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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eighty-Third Session

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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR THE

AGRICULTURAL MARKETING IMPROVEMENT PROGRAMME

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CURRENCY EQUIVALENTS

Currency Unit	=	Ethiopian birr (ETB)
USD 1.00	=	ETB 8.70
ETB 1.00	=	USD 0.12

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

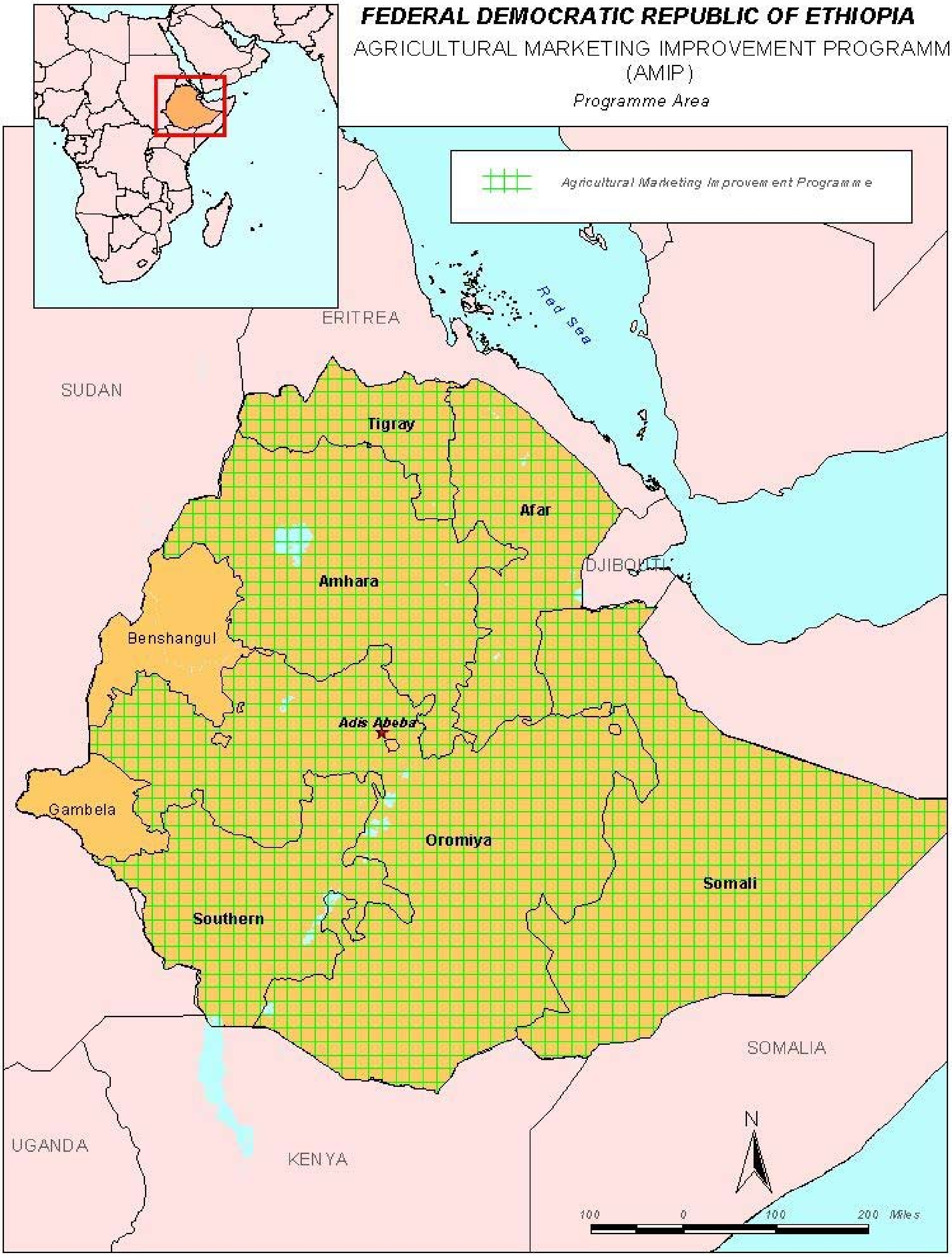
AMIP	Agricultural Marketing Improvement Programme
GDP	Gross domestic product
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
MoARD	Ministry of Agriculture and Rural Development
RPCMU	Regional Programme Coordination and Management Unit
SDPRP	Sustainable Development and Poverty Reduction Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development

GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

Fiscal Year

7 July – 6 July

MAP OF THE PROGRAMME AREA



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FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

AGRICULTURAL MARKETING IMPROVEMENT PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Federal Democratic Republic of Ethiopia
EXECUTING AGENCY:	Ministry of Agriculture and Rural Development and regional governments of Amhara, Oromiya, Tigray and the Southern Nations, Nationalities and People's Region
TOTAL PROGRAMME COST:	USD 35.1 million
AMOUNT OF IFAD LOAN:	SDR 18.2 million (equivalent to approximately USD 27.2 million)
TERMS OF IFAD LOAN:	Forty years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
CONTRIBUTION OF BORROWER:	USD 7.9 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROGRAMME BRIEF

Who are the beneficiaries? The beneficiaries of the Agricultural Marketing Improvement Programme comprise of rural households living in the main surplus grain and coffee producing areas, in addition to the food-insecure regions of Ethiopia. With an average daily per capita income of about USD 0.30, most of them cannot afford to meet the minimum daily calorie intake of 2 200 kcal recommended by the World Health Organization. The beneficiary households are characterized by a high incidence of stunting among children due to malnutrition, compounded by an equally high infant mortality rate of 112 per 1 000 live births. They also have limited access to basic social services such as rural roads, primary health care, education and safe drinking water. The average size of the beneficiary households is 5.2 persons. About 20% of the beneficiary households are headed by women.

Why are they poor? Poverty among the beneficiary households can be attributed to a weak and inefficient agricultural marketing system that has successively failed to cope with surplus grain production; the decline in international coffee prices; high post-harvest crop losses of up to 30%; underdeveloped transport and communication networks and exorbitantly high transport and marketing costs; increasingly frequent drought-induced famine; the predominantly low-input, low-output, rainfed production systems; the small size of farm land (averaging 1 ha per household); limited access to essential support services, including irrigation, financial services and improved farm inputs; environmental degradation; population pressure and a high dependency ratio; and the lack of alternative income-generating opportunities.

What will the programme do for them? By improving the national capacity for policy analysis and strategy formulation in agricultural output marketing, the programme will contribute to the stabilization of domestic grain prices within and between years that is critical in encouraging the majority of smallholder farmers to increase production and thereby safeguard and increase household incomes. Since grain is the main staple food, price stability will translate into better household food security and reduced poverty among low-income households in both rural and urban areas that are net buyers of food. The adoption of improved processing, storage and transport technologies, combined with improved grades and standards, will reduce post-harvest crop losses and increase the returns to farmers. The establishment of a forward coffee auction and exchange controlled by stakeholders, together with the decentralization of coffee processing and marketing to growing regions, will further raise the price that smallholder farmers receive for their coffee by encouraging them to improve quality and reduce unit marketing costs, while enabling producers to exploit the niche market for Ethiopia's organic coffee in international markets.

How will the beneficiaries participate in the programme? Based on planned baseline surveys and training needs assessments, the programme will empower beneficiaries effectively to engage with and exploit emerging market opportunities. Beneficiaries will be sensitized and trained, inter alia, on post-harvest management, including the adoption of improved processing, storage and transport technologies; the access to and use of market intelligence; the importance of grades, standards and product quality; organization and group dynamics; business enterprise management; collective bargaining; contracting; the warehouse receipt system; and the dynamics of the human immunodeficiency virus/acquired immune deficiency syndrome in agricultural marketing. Beneficiaries will also be sensitized about the importance of the aggregation of production in order to gain a comparative advantage when dealing with markets through membership in informal and formal associations, cooperative societies, share companies, etc. The training sessions will provide beneficiaries with a forum for advocacy to improve trading regulations, taxation rules and licensing procedures. Equally important, beneficiary households will participate in the design, development and operation of rural assembly markets and in carrying out investments to improve post-harvest management.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA FOR THE AGRICULTURAL MARKETING IMPROVEMENT PROGRAMME

I submit the following Report and Recommendation on a proposed loan to the Federal Democratic Republic of Ethiopia for SDR 18.2 million (equivalent to approximately USD 27.2 million) on highly concessional terms to help finance the Agricultural Marketing Improvement Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one percent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Agricultural Marketing Sector

1. With a population of 68 million people, Ethiopia is the second most populous nation in sub-Saharan Africa. It is also one of the poorest countries in the world, with a gross domestic product (GDP) per capita of USD 90. Ethiopia ranked 170 out of 177 countries in the 2004 Human Development Index. Since 1991/92, the Government has been carrying out institutional and policy reforms geared to transform the country from a command to a market economy. In response to these reforms, GDP registered an annual growth rate of 5.8%, on average, for the decade ending in 2000/01. The agricultural sector, which accounts for about 45% of GDP, is dominated by cereal and coffee production. Agriculture is the main source of employment and income for about 85% of the population. It is also the major source of export earnings and raw materials for the industrial sector. In recent years, the contribution of coffee to export earnings has declined by nearly 50% due to low prices on the world market. The low growth rate of agricultural GDP, estimated at 2.6% per annum, which has barely kept pace with the population growth rate, can be attributed to an ineffective and inefficient agricultural marketing system, high post-harvest crop losses, underdeveloped transport and communication networks, drought, the predominantly low-input and low-output production technologies, limited access by rural households to support services, and environmental degradation. Because of wide fluctuations in agricultural production due to drought, there are significant fluctuations in GDP growth rates from year to year; the rate fell from 7.7% in 2001 to 1.9% and -3.9% in 2002 and 2003, respectively.

2. About 44% of the population live below the national poverty line. There are clear disparities between rural and urban areas. However, the low Gini coefficient of about 0.26 means that household incomes are rather evenly distributed in rural areas. Only about 24% and 15% of the population have access to safe drinking water and proper sanitation facilities, respectively. Infant mortality is high, at 112 per 1 000 live births, and the gross primary school enrolment rate is low, at 64%. Life expectancy at birth is low, at 42 years and falling due to the human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS) pandemic. An estimated 4.4% of the adult population is HIV positive. With the strong support of development partners, the Government has already embarked on major investment programmes to reduce the spread of HIV/AIDS, alleviate the impact of the pandemic and assist rural households in coping with its socio-economic effects.

[1] See Appendix I for additional information.

3. Until recently, public strategies, policies and investment programmes were mainly focused on increasing agricultural output. Little attention was paid to agricultural marketing. In order to eliminate this deficiency, the Government has recently restructured key institutions so that the responsibility for all agricultural production and marketing activities is now under the Ministry of Agriculture and Rural Development (MoARD). The objective is to improve the performance of agricultural markets in order to sustain the real incomes of rural households by stabilizing domestic grain prices within and between years.

4. **Grain Marketing**. The economic reforms undertaken by the Government over the decade have substantially reduced the Government's role in agricultural output marketing. However, the private sector remains weak, especially in rural areas, where the problems are exacerbated by poor infrastructure, highly fluctuating terms of trade, high transaction costs, the lack of market information, and inadequately developed financial services. Due to the very small scale of individual farm units, the predominantly subsistence orientation of farming and the typically small volumes traded at household and *kebele* (village) levels, it will also be important to strengthen smallholder engagement with markets. About 2 to 3 million t of grain, or 20% to 30% of total production, are traded per year. Although there is virtually no commercial importation of grain into Ethiopia, large quantities are imported as food aid, ranging from 561 000 t in 2002 to 1.5 million t in 2003. The importance of food aid in saving the lives of millions of people who are chronically food insecure or affected by drought-induced famine cannot be understated. However, at the farm level, the impact of increased supplies from food aid imports can be harsh, particularly in years of surplus production when prices are already very low and the effects are catastrophic on real farm incomes.

5. Streamlining the procurement of food aid should help to stabilize grain prices in a manner that will safeguard real incomes and encourage smallholder farmers to invest in improved production technologies. Because of the annual population growth rate of 2.7%, there is a strong case for expanded cereal production in Ethiopia. This has been recognized within the framework of the Sustainable Development and Poverty Reduction Programme (SDPRP), where it is envisaged that the agricultural sector must grow by at least 5% per annum in order to reduce poverty significantly by 2015. Implicitly, cereal prices must be predictable in order for smallholder farmers to increase production and encourage private traders to engage in spatial arbitrage.

6. **Coffee Marketing**. More than 95% of the four million bags of *arabica* coffee produced in Ethiopia annually are accounted for by about 800 000 smallholder farmers. While productivity is low, Ethiopian coffee is attracting a niche in international markets. Domestic consumption accounts for about 50% of total production. Coffee is exported through auctions in Addis Ababa and Dire Dawa, where much of the capacity to hull parchment, clean and sort green coffee is located. However, a limited number of cooperative unions have been licensed to export coffee directly without going through the auction. In order to increase returns to small-scale farmers, the Government has prepared a coffee development and marketing plan, which calls for increased production with improved management, improved quality differentiation and a major shift from sun-dried to washed coffee so as to realize significant price premiums in world markets. It also calls for the rehabilitation of post-harvest processing facilities, including the upgrading of existing facilities for hulling dried cherry, and the gradual decentralization of quality control and export processing to producing regions with a view to reduce transaction and handling costs.

B. Lessons Learned from Previous IFAD Experience

7. The Government and public sector agencies in Ethiopia will continue to play a prominent role in rural development into the near future. One of the key lessons learned is that the early and full integration of programme coordination, management and implementation arrangements into the decentralized institutional framework is critical for success and the sustainability of related investments. In addition to the enhancement of local ownership, such arrangements ensure harmony

with public strategies and policies in a manner that complements other donor investment programmes. They also provide a useful platform for local capacity-building that is cognizant of the unevenly equipped and prepared institutional capacities at the regional and local levels.

8. The second important lesson learned is that political stability and good governance are critical prerequisites to effective participation by beneficiary households in planning and implementation. Beneficiary ownership of programme investments is not only feasible, but a necessary condition for sustainability. Clearly, the overthrow of the *Derg* regime, followed by the abolition of “collective” producer cooperatives, paved the way for the establishment of member-owned community-based organizations. Community empowerment is an important pillar in the foundation for good governance, pro-poor advocacy and collective bargaining.

9. Third, experience shows that IFAD can prudently influence the direction of public strategies, policies and resources in favour of the rural poor even in a country setting such as Ethiopia, where public investments are necessarily comparatively large. IFAD collaboration with the Government and the International Food Policy Research Institute in undertaking a comprehensive overview of agricultural marketing has provided a useful platform for informed debate about the important role that an effective and efficient agricultural marketing system should play in the reduction of rural poverty.

C. IFAD’s Strategy for Collaboration with Ethiopia

Ethiopia’s Policy for Poverty Eradication

10. The fundamental objectives of the Government as enshrined in the SDPRP are to reduce poverty, while maintaining macroeconomic stability by building a free-market economy based on four main pillars: (a) agricultural-development-led industrialization; (b) reform of the justice system and the civil service; (c) decentralization and empowerment; and (d) institutional capacity-building in the public and private sectors. The SDPRP reflects a recognition that the performance of the agricultural sector must improve dramatically if Ethiopia is to meet the Millennium Development Goals by 2015. Recently introduced changes in land-user rights augur well for increased agricultural production on a commercial footing. The Civil Service Reform Programme aims to ensure the efficient and effective delivery of public services in support of buoyant economic growth.

11. The Government fully recognizes the severity of chronic food insecurity. In consultation with development partners, it has embarked on a ‘safety nets’ programme structurally to assist some five million people out of the ‘food aid appeal’ process through the introduction of cash-based support rather than food aid. This programme could therefore increase the demand for domestic grain purchases and encourage private sector investment in agricultural marketing. It should also reduce the volume of imported food aid and thereby contribute to the stabilization of domestic grain prices.

The Poverty Eradication Activities of Other Major Donors

12. The increased frequency of drought-induced famine has seen donors and non-governmental organizations become major players in grain marketing in Ethiopia. Since 2000, some aid agencies have increased their purchases from domestic sources. Historically, however, donor focus has mainly been on the importation and delivery of food aid, with little or no attention paid to the strengthening of the institutional framework for marketing domestically produced agricultural commodities on a commercial footing. In 2003 alone, the United States Agency for International Development (USAID) provided over USD 500 million in food aid, while funding agricultural development at a level of about USD 5 million.[2] USAID, the European Union and the French Government have supported the

[2] USAID, 2004, “Breaking the Cycle of Food Crises: Famine Prevention in Ethiopia”, May.

market information system managed by the Ethiopian Grain Trading Enterprise. The European Union has also supported the improvement of roads as an integral part of its assistance to the coffee industry.

13. Preparations are at an advanced stage for a Rural Capacity-Building Project funded by the International Development Association to strengthen capacity and expand the outreach of national agricultural extension services. The World Bank and a consortium of development partners are supporting Ethiopia's ten-year Road Sector Development Project, which aims to reduce the proportion of farmland that is more than a half-day's walk to an all-weather road from the current 75% to 70%. The United Nations Industrial Development Organization has provided limited support to MoARD in the training of smallholder farmers, particularly women, on group dynamics, post-harvest technologies and improved transport technologies. This support has shown that there is demand for post-harvest technologies. With substantial support from donors (including the Global Fund), the Government has developed a strategic framework for the national response to HIV/AIDS that is aimed at the reduction of the spread of the pandemic and helping affected households to cope with the socio-economic effects.

IFAD's Strategy in Ethiopia

14. The IFAD country strategic opportunities paper calls for the support of the investment programmes with the greatest potential impact on the sustained increase in household food security and incomes. In line with Ethiopia's SDPRP, the country strategy aims to enhance access by poor rural households to: (a) productive natural resources; (b) irrigation; (c) reliable financial services; (d) improved production technologies; (e) markets; and (f) complementary social infrastructure. Ongoing IFAD support includes: (a) the participatory generation and dissemination of improved agricultural production technologies under the Agricultural Research and Training Project; (b) increased access by rural households to reliable financial services under the Rural Financial Intermediation Programme; (c) the development of farmer-owned and managed small-scale irrigation schemes under the Special Country Programme; (d) improved livelihoods for pastoral communities under the Pastoral Community Development Project; and (e) the effective delivery of basic social services under the Southern Region Cooperatives Development and Credit Project. These investment programmes have shown that smallholder farmers are willing to take risks in order to meet household food security needs before they expand output in response to market opportunities. The programmes have equally reaffirmed the willingness of rural communities to contribute and actively participate in programming and implementation as members of farmers' research groups, water users' associations and rural savings and credit groups or cooperatives.

Programme Rationale

15. Efficient and competitive markets are generally perceived to be the best institutional arrangement for ensuring optimal production and consumption decisions. At the country's current level of development, such a system cannot be left to evolve entirely on its own. Both the public and private sectors are still ill equipped to respond effectively to the demands and opportunities of a market economy. There is a strong commitment from the Government to improve the performance of agricultural markets, and the proposed Agricultural Marketing Improvement Programme (AMIP) provides stakeholders with a useful vehicle to: (a) strengthen the institutional capacity for policy analysis and strategy formulation; (b) improve the government capacity to streamline aid grain supplies in support of a pricing policy that will safeguard the real incomes of smallholder farmers; and (c) develop a framework for the effective regulation of output marketing.

16. Agricultural output marketing in Ethiopia is underdeveloped and vulnerable to the effects of wide fluctuations in supply. The coffee subsector has suffered from the continued decline in international prices, high transaction costs and declining farmer interest partly due to low prices. The Ethiopian coffee industry has not taken advantage of its specialty coffees in international markets, principally due to inefficiencies at successive levels in the marketing chain. By improving the

effectiveness and efficiency of agricultural output marketing, AMIP will greatly: (a) complement emerging initiatives to increase the attractiveness of Ethiopian coffee; (b) enhance the access of stakeholders to improved post-harvest processing, transport and storage technologies; (c) improve the opportunities for temporal arbitrage in grains; and (d) reduce handling and transaction costs, with increased returns to smallholder farmers.

17. Repeated marketing failure have resulted in a vicious circle. Bumper grain harvests lead to storage and marketing difficulties. Depressed producer prices are followed by reduced grain production, leading to widespread food shortages and increased demand for food aid. These phenomena strongly suggest that smallholder farmers are price responsive. The development of an effective and efficient marketing system will thus stimulate economic growth with equity, given that the majority of the population are smallholder farmers.

18. The Government has correctly encouraged smallholder farmers to use improved farm inputs to increase production and household food security. Smallholder farmers have demonstrated their willingness to respond to this challenge. It is therefore important that the price of grain at the farm level should exceed the cost of production for efficient farmers. Due to high transport costs, Ethiopia is not commercially well linked to world grain markets. Grain prices are determined by the domestic market, which is thin and volatile. The investments under AMIP will strengthen the Government's capacity rigorously to analyse grain markets and formulate strategies and policies that should provide appropriate incentives to smallholder farmers.

PART II – THE PROGRAMME

A. Programme Area and Target Group

19. **Programme Area**. Although key programme activities are national in scope and coverage, the programme's main focus will be the grain and coffee-producing areas plus food-insecure regions of the country. Surplus grain and coffee-producing areas account for about two thirds of the grain produced nationally, over 80% of the grain traded and more than 95% of the coffee produced and traded. Much of the surplus grain is traded in urban and food-deficit areas. Therefore, the expanded programme area offers the best opportunity for effective engagement with the market. The **target group** comprises rural households operating on 1 ha, on average, that typically consist of subsistence farmers with family incomes close to or below the national poverty line. The Gini coefficient is 0.26, and there are thus no major disparities in income among the households. By targeting them, AMIP will improve household food security and incomes for a sizeable share of the population living on a daily per capita income of USD 0.30. About 20% of the households in the programme *woredas* are headed by women. Particular attention will therefore be paid to the needs and priorities of women as farmers and retail traders. At least a third of the beneficiaries to be trained under AMIP will be women, in recognition of the important role that women play in agricultural marketing.

B. Goals and Objectives

20. The programme goal is the sustainable reduction of poverty by securing, safeguarding and increasing real incomes and food security among the majority smallholder farmers. The objective is to improve the effectiveness and efficiency of agricultural output marketing.

C. Components

21. The programme consists of three components: (a) institutional development; (b) market infrastructure development; and (c) programme coordination and management.

Institutional Development

22. Programme activities will strengthen the institutional capacity of the agricultural marketing and inputs sector of MoARD, inter alia, effectively to: (a) undertake market analysis, policy and strategy formulation; (b) manage the collection and distribution of timely and accurate market intelligence; (c) regulate and monitor grades and standards; and (d) promote private sector investment in agricultural marketing. In order to close the existing institutional capacity gap immediately, AMIP will support the appointment of experienced and highly qualified agricultural marketing specialists to MoARD, in addition to on-the-job training for professional staff at the federal and regional levels.

23. Staff training is a critical part of institutional capacity-building. The Government plans to complete a comprehensive training needs assessment for the public and private sectors by 31 December 2004. AMIP will support the appointment of a national training coordinator to supervise the preparation and implementation of the resultant training plans and develop training curricula and materials in collaboration with the regional programme coordination and management units (RPCMUs) and local service providers. Further support at the federal and regional levels includes some limited staff mobility and the necessary office equipment. In recognition of the growing importance of the *woreda* as the focal point for planning and implementation, about 400 *woreda*-based agricultural marketing experts and cooperative promotion officers will be trained effectively to coordinate programme activities at that level, and appropriate support has also been provided for some limited staff mobility and appropriate office equipment there.

Marketing Infrastructure Development

24. To strengthen smallholder farmer engagement with markets, the programme will support the appointment of regional training coordinators to oversee, organize and monitor the training of development agents and cooperative promotion assistants. Subject to the training needs assessments, training courses for *woreda*-level staff, development agents and cooperative promotion assistants are likely to cover such topics as: (a) the means of accessing market intelligence and its application; (b) key features of domestic commodity marketing, especially of grain and coffee or other cash crops relevant in the region; (c) group dynamics and alternative forms of organization to be considered by beneficiaries to improve their engagement in markets and marketing networks; (d) the importance of quality control, grades and standards in commodity marketing; (e) business and financial management in output marketing; (f) post-harvest technologies; and (g) the dynamics of gender and HIV/AIDS to be considered in agricultural marketing. Approximately 18 000 development agents and cooperative promotion assistants will be trained at Technical Vocational Education and Training Colleges during the implementation period.

25. AMIP will also support a training needs assessment for farmers, members of cooperative societies and unions, rural traders, wholesalers, transporters, and local artisans, with due attention paid to gender issues. Subject to the assessment, beneficiary training, which will start with community sensitization at the *kebele* level, will include: the importance of agricultural marketing; grades and standards; market regulation; access to and the use of market intelligence; forms of marketing organization; the potential benefits of producer and marketing groups; technology options for off-farm storage, processing and transport; and gender and HIV/AIDS issues in the context of agricultural marketing.

26. **Post-Harvest Technology in Marketing**. Additionally, the programme will support investments to improve post-harvest management in processing, storage and transport facilities. In line with the tenets of a liberalized market economy, the development of market infrastructure will be demand-driven, underpinned by a line of credit to be administered through microfinance institutions and cooperative unions consistent with the IFAD policy on rural finance and following operational procedures already established under the ongoing IFAD-led Rural Financial Intermediation

Programme. This arrangement will also ensure that related investments are financially attractive to stakeholders in the marketing chain.

27. **Programme Coordination and Management**. Planned activities under this component are presented in paragraphs 32 and 33 below.

D. Costs and Financing

28. The total programme costs, including contingencies, foregone duties and taxes, are estimated at USD 35.1 million. About 90% of the total programme costs represent investments for institutional capacity-building and improved post-harvest management. Summary programme costs by component are presented in Table 1 below.

29. The programme will be financed through an IFAD loan of USD 27.2 million, or 77.5% of total costs. Approximately USD 1.3 million will be provided by municipalities or beneficiaries in cash or kind towards the cost of upgrading assembly markets. The Government contribution of USD 7.9 million represents 22.5% of the total costs. The programme financing plan by component is presented in Table 2 below.

TABLE 1: SUMMARY OF PROGRAMME COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Institutional Development					
– Federal	297	463	759	61	2
– Regional	1 562	1 173	2 735	43	8
– Farmer-to-market linkages	1 513	722	2 235	32	7
Subtotal	**3 372**	**2 357**	**5 729**	**41**	**17**
B. Market Infrastructure Development					
– Credit for post-harvest management	17 220	7 380	24 600	30	73
C. Programme Coordination and Management					
– Federal	790	501	1 291	39	4
– Regional	1 522	655	2 177	30	6
Subtotal	**2 313**	**1 155**	**3 468**	**33**	**10**
Total base costs	**22 905**	**10 892**	**33 797**	**32**	**100**
– Physical contingencies	420	192	612	31	2
– Price contingencies	474	216	690	31	2
Total programme costs	**23 799**	**11 300**	**35 100**	**32**	**104**

[a] Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN[a]
(USD '000)

Components	IFAD		Government		Total		Foreign	Local (excl.	Duties and
	Amount	%	Amount	%	Amount	%	Exchange	Taxes)	Taxes)
A. Institutional Development									
Federal	493	58.8	345	41.2	839	2.4	498	299	42
Regional	429	13.9	2 660	86.1	3 089	8.8	1 332	1 273	484
Farmer-to-market linkages	1 464	57.4	1 086	42.6	2 549	7.3	803	1 354	392
Subtotal	**2 386**	**36.8**	**4 091**	**63.2**	**6 477**	**18.5**	**2 634**	**2 925**	**917**
B. Market Infrastructure Development									
Credit for post-harvest management	24 600	100.0	-	-	24 600	70.1	7 380	17 220	-
C. Programme Coordination and Management									
Federal	61	4.1	1 430	95.9	1 491	4.2	555	751	184
Regional	158	6.2	2 374	93.8	2 532	7.2	731	1 516	285
Subtotal	**219**	**5.4**	**3 804**	**94.6**	**4 023**	**11.5**	**1 286**	**2 267**	**469**
Total programme costs	**27 205**	**77.5**	**7 895**	**22.5**	**35 100**	**100.0**	**11 300**	**22 413**	**1 387**

[a] Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

30. **Procurement**. The procurement of goods and services will be carried out in accordance with IFAD procurement guidelines. Goods will be bulked into sizeable bid packages, and any contract costing USD 100 000 or more will be awarded following international competitive bidding. Contracts costing less than USD 100 000 will be awarded following national competitive bidding. Consultant services will be engaged in accordance with the procedures of UNOPS. However, service contracts for beneficiary and staff training may be awarded on the basis of single source selection, with the prior review by UNOPS.

31. **Disbursement**. The proceeds of the IFAD loan will be disbursed over a period of seven years. To ensure the ready availability of funds critical for timely programme implementation, a special account in United States dollars will be opened with the National Bank of Ethiopia in the name of the programme. Upon effectiveness, an initial deposit of USD 2 million in the aggregate will be withdrawn from the loan account and paid to the special account. Disbursements will normally be made against full supporting documentation. However, certified statements of expenditure will be used for withdrawal applications in respect of payments made under contract costing less than a USD 20 000 equivalent, expenditures for local training and sub-loans disbursed under the pilot credit line.

32. **Accounts and Audit**. The MoARD and regional state governments will prepare and maintain programme accounts and financial records in accordance with generally accepted accounting standards. The accounts of the programme will be audited annually by external auditors acceptable to IFAD, and a certified copy of the audit report will be submitted to IFAD and UNOPS no later than six months after the end of the fiscal year, including separate opinions on the special account facility and the statements of expenditure.

F. Organization and Management

33. The responsibility for the coordination of programme implementation will rest with the agricultural marketing sector of MoARD. The MoARD will establish an **agricultural marketing advisory council** made up of stakeholder representatives to review and advise on emerging policies and strategies and to ensure harmony in the approach of development partners. In addition, MoARD will establish a **programme management committee** to review and approve the annual work programme and budget and provide guidance on programme management and implementation. MoARD will also establish a **programme coordination and management unit** to: (a) ensure the participatory and timely preparation, consolidation and approval of the annual work programme and budget; (b) establish and maintain a management information system; (c) ensure that programme accounts are prepared, maintained and audited on time; (d) coordinate the timely procurement of goods and services required for AMIP; (e) prepare and submit applications for the withdrawal of funds from the IFAD loan account; and (f) backstop the RPCMUs to be established by the respective regional state governments of the programme coordination and management unit. The establishment of the programme coordination and management unit and RPCMUs will include the appointment of core professional staff with qualifications and experience acceptable to IFAD. In order to enhance the synergy between the public and private sectors, MoARD and participating regional state governments will establish a joint sector review forum and a regional agricultural marketing advisory forum, respectively. By drawing participants from a wide range of stakeholders, these annual forums will provide opportunities for informed debate on major issues associated with agricultural marketing with a view to influence emerging policies and strategies.

34. **Monitoring and Evaluation**. AMIP will support the design and implementation of a monitoring and evaluation system that can be relied on to generate and report on the financial and physical progress of the programme and its outreach among beneficiary households and facilitate periodic impact assessments. AMIP will therefore support the appointment of qualified and

experienced management information system personnel to the programme coordination and management unit and RPCMUs at the federal and regional levels, in addition to short-term technical assistance to help in the establishment of the monitoring and evaluation system, provide in-service training in management information systems for federal, regional, *woreda* and *kebele* staff and carry out a baseline survey in programme year 1.

G. Economic Justification

35. About 70% of the planned investments are earmarked for institutional capacity-building. Conventional calculations of net present value and economic rates of return are likely to be rather difficult and prone to significant error. However, by strengthening the national capacity to analyse and formulate appropriate policies and strategies to improve the effectiveness and efficiency of agricultural output marketing, including the development of a grain pricing policy that does not distort the market and rationalizes the procurement of food aid as a price management tool, underpinned by reduced grain marketing costs, increased competition and improved post-harvest management, AMIP will contribute to the stabilization of domestic grain prices between years and make the prices more predictable. More rational grain-price levels will provide further incentives for smallholder farmers to invest in improved production technologies, which is critical if grain production is to grow at the desired level under SDPRP of about 5% per annum. Since grain is the country's main staple food, a successful AMIP will contribute to a reduction in poverty among low-income households in rural and urban areas.

36. Admittedly, the overall effect of the programme investments in the grains subsector is likely to be quite small at the individual farm level given the very small volumes of surplus produce being sold to the market. However, the small individual benefit has a substantial overall effect when aggregated. The programme area includes about 140 surplus grain *woredas*, which produce some 6 million to 7 million tons of grain annually. The cost-benefit analysis suggests that, even with only modest improvements in agricultural output marketing, the programme's net present value will be USD 69 million when discounted at a real rate of 10% over 15 years. In the coffee subsector, the analysis shows that potential gains would be substantial compared with programme costs. There are major benefits to be gained from better marketing and, hence, higher prices in a commodity where Ethiopia has a comparative advantage. The benefit-cost ratio discounted at 10% over 15 years is estimated to be 2 to 1 even if the financial benefits attributable to the programme are only 1% for quality improvement and reduced marketing costs, respectively. The analysis also suggests that the planned investments in rural assembly markets and post-harvest technologies will be viable, provided there is a sound grain pricing policy in place.

H. Risks

37. The Government is committed to the establishment of a comprehensive management information system for the public sector that will use its own funds and that will also cater for agricultural marketing. In view of the overriding importance of timely and accurate market intelligence for the success of agricultural output marketing, any delays in the establishment of the system will represent a serious risk that could jeopardize AMIP. IFAD will seek assurances from the Government on this issue during negotiations.

38. There is a historical relationship among grain prices, fluctuations in supply due to highly variable weather patterns, and the distorting effects of large-scale food aid imports at times of surplus production in Ethiopia. There is the risk that grain markets will remain underdeveloped unless the Government succeeds in implementing a sound cereal pricing policy that incorporates the use of food aid as a viable tool in the stabilization of domestic grain prices. The success of such a pricing policy will largely depend on the support and cooperation of development partners.

39. As a result of improved markets and information flows, people tend to travel more frequently and further afield, where they may be exposed to more risky HIV/AIDS environments. Provision has therefore been made under AMIP for increased collaboration with the HIV/AIDS Prevention and Control Offices in the expansion of the outreach of ongoing HIV/AIDS awareness-building programmes among beneficiary communities and the mainstreaming of HIV/AIDS issues into agricultural marketing.

I. Environmental Impact

40. The programme is designated **Category B** on the basis of environmental screening and the scope of the planned activities. Programme activities with potential environmental concerns relate to the upgrading of rural assembly markets and probable investments in post-harvest technologies. The upgrading of rural markets is likely to generate positive effects through improvements in drainage at the local level. The renovation of inefficient coffee processing facilities will minimize current pollution levels. In addition, planned investments will be subject to local by-laws and Ethiopia's environmental regulations.

J. Innovative Features

41. The main innovative feature of AMIP is its strong emphasis on policy analysis and strategy formulation, which should provide IFAD, development partners and the Government with a unique opportunity for policy dialogue in an area that could greatly contribute to sustainable poverty reduction.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

42. A loan agreement between the Federal Democratic Republic of Ethiopia and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

43. The Federal Democratic Republic of Ethiopia is empowered under its laws to borrow from IFAD.

44. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

45. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to the Federal Democratic Republic of Ethiopia in various currencies in an amount equivalent to eighteen million two hundred thousand Special Drawing Rights (SDR 18 200 000) to mature on or prior to 1 December 2044 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 20 November 2004)

1. The Government of the Federal Democratic Republic of Ethiopia (the “Government”) will open and thereafter maintain in a bank acceptable to IFAD a current account denominated in Ethiopian birr for programme operations (the “programme account”) and will deposit quarterly and in advance into that account the amount of counterpart contributions specified in the annual workplan and budget (AWP/B) for each programme year.

2. The lead programme agency will open in each programme region and thereafter maintain in a commercial bank acceptable to IFAD a current account denominated in Ethiopian birr for programme activities (collectively referred to as the “regional programme accounts”). The lead programme agency will transfer funds from the programme account into the respective regional programme accounts as specified in the AWP/B for each programme year.

3. The Development Bank of Ethiopia will open and thereafter maintain an account denominated in Ethiopian birr to receive loan and other funding relating to the line of credit of the market development component in accordance with its own policies and procedures.

4. The Government will ensure that a comprehensive market information system is established and operational by 30 June 2005.

5. The Government will establish coffee testing and liquoring centres in the programme area by 30 June 2007.

6. For a *woreda* (district) to participate in programme activities, an agricultural marketing expert will be duly appointed to the *woreda* administration and three development agents will be assigned to each farmer training centre in the *woreda*.

7. Before the programme management committee can approve the AWP/B for programme activities in a programme region, the RPCMU is to have been duly established in the Marketing Directorate of the Bureau of Agriculture and Rural Development or Agricultural Marketing Agency (as appropriate).

8. The lead programme agency will convene the first meeting of the Joint Sector Review Forum within the 12 months following the effectiveness date, and thereafter will convene annual meetings.

9. The respective Regional Bureau of Agricultural and Rural Development or the Agricultural Marketing Agency (as appropriate) will convene the first meeting of the Regional Agricultural Marketing Advisory Forum within the 12 months following the effectiveness date, and thereafter will convene annual meetings.

10. The Government will make adequate provision for implementation of the warehouse receipts system and the piloting of the forward coffee auction by 31 December 2005 to enable related activities under the programme to be implemented in a timely manner.

11. The federal and regional-level training implementation plans will be prepared and approved by the programme management committee as an integral part of the AWP/B for programme year 2.

12. **Counterpart funding.** The Government will take the necessary action to ensure that its counterpart funding for the programme is accurately reflected in the annual budget. The Government will ensure that its counterpart funds are made available to the programme in a timely fashion throughout the programme implementation period.

13. **Gender focus.** In line with government policy, the Government will ensure that women are represented in all programme activities and that they receive appropriate benefit from the programme outputs.

14. **Pest management practices.** As part of maintaining sound environmental practices as required by IFAD, the Government will ensure that all implementing agencies maintain appropriate pest management practices under the programme and, to that end, the Government will ensure that pesticides used under the programme do not include any pesticide proscribed by the Food and Agriculture Organization of the United Nations or by the World Health Organization.

15. The following is specified as a condition for disbursement of funds from the loan: no withdrawals may be made in respect of expenditures under incremental credit for market infrastructure until the lead subsidiary agreement has been approved by IFAD.

16. The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the Government has duly opened the special account in the name of the programme in the National Bank of Ethiopia;

(b) the Government has duly opened the programme account in the name of the programme;

(c) the lead programme agency has duly established the Agricultural Marketing Advisory Council;

(d) the lead programme agency has duly established the programme management committee;

(e) the lead programme agency has duly established the programme coordination and management unit, including the appointment of professional staff with qualifications and experience acceptable to IFAD;

(f) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary corporate, administrative and governmental action; and

(g) a favourable legal opinion, issued by the Head of the Legal Department of the Ministry of Finance and Economic Development of the Government or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

ETHIOPIA

Land area (km² thousand) 2002 1/	1 000	**GNI per capita (USD) 2002 1/**	100
Total population (million) 2002 1/	67.22	**GDP per capita growth (annual %) 2002 1/**	0.5
Population density (people per km²) 2002 1/	67	**Inflation, consumer prices (annual %) 2002 1/**	2
Local currency	Ethiopian Birr (ETB)	**Exchange rate: USD 1 =**	Birr 8.7

Social Indicators	
Population (average annual population growth rate) 1996-2002 1/	2.4
Crude birth rate (per thousand people) 2002 1/	40
Crude death rate (per thousand people) 2002 1/	20
Infant mortality rate (per thousand live births) 2002 1/	114
Life expectancy at birth (years) 2002 1/	42
Number of rural poor (million) (approximate) 1/	n/a
Poor as % of total rural population 1/	n/a
Total labour force (million) 2002 1/	28.90
Female labour force as % of total 2002 1/	41
Education	
School enrolment, primary (% gross) 2002 1/	62
Adult illiteracy rate (% age 15 and above) 2002 1/	58
Nutrition	
Daily calorie supply per capita, 2/	n/a
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	52 a/
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	47 a/
Health	
Health expenditure, total (as % of GDP) 2002 1/	4 a/
Physicians (per thousand people) 2002 1/	n/a
Population using improved water sources (%) 2002 3/	24 a/
Population with access to essential drugs (%)1999 3/	50-79
Population using adequate sanitation facilities (%) 2002 3/	12 a/
Agriculture and Food	
Food imports (% of merchandise imports) 2002 1/	11
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	126 a/
Food production index (1989-91=100) 2002 1/	152
Cereal yield (kg per ha) 2002 1/	1 346
Land Use	
Arable land as % of land area 2002 1/	11 a/
Forest area as % of total land area 2002 1/	5 a/
Irrigated land as % of cropland 2002 1/	2 a/

Economic Indicators	
GDP (USD million) 2002 1/	6 059
Average annual rate of growth of GDP 1/	
1982-1992	1.1
1992-2002	5.6
Sectoral distribution of GDP 2002 1/	
% agriculture	40
% industry	12
% manufacturing	n/a
% services	48
Consumption 2002 1/	
General government final consumption expenditure (as % of GDP)	19
Household final consumption expenditure, etc. (as % of GDP)	79
Gross domestic savings (as % of GDP)	2
Balance of Payments (USD million)	
Merchandise exports 2002 1/	415
Merchandise imports 2002 1/	1 594
Balance of merchandise trade	-1 179
Current account balances (USD million)	
before official transfers 2002 1/	-1 016
after official transfers 2002 1/	-150
Foreign direct investment, net 2002 1/	n/a
Government Finance	
Overall budget deficit (including grants) (as % of GDP) 2002 1/	n/a
Total expenditure (% of GDP) 2002 1/	n/a
Total external debt (USD million) 2002 1/	56 523
Present value of debt (as % of GNI) 2002 1/	66
Total debt service (% of exports of goods and services) 2002 1/	10
Lending interest rate (%) 2002 1/	9
Deposit interest rate (%) 2002 1/	4

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2004
2/ UNDP, *Human Development Report*, 2000
3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN ETHIOPIA

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Approved SDR
Second Agricultural Minimum Package Project	World Bank: IDA	World Bank: IDA	HC	07 May 1980	23 Apr 1981	31 Dec 1985	L-I-40-ET	13 900 000
Agricultural Credit Project	IFAD	World Bank: IDA	HC	12 Sep 1983	11 Apr 1984	31 Mar 1991	L-I-131-ET	10 450 000
Rehabilitation Programme for Drought-Affected Areas	IFAD	UNOPS	HC	02 Apr 1985	21 Jun 1985	31 Dec 1990	L-I-168-ET	13 050 000
Special Country Programme	IFAD	World Bank: IDA	HC	03 Dec 1986	13 Oct 1987	31 Dec 1996	L-S-3-ET	9 300 000
Fourth Livestock Development Project	World Bank: IDA	World Bank: IDA	HC	09 Sep 1987	09 Feb 1988	31 Dec 1992	L-I-205-ET	4 500 000
Southern Region Cooperatives Development and Credit Project	IFAD	UNOPS	HC	02 Dec 1993	17 Aug 1994	31 Dec 2004	L-I-342-ET	7 550 000
Informal Seed Component of the Seed Systems Development Project	World Bank: IDA	World Bank: IDA	HC	11 Sep 1996	21 Mar 1997	31 Dec 2001	L-I-421-ET	4 600 000
Special Country Programme – Phase II	IFAD	UNOPS	HC	05 Dec 1996	11 Feb 1999	31 Dec 2003	L-I-438-ET	15 650 000
Agricultural Research and Training Project	World Bank: IDA	World Bank: IDA	HC	10 Sep 1998	30 Jun 1999	31 Mar 2005	L-I-480-ET	13 650 000
Rural Financial Intermediation Programme	IFAD	World Bank: IDA	HC	06 Dec 2001	06 Jan 2003	30 Sep 2010	L-I-572-ET	20 150 000
Pastoral Community Development Project	World Bank: IDA	World Bank: IDA	HC	11 Sep 2003			L-I-612 ET	14 400 000

Note: HC = highly concessional

LOGICAL FRAMEWORK

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Goal			
Sustained reduction in rural poverty	• Reduction in % of rural people living below the national poverty line • Increase in household incomes, food security and asset ownership • Reduction in the prevalence of under-height for age children (below 5 years old)	• Central Statistical Authority – poverty and household surveys • SDPRP Progress Reports • Ministry of Health records and surveys	
Purpose/Objective			
Improved effectiveness and efficiency of agricultural output marketing	• % reduction in unit market transaction costs • Seasonal prices better reflect storage costs • Grain prices consistently maintain farmers' incentive to raise production • Farm gate prices represent higher percentage of Addis/export prices • % increase in traded volumes of agricultural products • Increased premiums on world markets for Ethiopian coffee	• CSA price/household surveys • International and national market intelligence reports and bulletins • MOTI domestic trade statistics • Grain Traders' & Coffee Exporters' Association Annual Reports & Bulletins • Input/output performance data of forward coffee auctions • AMIP baseline surveys, periodic and completion assessments	• Macro-economic and political stability • Effective inter-sector co-ordination under SDPRP to ensure pro-poor orientation to public expenditures • Sustained market liberalisation • Enhanced role and influence of the private sector and civil society in policy formulation and the performance of public services
Outputs			
Institutional capacity strengthened at federal and regional levels	**Federal** • Marketing strategy and policy analysis skills upgraded – especially for grains • Commodity grades and standards more widely applied • Food aid procurement rationalised • Warehouse Receipt System (WRS) functional • Expansion in sector-wide, private marketing associations and institutions • Joint Sector Review Forum operationalised • # personnel trained (Ag.Mktg. Sector incl. Co-operatives Commission and EGTE	• Adjusted role/functions of EGTE • Collated, cross-correlated and analysed food aid statistics • CSA Price Surveys • National market intelligence reports and bulletins • EGTE (+ any successor organisations) and WRS Annual Reports • Warehouse transaction audits	• Civil service reforms sustained • Agricultural Market Information System in place (especially for grains)

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
	• Main commodity prices more stable and provide adequate incentives for production storage and distribution **Regional** • Marketing strategy and policy analysis skills upgraded – especially for grains • Regional support to agric. marketing programmes at *woreda* and *kebele* levels enhanced • Regional Agricultural Marketing Advisory Forums operationalised • No. and type of marketing-related initiatives supported • No. trainers (by category and organisation) trained in aspects of agricultural marketing (incl. co-operative promotion staff)	• Minutes of JSRF Meetings • Minutes of RAMAF Meetings • MoARD reports, surveys and assessments • Regional Agricultural Marketing Agency/Directorate Annual Reports • Co-operative Promotion Office reports • Approved AWPBs and AMIP Progress and Supervision Reports	
Market infrastructure developed	• Volume of produce traded through markets • Proportion of farmers actively involved with marketing groups/organisations • No. persons (by category and/or organisation) trained in aspects of agric. marketing • No. and types of marketing organisations operational • No. and categories of loans; borrower profiles for off-farm, post-harvest processing, storage and transport • No. rural market facilities upgraded • Increased proportion of production traded	• Regional agric. marketing agency/bureaux reports, surveys and analyses • Tax records/registration of organisations by woreda • Co-operatives Commission reports and institutional analyses • DBE/MFI records and transaction audits • Commissioned studies and surveys • Municipality/Union marketing statistics • AMIP baseline, periodic and completion assessments	• Farmers have adequate incentive/ confidence to increase the traded portion of production • Business environment conducive to investment in agricultural marketing - licensing and tax regimes harmonised; business & trading contracts enforceable • Effective demand exists for medium-term loans for marketing-related investments off-farm. • Application of quality regulations and standards in the interests of smallholders. • Complementary support provided by other development programmes and initiatives

Narrative Summary	Impact/Result Indicators	Means of Verification	Assumptions/Risks
Programme activities effectively coordinated and managed	• Percentage of planned disbursement achieved • Timely approval and implementation of AWPBs • AMIP co-ordination mechanisms and Management Information System set up and used for transparent decision-making	• Audited programme accounts at federal and regional levels • Supervision reports • IFAD follow-up missions • Mid-term review • Implementation Completion Report	• Transparent selection criteria and decision-making procedures developed and applied in market upgrading programme. • Availability of competent service providers in relevant fields • Procurement undertaken by competent agency/agencies acceptable to IFAD
Inputs	***Breakdown of Costs*** ***USD***	***Timing***	
IFAD Loan: USD 27.2 million Government USD 7.9 million	Institutional Development 6.5 million Market Infrastructure Development 24.6 million Programme Co-ordination and Management 4.0 million	• AR completed by 30 Sept 2004 • AR submitted to GOE by 15 Oct 2004 • Loan Negotiations completed by 15 Nov 2004 • IFAD Executive Board Approval by 2 Dec 2004	

ORGANIGRAMME