



**UNIDO PROJECT FOR IMPROVING THE
SUSTAINABILITY AND INCLUSIVENESS OF THE
ETHIOPIAN COFFEE VALUE CHAIN THROUGH PRIVATE
AND PUBLIC PARTNERSHIP**



**INCEPTION REPORT
JUNE-DECEMBER 2015**

Public Private Partnership Project with Illycaffè S.p.A. and Ernesto Illy Foundation



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Acronyms

AVCPO	Agricultural Value Chains Project in Oromia
AGP	Agricultural Growth Program
BoA	Bureau of Agriculture at Region and Zone level
BMFCU	Bench Maji Forest Coffee Producers' Cooperative Union Ltd
BRC	British Retail Consortium (Global Standard for Food Safety)
BYCU	Burka Yadot Cooperative Union
CA	Coffee and Tea Development and Marketing Authority
Coffee Project	Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership
COOPI	Cooperazione Internazionale – COOPI
CPO	Cooperative Promotion Office
CSDS	Coffee Sector Development Strategy
DSA	Daily Subsistence Allowance
DST	Direct Specialty Trade auction
Dumerso	Dumerso Industrial Trading PLC (roaster)
EC	European Commission
ECEA	Ethiopian Coffee Exporters' Association
ECGPEA	Ethiopian Coffee Growers, Producer And Exporters Association
ECRA	Ethiopian Coffee Roasters' Association
ECX	Ethiopia Commodity Exchange
EDRI	Ethiopia Development Research Institute
ENAIIP	Ente Nazionale ACLI Istruzione Professionale
EU	European Union
FAO	Food and Agriculture Organization of the UNs
FBPI	Food and Beverage and Pharmaceutical Institute
GIZ	German Development Cooperation
FLO	Fairtrade Labelling Organization
GoE	Government of the Federal Democratic Republic of Ethiopia
GTP	Growth and Transformation Plan
IAIP	Integrated Agro-Industrial Parks
IAO	Istituto Agronomico per l'Oltremare (Overseas Agronomic Institute)
ICE	Intercontinental Exchange
ICO	International Coffee Organization
IDC	Italian Development Cooperation
IFPRI	International Food Policy Research Institute
illycaffè	Illy Caffè S.p.A.
IMO	Institute for Marketecology
IPS	Industrial Projects Service
ISID	Inclusive and Sustainable Industrial Development
IT	Information Technology
JARC	Jimma Agricultural Research Center
KPIs	Key Project Indicators
LIFCU	Limmu Inara Farmers' Cooperative Union
MAECI	Italian Ministry of Foreign Affairs and of International Cooperation
MoA	Ministry of Agriculture
MoFED	Ministry of Finance and Economic Development
MoI	Ministry of Industry
MoT	Ministry of Trade
NGO	Non-Governmental Organization
NTTF	National Technical Taskforce

OCF	Organized Coffee Forum
OCFCU	Oromia Coffee Farmers' Cooperative Union
PCP	Program for Country Partnership
PCU	Project Coordinating Unit
PPP	Public Private Partnership
PSC	Project Steering Committee
RA	Rainforest Alliance
SCAA	Specialty Coffee Association of America
SCFCU	Sidama Coffee Farmers' Cooperative Union
SNNPR	Southern Nations, Nationalities and People Region
TechnoServe	NGO working in the coffee sector
ToR	Terms of reference
TVET	Technical, Vocational, Education and Training
Typica	Typica General Trading PLC (roasting company)
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
UTL	The Italian Development Cooperation Agency Office at the Italian Embassy in Addis Ababa
UTZ	Certification body from the Netherlands
WOARD	Woreda Office of Agriculture and Rural Development
YCFCU	Yirgacheffe Coffee Farmers' Cooperative Union

Inclusive and Sustainable Industrial Development and the Programme for Country Partnership

The United Nations post-2015 development agenda reinforces the international community's commitment to poverty eradication. One of the major items on this agenda is inclusive and sustainable industrial development (ISID), the core of the new mandate given to UNIDO by the 2013 Lima Declaration. The ISID strategy aims to pilot the development of innovative partnership business models considering that the main thrust behind the partnership business model is the mobilization of external partners and resources to increase the impact of UNIDO's technical cooperation.

Through partnerships with governments, development finance institutions, UN agencies, multilateral and bilateral development agencies, civil society, and the private sector, the Organization is to have a much larger impact on the ground with its technical expertise being applied according to the needs of Member States and benefiting from the resources of financial institutions and private industry.

In order to operationalize the partnership approach, UNIDO has developed a new type of assistance package for its Member States: the Programme for Country Partnership (PCP). The PCP is not a static template, but a custom-built partnership formula with each beneficiary maintaining ownership of the complete process by defining its needs and required support, and finally ensuring the success of its delivery.

Each PCP is aligned with the national industrialization priorities and development plans of the beneficiary country. At the same time, the selected countries need to be fully aligned with ISID objectives and demonstrate full ownership of the Programme. They need to embed the PCP into their national resource mobilization strategies, and remain open to partnerships for up-scaling technical cooperation services and leveraging additional resources.

Within the ISID strategy, Ethiopia has been selected as pilot program for the implementation of a Programme for Country Partnership (PCP) with the aim at bringing together development partners, UN agencies, development finance institutions (DFIs) and the private sector — under the ownership of the national Government — to help achieve the goals set out in the country's Industrial Development Strategy.

The PCP focuses on three light manufacturing sectors: agro-food processing; textiles and apparel; and leather and leather products. These sectors were chosen due to their prospects for job creation, strong linkages to the agricultural sector, high export potential and capacities of attracting private sector investment. They act as a springboard for the transformation of Ethiopia's economy, mainly based on agriculture, into one primarily driven by light industries.

In light of the above, the UNIDO Project for “Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership” is aligned to the on-going development activities already implemented in the framework of the UNIDO PCP Ethiopia without any duplication of effort, rather complementing and scaling up.

Finally it will directly contribute towards the achievement of the new UN Sustainable Development Goals: 1 (eradicate poverty) 2 (eradicate hunger), 5 (promote gender equality

and empower women), 8 (decent work and economic growth), 9 (industry innovation and infrastructure), 10 (reduce inequalities), 17 (partnerships for the goals). Moreover, the project will contribute to implement the UN Conventions on Climate Change and to Combat Desertification.

Creating an Enabling Environment for ISID

As part of the initial PCP assessment, UNIDO has identified the most promising industrial sectors for ISID, based on Ethiopian national development plan. Jointly with the host government and other key stakeholders, the Organization will assess the current policy framework and support the government in developing a holistic strategy for accelerating industrialization.

UNIDO provides critical capacity-building and technology transfer support and, in addition, plays a catalytic role for large-scale public and private investments by conducting feasibility studies for industrial projects.

In order to ensure environmental sustainability, UNIDO's considerable experience with Green Industry, resource-efficient cleaner production systems and waste management, as well as industrial energy efficiency and renewable energy approaches, is also integrated into the PCP framework.

Coordinating a Partnership Network

With an increasingly complex array of actors, strategies and means of intervention, it is important that activities and resource flows are well-coordinated. The PCP brings together actors through a multi-stakeholder platform to coordinate and optimize the contribution of each.

During the assessment and implementation phase of the PCP, UNIDO consulted with all relevant development partners to determine the potential and benefits of collaboration. A strong national coordination mechanism is required to manage the complex partnerships involved in a PCP. In this context, a task force brings together key PCP partners under the leadership of the national government. In coordination with UNIDO, the task force is responsible for overall coordination, prioritizes projects and programmes, and allocates resources for the execution of the PCP. The task force also monitors progress to ensure that expected results are achieved.

In this context it is worth mentioning that the project team constantly operated in full coordination with the PCP task force, providing all the reports as well as its indications, in order to align the project on the coffee sector with the PCP Ethiopia priorities.

Piloting the Partnership Approach in Ethiopia

In order to develop pilot PCPs, UNIDO conducted high-level scoping missions to consult with relevant stakeholders in late 2014. Ethiopia and Senegal were selected for the first two UNIDO-PCP initiatives. Multidisciplinary technical teams were assembled who, in close collaboration with the respective governments and potential partners, formulated the PCP for each country.

The host governments approved the PCP documents in early 2015. Start-up activities for the PCPs are currently being implemented, including the preparation of feasibility studies and the definition of relevant partnership modalities.

UNIDO and the Public Private Partnerships

UNIDO defines business partnerships as non-commercial collaborations between UNIDO and private sector entities, which have the purpose of achieving common goals and objectives in the field of industrial development. Such partnerships can involve two or more parties, including business and industry, academia, governments and local authorities, NGOs and intergovernmental organizations.

In this context UNIDO, illycaffè and Ernesto Illy Foundation have joined their forces under the project “improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership”.

Illycaffè and Ernesto Illy Foundation have mobilized their sector’s core competencies (skills, know-how, networks, human and financial resources) for improving the quality and production capacity of small Ethiopian coffee growers and increase their income, advancing sustainable production, processing and international marketing.

This public-private partnership seamlessly integrates into the Programme for Country Partnership for Ethiopia, established to bring together investors and specialists in support of the country's progress towards becoming a middle-income country by the year 2025.

illycaffè S.p.a.

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 company produces also home coffee machines.

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 illycaffè 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 also started to sell single origins coffee, being in this way a sort of ambassador of the quality produced in the selected countries including Ethiopia.

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 strategy is essential to provide the high organoleptic quality those illycaffè needs, as quality generated by nature could be spoiled by wrong postharvest management. To avoid this, a full integrated supply chain has to be implemented in each origin, involving all the actors from the coffee farmer to the final exporter. 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

The Ernesto Illy Foundation has the mission to cultivate and develop knowledge, ethics and sustainability as absolute. Activities that could be related to the present Project are the master's degree scholarships in Coffee Economics and Science that could be the best knowledge opportunity to train the main actors of the coffee sector. Is a university master's degree, organized and proposed by a renowned group of leaders in the field of education that offer an in-depth multidisciplinary preparation that embraces the entire productive cycle of coffee¹.

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 Countries².

illycaffè and Ernesto Illy Foundation inputs

As the project is expected to support and train selected clusters of farmers and cooperatives aiming at improving quality and productivity through strengthening the collection, storage, processing and marketing and distribution system,, illycaffè and Ernesto Illy Foundation have already started to provide in-kind support with 2 technical advisory missions that have guided the project team in defining the detailed action plan, from agronomic level up to the processing phase.

Moreover, two scholarships in Italy (Master Degree in Coffee Economics and Science) have been awarded to selected Ethiopian coffee experts. During the project implementation, the consultancies will be utilized for specific purposes where the competence of illycaffè and Ernesto Illy Foundation can play a valuable role for the Project implementation. In particular, as already stated in the project document, the technical assistance will be utilized for:

- Activities under Output 3, for the competences in the selection and classification of green coffee, as well as training programs to managers and technicians of the cooperatives;
- Activities under Output 4, for the international recognition of the Ethiopian coffee quality.

¹ <http://www.fondazionernestoilly.org/fondazioneEilly/ENG/Activities-Master.htm>

² Detailed courses are available on <http://unicaffe.illy.com/en/home>.

Executive Summary

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* remains an indigenous produce in the same way as *teff*, false banana and *anchote* are.

Ethiopia is not only the cradle of coffee, but it is the only country in the world with an estimated treasure of more than 10,000 genetically differentiated varieties. Coffee plays a fundamental role in the political, economic and social aspects of Ethiopia. The products represents one of the main export commodities, generate foreign currency, and stimulate the national economy by providing job opportunities for millions of people directly or indirectly engaged in the sector. According to data from the Central Statistical Agency (CSA, 2013), there are more than 4.22 million smallholder farmers involved in coffee production, and an additional 15 to 20 million people dependant on the industry, out of a population of an estimated 90 million. 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.

Ethiopia became one of the major coffee producing countries in the world with a world supply share of nearly three per cent to date. According to ICO, Ethiopia represents the fifth largest global coffee producer and the first largest in Africa. In 2013/14 Coffee exports generated foreign currency earnings of about USD 719 million for the country.

In 2014/2015, coffee production was expected to increase slightly from the earlier official USDA estimate to a record 6.475 million 60 kg bags (388,500 metric tons). This anticipated increase in production is attributed to decent rainfall distribution in the main coffee producing areas during the growing season and the on-going improvements in the coffee extension package, such as the release of disease-resistant, high-yielding varieties of coffee as well as expanded seedling production facilities. Production for 2015/2016 is expected to hold relatively steady at 6.508 million bags (390,500 metric tons), but less than record production levels registered the preceding year. The quality of the coffee crop might deteriorate somewhat due to the delayed Belg rains (Mar-Apr) and the timing/length of the Meher rains (May-Sep). However, at this stage, it is too early to tell what that overall impact on quality might be. While not expected to have a noticeable impact on production, some farmers in Harar, the eastern part of the country, are switching to *khat*, since it commands a higher price and can be harvested several times throughout the year

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 (MoFEC) 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. MoFEC 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 and the encouraging results, the Growth and Transformation Plan (GTP I) - for the period 2010/11 – 2014/15 - has been prepared and adopted in November 2010.

The G&TP I had 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.

The first five-year GTP I (completed in the period 2010/11-2014/15) included coffee production and export targets. Specifically, by 2014/15, it was expected that coffee production was to reach 7.7 million bags (462,000 metric tons) with exports at 4 million bags (240,000 metric tons).

Table 1- GTP I Production and Export Targets and Expected Outcomes for 2014/2015

	GTP I	Post Estimates	Difference
Production	7,7 million bags (462,000 metric tons)	6.475 million bags (388,500 metric tons)	1,225 million bags (73,500 metric tons)
Exports	4 million bags (240,000 metric tons)	3,25 million bags (195,000 metric tons)	0,75 million bags (45,000 metric tons)

Source: USDA Report 2015

While considerable progress was made, Ethiopia was not able to meet these two targets. For the sake of comparison, the post production estimates for this same period (2014/2015) is 6.475 million bags (388,500 metric tons), with exports forecast at 3.25 million bags (195,000 metric tons).

Accordingly with the draft of the GTP II (in the year 2014/2015 548,2 tons of coffee were produced in Ethiopia.

In the Growth and Transformation Plan (GTP) II³, the targets relevant to the coffee sector are as follows.

³ It is worth mentioning that the first draft of the GTPII (brief version) has circulated among the national and international Institutions for collecting feedback. The final GTPII long version has still not been released.

Table 2 - Projection summary of major targets (Macro and Sectorial) of GTP II

Sector/ Indicator	Unit of measurement	Baseline year (2014/15)	Plan targets (2019/20)
Agriculture and Rural Transformation			
Share of Agriculture and allied Sectors to GDP	percent	41.1	35.6
Coffee productivity	qt/ha	7	11.1
Coffee production	thnd/tons	548.2	1102.6

Source: GTP II, MOFED

In light of the above it is remarkable that the action plan includes activities aimed at expanding the coffee quantity, quality as well as the investments in the industrial sector, in particular in coffee roasting.

Ethiopian Coffee Sector potential to grow

Ethiopia has the privilege to be able to penetrate different markets without depending on a specific one. It can serve:

- international markets
- domestic and regional markets
- specialty markets

As indicated by the CSDS prepared by the EU, Ethiopia can succeed in exploiting its full potential: (i) being endowed with edaphic and climatic resources quite favorable for the expansion of coffee; (ii) long being confirmed as the original home of coffee, with the largest genetic diversity; (iii) having several types of specialty coffee with unique and internationally cherished cup qualities; (iv) relying heavily on coffee as the highest source of foreign currency and employment for the different segments of its people; and (v) having a hard working rural and urban work force.

During the inception phase of the current UNIDO initiative, a number of factors and constraints were identified, with the most relevant summarized as follows:

- absence of a single “coffee institution”,
- constraints in production, processing, and maintenance of coffee quality,
- insufficient or lack of appropriate improved technologies,
- weak extension service systems,
- marketing constraints,
- inadequate or lacking capacity (financial, human, physical and skill) along the coffee value chain,
- climate change.

The envisaged benchmarks for an effective project intervention emphasize the necessity of increasing coffee quantity, quality, sustainability, traceability and geographic identity of Arabica coffee. Furthermore, in order to boost the sector, Ethiopia can exploit the

possibility to add value to its coffee, supporting the already active private sector which is working and investing in roasting.

They can be summarized as:

- implement the most appropriate institutional arrangement for the national coffee sector with the required political, organizational and resource empowerment (the new Coffee Authority).
- develop and use agro-ecology/locality-based and market-oriented packages of improved coffee production and processing technologies.
- strengthen coffee certification to promote sustainability, specialty, traceability and geographic identity of Ethiopian coffees.
- build and/or enhance the necessary capacity of the various actors across the national coffee value chain with special attention to creating awareness of coffees available from Ethiopia among consumers and researchers.
- develop the capacities in value adding activities such as, roasting and products diversification especially for exploiting the economic opportunities available in the “not-sophisticated coffee markets”.
- conserve, develop and protect the sustainable use of the genetic diversity and natural resource base of the coffee production systems in the country.

The Inception Analysis on the Ethiopian Coffee Value Chain and Proposed Actions

In the Coffee Project Document an Inception Phase (now finalized) was envisaged in order to prepare a thorough assessment of the coffee sector in Ethiopia and to find sustainability measures to improve the Ethiopian coffee supply chain value.

At this regard, in accordance with H.E. Dr. Mebratu Meles, State Minister for Industry in charge of Agro-Industries, a preliminary action plan has been prepared with the aim of sharing, with all the Institutional stakeholders involved, the vision of the project in approaching the coffee sector.

Consequently the coffee value chain has been analysed and detailed through field assessments, contact and collection of information from actors of the coffee value chain, like smallholder farmers, cooperatives, owners of the large plantations, collectors, wholesalers, primary processors, roasters, exporters, representatives of associations etc.

Therefore, the major constraints of the Ethiopian coffee value chain were identified and analysed through extensive discussions with different stakeholders. These included key value chain actors such as producers, (smallholders, cooperatives and plantations), processors/suppliers, regional agricultural bureaus, regional warehouses, ECX (trade and authority), exporters, international buyers, EU, Institutions, NGOs and donors.

At this regard baseline data were collected, specific KPIs defined and a detailed plan of actions has been prepared in the inception phase report that will be presented to the project’s steering committee. A profiling activity through the elaboration and collection of tailored questionnaires related to the three main groups of stakeholders active all across the Ethiopian coffee value chain, such as:

1. Coffee smallholder’s growers organized in cooperatives and unions;
2. Coffee exporters;

3. Coffee roasters.

The aim of the profiling activity was focused on the identification of the main challenges and opportunities that each of the stakeholders has to face in performing its role, so to enable the project in providing them with the most suitable solutions in line with the project document.

As a consequence of this analysis, in the Project Document, under **Output 3** (the quality of exported coffee is increased) are foreseen activities to be carried out in the coffee growing areas that are related, among others, to: (i) support the operations of cooperatives and unions, (ii) improve and support washing stations (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), (iii) provide technical assistance during rehabilitation, management training, maintenance training and equipment (if necessary), (iv) provide financial advice to investors and, (v) promote the extension of the utilization of drying beds.

In addition, under **Output 4** (The quality and sustainability of the Ethiopian coffee is internationally recognized) are foreseen activities to be carried out in the coffee growing areas that are related, among others, to: (i) increase the traceability also for the share of coffee that is directly exported by the Unions, (ii) design and implement actions allowing the increase of traceability and, (iii) facilitate the acquisition of certifications (if required).

In the light of the above project outputs, in order to properly select the areas of intervention, at the earliest stages of the Inception Phase, the project team has received the following recommendations and guidance from the relevant Institution involved into the Project:

- 1) The indication received from MoI: According to MoI, the area/s of intervention should be possibly located in the vicinity of one of the Integrated Agro-Industrial Parks (IAIPs) that will be established in Ethiopia. The indication of MoI leads to choose the area of Sidamo, which is near a planned agro industrial park and is a coffee growing area.
- 2) The indication received from MoA: according to MoA, it is necessary to avoid overlapping with other projects and to consider the availability in many Woreda of funds from other donor initiatives, like the Agricultural Growth Program (AGP).
- 3) The indication received from the Italian Development Cooperation (IDC): according to IDC, the coffee activities, that have been carried until now in Delo Mena Woreda by Istituto Agronomico per l'Oltremare (IAO) with funds of IDC, should continue under the UNIDO project.

All the above-mentioned issues brought to visit the following Woredas: Aletawondo, Sidama Zone, SNNPR (also accompanied by experts from illycaffè and the officers of TechnoServe); Delo Mena, Bale Zone, Oromia Region (accompanied by the officers of IAO). In this two Woreda Detailed information have been collected on cooperatives, washing stations, hulling stations etc.

The characteristics of the two selected locations, for what concerns the coffee sector as described in the following paragraphs, are very different and therefore require approaches partially different. This will help the Project in creating success cases in two coffee areas,

increasing Project impact and facilitating further promotion and replication of Project's activities and interventions.

As a result of the accurate assessment of the coffee sector made during the Inception Phase, a detailed Action Plan has been produced; all the related documents are enclosed to this report and they will be presented for validation during the Project Steering Committee (PSC) meeting.

The action plan of the current project initiative is summarily divided into three subsections:

1) Plan of action in a selected woreda in SNNP Region having the objective to:

- a. Increase income, deriving from coffee production, of smallholder farmers associated to 3 selected cooperatives (Homacho Waheno, Gerbicho Lela and Titira) in the Woreda of Aletawondo, Sidama Zone, SNNP Region.
- b. Increase value of coffee produced by the selected cooperatives for export caused by an increase of yield and quality of the coffee and by the improved international recognition of Sidamo coffee quality.

2) Plan of action in a selected woreda in Oromia Region having the objective to:

- a. Increase income, deriving from coffee production, of smallholder farmers associated to the 12 cooperatives based in the Delo Mena Woreda of Bale Zone, Oromia Region.
- b. Increase value of coffee produced by the selected cooperatives for export caused by an increase of the quality of the coffee and by an acquired international recognition of the Hareenna forest wild coffee quality.

3) Plan of action related to the Organized Coffee Forum and to the Roasting Activities to be carried out in Addis Ababa having the objective to increase value addition of exported Ethiopian coffee because:

- a. The coordination among the coffee value chain actors is improved;
- b. The basis for an increase of the volume of roasted exported coffee is put in place.

Subsequent discussions on the report's findings will be outlined in the next chapters falling under the Part I: Baseline Data of the Coffee Value Chain in Ethiopia, followed by the proposed actions of this project enclosed in Part II: Project Interventions.

Chapter I – Inception Phase Report Objective

1.1 Objective

In the Document of the project “Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership” (the Coffee Project), an Inception Phase was foreseen for a duration of 6 months (June-December 2015).

In this context the related objectives of this Inception Report were:

1. Profiling cooperatives and unions active in the Ethiopian coffee value chain that can provide data and feedback about their challenges and opportunities, in order to set up a tailored plan of actions.
2. Profiling constraints and challenges that limit coffee export, targeting the full traceability of the Ethiopian coffee supply chain to the international markets.
3. Profiling and assessing the possibility to provide *ad hoc* assistance to the promising Ethiopian Coffee Roasters sector especially in terms of capacity building and technical assistance, consistently with the objectives of the Project.

Following a step by step approach, the analysis concentrated on the Ethiopian coffee value chain in general and in the project areas of intervention in particular. In this context, it is worth mentioning that the project team has selected the areas in two Regional States, as indicated by the Ethiopian MoI - SNNP Regional State and part of Oromia Regional State - where synergies with Agro-Industrial parks could be found. Furthermore, the Italian Development Cooperation (IDC - project donor) indicated the specific area of Dello Mena (Oromia Regional State) for continuing the efforts made by previous IDC’s projects that have been recently implemented in the area (in the framework of the project “*Agricultural Value Chains in Oromia*”).

1.2 Scope

The scope of the current Inception phase has focused on determining the extent to which the project is relevant, efficient and effective as well as sustainable. This report has been prepared analysing the Ethiopian coffee sector as a whole and then reducing the lens magnitude up to a group of selected stakeholders active all across the coffee value chain; accordingly, baseline data were collected in relation to the major components of the Ethiopian coffee value chain, as well as geographical locations addressed by the project.

Chapter II – Methodology and Activities Carried Out

This report concentrates on defining the Project’s detailed action plan of the 1st year of the project implementation, aimed at improving the performance of selected stakeholders active in the Ethiopian coffee value chain, in order to have a positive impact on the millions of people directly and indirectly dependent on coffee. Furthermore, the project’s action plan is aimed at creating positive and success cases all across the coffee value chain, to be replicated and up-scaled in the following years.

The methodology employed for the study concentrated on the following approaches:

- desk research on available literature;
- alignment with the Growth and Development Strategy of GoE (i.e. GTP II);
- coordination with the PCP secretariat;
- visits to and direct observation of coffee growing areas, i.e. coffee farms, coffee plantations, natural forest areas, coffee research sites, pulping stations (wet and dry), certified coffee farms, etc.;
- meetings with private stakeholders at different level of the coffee value chain;
- networking with private investors interested in providing the Ethiopian coffee market with the most innovative technologies for coffee production;
- consultation with the most relevant Institutions working both at Federal and Regional level;
- consultation with international buyers;
- identification of gaps and selection of possible areas for project interventions;
- profiling activity for a selected group of stakeholders (i.e. roasters, exporters and coffee farmers unions);
- formulation of the project action plan.

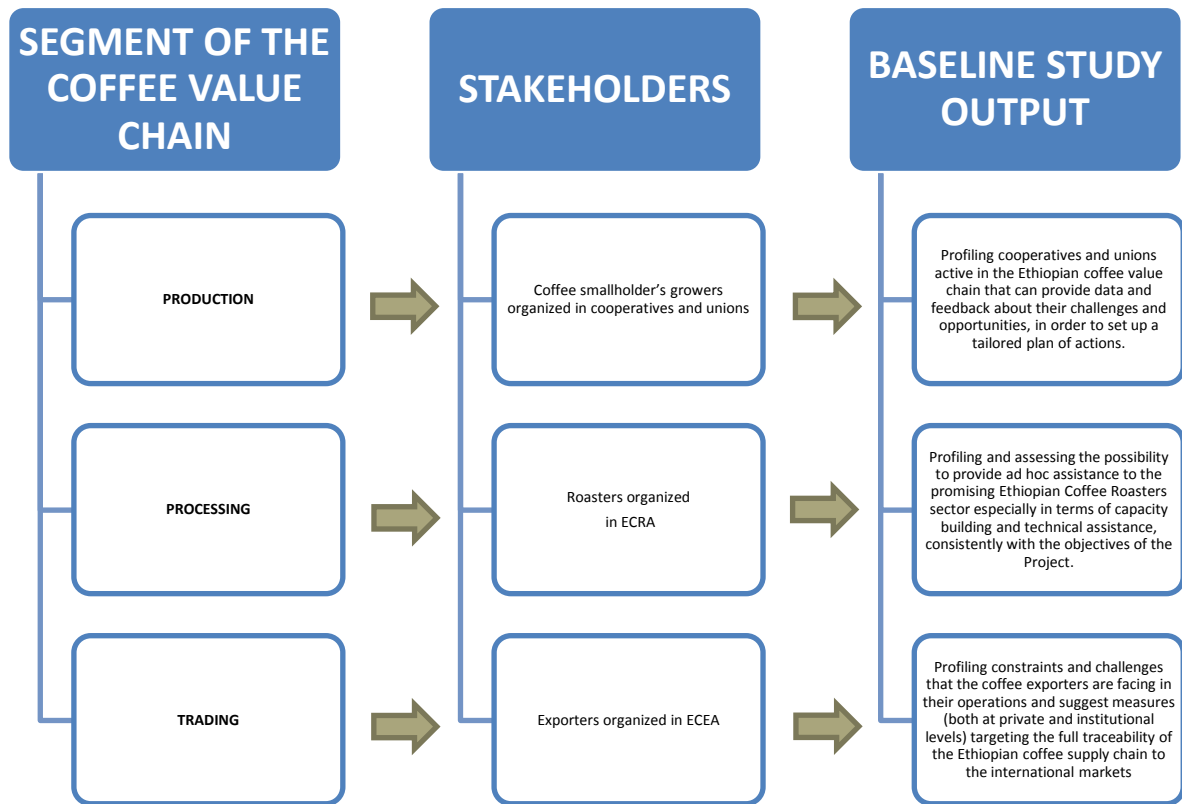
Therefore, the major constraints of the Ethiopian coffee value chain were identified and analyzed through extensive discussions with different stakeholders. These included key value chain actors such as producers, (smallholders, cooperatives and plantations), processors/suppliers, regional agricultural bureaus, regional warehouses, ECX (trade and authority), exporters, international buyers, EU, Institutions, NGOs and donors.

At this regard baseline data were collected, specific KPIs defined and a detailed plan of actions has been prepared in the inception phase report that will be presented to the project’s steering committee members. A profiling activity through the elaboration and collection of tailored questionnaires related to the three main groups of stakeholders active all across the Ethiopian coffee value chain, such as:

1. Coffee smallholder’s growers organized in cooperatives and unions;
2. Coffee exporters;
3. Coffee roasters.

The aim of the profiling activity was focused on the identification of the main challenges and opportunities that each of the stakeholders has to face in performing its role; specific description is made coherent in the figure here below:

Figure 1: Baseline Research across the Coffee Value Chain



Source: Team Analysis

Moreover, detailed information was collected in two targeted Regional States from the following Organizations and Institutions.

2.1 Regions, Zonal and Woreda Bureau of Agriculture (BoA)

Oromia Regional State:

- Bale Zone, Delo Mena Woreda
- Guji Zone, Kercha Woreda;
- Jimma Zone, LimmuKossa Woreda;
- West Hararge Zone, Habro Woreda;
- West Wolga Zone, Homa Woreda;

In SNNP Regional State:

- Sheka Zone, Masha Woreda;
- Benchmaji Zone, Sheko Woreda;
- Gidio Zone, Yirgachefe Woreda;
- Sidama Zone, Aletawondo Woreda.

The main information gathered was related to: (i) number, name and location of the Kebele/Woreda involved in coffee production, (ii) area covered by coffee and type of coffee (garden, forest, semi forest, commercial), (iii) denomination and grades of the coffee produced in the Woreda (iv) coffee growers characteristics (number of smallholder farmers,

number of growers harvesting forest, number of women involved in coffee), (v) total production of coffee of the Woreda subdivided into typologies (garden, forest, washed, sundried), (vi) list of washing stations present in the Woreda (with description), (vii) list of hulling stations present in the Woreda (with description), (viii) list of the coffee cooperatives operating in the Woreda (with characteristics) and, (ix) list of the coffee Unions operating in the Woreda.

2.2 Unions of Cooperatives

- Kaffa Forest Coffee Farmers' Cooperative Union (KFCFCU);
- Sidama Coffee Farmers' Cooperative Union (SCFCU);
- Yirgacheffe Coffee Farmers' Cooperative Union (YCFCU);
- Oromia Coffee Farmers' Cooperative Union (OCFCU)

The main information collected is related, among others, to: (i) basic information on the Union, (ii) information and location of primary member cooperatives (Zone, Woreda, Kebele) with number of farmers, cultivated area, type of coffee, annual production and, (iii) marketing of coffee. An Excel Database has been prepared with all the information relevant to the four Unions.

2.3 Associations

- Ethiopian Coffee Growers, Producers And Exporters Association (ECGPEA), with 48 members;
- Ethiopian Coffee Exporters' Association (ECEA), with 145 members;
- Ethiopian Coffee Roasters' Association (ECRA), with 61 members.

Among the above coffee exporters and roasters identified, 20 exporters and 20 roasters have been pre-selected for the survey; the selection criteria used were a) many years of experience in the sector and b) export volume or roasting capacity. Among the pre-selected 20 coffee roasters and 20 exporters, ten coffee exporters and eighteen roasters have been visited and interviewed. An Excel database was prepared with the data collected from the surveys.

In particular the goal of the survey conducted with roasters and exporters was aimed at achieving the project's output 2: "*the volume of roasted exported coffee is increased*". In this regard, in the project document the following activities are foreseen for this output: (i) identify new potential investors, starting with existing roasters, exporters and cooperative Unions, but evaluating also the potential for investments from abroad, (ii) identify constraints and select potential investors (possibly at least three national potential investors), provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology, marketing and training, (iii) provide financial advice to selected investors, and (iv) provide technical assistance to selected investors during the implementation of their investment projects.

PART I:

BASELINE DATA OF THE COFFEE VALUE CHAIN IN ETHIOPIA

Chapter III - The Ethiopian Coffee Value Chain

3.1 Coffee Production

Ethiopia is the only country in the world with an estimated wealth of more than 10,000 genetically-differentiated varieties; 5,000 accessions have already been collected and are being maintained *ex-situ* at the Jimma Agricultural Research Centre. The country has many coffee types with unique qualities due to their associated inherent characteristics, apart from having more production systems and a rich wealth of genetic biodiversity of coffee, directly dependent on the prevailing ecosystems in a given location.

Furthermore, 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 command premium prices in the international market⁴, (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 co-exist:

- **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.

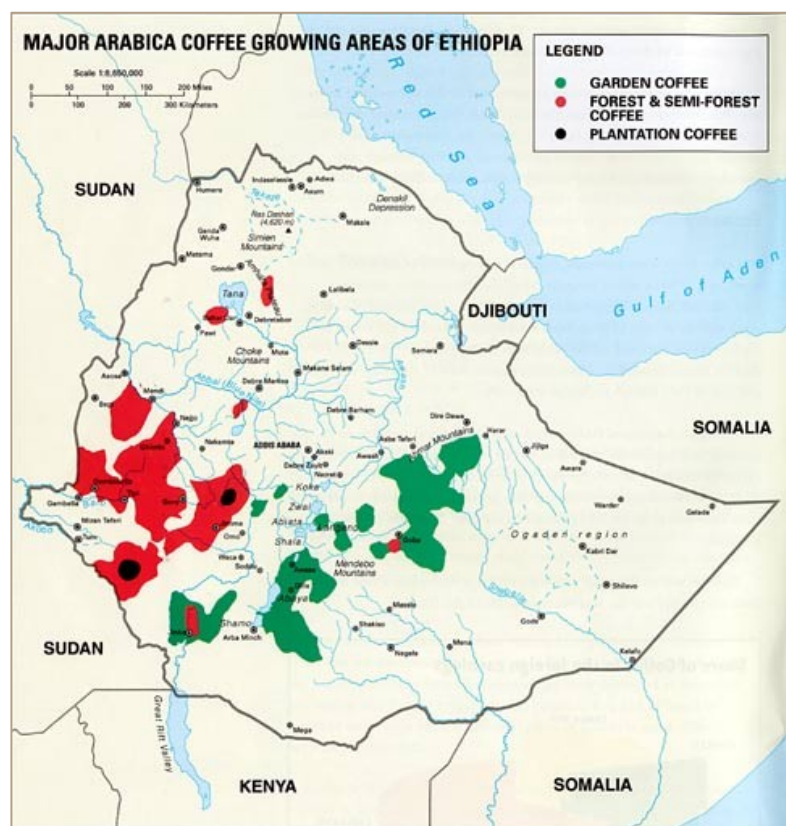
Coffee is mostly grown in two Regional States of the country, namely Oromia and Southern Nations, Nationalities and People (SNNP) (Figure 2). Ninety five per cent of Ethiopia's coffee is produced by smallholder farmers on an average of less than 0.5 hectares of land while the remaining five per cent 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.

⁴ 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.

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.

Figure 2 - Major coffee growing areas and production systems in Ethiopia



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

Figure 3 - Growing areas of some coffee types in Ethiopia



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

Figures 2 and 3 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.

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 3, the main data on coffee production for the 2014/2015 coffee season⁵ are exhibited in rounded figures⁶.

⁵ According to the International Coffee Organization (ICO), for Ethiopia, the “coffee season” or “crop year” starts on the first of October and ends on 30 September. The Ethiopian calendar starts on 11 September and ends on the 10th of September of the following year while the Ethiopian Fiscal Year (EFY) starts on the 8th of July and ends on the 7th 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.

⁶ 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. With regard to the above figures, the following observations 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

Table 3 - Significant features of coffee production in Ethiopia, 2014/2015 coffee season

DATA	UNIT	QUANTITIES	SOURCES
Number of Holders	N	4,723,000	CSA
Area	ha	561,761.82	CSA
Production	t	419,980	CSA
People depending on coffee for livelihood	n	20,000,000	Own estimate
Yields for Private Peasant Holdings	t/ha	0,74	CSA
Domestic consumption	t	50% of the production	ICO
Exportable quantity	t	50% of the production	ICO
Exports	t	195,000	USDA
Export value	US\$	715,276,596	Own estimate

According to ICO 2015⁷, it is estimated that the per capita consumption of coffee in Ethiopia is around 2.26 kg per year. Currently the population in Ethiopia is estimated at 90 million people, which would bring the total annual consumption of coffee to 207,000 tons. As Ethiopia is also exporting a similar quantity, the national annual production would be roughly around 407,000 tons (\pm 5-10%)⁸.

The most dynamic growth in African production was observed in Ethiopia, which has recorded an average annual growth rate of 2.2% over the past 50 years, increasing to 2.7% since crop year 1989/90. The country's production trend is generally upward despite some downward interruptions, reaching around 6.6 million bags in 2014/15. Ethiopia is also unique in Africa in so far as it has a strong domestic coffee consumption culture, which frequently accounts for over half of production.

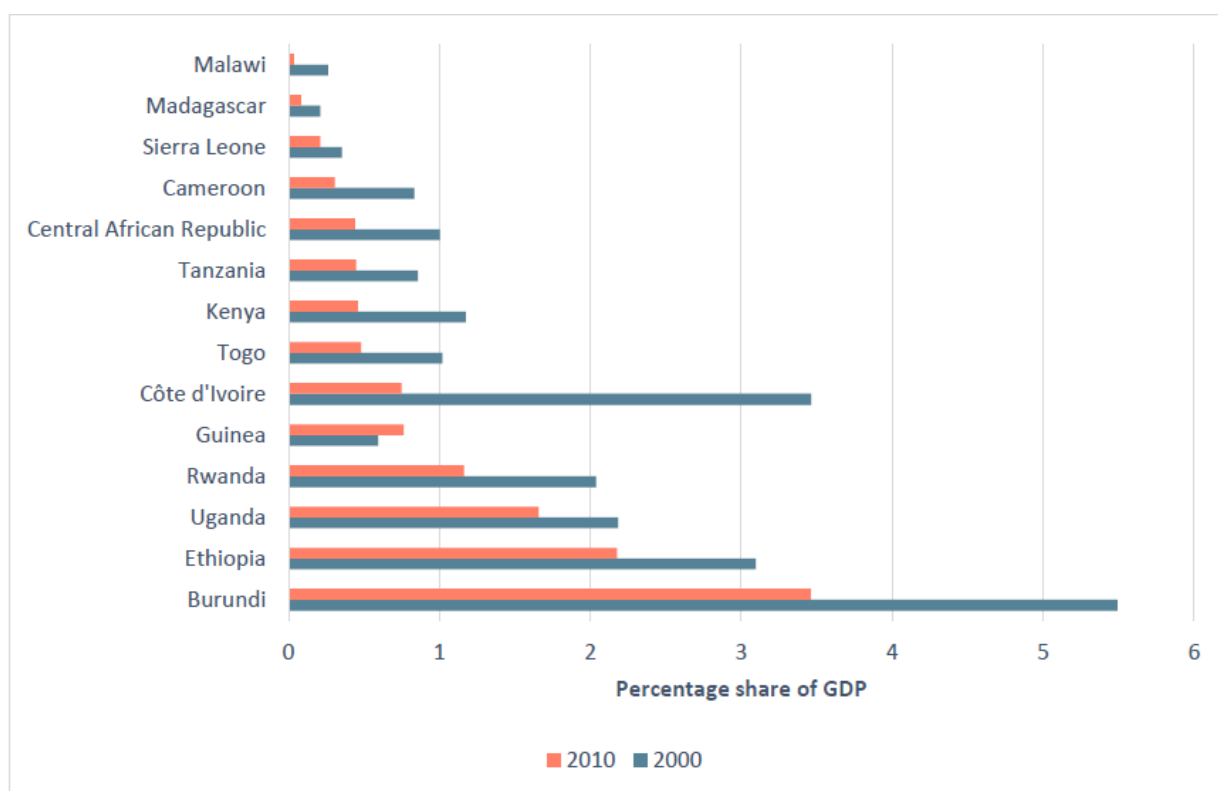
for poor rural populations. Adding those employed in transporting coffee and ancillary activities, LMC (2000, 2003) estimates that 15 million people are involved in the industry in one way or the other". The above estimate needs to be updated: (i) to make it consistent with the about 4 million involved smallholders reported by CSA in 2011/2012, which largely differ from the 1.3 million considered by Agri-system 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 has been reduced from 6-7 people to 4-5 people⁶. In consideration of all the above-mentioned variations, the updated number of people depending on coffee should be today, 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 give 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.

⁷ ICO (2015), World Coffee Trade

⁸ EU Coffee Sector Development Strategy 2014.

Figure 4- Share of Coffee in the GDP of Selected Producing Country in Africa



Source: ICO 2015

Ethiopia has huge potential to increase coffee production as it is endowed with suitable elevation, temperature, and 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 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.
- 2) Smallholders' lack of technical skills and knowledge. The problem is worsened by: (i) the prevalence of 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 traditional.
- 4) There is a poor coordination among institutions and organizations involved in coffee VC; it is hoped that with the creation of the Coffee Authority these problems will be overcome.¹⁰

⁹ 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".

¹⁰ The GoE with the Regulation no. 364/2015 has already established the Ethiopian Coffee and Tea Development and Marketing Authority and the authority DG and Development and Marketing leaders are already nominated.

- 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) Khat¹¹ (*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 of labour, in some of the coffee growing areas, is prevalent during the coffee season.
- 10) Low quality associated with inappropriate pre and post-harvest handling / management practices.
- 11) Inadequate effort to promote coffee certification to ensure sustainability, traceability and geographical identity in all coffee growing areas.

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

- 1) The already 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.

3.2 Coffee Processing

Coffee processing is the industrial activity that converts the raw fruit into the finished (or roasted) coffee. From “primary processing”, what is obtained is “green coffee” while “secondary processing” enables the roasting of coffee and its subsequent grinding and packaging. 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.

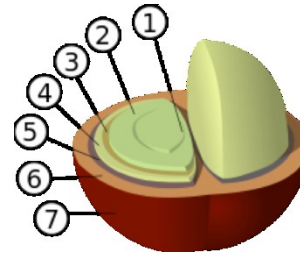
3.2.1 Primary Processing

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 5) 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.

¹¹ 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 Djibouti; 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.

Figure 5- Structure of coffee berry and beans

- 1: center cut
- 2: bean (endosperm)
- 3: silver skin (testa, epidermis)
- 4: parchment (hull, endocarp)
- 5: pectin layer
- 6: pulp (mesocarp)
- 7: outer skin (pericarp, exocarp)



Source: Wikipedia http://en.wikipedia.org/wiki/Coffee_production

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 washing¹². 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 coffee¹³ 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.

¹² 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.

¹³ 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.

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

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
Total	770	241	15	1,026	666	24	6	696

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 now MoI and MoT)¹⁴ 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 USAID¹⁵, 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.

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.

¹⁴ 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).

¹⁵ *Ethiopia Coffee Industry Value Chain Analysis, Chemotic International Inc., 18 June 2010*

The increase of washing stations is the result of the effort put by governments, cooperatives and unions and donors. For instance, the NGO *TechnoServe*¹⁶ contributed to the increase, between 2008 and 2011, 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.

Coffee primary 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.
- 5) Technology, technical skills and maintenance capacity, both for wet and dry coffee processing, are lacking since the labour force consists mostly of unskilled workers.
- 6) Lack of modern/appropriate coffee processing technologies to maintain high coffee quality as well as 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;

3.2.2. Secondary Processing

Concerning **secondary processing (e.g. roasting)**, only a small portion of the coffee produced (less than 1 per cent of the total production)¹⁷ 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.

In Ethiopia **secondary processing** is mainly constrained by problems of low industrial capacity, mainly due to: (i) low domestic demand for processed coffee owing to the tradition of home roasting and grinding the coffee (commercially packaged coffee is

¹⁶ Funded by the Bill & Melinda Gates Foundation

¹⁷ 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.

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 techniques and in modern 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, packaging etc.

Despite these structural constraints, Ethiopia is witnessing a promising trend in the coffee roasting sector thanks to a myriad of private initiatives of small coffee roasters that are penetrating both the domestic and the international market. As a proof of this trend, it is encouraging to note that the Ethiopian Coffee Roasters Association (ECRA) is counting 61 members, representing the most important coffee roasting enterprises which are processing a relevant share of the coffee roasted in the country.

3.3 Coffee Marketing

Ethiopia is privileged to be able to meet the demands of many different markets and does not depend on one, as is the case for most other coffee producing countries. It can serve:

- international mainstream markets
- domestic and regional markets
- specialty markets all over the world

According to the global trends in coffee trading, the majority of all coffees traded are mainstream coffees, sold in bulk volumes and mainly following the price finding mechanisms determined by the New York coffee market (ICE).

The extreme volatility of coffee prices set by ICE system is definitely a threat in a country like Ethiopia, nevertheless an alternative strategy to cope with this vulnerability is to produce and trade certified and specialty coffee, able to obtain prices above the international commodity price at the ICE. 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. It is esteemed that a share between 10-20% of coffees traded globally are considered specialty coffees and, although a minority, they present a huge potential for Ethiopia.

On a worldwide scale, the specialty market is showing a tendency to grow even further the 10-20% as the topic of sustainability is gaining more momentum. Despite that, in Ethiopia, where a multitude of specialties exist, the subject has been completely ignored by the current market structure, as it is relying on a simplified mainstream commodity market.

It is certainly true that specialty coffees are still a minority, (even though Ethiopia is already selling around 25% of its coffees as specialty, meaning with a substantial premium over ICE) but due to their nature, are an ideal market segment to be targeted by Ethiopian producers and their associated exporters; increasing production is important, but the real asset of the Ethiopian coffee resides in its quality that, by obtaining premium prices, could allow avoiding the competition with the “coffee giant”, like Brazil and Vietnam, gaining on bulk sales. The share covered by Ethiopia in the international coffee trade is about 3%, but

could easily cover twice as much; as this change is not going to be realized all at once, the strategy to be developed would be the penetration of the specialty coffee market in different parts of the world: accordingly the internal marketing structure must guarantee transparency, traceability and sustainability, all requirements for the international markets. Certified and traceable coffees are certainly not in the mainstream category on which Ethiopia currently relies, but too important to be ignored since they positively affect the overall reputation of Ethiopian coffee, but also increasingly represent a market segment attracting added values, which Ethiopia can no longer ignore.

3.4 The Domestic Coffee Market

Ethiopia remains the leading country in terms of domestic consumption with 3.7 million bags in 2013/14, representing 71.6% of the total domestic consumption of Africa and 8% of all exporting countries.¹⁸ 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; therefore a large proportion of the coffee produced in Ethiopia (about 50% of country's production) 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 de-husked, 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.

The domestic market movement has always been accepted as less important when compared with the international market; nevertheless it was never proven how important this market is in reality. According to the assumption expressed in the EU Coffee Sector Development Strategy, the domestic market in Ethiopia could easily cover a value of up to half a billion USD (2.5 USD x 200,000 tons). This figure highlights the importance of coffee for the domestic market, including the national economy as a whole.

3.5 Exports

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. Coffee exports generated foreign currency earnings of about USD 715 million for the country in 2014/15.

Table 5 - Coffee export by volume (metric ton), export revenue (million US\$), for the period from 2005/06 to 2014/15

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Export volumes	153,200	176,400	171,000	133,900	172,200	196,100	169,400	198,700	191,000	195,000
Export revenues	366	424	525	376	528	842	833	745	719	N/A

Source: MoT

The figures in Table 5 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

¹⁸ ICO, 2015

indicated in Table 5, the volume of exported coffee has demonstrated a generally increasing trend for the last nine years, except in year 2008/09 and 2011/2012 when a decrease was registered which, however, quickly recovered in the following year.

Coffee export revenue for the first half of the 2014-2015 fiscal year has exceeded the planned target. Exports in fact amounted to 73,227.9 tons of coffee, but the revenue produced was actually higher than expected at \$ 307.5 million.

The aim for the year is to export 235,950 tons and earn a total of \$862.5 million.

The expectation was that exports for the first six months of the budget year would produce an income of \$269 million from the export of around 73,593.5 tons.

The gain from the export exceeded expectations because the international coffee price was better in the export period.

Additional relevant facts related to the Ethiopian coffee export performances are that:

- a) According to MoT, Export in washed coffee accounted for 25.4 per cent in volume and 26.9 per cent in value. As a consequence, increase in washing capacity in the country 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. 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.

3.5.1 Export Destinations

For the year 2014/2015 USDA estimates exports at a record 3.25 million bags (195,000 metric tons), which are 667,000 bags (40,000 metric tons) lower than the EECA figure.

Ethiopia mainly exports green beans with only a very small amount of roasted beans. Ethiopian coffee is currently 70-80 percent unwashed or sundried and 20-30 percent is washed coffee. Unwashed coffee generally commands a lower price in many markets.

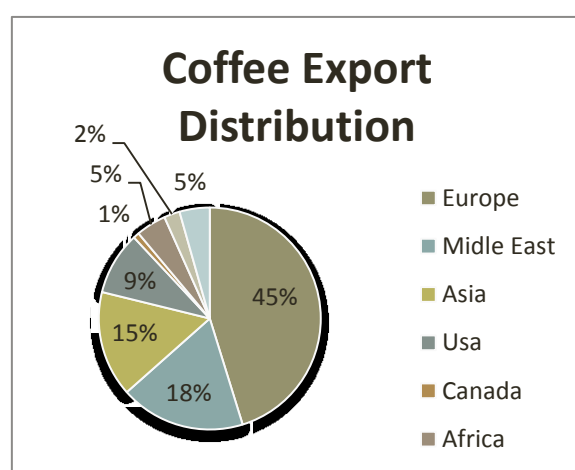
Ethiopia exports coffee to markets around the world. In MY13/14, Germany accounted for the largest share of Ethiopia’s coffee exports by volume at nearly 22 percent, followed by

Saudi Arabia at 17 percent, and Japan at 11 percent. The United States was the fourth largest destination, accounting for 9 percent of total exports. Collectively, these top four markets accounted for nearly 60 percent of Ethiopia’s total coffee exports in MY13/14. Tables 6 below show the value and volume, and destination for Ethiopian coffee for the last several years.

Table 6 - Ethiopian coffee export by country of destination

Ethiopian Coffee Export Destination (1,000 60-Kg bags)				
Destination	MY2011/12	MY2012/13	MY2013/14	MY13/14 % Share in volume
Germany	994	853	685	21.5
Saudi Arabia	421	462	525	16.5
Japan	160	392	349	11.10
USA	168	231	292	9.2
Belgium	120	256	235	7.4
France	187	162	190	6.0
Italy	155	146	163	5.1
Sudan	154	147	141	4.4
S. Korea	65	80	102	3.2
UK	54	67	83	2.6
Australia	50	51	72	2.3
Sweden	77	75	57	1.8
Jordan	57	20	45	1.4
Russia	40	35	35	1.1
Canada	25	27	28	0.88
Spain	38	27	27	0.85
Israel	26	19	11	0.35
Others	350	174	139	4.4
Total	3,141	3,224	3,179	100

Source: ICO



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. The Ethiopian coffee sector needs to invest primarily in quality, branding and marketing to set itself apart from the competition and to attract and establish a fidelity partnership with international buyers.

3.5.2 Ethiopia’s Position among Coffee Exporting Countries

Table 7 represents the monthly export statistics issued by ICO for December 2014/2015. The major exporters are Brazil and Vietnam that cumulatively account for almost 50 per cent of the total world export. Ethiopia remains among the major tenth world exporters 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 7-- Coffee exporting countries

Monthly export statistics - December 2015
In thousand 60kg bags

	December 2014	December 2015	% change	October - December		% change
				2014/15	2015/16	
TOTAL	9 184	9 307	1.3%	26 207	26 895	2.6%
Arabicas	5 283	5 980	13.2%	15 842	17 578	11.0%
Colombian Milds	1 164	1 303	11.9%	3 328	3 782	13.6%
Other Milds	1 217	1 500	23.3%	3 566	3 984	11.7%
Brazilian Naturals	2 902	3 177	9.5%	8 949	9 812	9.6%
Robustas	3 900	3 327	-14.7%	10 365	9 317	-10.1%
Angola	1	1	-32.0%	5	2	-63.4%
Bolivia	6	7	16.3%	16	18	11.6%
Brazil	3 216	3 189	-0.8%	9 715	10 203	5.0%
Burundi	23	30	31.0%	115	109	-5.1%
Cameroon	12	18	51.3%	57	49	-14.3%
Central African Republic	0	0		0	0	
Congo, Dem. Rep. of	9	8	-7.4%	24	21	-12.2%
Colombia	1 056	1 191	12.8%	3 045	3 476	14.1%
Costa Rica	49	60	22.2%	106	120	13.4%
Côte d'Ivoire	140	140	0.0%	349	406	16.4%
Cuba	2	1	-44.4%	2	1	-52.4%
Dominican Republic	1	2	60.2%	4	5	31.4%
Ecuador	87	95	9.5%	288	250	-13.2%
El Salvador	40	16	-58.8%	47	28	-41.0%
Ethiopia	160	201	25.6%	573	686	19.7%
Gabon	0	0		0	0	
Ghana	3	3	18.3%	8	9	15.2%
Guatemala	104	115	10.5%	201	325	61.9%
Honduras	287	321	11.8%	413	431	4.2%
India	360	409	13.8%	945	1 093	15.6%
Indonesia	639	325	-49.1%	1 743	1 335	-23.4%
Jamaica	0	1		1	1	32.4%
Kenya	58	52	-10.4%	184	147	-20.0%
Liberia	0	0		1	0	
Madagascar	12	12	0.3%	32	42	32.4%
Malawi	2	1	-35.6%	5	3	-34.4%
Mexico	177	180	1.7%	404	420	4.0%
Nicaragua	52	65	25.0%	191	140	-26.6%
Panama	3	3	13.9%	8	9	15.4%
Papua New Guinea	43	59	39.1%	183	168	-8.0%
Paraguay	0	0		0	0	
Peru	129	310	141.2%	928	1 252	34.9%
Philippines	1	0		5	1	-78.3%
Rwanda	30	30	0.0%	106	95	-10.1%
Sierra Leone	2	2	-13.4%	7	6	-12.4%
Tanzania	64	83	28.6%	165	217	31.7%
Thailand	2	2	0.1%	7	6	-9.4%
Timor-Leste	10	1	-95.1%	43	2	-96.5%
Togo	3	5	47.7%	8	13	54.8%
Uganda	225	342	52.3%	674	815	20.8%
Vietnam	2 150	2 000	-7.0%	5 504	4 900	-11.0%
Yemen	5	1	-89.5%	15	2	-89.8%
Zambia	0	0		1	0	
Zimbabwe	1	1	-17.6%	3	2	-40.1%
Others	22	26	18.6%	78	90	14.7%

Note: Group sub-totals take into account the corresponding share of each type of coffee exported by countries that produce and export both Arabica and Robusta in significant volumes. It should be noted that, where applicable, an Arabica/Robusta ratio of 50/50 has been used to convert processed coffee into Green Bean Equivalent (GBE)

A figure of 0 in the table can mean a volume of less than 500 bags, due to rounding. Full data in Excel format are available to paid subscribers

Next update: 29 February 2016

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Source: ICO

3.5.3 Coffee Export major problem and challenges

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 coffee¹⁹ 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.
- 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;

¹⁹ 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.

- b) lack of traceability is conspicuous;
 - c) unreliable logistics are aplenty (with delays in shipment);
 - d) inconsistent quality discernible (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 fully satisfied in the present Ethiopian auction system.
 - 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 do not encourage the demand for specialty and traceable coffees.
 - 23) Quality²⁰ 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.

3.5.4 Export through Unions and cooperatives

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

²⁰ 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.

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 8 has in display the number of cooperatives and member farmers under each of the four Unions in 2013.

Table 8-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
Totals			302	325,000

Source: Unions' websites and brochures

Currently, only some 10-15% of smallholders are members of cooperative societies and account for a similar percentage of the export volume, including commercial farmers. This segment of producers could become more efficient by increasing their numerical importance instead of creating parallel structures, which make the market less transparent for possible buyers.

Empowering cooperative and union structures, which have shown an impressive positive development during recent years, would increase the possibility to provide more coffees for the sustainability market demands. This would avoid starting again with a complete new marketing system, as already 15% of the producers are engaged in this form of production and marketing, and is completely in line with the GTP targets.

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.

Cooperative unions focus on premium markets, including the speciality market, and must be encouraged to continue their efforts, since these segments also drive the mainstream part of the demand side.

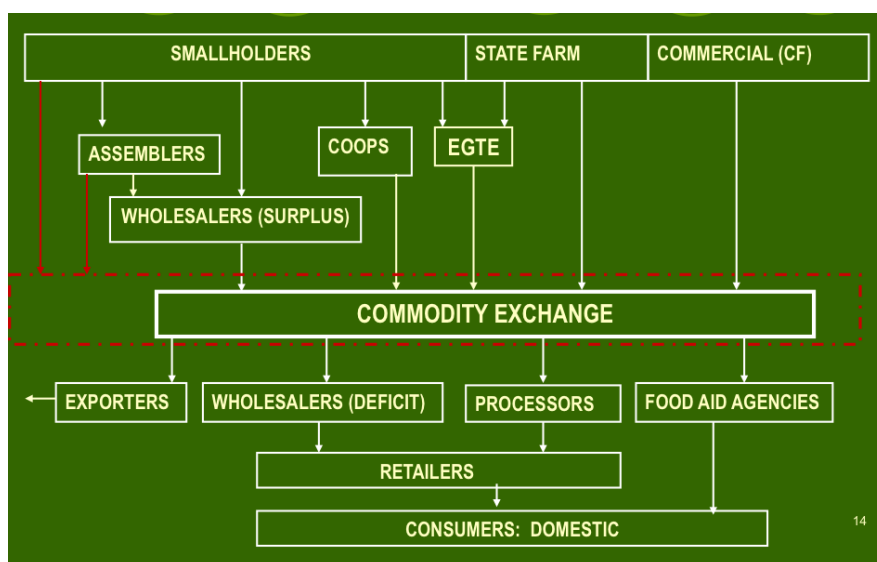
3.5.5 Export through the Ethiopian Commodity Exchange (ECX)

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, Yirgachefe, 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 6 and 7 here 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.

Figure 6 - Trading Structure within ECX²¹



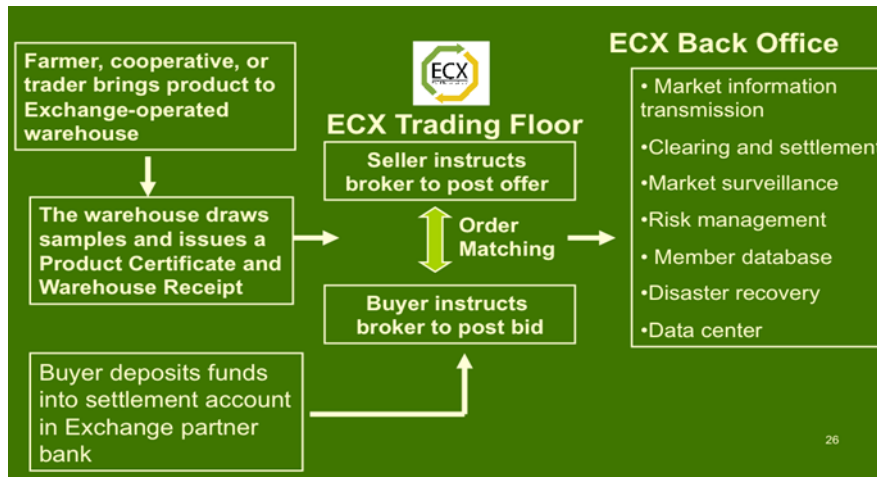
Source: Ethiopia Commodity Exchange

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.

²¹ 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/>)

Figure 7 - How ECX works

Source: Ethiopia Commodity Exchange



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.

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.

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.

3.5.6 Policy

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.

Furthermore, in order to discourage hoarding, the GoE issued a directive in 2011 to restrict private exporters from storing more than 500 metric tons of coffee. A waiver to go above the 500 ton limit is only allowed when the exporter has a contractual agreement with a foreign buyer for the excess amount. Otherwise, exports going above this limit will lose their ECX trading rights for three months. 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. This directive, however, does not apply to local cooperatives and commercial farms.

3.5.7 Certified coffee and specialty coffee

As already mentioned in paragraph 3.3, 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. There are several 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 are an attempt to give consumers some sort of guarantee about the social or ecological sustainability pertaining to the coffee's mode of production.

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. 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, roasting premises 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 (about 95% according to USDA) 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.

Fair-trade

The term “Fairtrade” is sometimes used as a generic catchall to describe coffee practices that attempt to take the wellbeing 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 certification scheme

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.

3.5.8 The Increasing Demand for “Natural Coffee”

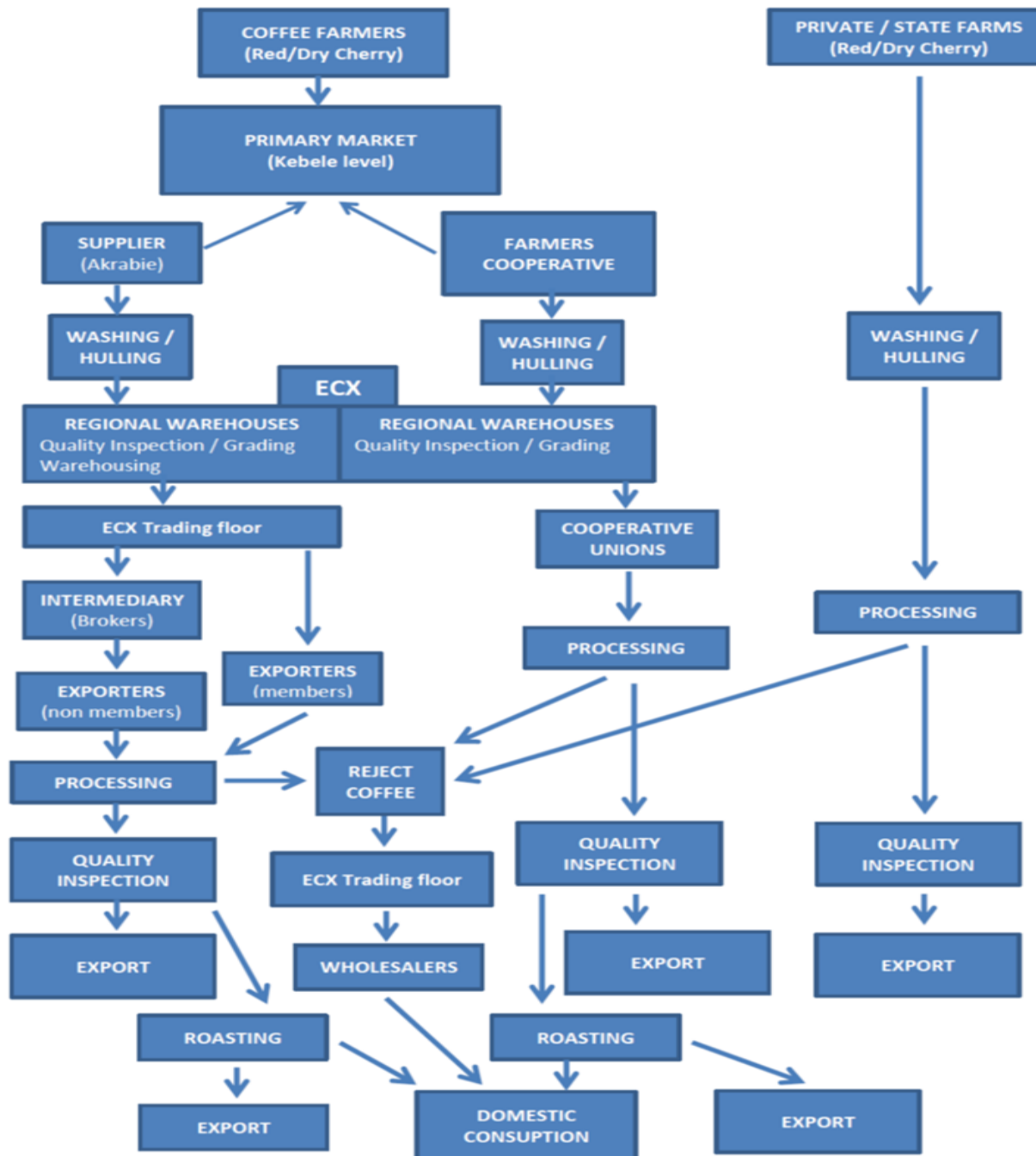
The project team assessed that the most recent tendency of the market gives a higher importance to the sundried coffee, or “Natural Coffee” and this is especially true for the sophisticated markets of Europe and North America.

Therefore it is important to take in high consideration this emerging market tendency during Project implementation by assigning a higher importance to the improvement of the quality of the sundried coffee and paying attention to the forest wild coffee in the selection of the intervention areas.

Chapter IV - 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 includes government institutions at federal and regional level, public institutes, international organizations, bilateral donors and national and international NGOs. The schematic diagram in Figure 8 depicts the coffee value chain in Ethiopia.

Figure 8 - The Coffee value chain in Ethiopia



Source: Team Analysis

It should be underlined that the value chain above refers to the steps occurring in Ethiopia, and what is especially missing are the final few steps export coffee undergoes: 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.

4.1 Direct Actors

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.

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 (so called “second payment”). In practice, the money farmers receive from cooperatives is higher than the one they collect from private collectors.

At present, there are four major unions operating in Ethiopia: Oromia Coffee Farmers Union (OCFCU), Sidama Coffee Farmers Union (CFCU), Yirgacheffe Coffee Farmers Union (YCFCU) and Kaffa Forest Coffee Farmers Union (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. 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.

Beside the more historical and consolidated Unions, there is an encouraging trend toward the establishment of new Unions specialized in providing services to coffee growers associated in cooperatives; it is the case of the newly founded Burka Yadot Cooperative Union that has been recently established with the support of the authorities to represent an alternative, for the cooperatives, to OCFCU. Also the Italian Development Cooperation has supported the Burka Yadot Union in its initial period with technical assistance and capacity building. 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 facts, 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% equivalent 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.

4.1.3. Primary Markets

The new institutional and physical structures of Primary Market Centres (PMC) have been in place since 2011. The PMCs have been conceived with the aim of serving as a platform to facilitate transparent purchase of fresh harvested cherries from farmers by local buyers, as well as facilitating the transport of the product considering the proximity to the farmer's plantation. According to the EU CSDS, despite the positive intention behind setting up of the PMCs, the outcome did not meet the anticipated target because of unforeseen effects in the overall quality and price discovery; this is due to the additional player in the value chain, i.e. the licensed broker / buyer assigned to conduct the purchase on behalf of the *Akrabi* / processor.

In order to optimize on their gains, the focus of these market participants is to buy as much volume as possible at a reduced price from the farmer, and present to the *Akrabi* at a higher price than actually paid. Considering that there is no quality control put in place in PMCs, the producers are not rewarded for the quality of coffee presented, but rather for the quantity; as an effect of this the coffee farmers have no incentive to produce better quality in future. Such quality and price distortions, which will be passed on along the market value chain, will ultimately reflect on the final export output, rendering the country uncompetitive in the international market.

There are around 1000 – 1500 processing facilities (wet and dry), spread all over the country. Most coffees, meaning coffees destined for export and domestic consumption, are channelled through these processing facilities.

4.1.4 Collectors (*sebsabies*)

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.

4.1.5 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.

4.1.6 Primary Processors

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.

4.1.7 Roasters

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 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 share of Ethiopia is estimated at well below 1 per cent of the total coffee export; 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. 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).

Despite these structural constraints, Ethiopia is witnessing a promising trend in the coffee roasting sector thanks to a myriad of private initiatives of small coffee roasters that are penetrating both the domestic and the international market. As a proof of this trend, it is encouraging to note that the Ethiopian Coffee Roasters Association (ECRA) is counting 61 members representing the most important coffee roasting enterprises which are processing a relevant share of the coffee roasted in the country.

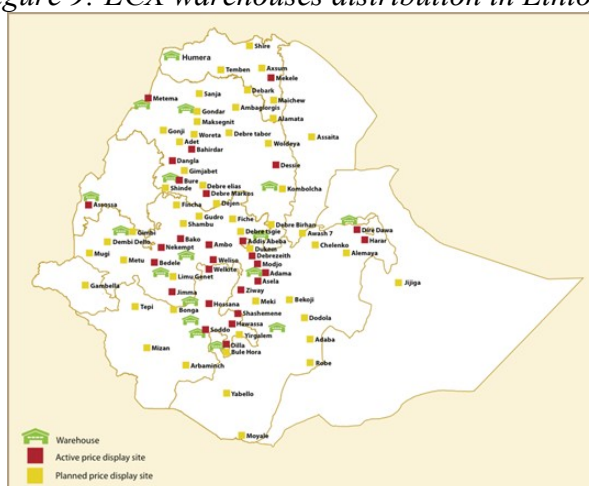
4.1.8 Retailers, Supermarkets, Coffee Shops and Bars

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.

4.1.9 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 3.5.5. In Figure 9 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 2012²².

Figure 9: ECX warehouses distribution in Ethiopia



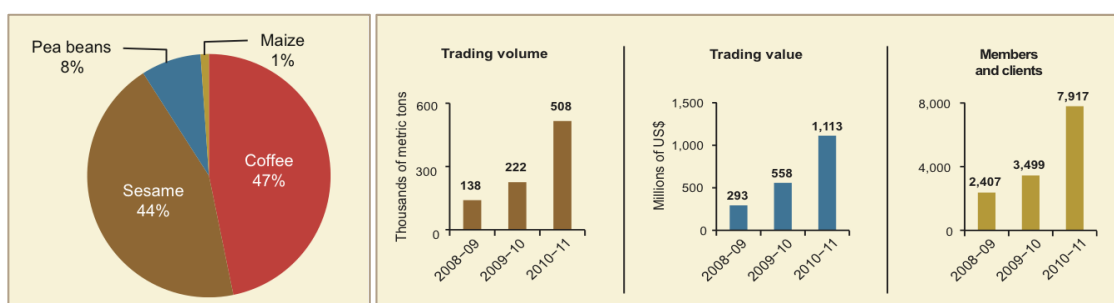
Source: Ethiopia Commodity Exchange, 2012

²² The title of the publication reads: "A Market for Abdu, creating a commodity exchange in Ethiopia - Elheni Gabre-Madhin". Ms. 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.

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 affected 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.

Figures 10 below 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.

Figure 10: ECX trading volumes, values and number of clients



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.

4.1.10 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. 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.

4.1.11 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.

4.2 Supporting actors

4.2.1 Government institutions

The major government institutions involved in the sector are:

- The Ministry of Industry (MoI), that has the responsibility to supervise, regulate the value chain and the specific activities where (secondary) processing takes place. MoI 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. MoI 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.

4.2.2 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.

4.2.3 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 has prepared a comprehensive coffee strategy for the country in 2015.
- 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. In the coffee sub sector, ACDI/VOCA has been implementing, from 2008 to 2012, a Cordaid-funded²³ "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

²³ Cordaid (Catholic Organisation for Relief & Development Aid) is a foundation based in The Netherlands.

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 Haremma 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 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 Haremma Forest Natural Coffee as specialty brand.

4.2.4 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 jewellery/handicrafts, *injera* (i.e. local bread made of *Teff*) 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 2011²⁴, 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).

4.2.5 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.

4.2.6 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 (e.g. 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.

4.3 Lack of coordination among stakeholders in Ethiopian Coffee Value Chain

All the 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.

All these issues 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 them 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, MoI, MoT and regional governments of the coffee regions), suppliers of goods and services, research institutions, international/bilateral

²⁴ The manual was prepared by Willem J. Boot for Fintrac Inc., the U.S. contractor implementing USAID/Ethiopia's Agribusiness and Trade Expansion Program.

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. It is worth mentioning that, following a request from MoFED, a coffee strategy has been prepared by the EU Delegation in Ethiopia: this fundamental tool is guiding and leading to the creation of a new Coffee Authority expected to provide with better governance to the sector.

Chapter V – Gap Analysis in the Coffee Value Chain: The Inception Phase Findings

By following the methodology previously detailed in Chapter II, the main findings of the Inception phase have been listed in the following paragraphs and divided according to the major actors involved in the Ethiopian coffee value chain.

5.1 Institutional Level

It has been noted that one of the major gap of the Ethiopian coffee value chain is represented by the lack of functional linkages among the involved actors operating in the coffee value chain. This could mainly be caused by:

- absence of a centralized institution;
- lack of a common platform for the actors of the coffee value chain (e.g. an Organized Coffee Forum);
- poor information services and communication/networking systems in the coffee sector;
- lack of a central national database on coffee related information or updated data (on production, processing, marketing, research and extension, publications, other facts and figures, etc.);
- Insufficient promotion of the Ethiopian coffee worldwide

Recently, thanks to the Ethiopian Coffee Strategy prepared by the EU and delivered to the GoE, some developments at institutional level are on-going. In this context, the creation of a single Institution in charge for the Coffee sector is foreseen: the Coffee and Tea Development and Marketing Authority.

5.1.1 New Ethiopian Coffee Authority

- The Authority has been established through the Proclamation 916/2008.
- It is named "Coffee and Tea Development and Marketing Authority" (CA).
- It will be under the Ministry of Agriculture.
- It will have its own legal entity and a Federal budget allocation.
- It will be based in Addis with branch offices in the Regions.
- The regulation of the Authority has to be issued by the MoA: so far a draft has been submitted to the Prime Minister Office for review.
- The Head of the Authority has been nominated and the Authority organization and structure are being established.
- Mr Mesfin Kare is the Head of the Authority at level SNNPR (confirmed as former responsible at regional level).

The EU has allocated € 15 million to support the Coffee Sector Development Strategy (CSDS). The funds will be released for projects that are in line with the recommendations of the CSDS, in particular to support the CA. The initial idea was to utilize the project concepts to be prepared by the Ethiopian side. To this end, the Prime Minister Office had formed a Committee to develop the project concepts (this work was expected to be completed by the end of august 2015). This deadline has not been respected and the EC needs to approve the financing by May 2016. In order to achieve this goal, the EC has decided to recruit a Consulting firm to help the CA to prepare the project concepts: the terms of reference have been prepared and the bid presentation deadline is recently expired.

According to the ToR, the IDC and UNIDO will be consulted, together with other donors supporting the coffee sector, during the preparation of the project concepts.

The Program Manager Rural Development & Food Security of the EU Delegation to Ethiopia confirmed the importance of the establishment of the Organized Coffee Forum (OCF) because the sector requires a strong institution that look over all the problems along the value chain as well as a full involvement of the private sector. It is important that the Project Team and the EC Delegation will continue to maintain a close collaboration and to exchange information on the evolution of the CA.

5.1.2 Effects on Project Implementation and on the Organized Coffee Forum

The above-mentioned evolution of the situation has three main effects on the implementation modalities of the UNIDO Project:

- 1) The opportunity to include, within the Project activities, a support to the new CA.
- 2) The importance to have a full involvement of the CA in the creation of the OCF.
- 3) The importance to pursue a full coordination with the EU Delegation for the implementation of the Output 1 (creation of an Organized Coffee Forum).

5.1.3 The Relevance of Industrial Activities in the Coffee value Chain

Industrial activities in the Coffee Value Chain are surely related to the roasting of the coffee but also to the final treatment of the green coffee (hulling, cleaning, sorting etc.) is demanding industrial facilities and know how; thus considering the importance of industrial activities in the coffee sector, it is expected a major involvement of the Ministry of Industry (MoI) in the new Coffee Authority.

This issue can be taken into account by including in the Project some activities that can facilitate the active institutional participation of the MoI in the coffee value chain. These activities can focus on the full utilization, in favour of the sector, of the Food and Beverage and Pharmaceutical Institute (FBPI) that has already been established under the MoI.

In this framework it is important to assess whether and how will be possible to establish connections and collaboration between the CA and the FBPI and to reinforce the FBPI to be fully operational and able to upgrade the industrial capacity of the Ethiopian coffee sector.

5.2 Union, Cooperative and Farmer Levels

Government is encouraging the establishment and the reinforcing of Cooperatives and Unions by allowing them direct sale of coffee in the export market: this “exceptional trading status” is creating two fold positive results, both for smallholders’ remuneration and for traceability guarantee.

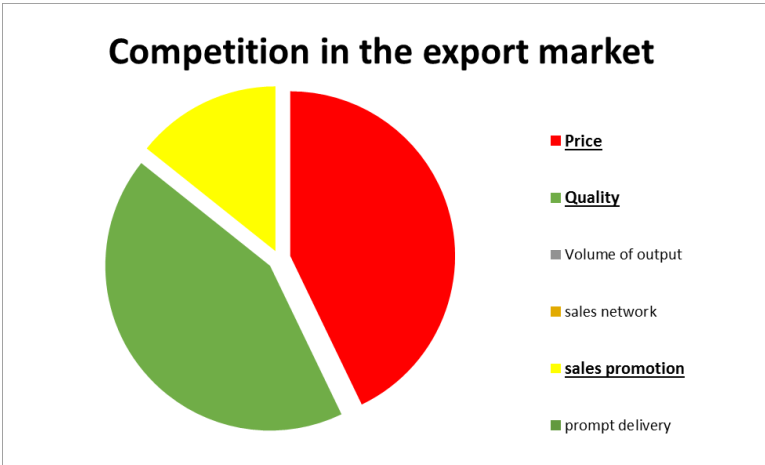
As assessed by the CSDS prepared by the EU, cooperative unions are believed to handle meanwhile around 10% of the marketed coffee in such a way, and it can be stated that the reputation of coffee qualities passing through the union marketing system (including processing) is not only increasing and attracting better prices but also steadily expanding and finding increased market access at a higher price level. Furthermore, Cooperative and Union can increase the coffee traceability thanks to the direct access to the export markets. Government policy is, therefore, obtaining the wanted results and should continue supporting the structure.

The existing positive examples, indicate that cooperatives’ participatory approach have the right appeal for smallholders to engage actively and share responsibilities for production and processing activities.

The project must therefore target farmer organization groups such as cooperative unions and reinforce their technology, capacities of providing extension services, for increasing coffee production, coffee quality and related marketing activities. Furthermore, Cooperatives and Union who are permitted to export their coffees directly, without selling through the only existing marketing platform (ECX) must have the quality of their coffees verified.

The direct results of these positive interventions must flow back directly to the farmer, in order to make the farmer valuable *clients*. In this context the income generated by the Union and Cooperatives must be shared with all the members. Currently the 70% of the revenues generated flow back from the Union to the Cooperatives which in turn share the 70% with their members, though the “second payment” tool (the respective 30% remain to Union and Cooperative as a capital). This second payment is still very low and not particularly attractive. That is why cooperatives must integrate the second payment with extension services to be provided to their farmers and Unions should scout premium prices or invest in added value products. The engagement of these coffee farmers, cooperative unions may be considered to bridge the long-standing gap in improved technology multiplication without creation of other state structures.

The focus on quality and traceability has to improve at all levels: farmer level (pre-harvesting and cherries selection), than at primary market level (cherries selection), cooperative level (technology and skills improvement), union level (certifications, adding value activities, marketing).



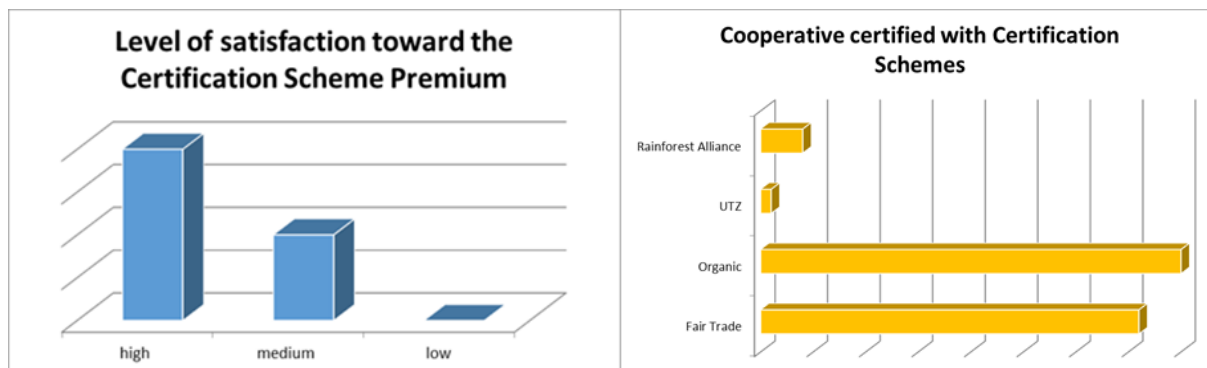
In relation with marketing, it has to be noted by the Unions that the export markets are extremely competitive and are affected by multiple factors such as: coffee quality, quantity, sales networks, coffee price, business promotion, and logistic.

After the project team survey, the majority of the Unions indicated price, quality and

sales promotion as the main factors that have to be considered and strength for ensuring access to export markets²⁵. It is well known that the green coffee can be sold in the international markets at better price if it is certified with labels such as “organic” coffee and “fair trade”. In this context, it has been noted that the majority of the Unions consider this aspect still relevant for their business.

²⁵ The Sourcing of all the Charts included in Chapter IV is the database created by the project team in order to perform the Inception Mapping Phase

Most of the Union members (cooperatives) were able to be certified for organic and fair trade coffee but continuous interventions are required in order to extend certifications and promote their use in the other cooperatives.



In this context the main problems faced by the Union/cooperatives in the export trade can be summarized here below:

- Financial constraints for improving coffee first processing
- Marketing – establish consistent relations with the foreign buyers
- Coffee quality
- Inadequate skills and technology

According to the base line study survey, one of the common problems that have been found among the coffee value chain actors such as: Unions/cooperatives, roasters and exporters is related with the training needs. There is still a strong lack of skilled workers and, as showed in the tab below, the training needs cover homogeneously all the topics such as: financial and general management, recording, leadership and marketing.



Gaps, constraints and challenges can be summarized as follow:

- Low organizational level and absence of a strategy plan for business development.
- Limited access to finance.
- Absence of an effective record keeping system.
- Ignored and lost opportunities (specialty and forest coffees).
- Low extension services in pre-harvest (pruning, stumping and crop protection) and post-harvest management (use of washed, drying and storage facilities)
- Low coffee quality.
- High transaction costs (processing, transport, quality losses).
- Insufficient human and physical resources and high staff turnover.
- Absence of coffee training centres and facilities covering all coffee production topics as well as cupping activities.
- Absence of demonstration plots and training for farmers.

- Absence of a system in place to capture and record traditional know how.
- Failure to incorporate cross-cutting issues such as gender and climate change into the extension.
- Lack of modern communication technologies to address coffee production topics.

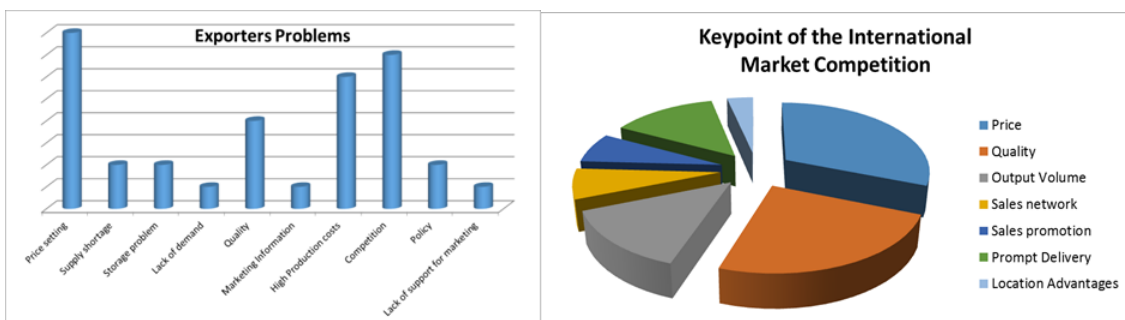
In this context cooperatives and unions must play a strategic role in filling in the above mentioned gaps.

5.3 The Exporters

The overall share of coffee exports from the country’s total revenue shows a significant decrease over the years, to be attributed to the emergence of other export products and concentration on annual crops, including food crops. Although this development can be taken as a positive sign, still coffee could and should do much better.

According to the existing regulation vertical integration is declared illegitimate, when trying to trace the coffee from origin to exporter, it becomes detrimental to traceability and transparency, combined with efficiency. The overall impact of restricting vertical integration is that producers and exporters have no means of directly benefiting through capturing higher value for their produce and this, in turn, discourages them from making effort to produce better qualities.

During the assessment, it has been requested to the exporters to identify the main problems which are affecting their export capacities and the key-points (figures) of the International market competition.

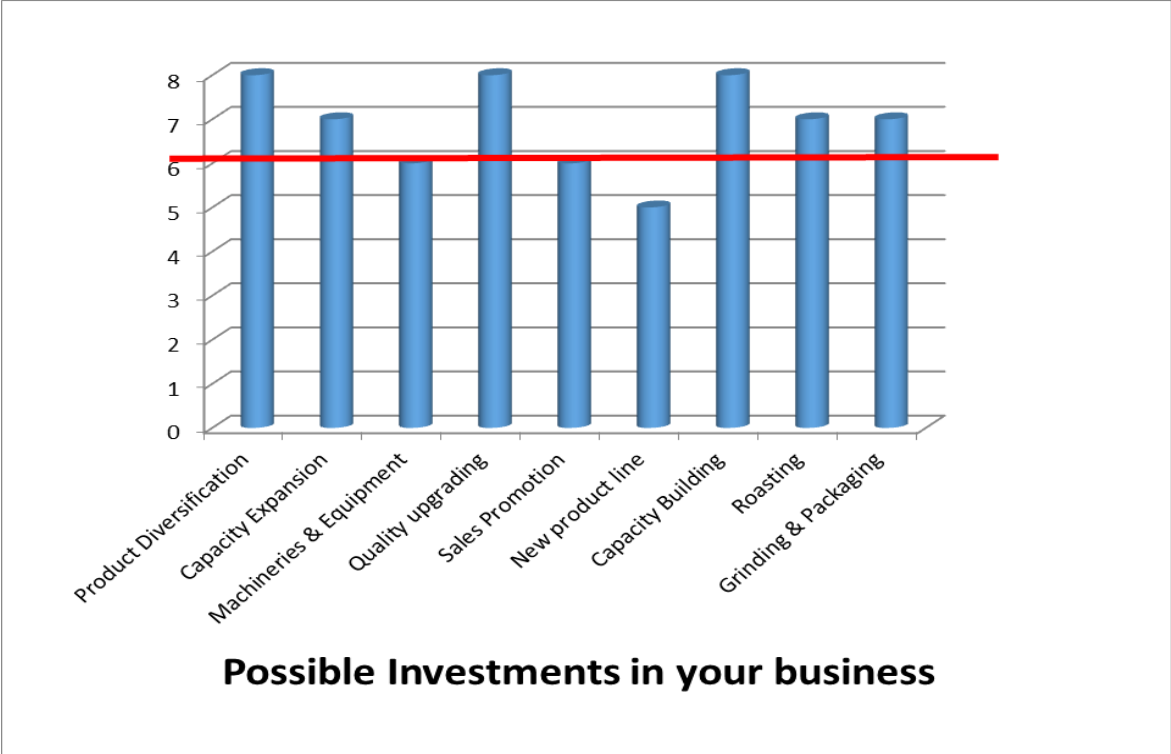


Quality standards are most important to compete internationally, along with creating powerful producer organization backed by the government – all of which could make Ethiopia’s coffee market flourish.

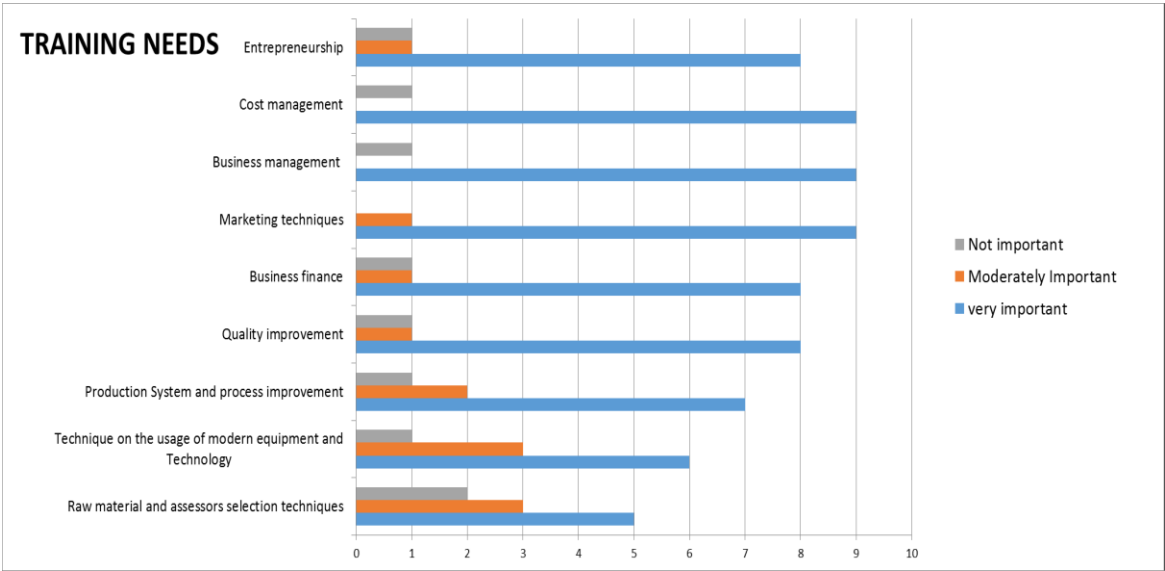
Competence and experience of exporters accumulated over more than half a century and not being properly utilized. The export industry must be empowered since the Ethiopian exporter is practically not in a position to meet quality and delivery time requirements. This is due to the fact that the exporter does not have direct access to the farm produce, but must rather go through the existing long value chain that is both costly and time-consuming.

The exporter cannot guarantee the client to meet the quality desired and if selling from a long position, she/he risks not being able to receive a corresponding value (as the market price fluctuates all the time). In both of these cases, exporters face problems with clients, who will consider the suppliers unreliable and turn to other origins that provide better

alternatives. In order to face the international market with other means, as showed in the chart below, most of the exporters are planning some investments to heal their business: among the actions put in place, the product diversification and the launch of coffee roasting activities is emerging as a coping strategy.



With reference to the capacities, it has been noted that exporters suffer a strong lack of skilled workers, especially in the topics here below represented:



In fact, the lack of human capabilities represents another relevant issue that negatively affects the export potential of the category.

5.4 Increase Roasting capacities for supporting the local emerging businesses

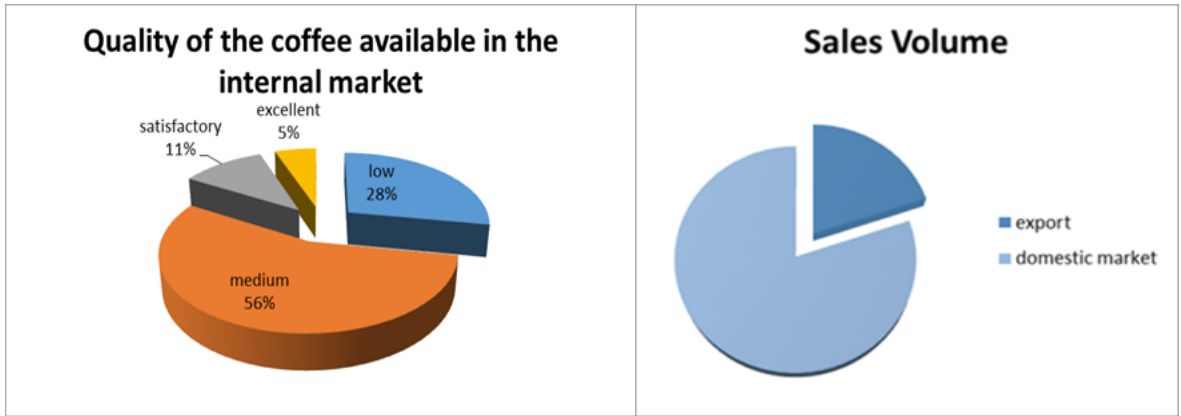
The profiling the coffee roasters sector was aimed at understanding the root causes that are challenging the roasting activities in the Country: currently only a small portion of the coffee produced in Ethiopia (less than 1 per cent of the total production) undergoes an industrial process carried out by local roasters who roast, grind and package the coffee for retail sales either in the domestic market or for export.

Therefore the analysis’s final goal of targeting the roasting sector is to assess the possibility of providing ad hoc assistance to the promising Ethiopian Coffee Roasters sector, especially in terms of capacity building and technical assistance, consistently with the objectives of the Project. The profiling activity for the roasters was conceived first of all as a needs assessment, considering that, according to the Roasters interviewed, the sourcing of green coffee is a major challenge: currently the Ethiopian Roasters cannot purchase export quality green coffee from the ECX since the highest grades are addressed to the export market; consequently an Ethiopian Roaster cannot fairly compete and promote in the international market the finest quality of the Ethiopian roasted coffee.

Considering also that Ethiopian coffee has historically been considered as a green export commodity and the roasting sector is a relatively new sector to be exploited, there is a poor level of know-how and of skilled manpower, both for the productive phase and for the marketing phase.

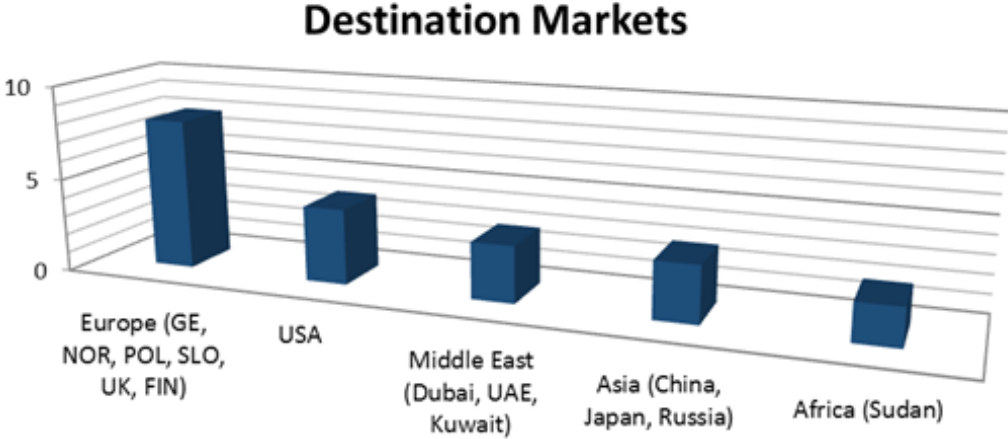
Therefore the roasters profiled cannot rely on professional and technical workforce able to sustain and increase the quality of the roasted phase. Furthermore, all the roasters interviewed would be keen to receive more specific training modules on roasting, packaging and marketing as well as providing with these trainings to their staff.

Furthermore during the interviews undertaken, a serious gap has been recorded 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 technologies and blending features. As a consequence the current share of the export sale (in volume) is still very marginal respect to the domestic market.



Nevertheless, it can be assumed that, at least, half of the quota of green coffee presently exported to Saudi Arabia, Sudan, Korea and the emerging Chinese market could be exported as roasted coffee. Therefore, there is a substantial potential for increasing the

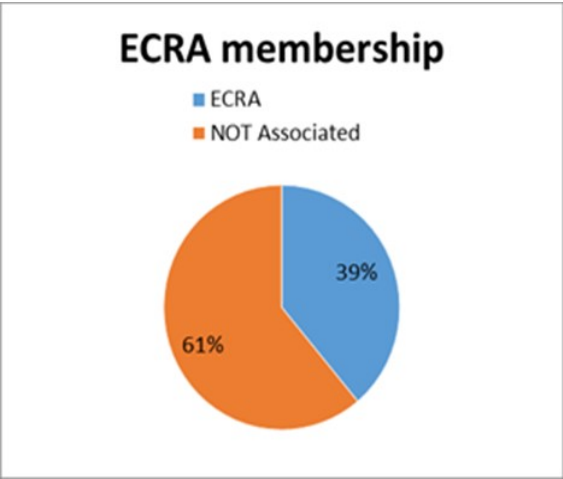
secondary processing capacity in Ethiopia, by about 10 to 15 per cent of the total present export volume.



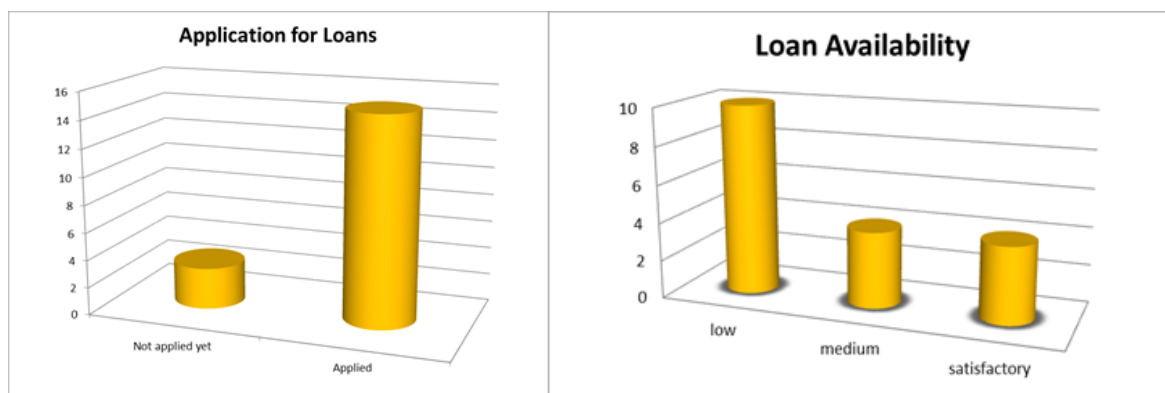
The current situation of the destination market of the Ethiopian roasted coffee is described in the above chart. As already stated, a relevant pool of data for the current study has been collected thanks to coffee roasters members of the Ethiopian Coffee Roasters' Association (ECRA): the association was founded in 2005 with the aim of improving Ethiopia's capabilities and performances in the roasted coffee market. The focus at present is primarily to deliver roasted and grinded coffee to the domestic market, nevertheless the association is addressing itself to increase supply to better serve the export market, to provide to its members technical assistance and consultancy services and to lobby for a policy framework in support of this untapped economic potential.

Considering that currently the ECRA is not so strong to comprise all the Ethiopian Roasters, the current project initiative will closely work with it in order to enable the association in representing the Coffee Roasting Sector and scaling up its capacity.

The baseline study has captured a promising development of a sector that has already started to improve, year by year, its economic performances with a dramatic increase of private initiatives related to realize in Country the final step of a complex value chain.



Nevertheless, a facilitation to scale up sustainably and steadily the business plans of a myriad of micro roasting enterprises would be required: actually, credit scheme acquisition is still a constraint for the roasters and an active support for improving financial performances would be welcomed by the Roasters.



Roasted coffee represents still a marginal subsector in the Ethiopian coffee world and sometime it is neglected because there are several obstacles to produce and export quality roasted coffee. None is insurmountable, but put together they form a severe barrier to trade. Furthermore, roasted coffee rapidly loses its flavour without the technical facilities (vacuum packaging, valve application and nitrogen flushing, etc.). Consumers are also becoming increasingly demanding, which increases the investment needs for roasters. Despite all these challenges, with minor improvements at policy level and with tailored investments in terms of capacity building and technical assistance, there will be the possibility to bring the Ethiopian quality roasted coffee to the attention of the consumers (both domestically and internationally), with a consequent and encouraging growth of the Ethiopian Coffee Roasters Associates.

5.5 Traceability across the value chain

In November 2015, the Ethiopia Commodity Exchange announced the official launch of its IBM-enabled national traceability system, known as eATTs. The system, which will start by piloting coffee in the current harvest season, is expected to increase exports of high-quality Ethiopian coffee world-wide and enhance market access for specialty coffee from Ethiopia.

The traceability initiative is led and owned by ECX, which contributed \$1.4 million USD toward the total project cost of \$4.5 million USD. The project came to fruition in collaboration with USAID, which contributed \$1.8 million under its Agribusiness Market Development activity, and Nestle, Jacobs Douwe Egberts (JDE), Mother Parker's Coffee & Tea and The Sustainable Trade Initiative (IDH), who jointly contributed \$1.3 million through the Sustainable Coffee Program.

The new tagging system links bags of coffee traded through the ECX to one of over 2500 geo-referenced washing, hulling and cleaning stations located in Ethiopia's southern, central and western coffee growing regions. Each tag's embedded information includes photos of the station as well as names and contact information for the station manager.

Buyers of commodities have become more discerning and willing to pay for quality, environmentally-friendly and origin-specific commodities; additionally, international buyers demand transparency and accountability within supply chains, so as to ensure the quality, consistency and safety of their products. To meet these demands, ECX and partners are implementing a wide array of activities, including electronic tracking of bags, innovations in washing and processing, and streamlined storage and transportation processes. Improvements in sustainability and traceability incentivize farmers to use the best techniques to grow and harvest different commodities. Innovations in processing

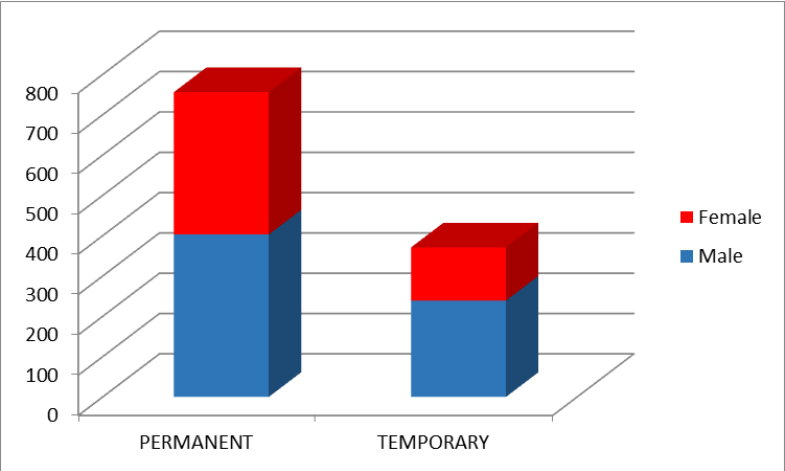
stations and ECX laboratories also guarantee world best practice methods are used to grade and certify commodities before they are traded on the ECX platform.

For the project purpose, it has been decided to limit the intervention on cooperatives and unions, which are allowed to directly export, bypassing the ECX. Nevertheless, with the aim of guaranteeing full traceability of the coffee produced and exported, the project will establish a direct contact with ECX eATTS initiative to adopt the same methodology also for the coffee proceeding from the cooperatives and Unions assisted.

5.6 Gender Mainstreaming

Gender mainstreaming refers to the strategy of making the concerns and experiences of women as well as men an integral part of the design, implementation, monitoring and evaluation of policies and programmes in all political, economic and social spheres, so that women and men benefit equally and inequality is not perpetuated. Oftentimes, the need to address gender issues in the coffee sector is ignored at production level. Instead, at exporter level it has been noted that the majority of the staff is composed by permanent employees and that gender balance is quite guaranteed (figure below). It is worth mentioning that in

some of the identified production areas women are marginalized in the working activities for cultural and religious reasons. For instance, training through the extension system is mainly targeting male members of the cooperative or society, not considering that women equally participate in the majority of the field work (nursery/raising seedling, harvesting).



Within that context, there is the must to incorporate the gender issue within the coffee sector, especially at the production level where the involvement of women is quite significant. Production has been identified as a key issue to change and improve the coffee sector performance. The gender issue must be addressed equally with special themes for women. This in turn has implications on the extension service programs, which can also be used to transport general development messages like family planning and development topics.

5.7 Impact of Climate Change in the Coffee Sector

Climate change is accelerating at a much faster pace than previously thought and it is seriously threatening major Earth systems and ecosystems. Furthermore, the International Coffee Organization (ICO) considers climate change to be one of the most important factors affecting future global coffee production. For these reasons, Climate change is believed to affect (directly or indirectly) all actors and stakeholders active along the entire Ethiopian and International coffee value chains.

Climate change and global warming have negative impact on the temperature and rainfall conditions in Ethiopia, which are the main drivers in terms of coffee yield. Arabica coffee evolved in the cool, shady environment of the Ethiopian highland forests, where there is a single dry season coinciding with the winter months. The optimum temperature range is between 15° and 24°C. Much higher temperatures tend to impact negatively on both yield and quality. Rainfall requirements are between 1500 mm and 2000 mm per annum, although the use of irrigation today allows Arabica coffee to be grown also in areas with otherwise insufficient rainfall.

Climatic variability has always been the main factor responsible for the fluctuation in coffee yields in the world. However, climate change as a result of global warming is expected to lead to actual shifts on where and how coffee may be produced in the future. This will affect millions of producers and all other participants in the value chain, right up to the end-consumer, and presents a major challenge to the coffee industry. Coffee growers are by far the most numerous and most vulnerable of the affected groups in the coffee industry.

At the farm level, climate change is already manifesting itself through changes in rainfall patterns and the occurrence of extreme weather events. Smallholders coffee farmers who are responsible for the majority of the coffee produced in the world are among the groups most vulnerable to the potential impacts of climate change since they depend heavily on agriculture for their income, generally have little access to alternative livelihoods and have limited resources to adapt to its impacts.

It is clear that the coffee industry cannot afford a severe reduction in smallholder coffee production, neither in terms of quantity nor in terms of quality and quality diversity. This again confirms the need for concerted industry-wide initiatives.

Two main areas for action have been suggested by the CSDS to address the impact of climate change on smallholder coffee farmers, i.e.:

- short-term technical solutions for adapting coffee production and processing to current climate variability – aimed at producers; and
- long-term strategies to improve framework conditions for adaptation to future climate risks and to build the necessary capacities – aimed at all players in the value chain, but mostly producers.

PART II:

PROJECT INTERVENTIONS

Chapter VI – Plan of Action

At the end of the Inception Phase, it was foreseen to prepare an Action Plan for the period until Project completion. It should have been accompanied by a revised budget covering the same period. Subsequently the Project Team decided to prepare a detailed Action Plan only for a period of one year

There is the reasonable expectation that the remaining funds will shortly be provided, therefore the activities for the first year and their implementation modalities have been conceived in such a way that they can be easily extended for a further period of time. To this end, have been drafted the “Projections of the Action Plan until Project completion (expected at the end of 2018)”.

It should be underlined that, in order to achieve the Project expected results, it will be necessary to continue the Project activities beyond the one-year period of the present Action Plan. In fact, the foreseen activities, especially those aimed to increase the capacities of cooperatives and smallholders farmers, require a period longer than one year to materialize concrete results.

It should be noted that the activities to be carried out directly by UNIDO will be executed through international and local experts. In view of the necessary daily supervision of the project activities, which requires the full dedication of a project technical staff versatile with UNIDO technical assistance guidelines as well as its financial and administrative rules for project management (e.g. UNIDO SAP system), it is recommended that a position²⁶ be created within the project to cover this function. It is expected that the project technical advisor would spend 50% of his/her time in the field and 50% at UNIDO HQs. Some specialized activities will be executed both by international experts recruited on a short-term basis or by the National Project Technical Coordinator.

6.1 Selection of the Areas of Intervention in the Coffee Growing Areas

In the Project Document, under **Output 3 (the quality of exported coffee is increased)** are foreseen activities to be carried out in the coffee growing areas that are related, among others, to: (i) the promotion of cooperatives with farmers, (ii) support the physical establishment of cooperatives and/or Unions, (iii) support the operations of cooperatives and unions, (iv) improve and support washing stations (analyse the cause of the malfunctioning of the washing stations, propose solutions to the owners and agree on the

²⁶ *The position will be set at the level of L2 corresponding to an Associate Industrial Development Officer (AIDO) with the following functions: He/she will be providing assistance and support for the projects/programme implementation, ensuring that assigned inputs are delivered on time at the right level of quality and within the allocated budget. This will entail the preparation of the necessary inputs such as: (a) Preparation of terms of references and technical specifications for goods and services requested; (b) Coordination of the project implemented, as well as coordination with the donors and the Ethiopian Institutions involved; (c) Formulation of specific plans of action for the UNIDO coffee project implementation in Ethiopia; (d) Formulation of project proposals/extensions to be submitted to donors for improving the Organization’s technical assistance services; (e) Participation in review meetings, organization of specialized technical meetings, negotiation and coordination with the major stakeholders involved in the project, editing and correcting documentation, lecturing on substantive subjects; in synergy with the Division Head, monitoring progress in implementation, including missions to the project site, as well as taking part in oversight meetings in the field and at headquarters. (f) Cooperate with the Division Head for mobilizing funds necessary for projects and programme implementation in Ethiopia as well as for establishing strategic Public Private Partnerships and relations with other International Organizations.*

actions to be taken to make the stations fully operational), (v) provide technical assistance during rehabilitation, management training, maintenance training and equipment (if necessary), (vi) provide financial advice to investors and, (vii) promote the extension of the utilization of drying beds.

In addition, under **Output 4 (The quality and sustainability of the Ethiopian coffee is internationally recognized)** are foreseen activities to be carried out in the coffee growing areas that are related, among others, to: (i) increase the traceability also for the share of coffee that is directly exported by the Unions, (ii) design and implement actions allowing the increase of traceability and, (iii) facilitate the acquisition of certifications (if required).

In the light of the above project outputs, in order to properly select the areas of intervention, at the earliest stages of the Inception Phase, the project team has received the following recommendations and guidance from the relevant Institution involved into the Project:

- 1) The indication received from MoI: According to MoI, the area/s of intervention should be possibly located in the vicinity of one of the Integrated Agro-Industrial Parks (IAIPs) that will be established in Ethiopia. The indication of MoI leads to choose the area of Sidamo, which is near a planned agro industrial park and is a coffee growing area.
- 2) The indication received from MoA: according to MoA, it is necessary to avoid overlapping with other projects and to consider the availability in many Woreda of funds from other donor initiatives, like the Agricultural Growth Program (AGP).
- 3) The indication received from the Italian Development Cooperation (IDC): according to IDC, the coffee activities that have been carried until now in Delo Mena Woreda by Istituto Agronomico per l'Oltremare (IAO) with funds of IDC should continue under the UNIDO project.

In consideration of the amount of funds available for the Project activities and the activities to be carried out in the coffee growing areas it was suggested to select, for the time being, two Woreda and accordingly, it was considered advisable to proceed according to four operational steps as follows:

- Step 1 (to be carried out in Addis Ababa). Preparation of a Project Map (map of the Ethiopian coffee growing areas with, among others, the borders of the Regions, the borders of the Woreda and the areas of intervention of AGP I and AGP II) and selection of a preliminary list of eight suitable Woreda.
- Step 2 (to be carried out in Addis Ababa). It was aimed at obtaining the preliminary endorsement of the Ethiopian authorities on the eight Woreda preliminarily selected.
- Step 3 (to be carried out in the eight Woreda preliminarily selected). It was aimed at confirming the suitability of the Woreda preliminarily selected and at assigning to the same a priority ranking. In this selection, it was considered advisable to utilize the knowledge and experience of illycaffè (Illy Caffè S.p.A.), especially for what concerns the evaluation of the coffee potentiality in the eight Woreda.
- Step 4 (to be carried in Addis Ababa). It was aimed at obtaining the final endorsement on the two-selected Woreda by the Ethiopian authorities.

6.1.1 Activities carried out for the selection of the areas of intervention

The preparation of the Project Map, as envisaged in step 1 of the previous paragraph has been completed and the Maps can be found in Annex 1. The Project Team had to consider the following emerging issues for the final selection of the woredas of project intervention:

- 1) The indication received from the SNNPR BoA. According to the indication from BoA it was decided to include in the Woreda pre-selection 2 sites close to the IAIP: (i) Aletawondo Woreda in Sidama Zone and, (ii) Yirgacheffe Woreda in Gedeo Zone. In addition, 2 Woreda from the western part of SNNPR, that are specialty coffee producing areas but that are not receiving any support, were taken into consideration: (i) the Sheko Woreda in Bench Maji Zone and, (ii) the Masha Woreda in Sheka Zone.
- 2) The indication from SNNPR BoA have been confirmed by SNNPR Cooperative Promotion Office (CPO) that advised the Project Team that, currently, in SNNPR there are enough cooperatives active, therefore there is no need to create new ones; it would be better to empower already existing cooperatives rather than creating new ones, also considering that the federal law allows only 1 cooperative per Kebele.
- 3) The convenience to select two Woreda where the coffee has different characteristics like washed coffee and sundried coffee.
- 4) The convenience to select two Woreda in two different Regions but located at a reasonable distance one from the other in order to simplify the execution and supervision of the activities.
- 5) The convenience to follow the specific request of the IDC to continue the coffee activities that have been carried until now in Delo Mena Woreda with funds of the IDC.
- 6) The convenience to select two Woreda where different types of coffee grow: (i) garden coffee that is mainly washed, and (ii) forest wild coffee that is sundried.

All the above-mentioned issues brought to the following decisions:

- 1) To concentrate the interventions in two Regions: SNNPR and Oromia Region.
- 2) To follow the indication of the SNNPR BoA for what concerns the preferred Woreda.
- 3) To follow the request from IDC.
- 4) To visit the following Woreda: Aletawondo, Sidama Zone, SNNPR (also accompanied by experts from illycaffè and the officers of TechnoServe); Delo Mena, Bale Zone, Oromia Region (accompanied by the officers of IAO). In this two Woreda Detailed information have been collected on cooperatives, washing stations, hulling stations etc.

After the visits and on the basis of the collected information, for the definition of the activities to be carried out in the one-year period covered by the Action Plan, two Woreda have been selected: Aletawondo Woreda and Delo Mena Woreda. The large majority of coffee produced in Aletawondo Woreda is washed coffee, while the coffee produced in Delo Mena Woreda is only sundried forest coffee.

The characteristics of the two selected locations, for what concerns the coffee sector as described in the following paragraphs, are very different and therefore require approaches partially different. This will help the Project in creating success cases in two coffee areas that require different approaches, increasing Project impact and facilitating further promotion and replication of Project's activities and interventions.

In the Action Plan at paragraph 6.2 and 6.3 there is the explanation of the respective findings in the two Woreda, as well as the detailed description of the activities to be carried out in one year.

6.1.2 Cooperatives that can receive assistance for the establishment or rehabilitation of washing stations or sun drying facilities

In **Aletawondo Woreda** there are 9 cooperatives, all dedicated to coffee while some of them are multi-purpose. After the site survey and after visiting some of the cooperatives and their facilities (including washing stations), the Project Team decided to focus the Action Plan on three of them: (i) **Homacho Waheno**, (ii) **Gerbicho Lela** and, (iii) **Titira**. The decision to concentrate on three cooperatives, instead of covering all the cooperatives of the Woreda, has been taken in order to comply, as much as possible with the aim of the Project to create, in the selected intervention areas, success cases that can be replicated in other areas. The three selected cooperatives have some similar problems (like the necessity to improve their washing stations) but are different in terms of number of member farmers and status of their organization.

The Project Team has visited three of the 12 cooperatives that operate on coffee in **Delo Mena Woreda**, in particular, the two largest, **Irba** and **Chiri** and one of the smallest, the **Manyate** cooperative. The three visited cooperatives represent a significant sample of all the 12 cooperatives; they have some similar problems (like the necessity to improve their organization and the harvesting and post-harvesting capability of their members) but are different in terms of number of member farmers and status of their organization. Out of the 12 cooperatives dedicated to coffee in **Delo Mena Woreda**, 7 of are multi-purpose and 5 are dedicated only to coffee. After the site survey and after visiting some of the cooperatives and their facilities, the Project Team decided to focus the Action Plan on all the 12 cooperatives. This decision has been taken in order (i) to comply, as much as possible with the aim of the Project to create, in the selected intervention areas, success cases that can be replicated in other areas and, (ii) to have a reasonably high number of beneficiaries. In fact, the 12 cooperatives have a total of only 1,440 farmers dealing with coffee.

The 12 cooperatives are: **Irba, Chiri, Wabero, Walte Gudina, Oda Dima, Bobiya, Burkito Darara, Habubi, Biftu Kankicho, Manyate, Ele Mekenisa and Bekelcha.**

6.1.3 Possibility of subcontracting one or more project activities

In both the two identified Woreda of intervention, the Project Team has verified whether there are organizations that can perform the activities through a subcontract with UNIDO and under the UNIDO supervision. In both the Woreda, it has been found that there is, at least one reliable organization that can act as UNIDO subcontractor. These finding do not exclude the possibility that other organizations could perform the foreseen activities and therefore the sub-contracts can be awarded on a competitive basis.

For what concerns the presence of organizations in **Aletawondo Woreda** supporting the coffee sector, it has been found that the NGO **TechnoServe**²⁷ has already trained over 7,000

²⁷ Please note that the project team is mentioning this NGO because it is currently present in the targeted area. Nevertheless it is worth mentioning that any eventual subcontract delivered by the project will follow the UNIDO rules and regulations. Thus, the subcontract will be promoted through international bidding in which all the interested counterparts can participate. The proposals received will be evaluated by the UNIDO HQs responsible bodies and the best economically and technically acceptable offer will be selected.

farmers in Aletawondo on a two-year farm college agronomy program. TechnoServe began working in Ethiopia in 2009. To date, they have supported more than 200,000 farmers by helping them build 90 new wet mills and improving the efficiency of an additional 45 existing wet mills. The approach of TechnoServe to agronomy training for smallholder farmers is based mainly on: (i) small, self-selected focal farmer groups, each consisting of 30 to 35 coffee farming households, (ii) field-based classrooms and demonstration plots (each focal farmer group establishes a plot consisting of 40 trees within the elected focal farmer's coffee field), (iii) locally recruited and highly-trained farmer trainers (competitively recruited women and men with at least a high-school education that come from the local communities, often the sons and daughters of coffee farmers), (iv) monthly, activity-based lessons and, (v) participatory governance. TechnoServe provides also support to the cooperatives for their business planning and loan applications (to construct their washing stations). The loans for washing station construction typically average between 200,000 – 500,000 ETB.

As a consequence of the above, it is possible to subcontract the majority of the activities to be carried out in Aletawondo Woreda to an organization that has experience in implementing similar activities and has a good knowledge of the Aletawondo area and experience in the coffee sector.

For what concerns the presence of organizations in **Delo Mena Woreda**, in the past few years, there was the Istituto Agronomico per l'Oltremare (IAO), that was implementing the project financed by the Italian Cooperation, but now it has completed its activities. The Project Team has found that in the area is present the Italian NGO "Cooperazione Internazionale – COOPI"²⁸. This NGO is at present working in 24 developing countries (15 in Africa, 7 in South America and 2 in Middle East) in various sectors (rural development and food security, water and sanitation, education, health, microcredit etc.). In Ethiopia COOPI is present since 1995 with different kind of interventions, like: water and sanitation (Dolo, Filtu, Liben in Oromia Region and agro-pastoralist areas in Somali Region), microcredit for women in Addis Ababa, access to sustainable energy sources in rural areas of Oromia and Somali Regions (solar energy for cooperatives, schools and health centres). For what concerns the creation and reinforcement of rural cooperatives, they have gained experience in Oromia and Somali Regions with projects financed by EC, FAO, Swiss Cooperation, USAID and Italian Cooperation.

At present COOPI has its main office in Goro that is located at 1 hour and 30 minutes' drive East of Goba, the capital of the Bale Zone but they are planning to move their office to Goba in view of a new project financed by the Italian Cooperation. This new project will last three years, will be addressed to 6 Woreda, including Arana that is close to Delo Mena that are located at about 1 hour and 30 minutes' drive South of Goba. They are also planning to open a second small office in Arana with one expert of rural cooperatives.

As a consequence of the above, it is possible to subcontract the majority of the activities to be carried out in Delo Mena Woreda to an organization that has experience in implementing similar activities and has a good knowledge of the area.

²⁸ Please note that the project team is mentioning this NGO because it is currently present in the targeted area. Nevertheless it is worth mentioning that any eventual subcontract delivered by the project will follow the UNIDO rules and regulations. Thus, the subcontract will be promoted through international bidding in which all the interested counterparts can participate. The proposals received will be evaluated by the UNIDO HQs responsible bodies and the best economically and technically acceptable offer will be selected.

6.2 Intervention in Aletawondo Woreda (SNNPR)

Figure 11: Location of the Aletawondo Woreda



6.2.1 Type of Coffee, Production, Number of Farmers And Cooperatives

The large majority of coffee produced in Aletawondo Woreda is **washed coffee** and harvesting, post harvesting and marketing activities, in the cooperative system, are under the responsibility of the Marketing and Cooperative Office in Aletawondo. According to the Office, the main figures related to coffee production are the following:

- there are about 17,000 coffee farmers in the Woreda, each with an average 0.9 hectares;
- the production per year is about 5,600 ton of red cherries, which corresponds to about 329 kg per farmer of red cherries, equivalent to 66 kg of parchment coffee²⁹;
- the coffee of export quality in average corresponds to 60% of the coffee getting to the exporter warehouse;
- there are 9 cooperatives in Aletawondo;
- the cooperatives are supported by the Marketing And Cooperative Office in terms of technical assistance for best agricultural practices (overall harvest and post-harvest techniques);
- the quality aspect is controlled and managed by the Office through a protocol of quality: the timing of harvest, the timing of coffee delivery to the wet mills, the volumes and the fair payment for the farmers, both in case of cooperatives system and akrabis system, to perform its activities the Marketing And Cooperative Office is endowed with 26 agents per cooperative (most of them are temporary workers trained by relevant institutions) that follow a checklist proceeding from a protocol of quality, the regional bureau developed the quality standard for the Woreda of the Region although the standard has been proposed at national level;
- traceability: primary marketing centres are established by the government to receive and collect coffee cherries to be delivered afterwards to the private and/or cooperative wet

²⁹ 1/5 of parchment coffee corresponds to red cherries weight. To get final green bean weight it is necessary to divide the parchment coffee weight by 1.2.

mills, the only way to guarantee the traceability is to follow the Union channel, while the akrabis channel dealing with ECX cannot secure the traceability;

- to become member of a cooperative it is needed: an application letter, a first evaluation of the coffee plot, inspection and final decision by technical staff of the cooperative, 100 ETB to be paid as registration fee and, in addition, the farmer has to buy a share of the cooperative according to his capacity (about 100-150 ETB).

6.2.2 Presence of Unions

In the Aletawondo Woreda, one single Union is operating: **the Sidama Coffee Farmers' Cooperative Union (SCFCU)**, a large organization (that has a number of organized farmers that is about 25% of the total number of farmers that are members of cooperatives organized with Unions in Ethiopia) with an office in Hawassa and with the following characteristics:

- SCFCU was established in 2001 with 39 primary cooperatives in South Sidama and currently it has 51 primary cooperative members, which comprise a total of about 70,000 individual farmers (additional 10,000 farmers are part of minor cooperatives working in the Sidamo area not officially members of the Union);
- all farmers produce garden coffee that is sold to the international market, their annual production capacity is 4,000 ton; out of the annual production, SCFU produces 95% of washed coffee and 5% of natural sundried coffee (Sidama type only);
- out of the 51 primary cooperatives that are members of SCFCU, 43 have 106 washing stations (most of them require rehabilitation);
- the farmers sell harvested red cherries to cooperative agents at the primary market centres (market price paid by the cooperatives), the cooperatives process the coffee and bring the parchment coffee (for washed coffee) to the ECX centres for the grading and finally to the Union in Addis, which pays the ECX price, does the final grading, processes the coffee for the export market as per buyer requirement and ultimately ship the coffee abroad; 70% of the difference between the export price and the ECX price is returned to the cooperatives; the cooperatives pays to the farmers 70% of the difference between the price received by the Union and the market price already paid to the farmers;
- the Union cannot store the coffee, but the cooperatives yes, therefore they use to store the coffee waiting for a better ECX price; with reference to the premium quality, it is paid directly to the cooperative with the previous permission of the Union general assembly; every year the Union provides training about international standards to its members; in principle, 100% of the Union coffee is for export, but about 18%-25% of the coffee received is rejected after sorting and cleaning; the rejected portion is sold to the internal market;
- most of their export is certified "Organic" and "Fair Trade"; they export also some "Rainforest" and UTZ certified coffees; in the past year they have made 25 million ETB from Fair Trade premium.
- the Union has its own warehouse and has recently imported processing equipment valued at about 17 million birr.
- SCFCU has plan to start some limited roasting activity firstly for the local market and then for Africa and East Europe; they already bought roasting equipment that are installed in their working premises in the area of Hawassa;
- the Union provides training for cooperative leaders with the aim of keeping homogenized the quality standard produced at cooperative level.

6.2.3 Presence of Supporting Organizations

For what concerns the **presence of organizations in Aletawondo Woreda supporting the coffee sector**, it has been found that the NGO TechnoServe has already trained over 7,000 farmers in Aletawondo on a two-year farm college agronomy program. TechnoServe began working in Ethiopia in 2009. To date, they have supported more than 200,000 farmers by helping them build 90 new wet mills and improving the efficiency of an additional 45 existing wet mills.

TechnoServe's approach to agronomy training for smallholder farmers is based mainly on: (i) small, self- selected focal farmer groups, each consisting of 30 to 35 coffee farming households, (ii) field-based classrooms and demonstration plots (each focal farmer group establishes a plot consisting of 40 trees within the elected focal farmer's coffee field), (iii) locally recruited and highly-trained farmer trainers (competitively recruited women and men with at least a high-school education that come from the local communities, often the sons and daughters of coffee farmers), (iv) monthly, activity-based lessons and, (v) participatory governance. TechnoServe provides also support to the cooperatives for their business planning and loan applications (to construct their washing stations). The loans for washing station construction typically average between 200,000 – 500,000 ETB.

6.2.4 Selection of Cooperatives

In Aletawondo Woreda there are 9 cooperatives, all dedicated to coffee while some of them are multi-purpose. After the site survey and after visiting some of the cooperatives and their facilities (including washing stations), the Project Team decided to focus the Action Plan on three of them: (i) Homacho Waheno, (ii) Gerbicho Lela and, (iii) Titira. The decision to concentrate on three cooperatives, instead of covering all the cooperatives of the Woreda, has been taken in order to comply, as much as possible with the aim of the Project i.e. to create, in the selected intervention areas, success cases that can be replicated/upscaled in other areas.

The three selected cooperatives have some similar problems (like the necessity to improve their washing stations) but are different in terms of number of member farmers and status of their organization. Here below there is the description of the three cooperatives.

Homacho Waheno Cooperative

- Established in 1976, with its 3,629 members (3,398 male and 231 female) it is the biggest cooperative in Aletawondo as well as in the Sidama Coffee Union) and it covers the area of 4 Kebele;
- the biggest members (5% of the cooperative) have a land of 3 hectares;
- in the period from 2006/07 to 2013/14 their production of cherries increased steadily from 579,206 kg to 2,672,550 kg; in the season 2014/15 they registered a sharp decrease in production to 1,217,433 kg (less than half of the previous season, probably due to unfavourable climate conditions that influenced also the market price);
- in the season 2014/15 they produced 94.59% of washed coffee and 5.41% of sundried coffee;
- there are a total of 28 permanent and 4 temporary employees in office and in the four sites of the washing stations;

- it has 4 washing stations managed by 4 "industrial technician"; the machineries in the washing stations are old: 2 out of the 4 washing stations are endowed with 40 years old equipment (see Table 9);

Table 9: Homacho Waheno cooperative washing stations status

Name of the washing station	Year of establishment	Processing Capacity of cherries	Description & Status of machine in the washing station	No of People working in washing station	
				Fix term	Temporary
Homecho Chewa	1976	2,000 kg/h	Very old machine with frequent breakdowns	5	105
Guwadamo	1997	2,500 kg/h	Working with low efficiency	5	110
Waeno	1997	2,500 kg/h	Working with low efficiency	5	95
Haranjicho	1976	2,000 kg/h	Very old machine with frequent breakdowns (not operational)	5	-

- capability of personnel working in the washing stations: all the 4 wet mill managers have received quality training;
- they produce coffee grade 2-3;
- the washing stations gather the red cherries from the cooperative associates distributed in the 9 primary marketing centres located in 4 Kebele;
- their production capacity is maximum 2,500 tons of red cherries per year but only 75% of the members are delivering the cherries to the cooperative that is suffering the competition of akrabis;
- the cooperative price policy for coffee red cherries is: first payment 12 ETB/kg, second payment 2.20 ETB/kg; the cooperative members believe that they do not get fair compensation for their coffee production and they diversify their crop production with khat, eucalyptus, sugar cane etc.;
- the record keeping system is manual at farm and washing station level, only in the cooperative office they have a computer;
- the cooperative provides the following services to members: transportation including road and bridge maintenance), school construction and financial support (to 4 Kebele), Fairtrade certification, electric service (to all four Kebele), education and training (programme starts from how to plant coffee up to how to harvest); the training is undertaken by the cooperative technicians and by the Development Agents of the WOARD (2 times per year); it is not a full training module but is a simple orientation before the critical phases of the crop season (pruning, fertilizing, harvesting);
- Technoserve is supporting the cooperative in keeping the compliance with the certification bodies (for Organic - Fairtrade - Rainforest Alliance standards), as well as in providing technical support aimed at improving coffee quality and ecological management of the wastewaters.

Titira Cooperative

- Established in 1976, it has 2,078 members (2,012 male and 66 female) and it covers the area of 3 Kebele;
- in 2012/13 their production of cherries was 417,565 kg, in 2013/2014 was 511,324 kg and in the season 2014/15 they registered a production of 610,928 kg;
- the organization of the cooperative is very basic, the permanent employees, including 3 sites and cooperative office are 20;
- in the season 2014/15 they produced 100.00% of washed coffee;

- they own 3 washing stations but only 2 are operational one of these is equipped with old Rotary machine and the other with a Rotary machine; the second is also equipped with a Pinhalense machine, that was installed in 2006 (this pulper would require only 2 litres of water per kg of coffee, while the old machines require 20 litres of water per kg); despite its better performance, the Pinhalense pulper has never been put in operation because the skilled manpower to necessary to operate the machine is not available (see Table 10).
- capability of personnel working in the washing stations: the two wet mill managers have received quality training;
- the cooperative provides financial support services to the schools.

Table 10: Titira cooperative washing stations status

Name of the washing station	Year of establishment	Processing Capacity of cherries	Description & Status of machine in the washing station	No of People working in washing station	
				Fix term	Temporarily
Belesto	1979	2,500 kg/hr	1 Rotary sieve old but operational. 1 Pinhalense machine new but not functional	8	92
Titira Chere	1975	2,500 kg/hr	It is old machine (Agard), currently operational	6	91
Belesto Galada	1975	0 kg/hr	not operational	2	-

Gerbicho Lela Cooperative

- Established in 1975, it has 1,665 members (1,580 male and 85 female) and it covers the area of 3 Kebele;
- in 2012/13 their production of cherries was 360,626 kg, in 2013/2014 was 488,799 kg and in the season 2014/15 they registered a production of 476,307 kg;
- the permanent employees, including 2 sites and cooperative office are 18; the cooperative organization includes the General Assembly composed by representatives of the members and the Executive Committee that is monitored by the Control Committee;
- in the season 2014/15 they produced 84.34% of washed coffee and 15.66% of sundried coffee;
- they produce 10 trucks of (green) coffee (there are 10 tons of coffee per truck: hence, totally, 100 tons of coffee are delivered to the Sidama Union);
- it owns 2 washing stations;
- capability of personnel working in the washing stations: the two wet mill managers have received quality training;
- the range of coffee quality produced is within 1-3 grades;
- the cooperative use to buy the red cherries at an average price of 11 ETB per Kg (first payment), and the second payment is about 0.67 ETB/kg; usually the akrabis pay 1 birr more at the primary market and this results in a considerable reduction of the coffee quantity received by the cooperative;
- the cooperative provides to the members the following services: compost preparation and application, provision of consumer's utilities, technical assistance, transport of cherries from the primary marketing centres, training for organic certification (they get the training from the Union); boarding house in Aletawondo town for poor students, financial support to school building and fencing, financial support for construction of health centres;
- the cooperative is certified with Fair Trade and Organic, the certification fees are paid by the Union.

Table 11: Gerbicho Lela cooperative washing stations status

Name of the washing station	Year of establishment	Processing Capacity of cherries	Description & Status of machine in the washing station	No of People working in washing station	
				Fix term	Temporary
Gerbicho Lela	1997	2,500 kg/hr	Machine continuously broken down	6	43
Dande	1975	2,000 kg/hr	Fermentation and soaking tank not properly built	5	16

6.2.5 Description of the Intervention in Aletawondo Woreda

It has been found that it is advisable and possible to subcontract the majority of the activities to be carried out in Aletawondo Woreda to an organization that has experience in implementing similar activities and has a good knowledge of the Aletawondo area and experience in the coffee sector. In the following paragraphs, with reference to the intervention in Aletawondo, there are:

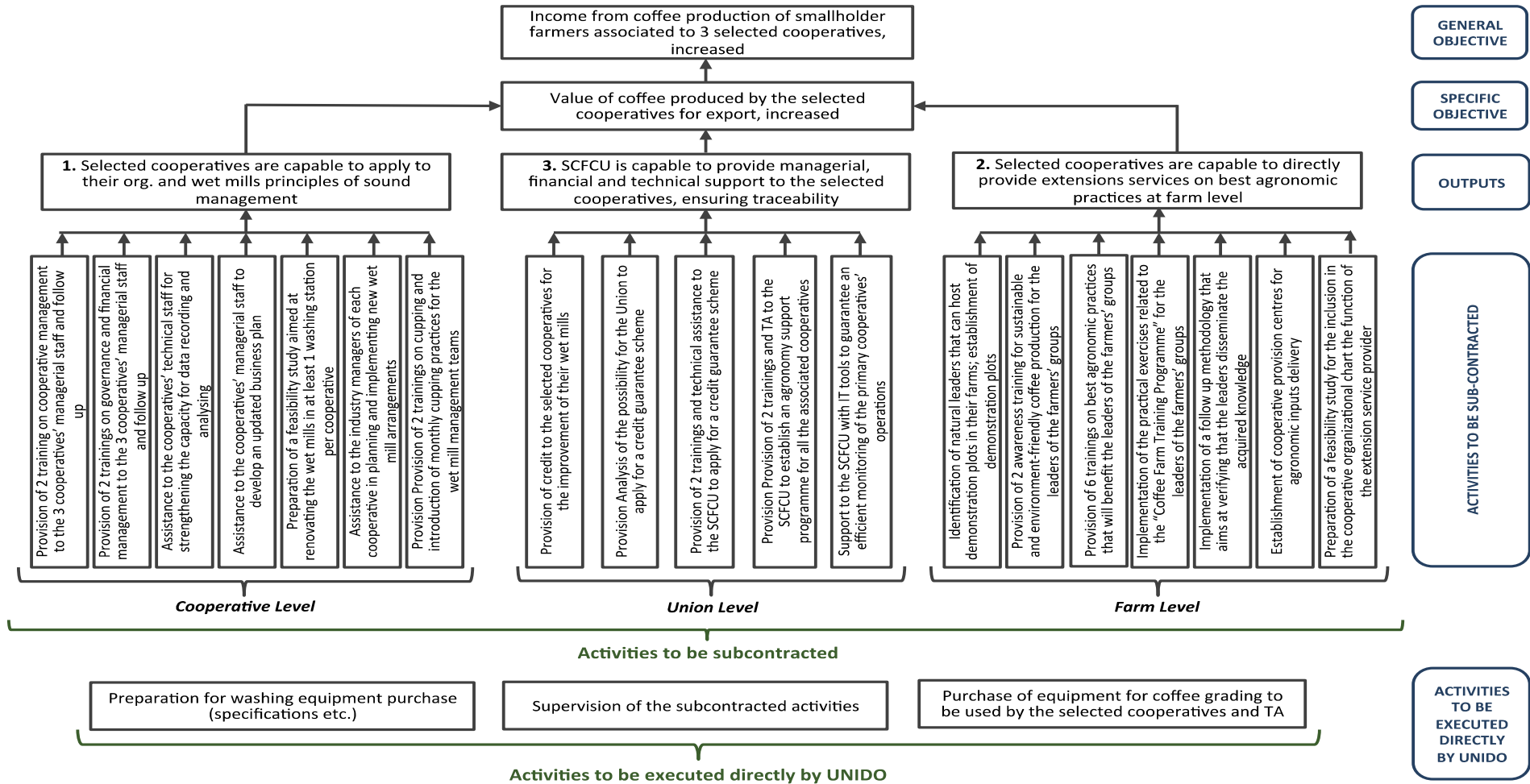
- (i) the Objective Tree,
- (ii) the Logframe Matrix and,
- (iii) the List of Activities.

In these documents, the activities to be carried out by the subcontractor and those to be carried out directly by UNIDO have been separately indicated in order to facilitate the selection of such organization and the definition of the relevant contract.

6.2.6 Objective Tree of the Intervention in Aletawondo Woreda

Improving the sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnerships

INTERVENTION IN ALETAWONDO WOREDA – OBJECTIVE TREE



6.2.7 Logframe of the Intervention in Aletawondo Woreda

	INTERVENTION LOGIC	INDICATORS	MEANS OF VERIFICATION
GENERAL OBJECTIVE	To increase income, deriving from coffee production, of smallholder farmers associated to 3 selected cooperatives (<i>Homacho Waheno, Gerbicho Lela and Titira</i>) in the Woreda of Aletawondo, Sidama Zone, SNNP Region.	<ul style="list-style-type: none"> • 20% increase of income of more than 8,000 coffee growers associated to the selected cooperatives (the total number of beneficiaries, including famer household members is estimated at more than 40,000). 	<ul style="list-style-type: none"> • Reports from the cooperatives and the Sidama Coffee Farmers' Cooperative Union (SCFCU); • Interviews with farmers and household members made by UNIDO supervisors.
SPECIFIC OBJECTIVE	To increase value of coffee produced by the selected cooperatives for export caused by an increase of yield and quality of the coffee and by the improved international recognition of Sidamo coffee quality.	<ul style="list-style-type: none"> • 20% increase of the amount paid by the Union to the selected cooperatives; • The grade received at ECX should be at least 3 and above. 	<ul style="list-style-type: none"> • Reports from cooperatives and the SCFCU; • Interviews with farmers and household members made by UNIDO supervisors; • Certification received at ECX.
OUTPUTS	1) Selected cooperatives in Aletawondo are capable to apply, to their organizations and wet mill operations, principles of sound and sustainable management.	<ul style="list-style-type: none"> • Data collected by the cooperatives are complete and relevant; • 3 business plans (1 per each cooperative) are prepared and approved by the cooperatives' general assemblies; • At least 3 wet mill new management plans (1 per each cooperative) are designed and approved by the cooperatives' general assemblies. 	<ul style="list-style-type: none"> • Cooperatives' records and books; • Business Plan documents; • Wet mill management documents.
	2) Leaders of farmers' groups are capable to apply and disseminate best agronomic practices at coffee farm level and the 3 selected cooperatives are capable to directly provide extension services.	<ul style="list-style-type: none"> • 90% of the demonstration plots are managed according to the best agronomic practices; • 10% of the total cooperative members (corresponding to the leaders of the farmers' groups) are trained on coffee quality control management; • A follow up methodology for the dissemination of best agronomic practices reaches the remaining 	<ul style="list-style-type: none"> • Demonstration plot inspections; • Attendance sheets of the Coffee Farm Training Programme; • Random Inspections in coffee farming plots; • Input provision centres' inspection and verification of their profitability; • Feasibility study documents.

		<p>90% of farmers' group;</p> <ul style="list-style-type: none"> • 3 cooperative provision centres for agronomic inputs delivery are established for coffee farmers; • 3 feasibility studies, aimed at including in the organizational chart of the cooperatives the function of the extension service provider, are undertaken. 	
	<p>3) Sidama Farmers Coffee Union is capable to provide a timely and effective support for managerial, financial and technical issues to the selected cooperatives.</p>	<ul style="list-style-type: none"> • Credit for new wet mill machineries is provided and/or credit scheme application is presented to financial institutions/ international donors; • A guarantee scheme acquisition is facilitated for the Union; • Specialized agronomy support programme and quality/marketing team are established at Union level; • A monitoring system on primary cooperatives' operations is put in place; • Gender baseline data are collected. 	<ul style="list-style-type: none"> • New wet mills inspection and assessment; • Application forms for credit scheme; • Verification of the coffee flow; • Reports of the Union on cooperatives' support programme; • Reports of the Union on cooperatives' operation management; • Gender analysis report.

6.2.8 List of Activities in Aletawondo Woreda

The activities to be carried out in Aletawondo have been subdivided into two parts: those that have to be subcontracted and those that have to be carried out directly by UNIDO.

List of Activities in Aletawondo Woreda to be subcontracted

Output 1: Selected cooperatives in Aletawondo are capable to apply to their organizations and wet mills principles of sound and sustainable management.
Activities
1) Provision of 2 trainings on cooperative management to the 3 cooperatives' managerial staff and follow up (with due attention to the gender mainstreaming for supporting women roles in the cooperatives);
2) Provision of 2 trainings on governance and financial management to the 3 cooperatives' managerial staff and follow up;
3) Assistance to the cooperatives' technical staff for profiling cooperative members, strengthening the capacity for data recording system and for analysing the data reinforcing women role in the cooperative management;
4) Assistance to the cooperatives' managerial staff to develop an updated cooperative business plan, taking into account feasibility studies for new infrastructure investment as well as product differentiation;
5) Preparation of a feasibility study aimed at renovating the wet mills in at least 1 washing station per cooperative and coaching of the cooperatives' technical staff in feasibility study preparation;
6) Assistance to the industry managers of each cooperative in planning and implementing new wet mill arrangements that are eco-friendly, efficient and quality oriented;
7) Provision of 2 trainings on cupping and introduction of monthly cupping practices at cooperative level for the wet mill management teams.

Output 2: Selected cooperatives are capable to directly provide extensions services on best agronomic practices at coffee farm level.
Activities
1) Identification of natural leaders amongst the farmers' groups that can host demonstration plots in their farms where) best agronomic practices in coffee farm management are put in place and follow up activities are carried out; establishment of a sufficient number of demonstration plots.
2) Provision of 2 awareness training on sustainable and environment-friendly coffee production that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members);
3) Provision of 6 trainings on best agronomic practices that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members); the full training course called " <i>Coffee Farm Training Programme</i> " will be delivered in the demonstration plots, in a set of 6 modules about: (i) proper nursery management (seedling), (ii) proper planting care (pruning, composting), (iii) proper plant rejuvenation (stumping and sucking management), (iv) coffee canopy management (pruning), (v) integrated weed management (mulching), (vi) proper harvesting and cherries selection (picking).
4) Implementation of the practical exercises related to the " <i>Coffee Farm Training Programme</i> " that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members) on a weekly basis.
5) Implementation of a follow up methodology that aims at verifying that the leaders disseminate the acquired knowledge " <i>Coffee Farm Training Programme</i> " to the farmers' members of their respective groups.
6) Establishment of cooperative provision centers for agronomic inputs delivery, implementing a distribution mechanisms of availing agronomic inputs and other farm implements (such as organic fertilizers, bow saw, pruning shear and coffee cherry drying materials-mesh wire as well plastic and jute sheets);
7) Preparation of a feasibility study for the inclusion in the cooperative organizational chart the function of the extension service provider.

Output 3: Sidama Coffee Union is capable to provide a timely and effective support for managerial, financial and technical issues to the selected cooperatives, ensuring the overall coffee traceability
Activities
1) Provision of credit to the selected cooperatives for the improvement of their wet mills;
2) Analysis of the possibility for the Union to apply for a credit guarantee scheme;
3) Provision of 2 trainings and technical assistance to the Sidama Union in order to apply for a credit guarantee scheme;
4) Provision of 2 trainings and technical assistance to the Sidama Union aimed at establishing a specialized and standardized agronomy support programme for all the associated cooperatives aimed at quality control;
5) Support to the Sidama Union with IT tools to guarantee an efficient monitoring of the primary cooperatives' operations

List of Activities in Aletawondo Woreda to be carried out Directly by UNIDO

Output 1: Selected cooperatives in Aletawondo are capable to apply to their organizations and wet mills principles of sound and sustainable management.
Output 2: Selected cooperatives are capable to directly provide extensions services on best agronomic practices at coffee farm level.
Output 3: Sidama Coffee Union is capable to provide a timely and effective support for managerial, financial and technical issues to the selected cooperatives, ensuring the overall coffee traceability.
Activities
1) Supervision of the subcontracted activities by international experts and by local experts
2) Preparation for washing equipment purchase (specifications etc.)
3) Purchase of equipment for coffee grading (cupping etc.) for the 3 selected cooperatives and TA

6.3 Intervention in Delo Mena Woreda (Oromia Region)

Figure 12: Location of the Delo Mena Woreda



6.3.1 Type of Coffee, Production, Number of Farmers and Cooperatives

The coffee produced in Delo Mena Woreda is only **sundried forest coffee** and harvesting, post harvesting and marketing activities are under the responsibility of WOARD and the Cooperative Promotion Office (CPO) in Delo Mena. The general supervision of these activities is under the responsibility of the Bale Zone Administration in Robe (capital of the Bale Zone) and its BoA and CPO).

According to Delo Mena WOARD the main figures related to coffee production are the following:

- The Woreda includes 14,000 ha, with about 4,650 farmers that produce coffee;
- in the Woreda there are 14 Kebele, out of which 8 produce coffee; in these eight coffee growing Kebele the 4,650 farmers hold a total of about 11,000 hectares (about 2,4 ha/household);
- the large majority (more than 85%) of the coffee area is related to wild forest coffee and rest (about 15%) to garden coffee indicating the significance of wild coffee in the livelihood of this farming community that, considering the family members amounts to about 23,000 people;
- the production is about 7,000 t/y of green sundried coffee; it has been noted that a specialty coffee certification has to be introduced in order to increase the value of the local coffee;
- at Woreda level there are 36 experts, out of which 7 dedicated to coffee. In addition, the Woreda CPO has 17 cooperative experts; at Kebele level there are 38 development agents (24 specifically working on coffee); cooperative experts are in charge to train and coordinate the local development agents, which are providing trainings and advices to local farmers at Kebele level;

- in the Woreda there are, in total, 98 cooperative, out of which 12 are coffee cooperatives dealing with coffee. They are indicated, together with the number of their members, in the following Table 12.

Table 12: Delo Mena Woreda Primary Cooperatives operating with coffee

Primary Cooperatives			Members		
N.	Name	Type	Male	Female	Total
1	Irba	Multi-purpose	434	59	493
2	Chiri	Multi-purpose	382	39	421
3	Wabero	Multi-purpose	305	64	369
4	Walte Gudina	Multi-purpose	221	21	242
5	Oda Dima	Multi-purpose	135	36	171
6	Bobiya	Multi-purpose	86	20	106
7	Burkitu Darara	Multi-purpose	81	1	82
8	Habubi	Coffee	60	1	61
9	Biftu Kankicho	Coffee	49	-	49
10	Manyate	Coffee	42	2	44
11	Ele Mekenisa	Coffee	44	-	44
12	Bekelcha	Coffee	22	2	24
Total			1,861	245	2,106

Source: Cooperative Promotion Office of Bale Zone (2014)

6.3.2 Presence of Unions

In the Delo Mena Woreda, two Unions are operating: the Oromia Coffee Farmers Cooperative Union (OCFCU) and the Burka Yadot Cooperative Union (BYCU).

The **OCFCU** is the largest among the Unions operating in Ethiopia having a number of associated cooperatives (more than 200) and farmer members (more than 200,000) that is above 2/3 of the total cooperatives and farmers associated with the four major Unions in Ethiopia. The Ethiopian authorities are concerned by the fact that the OCFCU is more and more acquiring a monopolistic position. For this reason the authorities favour the establishment of new Unions in Oromia.

The **Burka Yadot Cooperative Union** has been recently established with the support of the authorities to represent an alternative, for the cooperatives, to OCFCU. Also the IAO Project (funded by the Italian Development Cooperation) has supported the Burka Yadot Union in its difficult initial period with technical assistance, the construction of a warehouse (465 sqm) and with a complete new hulling facility (to be installed in early 2016).

The BYCU has the following characteristics:

- it is staffed with: 1 manager, 1 accountant, 1 secretary, 1 storekeeper and 2 guards; the manager and the guards are men and the others are women;
- the BYCU has 15 cooperative members, 12 of which are operating in Delo Mena Woreda for a total of about 1,400 coffee farmers; these figures are consistent with the 2014 data from the CPO of Bale Zone, which for the BYCU indicates (see Table 1): 12 cooperative members in Delo Mena Woreda (5 dealing only with coffee and 7 multi-purpose), for a

total of 2,106 farmer members (1,861 male and 245 female); the difference in the number of coffee farmers indicated by BYCU (1,440) and that indicated by the CPO (2,106) is due to the fact that, among the 7 multi-purpose cooperatives there are farmers that are not involved in coffee production;

- during the last season, the Union was able to purchase only 100 tons of green coffee (equivalent to about 200 tons of sundried cherries), out of a total potential of 5,000 tons; the reason for this low performance is mainly financial but it has also origin from the fact that the Union started its operations very recently;
- some improvement of the low purchasing capability is expected, starting from the next harvesting season, due to the recently completed new warehouse and from the new hulling facilities that is expected to be ready by March 2016;
- at present, the Union is selling the relatively small quantity of coffee purchased from the cooperatives (which reached qualities of grades 2, 3 and 4 at the ECX grading station in Hawassa) to the ECX or to the OCFUCU; therefore, for the time being, the Union is not achieving the main purpose of its establishment, which is to maintain an acceptable level of traceability of the Hareenna coffee and, in perspective, to be capable to export directly its coffee (Burka Yadot has already an export license) without passing through intermediaries that blend their coffee with that produced in other areas of Oromia;
- the Union seriously lacks of financial management capacity and a strong assistance on this matter is required (e.g. a Union business plan should have been produced);
- the new Union must in few years reach a purchasing capacity of about 1,000 tons, thus passing from the present 5 containers of green coffee to 50 containers that could attract importers from Europe and USA;
- the value of the coffee that they have purchased in the past season (100 tons) is about 3 to 4 million ETB; the Union was capable to cover this amount also by delaying the payment to the farmers (in practice were the farmers themselves to provide credit to the Union) but this method is not sustainable and does not allow for an increase of the turning over of the Union;
- in the past the BYCU has tried to solve its problem of working capital by requesting a loans to the Cooperative Bank of Oromia (that has an office in Robe); as their first experience, they took a loan of 700,000 ETB, than, for the last three years, they took loans of 2,000,000 ETB; BYCU has now requested a loan of 6 million ETB, out of which 4 million ETB is for coffee; the local authorities supported the request but the bank has not yet given its answer;
- the real problem for obtaining a loan for an important amount is the availability of collaterals by the Union that, for the moment, is almost nil; the Union is starting now to have some collaterals (from the new warehouse) and it will have some more after the completion of the new hulling facility; most likely these two assets will not be sufficient to obtain loans that can allow for a rapid increase of the Union turn over;
- it will be necessary to explore the possibility to use the value of the purchased coffee stored in the Union warehouse as collateral.

6.3.3 Presence of Supporting Organizations

The Project Team has not found any **organization in Delo Mena Woreda supporting the coffee sector**. In the past few years, there was the IAO, that was implementing the project financed by the Italian Cooperation, but now it has completed its activities.

IAO (Agronomic Overseas Institute) is an Agronomic Research Institute based in Florence, Italy, which has implemented the project “Agricultural Value Chains in Oromia” between 2010 and 2015 thanks to a funding received by the Italian Development Cooperation.

The formal Agreement between Government of the Federal Democratic Republic of Ethiopia (GOE) and the Government of the Republic of Italy (GOI) has been signed on the 13th January 2010 and has been conceived to take actions in order to complement efforts already engaged by the GOE for improving durum wheat and wild coffee productions of Bale and for their marketing at national and international levels.

The project has contributed to the Growth and Transformation Plan of Ethiopia by operating in accordance with its key strategic directions, such as the strengthening of transparent, efficient and effective agricultural marketing system that involves farmers’ cooperatives, modern output market centres and private sector; the improvement of the skills, work initiation, and implementation performance of the government extension system; the encouragement of farmers for continuous technology use and increasing agricultural production in an organized system; the facilitation for the necessary inputs will be produced by the farmers themselves or in their surroundings, and engage in tasks to distribute them efficiently by using farmers cooperatives.

The Project has been devised to operate according to methodology and implementation modalities already started, within the Ethio-Italian cooperation project Arsi Bale Rural Development Project, for the strengthening of durum wheat and wild coffee cultivation. As a matter of fact reciprocal knowledge and trust exists amongst identified partners.

The objective of the project “Agricultural Value Chains in Oromia” has been to support farmers’ cooperatives and local institutions across the value chain to produce high quality and quantity durum wheat and coffee; consequently the current UNIDO initiative will work with already existing cooperatives and Union to mainly focus on the coffee quality requirements in coffee processing as well as on the correct management of the natural resources in Harena Forest.

Besides the intervention of IAO, the Project Team has found that in the area there are some organizations that are operating in sectors different from coffee. As an example, it is worthwhile to mention the Italian NGO “Cooperazione Internazionale – COOPI”. This NGO is at present working in 24 developing countries (15 in Africa, 7 in South America and 2 in Middle East) in various sectors (rural development and food security, water and sanitation, education, health, microcredit etc.). In Ethiopia COOPI is present since 1995 with different kind of interventions, like: water and sanitation (Dolo, Filtu, Liben in Oromia Region and agro-pastoralist areas in Somali Region), microcredit for women in Addis Ababa, access to sustainable energy sources in rural areas of Oromia and Somali Regions (solar energy for cooperatives, schools and health centres). For what concerns the creation and reinforcement of rural cooperatives, they have gained experience in Oromia and Somali Regions with projects financed by EU, FAO, Swiss Cooperation, USAID and Italian Cooperation.

At present COOPI has its main office in Goro that is located at 1h and 30 minutes’ drive East of Goba, the capital of the Bale Zone but they are planning to move their office to Goba in view of a new project financed by the Italian Cooperation. This new project will last three years, will be addressed to 6 Woreda, including Arana that is close to Delo Mena

that are located at about 1 hour and 30 minutes' drive South of Goba. They are also planning to open a second small office in Arana with one expert of rural cooperatives.

6.3.4 Selection of Cooperatives

The Project Team has visited three of the 12 cooperatives that operate on coffee in Dela Meno Woreda, in particular, the two largest, Irba and Chiri and one of the smallest, the Manyate cooperative. The three visited cooperatives represent a significant sample of all the 12 cooperatives; they have some similar problems (like the necessity to improve their organization and the harvesting and post-harvesting capability of their members) but are different in terms of number of member farmers and status of their organization. Here below there is the description of the three visited cooperatives.

Chiri Cooperative

- The cooperative has been established in 1984 and has now 450 farmer members (16 are women, mostly widowed);
- in the past season they produced 12.75 tons of cleaned coffee, while their theoretical potential is 33 tons.
- their farmers have an average of 3 ha of land each, with a yield of 0.38 tons/ha (these figures bring their potentiality to about 50 tons and it seems to be in contradiction with the declared potentiality of 33 tons);
- about 50% of their members' income comes from coffee and the rest from other crops (sesame, vegetables etc.);
- they sell their coffee to the OCFCU that, in the past season, paid an average price of 30 – 40 ETB/kg (of cleaned coffee) and the subsequent dividend (second payment) from OCFCU was 68,000 ETB for 12.75 tons (5.33 ETB/kg); in the same season their coffee scored qualities of grades from 3 to 6 at the ECX grading station in Hawassa; they are satisfied with the grading system adopted by ECX (especially for the way in which the ECX takes samples of the delivered coffee);
- their main problems are: (i) access to market, in particular for the bad status of the access roads, especially during the rainy season, (ii) coffee quality needs improvement, (iii) access to credit, (iv) lack of technical skills;
- the three Development Agents of the Kebele receive training from the Woreda; they provide group training to the leader farmers of the cooperative three times per year, but they come weekly for follow up; each development agent visits about 120 farmers per year and they have to reach the farms by foot, since they don't have any transport means; they received technical support from the Woreda especially in terms of technical training (post harvesting) and "how to accede to credit";
- the Chiri cooperative is member both of the Burka Yadot and of the OCFCU of which they are shareholders; now they sell only to OCFCU but they are ready to sell also to Burka Yadot in presence of a reasonable capacity of payment by this Union;
- there is still a lot work to do in terms of coffee quality improvement; in particular, at OCFCU level the competition is really high and the cooperative cannot reach the quality of the other Union members, which are dealing with garden and plantation coffee;
- the cooperative members interviewed expressed the need of a specialty market otherwise they will not be able to be competitive because their coffee is wild (forest); OCFCU is currently mixing their coffee with the Harar one, which is really similar, but this fact is undermining their coffee traceability and peculiarity (100% organic coffee).

Irba cooperative

- The cooperative has 451 farmer members and in the past season they produced 25 tons of cleaned coffee, while their theoretical potential is 75 tons (it has to be noted that the biggest local farmer in the area can produce 25 tons only by himself);
- they usually do the coffee pre-selection in collaboration with the WOARD than they bring the coffee to the huller;
- they sell their coffee to the OCFCU that, in the past season, paid a dividend (second payment) of about 3 ETB/kg (this is substantially less of the dividend declared by the Cherry cooperative, that was 5.33 ETB/kg).

Manyate Cooperative

- It takes its name from the Manyate Kebele and village that is located in the middle of the Harena forest and that has a primary school at 1 km distance;
- the Project Team visited 5 farmers that collect only forest coffee; they have largely adopted the improved post-harvest methods introduced by the IAO project;
- they dry most of their coffee on beds, while a small amount is still dried on UNICEF plastic sheets on the ground (this is considered an intermediate method, which improves the situation from the drying on the nude ground, before passing to the suspended beds);
- all the materials (nets for the suspended beds, UNICEF plastic sheets and plastic sheets to cover the coffee during the night and during rains) have been provided by the IAO project, which provided also financial support and technical guidance to the WOARD for their provision to the farmers of training on best post-harvesting practices; the view of the farmers is that the quality of their coffee is improved as a consequence of the IAO project;
- in addition to the normal harvesting and post-harvesting activities on the wild forest coffee, the farmers are carrying out also some plant rejuvenation; in facts, in the “buffer areas” of the forest (that are free from tree or bushes) they are planting new coffee plants, with the support and the assistance of the WOARD (and of the IAO project);
- it has been noted that the farmers are producing also honey with traditional beehives and semi-improved beehives; the Project could include some activities in the honey sector.

6.3.5 Description of the Intervention in Delo Mena Woreda

As indicated, in Delo Mena Woreda there are 12 cooperatives dedicated to coffee: while 7 of them are multi-purpose, 5 are dedicated only to coffee. After the site survey and after visiting some of the cooperatives and their facilities, the Project Team decided to focus the Action Plan on all the 12 cooperatives. This decision has been taken in order:

- a) To comply, as much as possible with the aim of the Project mentioned above in paragraph 2, i. e. to create, in the selected intervention areas, success cases that can be replicated in other areas.
- b) To have a reasonably high number of beneficiaries. In facts, the 12 cooperatives have a total of only 1,440 farmers dealing with coffee. It should be noted that the coffee farmers organized in cooperatives represent only 31% of the total number of coffee farmers in Delo Mena Woreda (4,650). The total estimated production of coffee in the Woreda is about 7,000 t/y expressed as sundried green coffee, out of which about 85% (5,950 t /y) is wild forest coffee and about 15% (1,050 t/y) is garden coffee. From a rough estimate (carried out on the basis of the proportion between the number of coffee farmers organized in cooperatives and the total number of coffee farmers in the Delo Mena Woreda) the total green sundried coffee produced by the farmers organized in

cooperatives in the Delo Mena Woreda, should be about 2,200 t/y. It should be noted the substantial difference with the situation described for the Aletawondo Woreda where, considering only 3 cooperatives it is possible to reach about 8,000 coffee farmers potential beneficiaries that produce about 1,200 t/y of washed green coffee.

Table 13: Aletawondo Woreda and Delo Mena Woreda: comparison between the two areas of intervention:

	N.	Main Features (as declared by the actors or estimated)	Aletawondo	Delo Mena
Features of the Woreda	1	Main coffee type produced	garden, washed	wild forest, sundried
	2	% of washed coffee	95 %	0 %
	3	% of sundried coffee	5 %	100 %
	4	% of garden coffee	100 %	15 %
	5	% of wild forest coffee	0 %	85 %
	6	Number of farmers/households dealing with coffee	17,000	4,650
	7	Area available per farmer	0.9 ha	2.4 ha
	8	Estimated total production of green coffee	5,600 t/y	7,000 t/y
	9	Unions present in the Woreda	SCFCU	BYCU, OCFCU
	10	Presence of organizations supporting the coffee sector	yes	no
	11	Presence of supporting organizations	yes	yes
Features of the sselected coops	12	Number of cooperatives	3	12
	13	Number of farmers/households	8,321	1,440
	14	Approx. number of beneficiaries (including families)	41,650	7,200
	15	Estimated production of green coffee	1,200 t/y	not available
	16	Estimated production of green coffee per household	0.144 t/y	not available
	17	Av. price received by farmers for kg of cleaned coffee	65 ETB/kg	40 ETB/kg
	18	Estimated income of household from coffee	9,360 ETB/y	not available

On the basis of the findings of the survey in Delo Mena Woreda, for what concerns the focus of the intervention, it will be put on: (i) reinforcing the BYCU to allow the growing of the Union to become gradually capable to export directly the Harena forest coffee, without passing through OCFCU and therefore ensuring the traceability; (ii) reinforcing the 12 cooperatives to allow them to really represent an efficient connecting element between the farmers and the BYCU and, (iii) increasing the capacity of the farmers in order to improve the quality of the coffee. Important elements will be: (i) the introduction of a grading/cupping facility at Union level (to be utilized also by cooperatives) to extend the awareness on coffee quality and, (ii) to provide support to the farmers for the diversification of their production (e.g. of honey with improved technology providing training and traditional, transitional or modern beehives to some cooperatives members) in order to increase their income with eco-friendly activities.

For what concerns the implementation modalities, in the case of the intervention in the Aletawondo Woreda it has been found that it is advisable and possible to subcontract the majority of the activities to be carried out to an organization that has experience in implementing similar activities in the coffee sector and has a good knowledge of the Aletawondo area. Similarly, in the case of the intervention in Delo Mena Woreda it has been found that in the area there are organizations with experience in development cooperation and in support of rural cooperatives.

In order to build up on the successes of the IAO project and to follow the requests of the local authorities, it is advisable to follow, as much as possible, the implementation modalities used by IAO in its project. As a consequence, the following modalities will be adopted:

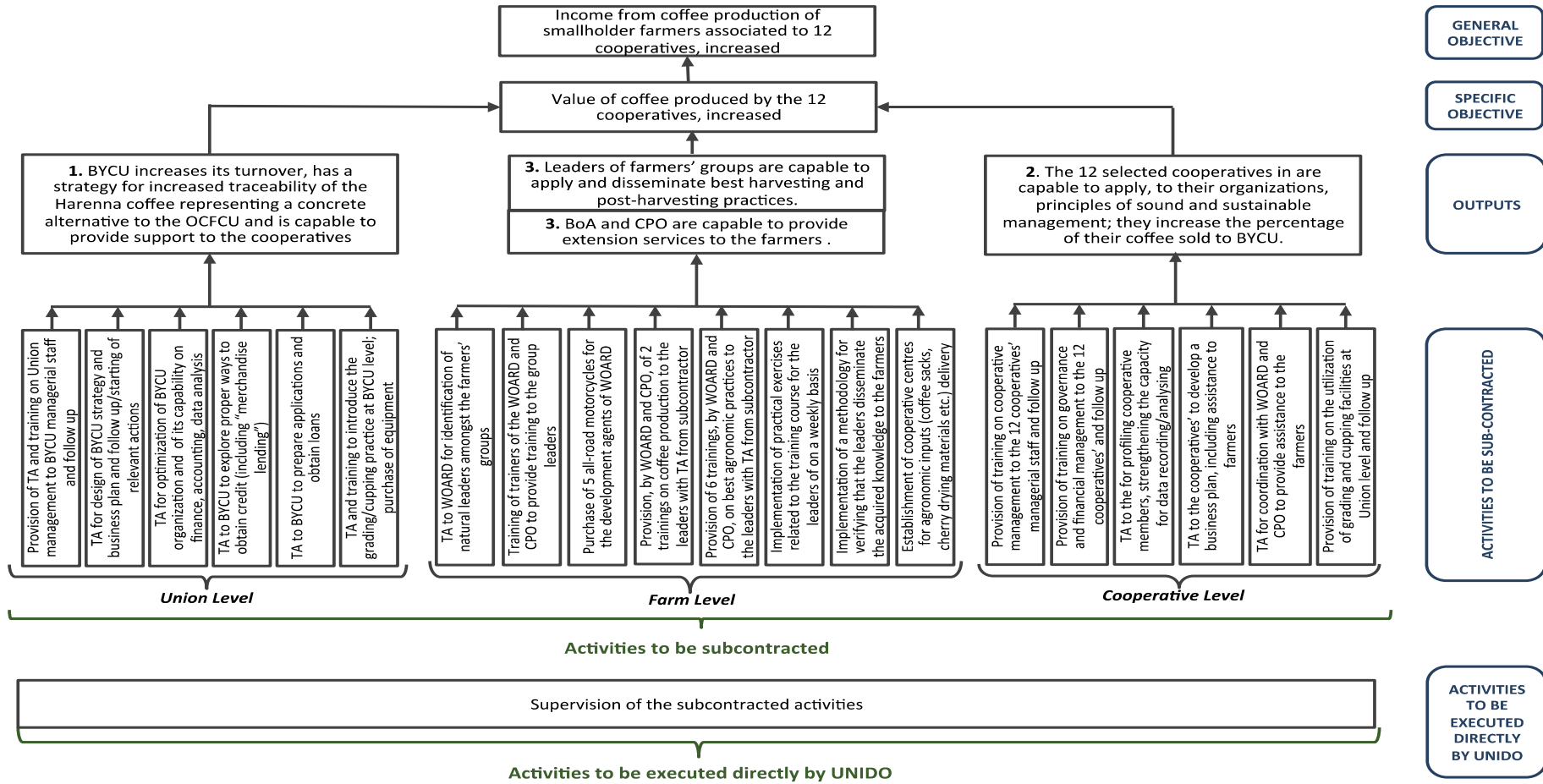
- a) A subcontractor will execute the activities at Union level. Ethiopian experts recruited by UNIDO will strictly supervise these activities. The reasons for this choice are: (i) the activities will require a continuous presence in the Woreda and can be carried by Ethiopian experts recruited by the subcontractor provided that UNIDO can frequently verify the appropriateness of the execution and, (ii) it has been found in the area some organization with experience in support of rural organizations but whose capacity in the specific sector has to be monitored.
- b) A subcontractor will execute the activities at cooperative level. The reasons for this choice are: (i) the activities will require a continuous presence in the Woreda, (ii) it has been found that in the area there is at least one reliable organization with a specific experience in reinforcement of rural cooperatives, (iii) in order to start the activities as soon as possible it is necessary to have a subcontractor that has already the necessary logistic facilities (office, transport etc.). UNIDO experts based in Addis will supervise the subcontractor with periodic visit in the Woreda.
- c) WOARD and CPO will execute the activities at farm level under the guidance and with the support (also financial) from the subcontractor. The reasons for this choice are: (i) WOARD and CPO have already properly carried out similar activities in the framework of the IAO project, and (ii) these offices have a sufficient number of development agents.

In the following paragraphs, with reference to the intervention in Delo Mena, there are: (i) the Objective Tree, (ii) the LOGFRAME Matrix and, (iii) the List of Activities. In these documents, the activities to be carried out by the subcontractor and those to be carried out directly by UNIDO have been separately indicated in order to facilitate the selection of such organization and the definition of the relevant contract.

6.3.6 Objective Tree of the intervention in Delo Mena Woreda

Improving the sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnerships

INTERVENTION IN DELO MENA WOREDA – OBJECTIVE TREE



6.3.7 Logframe of the intervention in Delo Mena Woreda

	INTERVENTION LOGIC	INDICATORS	MEANS OF VERIFICATION
GENERAL OBJECTIVE	To increase income, deriving from coffee production, of smallholder farmers associated to the 12 cooperatives based in the Delo Mena Woreda of Bale Zone, Oromia Region	<ul style="list-style-type: none"> • 20% increase of income of more than 1,400 wild coffee farmers associated to the selected cooperatives (the total number of beneficiaries, including famers' household members is estimated at more than 7,000). 	<ul style="list-style-type: none"> • Reports from cooperatives and from the Burka Yadot Cooperative Union (BYCU). • Interviews with farmers and household members made by UNIDO supervisors.
SPECIFIC OBJECTIVE	To increase value of coffee produced by the selected cooperatives for export caused by an increase of the quality of the coffee and by an acquired international recognition of the Haremma forest wild coffee quality.	<ul style="list-style-type: none"> • 20% increase of the amount paid by the Unions to the selected cooperatives. • The grade received at ECX should be at least 3 and above. 	<ul style="list-style-type: none"> • Reports from cooperatives and from the BYCU. • Interviews with farmers and household members made by UNIDO supervisors. • Certification received at ECX.
OUTPUTS	1) Burka Yadot Cooperative Union increases its turnover, has a strategy (and starts relevant actions) to obtain an increased traceability of the Haremma wild forest coffee representing a concrete alternative to the OCFCU convenient for the cooperatives and is capable to provide support to the selected cooperatives.	<ul style="list-style-type: none"> • BYCU has a proper organization; • BYCU has a sound financial and accounting capability. • BYCU receives sufficient credit for its working capital. • Quantity of coffee purchased by BYCU from cooperatives increases at least to 300 t/y. • A strategy for BYCU to export directly the coffee is put in place. • A monitoring system on primary cooperatives' operations is put in place. 	<ul style="list-style-type: none"> • Organogram of BYCU. • Books and financial records of BYCU. • Documentation on loans received by BYCU. • Documents on BYCU strategy to export directly coffee; • Verification of the traceable coffee flow. • Reports of the Union on its monitoring on primary cooperatives' operations.

	<p>2) The 12 selected cooperatives in Delo Mena are capable to apply, to their organizations, principles of sound and sustainable management; they increase the percentage of their coffee sold to BYCU.</p>	<ul style="list-style-type: none"> • Data collected by the cooperatives are complete and relevant. • 12 business plans (1 per each cooperative) are prepared and approved by the cooperatives' general assembly. • Cooperatives' data on coffee sold to BYCU, to OCFCU and to akrabis. 	<ul style="list-style-type: none"> • Cooperatives' records and books. • Business Plan documents. • Records of cooperatives on sales.
	<p>3) WOARD and CPO are capable to provide proper extension services to the farmers of the selected cooperatives. Leaders of farmers' groups are capable to apply and disseminate best harvesting and post-harvesting practices at coffee farm level.</p>	<ul style="list-style-type: none"> • All the development agents of WOARD and CPO are trained as trainers on sustainable and environment-friendly coffee production and on best agronomic practices. • WOARD is provided with 5 all-road motorcycles. • 2 trainings on sustainable and environment-friendly coffee production and 6 trainings on best agronomic practices are provided to 10% of the total cooperative members (corresponding to the leaders of the farmers' groups). • A follow up methodology for the dissemination of best agronomic practices reaches the remaining 90% of farmers' group. • 12 cooperative provision centres for agronomic inputs delivery are established for coffee farmers. 	<ul style="list-style-type: none"> • Attendance sheets to the trainings of the Coffee Farm Training Programme. • Random inspections in coffee farming plots. • Input provision centres' inspection and verification of their utilization by farmers.

6.3.8 List of Activities in Delo Mena Woreda

All the activities will be supervised by the the UNIDO Project’s implementation Unit and a close monitoring will be performed.

List of Activities in Delo Mena Woreda to be subcontracted

Output 1: Burka Yadot Cooperative Union increases its turnover, has a strategy (and starts relevant actions) to obtain an increased traceability of the Hareenna wild forest coffee representing a concrete alternative to the OCFCU convenient for the cooperatives and is capable to provide support to the selected cooperatives.
Activities
1) Provision of TA and training on Union management to BYCU managerial staff and follow up (with due attention to the gender mainstreaming).
2) TA for the design of the BYCU strategy and business plan to obtain an increased traceability of the Hareenna wild forest coffee and follow up with starting of relevant actions.
3) TA to BYCU for optimization of its organization and for the improvement of its capability on finance, accounting, data recording and data analysis, reinforcing women role in Union operation.
4) TA to BYCU to explore the proper ways to obtain credit (including “merchandise lending”) in order to increase the quantity of coffee purchased by the Union.
5) TA to BYCU to prepare applications and obtain loans.
6) TA and training to introduce the grading and cupping practice at BYCU level and purchase of relevant equipment.

Output 2: The 12 selected cooperatives in are capable to apply, to their organizations, principles of sound and sustainable management; they increase the percentage of their coffee sold to BYCU.
Activities
1) Provision of training on cooperative management to the 12 cooperatives' managerial staff and follow up (with due attention to the gender mainstreaming in the cooperatives).
2) Provision of training on governance and financial management to the 12 cooperatives' managerial staff and follow up.
3) TA to the 12 cooperatives' technical staff for profiling cooperative members, strengthening the capacity for data recording system and for analysing the data reinforcing women role in the cooperative management and follow up.
4) TA to the cooperatives' managerial staff to develop an updated cooperative business plan, taking into account assistance to the farmers for coffee quality improvement and product differentiation (including honey production) and follow up.
5) TA to the 12 cooperatives in planning and implementing coordination with WOARD and CPO to provide assistance to the farmers for improvement of harvesting and post-harvesting practices.
6) Provision of training to the cooperatives on the utilization of grading and cupping facilities at Union level and follow up.

Output 3a: WOARD and CPO are capable to provide proper extension services to the farmers of the selected cooperatives.
Output 3b: Leaders of farmers' groups are capable to apply and disseminate best harvesting and post-harvesting practices at coffee farm level.
Activities
1) TA to WOARD for identification of natural leaders amongst the farmers' groups that can disseminate best agronomic practices in coffee farm management.
2) Training of trainers of the WOARD and CPO to provide training to the leaders as per following points 4 and 5.
3) Purchase of 5 all-road motorcycles for the development agents of WOARD
4) Provision, by the development agents of WOARD and CPO trained under previous activity 2, of 2 awareness trainings on sustainable and environment-friendly coffee production to the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members) with TA from subcontractor.
5) Provision of 6 trainings, by the development agents of WOARD and CPO trained under previous activity 3, on best agronomic practices to the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members); the training course will be delivered (with TA from subcontractor) in a set of 4 modules about: (i) coffee canopy management, (ii) proper harvesting and cherry selection (picking), (iii) proper sun drying and bed utilization and, (iv) product diversification (e.g. modern honey production).
6) Implementation of the practical exercises related to the training course of previous activity 5 that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members) on a weekly basis.
7) Implementation of a follow up methodology that aims at verifying that the leaders disseminate the knowledge acquired under activities 4, 5 and 6 to the farmers' members of their groups.
8) Establishment of cooperative provision centers for agronomic inputs (such as organic fertilizers, pruning shear, coffee sacks and coffee cherry drying materials-mesh wire, plastic sheets, improved hives) delivery, implementing a distribution mechanism.

6.4 Interventions in Addis Ababa

In the Project Document, in addition to the activities to be carried out in the coffee growing areas and mentioned in paragraph 2 that are mainly related to Outputs 3 and 4, there are activities to be carried out in Addis Ababa. Those are, in particular related to Outputs 1 and 2.

Under Output 1 (The coordination among the coffee value chain actors is obtained) the activities that have to be carried out in Addis Ababa and can be executed or started during the Plan of Action period are:

- Activity 1.1. Preparation of a draft document on the purpose, composition, operating principles of the Organized Coffee Forum (OCF).
- Activity 1.2. Presentation and discussion of the draft document with all direct and supporting actors, starting with GoE institutions.

As indicated by the “*Coffee Sector Development Strategy for the Ethiopia*”, prepared by the EU, Ethiopia needs to come up with its own solution for a professionally empowered institution, fully mandated politically, which will be able to act with equal powers at national or federal as well as regional levels. Experiences within the country have shown quite successful structures, which only must be re-created with the aim to become more proactive and encourage the industry, besides defending the interest of the coffee industry and the nation.

The above Activities 1.1 and 1.2 will be influenced by the development of the newly established Coffee and Tea Development and Marketing Authority (CA) that will have an essential role in the OCF. The EU has allocated € 15 million to support the CA has recruited a consulting firm to help the CA to prepare the relevant project concepts. It is advisable that the Project participates to the support of the new CA with TA activities.

Considering that the new Coffee Authority has been established through the Proclamation 916/2008, this has two main effects on the implementation modalities of the UNIDO Project:

- 4) The necessity to wait the full establishment of the new Authority before establishing the PSC.
- 5) The opportunity to include, within the Project activities, a support to the new CA.
- 6) The importance to have a full involvement of the CA in the creation of the OCF.
- 7) The importance to pursue a full coordination with the EU Delegation for the implementation of the Output 1 (creation of an Organized Coffee Forum).

In this framework it is important to investigate whether and how will be possible to establish connections and collaboration between the CA and the Food and Beverage and Pharmaceutical Institute (FBPI). The following activities are foreseen: (i) verification of the status of the FBPI and of its capacity in terms of professional skill and infrastructures (e.g. laboratories) for providing support to the coffee sector and identify any gap, (ii) assessment of the possibility to establish a collaboration between the FBPI and the CA, (iii) provision of assistance to the FBPI especially in terms of capacity building (training and TA), (iv) assessment of the CA needs of assistance, and (v) provide TA to the CA.

The potential of open and transparent dialogues in redressing any drawbacks and challenges of the production as well as the marketing system should not be underestimated. For these reasons, the Organized Coffee Forum should include all public and private stakeholders. The provision of opportunities to develop new products and tap new markets, relationships between players, fairness of share of benefits among value chain stakeholders, etc. should thoroughly and continuously be assessed to benefit the sector.

Under Output 2 (The volume of roasted exported coffee is increased) the activities that have to be carried out in Addis Ababa and can be executed or started during the Plan of Action period are:

- Activity 2.1. Identify new potential investors, starting with existing roasters, exporters and cooperative unions, but evaluating also the potential for investments from abroad.
- Activity 2.2. Identify constraints and select potential investors (possibly at least three national potential investors).
- Activity 2.3. Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology, marketing and training.
- Activity 2.4. Provide financial advice to selected investors.

The Activity 2.5 (Provide technical assistance to selected investors during the implementation of their investment projects), under the same Output 2, should be carried out at a later stage.

In order to properly execute the activities 2.1, 2.2, 2.3 and 2.4, it is important to previously proceed with the strengthening of the Ethiopian Coffee Roaster Association (ECRA) and roasters in general. This goal will be achieved throughout the performance of the following activities: i)Development of a strategic plan for the ECRA; ii)Assistance for the implementation of the ECRA strategic plan; iii)Supporting ECRA members' participation in exhibitions, conferences, study tours and training abroad; iv)Provision of training to ECRA members to strengthen their capacity; v)Verification of the status of the FBPI in terms of professional skill and infrastructures (e.g. laboratories and other facilities) in view of collaboration with the CA and with ECRA; vi)Preparation of a feasibility study for the establishment of a Roasting Training Center in FBPI premises in collaboration with ECRA and other relevant private sector actors; vii)Establishment of a Roasting Training Center in FBPI (including e.g.: Roasting, Packaging, Cupping, Marketing, Promotion); viii) Provision of training to members of ECRA and FBPI to strengthen their capacity in managing the Roasting Training Center; ix)Establishment of a Roasting Training Programme (including e.g.: Roasting, Packaging, Cupping, Marketing, Promotion); x)Provision of TA to the SCFU to allow them to go towards a full traceable roasted coffee.

6.4.1 Benchmarking activities

Each coffee producing country must cope with individual situations creating very specific conditions for which individual solutions must be found. The uniqueness of Ethiopia does not allow the country to adopt a "Kenyan solution" for instance, which would not meet the country's requirements.

Nevertheless it would make sense for policy makers in Ethiopia to study the case of coffee producers' movement in countries like Brazil or Colombia; Colombia in particular, producing between 10 and 12 million bags of coffee can be considered a very important benchmark for Ethiopian coffees.

The *Federacion Nacional de Cafe* (FNC), the organization that takes care of all coffee issues in the country, is more than 100 years old, and the most influential political body in the country; furthermore the Government of Colombia has last year subsidized the coffee industry by 700 mln USD (40 cents per pound) and for the current year another 500 mln USD have been earmarked for coffee producers.

Ethiopia can learn how a country like Colombia supports its farmers' production, and how it tries to protect their farmers against world price volatility.

Organizations like FNC in Latin America have in common the fact that they rely on the private sector to develop their production and on the cooperative movement since most countries depend on smallholders for the bulk of their respective coffee production. Be it Anacafe in Guatemala, the FNC in Columbia or Coaxupe cooperative in Brazil, the cooperative organisation has the biggest political influence in these countries, next to situations where a completely free market scenario prevails.

The African neighbours, Kenya, Uganda and Tanzania, cannot be cited as examples either, because in all the three countries, the respective coffee boards play an insignificant role, reflecting not only their weak economic impact but also the political impact coffee producers have and their influence on policy makers in these countries.

It is technically possible not only to increase by 50%, but also to double current production within 10 years, bringing Ethiopia to where Colombia is today (11 million bags). This would require quickly beginning production support programs based on a quite effective extension service. The introduction of modern technical means such as the use of mass media (radio, TV etc.) could transport the technically required messages and include women, previously under-represented, as a most important target group. Coffee support programmes need prompt start-up programmes since this perennial crop requires at least three years for incremental production results under Ethiopian conditions.

In the light of the above, a study tour in Colombia for Ethiopian policy makers, technical advisers involved in the Institutions dealing with coffee (i.e. Coffee and Tea Marketing and Development Authority, Ministry of Industry and Ministry of Agriculture) and representatives of Cooperatives and Unions will be proposed by the current initiative with the aim of building a long-term cooperation between the two Countries; the "Federation of Coffee" as in Colombia, could partially serve as an example, mirroring at the same time the economic and social importance of the coffee industry for the whole country. The study tour organization can rely on the experience of the project partner Illycaffè, which has been collaborating with the coffee dedicated Institutions in the Colombia for more than 30 years in creating success cases in benefit of smallholder farmers and international promotion of its coffee quality.

6.4.2 Description of the Intervention in Addis Ababa

In the following paragraphs, with reference to the intervention in Addis Ababa, there are: (i) the LOGFRAME Matrix and, (ii) the List of Activities. In Addis Ababa, no subcontracting is foreseen and all the activities will be carried out directly by UNIDO.

6.4.3 Logframe of the intervention in Addis Ababa

	INTERVENTION LOGIC	INDICATORS	MEANS OF VERIFICATION
GENERAL OBJECTIVE	To increase income of smallholder farmers deriving from coffee	<ul style="list-style-type: none"> Percentage of increase of income of farmers 	<ul style="list-style-type: none"> Reports from cooperatives and Unions. Interviews with private collectors and farmers
SPECIFIC OBJECTIVE	Increased value addition of exported Ethiopian coffee	<ul style="list-style-type: none"> Percentage of increase of value added to exported Ethiopian coffee 	<ul style="list-style-type: none"> Reports from MoT and MOI Reports from ECEA
OUTPUTS	1) The coordination among the coffee value chain actors is improved	<ul style="list-style-type: none"> First OCF meeting is organized 	<ul style="list-style-type: none"> OCF meeting report
	2) The basis for an increase of the volume of roasted exported coffee are put in place	<ul style="list-style-type: none"> Number of new investors in coffee roasting/grinding/packing 	<ul style="list-style-type: none"> Surveys and reports from MOI and ECRA

6.4.4 List of Activities in Addis Ababa

Activities related to the Coffee Authority and the OCF

Activities aimed at the achievement of the Output 1 of the Project Document
Activities
1) Preparation of a strategic plan for a collaboration with the CA under the facilitation of the EU Delegation
2) Assessment of the CA needs of assistance, capacity building as well as the organization of specific study tours for relevant local stakeholders
3) Provision of TA to the CA
4) Assessment of the possibility to establish a collaboration between the FBPI and the CA
5) Provision of assistance to the FBPI especially in terms of capacity building (training and TA)

6) Identification of the stakeholders all across the Ethiopian coffee value chain that can participate to a study tour in Colombia under the facilitation of PPP partner Illycaffè
7) Preparation of the study tour in Colombia under the facilitation of PPP partner Illycaffè
8) Implementation of a study tour in Colombia under the facilitation of PPP partner Illycaffè
9) Preparation of a draft document on the purpose, composition, operating principles of the Organized Coffee Forum
10) Presentation and discussion of the OCF draft document with all direct and supporting actors, starting with CA, other GoE institutions and EU Delegation
11) Organization of the first OCF meeting in collaboration with the CA and the EU Delegation

Activities related to roasting

Activities related to roasting aimed at the achievement of the Output 2 of the Project Document
Activities
1) Development of a strategic plan for the ECRA
2) Assistance for the implementation of the ECRA strategic plan
3) Supporting ECRA members' participation in exhibitions, conferences, study tours and training abroad
4) Provision of training to ECRA members to strengthen their capacity
5) Verification of the status of the FBPI in terms of professional skill and infrastructures (e.g. laboratories and other facilities) in view of collaboration with the CA and with ECRA
6) Preparation of a feasibility study for the establishment of a Roasting Training Center in FBPI premises in collaboration with ECRA and other relevant private sector actors
7) Establishment of a Roasting Training Center in FBPI (including e.g.: Roasting, Packaging, Cupping, Marketing, Promotion)
8) Provision of training to members of ECRA and FBPI to strengthen their capacity in managing the Roasting Training Center
9) Establishment of a Roasting Training Programme (including e.g.: Roasting, Packaging, Cupping, Marketing, Promotion)
10) Provision of TA to the SCFU to allow them to go towards a full traceable roasted coffee

6.5 Summary of Project Budget for one year

BL	Description	Unit Cost EUR	Units	Total Cost
11-00	International Experts	12,000	3	36,000
11-01 (L2)	Associate Industrial Development Officer (L2)		12	240,000
82-00	Evaluation			30,000
13-00	Support personnel (Secretary- Driver)	1,600	12	20,000
15-00	Project travel			20,000
16-00	UNIDO staff travel			20,000
17-00	National Project Coordinator	2,500	12	30,000
17-00	National Experts	2,000	24	4
21-00	Subcontracts		2	350,000
30-00	Training			60,000
45-00	Equipment			145,000
51-00	Miscellaneous			30,000
TOTAL				1,029,000

6.6 Chronogram of Project activities in 2016

This chronogram has been drafted on the assumption that the activities will start after the approval of the Plan of Action and after the signature of the contracts between UNIDO and the subcontractors.

ACTIVITIES	SUBJECT	MONTHS											
		1	2	3	4	5	6	7	8	9	10	11	12
ACTIVITIES IN ALETAWONDO													
Activities in Aletawondo to be subcontracted relevant to cooperatives (Output 1)													
1) Provision of 2 trainings on cooperative management to the 3 cooperatives' managerial staff and follow up (with due attention to the gender mainstreaming)	Training												
	Follow-up												
2) Provision of 2 trainings on governance and financial management to the 3 cooperatives' managerial staff and follow up;	Training												
	Follow-up												
3) Assistance to the cooperatives for strengthening the capacity for data recording	TA												
4) Assistance to the cooperatives' managerial staff to develop a business plan	TA												
5) Preparation of a feasibility study aimed at renovating the wet mills in at least 1 washing station per cooperative and coaching of the cooperatives' technical staff in feasibility study preparation;	TA												
6) Assistance to the industry managers of each cooperative in planning and implementing new wet mill arrangements that are eco-friendly, efficient and quality oriented;	TA												
7) Provision of 2 trainings on cupping and introduction of monthly cupping practices at cooperative level for the wet mill management teams.	Training												
	Follow-up												
Activities in Aletawondo to be subcontracted relevant to farmers (Output 2)													
1) Identification of natural leaders amongst the farmers' groups that can host demonstration plots in their farms where) best agronomic practices in coffee farm management are put in place and follow up activities are carried out; establishment of a sufficient number of demonstration plots.	Establishment of demo plots												
	Follow up												
2) Provision of 2 awareness training on sustainable and environment-friendly coffee production that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members);	Training												
	Follow up												
3) Provision of 6 trainings on best agronomic practices that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members)	Training												
	Follow up												
4) Implementation of the practical exercises related to the "Coffee Farm Training Programme" that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members) on a weekly basis.	Exercises												
	Follow up												

5) Implementation of a follow up methodology that aims at verifying the dissemination by the leaders	Follow up																	
6) Establishment of 3 cooperative provision centers for agronomic inputs delivery	Establishment																	
7) Preparation of a feasibility study for the inclusion in the cooperative organizational chart the function of the extension service provider.	Study preparation																	
Activities in Aletawondo to be subcontracted relevant to Sidama Union (Output 3)																		
1) Provision of credit to the 3 cooperatives for the improvement of their wet mills;	TA																	
2) Analysis of the possibility for the Union to apply for a credit guarantee scheme;	TA																	
3) Provision of 2 trainings and technical assistance to the Sidama Union in order to apply for a credit guarantee scheme;	Training																	
	TA																	
4) Provision of 2 trainings and TA to the Sidama Union aimed at establishing a specialized and standardized agronomy support programme for all the associated cooperatives aimed at quality control;	Training																	
	TA																	
5) Support to the Sidama Union with IT tools to guarantee an efficient monitoring of the primary cooperatives' operations	IT tools																	
	TA																	
Supervision activities in Aletawondo to be carried out by UNIDO (Output 1, 2, 3)																		
1) Supervision of the subcontracted activities by international experts and by local experts	TA International																	
	TA Local																	
2) Preparation for washing equipment purchase (specifications etc.)	TA																	
3) Purchase of equipment for coffee grading (cupping etc.) for the 3 selected cooperatives and TA	Purchase																	
	TA																	
ACTIVITIES IN DELO MENA																		
Activities in Delo Mena to be subcontracted relevant to BYCU (Output 1)																		
1) Provision of TA and training on Union management to BYCU managerial staff and follow up (with due attention to the gender mainstreaming).	TA																	
	Training																	
2) TA for the design of the BYCU strategy and business plan to obtain an increased traceability of the Harena forest coffee and follow up with starting of actions.	TA																	
	Follow up																	
3) TA to BYCU for optimization of its organization and for the improvement of its capability on finance, accounting, data recording and data analysis	TA																	
4) TA to BYCU to explore the proper ways to obtain credit (including “merchandise lending”) in order to increase the quantity of coffee purchased by the Union.	TA																	
5) TA to BYCU to prepare applications and obtain loans.	TA																	
6) TA and training to introduce the grading and cupping practice at BYCU level and purchase of relevant equipment.	TA; training																	
Activities in Delo Mena to be subcontracted relevant to cooperatives (Output 2)																		
1) Provision of training on cooperative management to the 12 cooperatives' managerial staff and follow up (with due attention to the gender mainstreaming in the cooperatives).	Training																	
	Follow up																	
2) Provision of training on governance and financial management to the 12 cooperatives' managerial	Training																	

staff and follow up.	Follow up														
3) TA to the 12 cooperatives' technical staff for profiling cooperative members, strengthening the capacity for data recording system and for analyzing the data	TA														
	Follow up														
4) TA to the cooperatives' managerial staff to develop an updated cooperative business plan	TA														
	Follow up														
5) TA to the 12 cooperatives in planning and implementing coordination with WOARD and CPO for assistance to farmers for improvement of harvesting practices.	TA														
6) Provision of training to the cooperatives on the utilization of grading and cupping facilities at Union level and follow up.	Training														
	Follow up														
Activities in Delo Mena to be subcontracted relevant to farmers (Outputs 3a, 3b)															
1) TA to WOARD for identification of natural leaders amongst the farmers' groups that can disseminate best agronomic practices in coffee farm management.	TA														
2) Training of trainers of the WOARD and CPO to provide training to the leaders	Training														
3) Purchase of 5 all-road motorcycles for the development agents of WOARD	Purchase														
4) Provision, by the development agents of WOARD and CPO trained under previous activity 2, of 2 awareness trainings on sustainable and environment-friendly coffee production to the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members) with TA from subcontractor.	Training														
	TA														
5) Provision of 6 trainings, by the development agents of WOARD and CPO trained under previous activity 2, on best agronomic practices to the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members); the training course will be delivered with TA from subcontractor	Training														
	TA														
6) Implementation of the practical exercises related to the training course of previous activity 5 that will benefit the leaders of the farmers' groups (corresponding at least to the 10 % of the total cooperative members) on a weekly basis.	Practical Exercises														
	Follow up														
7) Implementation of a follow up methodology that aims at verifying that the leaders disseminate the knowledge acquired under activities 4, 5 and 6 to the farmers' members of their groups.	Follow up														
8) Establishment of cooperative provision centers for agronomic inputs	Establishment of 12 centers														
Supervision activities in Delo Mena to be carried out by UNIDO (Output 1, 2, 3)															
1) Supervision of the subcontracted activities	TA														
3) Purchase of equipment for coffee grading (cupping etc.) to be used by the selected cooperatives and TA	Purchase														
	TA														
ACTIVITIES IN ADDIS ABABA															

Activities related to the Coffee Authority and the OCF													
1) Preparation of a strategic plan for a collaboration with the CA under the facilitation of the EU Delegation	TA												
2) Assessment of the CA needs of assistance, capacity building as well as the organization of specific study tours for relevant local stakeholders	TA												
3) Provision of TA to the CA	TA												
4) Assessment of the possibility to establish a collaboration between the FBPI and the CA	TA												
5) Provision of assistance to the FBPI especially in terms of capacity building (training and TA)	TA												
	Training												
6) Identification of the stakeholders all across the Ethiopian coffee value chain that can participate to a study tour in Colombia under the facilitation of PPP partner Illycaffè	TA												
7) Preparation of the study tour in Colombia under the facilitation of PPP partner Illycaffè	Follow up												
8) Implementation of a study tour in Colombia under the facilitation of PPP partner Illycaffè	Training												
9) Preparation of a draft document on the purpose, composition, operating principles of the Organized Coffee Forum	TA												
10) Presentation and discussion of the OCF draft document with all direct and supporting actors, starting with CA, other GoE institutions and EU Delegation	TA												
11) Organization of the first OCF meeting in collaboration with the CA and the EU Delegation	TA												
Activities related to roasting													
1) Development of a strategic plan for the ECRA	TA												
2) Assistance for the implementation of the ECRA strategic plan	TA												
3) Supporting ECRA members' participation in exhibitions, conferences, study tours and training abroad	Contribution												
4) Provision of training to ECRA members to strengthen their capacity	TA												
5) Verification of the status of the FBPI in terms of professional skill and infrastructures (e.g. laboratories and other facilities) in view of collaboration with the CA and with ECRA	TA												
6) Preparation of a feasibility study for the establishment of a Roasting Training Center in FBPI premises in collaboration with ECRA and other relevant private sector actors	TA												
7) Establishment of a Roasting Training Center in FBPI (including e.g.: Roasting, Packaging, Cupping, Marketing, Promotion)	Purchase												
8) Provision of training to members of ECRA and FBPI to strengthen their capacity in managing the Roasting Training Center	Training												
9) Establishment of a Roasting Training Programme (including e.g.: Roasting, Packaging, Cupping, Marketing, Promotion)	TA												
	Training												
10) Provision of TA to the SCFU to allow them to go towards a full traceable roasted coffee	TA												

6.7 Projections of the Action Plan (expected at the end of 2018)

In order to make coherent the action plan with the budget availability, the activities so far proposed have been detailed for one year. In the following years of the project implementation, the plan of action will take in due account the outcomes obtained during the first year of project, upgrading and upscaling the positive results achieved.

6.7.1 Project document Output 1

The coordination among the coffee value chain actors is obtained

In this context, it is worth mentioning that, at institutional level, the final creation of the CA and its enforcement will give additional inputs to the project coordination unit for implementing specific supporting activities. With the aim of increasing the coordination of the actors operating in the Ethiopian coffee value chain, the project intends to reinforce and promote the role of the Organized Coffee Forum, as a valuable platform for coffee stakeholders' dialogue, under the coordination of the new CA.

6.7.2 Project document Output 2

The volume of roasted exported coffee is increased

As a result of the project's activities listed above, the project expects the creation of a roasting training center, to be realized and activated in close collaboration with ECRA and public institutions such as the FBPI, as well as the creation of a detailed training programme for roasting, cupping, grinding, packaging and marketing, aimed at reinforce local capabilities as well as create additional skilled labour force. It is worth mentioning that Sidama Coffee Union and Burka Yadot Coffee Union, being the beneficiaries of the project's activities at cooperative/farmer levels, will be introduced and supported to undertake roasting activities with the aim of increasing Union revenues by products diversification. This approach will also represent a pilot case for guaranteeing the Ethiopian coffee traceability from the crop to the cup; the project will also explore the possibility to replicate and upscale it for other cooperative and union integrated systems.

6.7.3 Project document Output 3

The quality of exported coffee is increased

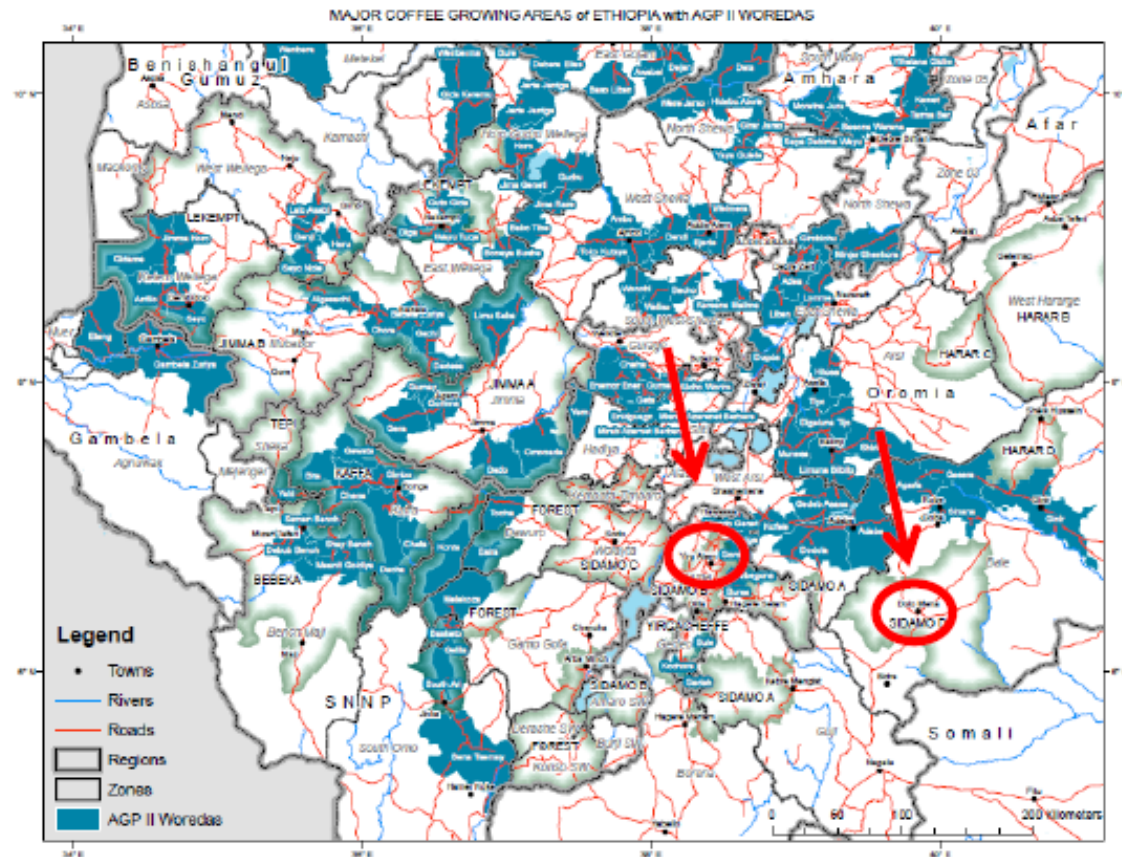
The project intervention for the first year foresees a range of pre and post harvesting activities, aimed at increasing coffee quality at farmer level. Furthermore, additional activities will be carried out for improving the primary coffee processing both at cooperative and union levels. Thanks to this intervention, the quality of the coffee produced and exported is expected to increase, with direct positive results on the project's beneficiaries. In the following years, this set of activities will be consolidated in the targeted cooperatives and possibly extended to additional ones.

6.7.4 Project document Output 4

The quality and sustainability of the Ethiopian coffee is internationally recognized

In this context, the project will take advantage of the positive outcomes achieved in the first year of intervention related to the coffee quality improvements. The success cases will be promoted and ECRA, as well as the Unions supported by the project, will be endorsed and brought to the attention of international buyers. Moreover, the project will develop tailored support initiatives to the two coffee areas of intervention in order to implement geographical indications (GIs) certifications: GIs tend to increase revenues of local producers and to satisfy the needs of more demanding and conscious international buyers. This process will add value to exported Ethiopian coffee thus will reduce the bulk sales and enable premium price setting mechanism.

ANNEX 1: The Project Locations Maps³⁰



³⁰ In order to enable the definition of more limited areas where to carry out site surveys, thanks to the collaboration of Technoserve experts, it has been possible to prepare a project map identifying the following: a) the different coffee growing areas; b) the borders of the Regions; c) the borders of the Woredas; d) the areas of intervention of AGP II. This tool together with the Map on coffee Growing Areas in Ethiopia issued by Technoserve has been utilized during all the field missions of the project inception phase.

COFFEE GROWING AREAS OF ETHIOPIA



Legend

- Towns
- Roads
- Rivers

Value

- Below 400
- 400 - 800
- 800 - 1,200
- 1,200 - 1,600
- 1,600 - 2,000
- 2,000 - 2,400
- 2,400 - 2,800
- 2,800 - 3,200
- Above 3,200

Notes

All Coffee Growing Area names are based on the Commercial Coffee Contracts from the Ethiopian Commodity Exchange.

JIMMA A and JIMMA B are Unwashed Coffee Contracts, while LIMMU A and LIMMU B are Washed Coffee Contracts.

The distinction between "Vintage A/B" is based on the season of coffee produced in that area, with "A" representing the main harvest (Vintage A/B) and "B" representing the second harvest (Vintage C/D).

The following contracts are not shown on the map:

- KONSO A - Unwashed Coffee from Konso, Kaffa and Beni-Murayir
- YIRGACHEFFA A/B - Unwashed Coffee from Yirgacheff, Derab, Derab, Gamo Gofa, Kofu, Kofu and Gamo Gofa
- BENCH MAJ - Unwashed Coffee from Bench Map Zone

AAA Sustainable Quality™ Program

Partnering with TechnoServe, Weagrest is expanding the AAA Program in Ethiopia, providing training and technical assistance to smallholder coffee farmers and washing station operators, toward optimum engagement in coffee quality, productivity and sustainability.

ANNEX 2: Proposal for Composition and ToR of the Project Steering Committee³¹

Background Information

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 (for instance, those estimated as dependent on coffee production and marketing for livelihood are about 20 million) and, (ii) coffee is the first item in terms of revenue generated from export with a share of about 25 per cent. The coffee sector can contribute to the growth of the industrial sector share in the national GDP, owing to its high potential of creating industrial roasting capacity that, at present, is rather marginal.

Although the Ethiopian Government has implemented important reforms, such as the introduction of the Ethiopian Commodity Exchange for grading and auctioning, the problems of the sector need to be tackled through a “value chain” approach. In this regard, to increase the social, environmental and economic sustainability of the coffee value chain and its export revenue requires an integrated yet modular value chain approach focusing on: (i) Increase in productivity and sustainability (cultivated area and yield), (ii) improvement of quality, (iii) increase export and, (iv) Recognition in international markets of the intrinsic qualities of the Ethiopian Arabica coffee. Increasing production is important, but the real asset of the Ethiopian coffee resides in its quality that, by obtaining premium prices, could allow avoiding the competition with the “coffee giant”, like Brazil and Vietnam.

Some activities with regard to the sustainability of this value chain will be performed in cooperation with illycaffè as an example of PPP. One important output of the Project will be the establishment of an “Organized Coffee Forum” that allows the participation of all the actors involved in the coffee value chain. The specific objective is to increase the coffee export revenue. This will help to reach the General Objective of raising the income of smallholder farmers. Poor smallholder farmers and their families, including women, will be the main beneficiaries of the Project.

Purpose of Establishing the Project Steering Committee

The Project Steering Committee (PSC) is the higher level of the Project governance structure composed by representatives of federal and regional government’s organizations, development donor organization, UNIDO and the involved organizations of the private sector etc. It will be chaired by the Minister of Industry and include representatives of the stakeholders. The purpose of establishing the Steering Committee is to review the progress and obstacles encountered and ultimately suggest solutions. 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) Monitor the progress towards achieving the planned outputs as well as to review and approve the annual work plans;
- d) Solve complex matters arising from different level of the Project structure during its implementation;
- e) Improve policy direction as deemed necessary by the Project;

³¹ (to be submitted to the Project manager and to the Competent Authorities for approval)

- f) Ensure that the available resources are used to achieve outcomes and output defined in the Project document;
- g) Monitor the application of the approved annual action plan of the Project.
- h) The PSC will hold bi-annual meetings: the Project Coordinating Unit (PCU) will act as the secretariat of the PSC

Specific Activities of the PSC

The PSC will receive a detailed progress report of the Project every 6 months, depending on the intensity of implementation as well as on a need to discuss urgent matters, which could affect the Project's life. The UNIDO project team, in cooperation with the Project Manager, will prepare the report. This report will include:

- a) A description of the activities planned to take place in the reporting period, as well during project implementation;
- b) A description of the results achieved;
- c) Explanations on possible deviations or delays for activities, which were planned and could not take place, or had to be postponed;
- d) A description of all activities planned for the following 6 months, including a projection of results to be achieved, as well as their effect on the overall implementation of the project;
- e) A presentation of bottlenecks and problems, which need to be brought to the attention of the donor country and the Government of Ethiopia.

The PCU secretariat will distribute an agenda of the meeting prior to the scheduled meeting, (at least 15 days before), as well as other relevant documentation.

Proposed Composition of the Steering Committee

It is proposed that the Steering Committee be composed of representative of the following institutions and organizations:

- Ministry of Industry
- Ministry of Agriculture
- Coffee and Tea Development and Marketing Authority
- European Union Delegation
- Oromia Region Bureau of Agriculture
- SNNP Region Bureau of Agriculture
- Italian Development Cooperation
- Programme for Country Partnership (PCP)
- illycaffè and Ernesto Illy Foundation
- Food, Beverage and Pharmaceutical Institute
- Sidama Coffee Farmer Union
- Burka Yadot Union
- Ethiopian Coffee Roasters Association

Observers:

- UNIDO Representative and Director of the Regional Office or a representative from this office

The Chairperson of the Steering Committee will be H.E. Dr. Mebrahtu Meles, State Minister, MoI.

The Steering Committee will have one secretary, i.e. the National Project Coordinator or alternately National Technical Coordinator based on their availability.

Meeting Schedule of the Steering Committee

The Steering Committee will meet every 6 months in Addis Ababa at the premises of MoI, upon availability of its members. The duration of the meeting will depend on the volume of matters to be discussed, but for a maximum of 3 hours. The meeting can be called earlier of the 6-month timeframe if it is deemed necessary by any of the Committee members.

Language

The working language of the Meeting will be English.

Financial and administrative arrangements

For participants coming from Oromia and SNNP Regions, financial and administrative arrangements will be made in accordance with UNIDO's rules and regulations: a Daily Subsistence Allowance (DSA) at the prevailing UN rate of Birr per day will be paid to the participants from Oromia and SNNP Regions at the venue. The DSA will cover taxi rent, lodging, and incidentals for the period of attendance, thus for a maximum of two days.

UNIDO will not assume responsibility for the following expenditures:

- a) Cost incurred by the participants with respect to travel insurance, accidental insurance, medical bills and hospitalization fees in connection with their attendance of the meeting,
- b) Compensation in the event of illness of the participants in connection with their attendance of the meeting,
- c) Loss or damage of personal property of the participants while attending the meeting,
- d) Purchase of personal belongings and compensations in the event of damage caused by them, by climatic or other conditions,
- e) Travel and any other costs incurred by dependents who might accompany the participants.

Participants coming from Oromia and SNNP Regions are free to make their own hotel reservation

ANNEX 3: List of Main Documents Examined

- 1) Ethiopia Strategy Support Program. Coffee value chains on the move: Evidence from smallholder coffee farmers in Ethiopia, Ethiopia Development Research Institute – EDRI, International Food Policy Research Institute – IFPRI, Bart Minten, Mekdim Dereje, Ermias Engeda, and Tadesse Kuma, June 2015
- 2) Ethiopia Strategy Support Program. Structure and performance of Ethiopia’s coffee export sector, Ethiopia Development Research Institute – EDRI, International Food Policy Research Institute – IFPRI, Bart Minten, Seneshaw Tamru, Tadesse Kuma, and Yaw Nyarko, June 2014
- 3) Ethiopia Strategy Support Program. Who benefits from the rapidly increasing Voluntary Sustainability Standards? Evidence from Fairtrade and Organic certified coffee in Ethiopia, Ethiopia Development Research Institute – EDRI, International Food Policy Research Institute – IFPRI, Bart Minten, Mekdim Dereje, Ermias Engeda, and Seneshaw Tamru, January 2015
- 4) Green Coffee and Surroundings, course on green coffee, illycaffè, 2011
- 5) Project Proposal: Vocational Training School - Training Farm – Centre of Experimentation and Technical Assistance (Ce FSAA), provided by Mr Antonino Ziglio of ENAIP
- 6) Technical Proposal on a Feasibility Study (to be carried out by Industrial Projects Service – IPS) for the establishment of coffee processing plant, Ministry of Industry, June 2014
- 7) Assessment of Wild Coffee Production and Marketing in Mena and Harena Bulluk Districts of Bale: Challenges and Future Prospects, ARSI-BALE Rural Development Project, Ethio-Organic Seed Action, Slow Food and S.A. Bagersh (compiled by Geneve Gezu), December 2006
- 8) Instalment Request Report (IRR), Final Technical Report for the project: Agricultural Value Chains in Oromia – (AVCPO), December 2013
- 9) Coffee Quality Inspection Test result certificate for the Burka Yadot Farmers Co. Union (origin: Delo Mena Woreda), issued by ECX, August 2014
- 10) Programme for Country Partnership (PCP), 2015 Progress Report, UNIDO 2015
- 11) EU Coffee Sector Development Strategy for Ethiopia 2014