



RURAL INFRASTRUCTURE AND
AGRO-INDUSTRIES DIVISION



INSTITUTIONAL PROCUREMENT OF STAPLES FROM SMALLHOLDERS

The case of purchase for progress in
Ethiopia

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PREFACE

The Food and Agriculture Organization of the United Nations (FAO) under the strategic objective to enable inclusive and efficient food systems, is interested in analyzing the role of institutional buyers in the development of smallholder-based food supply systems.

An institutional buyer refers to either a public or a private sector entity with presence in the domestic market that purchases large quantities/volumes of produce. Usually an institutional buyer refers to public institutions such as schools, food reserve authorities, the military, prisons, hospitals, food aid organizations and relief development agencies. Typically these buyers do not have a profit motivation and are usually driven by the need to acquire food products for consumptions within their own institutions or as food donations. They are generally guided by public procurement policies which can leave them with little room for flexibility in contract negotiations or choosing suppliers.

Institutional buyers can also refer to private sector entities such as schools, hospitals, universities, which have a different set of needs and requirements from the public sector. In addition to the profit motivation, they will also be driven by their customers' demand criteria, as well as the market dynamics and structure within which they operate. In general, institutional buyers can offer long term market opportunities for smallholders.

To increase the knowledge on institutional procurement for smallholder market integration, the Rural Infrastructure and Agro-Industries Division of FAO (AGS), in collaboration with the World Food Programme (WFP) performed a series of case study appraisals. WFP's Purchase for Progress (P4P) was identified as an entry point for analyzing models of institutional procurement.

WFP is the world's largest humanitarian relief organization providing food assistance in developing countries. The P4P pilot was launched in 2008 in 20 countries to leverage WFP's purchasing power to support local agriculture and market development. P4P links WFP's demand for staple food commodities with the technical expertise of a range of partners, to stimulate smallholder productivity and collective marketing with the objective that smallholders sell their surplus to formal markets. P4P is a good example of an institutional effort that links the organization's procurement needs to local development concerns, by building a support initiative to increase the volume of staples procured directly from smallholders and or small traders.

The objective of the cases is to analyze the role of P4P within the overall framework of inclusive food systems and to identify examples of other institutional procurement models with potential for smallholder inclusion. Despite the recognized potential of private actors as institutional buyers, the focus of this work is mainly on the public sector.

The series of case studies comprises seven countries: Ghana, El Salvador, Ethiopia, Guatemala, Kenya, Rwanda and United Republic of Tanzania. The analysis is based on a series of scoping missions that took place between October 2012 and February 2013 and secondary information collected afterwards.

The aim of the cases is not provide up-to date information on the progress of P4P, but instead to analyse the P4P experience in each country, including an identification of the main challenges and an assessment of their sustainability, potential for scaling up and replication. The cases constitute background papers for a forthcoming publication comparing the P4P across countries with the Brazilian institutional procurement programmes, identifying lessons learned and offering policy guidance for upscaling and replication.

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EXECUTIVE SUMMARY

The present study provides an insight into the institutional market for maize (and potentially other staple crops) in Ethiopia. The study focuses on the procurement and business models adopted by institutional buyers, their performance against targets and in procuring from smallholder farmers, and more broadly the functionality of grain markets. It also concentrates on maize because of its importance for food security (first grain crop in terms of surface, tonnage and number of smallholder farmers) at national and regional levels, and as the main crop purchased by P4P-Ethiopia.

Key features of the P4P programme in Ethiopia¹

The programme in Ethiopia is the most ambitious of all the pilot P4P country schemes in terms of the targeted number of farmers (50 000) and volume of planned purchases (85 000 tonnes) over the 2009-2013 period. The 22.8 percent of all P4P purchases have been made, during the mentioned period, in Ethiopia.

Since 2010 up to 2013, P4P-Ethiopia has purchased 26 212 tonnes of maize and beans generating nearly US\$8 million for Ethiopian smallholders. To this amount it is necessary to add 28 080 tonnes of maize from outstanding contracts with 16 cooperative unions (CUs). These unions gather over 600 primary cooperatives (PCs) with a membership of almost 600 000 farmers, one-sixth of which grows maize. Furthermore, P4P has made purchases from 20 pre-qualified small and medium traders and from the Ethiopia Commodity Exchange (ECX).

Commodity-wise P4P focuses almost exclusively on white maize. On average, 9.4 percent of the total volume of maize locally purchased by WFP in Ethiopia has been procured from the P4P procurement system. In fact, Ethiopia has the potential to become a strategic supplier of white corn for the Horn of Africa/Eastern Africa region –should the export ban on maize currently in place be lifted. The medium-term goal of WFP Ethiopia would be to procure 500 000 tonnes per annum, from both the P4P and regular procurement systems.

P4P uses three procurement models in Ethiopia, namely: i) direct purchasing from low and medium-capacity CUs; ii) soft tendering from cooperatives and small and medium traders; and iii) forward contracting with CUs². The latter modality has been launched on a pilot basis for the first time, at country and overall programme levels, in the 2013 crop season and it is limited to procuring maize from 16 CUs.

P4P's implementing partners include the Government of Ethiopia (GoE), ACDI/VOCA, TechnoServe, Sasakawa Global 2000 (SG2000), the Commercial Bank of Ethiopia (CBE) and FAO through the programme Purchase from Africans for Africa (PAA). Ethiopia is one of the five countries where the local food purchase programme known as PAA is being financed by the Government of Brazil and implemented by FAO and WFP. The pilot phase of PAA in Ethiopia running for the crop season 2012/2013 involves one CU and two PCs that group about 1 000 smallholder producers. FAO provides technical assistance to farmers and WFP/P4P purchases the agreed product (pulses) and delivers it to at-risk categories through school feeding programmes in some of the 37 pilot schools in Ethiopia's Southern Nations, Nationalities and Peoples Region (SNNPR).

¹ Source: P4P-Ethiopia.

² Average of years 2010, 2011 and 2012 according to WFP database.

Other large domestic buyers of staple crops

The parastatal Ethiopian Grain Trade Enterprise (EGTE) is the second largest domestic buyer of maize (with about 5.0 percent market quota), after WFP (5.5 percent market quota)³. Up to some extent, the Enterprise still enjoys a semi-monopsonic status: it is the only authorized importer of grains in the country and it serves as the single buyer of agricultural commodities for all government agencies (including national food reserve, hospitals, prisons and the military) and programmes (e.g. school feeding and productive safety net programmes).

The large-scale private-based buyers of staples as a whole, handled about 705 000 tonnes or 59.2 percent of the national volume of maize marketed in 2012. The major sources of maize supply for the private wholesale traders include: direct purchase from smallholders (46.7 percent), rural assemblers (38.2 percent), and CUs (15.1 percent). The wholesalers operating in surplus producing areas distribute the maize supply they receive to wholesalers in deficit areas, EGTE, retailers, food processors, donors/NGOs, and directly to consumers residing in their respective areas of operation. Conversely, private sector participation in cereal processing and retailing is far behind the Eastern Africa average, although fast-catching up. There are relatively very few large-scale private producers, processors and retailers dealing with maize and other grain crops.

Main findings

Ethiopia is transitioning from centralized planning to a market-oriented system that fosters private sector engagement in agribusiness and agricultural marketing. A comprehensive overhaul of agricultural policies, systems and programmes is currently taking place at a remarkably fast pace. However, the country has a long road ahead in its efforts to liberalize agricultural input marketing, modernize and empower its agricultural extension programme and foster a commercial banking system responsive to the needs of domestic crop farmers.

The role of the government is still central to the functioning of the maize value chain. EGTE operates as one of the key players in this chain, as it centralizes public domestic procurement and imports of grains for three main end-users: the national food reserve, the school feeding and the productive safety net programmes (PSNP). Recently, a shift from food to total cash wage payment to PSNP beneficiaries by the GoE and donors has been observed. EGTE plays a key role in price stabilization, but its intervention in the maize market presents some shortcomings that if not correctly addressed represent high risks; which is detrimental to all market actors, including producers and consumers.

Three factors may limit the willingness and/or ability of EGTE to adopt P4P's smallholder-friendly model. First, by law, the GoE procures through standard bid processes, on an open and competitive tender basis that is not particularly friendly with small-scale farmers, traders and agro-industries. Second, public institutional buyers favour imported wheat (and secondarily tef) over maize: there could be high interest in introducing pro-smallholder procurement practices for buying locally-produced tef/injera. Third, EGTE is currently placing much emphasis on marketing export crops (coffee, sesame and white haricot beans), leaving grains on a second priority.

Furthermore, the likely shift from food to total cash wage payment to PSNP beneficiaries, by the GoE and donors, will result in massive cash transfer to rural areas, particularly to those suffering from structural food deficit. This in turn will increase food demand that should be met through inter-regional transfer. The large food demand in the PSNP rural areas can not be met by EGTE and CUs alone; rather it would require the active participation of the private sector, particularly the private wholesalers in the surplus and deficit areas of the country. In order to help CUs play a significant role in the inter-regional maize trade, their capacity need to be significantly upgraded.

³ Calculations made by the authors with data from EGTE and WFP databases; year 2012.

WFP is keen on intensifying its maize procurement efforts in Ethiopia, eventually using this country as its procurement platform for serving the entire region. Not only, large volumes of surplus maize are available, but it also appears that in Ethiopia sourcing from local maize producers is cheaper (unlike in other developing countries) and of fair enough quality. While WFP's medium-term goal of procuring 500 000 tonnes per annum of white maize –from both the P4P and regular procurement systems– seems over-ambitious, it would only represent about a quarter of the total domestic maize surplus forecasted for 2015. However, it would be important to analyze the role of the ban to export in achieving such a goal.

P4P-Ethiopia seems to be on track to meeting its procurement target, in spite of the problems experienced in 2011 –the “lost” year with significant defaults resulting from severe weather events. The final procurement numbers of the 2013 crop season (not available at the time this study has been written) will be essential for determining P4P's overall successful performance of against targets. To land the notable volumes of maize expected for this year, P4P has signed forward delivery contracts with some of the larger, better-equipped cooperatives in the country. Furthermore, P4P has channelled working capital for output marketing to the cooperatives through a partnership with a national bank; and has recruited technical assistance providers to train cooperative managers on business management and procurement practices.

As the core of P4P's activities is concentrated in the present crop season it is premature to predict what is the effect of WFP performance, through P4P, on production and producer prices. There are two additional elements that make this analysis unfeasible. First, P4P purchases up to 2013 represent less than 1 percent of the tradable maize volume, and therefore, have a limited capacity to affect the market. Second, as P4P works exclusively at the level of CUs, it is practically impossible to trace back which farmers in particular (members of the PCs) have sold their maize to P4P. The impact analysis would have to be more general, and causality would be less straightforward. More than in quantitative terms, the impact of P4P stands more on the grounds of: i) demonstrating that it is viable to procure large volumes from smallholder producers; ii) catalyzing a business mentality change, by showing cooperative managers and members that they can earn more by improving quality standards and supply management and nurturing collective action; and iii) linking cooperatives with financial institutions, creating trust among them and building a favourable credit record that would open the door for cooperatives to finance other future ventures.

Recommendations

2013 is a crucial year for P4P-Ethiopia: a new and promising procurement model featuring many improvements has just been introduced. Therefore, the main recommendation is to closely monitor how well this model is performing and upscale the intervention in the next crop season, introducing to the extent possible the following improvements: i) provide more stable and intensive support [coaching] to cooperatives; ii) consider capacity building at farm level; iii) systematize and provide adequate funding for the technical support provided by other P4P-supply partners to overcome the disconnection between the CUs and their grassroots membership; iv) address some contract design issues in subsequent purchasing agreements; v) deepen the relationship between financial providers and CUs; among others.

The report explores ways of expanding FAO/WFP cooperation for a second phase of the P4P initiative in Ethiopia. Some of the recommendations could also be extrapolated to other contexts and countries.

ACRONYMS

AGP	Agricultural Growth Programme
AMC	Agricultural Marketing Corporation
ATA	Agricultural Transformation Agency
CBE	Commercial Bank of Ethiopia
CBOE	Chicago Board Options Exchange
CDA	cooperative development agent
CEX	Commodity Exchange of Ethiopia
CSB	corn-soy blend
CU	Cooperative Union
DA	development agent
DRMFSS	Disaster Risk Management and Food Security Sector
ECEA	Ethiopian Commodity Exchange Authority
ECX	Ethiopian Commodity Exchange
EGTE	Ethiopian Grain Trade Enterprise
EIAR	Ethiopian Institute of Agricultural Research
EFSRA	Ethiopian Food Security Reserve Agency
EOSPEC	Ethiopian Oil Seeds and Pulses Exporting Corporation
FAO	Food and Agricultural Organization of the United Nations
FCA	Federal Cooperative Agency
FDC	forward delivery contract
FTC	Farmer Training Centre
GDP	gross domestic product
GMO	genetically modified organism
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan (of Ethiopia)
Ha	hectare
HGSF	Home Grown School Feeding (programme)
MIS	market information system
MoA	Ministry of Agriculture
MoFED	Ministry of Finance and Economic Development
MoT	Ministry of Trade
MOU	memorandum of understanding
MT	metric tonne
NGO	non-governmental organization
P4P	Purchase for Progress
PAA	Purchase from Africans for Africa (programme)
PC	primary cooperative
PSNP	Productive Safety Net Programme
SAA	Sasakawa Africa Association
SACCO	Savings and Credit Cooperative
SFR	Strategic Food Reserve
SG2000	Sasakawa Global 2000
SME	small and medium enterprise
SNNPR	Southern Nations, Nationalities, and Peoples' Region
WFP	World Food Programme
WRS	warehouse receipt scheme/system

1 Ethiopian quintal= 100 kg= 0.1 metric tonne.

1 Birr= US\$0.0542947 on 28/02/2013.

1. INTRODUCTION

1.1 Objective of the Study

The present report seeks to document the progress made in the implementation of the P4P initiative in Ethiopia, its sustainability and upscaling potential.

The main hypothesis behind P4P is that structured market demand can increase the income of smallholder farmers; more specifically P4P highlights the potential of public procurement from smallholders to achieve systemic change in the food system. Does this hypothesis hold true in Ethiopia? The study gathers preliminary evidence about the impact that P4P is having not only on traders, agro-processors and producer cooperatives and associations supplying to P4P, but also on farmers' income and productivity. Two questions need to be answered in this sense: first, whether trickledown effects cascade from P4P suppliers down to the farm level, and second, whether strong enough causality can be established between P4P's intervention and the potential positive (or negative) impacts on the livelihood of smallholder farmers selling to P4P.

The report goes beyond the assessment of P4P; it strives to depict the institutional buyers' market for staples in Ethiopia beyond this initiative.

This analysis derives from the assumption that efforts made in the framework of the P4P in terms of sourcing from smallholders and creating more structured markets (e.g. through the development of agricultural commodity exchanges) will ultimately benefit other institutional buyers, who might be enticed to replicate the P4P model (demonstration effect) of supplying from smallholders and could eventually fill up the market gap left if P4P were to be discontinued.

1.2 Methodology

The methodology used for the preparation of the present report is a combination of both secondary and primary sources. Secondary sources are listed in the bibliography section.

Primary information was gathered during field missions (Addis, Mojo, Nazareth, Assalla and Hawassa) conducted by the authors in February (Gálvez and Fonseca) and March (Dessalegn) 2013, accompanied by staff from FAO and P4P country offices. The list of key informants interviewed is provided in Annex 1. Whenever there is no explicit reference to secondary sources in the present document, the data presented have been obtained through interviews with these key informants.

2. BACKGROUND

2.1 Country and sectoral overview

Ethiopia is leaving behind years of centralized planning and steadily embracing liberalization and private sector engagement. This process is accelerating, with new policies, programmes and regulations (proclamations) sprouting out between the end of 2012 and the beginning of 2013. A case in point is the passing of a new Seed Proclamation on 24 January 2013 to overcome systemic bottlenecks and transform the seed sector by fostering private sector investments. Nevertheless, Ethiopia's struggle with change and structural adjustments undertaking for moving from central planning to a more market-oriented economy is far from over.

The country has registered double digit growth in the past years: 11 percent of gross domestic product (GDP) increase between 2006 and 2010. This is largely due to stable macroeconomic conditions, better economic policies and development strategies, augmented private sector participation, increased inflow of foreign resources, and strong public sector service delivery, which improved total factor productivity.

The Growth and Transformation Plan (GTP), announced in late 2010, forecasts GDP annual growth rates in the range of 11.0-14.9 percent for the period 2011-2015, bringing Ethiopia closer to its goal of becoming a middle income country by 2025. The GTP sees agriculture as the main engine of growth, with an expected growth of 8 percent per annum, and a contribution to the overall GDP of 41 percent (as of end of 2010; MoFED, 2010). This is not surprising since agriculture contributes up to 90 percent of foreign currency through exports, and 83 percent of the population depend directly on it for their livelihoods, while many others depend on agriculture-related industries (IFPRI, 2010).

The strong commitment of the GoE to agriculture is reflected in the allocation of over 10 percent of the total budget to enhance the delivery of agricultural support services (MoA and ATA, 2012). Major crop production increased from 11.9 million tonnes in 2005 to 18.08 million tonnes in 2010; for 2015 the target is 39.5 million tonnes (ibid). Yet the vulnerability of Ethiopia to climate change, and droughts in particular (such as the one experienced in 2011), might jeopardize the achievement of this objective.

The GTP targets transformational change in agriculture, industry and governance. This is to be achieved through unleashing the potential of small-scale farmers and small and medium enterprises (SMEs), coupled with private large-scale agricultural investments and efforts to increase value addition. Sectoral measures are accompanied by substantial reforms to deepen democratic development and decentralization, and enhancing public service delivery, transparency and accountability. GTP's sectoral plan for agriculture, the Agricultural Growth Programme (AGP)⁴, aims to: i) double the production of grains (to 39.5 million tonnes); ii) triple the number of farmers receiving relevant extension services; and iii) cut the number of safety net beneficiaries from 7.8 down to 1.8 million households from 2011 to 2015.

On one hand, agricultural exports, particularly of high value agricultural products, such as flowers and organic coffee, are highly encouraged, as a means to compensate the structural shortage of foreign currency facing Ethiopia since 2008. On the other hand, grain crops are essential for national food security, and hence the GoE is prioritizing cereal value chains. The principal grain crops grown

⁴ AGP is a collaborative initiative of the GoE, the World Bank and multiple bilateral donors to promote economic growth in four regions with strong agricultural potential. AGP partners include the Agricultural Transformation Agency, Ethiopian Commodity Exchange, Federal Cooperative Agency, P4P, ACDI/VOCA, cooperatives and cooperative unions, input suppliers (including seed production companies), traders, agro-processors, transporters, exporters, research institutions and others.

(predominantly rain-fed) are corn, sorghum, and millet, which are warm-weather cereals produced in the lowlands; and tef⁵, wheat, and barley, which are primarily cool-weather crops grown in the highlands of the northern and central parts of Ethiopia. Ethiopia is a net importer of cereals, in spite of being one of the largest grain producers in Africa. Grain trade is controlled by the GoE, and there is virtually no imports nor exports, in any cereal except wheat and solely through government agencies and food aid.

2.2 Enabling environment conducive to sustainable and inclusive agricultural growth

Significant efforts are being made to improve the environment for inclusive agricultural development in Ethiopia. Such efforts take place in three interrelated spheres: reform of relevant policies, strengthening of key institutions, and infrastructural improvements.

Policies, strategies and programmes

The GoE has undertaken numerous policy changes to address the seven commitments⁶ of the Brussels Programme of Action for Least Developed Countries (MoFED, 2006). Many of these policy changes relate to facilitating private sector engagement in key economic sectors, particularly labour-intensive ones such as agriculture. Some of the major steps pursued by the GoE to enhance private sector participation include accelerating privatization, creating the right environment for businesses, strengthening the institutional framework for affordable land supply and fostering commercial banking (*ibid*). These private sector development measures have been internalized in Ethiopia's main development strategies and programmes, notably the GTP and AGP. The donor community is following up these commitments to see that they are followed through.

AGP has four strategic objectives pertaining to: i) increased agricultural productivity and production; ii) enhanced agricultural commercialization and agro-industrial development; iii) improved natural resources management; and iv) enhanced food security⁷. The P4P initiative in Ethiopia makes a direct contribution towards AGP's second and fourth objectives. To achieve these objectives, AGP envisages value chain programmes and system programmes. P4P is a key player in the maize and pulses value chain programmes; other value chain interventions cover tef, wheat, barley, oilseeds, rice, and livestock. Regarding the system programmes, at least three of them are intrinsically linked to P4P: i) cooperatives; ii) input and output markets; and iii) extension and research.

The allocation of resources to these four strategic objectives is guided by the Ethiopia's Agricultural Sector Policy and Investment Framework 2010-2020. The estimated total expenditure over this period is US\$18 billion, of which 2.5 billion have already been earmarked (MoA, 2010). The remaining US\$15.5 billion are expected to be financed by the GoE and development partners in a 3:2 ratio (*ibid*).

⁵ Tef is a gluten-free grain indigenous to Ethiopia and consumed as fermented bread called injera.

⁶ Commitment I: Fostering a People-Centred Policy Framework; Commitment II: Good Governance at National and International Levels; Commitment III: Building Human and Institutional Capacities; Commitment IV: Building Productive Capacities to Make Globalization Work for LDCs; Commitment V: Enhancing the Role of Trade in Development; Commitment VI: Reducing Vulnerability and Protecting the Environment; and Commitment VII: Mobilizing Financial Resources.

⁷ <http://www.ata.gov.et/priorities/national-growth-transformation-plan/>

Agricultural cooperatives are considered key players to achieve these goals. Accordingly, the GoE has developed an Agricultural Cooperative Sector Development Strategy (2012-2013) to facilitate the transition of agricultural cooperatives into businesses that empower their members through collective action, notable in terms of input and output marketing (MoA and ATA, 2012). The role of cooperatives is fully recognized in the Ethiopian chapter of P4P, as its main beneficiaries are CUs.

Institutional reforms for opening up – until recently public-controlled – input marketing channels are being fast-tracked. The new Seed Sector Proclamation, designed to ensure farmers' access to good quality seed, and modified policies on agrochemicals are steps towards this end. These actions are part of a national programme to improve input and output markets, which among other things tries to strengthen the “last mile distribution” of improved seeds and fertilizer, from the PCs to farmers. However, progress in real life seems to be lagging much behind than that on paper.

Ethiopia's extension and research systems are also being overhauled under the AGP, following the recommendations of a study and several consultations conducted in 2009 to identify their main bottlenecks (IFPRI, 2010). This reform, another one in the long line of substantial restructuring efforts carried out in the past three decades, aims to increase extension capacity and provide incentives to extension development agents (DAs), in a decentralized system that will be underlined by strong monitoring and performance evaluation, and closely intertwined with research and knowledge transfer. The main modifications of the public extension system are directed towards the internalization of a market-orientation approach and an improved cooperation with the private sector and civil society.

Box 1: Ethiopia's economic and agribusiness environment at a glance

- ✓ Ethiopia appears to be still in transition times from strict controlling state during the communist regime that ended less than two decades ago to a more decentralized planning and market with private sector engagement.
- ✓ This process is being fuelled, with new policies, programmes and regulations that the current government is fast-tracking. The outcome of these changes is still uncertain as coping with the struggle for adjustments will likely take more time.
- ✓ Promotion of export of selected commodities (flowers, coffee) is encouraged, while grains are considered for food security.
- ✓ The urge to grow (8 percent yearly agricultural growth) and produce results (by 2015) is evident. The ambitious goals are backed up by a generous budget of US\$18 billion (2010-2020); of which US\$2.5 billion have already been earmarked.
- ✓ P4P Ethiopia is in line with the national programmatic and policy priorities.
- ✓ Some policy issues that require further thinking and action are: fragmented land tenure, lagging commercial banking, weak federal-regional coordination and prevailing trade distortion measures (grain/maize export bans).
- ✓ The creation of new institutions (the Agricultural Transformation Agency, ATA) and the revamping of existing ones emphasize priority agribusiness needs. ATA is a key player in advising the P4P initiative.
- ✓ The GoE aims to couple agribusiness development efforts with investments in transport, irrigation and market infrastructure. However, more and better targeted infrastructure investments are needed if the envisaged growth targets are to be met.

A rapid appraisal of the Ethiopian policy environment points out four issues that need to be better addressed. The first one is the pervasive fragmentation of land tenure: nearly 55 percent of all

smallholder farmers operate on one hectare (ha) or less, i.e. below the threshold for farming to be economically viable (MoA and ATA, 2012). Other related problems are land underutilization and tenure insecurity⁸, in spite of ongoing land titling initiatives and the implementation of a one window-service for land allocation. The second issue refers to the underdevelopment of the commercial banking sector and the need to accelerate policy changes to streamline its operation. A third issue is the need to improve the provision of public agricultural support services in the framework of a decentralized system with many administrative levels, i.e. region, zone, *woreda* (district or municipality), and *kebele* (ward). The fourth problem regards the use and abuse of measures that distort agricultural trade, and in particular bans on exports of grains (maize and sorghum)⁹. Although grain imports are not officially banned, traders and millers are not given the access to foreign exchange needed to purchase internationally. One of the consequences of export bans is that P4P cannot supply the regional market (e.g. South Sudan) with maize procured in Ethiopia.

Two other policies relevant to this study refer to: i) public procurement: the GoE has to purchase goods compulsorily through tenders; and ii) Ethiopia has a GMO-free policy, hence, the country produces non-GMO white maize, which is a rarity in the region.

Institutions

Several ministries, and their affiliated agencies, form the institutional framework in which P4P is embedded. Most of these organizations are currently being restructured and strengthened to better deliver their work. These include the ministries of agriculture, trade and industry, the Agricultural Transformation and the Ethiopian Food Security Reserve agencies.

Among the key players in P4P implementation are the Ministry of Agriculture (MoA), central and bureaus, and affiliated agencies. Three Directorates that sit beneath the MoA are, at least theoretically, relevant for P4P implementation: Agricultural Extension, Agricultural Input Marketing, and the Food Security Coordination Directorates. The MoA has Bureaus of Agriculture in every region, whose network also covers the zonal and district levels.

Moreover, there are three organizations accountable to MoA of importance for P4P: the Ethiopian Institute of Agricultural Research (EIAR), the Ethiopian Grain Trade Enterprise (EGTE) and the Federal Cooperative Agency (FCA). EGTE is a parastatal organization that collects grains from smallholder farmers and traders, and is the solely authorized importer of grains. FCA lends technical assistance and training to cooperatives to help them comply with national cooperative proclamation and regulations, and with voluntary international cooperative principles. Their role as P4P-implementing partners is discussed in detailed in numeral 3.4. and in chapter 4.

The Agricultural Transformation Agency (ATA) is a time-bound agency with the mandate to remove the existing bottlenecks in the agricultural and food systems and to strengthen the capability of the MoA and other implementing partners. It is governed by the Agricultural Transformation Council, chaired by the Prime Minister and composed by, *inter alias*, the Ministers of Agriculture, Finance, and Water and Energy, and heads of Regional Bureaus. ATA coordinates the implementation of the AGP, by engaging stakeholders in: i) data-driven, fact-based problem solving efforts; ii) implementing solutions through coordination, technical support and capacity building of implementing partners, provision of catalytic funding to selected high impact interventions, among others. ATA is relevant to P4P because it coordinates the maize and pulses value chain programmes; modernizes input policies;

⁸ Land in Ethiopia is public, according to Article 40 of the 1995 Constitution, which states that “the right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the state and in the people of Ethiopia”. Further efforts to overcome these obstacles are needed.

⁹ Note that the accession of Ethiopia to the World Trade Organization is still pending 10 years down the road (application submitted in 2003); source: www.wto.org

fosters entrepreneurship development among agricultural cooperatives; and promotes the development of agricultural market information systems (MIS) and warehouse receipt schemes (WRS).

The Ministry of Trade (MoT) supports and controls raw strategic commodities, while processed agricultural and food products are the responsibility of the Ministry of Industry. Under the MoT, the Directorate of Crop Marketing could bear some relationship to P4P, but its focus is exclusively on export crops (coffee, oilseed, pulses, spices, tea, natural gum and timber); P4P commodities (grains and pulses) are oriented to the domestic market and, hence, are outside MoT's mandate. Under this Ministry sits the Ethiopian Standards Institute, responsible for checking all the weight scales in the country, and the Ethiopian Commodity Exchange (ECX), through which three strategic commodities (coffee, sesame and white haricot beans) have to be compulsorily marketed. In theory, maize and wheat can also be traded at the exchange, but in practice that is a rare occurrence (only 300 tonnes of maize have been traded through ECX since 2008). The MoT also supports a WRS for sesame and white haricot beans; and collects price and volume data on strategic commodities from ECX and primary market centres.

The Ministry of Industry controls the operation of food processors, particularly privately- owned companies specialized in processed food for export (e.g. spices, fruits, peppers, flours and processed oilseeds), mostly to the Ethiopian diasporas in the United States and Europe.

The Ethiopian Food Security Reserve Agency (EFSRA) manages the Strategic Food Reserve (SFR). The recommended stock level for the SFR is 407 000 tonnes, although the intention of the GoE is to increase it up to 1.5 million tonnes. ETGE is the sole buyer for the SFR. Withdrawals from the reserves are made for emergency operations (by WFP and NGOs involved in emergencies), safety net programmes and for price stabilization purposes. Safety net programmes include the Productive Safety Net Programme (PSNP), Food for Work and school feeding programmes (IFPRI, 2011). Further information on these programmes is provided in section 4.

The Commercial Bank of Ethiopia (CBE) is a public bank that is instrumental to put into practice GoE's *motto*: "agricultural-led industrialization". The CBE has guidelines to support segregated sectors: the first-tiered strategic sectors are agriculture, export and manufacturing; second-tiered sectors include construction and tourism. It has a head office in Addis (serving the four districts around the capital city) and offices in 11 districts out of the capital.

Infrastructure

Economic growth is evident in Ethiopia. Infrastructure development is booming, particularly in the Ethiopia-Djibouti transport corridor. All grain trade, both commercial and for food aid, comes in via the port of Djibouti. Going from Djibouti to Addis (563 km) takes about two days by truck (USDA, 2012). This corridor is part of the Tripartite Programme on Transport Corridors signed by the Common Market for Eastern and Southern Africa, the East Africa Community and the Southern Africa Development Community. According to USDA (2012), a recent agreement with Chinese firms will reportedly rebuild the Addis-Djibouti railway over the course of five years. Improvements in the transport corridor are coupled with investments in regional energy transmission interconnectors.

There is significant public investment in irrigation infrastructure but not in P4P-targeted regions and commodities. In fact, almost all the maize produced in Ethiopia is rain-fed. Marketing and storage facilities for agricultural products are also lacking, besides the approximately 300 primary market centres for strategic commodities scattered across the country, and EGTE warehouses with a total installed storage capacity of 880 000 tonnes (on average 5 000 tonnes per warehouse). Further investments are needed on warehouses for maize and other grains at farm, PC and CU levels, as a way to reduce post-harvest losses. The grain market of Oromiya (central region; see map in Figure 3)

is the main commercial hub for maize and other cereals in the grain belt area, but further investment in aggregation/collection facilities that feed the hub is required.

3. P4P IN ETHIOPIA

3.1 Ethiopia's P4P initiative

By design, the Ethiopian sub-programme is the most ambitious of all the pilot P4P country schemes in terms of number of farmers involved (50 000) and volume of planned purchases (85 000 metric tonnes) over the 2009-2013 period.

Since 2010, up to 2013, P4P Ethiopia has purchased 61 000 tonnes of maize and 11 000 tonnes of beans on average per year. – as shown in Table 1. Out of the total purchases made by WFP in Ethiopia in the period analyzed, 9.4 percent were through P4P and the remaining 90.6 percent were regular local purchases; when considering only purchases of maize, 12 percent was procured through P4P and 88 through the regular procurement (2013), WFP Ethiopia plans to buy 30 percent of all local maize purchases through P4P (P4P: 30 000 tonnes; local regular procurement: 100 000 tonnes). Commodities purchased through both modalities are chiefly used for WFP country operations, such as school feeding, food-for-work, nutrition programmes or refugee rations.

For the commodity-wise, P4P has focused almost exclusively on white maize with 92 percent of the purchases. –see Figure 1. Ethiopia has a comparative advantage for its production, with the added advantage of being non-GMO. The medium-term goal of WFP Ethiopia would be to procure 500 000 tonnes per annum of white maize, from both the P4P and regular procurement systems for Ethiopia and the Horn of Africa/Eastern Africa region.

The second commodity purchased under P4P is beans, both red and white (8 percent). Pulses are very important in Ethiopia due in part to the existence of many fasting days a year during which, according to the Ethiopian orthodox religion, no animal products can be consumed. Pulses are also of high quality and have the potential to be a significant driver for smallholder livelihood improvement and food security. There is a consistent growth in the demand for exports. Other products that the P4P initially envisaged to buy were *inter alia* sorghum, wheat, and soybeans. However, the Initiative consciously stopped buying these crops because of their unreliable supply,

Box 2: P4P Ethiopia at a glance

P4P-Ethiopia (2010-2013) is financed by the Bill and Melinda Gates Foundation and implemented in collaboration with the GoE (ATA, MoA and CBE); NGOs (ACDI/VOCA, TechnoServe and SG2000), and FAO through the PAA programme.

The P4P initiative in Ethiopia has involved the largest number of farmers and volume of expected purchases for the first phase of P4P.

P4P buys from a variable number of CUs ranging from 3 to 16. At the time of this report, P4P supported 16 CUs with over 100 000 maize producers to improve their productivity, access to inputs and credit, and business capacity to produce and market competitive products.

The goal for 2014 is to support 50 CUs clustering 500 000 maize farmers.

P4P-Ethiopia uses three procurement models:

- direct purchasing from low and medium-capacity CUs;
- soft tendering from small and medium traders, and CUs; and forward contracting with CUs (28 200 tonnes for 2012/2013)

P4P-Ethiopia operates in three regions: Amhara, Oromiya and the SNNPR.

insufficient market surplus and high price volatility.

Table 1: WFP's total volume purchased by commodity [2010 –2012]

Commodity	2010	2011	2012
Maize	84 211	34 236	65 556
Sorghum	0	0	0
Wheat	82 954	413	0
White and red beans	17 325	9 361	8 231
Total	167 165	44 010	65 556

Source: WFP database.

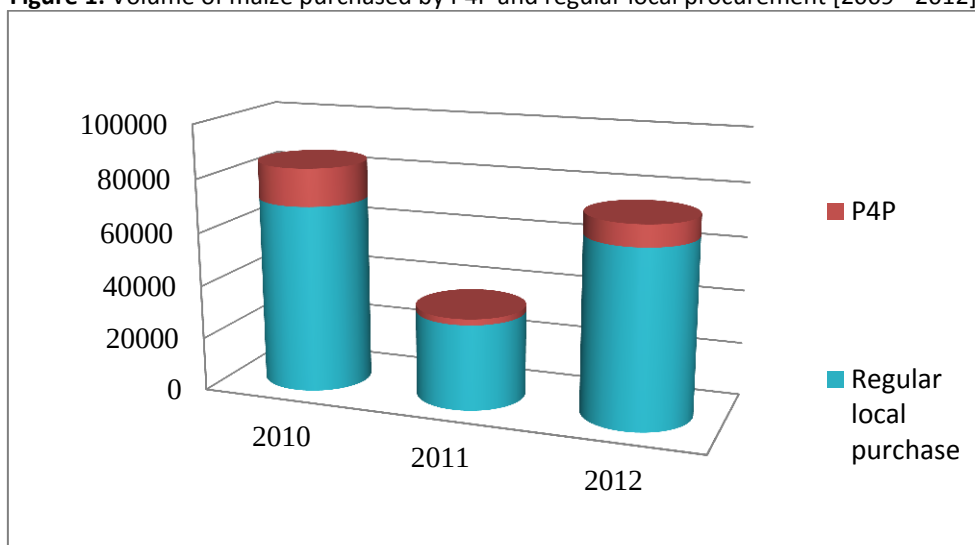
Table 2: Volume purchased by procurement modality [2009 –2012]

Procurement modality	2010	2011	2012
Regular local purchase	70 178	32 016	57 638
P4P purchases*	14 033	2 220	7 918
In-country total purchases	84 211	34 236	65 556
% P4P	14	6	12

* Volume of maize delivered excluding outstanding and defaulted quantity.

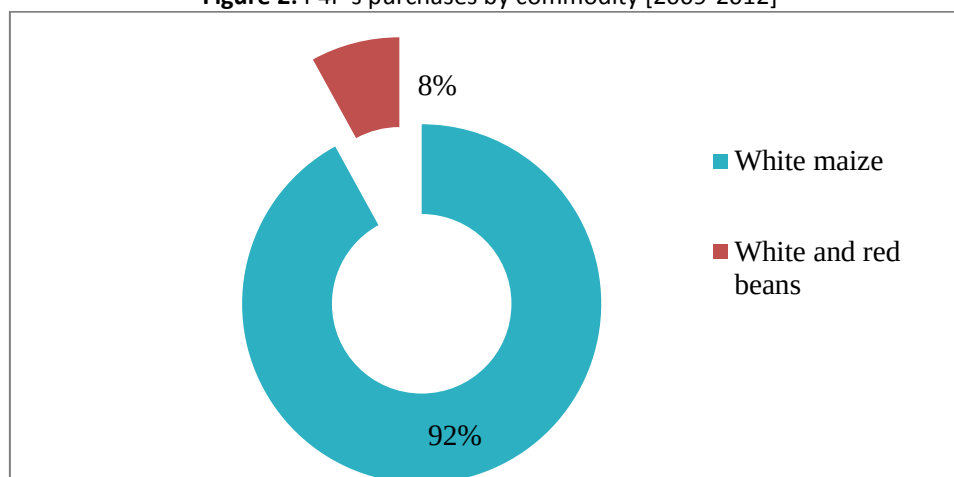
Source: WFP database.

Figure 1: Volume of maize purchased by P4P and regular local procurement [2009 –2012]*



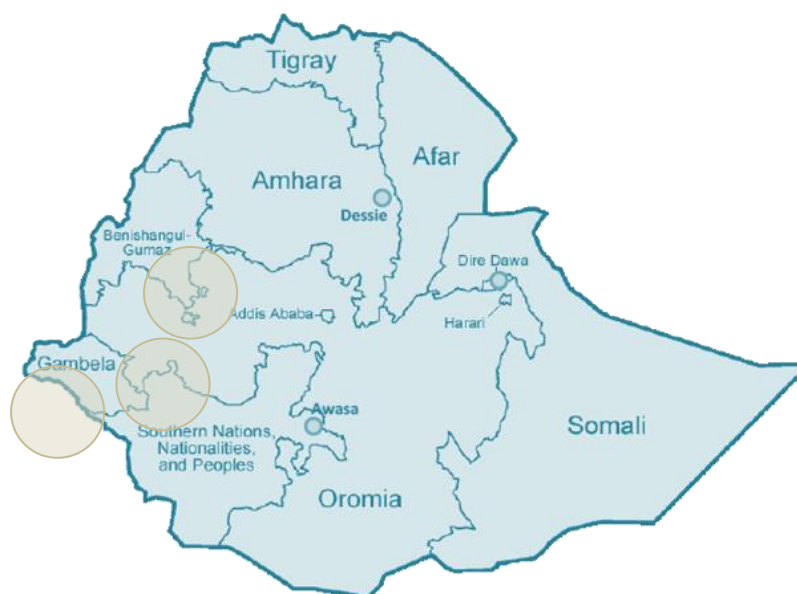
*Volume delivered excluding outstanding and defaulted quantity.

Source: WFP database.

Figure 2: P4P's purchases by commodity [2009-2012]

Source: WFP database.

P4P operates in three regions: Amhara, Oromia and the SNNPR, as seen in Figure 3. These three regions together produce more than 90 percent of the national maize production. Within the regions are high and low potential maize production zones. Some of the CUs targeted for P4P purchase are in the high potential zones while others are outside, indicating some shortcoming in the targeting process.

Figure 3: P4P implementation areas

Source: Authors' elaboration.

Box 3: The Ethiopian maize value chain at a glance

Why maize?

White corn is the main cereal crop produced in Ethiopia with an annual production estimated in 5.2 million tonnes (year 2012/13; Table 3), of which a maximum of 1.2 million tonnes is marketed (CSA, personal communication).

Table 3: Corn production in Ethiopia

	2010/2011	2011/2012	2012/2013
1 000 tonnes	4 897	5 400	5 200

Source: USDA, 2012.

It is also the crop with the largest smallholder coverage at 8-9 million holders (IFPRI, 2010d).

It has the highest current yield: 2.2 tonnes/ha; and a potential yield of 4.7 tonnes/ha according to on-farm field trials, when cultivated with fertilizer, hybrid seed, and adequate farm management practices (*ibid*).

Maize producing farmers obtain an average net income of US\$ 60/ha today (*ibid*).

It is a non-tradable cereal, meaning it is neither exportable nor importable.

Maize post-harvest losses in Ethiopia range from 20 to 40 percent of gross production (*ibid*).

Maize value chain in Ethiopia

Major actors	Key activities	Average scale
Farmer (smallholder farmers)	Production	Produce at a small scale. Sell only around 20% of produce, most immediately at harvest. Limited input use.
Local trader/assembler/PCs (individuals and cooperatives in towns close to producing farms)	Assemble from farmers and sells to larger buyers typically transport grain on donkeys to nearest town.	Transaction size about 1 tonne and typically trade four market days a month.
Wholesaler/CUs. EGTE and commercial farmers.	Own or rent storage, but usually do not store for more than one month. Use a broker to find buyers in Addis Ababa (main market) or other deficit areas.	Typically have limited scale. Transaction of one truckload (about 5 tonnes). Typically trade four market days a month.
Wholesaler (primary traders in major markets, e.g. <i>mercato</i> in Addis Ababa). EGTE and commercial farmers.	Use brokers to source grain from surplus areas. Own or rent storage and store grain for 1-2 months. Sell to retailers and processors.	Transaction size around 10 tonnes. Sources from multiple traders/wholesalers
Retailer/processor (retail shops or processors in major markets, e.g. Addis Ababa)	Directly (or through brokers) source maize from wholesalers. Clean maize and sell to end consumers. Little or no grain storage. Limited large-scale value addition.	Transaction size of about 2 tonnes (retailers).

Source: IFPRI, 2010d.

3.2 Procurement modalities, contract existence and compliance, and logistics

The P4P initiative provides a large and structured demand sink, and builds aggregation capacity of producer organizations, as shown in **Error! Reference source not found.**. At the time of this report, 4P worked with 16 CUs aggregating approximately 100 000 maize farmers. They are second-tier organizations, consisting of several primary farmer cooperatives (P4P-supported CUs have an average membership of 40 PCs), which at their turn aggregate hundreds of smallholders. Being such large organizations, lack of trust is pervasive at all levels: between the CUs and their PCs, and between PCs and their members.

CUs are the single entry point of P4P along the entire value chain. All the assistance provided is conveyed exclusively through the CUs, not to PCs or smallholder farmers (with the exception of the PAA).

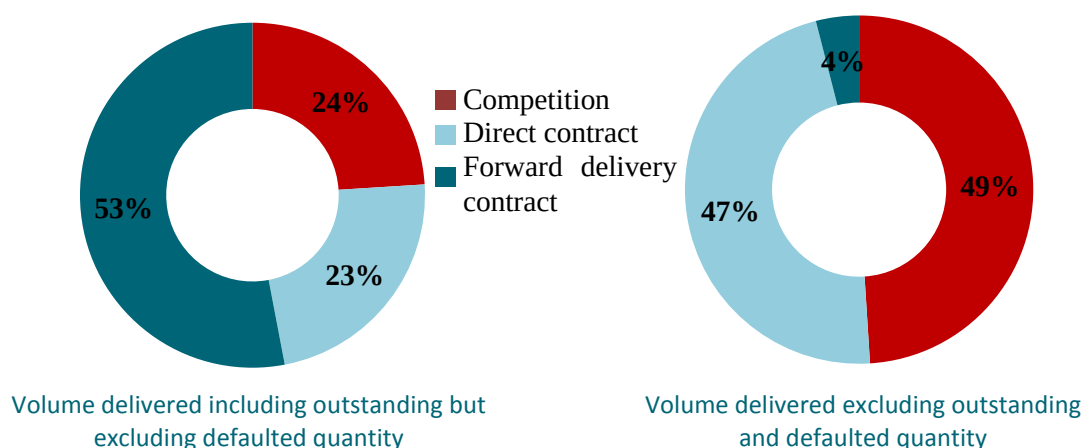
On top of working with CUs, P4P buys from the Association of traders at Addis wholesale market. This association groups 200 traders, of which 20 have already prequalified for P4P soft tenders.

Figure 4: P4P's aggregation strategy



P4P uses three **procurement modalities** in Ethiopia, namely: i) direct contracting from low and medium-capacity CUs; ii) soft tendering from small and medium traders (there are 20 pre-qualified small and medium traders), and cooperatives; and iii) forward contracting with CUs. The latter modality was launched on a pilot basis for the first time (at country and overall programme levels) in 2011/12 with 800 tonnes of white maize. For the 2013 planting season, P4P Ethiopia signed forward delivery contracts (FDCs) with 16 CUs for the supply of 28 200 tonnes of maize, with financing from CBE. The first deliveries on those contracts at WFP warehouses initiated at the beginning of 2013. To ensure successful implementation of these contracts, WFP country office signed a Memorandum of Understanding (MoU) with supply-side partners that committed themselves, among other things, to provide business advisory services to the selected CUs. These contracts are the largest in volume ever signed through P4P, constituting over 10 percent of the total amount contracted by global P4P.

As part of the FDC scheme, CBE is supposed to lend CUs up to 70 percent of the value of the maize floor price (US\$300 per tonne) stipulated in the FDCs. The same conditions of export financing apply, including an annual interest rate of 7.5 percent (less than half of the 18 percent rate commonly applied).

Figure 5: Volumes purchased by procurement modalities [2009-2012]

Source: WFP database.

The use of more competitive modalities (soft and competitive tenders) has augmented over time, as P4P vendors have more capacity to respond to the WFP market and can transition to competitive modalities (Figure 5, Table 4).

Table 4: Volume purchased by procurement modality [2009 –2012]*

Cumulative P4P contracts by modality	Competition	Direct contract	Forward delivery contract	Total
Tonnes	12 884	12 408	29 000	54 292
Share (%)	24	27	49	100

*Volume delivered including outstanding but excluding defaulted quantity.

Source: WFP database.

P4P buys mostly from CUs (83 percent of the volume contracted and 66 percent of the volume already delivered), but also from small and medium traders. It bought over 5 000 tonnes through the ECX in 2010, but in 2011 purchases through the ECX ceased in the wake of the drought in the Horn of Africa (Table 5).

Table 5: Volume purchased by vendor modality [2009 –2012]

P4P volumes by vendor modality	Cooperatives	Traders	ECX	Gode Project*	Total
Tonnes delivered including outstanding but excluding defaulted quantity	45 312	2 730	5 051	1 200	54 292
Share (%)	83	5	9	2	100
Tonnes delivered excluding outstanding and defaulted quantity	17 231	2 730	5 051	1 200	59 284
Share (%)	66	10	19	5	100

* The Gode Project is a primary cooperative in the Somali Region, i.e. outside the current geographical scope of P4P.

Source: WFP database.

P4P has **contracts** with all its vendors specifying price, quality, volume and other requirements. For the 2013 marketing year P4P has signed FDCs with 16 CUs. Yet, even these new contracts are interpreted by CUs as letters of intent that can be modified at their convenience. This situation is

partly explained by the lack of understanding of CU management of business issues, and by the political muscle they have traditionally exerted.

Defaults¹⁰ under P4P Ethiopia have been estimated (in the period 2009 – 30 June 2012) in 5 570 tonnes or 9 percent of the contracted quantity, far below the overall P4P default rate of 20 percent. Substantial delays (48 days) between the planned and actual delivery dates, especially by small and medium capacity CUs, are more of a problem (Table 6). Most of these delays happen because of lack of experience to execute formal contracts, presence of live insects, high moisture content, inexperience with rebadging, and shortage of storage/aggregation space.

Table 6: Delivery delays [2009 – 30 June 2012]

Average of delivery days	Average of days delayed	% of contract completed on time	Number of contracts
88	48	16	77

Source: WFP, 2012a.

Side-selling is also an issue. In 2011, due to the price volatility triggered by drought-induced scarcities of cereals in the Horn of Africa, side-selling skyrocketed as individual farmers decided to sell individually at higher prices instead of honouring the existing contract between their cooperatives and P4P. Consequently, contracted amounts dropped from 16 000 tonnes in 2010 to 2 000 tonnes in 2011.

The average price paid by P4P per tonne contracted has been US\$302 for maize, US\$622 for white beans and US\$538 for red beans (Table 7). When taking into account only the actual delivered amounts in the 2010-2012 period (excluding outstanding and defaulted quantity), the price paid for maize ranged from 222 to 385 US\$/tonne. P4P pays the overriding market price minus a discount for cleaning and threshing operations.

Table 7: Costs with respect to import parity by commodity [2009 – 30 June 2012]

Commodity	Quantity contracted	Total value of contract international price (US\$)	Total value of contract local price (US\$)	Savings on total quantity contracted (US\$)
Maize	56 943	27 455 123	17 194 889	10 883 105
Pulses	2 341	2 234 391	1 245 210	989 181

Source: WFP, 2012a.

Logistics arrangements are taken care of by the CUs. The unions are responsible for aggregating maize and/or pulses from their PCs, which at their turn aggregate the product of their member farmers. All CUs have their own warehouses, although of limited capacity and used for both input and output storage. Actually, some CUs visited in 2013 (?) have much of their storage space taken up by seeds from last season, which they were supposed, but failed, to distribute (mostly due to an incorrect estimate on the GoE's side). P4P organizes product collection from CUs' warehouses to take advantage of its superior bargaining power, but the transportation service is paid for by the CUs. When the shipment arrives to P4P warehouses (there are 12 of them throughout the country), it is inspected by the independent superintendent company charged with certifying the quality of the commodity according to contract specs: e.g. size/calibre, colour, moisture content, insect infestation and purity, among other criteria. No testing for pesticide residues or aflatoxins is carried out. Under P4P, if there is a problem with quality compliance that can be corrected, instead of immediately rejecting the shipment, the Superintendent Company might approve the delivery with remarks that need to be uplifted by performing correction actions such as fumigation and threshing. Upon

¹⁰ For WFP, a default on a food procurement contract occurs when a contract is not delivered, specifically regarding quantity and/or quality.

clearance of the shipment, the payment to the CU is processed via bank transfer. Given that banks are not interconnected, delays of up to 30 days are common. Even longer delays occur between CUs and PCs; paying farmers gets even more complicated, as many of them do not have bank accounts.

P4P is supporting CUs through the provision of training in business management and post-harvest, cleaning and drying, and quality control equipment, and warehouse improvement: the goal is to ensure that all CUs supplying P4P have 2 000 tonnes warehouse facilities dedicated only to output storage.

3.3 Participation of smallholder farmers in the P4P

In the main maize surplus producing zones, for example, CUs and their PCs collected and sold nearly 119 000 tonnes of maize in 2012, and this amounts to about 10 percent of the total maize marketed by smallholders. It is estimated that more than 111 000 tonnes of maize handled by the CUs were sold to public and private wholesale grain traders, while roughly 8 000 tonnes were delivered to organizations engaged in local food aid purchase including P4P. Their main competitors are grain assemblers, who collect and bulk the small quantities of maize supplied to rural markets by millions of smallholders and transport them to relatively large secondary markets for sale to consumers or to established and licensed wholesale traders. The majority of assemblers operate without any license in small rural markets in the surplus producing areas of the country. Some studies suggest that rural assemblers handle close to 417 000 tonnes of maize and buy 35 percent of the marketed output from smallholders. They sell about 70 percent of the supply they collect from smallholders to wholesale traders, 20 percent to urban retailers and 10 percent directly to urban consumers.

Up to the time of this study, P4P Ethiopia targets 16 CUs with a large membership base of nearly 600 000 smallholder farmers, of which 100 000 grow maize (WFP, 2013). By 2015 the objective is to target nearly 50 CUs aggregating over 500 000 maize farmers. This would allow multiplying by 10 the current volumes contracted through FDCs from 30 000 to up to 300 000 tonnes of cereals for local and regional WFP use.

The profile of farmers belonging to P4P-supported CUs is that of a male farmer (only 13 percent of P4P-targeted farmers are women, Table 8), with an average land holding of less than 1 ha, limited financial capacity, and inadequate access to inputs: in 2011 less than 5 percent of the production areas used improved seeds and fertilizer was applied to about 16 percent of them (CSA, 2011).

Table 8: Membership structure of CUs targeted by P4P.

# male members	# female members	# total members	# male leaders	# female leaders	# total leaders	% women members	% women leaders
513 552	73 575	587 127	137	15	152	13	10

Source: WFP, 2012b.

P4P has not always sourced from the same cooperatives: in 2010 the programme procured from six CUs that discontinued their collaboration in 2011. That year, P4P bought white maize from three new unions, which stayed in the programme in 2012, together with three other CUs that returned to the scheme from the 2010 season and other nine cooperatives new to the P4P. This movement of cooperatives moving in and out might hinder the sustainability of the P4P programme.

Box 4: The cooperative model and its role in P4P

- ✓ The National Cooperative Law envisages three layers of cooperatives – from bottom to top – PCs, CUs and national federations. PCs are organized in a voluntary manner, with a minimum membership of 10 members. PCs can get together to form CUs (minimum membership of two PCs). A third layer, envisaged, but not yet in place, is the national federation grouping CUs by sector, e.g. savings and credit federation, mining cooperative federation and agricultural output and input marketing.
- ✓ The FCA reports a total of 40 000 cooperatives in Ethiopia dedicated mostly to agriculture, mining and finance (SACCOs). A fourth of them are agricultural cooperatives:
 - 3 000 agricultural coops focus on a single commodity (e.g. coffee, dairy and livestock) or irrigation;
 - 7 000 are multipurpose coops that concentrate primarily on agriculture (MoA and ATA, 2012).
- ✓ Agro-cooperatives are very important in Ethiopia:
 - 17 percent of all Ethiopian farmers are members of a cooperative;
 - cooperatives contribute to 10 percent of the agricultural output of the country; and
 - coops market about 15 percent of all the maize produced.
- ✓ The grass-root membership of these CUs are smallholder farmers (less than 2 ha, rain-fed), with limited access to improved seeds/fertilizers, high post-harvest losses due to inadequate storage facilities, limited access to credit and high transactions costs.
- ✓ In theory agro-coops fulfill a triple purpose: i) input distribution and marketing; ii) output marketing; and iii) provision of extension services. In practice, agro-cooperatives play an important role in input distribution, but their performance in output marketing is limited, owing to lack of adequate storage facilities, insufficient management skills and mistrust among members and on the board.
- ✓ ATA is trying to facilitate the transformation of CUs into proper businesses that can effectively market the output of their constituency, and P4P is seen as instrumental to catalyze this transition.
- ✓ There are some 74 CUs in Ethiopia that embrace more than 1 300 PCs and close to 890 000 member farm households; and have a total capital of more than US\$37 million (FCA, personal communication). These unions are engaged in multi-purpose activities, including fertilizer distribution and (at least theoretically) marketing of members' marketable grain. Yet, only a few are active participants in grain marketing.
- ✓ P4P currently supports 16 CUs and plans to purchase from 50 CUs by the end of 2014.

Even in the pilot phase (2009-2013), it has been difficult to find CUs able to comply with a set of pre-established criteria, e.g. being legally registered; receiving supply-side support from supply side partners/government; having a minimum capacity to aggregate sufficient quantities and the intention to increase the percentage of women members. For instance, supposedly all P4P-targeted CUs were officially registered (Table 9), but when they applied to CBE's loans in the framework of the FDC scheme, it became evident that some of them had their legal establishment pending (established with premises) or incomplete.

Table 9: Legal registration and infrastructure of P4P-targeted CUs

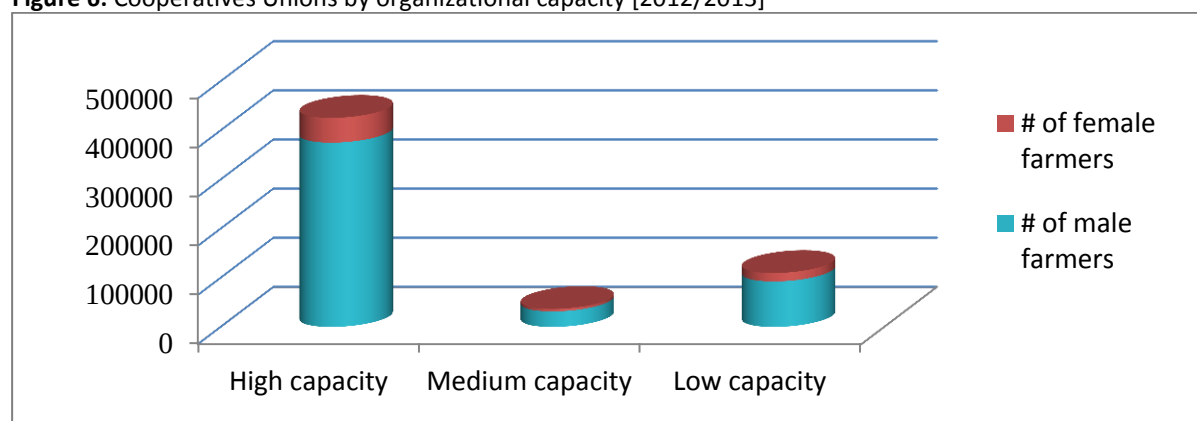
	Supported by P4P	Officially registered	With own storage	With sorting machine	With dryer	With truck
# CU	16	16	16	16	6	8

Source: WFP, 2012b.

Current P4P-targeted CUs are not equally distributed geographically: more than half of them are located in the SNNPR (56 percent), followed by far by Oromiya (25 percent) and Amhara (19 percent). Out of the 16 CUs selling to P4P, 7 are classified by WFP as high-capacity organizations, 3 as medium-capacity, and 6 as low-capacity. The large majority of low-capacity CUs are located in the SNNPR region, whereas Amhara hosts most high-capacity unions. In terms of membership, 74 percent of farmers belong to a high-capacity CU, as shown in Figure 6.

For the crop marketing season 2012/13, P4P plans to buy 56 percent of the total contracted amount from high-capacity CUs, 39 percent from medium-capacity, and a mere 4 percent from low-capacity. Moreover, the programme will source nearly half of its total procurement volumes for 2013 from only three CUs.

Figure 6: Cooperatives Unions by organizational capacity [2012/2013]



Source: WFP database.

3.4 Capacity development: institutional and technical support provided by P4P, GoE and other partners

P4P's implementing partners include international NGOs (ACDI/VOCA and TechnoServe), a local NGO (Sasakawa Global 2000 - SG2000), and FAO through the PAA local food purchase programme. From the GoE's side there are several supply-side partners including ATA and the public extension and research services at central and regional levels. The extension support is not exclusive to P4P farmers, and thus the Government's ability to strengthen the supply base through the work of the MoA and the Regional Bureaus of Agriculture is somehow limited. A public bank, the CBE, has recently joined the P4P scheme to provide financial services to CUs holding FDCs with WFP.

In Ethiopia, more than 1 500 individuals involved in the P4P initiative were trained as of June 2012. Only 9 percent of them were women (Table 10). Many training sessions were "training of trainers", mostly targeting the leadership and board of directors of CUs, and are expected to trickle down to the grass-root organization membership.

Table 10: Number of smallholder farmers, agricultural technicians, small and medium traders and warehouse operators trained [2009 up to 30th June 2012]

2010		2011		1st semester 2012		Total Trained	% Women Trained
# Men Trained	# Women Trained	# Men Trained	# Women Trained	# Men Trained	# Women Trained		
141	32	278	39	1 007	67	1 564	9

Source: WFP, 2012b.

Moreover, 24 staff of WFP and supply-side partners (e.g. warehouse managers, extensionists and officers seconded to ATA) have been trained on P4P-related topics, including agribusiness management, WFP procurement procedures, grain storage and warehouse management, and food safety and quality specifications (Table 11).

Table 11: Type of training [2009 up to 30th June 2012]

	Agribusiness management	M & E	Post-harvest handling	Production & productivity	WFP/P4P procurement & logistics	Total
# of trainees	53	100	1 016	342	53	1 564
% of trainees	3	6	65	22	3	100

Source: WFP, 2012b.

The following table maps out the support provided by different organizations, with an indication of their coverage in terms of topics and number of CUs assisted.

Table 12: Mapping of providers of training and topics covered

Organization/ No. of CUs	ACDI/VOCA: 7 & TechnoServe: 9 CUs	SG2000: 16 CUs	PAA/FAO: 1 CU (and 2 PCs) MoA: 16 CUs	WFP/P4P: 16 CUs	CBE: 16 CUs*	FCA: 16 CUs	ATA
Type of support provided	Management support & enterprise development training	Post-harvest handling training	Production & productivity training	FDC & WFP/P4P procurement & logistics training	Output financing	CU auditing, M&E	Primary GoE liaison, & linkages between CU & other partners

* CBE initiated negotiations with all 16 CUs, but the majority of them have not eventually obtained the loan under the FDC scheme.

Source: Own elaboration.

Training and mentoring in agribusiness management includes financial management and preparation of business plans, among other topics. WFP staff have led training sessions related to commodity storage and warehouse management, quality standards and WFP/P4P procurement principles and modalities (*"doing business with WFP"*).

Besides training, support offered to P4P-targeted CUs includes the provision of output financing, post-harvest equipment and adequate storage facilities.

ACDI/VOCA implements AGP's component dealing with value chain development. One of the value chains selected is maize, chosen for its relevance for food security and poverty-fighting efforts. ACDI/VOCA is currently implementing two other programmes in Ethiopia regarding cooperative development and feed enhancement.

As part of its large programme on agricultural value chain development, ACDI/VOCA supports 7 of the 16 P4P-targeted CUs with loan guarantee schemes, provision of formal training to CU leaders, warehouse construction and facilitation of many activities along the value chain. The above-mentioned training focuses on business plan preparations (required for accessing CBE's credit) and post-harvest management. ACDI/VOCA offers technical and financial support for warehouse

construction: it finances 40 percent of the warehouse cost (grant); CBE provides loans for 30 percent; and the CU covers the remaining 30 percent with its own capital.

TechnoServe has been contracted out by P4P to provide agribusiness advisory services to the remaining nine CUs from June 2012 to May 2013. For each CU, TechnoServe has recruited a business advisor that provides support on three main areas: financial management, post-harvest handling (in collaboration with WFP training) and governance. The organization has adapted the training approach and modules to being used in the coffee sector to maize, and to working with cooperatives (CUs).

Extending the training to PC managers was proposed, but it was rendered difficult by the lack of funds to cover the travel costs of the business advisors (not included in the TechnoServe/P4P contract). However, one CU decided to cover these costs using its own resources, so as to ensure that its PC managers received the same training.

TechnoServe is refining its current programme learning from perceived weaknesses in the intervention. The first modification proposed is to include other crops besides maize, namely wheat, barley and other grains. The second twist would imply enlarging the number of buyers. The third innovation implies complementing the work of the business advisor that supports CUs with the support from a dedicated financial manager for staple crops in Addis, as well as junior advisors operating at the PC level.

SG2000 has been granted a contract for improving CUs' access to agro-processing and post-harvest technology, namely: grain sheller and engine maintenance; and grain cleaner repair, through joint training courses for extension workers, CU managers, among others (WFP, 2013). The organization also supports the CUs on gender empowerment, and upgrading of agricultural practices for maize and haricot beans.

FAO, through the PAA, supports one CU and two PCs in the SNNPR in a pilot phase running for the marketing season 2012/2013. Ethiopia is one of the five countries where the PAA programme is being financed by the Government of Brazil and implemented by FAO and WFP. FAO/ PAA supports 1 000 haricot bean farmers, with the provision of technical assistance and inputs (seeds and fertilizers). P4P purchases the agreed product and delivers it to children with undernourishment risk through school feeding programmes. The PAA supports 7 schools out of the 37 under the HGSF programme; Dubai Cares supports the 30 remaining schools. The implementation modalities of Dubai Cares are exactly the same as those of PAA, but it is implemented by the Bureau of Education of SNNPR in Hawassa.

FAO's technical support started with a workshop to clarify the needs of farmers and roles and contributions of the partners, which besides FAO and WFP include the Bureau of Agriculture, the Cooperatives and Marketing Bureau, and the Bureau of Education. Each farmer member of the two PCs selected is entitled to selling up to a certain amount of haricot beans through the PC, and via the CU (responsible for cleaning, grading and packaging), to P4P with the final destination being the local schools in the framework of the Home Grown School Feeding (HGSF) programme managed by the Bureau of Education.

This collaborative effort has been, thus far, the main expression of the MoU signed by FAO and WFP country offices in Ethiopia in 2008 agreeing to collaborate in the implementation of the P4P initiative. The MoU stated that FAO would become a supply-side partner offering support to P4P-targeted farmers and their organizations on agricultural production and marketing development, subject to available resources. However, until mid-2012 when the pilot phase of the PAA Ethiopia

was launched, the absence of extra-budgetary resources limited FAO's contribution to *ad hoc* training activities.

CBE, WFP and CU managers signed a tripartite agreement in 2012 that specified that the CBE would lend up to US\$4 million to P4P-targeted CUs, covering up to 70 percent of the floor price stated in the forward contract purchasing agreement at advantageous rates (7.5 percent). The loan is just for output financing, and it has to be returned in 3 or 6 months according to the case. As part of this agreement, WFP has guaranteed the loan by agreeing to freeze up the guaranteed amount in its bank accounts for 8 to 10 months.

The agreement has several clauses built-in to reduce the risk of CBE and get commercial banking interested in lending to the domestic-oriented agricultural sector. These clauses aim to make up for the fact that the large majority of CUs are not credit-worthy: their financials show, practically without exception, non-performing loans for input marketing and distribution.

CBE prepared specific guidelines (with softer criteria and improved conditions compared to standard ones, but still complying CBE policy and procedures) for the tripartite agreement and circulated them among the branches. However, CBE local branches encountered many problems when applying these guidelines. This might be interpreted as a sign of a power struggle between the head office and branches, but also as the consequence of CUs' inability to meet the loan request criteria and procedures. Several unions failed to submit in time the requested documentation: financial statements for at least three years, business plan, forward contract with WFP signed and sealed, and Memorandum or article of Association (legal establishment of the CU). Furthermore, not all the CUs agreed upon the terms of conditions specified in the tripartite agreement, and preferred to work with their own capital.

Consequently, only five out of the nine CUs supported by TechnoServe eventually received loans; moreover, four of these unions received the funds rather late in the harvest season, thus, hampering their ability to comply with FDC's requirements in terms of volume and quality. Another CU received a loan from a NGO. ACDI/VOCA supported CUs were relatively slower to provide business plans, because unlike TechnoServe supported ones were not mentored by business advisors.

CBE is currently engaged in collecting feedback from its local branches, WFP and the CUs to design an improved version of the tripartite agreement for the next crop season.

ATA, as part of AGP value chain programmes, coordinates the work of WFP/P4P and other supply-side partners in the maize value chain: USAID, TechnoServe, ACDI/VOCA, and SG 2000, as well as the CUs themselves, and the Regional Agriculture Bureaus. ATA has recently issued a very holistic strategy for agricultural cooperative development. Such strategy involves putting in place an effective auditing system for cooperatives to make them more market-driven, instead of fulfilling social or political functions. The objectives of the strategy are to increase the productivity of farmers who are members of agricultural cooperatives by 50 percent and their income by 20 percent from 2010 to 2015. Upon implementation of this strategy, the collaboration between FCA and FAO and WFP has increased. Furthermore, the official policy of the ATA is to foster the implementation of MIS and WRS; but it is premature to see how this will play out in its collaboration with the P4P initiative.

The relationship between **MoA** and P4P is rather loose, since there is no specific agreement for the public system to provide tailor-made support to farmers belonging to the PCs and CUs supplying P4P. Ethiopia's agricultural extension system is one of the largest in the world, with nearly 40 700 staff countrywide and approximately 3 000 subject matter specialists at the federal level. The extension system of the MoA uses two main channels to deliver its services. The first channel is the use of social networks, i.e. farmers groups and cooperatives that implement farmer-to-farmer training. The

second channel is formed by nearly 10 000 Farmer Training Centres (FTCs) throughout the country. Each FTC has three to five DAs (1 DA for every 476 farmers) specialized on crop production, livestock, natural resources management; irrigation and beekeeping specialists might be added to the core team are responsible for each watershed or village. Cooperative agents complement this extension work in some areas. There are also travelling extensionists covering grassroots groups. However, this system does not use the cooperative scheme for the provision of technical assistance to farmers: extension services are provided to members and non-cooperative members equally, and therefore, to P4P and non-P4P farmers equally.

P4P relies on the capacities of the federal and regional research system to develop and multiply seeds; and of the Regional Bureaus of Agriculture to storage and distribute them.

FCA is not a very active partner of the P4P, although its cooperative development agents (CDA) are mandated to organize cooperatives and their marketing activities. Theoretically, the type of technical assistance provided by CDAs includes support to create the cooperative, training to understand and comply with requirements and regulations (cooperative proclamations and directives), marketing training to access export markets, facilitate the linkages between cooperatives and commercial and public banks.

4. OTHER LARGE BUYERS' MARKET FOR STAPLES BEYOND P4P¹¹

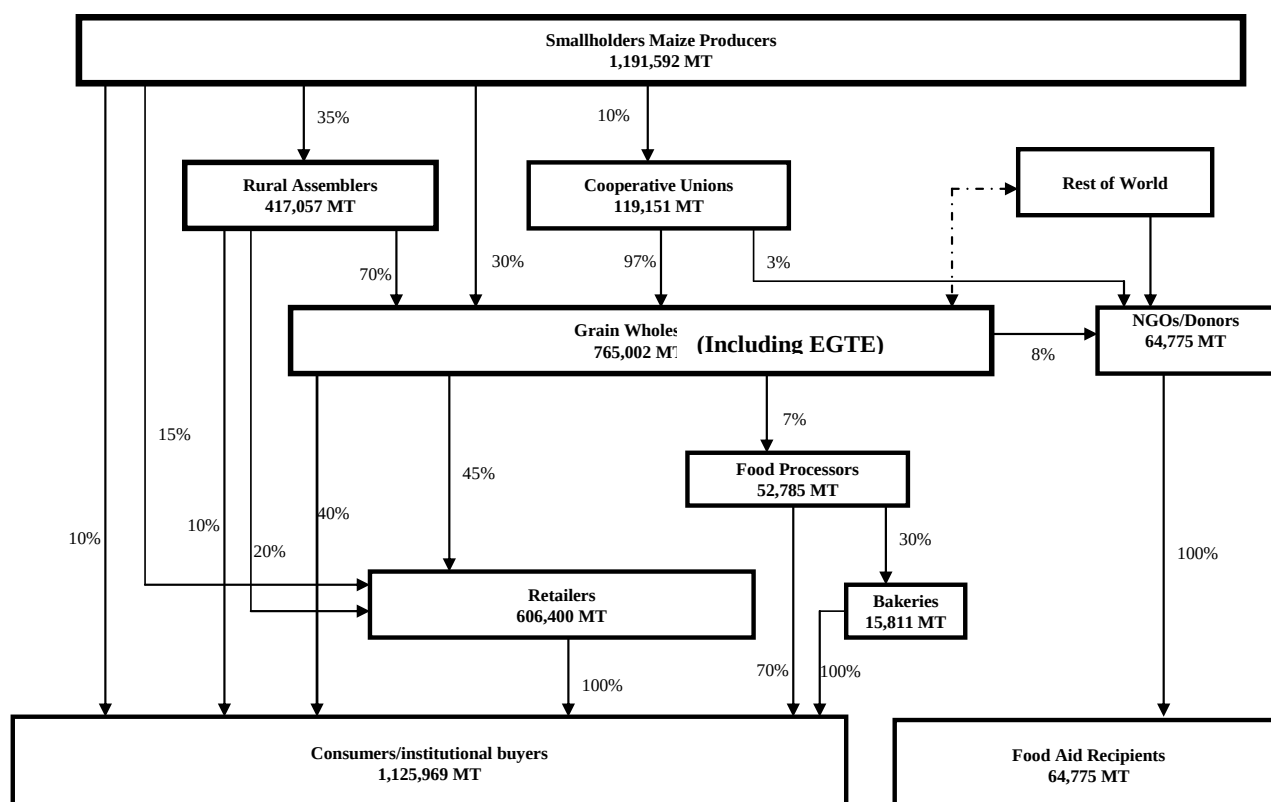
4.1 Overview of the Ethiopian maize value chain

The P4P programme has a minimal share of the Ethiopian maize supply chain (0.7 percent in 2012). So, what are other options for linking maize smallholder producers to large buyers, taking a cue from the P4P model? To answer this question it is important to have a look at the entire supply chain, illustrated in Figure 7.

As mentioned before, maize is a non-tradable grain in the country, meaning that cannot be imported nor exported. Furthermore, most of the maize domestically produced by smallholders is retained on-farm for family consumption and seed; whereas only some 18 percent of the annual production (1 to 1.2 million tonnes) is marketed. This marketed volume flows from 17 maize surplus producing areas to deficit areas, including the remaining 50 agriculturally important zones, pastoral areas, towns and cities.

The marketed volume of maize by smallholders passes through a number of channels before it is finally consumed. The market structure for maize and the likely quantity flowing through the different channels is shown in Figure 7. It maps the major actors in the maize market (rural assemblers, CUs, public and private wholesale grain traders, retailers, donors and NGOs) and their significance.

Figure 7: Market structure and flow pattern of maize in Ethiopia



Source: own calculation using CSA production data, estimates of marketed quantities, WFP local purchase data, EGTE data and own estimates of market flow.

¹¹ The data presented in this chapter have been calculated by the authors using CSA production data, estimates of marketed quantities, WFP local purchase data, EGTE data and own estimates of market flow.

As mentioned before the term “institutional” refers to large buyers with presence in the domestic market. It encompasses both public and private buyers. The former category includes the national food reserve agency, public hospitals and prisons, and school feeding programmes, among others. Large private buyers include agro-processors, traders and supermarkets based in Ethiopia. The following section analyzes how these public and private [institutional] buyers could successfully shift their standard procurement methods towards smallholder-friendly procurement practices, based on an adaptation of the P4P model.

4.2 Current and potential public institutional buyers

In Ethiopia there is only one public buyer/ importer of grains, the **Ethiopian Grain Trade Enterprise (EGTE)**, which enjoys a monopsonic situation and has three main end-use options: the Emergency Food Security Reserve (EFSR), the Productive Safety Net Programme (PSNP) and the Home-Grown School Feeding (HGSF) programme.

The EGTE is a major market actor in the grain trade. It is a publicly owned enterprise operating in the market since the 1960s under different names: the Ethiopian Grain Board, the Agricultural Marketing Corporation and now the EGTE. The EGTE was established in October 1999 by Council of Ministers Regulation No. 58/1999, by amalgamating it with another public enterprise called the Ethiopian Oil Seeds and Pulses Exporting Corporation (EOPEC). Its objectives include: i) purchasing grain from farmers and sell mainly in export markets; ii) contributing towards the stabilization of markets so that farmers will be encouraged to increase their outputs; and iii) engaging in other related activities conducive to the attainment its goals. The EGTE is under the MoA, but its overall activities are overseen by a Board of Directors.

It is by far the largest actor in the category of wholesale traders. EGTE is also the single most important wholesaler that holds about 300 000 tonnes of grain and coffee at the end of every year. The enterprise has a network of branches and selling centres throughout the country, including a central office in Addis, 10 branches in the regions and 77 substations. It has more than 60 light and heavy trucks, 91 trade centres, nearly 1 250 employees and warehouses with a total storage capacity of more than 800 000 metric tonnes, throughout Ethiopia.

EGTE trades mostly with coffee, maize, wheat, tef, sorghum, pulses and oil seeds; although coffee is becoming increasingly important. From 2009 to 2012, EGTE has bought about 500 000 tonnes of different crops/year, of which maize and wheat account for nearly 93 percent in volume terms. In 2011/12 alone, EGTE purchased 51 000 tonnes of maize and 612 000 tonnes of imported wheat. EGTE’s annual maize purchase from the domestic market represents about 8 percent of total maize purchase by wholesalers in 2012 and 5 percent of the total volume of maize marketed in Ethiopia that same year.

Of late, EGTE is increasingly becoming a key player in the stabilization of the domestic market by importing and distributing wheat, mainly to flour mills, urban consumer cooperatives and various government institutions. For example, EGTE distributed some 416 000 tonnes of wheat in 2012, at a substantially subsidized price, to flour mills, urban consumer cooperatives and government institutions. The flour mills alone obtained nearly 340 000 tonnes. EGTE makes its price stabilization estimates based on production cost calculations (MoA), input prices and output price trends. A two-tiered process is followed to import wheat: the tendering is advertised and implemented by the Ministry of Finance, whereas the actual purchase is done by EGTE. On average, 1 billion Birrs (US\$53.8 million) are spent annually in wheat subsidies.

NGOs and donors, as shown in Figure 7, are also important players in the grain market. They are, however, indirectly linked to the market through local grain purchase programme. Donors, NGOs and

the GoE usually take grain loans from the **Emergency Food Security Reserve Administration (EFSRA)** for their emergency and development activities, and they repay their loans partly by procuring grain locally.

The Emergency Food Reserve was established in the 1980s, with technical assistance provided by FAO, to serve as an emergency food reserve during times of shock, and it has still continued to be the major source of food supply for immediate distribution to beneficiaries. The Reserve is managed by the EFSRA, which is a government organization under the MoA's Disaster Risk Management and Food Security Sector (DRMFSS). The EFSRA has been instrumental in the implementation of local food aid procurement programme since 1996, when producer prices of maize and sorghum collapsed dramatically and the GoE requested the major donors, including the European Union and WFP, to procure their food aid commitments locally.

The EFSRA was restructured and re-established in 2000 by Council of Ministers Regulation No.67/2000 with the objective of providing adequate capacity to prevent disasters, through loan provision of food and non-food resources, to government and non-governmental organizations engaged in relief activities until additional relief food can be mobilized through various mechanisms.

The major duties and responsibilities of the EFSRA include: i) administering the Reserve; ii) obtaining and receiving food and non-food relief items for the Reserve from donations, local purchase and from domestic and external sources; iii) storing the food and non-food relief items obtained through donations or purchase; iv) releasing food from the Reserve on loan to meet emergency food shortage as per the directives issued by the Emergency Food Security Reserve Board; v) availing non-food relief items for use, from the Reserve, in the form of loan or returnable basis as per the directive issued by the Emergency Food Security Reserve Board; and vi) constructing and renting warehouses and storage facilities.

The overall activities of EFSRA is overseen by a board comprising of high-level government officials, and it is assisted by a Technical Committee drawn from appropriate government and non-government organizations as well as donors. The duties and responsibilities of the board include: generating and recommending policy ideas related to the Reserve for approval of the Government, and follow-up their implementation upon approval; deciding on issues related to the build-up and safe maintenance of the Reserve; deciding the provision of food and non-food relief items from the Reserve on loan or returnable basis; assuring loans provided are repaid on time; and deciding the minimum level of stock that should be available in the Reserve at any time from the stock maintained by the Administration.

In 2013, the EFSRA managed an emergency food reserve of about 400 000 tonnes of crops as part of the preparedness strategy in the country's disaster management effort.

It has some 350 000 tonnes of storage capacity in seven strategic locations throughout Ethiopia. Although most of the food reserve is obtained through food aid by donors, efforts have also been made to include locally produced cereals in the reserve by way of loan repayment that donors and NGOs take for emergency and the PSNP. According to WFP data, in 2011 Ethiopia received a total of 722 000 tonnes of cereals (mainly wheat) for emergency and programme and project activities, of which local purchase accounted for over 34 000 tonnes or 5 percent of total food aid¹².

Although the mandate of the EFSRA is to hold and manage food and non-food reserve for emergency situations, its reserve has also been used for non-emergency purposes, such as the **PSNP**. This

¹² The local cereal food aid purchase in 2011 was mostly maize, amounting to 34 000 tonnes; 65 000 tonnes in 2012. Therefore, 95 percent of the total amount of grains was imported (mostly wheat) by the GoE or through food donations, etc.

programme was launched in 2005 as a rural social safety net mechanism with the view to bringing about rural economic growth and environmental rehabilitation, through the provision of predictable food and cash transfers to targeted beneficiaries and the creation of productive and sustainable community assets that contribute to the rehabilitation of severely degraded areas and increase household productivity. Nearly 8 million chronically vulnerable people are covered by the programme and about 2.1 billion Birr (US\$113 million) cash and some 450 000 tonnes of food resources are annually allocated for its implementation. Most of the PSNP beneficiaries participate in various public work activities for 30 days in a year and get cash or food or a combination of cash/food wage in return for their participation.

The **PSNP** is owned and managed by the MoA/DRMFSS, but the source of most of the cash and food resources are donors. Among the donors WFP and some of the NGOs are involved in the distribution of food to beneficiaries, partly by borrowing from the EFSRA and repaying in kind through local purchase.

In the past, particularly during the period 1996-2003, when the local purchase programme was at its peak, the EFSRA used to receive an average of 669 000 tonnes of grain annually from local purchase. The main crops targeted for local purchase of food aid were wheat, maize, and sorghum. The annual volume of local purchase of cereals by donors during the period mentioned above was about 19 and 21 percent of the country's annual marketed quantity of maize, sorghum and wheat. Thus, the participation of donors and NGOs in the grain market, although indirect, had a significant impact on the country's agricultural productivity growth and market development. It also helped the donors and NGOs to deliver the right type of food to the beneficiaries on time and in a cost-effective manner. As regards cost, domestic price of maize has almost always been much lower than international price. For example, the domestic price of white maize in Addis Ababa in 2012 was in the range 50 to 68 percent of import parity price of US No.2 Yellow maize (see Annex 2). Moreover, donors and NGOs saved significant resources, because they did not incur any cost associated with storage and stock handling and management when taking a loan from the EFSRA. Likewise, donors and NGOs saved time and were able to speedily deliver food resources to beneficiaries from any domestic location without the need to float international tenders, which require substantial time to evaluate, award tenders and receive shipments.

Donors and NGOs were also able to deliver the right type of locally produced food held in EFSRA. As the Ethiopian agriculture is basically subsistent, cropping patterns generally indicate consumption patterns. For example, many of the vulnerable household living in the PSNP and drought affected areas mostly grow maize; therefore, provision of maize to the vulnerable households is more appropriate.

The GoE and donors seem to move now from food to total cash transfer to the PSNP beneficiaries, partly due to soaring world cereal prices, and this will definitely have far-reaching implication for the rural economy, including agricultural productivity growth and market development because of the expected increase in cereal demand in rural areas. If the shift to total cash transfer for PSNP beneficiaries is implemented, a total amount of 4.8 billion Birr or about US\$220 million would be injected per annum to the rural economy. Since the rural vulnerable groups will spend most of their cash income on food, it is expected that the private sector will be motivated to expand their grain businesses and engage more in inter-regional grain transfer from surplus to deficit areas. This in turn would have implication on WFP regular local cereal purchase and P4P programme.

If the anticipated move from food to cash is implemented, the beneficiary households will spend most of the cash they receive on food. As a result, private grain traders and assemblers will be attracted by the high demand for food in the consuming areas and participate more actively in the grain business. This will entail competition between cooperatives and EGTE on the one hand, and the

traders and assemblers on the other. According to EGTE and other key informants, because of the lack of experience and managerial skill and the slow decision-making process of cooperatives, they might not be able to effectively compete with the private sector and may lose the grain business they currently command.

Home Grown School Feeding Programme

In Ethiopia, WFP has 681 000 school-age children learning in some 1 190 schools throughout six regions of Ethiopia, and it provides the children one meal a day. Recently however, a new pilot scheme called Home-Grown School Feeding (HGSF) Programme has been launched with the overall objective to gradually replace imported food resources with locally produced and purchased food and to transfer ownership and management of the feeding programme to host country governments. According to WFP, the specific objectives of the HGSF programme include: i) “improving smallholder farmer income through structuring market demand from HGSF programmes”; ii) “improving nutritional status, nutrition quality and quantity amongst smallholder farmer produce”, and iii) “improving education, health and nutrition of school age children through sustainable and cost-effective school feeding programme”. The P4P has a key role to play in this programme.

Others: hospitals, prisons and the military

The direct role of other institutional buyers, such as hospitals, prisons and the military in the maize market is very minimal. Such institutional buyers mainly buy tef/injera and wheat flour/bread using the services of licensed private traders or service providers on an open and competitive tender basis.

The Ethiopian Commodity Exchange (ECX) and Warehouse Receipt System (WRS)

As mentioned in 2.2, the ECX is a structured trading system for cereals, pulses and oilseeds. In 2007, the Government of Ethiopia initially established the ECX by proclamation No.550/2007 with the overall objective of creating an orderly and integrated agricultural commodities marketing system. The specific objectives of the ECX are to: i) create an efficient, transparent and orderly marketing system; ii) publicly disseminate information on Exchange transactions; iii) conduct trading on the basis of product grade certificate and guaranteed warehouse receipts; and iv) conduct market surveillance. Earlier in 2003, the Government had also established a Warehouse Receipt System (WRS) by proclamation No. 372/2003 with the objective to protect producers from price fall during years of bumper harvest when supply significantly exceeds demand. The WRS was also planned to be implemented by the ECX.

The ECX was established as a public and private sector partnership entity, with clear separation of ownership, membership and management, and well-established rules of transaction. In order to oversee the ECX activities, the Government also established a regulatory body, the Ethiopian Commodity Exchange Authority (ECEA), by Proclamation No.551/2007. The Authority was entrusted with the responsibility of overseeing the overall activities of the ECC, ECX actors, clearing institutions, and exchange traded contracts. The ECEA also has the power to investigate and take appropriate measures when the laws and regulations of the ECX operations are violated.

Although the GoE has put in place the ECX and WRS, along with a regulatory body and clear operational laws, not much trading of cereals has taken place since 2008 when the ECX formally started its operations. Currently, the ECX is active in coffee, sesame and haricot bean trading, and the trading of cereals such as maize, wheat and sorghum is carried out in a traditional manner outside the ECX and the warehouse and receipt trading system. Unlike the ECX, grain trade in the traditional system is done on the basis of visual inspection of quality, rather than on established and known quality and standards. No study has been carried out to investigate why producers and buyers of cereals are unwilling or unable to use the modern trading system of ECX, which was put in place to improve the negotiating power of producers and enable them to get better prices, decrease market risks and transaction costs and thereby reduce consumer prices. At present, the ECX has a storage

capacity of more than 85 000 tonnes in different strategic markets throughout Ethiopia. The exchange trading of coffee, sesame seed, and white haricot beans at the ECX is compulsory.

All sellers and buyers of such commodities, except cooperative unions, are required to use the trading platform and transaction procedures of the ECX.

Volume and quality of procurement

The volume of maize procured in 2012 by the public institutional buyers, including processors, NGOs/donors and EGTE was about 177 000 tonnes, but varies by year depending on yearly maize production. EGTE's maize purchase varied from 62 000 tonnes in 2010 to 51 000 tonnes in 2012. Donors/NGOs (including WFP) bought 84 000 tonnes of maize in 2010, 34 000 MT in 2011 and 66 000 tonnes in 2012 (between 1 to 2 percent of the total volume of maize marketed).

Donors/NGOs maize purchase is done through an open and competitive tender process that specifies stringent quality and standard requirements as well as volume and delivery dates. Purchase by processors is done through various means, including open tender and negotiation. Maize purchase by EGTE is decided centrally by the enterprise. EGTE has network of branches and trade centres through which it regularly monitors prevailing market prices in different markets. Based on the results of the assessment and the Enterprise's desire to purchase, EGTE intervenes in the market to procure targeted crops from targeted markets.

4.3 Large-scale private-based buyers of staples

The category of **maize wholesalers** encompasses small, medium and large private grain wholesalers operating in the surplus, deficit and pastoral areas of the country. The number and regional distribution of the grain wholesale traders is not known, but they play a crucial role in inter-regional transfer of grains from deficit to consuming areas.

The large-scale private-based buyers of staples as a whole, handle about 705 000¹³ tonnes or 59.2 percent of the national volume of maize marketed by smallholders in 2012. The major sources of maize supply for the private wholesale traders include: direct purchase from smallholders (46.7 percent), rural assemblers (38.2 percent), and CUs (15.1 percent). The wholesalers operating in surplus producing areas distribute the maize supply they receive to wholesalers in deficit areas, EGTE, retailers, food processors, donors/NGOs, and directly to consumers residing in their respective areas of operation. The major flow of maize is from wholesalers in surplus areas to wholesalers in deficit areas, major urban towns and pastoral areas. Although the amount is not known, the wholesalers are also engaged in informal cross-border trade to Djibouti, Kenya, Somalia, and South Sudan. The flow of maize from producing to consuming areas is coordinated through a network of brokers mainly found in the major terminal markets. Buying and selling prices are determined through negotiation based on physical quality attributes and supply and demand condition prevailing in the market.

According to data obtained from EGTE, there are some 223 small, medium and large **scale food processing mills** in Ethiopia with a total annual milling capacity of nearly 2.2 million tonnes. Yet, only a few mills use maize as a raw material and nearly all of the other mills produce wheat flour and/or corn-soy blend (CSB). The annual maize purchase of the few mills that produce maize flour is estimated at 17 000 tonnes. Their annual wheat procurement volume is estimated at 539 000 metric tonnes in 2012, of which some 65 percent was supplied by EGTE and the remaining balance by private wholesalers, cooperatives and other suppliers. About 70 percent of the wheat flour is supplied to bakeries, which distribute bread and other products for distribution to urban consumers, government institutions, restaurants, hotels, etc. although the flour mills have huge processing

¹³ Plus nearly 60 000 tonnes purchased by EGTE= 765 000 tonnes, as shown in Figure 7.

capacity, they operate at 25 percent capacity, because of shortage of raw material, particularly wheat. If there were regulations that govern the mixing of wheat and maize flour for making bread, there seems to be an immensely sustainable market for maize in Ethiopia.

Maize retailers are numerous and play a crucial role in supplying consumers in urban and rural towns in both surplus and deficit regions. Most of the retailers are in the informal sector, operating without license. The retailer category includes family operated stalls and rural and urban small grain mills found the neighbourhoods. It is estimated that the retailers supply about 606 000 tonnes of maize grain directly to consumers. The retailers obtain their supplies from farmers and wholesale traders at a negotiated price. Retailers are mostly small urban and rural family-operated businesses that operate in the informal market without licenses. The wholesalers also carry out retailing activities along side their wholesale business. There are no large scale retailers and supermarkets that are engaged in maize distribution to consumers.

Procurement models, volume, price and quality of maize

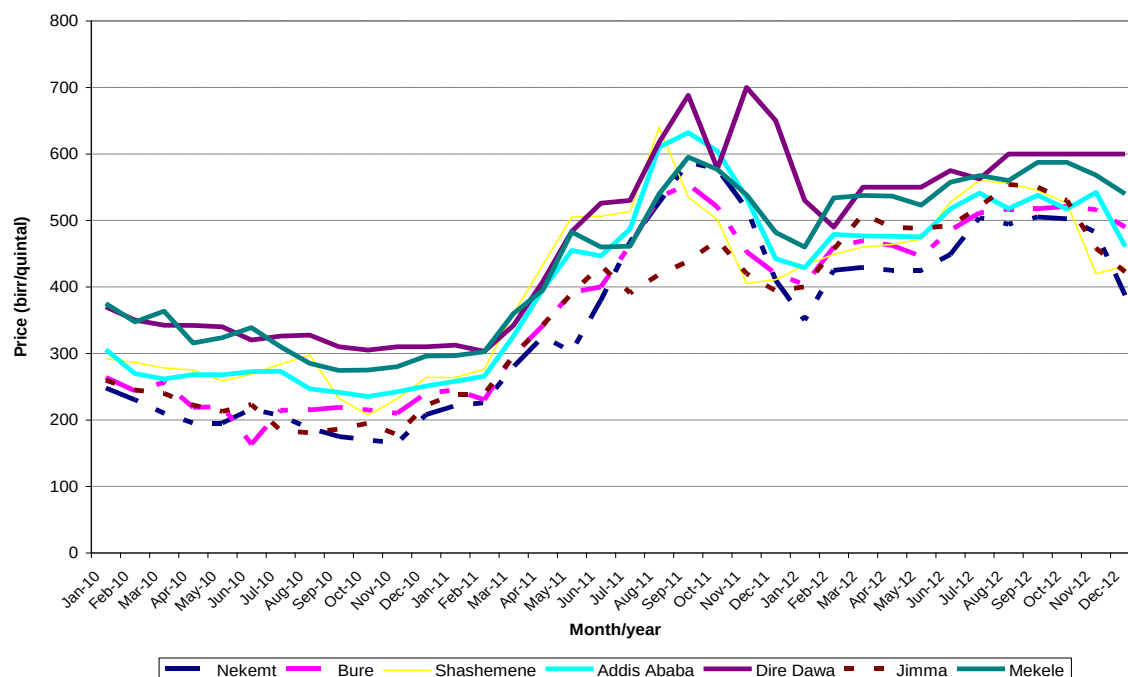
Maize wholesale traders in the surplus growing areas are well established and licensed business entities with storage facilities of varying capacity. They receive their maize supplies directly from producers and from assemblers at their warehouses. Procurement from farmers and assemblers is entirely carried out through negotiation. Prices paid by private wholesalers to farmers and assemblers vary according to quality, which is generally determined by visual/physical inspection. Producers and assemblers usually visit a number of wholesalers operating in the same market in order to discover the prevailing market price in their areas.

The price that the wholesalers pay to producers and assemblers is based on their sales intentions and they consider the location and time of sales. Prices considerably vary by season and year of sale, because of the high fluctuation of maize production due to rainfall and weather conditions. The wholesalers gather information about the supply and demand conditions in various consuming markets through their brokers and determine the price they should pay to farmers and assemblers. Most traders do not hold working stocks for more than one month because of the large working capital required and the high market risk involved. Occasionally, however, when donors, NGOs, or large public and private institutional buyers float tenders for the supply of maize, the private traders participate in such tenders and deliver grain on contractual agreement basis, respecting the delivery conditions laid down in the contract. Generally, donors, NGOs and public and private large-scale buyers have stringent standard and quality requirements.

As noted earlier, maize production in Ethiopia is mainly for subsistence; therefore, most of what the farmers produce is retained on-farm for seed and family consumption, and not more than 18-20 percent is marketed. As long as the level of agricultural commercialization does not change, the proportion of produce marketed by farmers remains the same from year to year, but the volume marketed could change because of rainfall and weather conditions, and this may have impact on inter-regional grain flow and maize prices.

Maize prices in surplus producing areas and consumption areas are highly correlated. As can be seen from the figure below, wholesale maize price in the surplus producing markets (Bure, Nekemt, Jimma and Shashemene) as well as in the major consumption/deficit areas (Addis Ababa, Dire Dawa and Mekele) generally showed a joint increasing or decreasing trend over the period 2010-2012, indicating the existence of a fair degree of market integration between producing and consuming areas of the country.

Figure 8: Wholesale price of maize in selected surplus and deficit markets



Source: EGTE price data. Price (birr/quintal)

Maize price differentials between surplus producing and deficit areas are not huge. For example, the average difference of maize prices in Addis Ababa (major consumption centre) and Nekemt (major surplus producing area) was birr 54/quintal (US\$29/tonne) during the period 2010-2012, indicating a small profit margin considering the distance between these two markets (about 327 km) and the high freight transport rate of about birr 0.113/quintal-km (US\$0.6/tonne-km). This shows the existence of a fairly competitive maize market in Ethiopia.

According to COMPETE (2010) of the total value added along the producer → assembler → wholesaler → retailers → consumer maize channel, producers get some 73 percent, while assemblers, wholesalers and retailers get 6 percent, 8 percent, and 13 percent, respectively.

4.4 Future outlook

Maize is an important staple food in Ethiopia accounting for more than 30 percent of national cereal production. Since most of the farmers in the surplus producing areas plant long-cycle, high yielding hybrid and composite varieties, national maize production exhibits large yearly fluctuations because of the variability of small and main season rains. During years of bumper harvest, maize prices usually collapse, while during drought years, maize production decreases considerably resulting in enormous price increases. Except EGTE, most of the private maize traders do not hold stock to even out yearly fluctuation of production. However, EGTE purchases of maize, in the period between 2010 and 2013, have been small compared to the volume of marketed output of maize. Thus, if EGTE is not able to aggressively involve in the purchase and storing of maize supplies, risks in the maize market will continue to be high and this will be detrimental to all market actors, including producers and consumers.

Another factor that has a far-reaching consequence on the maize market is the likely shift from food to total cash wage payment to PSNP beneficiaries by the GoE and donors. As discussed earlier, the expected change in wage payment to PSNP beneficiaries will result in massive cash transfer to rural areas, particularly to the PSNP rural areas where there is normally structural food deficit. This in turn will increase food demand that should be met through inter-regional transfer. The large food demand in the PSNP rural areas can not be met by EGTE and CUs alone; rather it would require the active participation of the private sector, particularly the private wholesalers in the surplus and

deficit areas of the country. In order to help CUs play a significant role in the inter-regional maize trade, their capacity needs to be significantly upgraded.

5. CHARTING THE WAY FORWARD: SUSTAINABILITY AND UPSCALING POTENTIAL OF P4P

5.1 Measured or perceived impacts of the P4P pilot in Ethiopia

P4P is expected to have short, medium and long-term benefits. Among the short-term benefits are:

- **Financial relief of the poor** through increased farmer's income and access to improved production technologies.
- **Platform to overcome market imperfections** by increasing market transparency and supply chain efficiency, facilitating access to credit, and reducing post-harvest losses.

A study carried out to estimate the effect of P4P-Ethiopia purchases of beans on the level and variability of local market prices concludes that the price effect, although positive, is rather modest (MSU, 2013). Therefore, it adds that potentially P4P's major contribution to market development will be through systemic effects attained via the enhanced purchasing practices (e.g. stringent quality requirements, logistics improvements and increased market transparency). The study also suggests that P4P's direct effect on farmers and consumers is likely to be modest. The study refers to beans exclusively, whereas white maize is the main commodity purchased by P4P-Ethiopia.

As the core of P4P's activities is concentrated in the 2012/13 crop season it is premature to predict what are their medium-term effects on production and producer prices. There are two additional elements that make this analysis unfeasible. First, P4P purchases up to now represent less than 1 percent of the tradable maize volume (the marketable surplus of maize is roughly 18 percent of total production, or one million tonnes), and therefore, have a limited capacity to affect the market one way or another. To help put things into perspective, total WFP local purchases range from 6 to 14 percent of tradable maize surpluses. All else being equal, if WFP were to achieve its target of half a million tonnes of maize, it would solely handle 50 percent of the maize marketable surplus. However, if as envisaged by AGP grain production were to double, WFP would play an indispensable role as one of the main market outlets with capacity to absorb such growth in such short period of time.

Second, as P4P works exclusively at the level of CUs, it is practically impossible to trace back which farmers in particular (members of the PCs) have sold their maize to P4P. The impact analysis would have to be more general, and causality would be less straightforward. More than in quantitative terms, the impact of P4P stands more on the grounds of: i) **demonstrating the viability of procuring large volumes from smallholder producers**; ii) **catalyzing a business mentality change**, by showing cooperative managers and members that they can earn more by improving quality standards and supply management and nurturing collective action; and iii) **linking cooperatives with financial institutions**, creating trust among them and building a favourable credit record that would open the door for cooperatives to finance other future ventures.

Thus far P4P's market quota is small, but it can become significant in the 2013 and subsequent crop season. At that level there could be real risks of crowding out private traders. The cooperatives interviewed are still selling part of their production to traders, and they intend to keep on doing so as a way to diversify and reduce commercial risks.

In addition to these medium-term benefits, P4P may generate long-term benefits that include:

- **Agricultural development** owing to an increase in productivity and quality of agricultural production, as well as to an improved management of natural resources.
- Creation of an **enabling environment** that strengthens sustainable institutions, increases employment and provides a more stable market demand.

A more systematic approach to measure the impact of the pilot on price stabilization (effect on farmers and consumers) and the development of a broad enough supply base (farmers, processors and traders) will be implemented in 2014.

During the field visits it was difficult to assess the satisfaction of stakeholders, not only because of time and methodological limitations, but to the fact that CU managers indicated that this was their first year of collaboration with P4P. They added that although the interaction with P4P has been satisfactory thus far, it was too soon to tell about longer-term benefits for the cooperative. The same applies to the level of satisfaction of supply-side partner that started their collaboration with WFP/P4P last year.

5.2 Some indications on sustainability from the pilot P4P phase

One of the most important factors in the development of a sustainable initiative such as P4P relies on building capacity. This has been achieved with the current P4P farmers, as they have had to improve their techniques to comply with quality and safety standards requested by WFP. However, it is well accepted by capacity builders and agricultural educators that technology transfer to be sustainable should not be a “one time” approach, and requires mentoring for certain time, monitoring (i.e. technology transfer to younger generations) and updating.

The high quality of products obtained by P4P farmers has allowed them to look beyond the short-term business and beyond a small number of buyers. However, the know-how CUs have acquired on production and post-harvest handling, does not guarantee sustainable production of food in an efficient way across the food system. In particular, any change hindering farmers’ access to seeds, fertilizers and/or financial services will likely debilitate the model. Moreover, a sudden withdrawal of technical support would be of great concern. In fact, a gradual phase-out of the current technical service in the initiative is needed for achieving long-term positive impacts. The role of the public extension body may become essential to give continuity to the model and to identify future emerging needs.

WFP and P4P are already collaborating with large traders. The sustainability of a P4P scheme requires to a certain degree the training of large traders. Business as usual should not be the norm. P4P does not provide a faster purchasing mechanism than those offered by private traders. However, the clear rules in procuring are appealing to the market actors.

The parastatal EGTE, the largest maize domestic buyer in Ethiopia together with WFP, has not adapted the P4P model of buying from small-scale farmers. EGTE operates as one of the key players in this chain, as it centralizes public domestic procurement and imports of grains for three main end-users: the national food reserve, school feeding and safety net programmes. Three factors may limit the willingness and/or ability of EGTE to adopt P4P’s smallholder-friendly model. First, by law, the GoE procures through standard bid processes, on an open and competitive tender basis that is not particularly friendly with small-scale farmers, traders and agro-industries. Second, public institutional buyers favour imported wheat (and secondarily tef) over maize. There could be, however, more interest in introducing pro-smallholder procurement practices for buying locally-produced tef/injera. Third, EGTE is currently placing much emphasis on marketing export crops (coffee, sesame and white haricot beans), leaving grains on the second place.

5.3 From pilot to mainstream

From an operational point of view, the learning component of P4P pilot phase ends in December 2013; but an extension until the end of 2014 has already been funded by the Melinda and Bill Gates Foundation. In this pilot phase, P4P has put in place a series of market mechanisms and upgrading strategies for sustained access of smallholder farmers to higher-paying market channels. P4P has

proven that, with proper support, CUs can deliver on large FDCs. The “forward” element of these contracts – which relies heavily on WFP’s food purchase facility– is essential to unlock participation by other players in the value chain, such as local financial institutions. As WFP/P4P has demonstrated, institutional procurement from smallholder farmers can be leveraged to help develop the elements illustrated in the figure below.

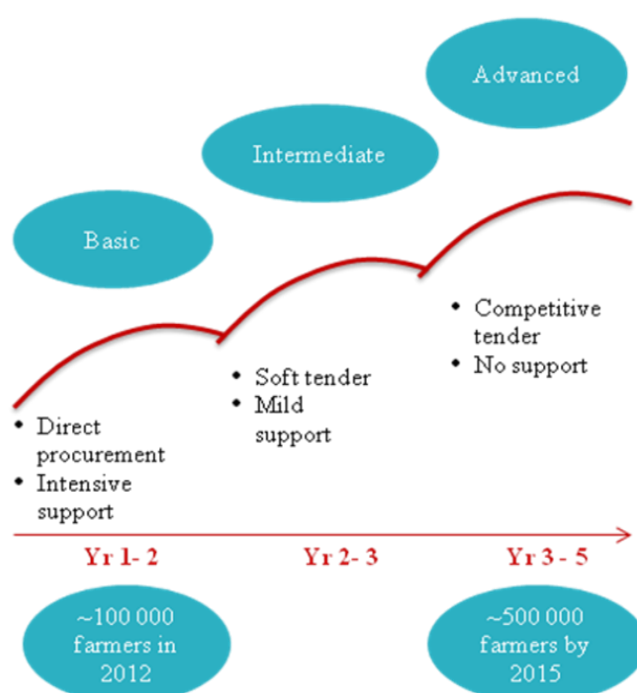
Figure 9: Value chain improvements triggered by P4P

A	Structured demand • Forward contracting with producers • Collaboration with financiers to ensure timely and cost-effective aggregation • Collaboration with other value chain participants to optimize production and aggregation • Improved reliability of production, enabling a transition from food aid to food assistance
B	Transparency within the value chains • Use of WFP purchasing power to encourage transparency across the various levels of the marketing chain, down to farm gate • Increased reliability and traceability of product going forward
C	Commercial-scale aggregation capability • Development of a local pool of aggregators with the ability to fulfill large commercial contracts • These actors could fulfill large-scale demand from both public and private sector players, as well as domestic and regional markets

Source: WFP, 2013.

In the final months of the pilot, P4P is focused on helping the targeted CUs move along the graduation path shown in Figure 9 i.e. going from direct procurement to competitive tendering, while phasing out support and technical assistance.

Figure 10: CU’s graduation path



Source: WFP, 2013.

WFP is currently preparing, and is about to negotiate with donors, a proposal for a second phase, in collaboration with ATA and other partners. The central idea behind this proposal is to expand P4P coverage from the current 16 CUs to more than 162 agricultural CUs across the country. Such upscaling would prove challenging because of the ambitious scope of the project (a tenfold increase in the number of CUs served) and because of all the difficulties faced in the initial phase in spite of the low-hanging-fruit strategy (working with high-capacity CUs) followed.

Another constraint faced is that other market innovations originally contemplated to aggregate large commercial volumes of maize and other selected crops, such as operating through commodity exchanges and warehouse receipts, are not feasible in the Ethiopian context. The ECX, established in 2008, initially focused on grains and pulses, but trading amounts were negligible (less than US\$0.8 million in 2008). In 2009, unable to make ECX viable through trade in primary grains, the GoE suspended the coffee auction floor, confiscated 17 000 tonnes of coffee from 80 exporters and channelled them through the exchange (IFPRI, 2010c). Besides coffee, other two export commodities (sesame and white beans) are currently being traded through the ECX, with the support of policies discouraging export through other arrangements (ibid). Similarly, Ethiopia has already established a WRS operated by the ECX, but only for selected commodities, which are not the target of P4P.

Finally, the prevalent ban to export maize may impact the way P4P can promote a sustainable initiative. Excess local offer, and subsequent effect on prices, could shift the interest of producers towards other activities. The GoE needs to have in place an efficient market surveillance system that allows lifting the ban when conditions change. Nevertheless, a local production linked to the export market has commonly been recognized as a promoter of high-quality products, something that Ethiopian farmers have achieved through participation in the P4P initiative. The sustainability of the assessed model also partially depends on the existence of various buyers, from elsewhere, that demand high quality standards.

5.4 Strategies to address outstanding issues going forward

For the upscaling strategy to work, it should go in hand with the following corrective/improvement measures, namely:

- **Further strengthening of CUs is required.** P4P CUs need more stable and intensive support to be able to become business and marketing centres, as committed by P4P to the Gates Foundation. Making the role of the cooperatives simple and transactional will reduce the capability and governance burden required to run them effectively.
- **Working beyond CUs: capacity building at farm level should be considered.** P4P aims at strengthening the capacities of CUs, but capacity building activities at farm level are rather limited. Extension services on productive issues are provided by the MoA and FAO/PAA (2 PCs of the 623 covered by P4P). The trickledown effect from the CU to the grass-root organization membership is not guaranteed, and needs to be constantly monitored and followed up.

The pilot phase of P4P has proven that finance and technical assistance to CUs are paramount but not enough. Support at farm and PC levels needs to be in place for the aggregation and logistics to work out all along the value chain. However, the magnitude of the required support system to provide productive assistance and inputs (seeds and fertilizers) to the 100 000 maize farmers targeted in the first phase is enormous. Even harder to imagine is the amount of resources needed in the second phase, with a tenfold increase in the number of cooperatives and farmers supported.

Box 5: Provision of more stable and intensive support to cooperatives

- ✓ In spite of the training received in business management, project leadership, post-harvest management and handling practices, CUs still require closer mentoring and support to increase their managerial capabilities. This does not invalidate the initial assumption stating that earlier on, P4P-targeted unions would necessitate significant amount of on-the-ground management support, which then could be gradually phased out. It rather implies that it takes longer than expected for CUs to “graduate” out of the scheme. One of the reasons for this is that members still do not seem to trust the organization of the cooperatives, which was raised as one of the most important cultural constraints to overcome. A training programme should be systematic enough to contemplate cultural and social issues that may be the basis for this level of trust from cooperative members.
 - ✓ The support to the CUs has to be more stable, which implies minimizing the number of CUs that exit the scheme. A good incentive for CUs to join and stay in P4P is to have access to the banking system, as in the experience with the CBE.
 - ✓ The functions performed by the cooperative system need to be further streamlined in order to simplify the management and decision making required, and appeal to farmers. Cooperatives can benefit from adopting a new management structure (improved managerial skill, simplified approach, limited decision making required) and have access in early stages of production with finance support.
 - ✓ Moreover, checks and balances need to be put in place to avoid political interference in the CU management: the leaders of cooperatives are essentially assigned by the government. This causes high manager turnover and lack of autonomy to make business decisions. Without a proper risk management strategy, P4P’s approach of focusing solely on building the capacities of CU managers, who are frequently replaced for political reasons, might yield insufficient results.
 - ✓ Furthermore, CUs still need to improve their marketing and storage infrastructure to be able to aggregate maize at commercially viable levels. The infrastructure to store product lacks in most of the producers and even at the PCs. Most of these producers are farmers with less than one hectare that subject product to sun drying and manual cleaning. A great deal of investment on warehouse storage (with funds from donors) at farm, PC and CU levels is required. Warehouse improvements will help to reduce post-harvest losses of grains; while there are no recent studies that have quantified such losses, the common belief is that they can be as high as 30 percent. Grain-Pro type of vacuum storage material, plastic silos and metal silos are currently the options available in Ethiopia for small-holder storage. However, unless it is donated the farmers will unlikely consider this investment.
- **Contract design issues should be corrected in subsequent purchasing agreements.** P4P has found that determining and agreeing upon the final purchasing price is tricky and time-consuming, because of poor market information and general misunderstanding of forward contracts. For example, CUs have misinterpreted in the past the price formula based on the reference price of maize on the Chicago Board Options Exchange (CBOE), and thought they were been offered the same price of the CBOE. Moreover, there have been some problems with contract design, particularly with article 7 of the contract that underestimated some costs to be covered by the Unions, as the rampant inflation and the absence of economies of scale were not duly taken into consideration.
 - **Bringing closer CUs and financial providers should be top of the agenda.** P4P has proven that zero-collateral output financing is possible, but requires significant coordination between the buyer (WFP), government agencies (ATA), public and commercial banks, unions, and management service providers. Banks are extremely reluctant to extend credit to individual farmers for maize production. And they also consider lending to CUs –and other domestic

market-oriented agribusinesses— to be particularly risky; in part this is due to the bank's lack of understanding of the crop and of this type of organization. This problem is compounded by the lack of creditworthiness among unions, largely due to problems experienced in input distribution. CUs are mandated by the GoE to buy seeds for distribution among their membership. The unions cannot decide autonomously on the amount of seeds to purchase, but have to accept the estimate of the corresponding Bureau of Agriculture. CUs borrow money to make this business happen, but if overestimation occurs – as it often does– the Unions bear all the risk and might end up defaulting on their loans. Two improvements to overcome this problem are on the making. The first one is to eliminate this inadequate forecasting system to allocate seeds and fertilizers by opening up input distribution to market forces, as foreseen in the recent Seed Proclamation. The second improvement is pushing for independent audits for cooperatives with separate records of inputs and outputs.

- **Developing backward and forward market linkages** (e.g. input, equipment and related services provision) **deserves further attention.** Input delivery, output logistics and especially transfer technology to members and to the administrators of the cooperative are constraints that managers also perceive in their work. In fact it has been a problem to deliver seeds and fertilizers to member in times, which at times have to be stored for the next year.

Box 6: Helping CUs overcome inputs distribution limits and create backward and forward market linkages

- ✓ The availability of seed is one of the biggest limitations for the agrifood development in Ethiopia, and for the maize value chain in particular. It is important for cooperatives to supply producers with standardized input packages at widely publicized prices and to buy maize (and other cereals) at competitive and transparent prices to be passed along to a larger buyer (for example, regional trader), with clear incentives for product quality. This requires addressing the issues of shortage of basic seeds and farmer's access to seeds. Currently there are only five seed enterprises in the country: the Ethiopian seed enterprise and four regional seed producing enterprises; plus a limited participation of private seed producing companies. The GoE has discontinued its credit scheme for seeds purchase. Consequently, nowadays farmers do not have access to public or commercial funding for input provision. Input assemblers, working closely with Ethiopian Seed Enterprise (ESE), the Ethiopian Institute for Agriculture Research (EIAR) and their regional office, will be needed to package inputs and distribute to cooperatives. The Ethiopian Integrated Seed Sector Development (ISSD) Programme might play an important role in this sense, as it envisions the development of a pluralistic seed sector so that quality seed of superior varieties are available to a larger number of farmers. The Programme, financed through the Embassy of the Kingdom of the Netherlands, should involve the development of enabling policies some of which are currently in discussion.
- ✓ High potential cooperatives in main maize areas should be selected and linked to large buyers who can take advantage of the primary aggregation offered by cooperatives. An alternative vision includes revitalized aggregators with simplified and standardized transactions with farmers: standard input packages and credit facilities, simple off-take arrangements based on transparent pricing linked to the market and close links to extension.

- **Removing current shortcomings of public P4P-implementing partners.** Ethiopia has one the most populated body of agricultural extensionists, which is certainly a great foundation for a

Box 7: The role of public partners in the implementation of P4P

Public support offered to assist P4P-supported CUs in farmer implementation of input packages and off-take, including business administration and commercialization, is close to inexistent. This weak involvement can be explained by a number of factors, including:

- ✓ Lack of targeting, as services are equally provided to members and non-members of P4P-supported CUs.
- ✓ In most cases the DAs of the Bureaus of Agriculture and Cooperatives have no resources to access farmers. Moreover, there are contradicting opinions on whether the expertise of these professionals is adequate for the tasks, as some consider their functions as quite specific, serving more as political pawns and collectors of information.
- ✓ The work of regional research centres is rather disconnected from the extension system, and from the work of the private sector for that matter. Changes to overcome these gaps are being gradually introduced. Moreover, the role of public universities in innovation has traditionally been non-existent, serving mainly as education for students. However, during the last few years some of the regional universities have initiated programmes of applied research for growers.
- ✓ Furthermore, extension and research, like most GoE interventions, still favour food-security-oriented approaches. This determines an emphasis on: i) food crops, especially cereals, leaving out cash crops; and ii) production, technology and food security, with little attention being paid to agricultural marketing.
- ✓ Lack of shared vision: the Bureaus of Agriculture and the FCA fail to see CUs as businesses that generate profits, compete in markets (with private traders) in equal conditions, and have access to commercial finance (as opposite to receive more contributions from members). ATA is trying to catalyze mindset change towards a more entrepreneurial culture among public officers.

Possible solutions to overcome these challenges:

- ✓ ATA is currently overhauling the national extension and research systems. More time is needed for these efforts to pay off.
- ✓ An additional approach that could be put in practice is to create a sub-programme under the public extension system to provide targeted assistance to the P4P-supported CUs and their grass-root membership. Such programme should start with a clarification of the vision and mandate, a training strategy to upgrade the skills of the extension agents, and adequate budget allocation to ensure the mobility of the DAs.
- ✓ Another solution that has been proposed for addressing the issues of lack oversight, training, accountability and resources facing the CDA is to promote the secondment of these officers to ATA. The challenge would be how to get these CDAs once trained back to the cooperative system, as the sustainability of this mechanism is the key for the future consolidation of the cooperatives with the market.

solid technology transfer national programme. Despite the large amount of extensionists it is interesting that for the P4P initiative direct support from the government through their extensionists is rather feeble. See Box 7 for further insights into this topic.

- **Systematizing the technical support provided by other P4P-supply partners.** The P4P initiative in areas of post-harvest technology and agribusiness is mainly being provided through TechnoServe, ACDI/VOCA and SG2000. While there is no doubt the service sourced has been successful up to the time of this report (based on the fact that very little product has been

rejected by P4P) it would be interesting to determine if a more systematic plan of technology transfer (with an inclusive approach that involve all actors affected) could be something in which FAO could play a role, both in planning and implementing.

- **Crafting strategies to guide CUs towards gender equality is a priority.** WFP and IFAD have held some discussions regarding a gender project proposal created in parallel to the P4P to address gender inequality. The project includes awareness creation, training targeting specific government officials, economic empowerment to allow selected female farmers to invest in the value chain and other income generation activities through SACCOS and revolving funds. Assessing the impact of the programme on gender equality should not be limited to participatory indicators.

5.5 Expanding FAO/WFP cooperation on P4P Ethiopia

FAO's contribution to P4P II-Ethiopia could be built around four main thematic areas:

- 1) Institutional strengthening on agribusiness to farmer organizations.
- 2) Leading technical provision to farmers.
- 3) Facilitating access to finance.
- 4) Policy advocacy to increase the performance of the Ethiopian agrifood system.

Institutional strengthening on agribusiness to farmer organizations

Most of the P4P activities relate to strengthening the collective capacity of smallholders to aggregate in order to meet the quality and quantity requirements of WFP and other formal buyers. This approach has been *ad hoc* with varying levels of quality of service provision – depending on the partner contracted to work with the CUs. As the approach has not been institutionalized or up-scaled across the agribusiness services sector, the results may also be short-lived and not sustainable. Possible interventions proposed by the key informants and discussed during the mission were:

- Based on a consolidation of all of the training materials and officer expertise that FAO has accumulated over the last decade on strengthening CU's role in the value chain, a uniform programme of work could be customized for maize and P4P II.
- To ensure that the approach has buy-in from public and private institutes and service providers, and to accelerate its impact on the professionalization of CUs in these markets, FAO and WFP/P4P could work with relevant ministries and institutions (ministries of agriculture, cooperatives, education, commerce, agricultural universities and technical colleges) to identify activities of support for upgrading the service provision on agribusiness for the sector.
- Based on training materials and guidelines from the contract farming resource centre¹⁴, service providers and target institutional buyers under P4P II could be trained in the development and implementation of different smallholder friendly contract models. The purpose of this action is to overcome two major challenges for P4P I: side-selling of contracted produce by smallholders for immediate cash needs; and the *ad hoc* formulation of contracts depending on the in-country expertise on the topic, with the development of different contracting modalities often brought in mid-way or close to the end of the pilot.

The mission findings pointed out the need to go deeper in the intervention and extend the agribusiness mentorship and support to the PCs. By doing so, P4P II would become closer to smallholder farmers and it is likelier to impact on their livelihood; it would also improve the efficiency all along the value chain, increasing the capacity of CUs to comply with P4P contracts. If this proposal is considered under P4P II-Ethiopia, it should be accompanied by the necessary budget allocation.

Provision of technical assistance to smallholder farmers

From the discussions held in Ethiopia it appears that WFP perceives FAO as a supply-side partner that provides training and technical assistance to farmers. In P4P I, FAO has tried to fulfil this role on the basis of the resources available. In Ethiopia, aside from sporadic trainings, FAO's main contribution

¹⁴ <http://www.fao.org/ag/ags/contract-farming/en/>

has been the PAA, programme with a rather limited coverage: about 1 percent of the farmers linked to P4P. Moreover, crop production extension does not go very far if farmers do not have access to improved seeds and fertilizers to make the enhanced technological package work. This is why FAO through the PAA has combined technical assistance with input provision. By all means, it is a rather expensive and personnel-demanding intervention. Brazil is considering a follow-up phase of the PAA Ethiopia, up-scaled to cover a larger number of cooperatives and schools. This could be a significant contribution of FAO as a supply-side partner to P4P II.

During the mission, a question was raised recurrently: is it viable for FAO to actively engage in this scheme given the sheer magnitude of financial and human resources needed to provide technical assistance on productive issues to millions of smallholder producers? In the pilot phase the target for the final year is 500 000 farmer beneficiaries; in P4P II this number could be multiplied by 10, i.e. almost two thirds of the total number of maize farmers in the country.

This dilemma is not easily solved. The scoping mission showed a disconnection between CUs and the smallholder farmers selling to them (via PCs), and led to acknowledge that it cannot be automatically assumed that P4P support to CUs will necessarily trickle down to the grass-root membership. This could be addressed to a large extent by including PCs in the agribusiness training programme, together with the CUs to which they belong.

If the Gates Foundation and other potential donors decide to be serious about the provision of multidisciplinary extension services to farmers selling to P4P, they would have to allocate a massive pool of resources to this component. Even in that scenario, FAO could not single-handedly implement this activity. It could, however, form a consortium of technical assistance providers, both public and private, under its leadership and guidance, and could provide a standardized training programme on crop production and post-harvest management on the basis of available materials adapted to the commodity and country needs.

Enhanced access to finance for cooperatives and their members

In the pilot phase P4P has employed an *ad hoc* approach to service provision on capitalization of coops and brokering linkages with local banks. A programme of work could be designed jointly by FAO and IFAD on the identification and brokering, or if needed, the design of smallholder friendly financial products, which can be customized to Ethiopia and can be implemented in collaboration with national or regional banks.

The work programme could also involve capacity building for local financial service providers and banks based on new products developed. It could also help to fully operationalize the FDC scheme to provide further incentives for cooperatives (with large enough orders) to invest in the equipment and operational procedures needed to meet the requirements of P4P, but also of other large buyers.

Policy advocacy to increase food system performance in Ethiopia, and guide its evolution towards more market-oriented approaches

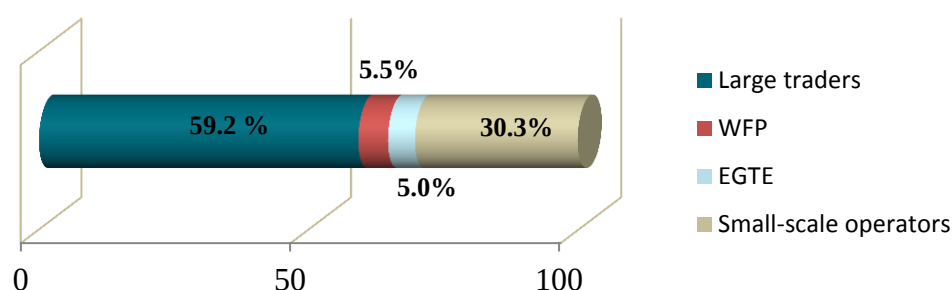
In its quest to promote a more market-oriented food system, Ethiopia has become an extremely active country in the policy arena. The momentum for policy and systemic change has accelerated with the creation of ATA, and should be kept up. P4P II could and should play a key role in building up the momentum and ensuring the wider institutional framework (MoA and other related ministries) “buy in” to the changes. For FAO to display an “aggressive” and continuous policy advocacy to ATA (and EGTE and the GoE in general), it would need to set up a different type of engagement (one fully dedicated and high-profile person at the FAO office in Addis), which has to be planned since early in the next stages.

One possible area of dialogue would be the adaptation of the P4P approach to the national public procurement system. The P4P is unique in the sense that it is the only large institutional buyer of food to have embarked on a smallholder friendly procurement programme. Through this initiative WFP leverages its institutional purchasing power and its status as a reliable and preferred buyer as an incentive for stimulating production and improving the role of smallholders in formal markets. Several changes have taken place or need to take place within WFP in order to procure more from smallholders; for instance changes in payment practices; logistics and transport mechanisms. These changes still need appropriate systematization. A consultation process could then start in Ethiopia with EGTE and other potential large buyers of grains, which could be interested in adapting a similar approach and could learn from WFP's experiences.

5.6 Overall conclusion

In 2012 WFP held a market quota of 5.5 percent of the maize marketed in Ethiopia. The second largest player was EGTE with a 5.0 percent quota. Large-scale private traders, as a group, reached a market quota of 59.2 percent. The remaining 30.3 percent corresponded to small-scale operators.

Figure 11: Maize market share



Source: CSA, WFP and EGTE databases.

P4P purchases up to now represent less than 1 percent of the tradable maize volume, and therefore, have a limited capacity to affect the market. Moreover, the fact that the core of P4P's activities is concentrated in the 2013 crop season makes even more difficult the prediction of their effects on production and producer prices.

P4P's ability to influence the procurement model of EGTE (the only public buyer of grains and the second largest institutional buyer of cereals in Ethiopia) to make it more smallholder-friendly is limited. EGTE is principally oriented to the international market (imports of wheat and exports of coffee, sesame and white beans) and consequently does not have much incentive to increase its local purchases of grains from smallholder farmers. Furthermore, the EGTE makes extensive use of the EXC, which thus far is only used by large-scale traders and exporters.

Moreover, P4P's direct influence on individual large traders is also restricted. They do not necessarily require the same quality standards nor share the preference of procuring from smallholder farmers. However, P4P can indirectly impact on the procurement system of large grain traders by strengthening the capacity of CUs to supply these traders.

More than in quantitative terms, the impact of P4P stands more on the grounds of: i) demonstrating that it is viable to procure large volumes from smallholder producers; ii) catalyzing a business mentality change, by showing cooperative managers and members that they can earn more by improving quality standards and supply management and nurturing collective action; and iii) linking cooperatives with financial institutions, creating trust among them and building a favourable credit record that would open the door for cooperatives to finance other future ventures.

Plans for upscaling the pilot P4P initiative in Ethiopia are very ambitious, in line with the national agricultural strategy. These plans involve a tenfold growth in the number of CUs and farmers targeted by the initiative. Such target cannot be achieved in a business-as-usual scenario: profound changes (both in P4P initiative's design and in the national input and extension systems) and a deeper commitment by all stakeholders involved will be needed.

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ANNEXES

Annex 1: List of key informants interviewed

Name	Job Title	Employer
Enrico Pausilli	Ethiopia P4P Coordinator	WFP
Fatai Adegboye, Stephen Cahill, Intisar Birkia	WFP Finance, Logistics and Procurement team	WFP
Getaw Tadesse	Postdoctoral Fellow	Easter & Southern Africa Regional Office. IFPRI
Alex Pavlovic	Sr. Public Private Partnership Advisor	ACDI-VOCA
Heather Oh	Business Development Manager, East Africa	Techno Serve
Engidu Legesse	General Manager	Guts Agro Industry
Berhane Hailu	General Manager	Ethiopian Grain Trade Enterprise
Zeco Ebro	FAFFA	Director General
Bedru Dedgeba Ejabo	Deputy Director	FCA
Kassahun Bekele	General Manager	ACOS ETHIOPIA
Solomon Gelalcha	Centre Director	EIAR
Felix B.F. Gomez	Senior Deputy Country Director	World Food Programme
Pascal Joannes	Director Value Chains Wheat, Maize & Barley	Ethiopian ATA
Jason Yauney	Strategy & Operations Manager	International Food Policy Research Institute
Flávio L.M. Freitas	Consultant	PAA Africa Programme
Ehil Berenda	Manager	Association of traders at the Addis market
Ato Zeko Zera Tsegaye/Aklilu Assefa	Manager	Faffa Food processing factory
	Director, Business and Corporate Customers Relationship Management	CBE
		Ministry of Agriculture – Extension department
Berhanu Wolde Michael		PSNP
Sirak Hailu		Food Security Reserve Administration
Birhane Haile		EGTE
Ato Smauel and Ato Getahun		Ministry of Trade -Agricultural Marketing Department

Annex 2: Import parity price versus local price of maize.

Cost Component	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate (Birr/USD)	17.3	17.3	17.4	17.4	17.6	17.7	17.8	17.9	17.9	18.0	18.1	18.1
F.O.B prices (US Gulf port)	275.0	279.0	280.0	273.0	269.0	268.0	330.0	328.0	323.0	320.0	324.0	310.0
Ocean freight (USD/MT)	42.0	36.0	35.0	36.0	39.0	40.0	42.7	39.0	34.0	30.0	38.6	34.3
Insurance; 1% of f.o.b (USD/MT)	2.8	2.8	2.8	2.7	2.7	2.7	3.3	3.3	3.2	3.2	3.2	3.1
C.I.F -Djibouti (USD/MT) (1+2+3)	319.8	317.8	317.8	311.7	310.7	310.7	376.0	370.3	360.2	353.2	365.8	347.4
USDA Commodity Cost CIF Djibouti (Birr/Quintal)	551.6	550.1	551.9	543.3	545.3	549.1	669.2	662.0	646.1	635.9	661.2	630.5
Customs duty (5% of 5)	27.6	27.5	27.6	27.2	27.3	27.5	33.5	33.1	32.3	31.8	33.1	31.5
Sale tax (5% of 5+6); VAT 15% as of Jan 2003	29.0	28.9	29.0	28.5	28.6	28.8	105.4	104.3	101.8	100.2	104.1	99.3
Port handling charges (Birr/Quintal)	39.7	39.8	39.9	40.1	40.4	40.7	40.9	41.1	41.3	41.4	41.6	41.7
Transport cost-Djibouti to Addis Ababa (Birr/Quintal)	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Unloading cost (Birr/Quintal)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Miscellaneous (5% of C.I.F)	27.6	27.5	27.6	27.2	27.3	27.5	33.5	33.1	32.3	31.8	33.1	31.5
Import parity price of Yellow maize in Addis (Birr/Quintal)	759.4	757.7	760.0	750.3	752.8	757.5	966.5	957.6	937.7	925.0	957.0	918.6
Domestic wholesale price of white maize in Addis (Birr/Quintal)	429.0	479.0	477.0	476.0	475.0	517.0	541.0	518.0	538.0	517.0	542.0	461.0
Domestic price as % of IPP	56%	63%	63%	63%	63%	68%	56%	54%	57%	56%	57%	50%

Note:

1. FOB price of US #2 Yellow maize- Gulf ports has been used (source Monthly Food Outlook)
2. Ocean Freight is taken from FAO Outlook Report
3. Exchange rate source = National Bank of Ethiopia, Quarterly Bulletins
4. Insurance 1% of FOB - Assumption
5. Port handling Charges source : Galaxy (includes shore handling, port dues and, cleaning & forwarding costs)
7. Domestic wholesale price of wheat source:EGTE
6. Inland transport cost: Source: Axis PLC

