or companies (e.g. traders) or by unions or cooperatives. Most of these stations are small with an annual capacity of 130t/year. During peak season, each washing station employs about 100-120 employees on average and possesses small storage facility for short-term storage. The peak season for washing stations runs from September to December. There have been several programs running to assist cooperatives or unions and some others to procure new washing stations or to rehabilitate existing ones.

According to MoA, in 2013 there were 696 dry processing plants. It is not clear whether this number includes drying units located within the washing plants for mechanical hulling of washed coffee after drying in the sun. Moreover, the average annual capacity of these dry processing plants is unknown. The period between January and May is the peak drying season. When operational, each plant employs around 100 employees.

#### **A.4.1.6. Roasters**

There are a few roasting establishments in Ethiopia and they mainly sell both roasted beans and ground coffee through groceries and supermarkets domestically, but are also engaged in export market. In Addis Ababa, there is the Ethiopian Coffee Roasters' Association (ECRA). An important exporter (allegedly the fourth in the country for export volume) maintains that in his premises has almost completed a new roasting plant that will process coffee for export.

#### **A.4.1.7. Retailers, supermarkets and coffee shops and bars**

They are the final outlets for coffee, either in the form of green beans, roasted beans or ground coffee or even brewed. The locally sold and consumed coffee tends to be of lower quality compared to that destined for export. Because the domestic coffee consumption is so high, these outlets are significant contributors to GDP and employment.

#### **A.4.1.8. The Ethiopia Commodity Exchange (ECX)**

ECX, promoted by the Government of Ethiopia, was designed as a public-private partnership enterprise. The corporate governance of ECX maintains a healthy balance of owner and member interests and the Management Board is composed of owner representatives and 5 private member representatives. ECX deals with the following commodities: coffee, sesame, haricot beans, maize and wheat. The trading structure with ECX and its relations with the other actors are described in the above paragraph A 3 (Coffee domestic trading and export).

In Figure 6 are illustrated the locations, in 2011, of the active and planned ECX facilities, according to a publication of the International Food Policy Research Institute (IFPRI) dated 2012<sup>17</sup>,

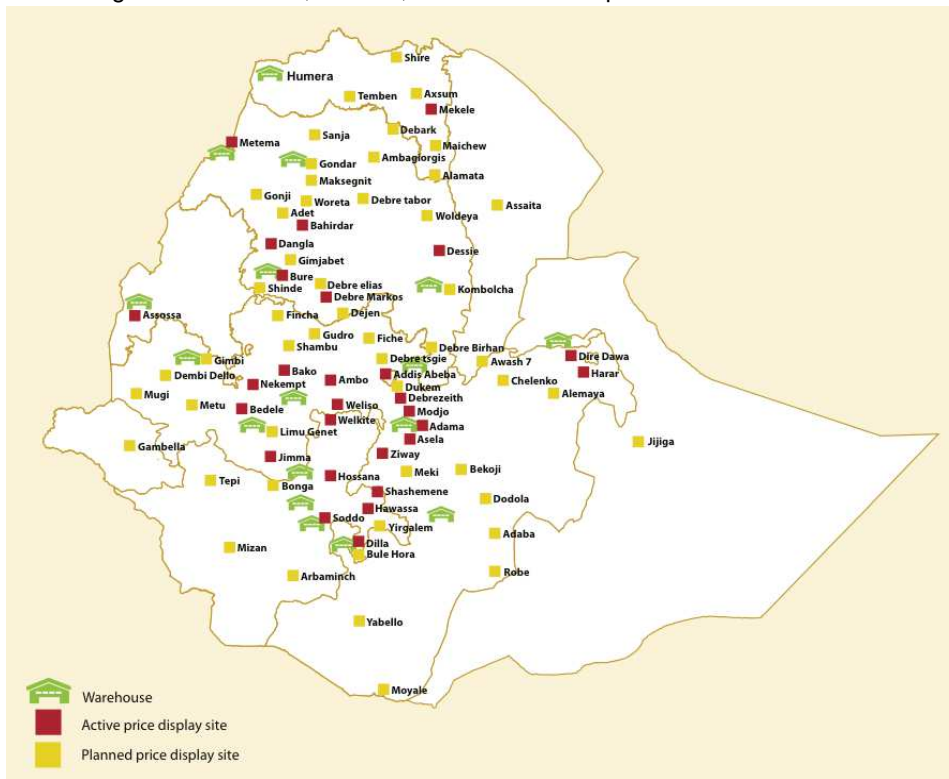
One of ECX main functions is quality control and grading during the coffee auctions. The coffee-grading and quality control system involves both green and cup-quality assessments, which are used to determine the cleanliness of the cup and the origin, taste and character of the coffee.

Maintenance of high quality is important in the export market in order to maintain Ethiopia's reputation as a dependable supplier. Coffee grading and quality control in Ethiopia is conducted at three major levels: regional, central and export. In every major coffee-producing district, there is a quality inspection office which checks the grade and quality of every truckload of coffee before it leaves for the central quality grading and auction centre. At the central level, the grading of coffee is done in two ways, by visual green analysis and by cup tasting. Before exporting, every exporter must bring the coffee to the central quality control for checking and certification.

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<sup>17</sup> The title of the publication reads: "A Market for Abdu, creating a commodity exchange in Ethiopia - Eleni Gabre-Madhin". Eleni Gabre-Madhin, was chief executive officer of the ECX and its main promoter. She has also worked for the World Bank as a senior economist and in the United Nations Conference on Trade and Development (UNCTAD) as a commodity-trading expert. She holds a PhD in applied economics from Stanford University.

Figure 6. Locations, in 2011, of the active and planned ECX facilities.



Source: Ethiopia Commodity Exchange, 2012

Figure 7 illustrates: (i) the percentage of major commodities traded in ECX in 2011 and, (ii) the evolution of trading volumes, trading value, members and clients in the years from 2008/09 to 2010/11.

Fig. 7: Percentages of major commodities traded in ECX in 2011 and evolution of main indicators from 2008/09 to 2010/11



Source: Ethiopia Commodity Exchange, 2012

From what is illustrated in the figures above, it is clear that, despite ECX's young age (established in 2008), it has recorded a very quick development with success and efficiency in its operations. This does not, however, mean that ECX does not need or require any improvement, but that it has a commendable strong base.

#### A.4.1.9 Exporters

There are two classes of exporters: those who have to export through auction at ECX and those who enjoy an auction waiver. The latter are exclusively cooperatives or unions and government owned enterprises. It is, however, a requirement that all exporters meet the country's export standards. According to the study of 2010 mentioned in Note 9, at that time, ECX had over 450 registered buyers or exporters that were members of the exchange with licenses to bid for and export coffee. Unlike other producing countries in the region, Ethiopia does not allow multinational companies to register as exporters. Before coffee is ready for export, a further processing step is required which consists of cleaning and at times blending. This is the final processing step, normally carried out by the exporters in order to bring coffee in compliance with export standards required by international buyers.

According to the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009", at that time there were 56 exporters who owned processing plants, of which 50 were located in Addis and 5 Dire Dawa.

#### **A.4.1.10. Domestic consumers**

Ethiopia enjoys, not only a strong export demand, but also has a healthy domestic market which helps the country sustain the industry when demand abroad falters. In the growing urban centres, consumers are increasingly turning to commercially roasted coffee and baristas rather than preparing coffee at home in traditional way.

#### **A.4.2. Supporting actors**

##### **A.4.2.1. Government institutions**

The major government institutions involved in the sector are:

- The Ministry of Industry (Mol), that has the responsibility to supervise, regulate the value chain and the specific activities where (secondary) processing takes place. Mol oversees to the development of agro-processing in the country as per the Agricultural Development Led Industrialization (ADLI). Accordingly, coffee processing is an area of interest and activity for this ministry. Mol is the proponent of the present project.
- The Ministry of Trade (MoT) is responsible for supervising, regulating and developing all activities involving marketing and trade, both within the country and with other countries. A number of legislations have mandated the Ministry to supervise and coordinate other government institutions that are involved in the promotion and development of trade. □□The powers and duties given to the previous MoTI by the provisions of other laws currently in force with respect to matters relating to trade have been transferred to the Ministry of Trade or the Ministry of Agriculture with respect to agricultural marketing.
- The Ministry of Agriculture (MoA) and its regional equivalents, the Bureaus of Agriculture (BoA), are the public regulatory institutions responsible for agricultural matters at the federal level and regional levels respectively. The coffee extension services, under either MoA or its regional equivalents, employ experienced professionals at all levels both for extension and to disseminate coffee processing services to all coffee producers. In particular, extension agents at the regional level pass on coffee harvesting and handling techniques, and technical support is provided by professional processing experts at each plant. Furthermore, each year, before the start of wet-processing operations, training is given to all operators engaged in washing plants.

##### **A.4.2.2. Suppliers of goods and services**

State and private enterprises, as well as cooperatives, are involved in providing agricultural inputs for coffee production. The use of these inputs is, however, mostly limited to the coffee big plantations. The Export Service Providers mentioned in paragraph A.7 below are part of this group of actors. They have been introduced with the new platform in ECX for Direct Specialty Trade.

##### **A.4.2.3. Research institutions**

Researches are either undertaken or promoted by federal and regional institutes, as well as by institutes of higher learning in the country to ensure that the coffee industry is kept up to date with the latest developments in crop management and disease prevention. The Jima National Coffee Research Center (JNCRC), which is a specialized branch of the Ethiopian Agricultural Research Institute (EARI), was established in 1967 in Jima, and it is totally devoted to coffee research. This establishment focuses on improving the quality of coffee, disease resistance, nutrition improvement and the general improvement of the coffee industry. In addition, over 2,000 coffee accessions, collected for various purposes from different parts of the country, are maintained at the Centre. It disseminates its findings through extension services.

##### **A.4.2.4. International/bilateral Donors and NGOs**

Various international and bilateral donors as well as non-governmental organizations (mostly international NGOs) are active in the coffee sector in Ethiopia. Their interests range from overall economic wellbeing, to social welfare of the growers, to environmental protection and conservation. Among these are:

- The European Commission (EC) that, in the last 30 or so years, provided Ethiopia with about 130 million Euro in support of the development of the coffee sector by virtue of the four phases of the Coffee Improvement Program (CIP I, CIP II, CIP III and CIP IV) it implemented. At present, in response to a specific request from the Ministry of Finance and Economic Development (MoFED), the EC is now funding the preparation of a comprehensive coffee strategy for the country. Consultants in its service have already started to prepare the strategy and they are expected to complete their work by mid-march 2014.
- USAID's largest contribution to the GoE Agricultural Growth Program (AGP) is the funding of the "Agricultural Growth Program – Agribusiness and Market Development (AGP-AMDe)". In line with the overall objectives of AGP, AGP-AMDe works to sustainably reduce poverty and hunger by improving the productivity and competitiveness of value chains that offer jobs and income opportunities for rural households. Target value chains are maize, wheat, sesame, coffee, honey and chickpeas. The project is implemented in the high rainfall regions of Amhara, Oromia, SNNPR and Tigray by strengthening agricultural productivity and markets. USAID is funding also another program where the coffee subsector is involved, namely, the "Cooperative Development Programme", which is aimed at organizing smallholders into cooperatives in order to capitalize on the wide variety of highly differentiated gourmet coffees grown in Ethiopia and establish Ethiopia as a market leader in the fast growing specialty coffee market. The two programs are implemented through the American NGO ACDI/VOCA. USAID is the most important bilateral donor for the coffee sector in Ethiopia and, in the past, it has supported also the establishment of the ECX.
- Bill & Melinda Gates Foundation provided a grant of US\$ 47 million to the international NGO TechnoServe for the implementation of a "Coffee Initiative" in four countries: Ethiopia, Kenya, Rwanda and Tanzania. The project implementation took place from 2008 to 2011 and was concentrated on providing support to smallholders and their cooperatives and on the improvement of coffee quality (increase of washing capacity and focus on specialty coffees). In Ethiopia, the "Coffee Initiative" has achieved important results in facilitating the access of farmers and cooperatives to credit that was facing various obstructions stemming from several constraints. Limits to financing are still seriously hampering new investments in washing stations and adequate operations of existing stations. Recognizing these limitations, the "Coffee Initiative" led a major effort in 2010 to unlock substantial amounts of capital for clients by helping to establish a new relationship between the International Finance Corporation (IFC) and Nib International Bank, a major commercial bank in Ethiopia with an interest in developing its agribusiness portfolio, especially loans made to coffee cooperatives.
- ACDI/VOCA. The name ACDI/VOCA dates back to the 1997 merger of Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance. Both were non-profit international economic development organizations founded by the U.S. cooperative community. In addition to the two USAID-funded programs mentioned above, this NGO implemented several initiatives in the rural development sector in Ethiopia. In the coffee sub sector, ACDI/VOCA has been implementing, from 2008 to 2012, a Cordaid-funded<sup>18</sup> "Ethiopian Coffee Development Program (ECDP)", which managed to increase smallholder incomes by focusing on four areas in the coffee value chain. To address constraints in these areas, ACDI/VOCA provided training and technical assistance to farmers in topics such as composting, pruning, timely cherry picking and sun drying on raised beds. It also worked addressing exporters, unions, washing station owners, cooperatives and farmers to implement a system of traceability to guarantee that quality characteristics were preserved from the farm to the cup and to ensure that premiums for this quality make their way back to smallholder producers.
- TechnoServe, after the completion of the above mentioned project financed by the Gate Foundation, remains involved in the coffee sector in Ethiopia with further initiatives.
- OXFAM which has in the past led an unprecedented global campaign against the specialty coffee giant Starbucks, which helped Ethiopia to establish trademark protection for some of its specialty coffees.
- Italian Cooperation – The Ethio – Italian Development Cooperation's "Agricultural Value Chains Project in Oromia" aims at developing two main traditional crops: durum wheat and natural coffee. This has been running since 2011 in Bale Zone, with the technical assistance of the Overseas Agronomic Institute under the Italian Ministry of Foreign Affairs. In line with GTP, the project is enabling smallholder farmers to significantly contribute to the main productive challenges of Ethiopia. Regarding the improvement of natural coffee, the work is concentrated in the Harena Forest of the Bale Mountain National Park, Dello Mena. Twelve primary coffee cooperatives (with about 2,000 members) have been receiving training and technical assistance for improving harvesting and sun drying of cherries. This is being implemented in collaboration with the Slow Food Foundation for Biodiversity, Italy, reaping astonishing results with regard to coffee quality as

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<sup>18</sup> Cordaid (Catholic Organisation for Relief & Development Aid) is a foundation based in The Netherlands.

testified by top ranks in cup testing, as well as by price increases of the coffee harvested by about 66 per cent. A union federating 12 cooperatives was established to, inter alia, better coping with marketing issues and hitches. The next challenge is to fully capacitate the union to operate the direct export of its produce, while adopting a rigorous traceability system within its cooperative members. The final goal is to allow the recognition of the Harenna Forest Natural Coffee as specialty brand.

#### **A.4.2.5. Associations**

There are four associations currently active on the Ethiopian coffee scene. The first is the Ethiopian Coffee Exporters' Association (ECEA) that was established in 1969 by about a dozen members upon whom most of them were foreigners with the objectives of: (i) encouraging the production of quality coffee, (ii) promoting coffee export globally and, (iii) resolving collectively problems encountered. Currently, the number of ECEA active members has grown to 98. All members of ECEA are Ethiopian nationals. The Association is an active member of Specialty Coffee Association of America (SCAA), Specialty Coffee Association of Europe (SCAE), Specialty Coffee Association of Japan (SCAJ) and Eastern African Fine Coffee Association (EAFCA). ECEA represents over 80% of Ethiopia's coffee exporters who have over 96 per cent market share of the Ethiopian coffee export.

The second association is the Ethiopian Women Exporters' Association (EWEA) that was established in year 2000 to improve business opportunities for Ethiopian women entrepreneurs. It currently has 40 members, each with women-owned companies representing five sectors: flowers, coffee, textile, leather and jewelry/handicrafts, injera and honey. Members range from new, small businesses with 10 staff members up to established large enterprises employing 600 people and more. Members from the coffee sector are only five.

The third association is the Ethiopian Coffee Roasters' Association (ECRA). It was founded in 2005 and has now 61 members (21 very active) trying to improve Ethiopia's capabilities in the roasted coffee market. The focus at present is primarily on the domestic market, but the association is addressing itself to increase supply to better serve the export market (which it has already started to cater to the China and Middle East markets). The fourth is the Ethiopian Coffee Growers and Exporters Association whose members include growers and exporters engaged in coffee growing and exporting activities. According to the "Ethiopian Coffee Buying Manual", dated March 2011<sup>19</sup>, in February 2011 this association included 44 growers having cultivated plantations ranging from 70ha to 21,000ha. The total cultivated area for the 44 growers was 32,894ha, therefore the average area per grower was about 747ha. These figures do not include the 26,106ha of additional coffee plantation land that was in 2011 still under development (or not yet started harvesting).

#### **A.4.2.6. Agents and Brokers**

The import of coffee processing equipment and machinery takes place through brokers working on commission. There are several private suppliers of coffee equipment and machinery in Ethiopia, who also provide technical support and maintenance. Many foreign equipment suppliers have agents resident in Ethiopia. Brokers are sometimes also involved in peripheral services such as the transport of goods.

#### **A.4.2.7. Banks and Micro-Finance institutions**

There is a dearth of capital available for expansion by smallholders. The establishment of micro-finance institutions and the efforts of some donor (see above the "Coffee Initiative" implemented by the NGO TechnoServe) are changing the situation by providing finance not available from the established banking system. Normal banking channels are oriented towards large investors that are in a position to provide collaterals.

**Other Institutions and the actors**, direct and supporting, involved in the coffee value chain are affected by several problems and constraints that affect their operations and, consequently, limit the development of the coffee sector in Ethiopia. Most of these problems have already been mentioned or can be deducted from the problems and constraints listed for coffee production, processing, trading and export in the previous paragraphs A1, A2 and A3.

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<sup>19</sup> The manual was prepared by Willem J. Boot for Fintrac Inc., the U.S. contractor implementing USAID/Ethiopia's Agribusiness and Trade Expansion Program.

All these problems are connected to two major problems, which comprehend and encompass all the other specific problems in production, processing and trading. The two major problems are the following:

- a) The first major problem is that there exists **insufficient coordination among actors** of the coffee value chain. This concerns both direct actors and supporting actors. Indeed, some form of coordination takes place among some or a few groups of actors. For instance, coordination meetings take place among the three involved ministries; there also occur coordination activities among unions; donors are also observed to conduct a very high level of coordination among themselves and with GoE. What is missing is a coordination forum specifically focused on the coffee value chain, where all the actors are represented i.e. farmers, plantation owners, processors, roasters, government institutions (in particular MoA, Mol, MoT and regional governments of the coffee regions), suppliers of goods and services, research institutions, international/bilateral Donors and NGOs supporting the coffee sector, associations (exporters, roasters, growers), agents and brokers, banks and micro-finance institutions. The purposes of such forum should be to: (i) discuss the various problems and constraints of the sector within a “value chain approach”, (ii) elaborate a comprehensive strategy for the coffee sector aiming at the general interest of the country and having, as much as possible, the consensus of all actors, (iii) find harmonized and shared solutions to the various problems and, (iv) eliminate or minimize the possible conflicts among the various actors in view of the general and common interest.
- b) The second major problem is the absence of a comprehensive and updated coffee sector strategy, based on a value chain approach with a holistic look at the coffee value chain in a manner that makes sure that all competitive advantages belonging to the country are captured. As it is already mentioned elsewhere, following a request from MoFED, a coffee strategy now is under preparation and is expected to be ready by mid-March 2014.

In a sense, the second problem is a consequence of the first, as the tendency hitherto of each actor has been to look at the various problems through its own optics only and search for solutions with the view of solving them, first of all, to suit its own narrow and egoistic interest or further its own selfish purpose or end.

#### **A.5. Coffee in the Ethiopian economy and development plans.**

Agriculture has been and still remains the mainstay of the Ethiopian economy. No less than 85 per cent of the population is rural, obtaining a living from a poor traditional agriculture. Ethiopian agriculture is still mostly subsistence with very little dependence on long distance trade. Nearly a century ago, the integration of the Ethiopian economy into the world market, among others, facilitated the export of such primary agricultural goods as coffee and characterised with high volume and low price. Coffee *Arabica* has always been and remains an indigenous produce in the same way as *teff*, false banana and *anchote* are. Therefore, Ethiopian coffee has never been a colonial crop, which was neither introduced by a metropolitan colonial state nor produced for the consumption or benefit of it. Much of Ethiopian coffee, about 50 per cent, is still consumed at home.

Ethiopia became one of the major coffee producing countries in the world with a world supply share of nearly three per cent to date. Coffee constitutes the country's largest export commodity that in 2007/08 reached 35.4 per cent and in 2011/12 was at 26.4 per cent of the country's export income. Consequently, the estimated size of the population in the country dependent on coffee production and marketing well passed the 15 million mark and can be estimated at 20 million. According to ICO, total annual production in 2012/13 was 486,000 tonnes, making Ethiopia the fifth largest global coffee producer and the first largest in Africa. It should be noted that, as shown in Table 6, due to its large domestic consumption, Ethiopia is the tenth largest global coffee exporter. A large proportion of Ethiopian coffee is attributed to labour intensive smallholder agriculture, such that forest coffee accounts for about 10 per cent of the total coffee production, semi-forest coffee for about 30 per cent and garden coffee for about 50 per cent.

The economic plans of Ethiopia, the first of which was enunciated in 1995, allotted high importance to agriculture on the success of which the development of the other sectors, above all industry, is to hinge upon. Specifically, poverty alleviation and the parrying off of food aid remains the constant goal in the economic plans professed, subsequently leading up to the present. The Ministry of Economic Development and Cooperation (MoFED) has the responsibility to prepare, in cooperation with the concerned organs, the country's economic and social development plan as well as following up the implementation of the same when ratified. MoFED has accordingly coordinated the design and implementation of the Sustainable Development and Poverty Reduction Program (SDPRP), which covered the period 2002/03 – 2004/05 and, subsequently, the Plan for Accelerated and Sustained



Development to End Poverty (PASDEP), that run from 2005/06 to 2009/10. During these plan periods, remarkable achievements were registered and during the PASDEP the economy grew on average at 11.2% per annum. On the basis of the experience gained has been prepared and adopted in November 2010 the Growth and Transformation Plan (GTP) for the period 2010/11 – 2014/15.

The Growth and Transformation Plan, that it is borne out of the Government's vision to propel Ethiopia into middle-income country status by 2025, has the following major objectives.

- 1) Maintain at least an average real GDP growth rate of 11 per cent and meet the Millennium Development Goals (MDGs).
- 2) Expand and ensure the qualities of education and health services, thereby achieving the MDGs in the social sectors.
- 3) Establish favourable conditions for sustainable state building through the creation of stable democratic and developmental state.
- 4) Ensure growth sustainability by realizing all the above objectives within a stable macroeconomic framework.

According to GTP, Ethiopia's strategy for sustaining the rapid and broad-based growth path hinges on the following pillars:

- 1) Sustaining faster and equitable economic growth.
- 2) Maintaining agriculture as a major source of economic growth.
- 3) Creating favourable conditions for the industry to play key role in the economy.
- 4) Enhancing expansion and quality of infrastructure development.
- 5) Enhancing expansion and quality of social development.
- 6) Building capacity and deepen good governance.
- 7) Promote women and youth empowerment and equitable benefit.

Moreover, the GTP within the ambit of its two volumes (i.e. Volume I, Main Text and Volume II, Policy Matrix) establishes detailed targets for each sector/subsector and for each of the five years of the plan period in the context of two growth scenarios: Base Case and High Case Scenarios. Under the first, Ethiopia's economy is projected to grow at an average annual rate of 11.2 per cent, in the same way as in the last year of the PASDEP period. Under the second, an average annual rate of 14.9 per cent is projected. The targets, however, sometimes sound rather ambitious even in the base case scenario; for instance, the growth in coffee export volume is projected at about 3.5 times in the period and coffee export earnings at about 3.9 times.

Among the various GTP targets, those who have more relevance for the coffee sector are listed in the following Table 7.

Table 7. GTP targets relevant to the coffee sector (base case scenario)

Indicator	Base year (2009/10)	Annual Targets				
		2010/11	2011/12	2012/13	2013/14	2014/15
Real GDP growth rate (%)	10.4	11.0	11.1	11.3	11.2	11.4
Agriculture & rel. activ. GDP growth rate (%)	7.60	8.5	8.5	8.6	8.6	8.7
Industry GDP growth rate (%)	10.60	14.0	17.9	21.4	23.0	23.7
Services GDP growth rate (%)	13.00	12.5	11.5	10.5	9.5	9.0
Coffee productivity (t/ha)	0.74	0.78	0.82	0.88	0.95	1.02
Land covered with stimulant crops ('000 ha)	606.06	649.17	702.37	767.58	847.88	944.69
Household ben. of extension service ('000)	4,900	8,141	9,394	10,646	11,899	13,500
Coffee export (tons)	172,210	221,115	283,907	364,531	468,052	600,970
Coffee export earnings (US\$ million)	528	692	906	1,187	1,555	2,037
Number of primary cooperatives	33,636					56,904
Number of cooperative unions	212					546
Growth in food & bev. industries cap. ut. (%)	60	65	70	75	80	90

Source: GTP – Main Text and Policy Matrix

The GTP provides also guidance concerning the substantial changes of the contributions that each sector gives to the economy. The changes are expected to take place in the 5-year period. In Annex 2 are indicated: (i) the changes foreseen in GTP, (ii) the actual changes that took place in 2010/11 and in 2011/12 and, (iii) the conclusions regarding the necessity to increase the contribution to GDP by the industrial sector.

According to the table above, coffee's productivity, share in production area, size of export and export earnings are all set to increase. GTP has a built-in comprehensive monitoring system. MoFED

coordinates the monitoring activities but the participation of all stakeholders is foreseen. Now, three years have already elapsed since the launching of the GTP in November 2010 and it is available the (draft) **Annual Progress Report (APR) for the EFY 2011/12** that is the second GTP year. It is interesting to report here below the main findings of the APR that have relevance for the coffee sector. Some of the actual figures, when indicated in the APR, are shown in Table 8 with the comparison with the planned figures.

Table 8. Summary of some macroeconomic and main sectorial performances.

Indicator	Base year (2009/10)	2010/11		2011/12		Target for 2014/15
		Planned	Actual	Planned	Actual	
Real GDP growth rate (%)	10.4	11.0	11.4	11.1	8.5	11.4
Agriculture & rel. activities GDP growth rate (%)	7.60	8.5	9.0	8.5	4.9	8.7
Industry GDP growth rate (%)	10.60	14.0	15.0	17.9	13.6	23.7
Services GDP growth rate (%)	13.00	12.5	12.5	11.5	11.1	9.0
Coffee productivity (t/ha)	0.74	0.78	0.74	0.82	0.73	1.02
Land covered with stimulant crops ('000 ha) <sup>20</sup>	606.06	649.17	703.27	702.37	665.66	944.69
Households ben. of extension serv. ('000)	4,900	8,141	not av.	9,394	not av.	13,500
Coffee export (tons)	172,210	221,115	196,100	283,907	169,400	600,970
Coffee export earnings (US\$ million)	528	692	842	906	833	2,037
Number of primary cooperatives	33,636	not av.	not av.	not av.	not av.	56,904
Number of cooperative unions	212	not av.	not av.	not av.	not av.	546
Growth in food & bev. industries cap. ut. (%)	60	65	not av.	70	not av.	90

Source: GTP - APR 2011/2012 (draft), CSA and MoT.

For the first year of the plan period, actual performance exceeded plan in every respect except for the productivity and export of coffee. During 2011/12, however, all flopped, as GDP grew by 8.5 per cent. Agriculture, industry and services grew by 4.9 per cent, 13.6 per cent and 11.1 per cent respectively. The rate of GDP growth registered in 2011/12 was slightly lower than the target set for the fiscal year because of the shortfall in the performance of agriculture and industry. This growth performance is, however, very high compared to the 5.3 per cent of Sub Saharan Africa average growth rate for the same period. It has to be noted also that this growth performance was achieved amidst global economic challenges or recession.

Another very important negative aspect to be noted is the reduction in volume and revenues for the coffee export. The export of coffee has generated US\$ 833 million in 2011/12, which is 1% lower than the previous year earning. This is due to the decline in the volume of export by 13.6%. However, owing to the improvement in international price for Ethiopian coffee by 14.6%, the decline in total earning is not significant.

The decline in export volume in 2011/12 took place despite an increase in coffee production from 2010/11 (according to CSA about 371,000 t) to 2011/12 (about 377,000 t). Possibly the cause is the competition from the local market because, in spite of the fact that coffee supplied to the local market has low quality, the price of coffee in the local market is usually higher than export prices.

A more interesting trend can be evaluated considering also the figures for the subsequent year (2012/13) that are already available from MoT. In the 2012/13 the coffee export volumes was 198,700t, above the volume of 196,100t registered in 2010/11. Unfortunately, this small increase in export volume did not generate an increase in export revenues (due to the status of the international market and prices) that in 2012/13 decreased to about US\$ 745 million. The revenues generated from this large volume of coffee exports hasn't increased significantly as a result of reduced international market coffee prices. The major reason for the increased volume of coffee exports in 2012/13 is the removal of the new Ethiopian government directive launched in November 2011 requiring coffee traders to ship coffee in bulk containers rather than using the traditional 60 kg jute bags. Coffee traders usually prefer the traditional 60 kg jute bags because the bags help to maintain the identity of Ethiopian coffee. In addition, coffee traders also lack both material and financial capacity to export coffee in bulk containers. The directive had therefore negatively affected export volumes in 2011/12 as many coffee traders refrained from exporting coffee and held large stocks in their warehouses. It is those stocks that were carried over from 2011/12, which have been exported in 2012/13.

<sup>20</sup> Under "stimulant crops" coffee and khat are included. The relevant decrease in land covered (from 703,270 ha to 665,660 ha) that has been registered from 2010/11 to 2011/12 is due mainly to the land covered with khat (decreased by 12.15 per cent) and not to the land covered with coffee that registered a relatively small increase of 3.46 per cent).

For what concerns the achievements in export revenues of various commodities in the two years 2010/11 and 2011/12, the situation is illustrated in Table 9.

Table 9. Revenue achievements from merchandise export

No.	Item	2010/11 US\$ mln	2011/12 US\$ mln	Change %	As per cent of total export		2014/15 Planned US\$ mln
					2010/11	2011/12	
1	Coffee	841.8	833.1	-1.0	30.6	26.4	2,037
2	Gold	461.7	602.4	30.5	16.8	19.1	-
3	Oil seeds	326.6	472.3	44.6	11.9	15.0	1,120
4	Chat	238.3	240.3	0.8	8.7	7.6	-
5	Livestock	147.9	207.1	40.0	5.4	6.6	-
6	Flowers	175.3	197.0	12.4	6.4	6.3	535
7	Pulses	137.9	159.7	15.8	5.0	5.1	882
8	Leather and Leather Products	103.8	109.9	5.9	3.8	3.5	-
9	Textile and garment	61.1	84.7	38.7	2.2	2.7	1,000
10	Meat	63.3	78.8	24.5	2.3	2.5	-
11	Fruit and Vegetables	31.5	44.9	42.7	1.2	1.4	948
	Others	217.3	205.0	-5.7	7.9	6.5	-
	<b>Total</b>	<b>2,747.1</b>	<b>3,152.7</b>	<b>14.8</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

Source: GTP - APR 2011/2012 (draft)

In terms of relative share, comparing the two years, the share of coffee export declined to 26.4 per cent from the level of 30.6 per cent in 2010/11. In contrast, the share of gold, live animals, and pulse went up to 19.1 per cent, 6.6 per cent and 5.1 per cent respectively, from a level of 16.8 per cent, 5.4 per cent and 5 per cent of the preceding year.

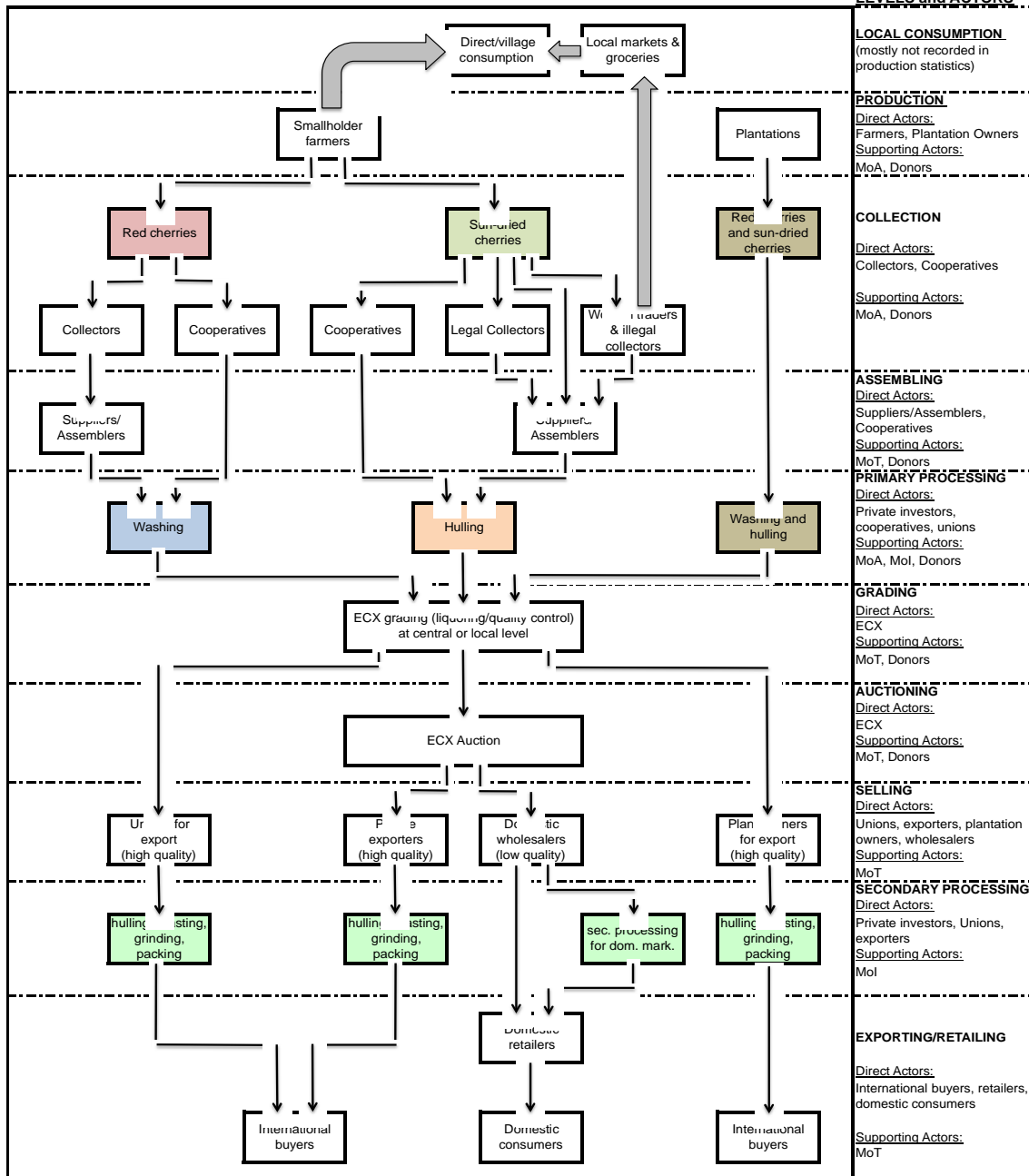
In conclusion, the coffee sector is extremely important for the economy of the country and for its own development for the following factors:

- 1) As a source of cash income and major provider of employment, coffee supports millions of farming families throughout the country, especially in the western, southern, and south-eastern parts of the country. The estimated size of the population in the country dependent on coffee production and marketing for its livelihood is about 20 million.
- 2) Coffee remains first in terms of revenues generated from export with a share of about 26 per cent.
- 3) GTP, assigned great importance to the development of the sector Coffee production has high potential to increase.
- 4) The coffee sector can contribute to the increase in the contribution of the industrial sector and the later, in turn, to the national GDP owing to the high potential residing in coffee roasting.

#### **A.6. The coffee value chain**

Based on the analysis of the previous paragraphs from A.1 to A.5, the schematic diagram in Figure 8 depicts the coffee value chain in Ethiopia. The white blocks display the interventions of the various direct actors. The coloured blocks on their part exhibit primary processing operations while the lines indicate the different paths washed and sun dried coffees traverse.

Fig. 8 Schematic Diagram of the Coffee Value Chain in Ethiopia



**SELECTED DATA FOR 2011/2012**

Production:	t 407,788 (accurate estimate difficult because a remarkable part is consumed on-farm or locally)
Production share:	about 95% from smallholder farmers and 5% from large plantations
Share by destination:	local consumption about 50%; exportable quantity about 50%
Share by type of primary processing:	washed about 26%; sun-dried about 74%
Share of coffee sold after industrial roasting:	less than 1% of total production

Source: Team analysis

It should be underlined that the value chain above is somehow incomplete. What are especially missing are the final few steps export coffee undergoes, representing about 50 per cent of the entire national production, including the highest quality portion. In fact, after green coffee is purchased by international buyers, there are several steps before final consumers abroad can be able to brew it. The quality green coffee from Ethiopia must be transported to factories in Europe, the US, Japan or elsewhere, where it is blended with coffee from other countries and then roasted, ground (when necessary), packed and sold to wholesalers and finally to retailers where it reaches the final consumers.

The final steps of the value chain, including the secondary processing, which occur abroad in producing countries, capture the largest share of the retail value of coffee. Less than 30 per cent of the value of world coffee sales remains in coffee producing countries while the balance is shared among multinational companies that control most of the final stages of the coffee process. Analysing why these intermediaries capture the lion's share of the income is critical to understanding what can be done to help Ethiopian coffee farmers capture a higher share of the retail price.

Blending and roasting can be carried out in facilities of the same international buyer whenever they are also the processors; otherwise, buyers sell the coffee to processors that complete the value chain. Blending, roasting and packing are very important operations that require a very good knowledge of the taste and preferences of final consumers that differ from country to country from time to time. Consequently, it would be very difficult for Ethiopian roasters to be in a position, especially within a reasonable period of time, to blend and roast in Ethiopia coffee for the most sophisticated markets and this for two main reasons:

- 1) It requires importing coffee from other producing countries in order to achieve a required blending.
- 2) That also presupposes a perfect knowledge of the taste and preferences of each set of final consumers.

Notwithstanding these difficulties, it should also be noted (see Table 6 above) that while a big quota of the Ethiopian green coffee is exported to countries with sophisticated markets (Europe, USA and Japan), a quota, ranging from 20 to 30 per cent, is exported to markets that are less demanding in term of roasting and blending (e.g. Saudi Arabia, Sudan, Korea and the emerging Chinese market).

At present, the total roasting capacity of Ethiopia is estimated at well below 1 per cent of the total coffee export (see Note No. 10); therefore, there is a substantial potential for increasing the secondary processing capacity in Ethiopia, at least by 15 per cent of the total present export volume. Since the export volume in 2011/12 was in the vicinity of 170,000t, it should in principle be possible to increase the roasting capacity of Ethiopia to about 20,000 or 25,000t per year. Assuming that the 70 per cent assigned to the value addition in the final part of the complete coffee value chain is correct and considering the costs associated to the secondary processing and transport, it can be estimated that the creation of the above mentioned roasting capacity could substantially increase the export revenues (supposedly at least by 30 per cent).

## **A.7. Certified coffee and specialty coffee**

Certified and specialty coffee that can be produced in Ethiopia and put on the market is important to obtain prices above the international commodity price at the ICE. Here below are quoted the indications provided to the international buyers by USAID in the Ethiopian Coffee Buying Manual, produced in March 2011, especially for what concerns what can be attempted to promote certified coffee and specialty coffee.

There are several different designations that coffee can assume to differentiate one from the other in the broad mass of commercial coffee. Designations such as Organic, Fairtrade, Rainforest Alliance and so on attempt to give consumers some sort of guarantee about the social or ecological sustainability pertaining to the coffee's mode of production.

### **A.7.1. Organic**

Organic coffee is a small but growing segment of the international coffee market. "Organic" refers to the mode of production of coffee where the biological value of the coffee harvested is equal to the value returned to the soil. This is achieved through practices like mulching, composting of organic waste, proper plantation of symbiotic shade trees and so on. Organic coffee can usually get a premium on the market from consumers who are sensitive about health and environmental concerns. However, it is not simply enough for farmers to eschew chemical fertilizers and pesticides (though this is indeed a prerequisite). No coffee may be sold as organic unless it has been certified as organic. The certification process varies from country to country. For the coffee to be sold as organic, every step along the path the coffee takes must pass: not just the farm, but also the milling station, the warehouses, roasteries etc.. For a farm to be certified, it must undergo inspection for at least three years, and then is inspected annually thereafter. This process can be lengthy and cost-prohibitive for small farmers. In general, the vast majority of Ethiopian coffee is produced without chemical pesticides or fertilizers. Most farmers simply cannot afford these products. However, very little of the

coffee is actually certified as organic, as few can afford the certification process. Indeed most rural farmers are not even aware of such certifying boards and practices. It is possible to find certified organic coffee in Ethiopia, but these exist in very small fractions of the total market. In general, Ethiopian coffee is naturally produced but not organically certified.

### **A.7.2. Fairtrade**

The term “Fairtrade” is sometimes used as a generic catchall to describe coffee practices that attempt to take the well being of farmers into account. However, the actual term Fairtrade refers to a specific program initiated in the Netherlands in 1988 and formalized in Germany in 1997 as Fairtrade Labelling Organizations International (FLO). The basic premise of Fairtrade is to provide coffee farmers with a price for their product that guarantees a basic level of necessities like water, health care, and education. Because coffee prices, as affected by the futures market and worldwide fluctuations in production, can swing wildly, coffee farmers are never guaranteed that the price they get for their coffee will pay for their basic needs. In fact, it is common for farmers to be forced to sell their coffee at a straight loss, where the selling price doesn’t even cover the cost of production, let alone provide enough money for doctor’s visits or schooling. Fairtrade is complex, but in essence it sets a floor price for coffee, guaranteeing the farmers a basic wage. This price varies from country to country and it is dependent on the local cost of production. As with organic coffees, Fairtrade coffees must be certified as such by the FLO. It is important to note that while Fairtrade coffees are often marketed to the same segment of the market as specialty coffees, Fairtrade does not claim to be a guarantor of cup quality. The Fairtrade certification only makes a claim about the price paid to the farmer, not to the mode of production, any environmental certification, or quality in the cup. Some Fairtrade coffees are available in Ethiopia, especially through the cooperative unions.

Other certifications such as Utz Kapeh, “Bird-Friendly” and Rainforest Alliance attempt to address these same issues. These certifications have their own set of criteria, generally geared towards ensuring fair and healthy working environments for the people who produce coffee and environmental practices that are sustainable.

### **A.7.3. Exporters/ECX**

All coffee that enters the ECX is given a grade and a geographical designation. Grades are based on physical inspection of lots and on cupping. The numerical designation 1 is the highest grade and 9 is the lowest. Geographical designations are given at the “sub-regional” level, more specific than large regions like Harrar or Sidama, but less specific than the particular farm, village or *woreda* level. Once coffee is graded, it is stored at an ECX warehouse to prevent tampering, and coffee is bid on and sold to exporters. Starting from 2010, under the purview of the ECX, there is also an auction called the Direct Specialty Trade auction (DST). This auction sells top-quality coffees through a special DST auction platform (see paragraphs below) maintaining the traceability of the lots. So far, very little coffee is sold this way, but it is an option that may grow more influential in the future.

### **A.7.4. Direct Specialty Trade (DST)**

The introduction of this platform is a response to the emerging important trends in the international coffee market. As noted above, tracing the coffee to given attributes is an important means of adding value in the market. These attributes can be identity of the grower, social/community, economic, or environmental factors. DST is a mechanism to provide the benefits of the organized ECX marketplace (where the integrity of the product, the integrity of the transaction, and the integrity of the actors are maintained) while enabling traceability to market-desired attributes. Ethiopian laws governing the trade of coffee allow producers to directly export the coffee produced on their own farm without having to sell it to suppliers who then sell it to exporters. However, due to the small scale and weak capacity of most Ethiopian coffee producers and their geographic dispersion, there is a coordination failure in the market in that it is costly and risky for small farmers and international buyers to find each other and directly transact. The ECX Direct Specialty Trade addresses this problem. Producers may use the platform as a way to grade and store specialty coffees they intend to offer directly to the international market. The difference with the existing ECX system is that the identity of the producer is maintained throughout the transaction while providing the usual services of quality certification and inventory management. The other difference is that the actual sales contract is not executed as part of DST, because the transaction between producer and buyer is an international trade conducted in dollar, not Birr. Thus, beyond quality control and inventory management, ECX would conduct a DST bidding session where sellers (producers) and international buyers meet to bid on prices. However, once a price is agreed, the international sales contract is concluded bilaterally, registered with the appropriate authorities (National Bank of Ethiopia) and executed outside of ECX. The role of ECX

would thus be to coordinate the price discovery without engaging in the payment and clearing, as is the case in the existing ECX system. Finally, ECX market data dissemination would enable all market players to be informed about the prices and qualities discovered in the DST bidding session. Thus, although different in significant aspects from the existing ECX model, the DST represents an important value addition to the market in that it redresses a coordination and information failure. It creates an incentive for buyers interested in traceable and thus certified coffees to source supply directly from Ethiopian farmers. As shown above, this is likely to be a rapidly growing market segment and one in which Ethiopia has the potential to be a global market leader. For producers, DST is a means to empower themselves by directly accessing the international market and negotiating better prices for specialty coffee that has a recognized value premium.

The role of ECX is thus to enable value creation in the market. DST is a flexible platform in that, in addition to specialty quality certification, ECX may also recognize internationally accredited certifications such as Rainforest Alliance, Organic, Fairtrade, Utz, and other certifications, as part of the DST platform. This enables the capturing of significant value back directly to Ethiopian small farmers, within an organized and regulated marketplace, which is transparent and freely accessible to all producers and all buyers.

The DST model also introduces the concept of an “Export Service Provider” to address the concern that weak or non-existent capacity of small scale producers (or cooperatives) may prevent them from actually carrying out the full export operation. Global best practice suggests a role for an export service provider, which is an entity licensed and experienced in exporting, to provide export services on a fee basis to help the producers actually do the exporting.

Only qualified producers and pre-registered buyers, and/or their designated agents, would be allowed to participate in the Direct Specialty Trade bidding session. The bidding session would be conducted by the Exchange on a lot-by-lot basis using open outcry method with both buyer and seller participation, or their designated agents.

#### **A.7.5. Traceability and transparency on return to farmers**

A core objective of DST is to allow traceability based trading through ECX. However, in addition, DST can also offer transparency in the pricing and returns to growers, which is also of interest to the market. However, because transparency also comes at the cost of losing valuable business information to the seller, and may enable the raising of the final price to the consumer, there is an additional premium that should be priced into the sale when such financial disclosure is made. Thus, the DST Operational Agreement annexed to the international sales contract also contains an optional Transparency Clause, in which the fee paid to the service provider and the average price of the cherry offered to the specific farmers would be disclosed. This allows the buyer to impute the returns to the grower out of the final FOB price. To avail this information, the buyer would be required to add a fixed “transparency premium” established in advance by the Exchange, to the agreed bid price. With or without this transparency clause, ECX is also committed to ensuring that DST assures a fair return to the farmers who produced the specialty coffee. Thus, ECX commits to all sides of the market that it will ensure, through reviewing the fees specified in the Agreement and through auditing from time to time, that a minimum farmer share of 85 per cent of final FOB price is maintained. This is a major branding of the DST initiative if a national marketing system can make such a commitment and ensure that this principle is maintained.

In principle, the DST and the system described should assure that traceability is obtained. The Team did not have the possibility, during project preparation, to verify the efficiency of this feature and to know directly from the actors (unions, exporters and buyers) which problems they have encountered, if any. This is an issue that needs to be verified in the first stage of the project.

#### **A.7.6. Unions**

Coffees that come through the cooperative unions usually have a more specific geographical designation, down to the district or woreda level where the coffee was produced. The Sidama, Yergachefe and Kafa Unions offer coffees types from the same geographic designations as their name indicates. The Oromia Union offers beans from almost all Ethiopian types due to the extensive area the Oromia Union covers.

#### **A.7.7. Private growers**

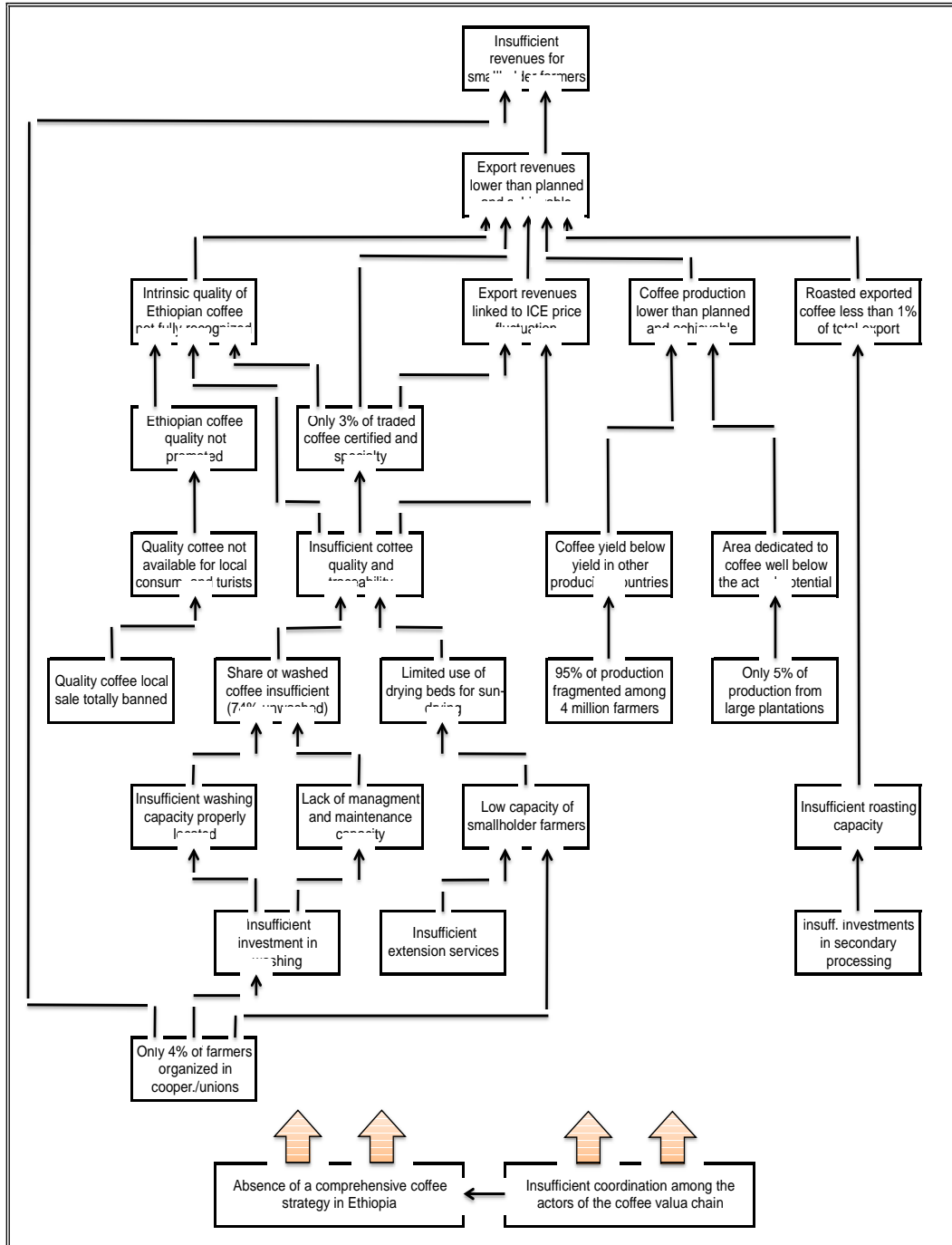
As these produce their own coffee, they are also permitted to sell their coffee directly on the

international market, since they too are the owners of their own product (again, not a middle-man). However, not many private growers have the corporate infrastructure to effectively export their own coffee. In 2009 and 2010, the majority of estate holders sold their coffee through ECX. Coffees supplied through private growers usually have a very specific geographical designation from the district or woreda level to the community where the coffee was produced.

### A.8. Problems in the Ethiopian coffee value chain

Figure 9 below depicts the problems connected to the coffee value chain in Ethiopia that are presented in the form of a Problem Tree, according to the Logical Framework.

**Fig. 9 Coffee Value Chain in Ethiopia: Logical Framework Problem Tree**



Source: Team analysis



Problems and opportunities connected to coffee value chain have already been analysed in the previous paragraphs. The Problem Tree represents a further step where only the most important problems are represented and they are put in sequence and correlated according to a cause and effect rationale. Each problem at higher level can be caused by one or more of the problems at lower level.

In the design of the Problem Tree, it has been necessary to make some choice, for example, in recognizing which are the most important problems and in connecting them with each other. In general, at highest level, two major problems have been identified: (i) insufficient income from coffee to smallholder farmers and, (ii) revenues from coffee export are lower than has been planned (e.g. in the GTP) and there is evidence that these can be increased. It should be noted that the limited farmers' revenues are, in turn, cause to their low capacity. Moreover, the two major problems are caused by problems linked to: (i) the quality of production and to its recognition on the international and national market, (ii) the quantity of production and, (iii) the prevailing form (green coffee) in which the coffee is exported.

On the other hand, at the root of the Problem Tree, there are two other major problems: (i) insufficient coordination among coffee actors and, (ii) the absence of a comprehensive coffee strategy. These two problems have not been connected to other specific problems, since they have influence on all the other problems (or on their solutions).

### **A.9. Origin of the project**

On 26 February 2013, Mol wrote a letter to UNIDO, requesting to support the GoE endeavour to modernize the coffee sector and, in particular, support smallholders farmers and cooperatives through the introduction of modern techniques for post-harvest processing of coffee beans, provision of proper infrastructures for washing stations and introduction of improved technologies for roasting coffee as well as the dissemination of modern marketing techniques. In the same letter, Mol mentioned and stressed: (i) its appreciation for the work that UNIDO did particularly in the preparation of Master Plans for different agro-industry value chains, (ii) the importance of Ethiopia in the global coffee sector because of the peculiarities of the Ethiopian coffee, (iii) the importance of coffee for Ethiopia as source of foreign currency earning and of income for a large share of the economically active population, (iv) the potential for quality improvement and the efforts already made in this direction and, (v) the need to support the on-going promotion activities.

This official request was the follow up of previous close consultations that were held between Mol and UNIDO. These consultations on the coffee issue found their origin in the conference on "Technologies and best practices for optimal utilization of by products in the coffee value chain: how to increase sustainability in the coffee supply chain" that was organized in Trieste (Italy) from 11 to 14 June 2012 by UNIDO in cooperation with the Ernesto Illy Foundation and illycaffè S.p.a.. During the conference, a possible partnership between UNIDO and illycaffè was discussed on the basis of the willingness of illycaffè to collaborate in training coffee producers and suppliers from Sub-Saharan Africa in particular from East Africa (e.g. Ethiopia, Kenya, Uganda, Rwanda, Tanzania and Burundi) about coffee production, conformity to standards within the supply chain, as well as ensuring fair pricing and responsible entrepreneurship for the growers. Ultimately, the attention fell on Ethiopia, which could be utilized as model as the most important producer of *Arabica* coffee and major supplier to illycaffè.

A Preparatory Assistance Team was designated by UNIDO to conduct, under the general guidance of the UNIDO Project Manager and in close cooperation with local counterparts, an assessment of the Ethiopian coffee value chain and prepare a Project Document. The Team worked together in Addis Ababa in December 2013 to collect the information needed to prepare the present Project Document.

In consequence of the willingness of illycaffè to contribute to the project (financially and/or in kind), the Business Partnership Group of UNIDO, after its assessment of the characteristics and performances of illycaffè, has produced a Duly Diligence Report on 14 November 2013 with a positive note for a possible cooperation with UNIDO (please see the abstract on Illycaffè in Box 1 below).

The reasons for an active participation of illycaffè in the implementation of this project are:

- 1) the characteristics of the company (that are summarized in Box 1);
- 2) the ethical behaviour of the company and its commitment towards coffee quality and wellbeing of the actors involved in the coffee value chain;
- 3) the availability of facilities and capacity for training in Italy and abroad;

- 4) its declared willingness to provide consultancy and training in kind; and
- 5) the possibility, through illycaffè – UNIDO cooperation, to apply to the Common Fund for Commodities (CFC)<sup>21</sup> for financial contribution to the Project (an application as already been submitted).

**Box 1: Abstracts of Illycaffè S.p.A. company characteristics**

illycaffè S.p.a. is a family-owned coffee roaster founded by Francesco Illy in 1933 in Trieste (Italy). The company is specialized in producing a unique blend of the highest quality 100% *Arabica* coffee for espresso. The company has direct contacts with the origin producers in order to constantly source the best green coffee beans. The products range includes whole beans, roast and ground, capsules and pods and the ready to drink illy issimo, distributed globally. The company produces also home coffee machines. The company sells its coffee and coffee machines in 140 Countries among the best hotels, coffee bars and restaurants. Its traditional distribution channels are hotels, restaurants, cafeterias and retailers. The internet sales are also growing. The company is also present in offices through Mitaca, a company 50 per cent owned by illycaffè. Its gross revenue in 2012 has been 361 million Euros.

illycaffè has started purchasing the best Ethiopian coffees from the very beginning of its history and has been dealing directly with the Ethiopian entrepreneurs more than 20 years ago. Today, the illy blend is still enriched by the uniqueness of best Ethiopian washed coffees. Besides, illycaffè bought more than 150,000 bags in the last 3 years for a value of more than US\$ 50 million. On average, every year illycaffè purchases the finest 1 per cent of Ethiopia's coffee production or 2 per cent of Ethiopia's green coffee export. illycaffè is the number 1 Italian coffee buyer, importing every year more than 50 per cent of the Ethiopian coffee imported in Italy.

illycaffè has a unique trading system which is applied to all its purchases based on higher than market prices, especially rewarding quality, providing technical assistance and forming direct relationship with its coffee suppliers as well as the surrounding communities. This system has been even certified by an independent, highly competent and renowned certifying agent: Det Norske Veritas, thus, making illycaffè the first company in the world to do so.

The Ernesto Illy Foundation, an aspiration of the Illy family, has the mission to cultivate and develop knowledge, ethics and sustainability as absolute values as well as research as the method to obtaining truth and progress of humankind, as Ernesto Illy taught us.

illycaffè has a long history of scientific work on coffee the result of which is disseminated all around the world through its corporate university, Università del Caffè. Moreover, in 15 years of work, it has trained thousands of coffee farmers in Asia, Central and South America. The Università del Caffè has also a didactic offer to professionals and customers offered in 22 different Countries.

Source: illycaffè

**A.10. Target Beneficiaries**

In consideration of the general improvement that the project intends to generate in the coffee value chain, the direct beneficiaries that will be the target of the project are:

- 1) About 4 million smallholder farmers and their families.
- 2) All individuals and families that depend for their livelihood from the processing and trading of coffee.
- 3) All the Ethiopian population for the expected increase, generated by the project, of revenue from export of coffee.

As indirect beneficiaries (that will contribute to transfer the benefits to the direct beneficiaries), there are:

- 4) Farmer cooperatives and unions.
- 5) Small-scale industries.
- 6) Relevant public institutions (Ministries of Industry, Trade, Agriculture etc.).
- 7) Associations of the coffee sector (exporters, roasters etc.)

<sup>21</sup> *The Common Fund for Commodities is an intergovernmental financial institution established within the framework of the United Nations. The Fund operates under the novel approach of commodity focus instead of the traditional country focus. Member countries benefit from projects financed by the Fund, whose basic rationale is to enhance socio-economic development of commodity producers and to contribute to the development of the society as a whole. The Fund finances projects for smallholder farmers, as well as small and medium sized enterprises involved in commodity production, processing and trade in developing and least developed countries.*

## **A.11. Policies, strategies and plans in place**

The policies, strategies and plans in place are those mentioned in the GTP and described in the previous paragraph A.5. In addition, it is important to mention the Ethiopia's overarching development strategy of Agricultural Development Led Industrialization (ADLI) which crowns the agricultural sector as the basis for the growth of the other economic sectors of the country, industry above all. As the name itself implies, agriculture is expected not only to meet the food needs of the country but also to generate surplus for industrial growth as well as to provide export products, food, raw materials and market for industrial outputs. The ADLI has not only been incorporated in the GTP, but it was also part of the other two previous plans: the SDPRP and the PASDEP (see paragraph A.5).

The ADLI has a great relevance for the Project, especially for the important connections between agriculture and industry that are present in the coffee value chain. As already mentioned is missing a comprehensive coffee strategy based on a value chain approach.

## **B. REASONS FOR UNIDO ASSISTANCE**

The reason why the assistance from UNIDO is being requested are mainly those indicated or implicit in the letter of official request by MoI:

- 1) UNIDO's unsurpassed competence and experience in analysing value chains in the context of agro-industry development, preparation of project interventions and their subsequent implementation to improve developing countries performance.
- 2) The same competences are not fully available in Ethiopia in general and in MoI in particular, especially for what concerns the experience acquired by UNIDO working in other countries in agro-industry development.
- 3) History of successful and replicable experiences achieved by Ethiopia working in this line with UNIDO (e.g. leather and leather products, prickly pear - or *beles*)
- 4) To make the best out of the opportunity and willingness demonstrated by a long time international coffee corporate client, Illycaffee S.p.a., to assist in this area in view of the country's development.
- 5) The lofty place coffee enjoys in the Ethiopian economy, primarily as a flagship export item, and the immense potential it possess with regard to both poverty eradication and the industrial development of the country.
- 6) UNIDO prepared the Coffee strategy for MoI in 2009.

In general, UNIDO is the most appropriate source of this kind of assistance since this forms an essential component of its mandate.

## **C. THE PROJECT**

### **C.1. Opportunities to solve the problems prevalent in the Ethiopian coffee sector**

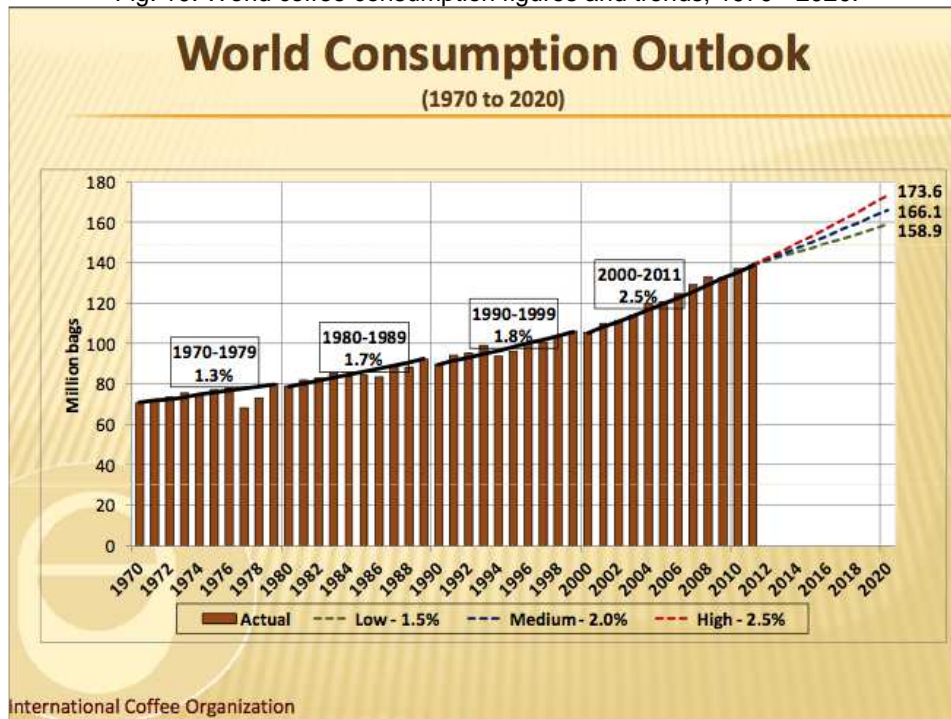
The solutions to the problems of the coffee sector can be found utilizing the numerous strengths and opportunities that are present in the coffee sector in Ethiopia, among which, there are the following:

- Availability of an ideal natural environment (climate, soil, shade, etc.) for growth and development of coffee.
- Ethiopian coffee is all *Arabica*, i.e. with the best flavour, aroma and low caffeine.
- Ethiopian coffee to a large measure is organic (i.e. 90 per cent).
- Coffee in Ethiopia is imbued with a wide variety of genetic diversity and high innate quality that can allow the production of specialty or gourmet coffees as Ethiopia possesses a natural abundance of indigenous *Arabica* coffee varieties, numbering in the thousands bred over millennia of natural and human cultivation. This makes Ethiopia the recognized home of specialty coffee, where more market differentiation exists than it is anywhere on the planet (it can be said that Ethiopia is richly endowed with a "specialty advantage").
- Existence of a public research establishment devoted exclusively to coffee.
- Availability of world-renowned coffee trade names (e.g. Harrar, Yirgacheffe and Sidamo).
- Presence of a thriving widespread coffee consuming culture marked with palette, pomp and ceremony (about 50% of the coffee produced is consumed inside the country).
- Coffee for Ethiopia is the foremost forex source.

- Ethiopia is the largest producer of coffee in Africa and the fifth largest producer in the world.
- Ethiopia is also the tenth largest coffee exporter in the world.
- The coffee land fragmentation is a problem for what concern the yield and the improvement of quality but, at the same time, it is an opportunity. This because it allows for the production of forest and semi-forest coffee and a wide typology of coffees that could be certified and obtain premium prices. The inconveniences generated by a fragmented production can be eased by the organization of farmers into cooperatives. It appears that the market-oriented unions and cooperatives, although their diffusion is limited have had a positive effect on the producer prices, and at the same time have had a positive impact on the quality of the coffee traded through them. Learning from this positive experience, more cooperatives should be encouraged to actively take part in the marketing chain.
- There is wide room to improve quality.
- Existence of land for additional coffee cultivation.
- Substantial room to process coffee, i.e. from cleaning, grading, washing through roasting all the way to grinding and packaging.
- Quality coffee commands better prices on the world market.
- High consumption of coffee in the country (provides a guaranteed home market).
- Existence of a public coffee auction and grading/cupping establishment (ECX).
- Existence of a long-established exporters' association for coffee.
- Producers' cooperatives and unions enjoy direct access to export market.
- Global specialty market is expanding.
- Success and commitment of various international donors in the coffee sector abound.
- Existence of potential markets for domestically roasted coffee in the Middle East, Africa, China etc..

An important opportunity still yet to be exploited comes from the forecast of world coffee consumption. From Figure 10 below, it can easily be deduced that the coffee scenarios stretching to 2020 are promising. ICO envisages low, medium and high scenarios in which the global coffee consumption is to grow at the rate of 1.5 per cent, 2.0 per cent and 2.5 per cent respectively, resulting in an overall increase in coffee consumption in the period from 2012 to 2020 by 13 per cent, 19 per cent and 23 per cent respectively.

Fig. 10. World coffee consumption figures and trends, 1970 - 2020.



Source: ICO presentation at the Ethiopian Coffee Export Conference, November 2012

The global environment the Ethiopian coffee sector will be facing in the next 5 or 6 years will be marked by a positive trend from the demand side vis-à-vis all three scenarios.. This is a result of: (i) recent signals of growth in American and European economies and, (ii) growing demand in China.

Despite the possible positive global environment, it should be said that, according to plans and expectations, the export volume of the Ethiopian coffee is set to increase in the period 2012 – 2020 well above the expected global trend. Therefore, overcoming the problem of low coffee production (and yield) in Ethiopia will not find an automatic or reciprocal reply in the market's absorption power as forecast in the global demand growth. In this market, Ethiopia is bound to encounter certainly aggressive competitors.

Devoting more land to coffee to meet the increasing global demand is a long-term investment and requires a long-term commitment from the government and investors. Devoting more land only makes sense, however, if there is a clear strategy to ensure that the coffee is competitive in the world market, but of even more importance is a strategy for the marketing of the coffee. The strategy must take into consideration that a sudden oversupply of *Arabica* coffee would depress prices, which could have a catastrophic effect on the lives of the millions of people relying on smallholder operations in Ethiopia and elsewhere. For Ethiopia, the highest potential lies in organic and other specialty coffees. Expanded coffee production must be done on a commercial basis, and must take an integrated approach towards the supply system, including transport to and from washing stations to ensure the highest possible quality and efficiency. Furthermore, it needs to target the specialty coffee markets. Although the market is small relative to the commodity coffee market, it is the fastest growing segment and earns premium prices.

"Increased diversification and the production to different fast growing segments of the coffee market such as organic, fair trade, Rainbow Alliance etc. would increase the revenue for the farmers and decrease the negative effects of sudden price drops on bulk coffee on the world market. Such a strategy would provide a different route, deviating from the standard approach of increasing yields by increased use of expensive inputs such as fertilizers and pesticides, but requiring efforts to be made in certification and marketing instead. This path provides an edge for the many smallholder farmers (if they can produce consistently with a high quality), who otherwise will find it increasingly difficult over time to compete against large-scale producers and as such are threatened by marginalization in the long term.

"Coffee drinking is common among Ethiopian people and, with increasing urbanization and the change in lifestyle that it brings, a new market for roasted, ground and packaged coffee is inevitably growing. For the time being the coffee processing industry in Ethiopia has the advantage of a largely untapped local market for their products. The processing companies can easily perform market research for new specialized products for niche markets domestically as well as abroad, and while refining their products relatively undisturbed from foreign competition they can expand their business to export their products to countries within the region. Selling branded, finished products would maximize returns for the entire value chain, and, because of their high unit value, would provide a significant boost to export earnings.

Nonetheless, in Ethiopia, the problem of low coffee production need to be directly tackled, but the field where the best results may be realized in terms of export revenue is in the area of quality improvement and of its full recognition by the markets. In fact, where big producers like Brazil and Vietnam concentrate in marketing lower grade *Robusta* as bulk commodity, it makes sense for Ethiopia to concentrate on marketing higher quality varieties so as to differentiate its products and reduce direct competition with the said coffee giants.

In the following Box 2 there are some statements related to the importance of enhancing the quality of the Ethiopian coffee. The statements are taken from the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009" and they remain valid and fully shareable.

Box 2: Statements on the importance of enhancing quality of the Ethiopian coffee (from the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009")

In the following Box 3 there are also statements and calculations related to the advantages that can be obtained by enhancing the quality of the Ethiopian coffee. The statements are taken from the "Ethiopia Coffee Industry Value Chain Analysis – USAID – 18 June 2010". From a quantitative standpoint the calculations need to be updated but, from a qualitative standpoint, they maintain their validity and are fully shareable.

x 3: Selected statements on the importance of enhancing quality of the Ethiopian coffee (from the "Ethiopia Coffee Industry Value Chain Analysis – USAID – 18 June 2010)

**Specialty coffees**

...an estimation of value premium over New York City prices (with a minimum threshold of \$1.48/lb to qualify as specialty) would enable Ethiopia to add \$25 million to export earnings with an estimated volume of 50,000 tons of specialty out of a total production of 285,000 tons in 2007/08.

More importantly, estimates of the potential to increase the volume of specialty coffee suggest that up to two-thirds of Ethiopian coffee can be qualified as specialty. An identified critical factor to unlocking the specialty advantage is through increasing washing stations and thereby increasing the share of washed coffee exports.

...if the share of washed coffee increases, there is potential for two-thirds of Ethiopian coffee to be specialty. Added to this is the possibility of organic or rainforest certification for top quality sundried coffee, capturing up to 80 per cent of exports as specialty. At the 2007/08 production levels of roughly 300,000 tons, 60 per cent (180,000 tons) of which are exports, would represent 144,000 tons of specialty coffee. This would place Ethiopia in the range of 2 million bags of specialty annually, and position Ethiopia as among the global leaders in the specialty market.

The financial impact, even at the same production levels, is significant. In value terms, .... moving from 20 to 50 per cent specialty share (achievable even with the current number of washing stations) represents an increase of 11 per cent above 2007/08 export values. Increasing specialty export share to 80 per cent would increase export revenue by 21 per cent. A 10 per cent increase in export volume (either through increasing production or through moving more production into exports) increases export earnings by 34 per cent above 2007/08 value....

**Sustainable Coffees**

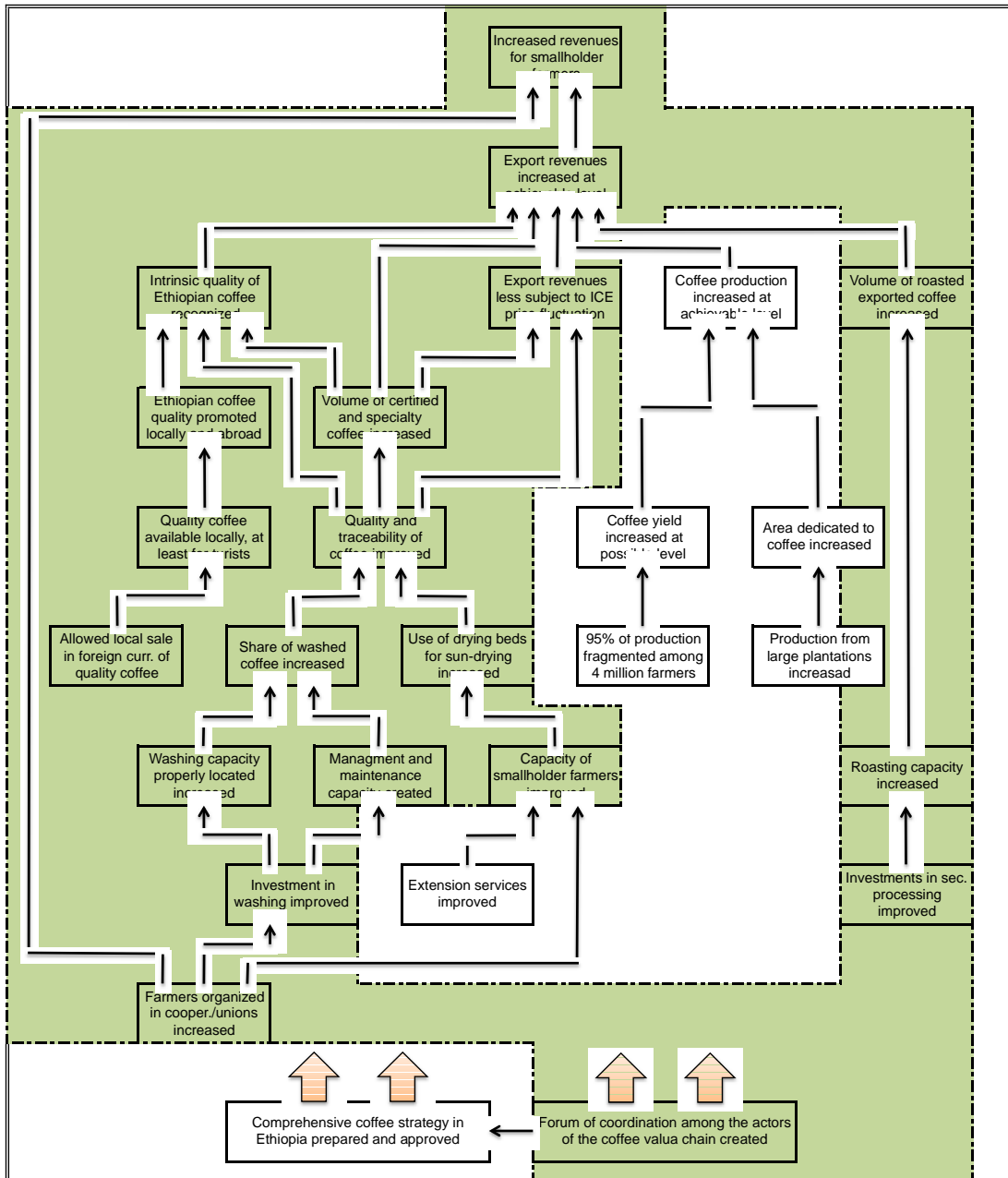
The potential of sustainable coffees in Ethiopia also deserves particular attention because of their increasing popularity. For example, Ethiopia has a natural advantage in markets for organic coffee as more than 90 per cent of production is de facto organic (Mekuria et al. 2004). Moreover, it is the only country that produces natural forest Arabica coffee, providing scope for the sale of shade-grown coffees, for example, through the Rainforest Alliance certification.

These niche coffee market opportunities can be exploited by Ethiopian cooperative producers at a significant competitive advantage. International buyers pay premiums for these certifications. Certifications are an important demand opportunity to achieve higher prices as well as increased sales. Moreover, demand for certifications is strongest when the quality of the coffee is high. The price impacts have proved to be most significant for certifications. For example, Fairtrade coffee was fetching almost double the market price during the depths of the coffee crisis from 2001 through late 2003.

## C.2. Selection of a Project Strategy

In order to proceed with the selection of a Project strategy, according to the Logical Framework, it is necessary to convert the negative statements in the Problem Tree into positive statements and produce the corresponding Objective Tree. Figure 10 displays the Objective Tree along with the selected Project Strategy. The objectives included in the selected strategy are depicted within the green shade.

Fig. 10 Coffee Value Chain in Ethiopia: Logical Framework Objective Tree and selected strategy



Source: Team analysis

The strategy has been selected taking into account the following:

- 1) The specific request from MoI
- 2) The specific competences of UNIDO.
- 3) The amount of the budget available.
- 4) A reasonable expected duration of Project implementation.

Looking at Figure 10, it is evident that **the selected strategy intends to cover almost all the pending issues that have been identified along the coffee value chain. This is exactly the main feature of the chosen strategy.** In fact, after completing the situation analysis, two main options appeared possible: (i) to concentrate the intervention on one or few aspects, (ii) to choose for the Project a comprehensive value chain approach and try to cover the maximum possible issues.

The advantage of the first option is to obtain a higher impact on the few chosen aspects but with the risk to reproduce the same intervention already in place (often with success) by other donors. The second option has the advantage to introduce, probably for the first time in Ethiopia, a value chain approach in implementation of coffee projects and to give incentive to the various actors to work together to find a common shared vision on the development of the coffee sector. The disadvantage of this second option is that of a reduced impact (compared to the impact obtainable by concentrating the financial resources on few issues) on the various aspects that the Project will take on.

In consideration of the available budget, that is not small but lower than the budget of projects financed by other donors, the second options has been chosen giving to the Project a value chain approach. This is also the best way to comply with the request by Mol (see paragraph A.9) and with its specific indications i.e.: "...support smallholders farmers and cooperatives through the introduction of modern techniques for post-harvest processing of coffee beans, provision of proper infrastructures for washing stations and introduction of improved technologies for roasting coffee as well as the dissemination of modern marketing techniques."

As above said the Project strategy will cover almost all the pending issues except few of them, in particular those related to: (i) the increase of production, (ii) the improvement of the extension services to smallholder farmers and, (iii) the preparation of a comprehensive coffee strategy. The reasons for excluding these aspects from the Project scope are the following:

- 1) There are two main ways to increase the production: (i) to have additional investments by private investors in large plantations and, (ii) to increase the yield in the small farms. Additional investments are mainly linked to their profitability and therefore mostly depend on the domestic and international demand. These are factors on which the Project cannot directly have influence. The yield increase can be achieved through the improvement of the extension services to smallholder farmers, on which the Project cannot directly intervene (see point 2). Nevertheless, since extension services are provided also by the cooperatives, the project can indirectly positively affect the yield by supporting the establishment of new cooperatives.
- 2) The size of the Project does not allow for an effective intervention on the numerous public structures (at regional, zonal and *woreda* level) appointed to provide the extension services.
- 3) The Project will not be directly involved in the preparation of a comprehensive coffee strategy, because, as indicated in paragraph A.4.2.4, a comprehensive coffee strategy for the country is already under preparation with funds provided from the EC.

In addition, the selected strategy has the advantage to take into full account the peculiarities of the Ethiopian coffee sector that, as a whole, are probably unique among the coffee producing countries. One of these peculiarities, the intrinsic quality of the Ethiopian coffee, is largely due to a second peculiarity: the prevailing production system based on a very high number of smallholder farmers scattered on a wide area. This production system is a real asset and needs to be safeguarded and therefore it is important that the accrued benefits, deriving from the improvement of the sector, are in large measure, transferred to the producers. The scope is to create incentives for the smallholder farmers to improve the quality and the yield.

There are possible improvements along the value chain, like an increased export of roasted coffee and the consequent revenue increase, that unlikely can cause some benefit for the farmers, unless the way to realize such transfer of benefits is jointly found with the contribution of all the actors in the framework of a value chain approach. In this example, it is clear that, in turn, the roasters will benefit from the improvement in coffee quality and yield that the transfer of benefits to the farmers can cause.

The fragmented production method is also a major problem for the difficulty to provide the necessary support to the farmers. The main solution to this problem consists in an improvement of the capacity of the structures of the MoA and the corresponding ones at regional and zonal level. But an important contribution can be given by the cooperatives that must be extended, reinforced and coordinated with the public bodies.

It is worthwhile to mention that an increased export of roasted coffee can represent also an incentive for investment in large plantations, which, in turn, is essential for production increase.



Despite the intrinsic quality of the Ethiopian coffee, the country is not taking full advantage from it. This is the reason why the highest priority must be given to bring this quality as much as possible in the green coffee that is exported. In the selected strategy this goal is pursued in three ways: (i) by increasing the share of washed coffee, (ii) by improving the quality of sun-dried coffee through the extended use of drying beds and, (iii) by increasing the traceability and the certification of specialty coffees.

But this is not sufficient without a full international recognition of the Ethiopian coffee quality. For this purpose, two actions are foreseen in the Project: (i) a specific international campaign and, (ii) the possibility to sell quality coffee on the domestic market.

The rationale behind the second point is to utilize another peculiarity of the Ethiopian coffee sector, the important national market, for the worldwide promotion of quality Ethiopian coffee. Besides, there is a growing portion of the Ethiopian population that strives for consumption of higher quality and is sufficiently wealthy to afford to pay higher prices for it. Among this portion of the Ethiopian population, there are the great majority of the Ethiopians that frequently travel abroad and can be the best vehicle to spread the knowledge of the quality Ethiopian coffee. The quality coffee more and more is assuming similar marketing characteristics to those of other quality items, for instance of wine. The French quality wine could not have gained its international reputation and appreciation, without the previous appreciation by the French. The tourists that visit Ethiopia are another important possible vehicle of promotion. They buy Ethiopian coffee in the duty free shops paying in foreign currency. But what will be the promotional result if the coffee that they bring back to their countries is ordinary coffee and not high quality specialty coffee? This will be an important innovation that could run into some resistance due to fear of reduction in export revenue. To avoid this resistance, the Project foresees two options: (i) to allow only the sale to tourists or individuals that can pay in foreign currency and, (ii) to allow also the sale to Ethiopians paying in Birr, but at premium price that can compensate any loss in foreign currency.

Another feature of the project is its flexibility that is mainly due to the fact that the activities will be detailed during the initial period of implementation and adapted to the actual situation and implementation capacity that will be found in the selected locations. The introduction of this flexibility was necessary because of the limited time allowed for formulation, but it is also appropriate to ensure feasibility and sustainability.

It should, however, be noted that, given the magnitude of the problems and the budget available, the aim of the Project cannot be to fully solve the problems that correspond, within the selected strategy, to the chosen objectives. This is the reason why the objectives in the tree have been formulated as "increase" or "improvement" and not as full and complete solutions.

### **C.3. Objective of the project**

The Specific Objective of the Project (or Project Purpose) is:

**To contribute to the sustainable increase of revenue from export of coffee.**

This Specific Objective, in turn, will contribute to reach the following General Objective (or Development Objective that is at higher level in the Objective Tree):

**To increase the revenue of smallholder farmers deriving from coffee.**

The cooperatives and the unions will have an important role in achieving the transfer to the farmers of the benefits deriving from any increase of export revenues.

### **C.4. The UNIDO approach**

#### **C.4.1. Overall Approach**

UNIDO, to meet the objective of the Project, will use an overall value-chain approach. A value chain is a supply chain consisting of input suppliers, producers, processors and buyers that bring a product from its conception to its finalization or end use. A value-chain approach to development seeks to address the major constraints at each level of the supply chain, rather than concentrating on just one group (e.g. producers) or on one geographical location. Taking a value-chain approach, moreover, is

often essential for successful economic development since micro and small enterprises and smallholder farmers will only benefit over the long term if the industry as a whole is competitive.

#### **C.4.2. Phases of the Project**

The Project will be implemented in three phases: Inception phase, Implementation phase and Scaling-up and dissemination phase.

##### ***C.4.2.1. INCEPTION PHASE (duration: 6 months)***

The main activities of this phase will be aimed at defining in detail the project activities that have been herewith identified and outlined. It is a very important phase for the success of the Project since it was formulated and prepared within a short period of time providing little or no possibility for direct contact with important actors and stakeholders. Among others, during this phase, it is necessary to:

- Analyse in detail the Coffee Strategy that is under preparation by the EC in response to the request by MoFED.
- Deepen the analysis of the coffee value chain that has been made during the preparation of this Project Document.
- Identify potential investors in roasting and secondary processing that can receive assistance from the Project.
- Identify cooperatives, unions and private entrepreneurs that can receive assistance from the Project.
- Determine one or more possible locations or existing washing stations where one (or more) technologically and environmental sound plants can be erected (or upgraded) in order to represent “pilot plant” for other investments.
- Identify any research gap.
- Identify processing technology gaps.
- Prepare a draft document for the creation of an Organized Coordination Forum (OCF) among all actors in the coffee value chain.
- Prepare two documents: (i) a reviewed version of the Project Document and, (ii) a Plan of Action coherent with the reviewed Project Document.

At the end of the Inception Phase, the above-mentioned documents will be submitted to the Project Steering Committee for approval and subsequent implementation.

##### ***C.4.2.2. IMPLEMENTATION PHASE (duration: 2 years)***

This phase will consist of the actual implementation of all the foreseen and selected activities.

##### ***C.4.2.3. SCALING-UP & DISSEMINATION PHASE (duration: 6 months)***

This phase will consist, among others, of the following:

- Definition of a promotional campaign of the Ethiopian coffee on the international market and starting its implementation.
- Communicate the Results of the Project to a multi-stakeholders platform.
- Provision of international training to selected individuals operating with the actors of the coffee value chain and organization of one study tour in Europe.

#### **C.4.3. Project management**

At the very beginning of the Inception Phase, a Project Coordination Unit (PCU) will be established. This unit will include a Chief Technical Advisor (CTA), a National Project Coordinator (NPC), and an Administrative Assistant. All of them will report to the PM assigned by UNIDO. They will have the support of a secretary and a driver. International and national consultants will be recruited on the basis of short-term contracts to address specific tasks. The PCU will work closely and in full coordination with the National Project Manager (NPM) designated and remunerated by MoI.

Moreover, MoI will provide office space for the PCU, while the Project will provide office equipment, one four-wheel drive car and will cover the office operational expenses.

The PCU will be responsible for the overall day-to-day coordination and supervision of field activities and will establish a good working relationship between the project, the beneficiaries, the counterparts and other on-going projects and programmes. The PCU, in addition, will ensure an effective day-to-day monitoring of all project activities.

At Project start-up, also a Project Steering Committee (PSC) will be established with the task of decision-making, supervision and general guidance. In particular, the main functions and responsibilities of the PSC will be to:

- a) Provide the Project with strategic direction in terms of implementation of project activities.
- b) Ensure the effective coordination and cooperation between all involved stakeholders.
- c) Review and approve, at the end of the Inception Phase, the documents containing the reviewed version of the Project and the relevant Action Plan, prepared by the PCU.
- d) Monitor the progress of project activities towards achieving the planned outputs.
- e) Review and approve the annual work plans prepared by the PCU.

Mol will designate the chairperson of the PSC. Other members of the PSC will be representatives of: MoA, MoT, UNIDO, and the donors that will fund the Project. During the PSC's meetings can be invited to attend, but shall not be entitled to cast a vote, representatives of associations of the sectors and of the unions. Normally, the PSC will hold bi-annual meetings but an emergency meeting can be held at any moment whenever deemed necessary, upon agreement between Mol and UNIDO. The PCU shall serve as the secretariat of the PSC.

If found necessary and/or advisable, the execution of some Project activities can be assigned to NGOs preferably already active and operating in the Ethiopian coffee sector.

### C.5. RBM code and thematic area code

The theme codes are:

EC1= Poverty Reduction  
EC13= Agri-business and Rural Entrepreneurship  
EC14= Women & Youth

### C.6. Expected outcomes

As a result of Projects implementation, the main expected outcomes will be:

- 1) The actors of the coffee value chain will operate in a coordinate manner and finalised to the general interest of the country and directing the benefits to the weakest but most important among the actors: the smallholder farmers. This outcome will be realized through the attainment of the **Output 1: The coordination among the coffee value chain actors is obtained.**
- 2) The export revenues will increase as a consequence of the increased quantity of export coffee roasted in Ethiopia. This outcome will be realized through the attainment of the **Output 2: The volume of roasted exported coffee is increased.**
- 3) The quality of the exported coffee will increase due to: (i) increased number of farmers organized in cooperatives and/or unions and the support that these organizations give to farmers in terms of extension services and harvesting improvement, (ii) increased share of washed coffee due to additional new washing stations and rehabilitation of existing washing stations and, (iii) extended utilization by farmers of drying beds for sun-dried coffee. In practice, this outcome will be realized through the attainment of the **Output 3: The quality of exported coffee is increased.**
- 4) The intrinsic quality of Ethiopian coffee is internationally recognized thanks to: (i) improved traceability, (ii) sale of quality coffee on the local market (utilizing the domestic market as the first promoter of the Ethiopian coffee quality), (iii) extension of existing certifications to other countries and introduction of new certifications and, (iv) a promotional campaign of the Ethiopian coffee on the international market. In practice, this outcome will be realized through the attainment of the **Output 4: The quality of the Ethiopian coffee is internationally recognized.**

The above outcomes will cause the smallholder farmers to have an increase of their income that will represent also an incentive to further improve the quality and increase the yield. In addition, the export revenue will increase.

## C.7. Outputs and activities

In Table 12 below, all Activities and Outputs have been listed. In addition to the four Outputs deriving from the Objective Tree in Figure 10, an additional Output has been listed (Output 0) to take into account the necessary preparatory activities as mentioned in the previous paragraph C.4.2..

Table 12. Project Outputs and relevant Activities that will allow the achievement of the Specific Objective

<b>Output 0: All the Activities relevant to the Outputs from 1 to 4 are reviewed, if necessary modified and detailed</b>	
<b>Activities</b>	<b>Responsibility</b>
0.1. Establish PCU, PSC and the Project office.	UNIDO, MoI, PCU
0.2. Analyse in detail the Coffee Strategy that is under preparation by EC.	PCU
0.3. Deepen the analysis of the coffee value chain that has been made during the preparation of this Project Document.	PCU, international and national consultants
0.4. Verify, with donors and NGOs <sup>22</sup> working in the coffee sector, the possibility and convenience to subcontract one or more project activities to them (e.g. formation of new cooperatives or unions, construction of drying beds, etc.) in order for the Project to benefit from their experience and successes.	PCU
0.5. Prepare a reviewed version of the Project Document (Baseline Study) and an Action Plan where: (i) all the ten Outputs and the relevant Activities are detailed (and, if necessary, modified), (ii) the beneficiary actors (potential roasters, cooperatives, unions, etc.) are identified, (iii) the locations of physical interventions are established, (iv) the Project budget is reviewed and made coherent with the reviewed Activities.	PCU, international and national consultants
0.6. Discuss, comment and approve the reviewed version of the Project and the Action Plan.	PSC
<b>Output 1: The coordination among the coffee value chain actors is obtained</b>	
<b>Activities</b>	<b>Responsibility</b>
1.1. Preparation of a draft document on the purpose, composition, operating principles of the OCF.	PCU, international and national consultants
1.2. Presentation and discussion of the draft document with all direct and supporting actors, starting with GoE institutions (i.e. MoI, MoA, MoT and MoFED).	PCU
1.3. Preparation of comments and proposals for amendments to the draft document on OCF by all the actors.	MoI, MoA, MoT, MoFED and all the actors of the coffee value chain
1.4. Finalization of the OCF document by PCU, endorsement by the PSC and approval by the actors.	PCU, international and national consultants, MoI, MoA, MoT, MoFED and all the actors of the coffee value chain
1.5. Organize and conduct the first meeting of the OCF.	PCU
<b>Output 2: The volume of roasted exported coffee is increased</b>	
<b>Activities<sup>23</sup></b>	<b>Responsibility</b>
2.1. Identify new potential investors, starting with existing roasters, exporters and cooperative unions, but evaluating also the potential for investments from abroad.	PCU, national consultant
2.2. Identify constraints and select potential investors (possibly at least three national potential investors).	PCU, national consultant

<sup>22</sup> With the term NGOs, in this Table 12, are intended not only Non Governmental Organizations, but also implementing structures of the donors and other organizations normally used by the donors for project implementation.

<sup>23</sup> For the provision of technical assistance, in particular of training, under this Output 2, the competences and the facilities of illicaffè can be utilized.

2.3. Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology, marketing and training.	PCU, international and national consultants
2.4. Provide financial advise to selected investors.	PCU, international and national consultants
2.5. Provide technical assistance to selected investors during the implementation of their investment projects.	PCU, international and national consultants
<b>Output 3: The quality of exported coffee is increased</b>	
<b>Activities</b>	<b>Responsibility<sup>24</sup></b>
3.1. Based on the area of intervention selected with the Activity 0.5, negotiate and sign with one or more NGO that have accrued experience in the establishment of new coffee cooperatives and/or unions, agreement/s to subcontract specific activities.	PCU, national consultants
3.2. Promotion of cooperatives with farmers.	PCU, selected NGO/NGOs
3.3. Support the physical establishment of cooperatives and/or unions, including provision of technical assistance (e.g. for the design of the organization structure) and provision of good and services necessary for the start up of the organizations.	PCU, selected NGO/NGOs
3.4. Support the first operations of the new cooperatives/unions	PCU, selected NGO/NGOs
3.5. Based on the area of intervention selected with the Activity 0.5 and the washing stations identified, negotiate and sign with one or more NGOs that have accrued experience in improving and supporting washing stations, agreement/s to subcontract specific activities. Implementing NGOs should be always flanked by UNIDO consultants to ensure that the UNIDO specific knowledge in processing and environment safeguarding is applied.	PCU, national consultants
3.6. Analyse the cause of the malfunctioning of the washing stations, propose solutions to the owners and agree on the actions to be taken to make the stations fully operational.	PCU, selected NGO/NGOs, owners of the washing stations
3.7. Provide: (i) technical assistance during rehabilitation, (ii) management training, (iii) maintenance training and, (iv) equipment (if necessary).	PCU, selected NGO/NGOs
3.8. Provide technical assistance during the first operational period after rehabilitation.	PCU, selected NGO/NGOs
3.9. Based on the area of intervention selected with the Activity 0.5 and the identified locations for new washing stations, negotiate and sign with one or more NGOs that have accrued experience in creating new washing stations, agreement/s to subcontract specific activities. Implementing NGO should be always flanked by UNIDO consultants to ensure that the UNIDO specific knowledge in processing and environment safeguarding is applied.	PCU, selected NGO/NGOs, national consultants
3.10. Identify new potential investors willing to establish new washing stations, starting with existing owners of washing stations, cooperatives and unions.	PCU, selected NGO/NGOs, international and national consultants
3.11. Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology and training.	PCU, selected NGO/NGOs, international and national consultants
3.12. Provide financial advise to selected investors.	PCU, selected NGO/NGOs, international and national consultants
3.13. Provide technical assistance to selected investors during the implementation of their investment projects.	PCU, selected NGO/NGOs, international and national consultants
3.14. Provide: (i) technical assistance during plant erection, (ii) management training, (iii) maintenance training and, (iv) equipment (if necessary).	PCU, selected NGO/NGOs, international and national consultants
3.15. Provide technical assistance during the first operational period after plant construction.	PCU, selected NGO/NGOs, international and national consultants

<sup>24</sup> Should the subcontracting of activities to NGO/NGOs prove not to be feasible or advisable, the activity will be carried out through consultants.

3.16. Based on the area of intervention selected with the Activity 0.5 and the identified locations for extension of the utilization of drying beds, negotiate and sign with one or more NGOs that have accrued experience in supporting the farmers in utilizing drying beds, agreement/s to subcontract specific activities.	PCU, national consultants
3.17. Identify farmers/cooperatives willing to utilize drying beds.	PCU, selected NGO/NGOs, national consultants
3.18. Provide farmers/cooperatives with: (i) technical assistance during erection of drying beds, (ii) training on utilization and maintenance of drying beds and, (iv) materials for the drying beds.	PCU, selected NGO/NGOs, national consultants
<b>Output 4: The quality of the Ethiopian coffee is internationally recognized</b>	
<b>Activities<sup>25</sup></b>	<b>Responsibility</b>
4.1. Analyse and update the situation regarding coffee traceability by considering: (i) the efforts by ECX on traceability through the DST platform, (ii) the efforts and initiatives that other donors are implementing or planning regarding traceability and, (iii) the possibility to increase the traceability also for the share of coffee that is directly exported by growers and in particular by the unions. The analysis will be carried out in consultation with all the actors involved in coffee marketing.	PCU, international and national consultants
4.2. Prepare a proposal to remove/reduce existing obstacles to traceability in ECX, submit it to the OCF and request its implementation.	PCU, international and national consultants
4.3. Design and implement actions allowing the increase of traceability.	PCU, international and national consultants
4.4. Prepare a proposal aimed at allowing the sale on the local market of a limited quantity of Ethiopian coffee of the best quality. In order to avoid any loss deriving by the reduction in export revenue, the proposal should foresee two options: (i) to allow only the sale to tourists or individuals that can pay in foreign currency and, (ii) to allow also the sale to Ethiopians paying in Birr, but at premium price that can compensate any loss in foreign currency.	PCU, international and national consultants
4.5. Submit the proposal to the OCF and request its implementation.	PCU
4.6. Provide support to the concerned institutions for the implementation of the proposal.	PCU, international and national consultants
4.7. Prepare a draft proposal to extend existing certifications to other countries and to introduce new certifications.	PCU, international and national consultants
4.8. Submit the draft proposal to the OCF, receive comments, prepare a final version and obtain the approval by OCF.	PCU, OCF, international and national consultants
4.9. Provide technical assistance to the organizations appointed to implement the proposal, first of all to the cooperative unions.	PCU, international and national consultants
4.10. Prepare the draft design of a promotional campaign of the Ethiopian coffee on the international market	PCU, PCU, international and national consultants
4.11. Submit the draft design to the OCF, receive comments, prepare a final version and obtain the approval by OCF.	PCU, OCF, international and national consultants
4.12. Implement some of the priority activities foreseen in the approved promotional campaign, for instance prepare a web page simple and readable also by coffee consumers, which illustrates the qualities and the peculiarities of the Ethiopian coffee.	PCU, international and national consultants
4.13. Communicate the results of the Project to a multi-stakeholders platform (including all OCF members and all the donors active in Ethiopia in the various sectors)	PCU, national consultants
4.14. Provide international training to few selected individuals that are operating with the actors of the coffee value chain and organize one study tour in Europe.	PCU, training institution <sup>26</sup>

<sup>25</sup> For the Activities under Output 4, the competences of illicaffè can be utilized.

<sup>26</sup> For the international training, the facilities of illicaffè can be utilized.

**C.8. Timeline of the activities**

Table 13. Timing for the implementation of the various Activities described in Table 12

Output	ACTIVITY	Year 1				Year 2				Year 3			
		Phase 1		Phase 2						Phase 3			
		Quarters											
		1	2	3	4	1	2	3	4	1	2	3	4
0	0.1	█											
	0.2	█											
	0.3	█											
	0.4	█	█										
	0.5		█										
	0.6												
1	1.1		█										
	1.2			█									
	1.3				█								
	1.4				█								
	1.5					█							
2	2.1			█									
	2.2				█								
	2.3					█	█						
	2.4					█	█						
	2.5							█	█	█	█	█	█
3	3.1			█									
	3.2				█	█							
	3.3						█	█	█	█	█	█	
	3.4							█	█	█	█	█	
	3.5			█									
	3.6				█	█							
	3.7					█	█	█	█	█	█	█	
	3.8									█	█	█	
	3.9			█									
	3.10				█	█							
	3.11					█	█	█					
	3.12						█	█					
	3.13							█	█	█	█		
	3.14								█	█	█	█	
	3.15									█	█	█	█
	3.16			█									
	3.17				█	█							
	3.18					█	█						
4	4.1			█	█								
	4.2					█	█						
	4.3							█	█	█	█	█	
	4.4			█	█								
	4.5					█							
	4.6						█	█	█	█	█	█	
	4.7			█	█								
	4.8					█	█						
	4.9							█	█	█	█	█	
	4.10				█	█	█						
	4.11						█	█					
	4.12								█	█	█	█	█
	4.13											█	█
	4.14											█	█

## C.9. Risks

In the Logical Framework Matrix in Annex 1, the first column contains the intervention logic and it is about things that are under Project control, whereas, in the last column, the things that are not directly under the Project's control are indicated and they may influence its realisation in a positive or a negative way. These are called "Assumptions" because when we describe the project's logic in the first column, we assume that everything goes well. But generally, this is not fully true, so we should take precautions to deal with these risks as best as we can. The relationship between the first and fourth column is as follows:

- When we do the activities, and our assumptions hold, we will achieve the expected Outputs.
- When the outputs are achieved, and our assumptions hold, we will realise the Specific Objective.
- When the Specific Objective is attained, and our assumptions hold, the Project will contribute to the listed General Objective.

The achievement of project objectives is always subject to influences beyond Project direct control and therefore the actual risks are represented by assumptions that will not materialize. It is therefore important to monitor this 'external' environment to identify whether or not the assumptions that have been made are likely to hold true, what new risks may be emerging, and to take action to manage or mitigate these risks where possible.

A Risk Management Matrix is shown in Annex 2 where the risks in the second column have been obtained by the assumptions in the last column of the Logical Framework Matrix in Annex 1 considering the event that the same assumptions will not materialize.

In the Risk Management Matrix, also the risk management strategy is indicated and it can be used to provide a clear record of how the Project plans to manage identified risks. This then needs to be reviewed and updated on a regular basis (i.e. as part of the review and planning process).

It should be noted that, out of twelve risks identified, only two have a "medium" estimated risk level, whereas the remaining ten have a "low" estimated risk level that can be further relieved through the risk management strategy. Much lesser is the risk level that two or more risks simultaneously materialize.

It is also worthwhile to highlight the fact that, thanks to the intrinsic flexibility of the Project, should one of the risks cause the full cancellation of the corresponding activity, this will not fully prejudice the success of the Project and the financial resources initially allocated to the cancelled activity can easily be reallocated to other activities with the result that the impact of the latter will be increased.

The major risk for the success of the Project is the actual and concrete attitude of the various actors to persist in tackling the problems of the coffee sector without a value chain approach. According to this approach, they should avoid competition and try to abstain from paying undue attention to the part of the value chain that fall seemingly under their direct competence and interest. This especially applies to the three Ministries involved in the Project: Mol, MoA and MoT.

In order to limit this risk, it has been foreseen, as Output 1, the establishment of an "Organized Coordination Forum", where all the actors in the value chain will participate and will have the possibility to look at the various problems with a holistic approach. In the Risk Management Matrix a "medium" risk level has been assigned to the lack of interest of the coffee value chain actors to participate in the Organized Coordination Forum. In order to further limit this risk, it is advisable to verify the attitude to work together and to give full support to the Project, at least with Mol, MoT and MoA also before the approval of the Project.

## C.10. Sustainability

To ensure that the Outputs delivered are sustainable, some measures have been included in the Project structure, other measures will be put in place during implementation:

- First and foremost, the PSC, with members from key Ministries will ensure national ownership of the Project. With a strong PSC in place, it is anticipated that GoE will have the capacity to monitor and follow-up on the development of the achieved Outputs after the end of the Project. At the same time it is expected that the private sector has a direct channel to the Government to provide advice on policy matters and similar that concern the sector.
- Secondly the Project will apply a private sector led approach, where the ownership and benefits



of production, processing and marketing activities lies within the entities identified by the Project (farmers, cooperatives, unions and entrepreneurs in roasting and washing).

- During implementation, all the activities will be carried out with a particular attention to the feasibility and sustainability of the facilities and organizations that will be created or rehabilitated (OCF, roasting factories, new cooperatives, new unions, washing stations and drying beds).
- The Project will establish viable business models and support the concerned actors both in their organizational structures and on the individual level, preparing them so that they are ready to independently excel in their respective roles in the coffee value chain.

For what concerns the financial sustainability, at the end of the Project, the beneficiary actors would have accrued, among others, additional income from their respective part or role in the coffee value chain, part of which they could use to invest for the sustainability of what already achieved.

From the technical point of view, within the Project, it is envisaged the delivery of diverse trainings with focus on coffee and the presence of improved coffee processing establishments, equipped with appropriate technology and manned by trained staff.

## **D. INPUTS**

### **D.1. Counterpart inputs**

The counterparts will provide in kind contribution in terms of rent-free office space for the Project team. In addition, Mol will assign a person to act as National Project Manager designated and work in intimate cooperation with the project team for the whole Project implementation period.

### **D.2. UNIDO inputs**

UNIDO will be responsible for the following inputs:

- Recruitment of the Project management staff (Chief Technical Advisor, National Project Coordinator, Administrative Assistant, Secretary and Driver).
- Recruitment of all the international and/or national experts and consultants required by the Project.
- Remuneration of all the experts and consultants recruited by UNIDO.
- Subcontracting the execution of specific activities to NGOs and/or other organizations.
- Organizing the training activities.
- Procurement of equipment for washing stations and materials for drying beds (when are not included in the above mentioned subcontracts).
- Procurement of one four-wheel drive vehicle for the PCU and all the expendable equipment for the Project office.

In all the recruitments conducted by UNIDO the due attention will be given to have a gender balance subject to the availability of the local resources. In addition, whenever possible, priority will be given to national consultants.

## **E. BUDGET**

The budget of the Project, subdivided according to the major items is in Table 14, where the total costs for each item are given both in US\$ and in EURO. To convert US\$ into EURO, the conventional exchange rate of 1 EURO = 1.3 US\$ has been utilized (rounding the figures in EURO). This budget breakdown was prepared with the assumption that the majority of the Project activities relevant to Outputs 3, 4, 5 and 6, will be subcontracted to NGOs or other organizations. If this assumption will prove not to be feasible and/or advisable, the budget line under "Subcontract" should be reduced and the budget lines under "International Experts", "National Experts", "Project travel", "Training" and "Equipment" should be accordingly increased.

It is worthwhile to remind that the budget breakdown in Table 14, has to be considered as preliminary, since it will be finalized at the end of Phase 1 based on the findings of the Baseline study.

Table 14. Project budget breakdown (EURO and US\$)

BL	Description	Unit cost US\$	Units	Total cost US\$	Total cost EURO
11-00	Chief Technical Adviser	16,000	36	576,000	443,000
11-00	International Experts	12,000	54	648,000	499,000
	<i>illicaffè in-kind consultancy</i>	-	-	78,000	60,000
13-00	Support personnel (Adm., Secretary, Driver)	700	108	75,600	58,000
15-00	Project travel	2,800	36	100,000	77,000
16-00	UNIDO staff travel	5,000	12	60,000	46,000
17-00	National project Coordinator	3,300	36	119,000	92,000
17-00	National Experts	3,300	67	221,000	170,000
21-00	Subcontracts (n. 4)	-	-	2,180,000	1,677,000
32-00	Study tours	30,000	1	30,000	23,000
33-00	Training	-	-	169,000	130,000
	<i>Ernesto Illy Foundation scholarships</i>	-	-	52,000	40,000
45-00	Equipment <sup>27</sup>	-	-	260,000	200,000
51-00	Miscellaneous	-	-	98,000	75,000
82-00	Evaluation		1	65,000	50,000
	Subtotal 1 (excluding illycaffè contributions)			4,601,600	3,540,000
	Subtotal 1 (including illycaffè contributions)			4,731,600	3,640,000
	Support cost (13% of Subtotal 1)			598,200	460,000
	<b>Total (including illycaffè contributions)</b>			<b>5,329,800</b>	<b>4,100,000</b>

## F. MONITORING, REPORTING AND EVALUATION

### F.1. Reporting

The reporting framework for the Project will be detailed and finalized soon after the establishment of the PCU and the PSC. In particular, the PCU will prepare a proposal on this regard that will be submitted to the PSC for approval.

In general, the following reports will be prepared by the PCU and submitted for the PSC consideration:

- Inception report. It will be prepared only once, at the end of Phase 1 and will include the baseline data and the Action Plan.
- Semi-annual reports. They will be prepared twice a year: no later than 30 calendar days after the end of each six-month period.
- Final report. It will be prepared once, no later than 45 calendar days after the end of the implementation.

### F.2. Monitoring

The performance monitoring will be executed based on a detailed work plan and the Logical Framework Matrix in Annex 1. The baseline indicators will be established during the Inception Phase for all the Project components. Day-to-day technical and financial monitoring will be part of UNIDO responsibilities. The PSC will also be responsible for the overall Project oversight and guidance.

### F.3. Evaluation

The Project will be subject to independent review processes assisted by the UNIDO Evaluation Group. It will include:

- a mid-term review;
- a final evaluation.

The budget allocated for the evaluation activities is US\$ 65,000 (€50,000). The conclusions and recommendations of the mid-term review will lead to the follow-up actions to be taken and any corrective action necessary including, if recommended, the reorientation of Project components.

<sup>27</sup> The majority of needed pieces of equipment are included in item 21-00 (i.e. Subcontracts).

The counterparts and beneficiaries will be informed at least two months in advance of the dates foreseen for the external missions. The counterparts and beneficiaries shall collaborate efficiently and effectively with the monitoring and/or evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

#### **G. PRIOR OBLIGATIONS AND PREREQUISITES**

The specific prior obligations or prerequisites that need to be met before project implementation can start are the following:

- MoI must identify and make available the office space for the Project team.
- MoI must assign a person to act as National Project Manager to cooperate with the project team for the whole Project implementation period.
- UNIDO must recruit the Chief Technical Advisor and the National Project Coordinator.

#### **H. LEGAL CONTEXT**

The Government of the Federal Democratic Republic of Ethiopia agrees to apply to the present project, mutatis mutandis, the provisions of the Standard Basic Assistance Agreement between the United Nations Development Programme and the Government, signed on 26 February 1981 and entered into force on 5 November 1984.

**ANNEX 1. LOGICAL FRAMEWORK MATRIX**

	INTERVENTION LOGIC	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GENERAL OBJECTIVE</b>	<ul style="list-style-type: none"> <li>To increase the revenues of smallholder farmers deriving from coffee.</li> </ul>	<ul style="list-style-type: none"> <li>Increase of payments from cooperatives and collectors to the farmers.</li> </ul>	<ul style="list-style-type: none"> <li>Reports from cooperatives and unions.</li> <li>Interviews with private collectors and farmers</li> </ul>	
<b>SPECIFIC OBJECTIVE</b>	<ul style="list-style-type: none"> <li>increased sustainable revenue from coffee production and processing</li> </ul>	<ul style="list-style-type: none"> <li>Export revenues.</li> </ul>	<ul style="list-style-type: none"> <li>Reports from MoT.</li> </ul>	<ul style="list-style-type: none"> <li>Cooperatives, unions and private traders have the capacity to transfer part of the increased revenue to the farmers.</li> </ul>
<b>OUTPUTS</b>	<p>0. All the Activities relevant to the Outputs from 1 to 4 are reviewed, if necessary modified and detailed.</p>	<ul style="list-style-type: none"> <li>Approval by PSC of Baseline Study and Action Plan.</li> </ul>	<ul style="list-style-type: none"> <li>Relevant documents</li> </ul>	
	<p>1. The coordination among the coffee value chain actors is obtained.</p>	<ul style="list-style-type: none"> <li>First OCF meeting took place.</li> </ul>	<ul style="list-style-type: none"> <li>OCF meeting report.</li> </ul>	
	<p>2. The volume of roasted exported coffee is increased.</p>	<ul style="list-style-type: none"> <li>Number of new roasting/grinding/packing plants in operation or under construction.</li> </ul>	<ul style="list-style-type: none"> <li>Surveys</li> </ul>	
	<p>3. The quality of exported coffee is increased.</p>	<ul style="list-style-type: none"> <li>Number of new cooperatives and number of new unions established (or expanded) with the support of the Project.</li> <li>Number of washing stations put in operational conditions</li> <li>Number of new washing stations created.</li> <li>Number of farms that have shifted from ground drying to drying beds.</li> </ul>	<ul style="list-style-type: none"> <li>Surveys/Interviews</li> <li>Surveys/Interviews</li> <li>Surveys/Interviews</li> <li>Surveys/Interviews</li> </ul>	
	<p>4. The quality of the Ethiopian coffee is internationally recognized.</p>	<ul style="list-style-type: none"> <li>Quantity of coffee that is exported maintaining trace of its production location.</li> <li>Quantity of high quality coffee sold on the local market or official plans approved for allowing this possibility.</li> <li>Proposal to extend existing certifications approved by OCF. Proposal implementation started.</li> <li>Proposed campaign is approved by OCF. Implementation of some campaign activities started</li> </ul>	<ul style="list-style-type: none"> <li>Official data.</li> <li>Interviews with unions and cooperatives.</li> <li>Official data.</li> <li>Official documents.</li> <li>Documents.</li> <li>Interviews.</li> <li>Documents.</li> <li>Interviews.</li> </ul>	

ACTIVITIES	<b>Relevant to Output 0: All the Activities relevant to the Outputs from 1 to 4 are reviewed, if necessary modified and detailed.</b>		
<u>Activity 0.1:</u> Establish PCU, PSC and the Project office.	<ul style="list-style-type: none"> <li>• PCU, PSC and the Project office are operational.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey.</li> </ul>	
<u>Activity 0.2:</u> Analyse in detail the Coffee Strategy that is under preparation by EC.	<ul style="list-style-type: none"> <li>• PCU is fully aware of the content of the Coffee Strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• The Coffee Strategy is completed on time and made available.</li> </ul>
<u>Activity 0.3:</u> Deepen the analysis of the coffee value chain that has been made during the preparation of this Project Document.	<ul style="list-style-type: none"> <li>• PCU has completed the deepening of the Coffee value chain analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	
<u>Activity 0.4:</u> Verify, with donors and NGOs working in the coffee sector, the possibility and convenience to subcontract one or more project activities to them (e.g. formation of new cooperatives or unions, construction of drying beds, etc.) in order for the Project to benefit from their experience and successes.	<ul style="list-style-type: none"> <li>• Results of the verification are available.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	
<u>Activity 0.5:</u> Prepare a reviewed version of the Project Document (Baseline Study) and an Action Plan where: (i) all the ten Outputs and the relevant Activities are detailed (and, if necessary, modified), (ii) the beneficiary actors (potential roasters, cooperatives, unions, etc.) are identified, (iii) the locations of physical interventions are established, (iv) the Project budget is reviewed and made coherent with the reviewed Activities.	<ul style="list-style-type: none"> <li>• Baseline Study and Action Plan are available.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<u>Activity 0.6:</u> Discuss, comment and approve the reviewed version of the Project and the Action Plan.	<ul style="list-style-type: none"> <li>• Baseline Study and action Plan have been approved by PSC.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<b>Relevant to Output 1: The coordination among the coffee value chain actors is obtained.</b>			
<u>Activity 1.1:</u> Preparation of a draft document on the purpose, composition, operating principles of the OCF.	<ul style="list-style-type: none"> <li>• Draft document available.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<u>Activity 1.2:</u> Presentation and discussion of the draft document with all direct and supporting actors, starting with the GoE institutions (i.e. MoI, MoA, MoT and MoFED).	<ul style="list-style-type: none"> <li>• Draft document presented and discussed.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• The coffee value chain actors are interested in participating to the OCF.</li> </ul>
<u>Activity 1.3:</u> Preparation of comments and proposals for amendments to the draft document on OCF by all the actors.	<ul style="list-style-type: none"> <li>• Comments received.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<u>Activity 1.4:</u> Finalization of the OCF document by PCU, endorsement by the PSC and approval by the actors.	<ul style="list-style-type: none"> <li>• Document approved by PSC.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<u>Activity 1.5:</u> Organize and conduct the first	<ul style="list-style-type: none"> <li>• First meeting of OCF took place.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	

meeting of the OCF..			
<b>Relevant to Output 2: The volume of roasted exported coffee is increased.</b>			
<u>Activity 2.1:</u> Identify new potential investors, starting with existing roasters, exporters and cooperative unions, but evaluating also the potential for investments from abroad.	• Potential investors identified.	• Interviews.	
<u>Activity 2.2:</u> Identify constraints and select potential investors (possibly at least three national potential investors).	• Constraint identified and potential investors selected.	• Documents/Interviews.	• There are potential investors in secondary processing of coffee and they are interested to receive support from the Project.
<u>Activity 2.3:</u> Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology, marketing and training.	• Technical assistance provided.	• Interviews.	
<u>Activity 2.4:</u> Provide financial advise to selected investors.	• Financial advise provided.	• Interviews.	
<u>Activity 2.5:</u> Provide technical assistance to selected investors during the implementation of their investment projects.	• Technical assistance provided.	• Interviews.	
<b>Relevant to Output 3: The quality of exported coffee is increased.</b>			
<u>Activity 3.1:</u> Based on the area of intervention selected with the Activity 0.5, negotiate and sign with one or more NGO that have accrued experience in the establishment of new coffee cooperatives and/or unions, agreement/s to subcontract specific activities.	• Agreement/s signed.	• Documents.	
<u>Activity 3.2:</u> Promotion of cooperatives with farmers.	• Promotion carried out.	• Interviews.	
<u>Activity 3.3:</u> Support the physical establishment of cooperatives and/or unions, including the provision of technical assistance (e.g. for the design of the organization structure) and provision of good and services necessary for the start up of the organizations.	• Support provided.	• Interviews/Documents.	• There are farmers and/or cooperatives interested to be organized into cooperatives and/or unions.
<u>Activity 3.4:</u> Support the first operations of the new cooperatives/unions.	• Support provided.	• Interviews/Documents	
<u>Activity 3.5:</u> Based on the area of intervention selected with the Activity 0.5 and the washing stations identified, negotiate and sign with one or more NGOs that have accrued experience in improving and supporting washing stations, agreement/s to subcontract specific activities. Implementing NGO should be always flanked by UNIDO consultants to ensure that the UNIDO	• Agreement/s with NGO/NGOs signed.	• Documents.	

specific knowledge in processing and environment safeguarding is applied.			
<u>Activity 3.6:</u> Analyse the cause of the malfunctioning of the washing stations, propose solutions to the owners and agree on the actions to be taken to make the stations fully operational.	<ul style="list-style-type: none"> <li>• Analysis completed and actions proposed.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	<ul style="list-style-type: none"> <li>• There are owners of washing stations not fully operational that are interested to receive support from the Project to put in operation their stations.</li> </ul>
<u>Activity 3.7:</u> Provide: (i) technical assistance during rehabilitation, (ii) management training, (iii) maintenance training and, (iv) equipment (if necessary).	<ul style="list-style-type: none"> <li>• Technical assistance, training and equipment provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey and interviews.</li> </ul>	
<u>Activity 3.8:</u> Provide technical assistance during the first operational period after rehabilitation.	<ul style="list-style-type: none"> <li>• Technical assistance provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews</li> </ul>	
<u>Activity 3.9:</u> Based on the area of intervention selected with the Activity 0.5 and the identified locations for new washing stations, negotiate and sign with one or more NGOs that have accrued experience in creating new washing stations, agreement/s to subcontract specific activities. Implementing NGO should be always flanked by UNIDO consultants to ensure that the UNIDO specific knowledge in processing and environment safeguarding is applied.	<ul style="list-style-type: none"> <li>• Agreement/s signed.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<u>Activity 3.10:</u> Identify new potential investors willing to establish new washing stations, starting from existing owners of washing stations, cooperatives and unions.	<ul style="list-style-type: none"> <li>• Potential investors identified.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• There are potential investors in washing stations and they are interested to receive support from the Project.</li> </ul>
<u>Activity 3.11:</u> Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology and training.	<ul style="list-style-type: none"> <li>• Technical assistance provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews, documents.</li> </ul>	
<u>Activity 3.12:</u> Provide financial advise to selected investors.	<ul style="list-style-type: none"> <li>• Financial advise provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews</li> </ul>	
<u>Activity 3.13:</u> Provide technical assistance to selected investors during the implementation of their investment projects.	<ul style="list-style-type: none"> <li>• Technical assistance provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	
<u>Activity 3.14:</u> Provide: (i) technical assistance during plant erection, (ii) management training, (iii) maintenance training on maintenance and, (iv) equipment (if necessary).	<ul style="list-style-type: none"> <li>• Technical assistance, training and equipment provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey and interviews.</li> </ul>	
<u>Activity 3.15:</u> Provide technical assistance during the first operational period after plant construction.	<ul style="list-style-type: none"> <li>• Technical assistance provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	
<u>Activity 3.16:</u> Based on the area of intervention selected with the Activity 0.5 and the identified locations for extension of the utilization of drying beds, negotiate and sign with one or more NGOs that have accrued experience in supporting the	<ul style="list-style-type: none"> <li>• Agreement/s signed.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	

farmers in utilizing drying beds, agreement/s to subcontract specific activities.			
<u>Activity 3.17:</u> Identify farmers/cooperatives willing to utilize drying beds.	<ul style="list-style-type: none"> <li>Farmers/cooperatives identified.</li> </ul>	<ul style="list-style-type: none"> <li>Interviews.</li> </ul>	<ul style="list-style-type: none"> <li>There are farmers interested to improve the quality of the cherries through the utilization of drying beds and willing to receive support from the Project.</li> </ul>
<u>Activity 3.18:</u> Provide farmers/cooperatives with: (i) technical assistance during erection of the drying beds, (ii) training on utilization and maintenance of drying beds and, (iv) materials for the drying beds.	<ul style="list-style-type: none"> <li>Technical assistance and materials provided.</li> </ul>	<ul style="list-style-type: none"> <li>Survey/Interviews.</li> </ul>	
<b>Relevant to Output 4: The quality of the Ethiopian coffee is internationally recognized.</b>			
<u>Activity 4.1:</u> Analyse and update the situation regarding coffee traceability by considering: (i) the efforts by ECX on traceability through the DST platform, (ii) the efforts and initiatives that other donors are implementing or planning regarding traceability and, (iii) the possibility to increase the traceability also for the share of coffee that is directly exported by growers and in particular by the unions. The analysis will be carried out in consultation with all the actors involved in coffee marketing.	<ul style="list-style-type: none"> <li>Situation regarding traceability analysed.</li> </ul>	<ul style="list-style-type: none"> <li>interviews.</li> </ul>	
<u>Activity 4.2:</u> Prepare a proposal to remove/reduce existing obstacles to traceability in ECX, submit it to the OCF and request its implementation.	<ul style="list-style-type: none"> <li>Proposal prepared and submitted to OCF.</li> </ul>	<ul style="list-style-type: none"> <li>Documents.</li> </ul>	<ul style="list-style-type: none"> <li>The involved actors are interested to increase the traceability.</li> </ul>
<u>Activity 4.3:</u> Design and implement actions allowing the increase of traceability.	<ul style="list-style-type: none"> <li>Actions designed and implemented.</li> </ul>	<ul style="list-style-type: none"> <li>Documents/interviews.</li> </ul>	
<u>Activity 4.4:</u> Prepare a proposal aimed at allowing the sale on the local market of a limited quantity of Ethiopian coffee of the best quality. In order to avoid any loss deriving by the the reduction in export revenue, the proposal should foresee two options: (i) to allow only the sale to tourists or individuals that can pay in foreign currency and, (ii) to allow also the sale to Ethiopians paying in Birr, but a premium price that can compensate any loss in foreign currency.	<ul style="list-style-type: none"> <li>Proposal prepared.</li> </ul>	<ul style="list-style-type: none"> <li>Documents.</li> </ul>	
<u>Activity 4.5:</u> Submit the proposal to the OCF and request its implementation.	<ul style="list-style-type: none"> <li>Proposal submitted to OCF.</li> </ul>	<ul style="list-style-type: none"> <li>Documents.</li> </ul>	<ul style="list-style-type: none"> <li>The concerned Institutions have no objection to sell quality coffee on the local market.</li> </ul>
<u>Activity 4.6:</u> Provide support to the concerned institutions for the implementation.	<ul style="list-style-type: none"> <li>Support provided.</li> </ul>	<ul style="list-style-type: none"> <li>Interviews.</li> </ul>	
<u>Activity 4.7:</u> Prepare a draft proposal to extend	<ul style="list-style-type: none"> <li>Draft proposal prepared.</li> </ul>	<ul style="list-style-type: none"> <li>Documents.</li> </ul>	



existing certifications to other countries and to introduce new certifications.			
<u>Activity 4.8:</u> Submit the draft proposal to the OCF, receive comments, prepare a final version and obtain the approval by OCF.	<ul style="list-style-type: none"> <li>• Draft proposal approved by OCF.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews</li> </ul>	<ul style="list-style-type: none"> <li>• The concerned actors are willing to extend the certifications.</li> </ul>
<u>Activity 4.9:</u> Provide technical assistance to the organizations appointed to implement the proposal, first of all to the cooperative unions.	<ul style="list-style-type: none"> <li>• Technical assistance provided.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<u>Activity 4.10:</u> Prepare the draft design of a promotional campaign of the Ethiopian coffee on the international market.	<ul style="list-style-type: none"> <li>• Draft design of campaign prepared.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents.</li> </ul>	
<u>Activity 4.11:</u> Submit the draft design to the OCF, receive comments, prepare a final version and obtain the approval by OCF.	<ul style="list-style-type: none"> <li>• Draft design approved by OCF.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews.</li> </ul>	<ul style="list-style-type: none"> <li>• The actors wish to proceed with an international campaign.</li> </ul>
<u>Activity 4.12:</u> Implement some of the priority activities foreseen in the approved promotional campaign, for instance prepare a web page simple and readable also by coffee consumers, which illustrates the qualities and the peculiarities of the Ethiopian coffee.	<ul style="list-style-type: none"> <li>• Some priority activities implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• Survey/Documents</li> </ul>	
<u>Activity 4.13:</u> Communicate the Results of the Project to a multi-stakeholders platform (including all OCF members and all the donors active in Ethiopia in the various sectors).	<ul style="list-style-type: none"> <li>• Project results communicated.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents/Interviews</li> </ul>	
<u>Activity 4.14:</u> Provide international training to few selected individuals that are operating with the actors of the coffee value chain and organize one study tour in Europe.	<ul style="list-style-type: none"> <li>• Training provided and study tour done.</li> </ul>	<ul style="list-style-type: none"> <li>• Documents/Interviews.</li> </ul>	

## ANNEX 2. RISK MANAGEMENT MATRIX

LF ref.	Risks	Potential adverse impact	Risk level (H/M/L)	Risk management strategy	Responsibility
<b>Specific Objective</b>	Cooperatives, unions and private traders do not have the capacity to transfer part of the increased revenue to the farmers.	Cooperatives and unions have this capacity. The lack of capacity by private traders can reduce the possible benefits to the farmers and the incentive for them to increase quality and yield.	<b>L</b>	Appropriate remedial actions taken by all parties in OCF.	MoI, MoT, MoA, UNIDO
<b>Activity 0.2</b>	The Coffee Strategy is not completed and made available on time for the preparation of the Baseline Study.	Quality of Baseline Study is reduced.	<b>L</b>	More intense activity for collection of information by PCU during the Inception Phase	PCU, UNIDO
<b>Activity 1.2</b>	The coffee value chain actors do not show interest in participating to the OCF.	OCF effectiveness is reduced or nullified.	<b>M</b>	Importance and benefits from OCF are promoted among all the actors.	MoI, UNIDO, PCU
<b>Activity 2.2</b>	Potential investors in secondary processing and interested to receive support from the Project are not found.	Increase of roasting capacity is not achieved.	<b>L</b>	Research for potential investors is intensified also abroad.	MoI, UNIDO, PCU
<b>Activity 3.3</b>	Farmers and/or cooperatives interested to be organized into cooperatives and/or unions are not found.	New cooperatives and/or unions are not established.	<b>L</b>	Research for interested farmers and/or cooperatives is intensified also seeking support from NGOs that have already given support for the establishment of these organizations.	PCU
<b>Activity 3.6</b>	Owners of not fully operational washing stations that are interested to receive support from the Project are not found.	Washing stations are not rehabilitated.	<b>L</b>	Research for interested owners of washing stations (to be rehabilitated) is intensified also seeking support from NGOs that have already given support for rehabilitation of washing stations.	PCU
<b>Activity 3.10</b>	Potential investors in washing stations interested to receive support from the Project are not found.	New washing stations are not established.	<b>L</b>	Research for potential investors in washing stations is intensified also seeking support from NGOs that have already given support for the establishment of new washing stations.	PCU
<b>Activity 3.17</b>	Farmers interested to improve the quality of the cherries through drying beds and willing to receive support from the Project are not found.	Utilization of drying beds is not expanded.	<b>L</b>	Research for farmers interested to improve the quality of the cherries through drying beds is intensified also seeking support from NGOs that have already given support for the utilization of drying beds.	PCU
<b>Activity 4.2</b>	The involved actors are not interested to increase the traceability.	Traceability of coffee is not increased.	<b>L</b>	Importance and benefits from an increased traceability are promoted among all the actors.	MoI, UNIDO, PCU
<b>Activity 4.5</b>	The concerned Institutions do not agree to sell quality coffee on the local market.	The sale of quality coffee on the local market, albeit in small quantity, continues to be banned.	<b>M</b>	Importance and benefits deriving from the utilization of the local market as vehicle for the international recognition of the Ethiopian coffee quality are promoted among all the actors.	MoI, UNIDO, PCU

<b>Activity 4.8</b>	The concerned actors are not interested in extending the certifications.	The existing certifications are not extended.	<b>L</b>	Importance and benefits deriving from an extension of the existing certifications are promoted among all the actors	Mol, UNIDO, PCU
<b>Activity 4.11</b>	The actors do not agree to proceed with an international campaign.	The international promotion campaign does not take place.	<b>L</b>	Importance and benefits deriving from an international promotion campaign for the international recognition of the Ethiopian coffee quality are promoted among all the actors.	Mol, UNIDO, PCU

**H = High, M = Medium, L = Low**

### ANNEX 3. Contribution of the sectors to the economy: GTP expectations and actual performance

According to the GTP, it is expected that, in the 5-year period of the plan, substantial changes of the contributions that each sector gives to the economy will take place. In the following Table 2.1 these expected changes are indicated.

Table 3.1. Projected trends in the structure of GDP by sector (base case scenario)

Sector	Base year (2009/10)	Annual Targets					Expect. Var. %
		2010/11	2011/12	2012/13	2013/14	2014/15	
Agriculture & connected activities (%)	41.6	40.6	39.7	38.7	37.8	36.9	-4.7
Industry (%)	12.9	13.2	14.0	15.3	16.9	18.8	+5.9
Services (%)	45.5	46.2	46.3	46.0	45.3	44.3	-1.2
Totals	100.0	100.0	100.0	100.0	100.0	100.0	0.0

Source: GTP – Main Text

For what concerns the expected changes in the contributions of the three economic sectors to the country GDP, the results until 2011/12 are illustrated in Table 2.2.

Table 3.2: Achievements in the change of GDP structure by sector (base case scenario).

Sector	Base year (2009/10)	2010/11		2011/12		Target for 2014/15
		Planned	Actual	Planned	Actual	
Agriculture & connected activities (%)	41.6	40.6	45.6	39.7	44.0	36.9
Industry (%)	12.9	13.2	10.6	14.0	11.1	18.8
Services (%)	45.5	46.2	44.5	46.3	45.6	44.3
Totals	100.0	100.0	100.0	100.0	100.0	100.0

Source: GTP - APR 2011/2012 (draft)

Recognizing the shortcomings in the performances of Agriculture and Industry in comparison to what has been planned in the GTP, the APR affirms:

**"In general, in order to sustain the rapid growth momentum and achieve the planned target over the coming three years, it is imperative to increase the productivity of agriculture and expand investment in the manufacturing sector in the remaining years of GTP implementation".**

In order to make this Project consistent with the guidance provided by GTP, it is important to include, among the Project activities, those aimed at expanding the investment in the industrial sector, in particular in coffee roasting.