UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Project of FDR of Ethiopia

Project number:	SAP 130144
Project title:	***Improving the Sustainability and Inclusiveness of the Ethiopian Coffee Value Chain through Private and Public Partnership***
Thematic area code	
Starting date:	1 September 2014
Duration:	3 years
Project site:	Addis Ababa
Government Co-ordinating agency:	Ministry of Industry
Counterparts:	Ministry of Industry, Ministry of Agriculture, Ministry of Trade
Executing agency/ cooperating agency:	UNIDO
Project Inputs:	
- UNIDO inputs:	Euro 3,540,800
- Support costs (13 %):	Euro 460,304
- Counterpart inputs:	-
- Illy in-kind inputs:	Euro 100,000
- Grand Total:	Euro 4,101,104

Brief description:

The Ethiopian coffee sector, is very important for the country and for its economic development due to the reasons that: (i) as a major source of cash income and provider of employment, it supports millions of farming families (for instance, those estimated as dependent on coffee production and marketing for livelihood are about 20 million) and, (ii) coffee is the first item in terms of revenue generated from export with a share of about 25 per cent. The coffee sector can contribute to the growth of the industrial sector share in the national GDP, owing to its high potential of creating industrial roasting capacity that, at present, is rather marginal.

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

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

The Project is aimed at contributing to reach the MDG 1 "*Eradicate extreme poverty and hunger"*.

Approved:

	Signature:	**Date:**	**Name and title:**
On behalf of **MoI:**	_____	_____	_____
On behalf of UNIDO:	_____	_____	_____

Table of Contents

ACRONYMS

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

A. CONTEXT

A.1. Background Information

A.1.1 The Coffee value chain in the Ethiopian economy and development plans.

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

Ethiopia became one of the major coffee producing countries in the world with a world supply share of nearly three per cent to date. Coffee constitutes the country's largest export commodity that in 2007/08 reached 35.4 per cent and in 2011/12 was at 26.4 per cent of the country's export income. Consequently, the estimated size of the population in the country dependent on coffee production and marketing well passed the 15 million mark and can be estimated at 20 million. According to ICO, total annual production in 2012/13 was 486,000 tonnes, making Ethiopia the fifth largest global coffee producer and the first largest in Africa. It should be noted that, as shown in Table 2.4 (Annex 2), due to its large domestic consumption, Ethiopia is the tenth largest global coffee exporter. A large proportion of Ethiopian coffee is attributed to labour intensive smallholder agriculture, such that forest coffee accounts for about 10 per cent of the total coffee production, semi-forest coffee for about 30 per cent and garden coffee for about 50 per cent.

In Annex 7 there is a description of the various subsequent development plans of Ethiopia, starting from 1995 until present times; also the current Growth and Transformation Plan (GTP) for the period 2010/11 – 2014/15 is described together with its targets relevant to the coffee sector. In Annex 7 are also indicated: (i) the changes foreseen in GDP, (ii) the actual changes that took place in 2010/11 and in 2011/12 and, (iii) the conclusions regarding the necessity to increase the contribution to GDP by the industrial sector, in particular the fact that, in order to make this Project consistent with the guidance provided by GTP, it is important to include, among the Project activities, those aimed at expanding the investment in the industrial sector, in particular in coffee roasting.

According to the GTP, coffee's productivity, share in production area, size of export and export earnings are all set to increase. GTP has a built-in comprehensive monitoring system. MoFED coordinates the monitoring activities but the participation of all stakeholders is foreseen. Now, three years have already elapsed since the launching of the GTP in November 2010 and it is available the (draft) **Annual Progress Report (APR) for the EFY 2011/12** that is the second GTP year. It is interesting to report here below the main findings of the APR that have relevance for the coffee sector. Some of the actual figures, when indicated in the APR, are shown in Table 1 with the comparison with the planned figures.

Table 1. Summary of some macroeconomic and main sectorial performances.

Indicator	Base year (2009/10)	2010/11		2011/12[1]		Target for 2014/15
		Planned	Actual	Planned	Actual	
Real GDP growth rate (%)	10.4	11.0	11.4	11.1	8.5	11.4
Agriculture & rel. activities GDP growth rate (%)	*7.60*	*8.5*	*9.0*	*8.5*	*4.9*	*8.7*
Industry GDP growth rate (%)	*10.60*	*14.0*	*15.0*	*17.9*	*13.6*	*23.7*
Services GDP growth rate (%)	*13.00*	*12.5*	*12.5*	*11.5*	*11.1*	*9.0*
Coffee productivity (t/ha)	0.74	0.78	0.74	0.82	0.73	1.02
Land covered with stimulant crops ('000 ha)[2]	606.06	649.17	703.27	702.37	665.66	944.69
Households ben. of extension serv. ('000)	4,900	8,141	not av.	9,394	not av.	13,500
Coffee export (tons)	172,210	221,115	196,100	283,907	169,400	600,970
Coffee export earnings (US$ million)	528	692	842	906	833	2,037
Number of primary cooperatives	33,636	not av.	not av.	not av.	not av.	56,904
Number of cooperative unions	212	not av.	not av.	not av.	not av.	546
Growth in food & bev. industries cap. ut. (%)	60	65	not av.	70	not av.	90

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

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

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

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

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

For what concerns the achievements in export revenues of various commodities in the two years 2010/11 and 2011/12, the situation is illustrated in Table 2.

[1] The figures are taken from the (draft) Annual Progress Report (APR) for the EFY 2011/12 that is now available. The figures for the EFY 2013/2014 will be in the next Annual Progress Report, not yet available.

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

Table 2. Revenue achievements from merchandise export

No.	Item	2010/11 US$ mln	2011/12 US$ mln	Change %	As per cent of total export		2014/15 Planned US$ mln
					2010/11	2011/12	
1	Coffee	841.8	833.1	-1.0	30.6	26.4	2,037
2	Gold	461.7	602.4	30.5	16.8	19.1	-
3	Oil seeds	326.6	472,3	44.6	11.9	15.0	1,120
4	Chat	238.3	240.3	0.8	8.7	7.6	-
5	Livestock	147.9	207.1	40.0	5.4	6.6	-
6	Flowers	175.3	197.0	12.4	6.4	6.3	535
7	Pulses	137.9	159.7	15.8	5.0	5.1	882
8	Leather and Leather Products	103.8	109.9	5.9	3.8	3.5	-
9	Textile and garment	61.1	84.7	38.7	2.2	2.7	1,000
10	Meat	63.3	78.8	24.5	2.3	2.5	-
11	Fruit and Vegetables	31.5	44.9	42.7	1.2	1.4	948
	Others	217.3	205.0	-5.7	7.9	6.5	-
	Total	2,747.1	3,152.7	14.8	100.0	100.0	-

Source: GTP - APR 2011/2012 (draft)

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

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

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

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

A new development in the Ethiopian major cities regarding coffee consumption is the increase in regular coffee shops and the emergence of small roadside stalls selling coffee to passer-by customers. These small roadside stalls serve coffee in a traditional manner.

An accurate estimate of the total coffee land and national production is difficult because of two main reasons: (i) a good proportion of the harvest (about 45 per cent) is semi-wild or wild, and (ii) a remarkable part (about 50 per cent) of the crop is consumed on-farm or locally. As a consequence, estimates of the total land dedicated to coffee and of the total production obtained differ substantially from source to source. More reliable and consistent figures from different sources are available only for the marketable portion of the produced coffee. In the following Table 1, the main data on coffee production for the 2011/2012 coffee season[3] are exhibited.

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

Table 3. Significant features of coffee production in Ethiopia, 2011/2012 coffee season (rounded figures)

No.	DATA	UNIT	QUANTITIES	SOURCES
1	Area under Private Peasant Holdings	ha	516,000	CSA (a)
2	Number of Private Peasant Holdings	n	4,042,000	CSA (b)
3	People depending on coffee for livelihood	n	20,000,000	Own estimate (c)
4	Production	t	407,880	ICO (d)
5	Yield for Private Peasant Holdings	t/ha	0.73	CSA
6	Domestic consumption	t	202,980	ICO (e)
7	Exportable quantity	t	204,900	ICO
8	Exports	t	169,392	MoT (f)
9	Export value	US$	833,000,000	MoT
10	Share of coffee on total export value	%	25.57	WB (g)

The major sources utilized for the data in Table 3 are the following: Central Statistical Agency (CSA), Ministry of Trade (MoT), Ethiopian Coffee Exporters' Association (EFY 2012/13 Annual Coffee Export Performance and Export Price Analysis Report), International Coffee Organization (ICO), United States Department of Agriculture – Foreign Agricultural Services (USDA-FAS), USAID, World Bank (WB). Figures for the same data from the above and other sources often present differences that can also be substantial. However, the figures above are those that seem more realistic and for them the observations indicated in Annex 2 must be taken into consideration.

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

In Ethiopia, the following four coffee production systems coexist:

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

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

The four production systems mentioned above, combined with diverse genetic wealth, make Ethiopia home to some two thousand indigenous strains or cultivars. Research has also established 24 formal varieties of *Arabica* coffee, giving Ethiopia a broader genetic spectrum than any other coffee producing country in the world. Ethiopian coffee, besides, is characterized by rich aroma and flavour that make it preferable for blending with coffee from other countries. The several varieties, all with distinctive tastes, sizes, shapes and colours, are cultivated in different coffee growing areas of

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

Ethiopia having specific environmental conditions such as altitude, temperature, amount of rainfall and soil type. Among these, the major types of coffees are: Yirgacheffe, Harar, Sidamo, Limu, Djimmah, Tepi, Bebeka, Lekmpti, Illubabor, Ghmbi, Keffa Forest, Gemadro, Godere, Bench, Bale, Anderacha, Amaro, Aris and Kochere.

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

A.1.2. Problems to be addressed

Coffee production[5]

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

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

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

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

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

---

[5] *"All the information in this paragraph are the result of the desk work of the Project Assistance Team and have been taken from the many documents mentioned elsewhere in the present Project Document"*

[6] *The source for the statement under point 4 has been taken from the "GAIN (Global Agricultural Information Network) Report" dated 14 May 2013 and produced by the USDA (United States Department of Agriculture) Foreign Agricultural Service where at page 3it states: "GOE doesn't have a specialized institution that provides extension support for coffee production".*

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

Coffee processing:

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

1) The amount of washed coffee remains small compared to sun-dried (74 per cent of the coffee is unwashed).
2) The storage facilities at the farm level are inadequate.
3) Infrastructure (roads, electricity and communications) is mostly inadequate owing to the fragmented nature of the smallholder supply base and due to the fact that the location of farms is distant from processors.
4) High post-harvest losses are also caused by the poor status of storage facilities and infrastructure.
5) Technical skill and maintenance capacity, both for wet and dry coffee processing, are lacking since the labour force consists mostly of unskilled workers.
6) Both for washing stations and sun-dried coffee processing plants, increase in their number and improvement of the existing units is thwarted by the low value addition of the processing operations as well as by the lack of credit facilities.
7) In **sun-drying primary processing**, coffee is dried on the ground with negative consequences on the quality of green coffee. This we owe to the tradition of smallholder farmers and their inability to construct drying beds due to the prohibitive cost of doing so. Some donor-financed projects aim at introducing or increasing the practice of using drying beds. The results are encouraging since the sun-dried coffee obtained has a better quality and fetches better price.
8) In **wet primary processing**: (i) access for many smallholder farmers to washing stations is difficult due to distance and/or poor road network, as this raises transports costs and hinders immediate processing, a key requirement in wet processing, (ii) about 20 per cent of washing stations are obsolete and not all are operational, (iii) many washing station lack skilled personnel and/or need maintenance and, (iv) there exist substantial threats of river pollution in the vicinity of coffee pulping and washing stations;
9) In **secondary processing**, problems of low industrial capacity are plenty due to: (i) low domestic demand for processed coffee owing to the tradition of home roasting and grinding the coffee (commercially packaged coffee is uncommon in Ethiopia and even hotels and restaurants usually buy fresh green beans and do their own roasting and grinding), (ii) lack of skills and experience in coffee roasting, grinding and packaging, (iii) very limited export volume of roasted coffee due to the domination of the market by big multinationals that prefer to carry out their own processing and, (iv) difficulty for the Ethiopian entrepreneurs to acquire a good knowledge of the coffee characteristics required in markets abroad, which often are sophisticated in terms of roasting, blending, etc.

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

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

Coffee trading and export:

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

1) Low share of washed coffee (only about 25 per cent) and of specialty coffee[8] with the following consequences: (i) achieved export revenue lower than what would have been possible with increased quality obtainable through higher quota of washed coffee and, (ii) prices obtained are very sensitive to fluctuations in international market prices. Ethiopia has a substantial potential to increase the proportion of higher priced washed coffee; more investment in washing, therefore, promises a high payback potential.

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

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

[9] *See: Ethiopian Agro-Industry Strategy, Coffee Subsector – November 2009, page 19, Table 2.3: SWOT Analysis of coffee marketing in Ethiopia*

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

for quality and most exporters know not their clients and conduct their business in bulk volumes, "FOB Djibouti".

26) Concerning domestic and export marketing of roasted, ground and packaged coffee, Ethiopia is facing the following additional problems: (i) glaring lack of skills and experience in coffee roasting, grinding, packaging and exporting, (ii) marketing of ground coffee is more complex than green beans because of its short shelf life, (iii) presence of high custom and tariff levies for processed coffee, (iv) very limited export volume of roasted coffee and, (v) domination of the international market by big multinationals.

A 1.3 Institutions and Actors of the Coffee Value Chain

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

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

a) The first major problem is that there exists **insufficient coordination among actors** of the coffee value chain. This concerns both direct actors and supporting actors. Indeed, some form of coordination takes place among some or a few groups of actors. For instance, coordination meetings take place among the three involved ministries; there also occur coordination activities among unions; donors are also observed to conduct a very high level of coordination among them and with GoE. What is missing is a coordination forum specifically focused on the coffee value chain, where all the actors are represented i.e. farmers, plantation owners, processors, roasters, government institutions (in particular MoA, MoI, MoT and regional governments of the coffee regions), suppliers of goods and services, research institutions, international/bilateral Donors and NGOs supporting the coffee sector, associations (exporters, roasters, growers), agents and brokers, banks and micro-finance institutions. The purposes of such forum should be to: (i) discuss the various problems and constraints of the sector within a “value chain approach”, (ii) elaborate a comprehensive strategy for the coffee sector aiming at the general interest of the country and having, as much as possible, the consensus of all actors, (iii) find harmonized and shared solutions to the various problems and, (iv) eliminate or minimize the possible conflicts among the various actors in view of the general and common interest.

b) The second major problem is the **absence of a comprehensive and updated coffee sector strategy**, based on a value chain approach with a holistic look at the coffee value chain in a manner that makes sure that all competitive advantages belonging to the country are captured. As it is already mentioned elsewhere, following a request from MoFED, a coffee strategy now is under preparation and is expected to be ready by end of May 2014.

c) Emerging requirements in terms of social and environmental sustainability by the regulators as well as buyers and consumers.

A.2.1 Origin of the project

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

This official request was the follow up of previous close consultations that were held between MoI and UNIDO. These consultations on the coffee issue found their origin in the conference on “*Technologies and best practices for optimal utilization of by products in the coffee value chain: how to increase sustainability in the coffee supply chain*” that was organized in Trieste (Italy) from 11 to 14 June 2012

by UNIDO and its ICS Centre in cooperation with the Ernesto Illy Foundation and illycaffè S.p.a.. During the conference, a possible partnership between UNIDO and illycaffè was discussed on the basis of the willingness of illycaffè to collaborate in training coffee producers and suppliers from Sub-Saharan Africa in particular from East Africa (e.g. Ethiopia, Kenya, Uganda, Rwanda, Tanzania and Burundi) about coffee production, conformity to standards within the supply chain, as well as ensuring fair pricing and responsible entrepreneurship for the growers. Ultimately, the attention fell on Ethiopia, which could be utilized as model as the most important producer of *Arabica* coffee and major supplier to illycaffè.

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

As part of UNIDO sustainable supplier development approach and in line with the UNIDO Partnership Programme, illycaffè has indicated its readiness to contribute to the project (financially and/or in kind).

The Business Partnership Group of UNIDO, after its assessment of the characteristics and performances of illycaffè, has produced a Duly Diligence Report on 14 November 2013 with a positive note for a possible cooperation with UNIDO. In Annex 9 there are abstracts of illycaffè S.p.A. company characteristics.

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

1) the characteristics of the company (that are summarized in Annex 9);
2) the ethical behaviour of the company and its commitment towards coffee quality and wellbeing of the actors involved in the coffee value chain;
3) the availability of expertise and facilities for training in Italy and abroad;
4) its declared willingness to provide consultancy and training in kind; and
5) the possibility, through illycaffè – UNIDO cooperation, to apply to the Common Fund for Commodities (CFC)[11] for financial contribution to the Project. An application as already been submitted to the Fund and was retained after the first screening.
6) Illy interests in increase its sustainable sourcing from Ethiopia.

A.2.2 Target Beneficiaries

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

1) Farmers' cooperatives, unions and Coffee Roasters' Association (ECRA).Small-scale industries, roasting companies, industrial coffee based processors. Concerned public institutions (Ministries of Industry, Trade, Agriculture etc.) at central and local level.
2) Associations of the coffee sector (exporters, roasters etc.).

Through capacity building and improvements in the coffee value chain, the ultimate beneficiaries of the project that would benefit from an increase in export revenues, income as well as working conditions and remuneration will be:

3) About 4 million smallholder farmers and their families.
4) All individuals and families that depend for their livelihood from the processing and trading of coffee.

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

A.2.3 Policies, strategies and plans in place

The policies, strategies and plans in place are those mentioned in the GTP and described in the previous paragraphs and in Annex 7. In addition, it is important to mention the Ethiopia's overarching development strategy of Agricultural Development Led Industrialization (ADLI) which crowns the agricultural sector as the basis for the growth of the other economic sectors of the country, industry above all. As the name itself implies, agriculture is expected not only to meet the food needs of the country but also to generate surplus for industrial growth as well as to provide export products, food, raw materials and market for industrial outputs. The ADLI has not only been incorporated in the GTP, but it was also part of the other two previous plans: the SDPRP and the PASDEP (see Annex 7).

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

B. REASONS FOR UNIDO ASSISTANCE

The reasons why the assistance from UNIDO is being requested are mainly those indicated or implicit in the letter of official request by MoI (whose content is detailed in paragraph A.2.1):

1) UNIDO's competence and experience in analysing and upgrading agri-business value chains, preparation of project interventions and their subsequent implementation to improve developing countries performance.
2) UNIDO competence and experience to create networks, cooperatives and clusters of small farms and producers and in fostering sustainable[12] and inclusive supplier development through public-private partnerships
3) the experience acquired by UNIDO working in other countries in agro-industry development.
4) History of successful and replicable experiences achieved by Ethiopia working in this line with UNIDO (e.g. leather and leather products, prickly pear - or *beles*)
5) To make the best out of the opportunity and willingness demonstrated by a long time international coffee corporate client, Illycaffee S.p.a., to assist in this area in view of the country's development.
6) UNIDO prepared the Coffee strategy for MoI in 2009
7) Official Request received from the GOE.

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

C. THE PROJECT

C.1. Objective of the project

To increase the income of smallholder farmers deriving from sustainable production, processing and marketing of the Ethiopian coffee

The details of the outcomes, outputs and activities are summarized in the Log frame (Annex 11)

C.2. The UNIDO approach

C.2.1. Overall Approach

UNIDO, to meet the objective of the Project, will use an overall value-chain approach.. A value-chain approach to development seeks to address the major constraints at each level of the supply chain, rather than concentrating on just one group (e.g. producers) or on one geographical location.

[12] Sustainability is achieved through the triple bottom line approach that beyond the traditional measures of profits, return on investment, and shareholder value includes environmental and social dimensions.

C.2.2. Phases of the Project

C.2.2.1. The Inception Phase

The Project will be implemented in three phases: Inception Phase, Implementation Phase and Scaling-up and dissemination Phase as described below.

C.2.2.2. The INCEPTION PHASE (duration: 6 months)

The Inception Phase would aim at completing and detailing the initial assessment of the value chain, defining baseline data and KPIs, a detailed logframe and set up a monitoring and evaluation system, set up the project implementation scheme and unit.:

a) During the UNIDO-funded Preparatory Assistance, the UNIDO Team spent in Ethiopia two weeks. During this period, a number of actors have been contacted including direct actors (like unions, roasters and exporters) and supporting actors (like MoI, MoT, MoA, international donors, bilateral donors, NGOs and associations). All the contacts and meetings took place in Addis Ababa, due to limited time therefore visits out of the capital and in particular in the producing areas were not conducted. Therefore the value chain analysis will be detailed and completed during inception through field assessments, contact and collection of information from actors of the coffee value chain, like smallholder farmers, cooperatives, owners of the large plantations, collectors, assemblers, wholesalers, primary processors etc.).

b) Baseline data will be collected, specific KPIs defined and a detailed logframe and monitoring and evaluation system will be carried out during the inception phase.

c) Based on available resources and priority actions identified a detailed work plan will be prepared and the project implementation unit will be set up.

d) Develop a communication strategy.

It is a very important phase for the success of the Project During the inception phase, it will be also necessary to:

- Analyse in detail the Coffee Strategy completed by .EU in response to the request of MoFED and that is now under the review of the GoE and should be available in June 2014.
- Also on the basis of findings contained in the documents relevant to the mentioned Coffee Strategy deepen the analysis of the coffee value chain that has been made during the preparation of this Project Document and proceed with a mapping of the main elements useful for a detailed formulation including, among others, the following:

    - existing roasting establishments and their capacity;
    - geographical distribution of smallholders organized in cooperatives and identification of areas where the cooperatives are less present;
    - geographical distribution of the washing stations in operation and of washing stations that are not in full operation;
    - geographical distribution of prevailing utilization of drying beds for coffee sun drying;
    - mapping of the existing coffee certifications and of the countries where they are recognized;
    - mapping of all existing specialty coffee in Ethiopia.

- Identify the area/areas of intervention, based on the above-mentioned mapping activity and taking into consideration the advantages of concentrating the Project activities in the same area.
- Identify potential investors in roasting and secondary processing that can receive assistance from the Project.
- Identify groups of smallholder farmers that can be organized in cooperatives.
- Identify cooperatives, unions and private entrepreneurs that can receive assistance from the Project for the establishment of new washing stations and upgrading/rehabilitation of existing ones.
- Determine one or more possible locations or existing washing stations where one (or more) technologically and environmental sound plants can be erected (or upgraded) in order to represent “pilot plant” for other investments.
- Identify smallholder farmers and/or cooperatives that can be assisted in the introduction of drying beds for the coffee sun drying.

- Identify any research gap and assess the possibility to provide assistance to the newly recognized Food, Beverage and Pharmaceutical Industry Development Institute especially in terms of capacity building consistently with the objectives of the Project; define the extent and timing of such assistance
- Identify processing technology gaps.
- Conduct an analysis on the internal demand for processed coffee (including instant coffee) and on the importations of coffee from other countries.
- Prepare two documents: (i) a Baseline Study, where all the results of the above mentioned diagnostic analysis aimed at a detailed formulation are quoted and, (ii) a Plan of Action coherent with the Baseline Study.

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

C.2.2.3. IMPLEMENTATION PHASE (duration: 2 years)

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

C.2.2.4. SCALING-UP & DISSEMINATION PHASE (duration: 6 months)

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

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

C.2.3. Project management

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

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

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

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

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

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

If necessary, the execution of some project activities will be assigned to NGOs, preferably already active in the coffee sector.

C.3. RBM code and thematic area code

The theme codes are:

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

C.4. Expected outcomes

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

1. The actors of the coffee value chain will operate in a coordinated manner and direct their efforts to the general interest of the country, resulting in an increased sustainability and inclusiveness of the smallholder farmers.

2. Furthermore, the project will contribute to increased value addition of exported Ethiopian coffee thus reducing the bulk sales of raw coffee as well as improving the international recognition of its quality.

C.5. Outputs and activities

The project will have the following four outputs:

0. Baseline Study and Action Plan from the inception phase validated by stakeholders.
1. The coordination among the coffee value chain actors is improved.
2. The volume of roasted exported coffee is increased.
3. The quality of exported coffee is increased.

and the details of the outputs and activities are attached as Annex 12.

C.7. Risks

A Risk Management Matrix is shown in **Annex 13** where the risks in the second column have been obtained by the assumptions in the last column of the Logical Framework Matrix in Annex 11.

C.8. Sustainability

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

- First and foremost, the PSC, with members from key Ministries will ensure national ownership of the Project. With a strong PSC in place, it is anticipated that GoE will have the capacity to monitor and follow-up on the development of the achieved Outputs after the end of the Project. At the same time it is expected that the private sector has a direct channel to the Government to provide advice on policy matters and similar that concern the sector.
- Secondly the Project will apply a private sector led approach, where the ownership and benefits of production, processing and marketing activities lies within the entities identified by the Project (farmers, cooperatives, unions and entrepreneurs in roasting and washing).
- During implementation, all the activities will be carried out with a particular attention to the feasibility and sustainability of the facilities and organizations that will be created or rehabilitated (OCF, roasting factories, new cooperatives, new unions, washing stations and drying beds).
- The Project will establish viable business models and support the concerned actors both in their organizational structures and on the individual level, preparing them so that they are ready to independently excel in their respective roles in the coffee value chain.

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

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

D. INPUTS

D.1. Counterpart inputs

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

D.2. UNIDO inputs

UNIDO will be responsible for the following inputs:

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

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

D.3. Illy inputs

Illy is willing to provide its in-kind support to all the phases of the project in line with the activities of illycaffè and Fondazione Ernesto Illy as described in annex 9. Total in-kind contribution is valued € 100,000, out of which € 60,000 for consultancies and € 40,000 for scholarships in Italy (Masters degree in Coffee Economics and Science). The consultancies will be utilized for specific purposes where the competence of Illy and its knowledge of the international market can be of high advantage for the Project. In particular, the technical assistance from Illy will be utilized for:

- Activities under Output 0, e.g. for the mapping of certified and specialty.
- Activities under Output 3 for the competences in the selection and classification of green coffee, as well as training programs to managers and technicians of the cooperatives;
- Activities under Output 4, e.g. for the international recognition of the Ethiopian coffee quality.

For the international training, the facilities of Fondazione Ernesto Illy in Italy can be utilized.

E. BUDGET

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

It is worthwhile to remind that the budget breakdown in Table 6, has to be considered as preliminary, since it will be finalized at the end of Phase 1 based on the findings of the Baseline study.

Table 6 Summary of the estimated budget in Euro.
(Detailed budget per outputs and years included as Annex 14)

BL	Description	Unit cost EUR	Units	Total cost
11-00	Junior Project Technical Adviser	7,000	36	252,000
11-00	International Experts	12,000	92	1,104,000
82-00	Evaluation			60,000
13-00	Support personnel (Secretary -Driver)	1,000 – 600	36 72	68,000
15-00	Project travel			35,000
16-00	UNIDO staff travel			25,000
17-00	National project Coordinator	1,800	36	64,800
17-00	National Experts	1,800	193	528,000
21-00	Subcontracts	-	-	800,000
30-00	Training	-	-	315,000
45-00	Equipment	-	-	145,000
51-00	Miscellaneous	-	-	144,000
TOTAL				**3,540,800**
	Support cost (13% of Subtotal 1)			460,304
	Illycaffè contribution			100,000
GRAND TOTAL				**4,101,104**

F. MONITORING, REPORTING AND EVALUATION

F.1. Reporting

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

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

F.2. Monitoring

The performance monitoring will be executed by PCU, if necessary with the support of consultants, based on a detailed work plan and the Logical Framework Matrix in Annex 11. The baseline indicators will be established during the Inception Phase for all the Project components. Day-to-day technical and financial monitoring will be part of UNIDO responsibilities. The PSC will also be responsible for the overall Project oversight and guidance.

F.3. Evaluation

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

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

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

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

G. PRIOR OBLIGATIONS AND PREREQUISITES

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

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

H. LEGAL CONTEXT

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

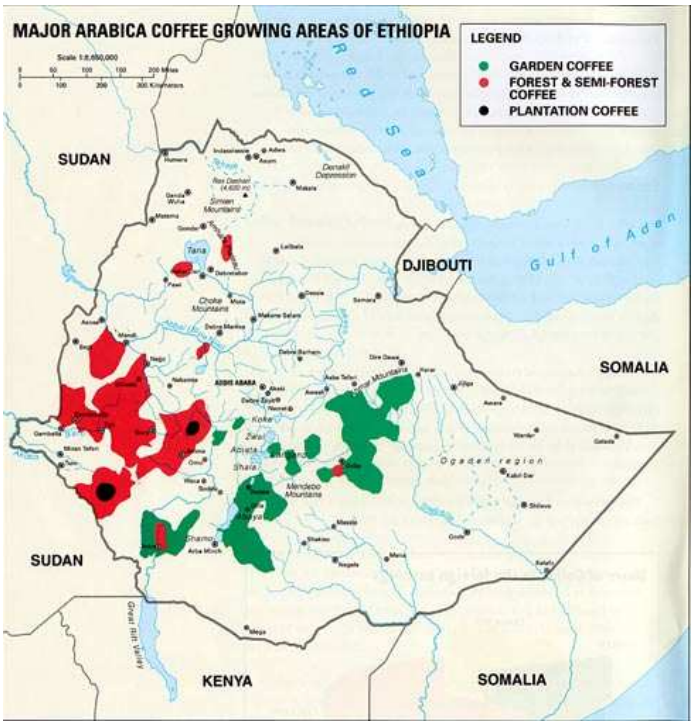
ANNEXES

ANNEX 1. BACKGROUND INFORMATION ON THE ORIGIN OF THE ETHIOPIAN COFFEE PRODUCTION SYSTEMS, PECULIARITIES AND IMPORTANCE

1. LOCATION OF MAJOR COFFEE GROWING AREAS IN ETHIOPIA

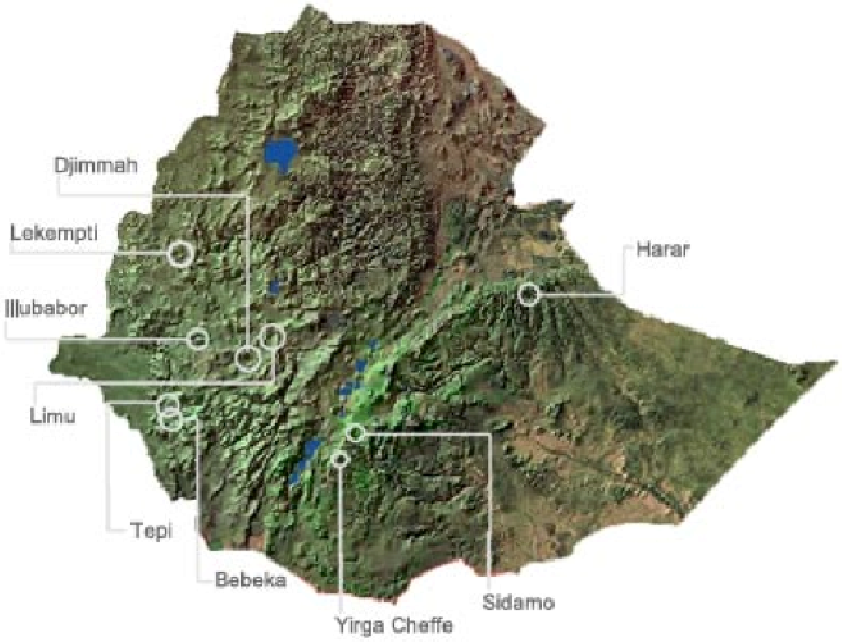
Figures 1.1 and 1.2 below provide the maps of Ethiopia with the location of the major coffee growing areas and production systems, as well as the location of some coffee types growing areas.

Figure 1.1 Major coffee growing areas and production systems in Ethiopia



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

Figure 1.2 Growing areas of some coffee types in Ethiopia



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

2. HISTORY, PRODUCTION SYSTEMS, PECULIARITIES AND IMPORTANCE

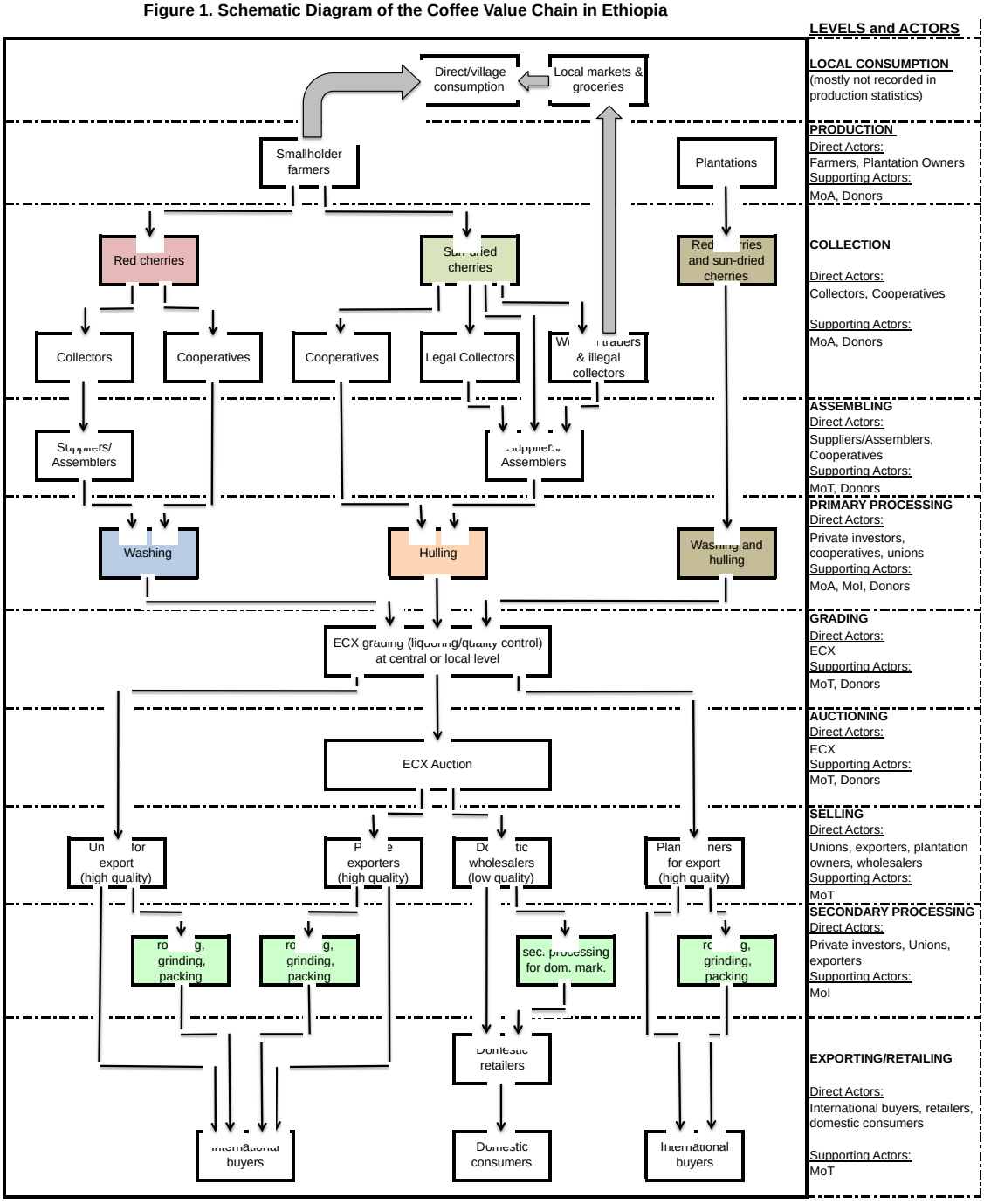
The Arabs first developed the coffee culture in Yemen in the 14th and 15th centuries. They brought the coffee there from South-Western Ethiopia. Islam then spread coffee consumption by bringing coffee from its production places to the Red Sea or Aden Gulf ports. At the end of 19th century, Ethiopia considerably developed the exploitation and commercialisation of coffee. This long period of coffee history and the fact that Ethiopia is the centre of origin and diversification of Arabica coffee lends the Ethiopian coffee sector some peculiarities, like: (i) wild coffee still grows in different areas, and forest and semi-forest coffees constitute an important segment of the country's production, (ii) 95 per cent of Ethiopia's total production is attributed to smallholders and most of them make no use of agrochemicals where manure is their main fertilizer; therefore Ethiopian coffee can be qualified as "organic" and could[13] command premium prices in the international market, (iii) a long and strong tradition of coffee drinking in Ethiopia implies that domestic consumption represents a considerable part (about 50 per cent) of coffee production, and (iv) different qualities of coffee beans produced in various regions of the country are recognized internationally and marketed as blends or as 100 per cent Ethiopian products and, consequently, possess the potential to fetch high premium.

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

***ANNEX 2. THE ETHIOPIAN COFFEE VALUE CHAIN* (2.1. The coffee value chain schematic diagram; 2.2. Problems in the Ethiopian coffee value chain; 2.3. Coffee processing; 2.4. Coffee domestic trading and export; 2.5. Certified coffee and specialty coffee; 2.6. Institutions and coffee value chain actors; 2.7 Main data on coffee production).**

2.1. The coffee value chain schematic diagram

Figure 1. Schematic Diagram of the Coffee Value Chain in Ethiopia



SELECTED DATA FOR 2011/2012

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

Source: Team analysis

Based on the analysis of the following paragraphs from 2.2 to 2.6, the schematic diagram in Figure 1 above, depicts the coffee value chain in Ethiopia. The white blocks display the interventions of the

various direct actors. The coloured blocks on their part exhibit primary processing operations while the lines indicate the different paths washed and sun dried coffees traverse.

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

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

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

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

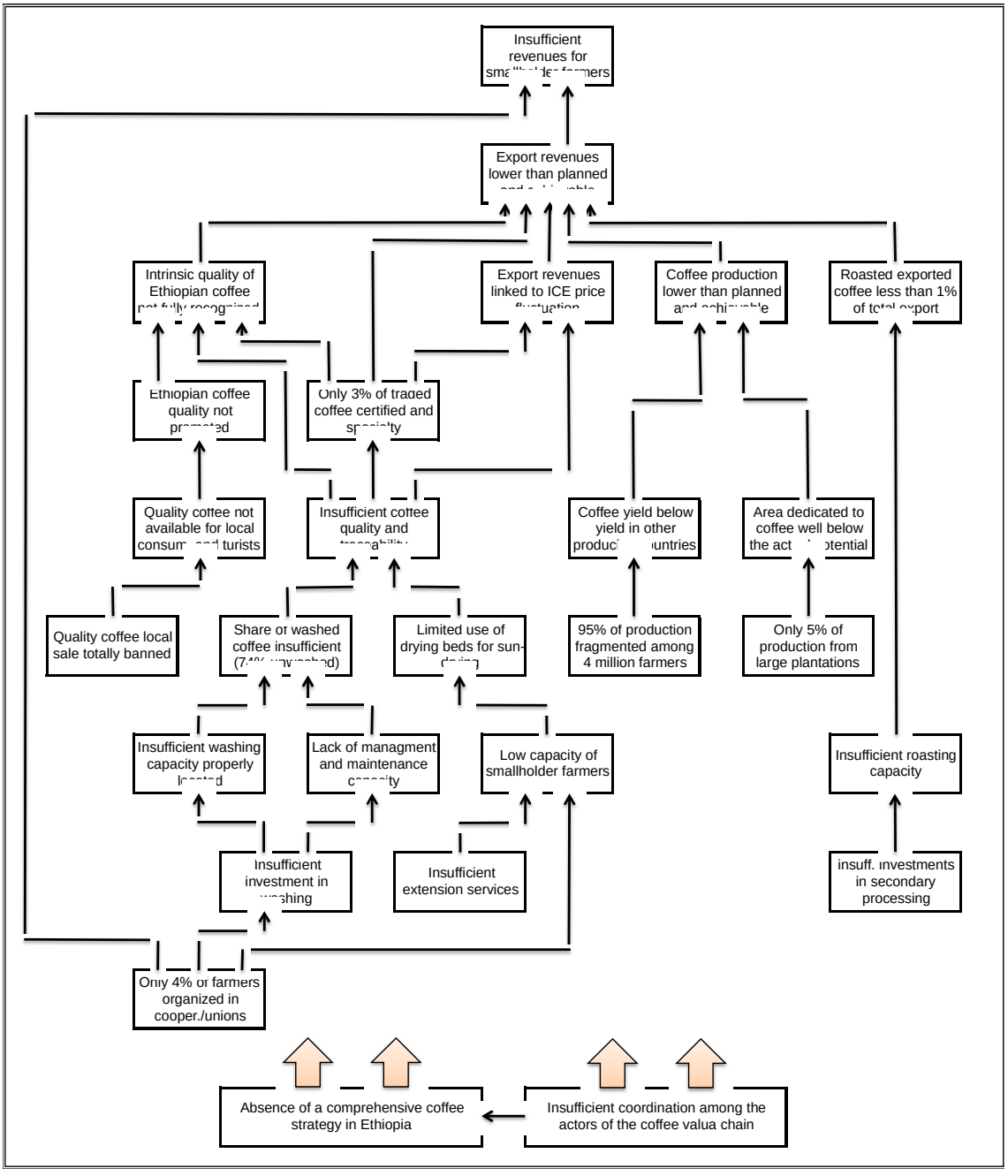
Notwithstanding these difficulties, it should also be noted (see Table 2.3. below) that, while a big quota of the Ethiopian green coffee is exported to countries with sophisticated markets (Europe, USA and Japan), a quota, ranging from 20 to 30 per cent, is exported to markets that are less demanding in term of roasting and blending (e.g. Saudi Arabia, Sudan, Korea and the emerging Chinese market). All these are potential end markets for Ethiopian coffee roasted in Ethiopia since they do not require a particularly difficult knowledge of the preferences of the final consumers.

At present, the total roasting capacity of Ethiopia is estimated at well below 1 per cent of the total coffee export. It can be assumed that, at least, half of the quota of green coffee presently exported to Saudi Arabia, Sudan, Korea and the emerging Chinese market could be exported as roasted coffee. This quota amounts to 10 to 15 per cent of the total exported green coffee. Therefore, there is a substantial potential for increasing the secondary processing capacity in Ethiopia, by about 10 to 15 per cent of the total present export volume. Since the export volume in 2011/12 was in the vicinity of 170,000t, it should in principle be possible to increase the roasting capacity of Ethiopia to about 17,000 or 25,000t per year. Assuming that the 70 per cent assigned to the value addition in the final part of the complete coffee value chain is correct and considering the costs associated to the secondary processing and transport, it can be estimated that the creation of the above mentioned roasting capacity could substantially increase the export revenues (supposedly by 20 per cent).

2.2. Problems in the Ethiopian coffee value chain

Figure 2 below depicts the problems connected to the coffee value chain in Ethiopia that are presented in the form of a Problem Tree, according to the Logical Framework.

Figure 2. Coffee Value Chain in Ethiopia: Logical Framework Problem Tree



Source: Team analysis

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

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

and national market, (ii) the quantity of production and, (iii) the prevailing form (green coffee) in which the coffee is exported.

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

2.3. Coffee processing

Almost all the coffee produced in Ethiopia is sold on domestic and international markets in the form of green coffee after undergoing only primary processing aimed at removing the outer skin, the pulp, the pectin layer and the parchment. Two types of primary processing are in use in Ethiopia: wet and dry processing. The process used has a significant effect on the flavour and aroma of roasted and brewed coffee. A more detailed description of the primary processing is in Annex 3.

In dry processing, from which unwashed Arabica (or sun-dried coffee) is obtained, the cherries are dried on ground, mats, concrete, or cement floors after picking. Smallholder producers mainly use sun-drying methods while in the large plantations coffee is mechanically dried in driers.

In wet processing, once the cherries are harvested, they are brought to "washing plants" where they are de-pulped, fermented in tanks and then washed in clean water to remove the mucilage. This process requires specialized equipment for removing the pulp and substantial quantities of water for fermentation and washing.

Washed coffee sells at significant premiums over sun-dried coffee with an incremental difference ranging from 10 to 65 per cent. Expanding washed coffee processing has been a sector development objective for many years and many efforts have been done by GoE, by unions, by cooperatives and by the donors. Notwithstanding all these efforts, according to MoT, the share of washed coffee over the total coffee export remained in a range between 27 and 32 per cent in the period from 2004/2005 to 2009/2010 and it reached 33 per cent in 2010/2011.

According to MoA, in 2012/2013 there were in Ethiopia 1,026 washing stations and 696 dry mills. A quota of the existing washing stations are out of operation due to local competition (in some areas), obsolescence, lack of working capital, inefficient management, lack of skilled technical staff, etc.. In 2008 this quota was estimated to be at 20 per cent of the total and the capacity utilization in operating washing stations was estimated to be about 60 per cent.

More detailed information on the number, locations and operating status of washing stations and dry mills are in Annex 3.

Concerning **secondary processing (e.g. roasting)**, only a small portion of the coffee produced (less then 1 per cent of the total production)[14] undergoes an industrial process carried out by local roasters who roast, grind and package the coffee for retail sales either in the domestic market or for export.

2.4. Coffee domestic trading and export

2.4.1. Coffee collection: main channel and alternative channel

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

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

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

Alternative trading channel for farmers vis-à-vis collectors is represented by the cooperatives, which play an important role in organizing farmers. Many cooperatives have their own washing stations and warehouses and are organized into cooperative unions. Currently, there are six cooperative unions, among which, the four major unions are: the Oromia Coffee Farmers Cooperative Union (OCFCU), the Sidama Coffee Farmers Cooperative Union (SCFCU), the Yirgacheffe Coffee Farmers Cooperative Union (YCFCU) and the Kaffa Forest Coffee Farmers Cooperative Union (KFCFCU). These four unions comprehend the great majority of the organized smallholder farmers. Table 2.1. has in display the number of cooperatives and member farmers under each of the four Unions in 2013.

Table 2.1. Number of cooperatives and smallholder farmers organized under the four major cooperative unions (rounded figures) in 2013

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

Source: Unions' websites and brochures

Considering the present number (see Table 2.5. below) of Private Peasant Holdings, according to CSA (4,042,000), and the number of farmers organized under unions (about 330,000 including those under the other minor unions), the share of farmers that can benefit of the advantages of being organized remains low and close to 8 per cent of the total.

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

2.4.2. The domestic coffee market: wholesale and retail

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

2.4.3. The Ethiopian Commodity Exchange (ECX)

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

The most important innovation to date we owe to Proclamation No. 602/2008, enacted in 2008, which replaced the coffee quality control and marketing legislation that had governed the sector for the last forty years. According to this legislation, all supplies of coffee, except for direct exports by growers (or

their organizations, i.e. cooperatives or their unions), are to be traded on the official market established for this purpose, the Ethiopia Commodity Exchange (ECX), which handles the marketing of agricultural commodities like coffee, sesame, and beans. The trading structure with ECX and its relations with the other actors are described in Annex 4.

2.4.4. Exports

ECX has over 450 registered buyers/exporters that are members of the exchange with licenses to bid for and export coffee. Unlike other producing countries in the region, Ethiopia does not allow multinational companies to register as exporters. Table 2.2. below shows exports during the period from 2004/05 to 2011/13 (Ethiopian Fiscal Years – EFY).

Table 2.2. Coffee export by volume (metric ton), export revenue (million US$) and average unit price (US$/kg), for the period from 2004/05 to 2012/13 (EFY).

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Export volumes	159,800	153,200	176,400	171,000	133,900	172,200	196,100	169.400	198,700
Export revenues	335	366	424	525	376	528	842	833	745
Average unit price	2.1	2.4	2.4	3.1	2.8	3.1	4.3	4.9	3.7

Source: MoT, 2013

The figures in Table 2.2. are rounded and they were taken from MoT. Other sources, like ICO and FAOSTAT, give different figures; the differences could depend also from using different period of the years considered (e.g. “crop season” instead of the EFY). As indicated in Table 2.2., the volume of exported coffee has demonstrated a generally increasing trend for the last nine years, except in year 2008/09 when a decrease was registered which, however, quickly recovered in the following year. Export revenue doubled in the period, but this was due more to an increased selling unit price than increase in volume. In Annex 5 there are some interesting observations by the Ethiopian Coffee Exporters’ Association (ECEA)[15], on the coffee export performance in 2012/13 EFY.

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

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

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

[15] *EFY 2012/13 Annual Coffee Export Performance and Export Price Analysis Report.*

2.4.5. General policy and stocks

According to "Ethiopia Coffee Annual Report", dated May 2013 and issued by USDA-FAS, the coffee policy of GoE revolves around trade and controlling the hard currency earned from exports aiming the maximization of foreign exchange. There are virtually no polices affecting coffee production. However, there are some regulations that impinge on the marketing process such that it is illegal to sell export quality coffee on the local market in spite of better local prices. Any coffee related business requires a special license for domestic wholesaling, coffee exporting, or coffee roasting. Coffee cooperative unions and ECX primarily hold coffee stocks. Most cooperative unions have their own stores whereas ECX has established between ten and twenty coffee warehouses; most of these warehouses are leased from private owners near production areas. In May 2011, GoE introduced coffee storing and exporting regulations limiting the amount of stock that an exporter can store. Private exporters are only allowed to store coffee not exceeding 500t. A trader who wants to store more than 500t, should first sign a written contractual agreement with an importer. Any exporter found storing more than 500t of coffee without having a shipment contract with an importer will be penalized with revocation of the trader's right to buy or sell coffee at ECX for three months. This regulation is, however, not applicable to local cooperatives and ECX.

2.4.6. Export destinations

In Table 2.3., the twelve major countries constituting the destination for Ethiopian coffee export are listed in order of importance for EFY 2012/13. Germany, Saudi Arabia and Japan are the largest importers followed by US and Belgium. France, Italy and Sudan also import significant quantities. It is worth noting that in 2008/09, exports to Japan fell drastically from over 20 per cent of Ethiopian exports to less than 1. Japan placed restrictions on importing coffee from Ethiopia due to high traces of pesticide residue on beans. Japanese pesticide requirements are 100 times stricter than US requirements. The chemical contamination was blamed on bags imported from Bangladesh. Japan has subsequently lifted this import ban and imports from Japan are recovering their position before the ban. It should be noted that Europe represents the most important market with a share of about 50 per cent.

Table 2.3. Ethiopian coffee export by country of destination in metric tons and in per cent, for the period from 2008/09 to 2012/13 EFY.

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

Source: MoT

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

2.4.7. Ethiopia's position among coffee exporting countries

In Table 2.4., the fifteen top coffee exporting countries are listed in order of their coffee export in 2012. Volumes of export for the same countries are also provided for 2010 and 2011. The major exporters are Brazil and Vietnam that cumulatively account for almost 50 per cent of the total world export. Ethiopia is the tenth world exporter with a share of 2.83 per cent and the largest in Africa. It should be noted that this ranking of Ethiopia among the exporting countries is in spite of the fact that Ethiopia, unlike many other coffee producing countries, has a very high domestic consumption of

coffee (more than 50 per cent of the total production).

Table 2.4. The top fifteen coffee exporting countries with volumes of export in metric tons, calendar years 2010 - 2012.

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

Source: International Coffee Organization, 2013

2.5. Certified coffee and specialty coffee

Certified and specialty coffee that can be produced in Ethiopia and put on the market is important to obtain prices above the international commodity price at the ICE. There are several different designations that coffee can assume to differentiate one from the other in the broad mass of commercial coffee. Designations such as Organic, Fairtrade, Rainforest Alliance and so on attempt to give consumers some sort of guarantee about the social or ecological sustainability pertaining to the coffee's mode of production.

In Annex 6 are quoted the indications provided to the international buyers by USAID in the Ethiopian Coffee Buying Manual, produced in March 2011, especially for what concerns what can be attempted to promote certified coffee and specialty coffee. In Annex 6 there is also information relevant to the introduction in the ECX of the Direct Specialty Trade (DST) platform that is a response to the emerging important trends in the international coffee market. As noted above, tracing the coffee to given attributes is an important means of adding value in the market. These attributes can be identity of the grower, social/community, economic, or environmental factors. DST is a mechanism to provide the benefits of the organized ECX marketplace (where the integrity of the product, the integrity of the transaction, and the integrity of the actors are maintained) while enabling traceability to market-desired attributes.

2.6. Institutions and Coffee Value Chain Actors

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

2.6.1. Direct Actors

2.6.1.1. Producers

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

(i) Smallholder farmers that, according to CSA consist of about 4 million Private Peasant Holdings. They are involved in the first three types of coffee production systems and account for about 95

per cent of coffee production in Ethiopia. Smallholder farmers with an average of less than 0.5ha of land have a mixed farming system, producing food for subsistence and some for local sales, with coffee as their main cash crop.

(ii) Owners of large plantations. They include the Ethiopian state itself (i.e. the state-owned farms) and a few private individuals/companies (for farms operating on commercial basis). The plantations produce the balance 5 per cent of the national coffee production.

2.6.1.2. Cooperatives and unions of cooperatives

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

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

At present, there are four major unions: OCFCU, SCFCU, YCFCU and KFCFCU. Under these four unions, which have incorporated a large majority of the organized smallholder farmers, there are about 300 cooperatives and about 325,000 farmers. The Oromia Coffee Union was established in June 1999 but the other three, Sidama, Yirgacheffe and Kafa Forest Coffee Unions, were established from 2001 to 2004 (see Table 2.1.) with direct support by ACDI/VOCA[16] under Agriculture Commodity Exchange for Africa (ACE)[17]. The pooling of effort and resources enables enough critical mass to make possible investments (e.g. washing stations, hulling stations and warehouses) which no member alone could accomplish.

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

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

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

[16] *ACDI/VOCA is an NGO based in Washington, D.C. - USA.*
[17] *The Agriculture Commodity Exchange for Africa is a program funded by USAID.*

where the efforts of cooperatives and unions are particularly focused.

2.6.1.3. Collectors

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

2.6.1.4. Assemblers/Suppliers/Wholesalers (akrabies)

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

2.6.1.5. Primary Processors

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

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

2.6.1.6. Roasters

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

2.6.1.7. Retailers, supermarkets and coffee shops and bars

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

2.6.1.8. The Ethiopia Commodity Exchange (ECX)

The ECX, described in Annex 4, is an important actor of the coffee value chain especially for its role in grading and in transparent auctioning.

2.6.1.9 Exporters

There are two classes of exporters: those who have to export through auction at ECX and those who enjoy an auction waiver. The latter are exclusively cooperatives or unions and government owned enterprises. It is, however, a requirement that all exporters meet the country's export standards. According to the study of 2010 mentioned in Note 9, at that time, ECX had over 450 registered buyers or exporters that were members of the exchange with licenses to bid for and export coffee. Unlike other producing countries in the region, Ethiopia does not allow multinational companies to register as exporters. Before coffee is ready for export, a further processing step is required which consists of cleaning and at times blending. This is the final processing step, normally carried out by the exporters in order to bring coffee in compliance with export standards required by international buyers. According to the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009", at that time there were 56 exporters who owned processing plants, of which 50 were located in Addis and 5 Dire Dawa.

2.6.1.10. Domestic consumers

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

2.6.2. Supporting actors

2.6.2.1. Government institutions

The major government institutions involved in the sector are:

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

2.6.2.2. Suppliers of goods and services

State and private enterprises, as well as cooperatives, are involved in providing agricultural inputs for coffee production. The use of these inputs is, however, mostly limited to the coffee big plantations. The Export Service Providers mentioned at point 4 of Annex 6 are part of this group of actors. They have been introduced with the new platform in ECX for Direct Specialty Trade.

2.6.2.3. Research institutions

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

collected for various purposes from different parts of the country, are maintained at the Centre. It disseminates its findings through extension services.

2.6.2.4. International/bilateral Donors and NGOs

Various international and bilateral donors as well as non-governmental organizations (mostly international NGOs) are active in the coffee sector in Ethiopia. Their interests range from overall economic wellbeing, to social welfare of the growers, to environmental protection and conservation. Among these are: the European Commission (EC), USAID, Bill & Melinda Gates Foundation, the NGO ACDI/VOCA, the NGO TechnoServe, the NGO OXFAM and the Italian Cooperation. In Annex 8 the activities of these organizations in the coffee sector are described.

2.6.2.5. Associations

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

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

The third association is the Ethiopian Coffee Roasters' Association (ECRA). It was founded in 2005 and has now 61 members (21 very active) trying to improve Ethiopia's capabilities in the roasted coffee market. The focus at present is primarily on the domestic market, but the association is addressing itself to increase supply to better serve the export market (which it has already started to cater to the China and Middle East markets). The fourth is the Ethiopian Coffee Growers and Exporters Association whose members include growers and exporters engaged in coffee growing and exporting activities. According to the "Ethiopian Coffee Buying Manual", dated March 2011[18], in February 2011 this association included 44 growers having cultivated plantations ranging from 70ha to 21,000ha. The total cultivated area for the 44 growers was 32,894ha, therefore the average area per grower was about 747ha. These figures do not include the 26,106ha of additional coffee plantation land that was in 2011 still under development (or not yet started harvesting).

2.6.2.6. Agents and Brokers

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

2.6.2.7. Banks and Micro-Finance institutions

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

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

2.7. Main data on coffee production

As a complement of what already indicated in the Project main text, here below some information are given on where the data on coffee production have been found. In the following Table 2.5., the main data on coffee production for the 2011/2012 coffee season are exhibited.

Table 2.5. Significant features of coffee production in Ethiopia, 2011/2012 coffee season (rounded figures)

No.	DATA	UNIT	QUANTITIES	SOURCES
1	Area under Private Peasant Holdings	ha	516,000	CSA (a)
2	Number of Private Peasant Holdings	n	4,042,000	CSA (b)
3	People depending on coffee for livelihood	n	20,000,000	Own estimate (c)
4	Production	t	407,880	ICO (d)
5	Yield for Private Peasant Holdings	t/ha	0.73	CSA
6	Domestic consumption	t	202,980	ICO (e)
7	Exportable quantity	t	204,900	ICO
8	Exports	t	169,392	MoT (f)
9	Export value	US$	833,000,000	MoT
10	Share of coffee on total export value	%	25.57	WB (g)

The major sources utilized for the data in Table 2.5. are the following: Central Statistical Agency (CSA), Ministry of Trade (MoT), Ethiopian Coffee Exporters' Association (EFY 2012/13 Annual Coffee Export Performance and Export Price Analysis Report), International Coffee Organization (ICO), United States Department of Agriculture – Foreign Agricultural Services (USDA-FAS), USAID, World Bank (WB). Figures for the same data from the above and other sources often present differences that can also be substantial. However, the figures above are those that seem more realistic. Nevertheless, the following observations, relevant to these items, must be taken into consideration:

(a) The area given by CSA as relevant to Private Peasant Holdings, presumably refers to smallholder farmers and probably includes all garden coffee area and some portion of the forest and semi-forest coffee areas. However, it does not include plantation areas. Some sources put the total area dedicated to coffee at about 700,000ha.
(b) This should be the number of smallholder farmers in 2011/2012.
(c) Many sources report a total number of people depending on coffee for their livelihood to be 15-16 million. It has been found that all these sources base this figure on an estimate made by the consultant Global Agrisystem PVt. Ltd. and completed by the consultant LMC International Ltd.. According to these sources (e.g. USAID): "Agrisystems (2001) estimates the number of coffee farmers in Ethiopia at 1.3 million. With an assumed family size of six to seven people, the number of Ethiopians associated with coffee growing can be as large as 7–8 million. Moreover, coffee is labour-intensive during harvesting and processing and provides an important source of income from casual labour for poor rural populations. Adding those employed in transporting coffee and ancillary activities, LMC (2000, 2003) estimates that 15 million people are involved in the industry in one way or the other.". The above estimate needs to be updated: (i) to make it consistent with the about 4 million involved smallholders reported by CSA in 2011/2012, which largely differ from the 1.3 million considered by Agrisystem and, (ii) to take into account the increase of the Ethiopian population from about 67 million (WB, UN) in 2001 to about 85 million (CSA, UNDP-HDR 2013) in 2012, (iii) to take into account the increase in the period of the total production of coffee in Ethiopia that, according to ICO, registered an increase of 2.2 times, passing from 186,900 t in 2000/2001 to 407,800 t in 2011/2012. In addition, in the twelve-year period from 2000 to 2012, according to UNDP-HDR 2013, the number of births per woman changed substantially from 6.1 to 3.9 and, presumably, the average family size in the countryside has been reduced from 6-7 people to 4-5 people[19]. In consideration of all the above-mentioned variations, the updated number of people depending on coffee should be today, at least, in the range of 20 million.
(d) Differences for the 2011/2012 production have been noted among the various sources; for instance: (i) CSA's 376,823t from Private Peasant Holdings, (ii) Ethiopian Coffee Exporters' Association's 498,767t, (iii) MoT's 391,000t, (iv) ICO's 407,000t, (v) USDA-FAS' 379,200t. However, 407.000t in the table from ICO is the figure more consistent with other data.
(e) USDA-FAS gives a figure of 183,000t for domestic consumption in 2011/2012.

[19] *This is indirectly confirmed by the survey conducted in 2007 by the CSA (Household Income, Consumption and Expenditure Survey) where it was assessed an average household size in Oromia of 5.2 individuals.*

(f) Differences for the 2011/2012 exports have been noted among the various sources, i.e.: (i) MoT's 169,392t, (ii) USDA-FAS' 188,400t and, (iii) ICO's 169,920t. It is also worthy of note that export quantity plus domestic consumption can be different from the total production, due to variation in the coffee in stock.

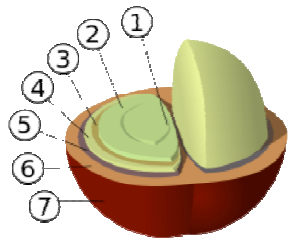
(g) According to the World Data Bank of the World Bank (WB), the total export value for the country in 2012 was about US$ 3,258 million.

ANNEX 3. **COFFEE PRIMARY PROCESSING, WASHED COFFEE VERSUS SUNDRIED COFFEE, NUMBER AND LOCATION OF WASHING STATIONS AND DRY MILLS IN ETHIOPIA IN 2012/2013**

Coffee is harvested in Ethiopia from November to February in the form of cherries that have to be processed in order to remove (see Figure 3.1) the outer skin, the pulp, the pectin layer and the parchment and to obtain the "green coffee" ready for the market. Several hundred thousand workers are employed in processing of either red cherry *(key eshet)* or dried pulp coffee (*jenfel)* in hundreds of washing stations and hulling mills around the country and, therefore coffee processing is a major source of employment and income in the country.

Figure 3.1. Structure of coffee berry and beans

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



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

In dry processing, from which unwashed Arabica (or sun-dried coffee) is obtained, the cherries are dried on mats, concrete, or cement floors after picking. The sun-drying may take up to four weeks to reach optimum moisture content, where the cherries must be moved so often to ensure even drying. After drying to moisture content of about 11.5 per cent, the outer layer of the bean is removed by hulling and the green bean thus obtained is ready for marketing. Smallholder producers mainly use sun-drying methods while in the large plantations coffee is mechanically dried in driers.

In wet processing, once the cherries are harvested, they are brought to "washing plants" where they are de-pulped, fermented in tanks and then washed in clean water to remove the mucilage. The wet parchment coffee (the coffee "bean" with a thin layer of skin) obtained is then dried in the sun on raised beds to moisture content of 11.5 per cent. This process requires specialized equipment for removing the pulp and substantial quantities of water for fermentation and washing[20].

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

Historically, over 90 per cent of Ethiopian coffee was sun-dried. However, since washed coffee sells at significant premiums over sun-dried coffee[21] and it is more practical to control quality under wet processing, the government and several collaborative programs have been making efforts to increase the number of washing stations for smallholder produced coffee. Unwashed coffee commands a lower price in many markets including the US, where the image of washed coffee being somehow "cleaner" is strong. Some countries specifically require unwashed coffee for better and richer taste, especially in the Japanese market. The government, by encouraging cooperatives and traders to invest in machinery, intends to raise the output of washed coffee. Farmers' groups, cooperatives, union of cooperatives, non-governmental organizations, private individuals and government farms are involved at the higher level and mainly own coffee washing stations and hand pulpers. In 1980/81, washed coffee was only 9.1 per cent of total coffee export. According to MoT, the share of washed coffee over the total coffee export remained in a range between 27 and 32 per cent in the period from 2004/2005 to 2009/2010 and it reached 33 per cent in 2010/2011.

Expanding washed coffee processing has been a sector development objective for many years. Ethiopia has promoted large scale washing stations rather than small-scale de-pulping machines and village-scale processing. While there is a place for both, large-scale processing plants must, however,

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

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

be guaranteed minimum volumes to ensure sound financial operations. A shortage of raw material supply has forced large-scale plants to run well below capacity, consequently entailing substantial financial losses.

Table 3.1. Number of washing stations and dry mills in Ethiopia in 2012/2013, their distribution among Regions and according to type of ownership

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

Source: Ministry of Agriculture, 2013

According to the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009", that was developed by the Ministry of Trade and Industry (MoTI)[22] in collaboration with MoA and with the support of UNIDO (in partnership with FAO and UNDP), there were (presumably in 2008) 728 washing stations. About 20 per cent were estimated to be out of operation due to local competition (in some areas), obsolescence, lack of working capital, inefficient management, lack of skilled technical staff, etc.. Capacity utilization in operating washing stations was estimated to be about 60 per cent.

A study dated June 2010 and commissioned by USAID[23], gives the following numbers of dry mills and washing stations, presumably for the year 2008 or 2009:

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

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

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

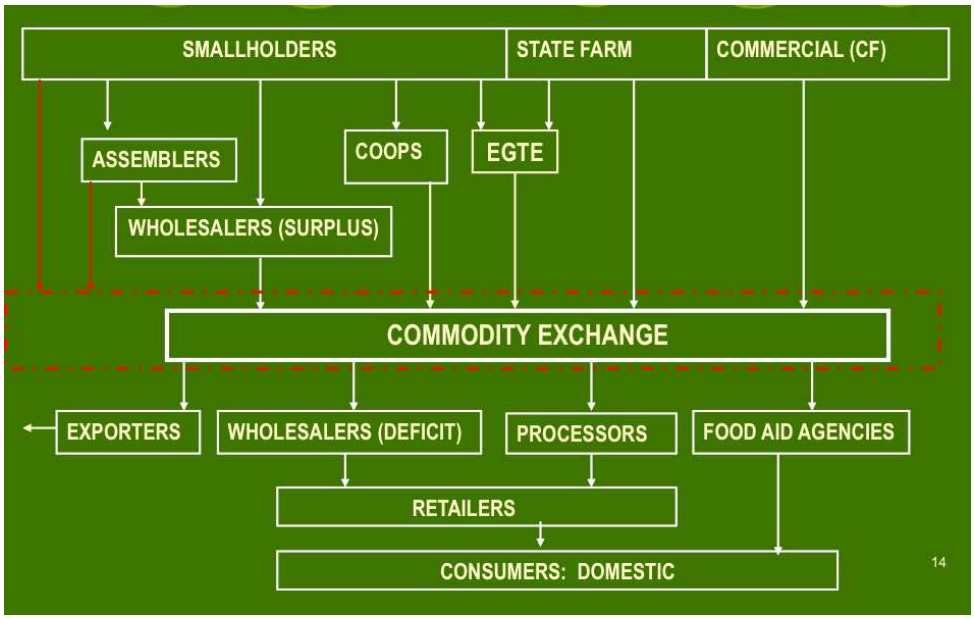
[22] *The tasks of the Ministry of Trade and Industry have now been assigned to the Ministry of Industry (MoI) and to the Ministry of Trade (MoT).*

[23] *Ethiopia Coffee Industry Value Chain Analysis, Chemonics International Inc., 18 June 2010*

***ANNEX 4*. THE ETHIOPIAN COMMODITY EXCHANGE (ECX)**

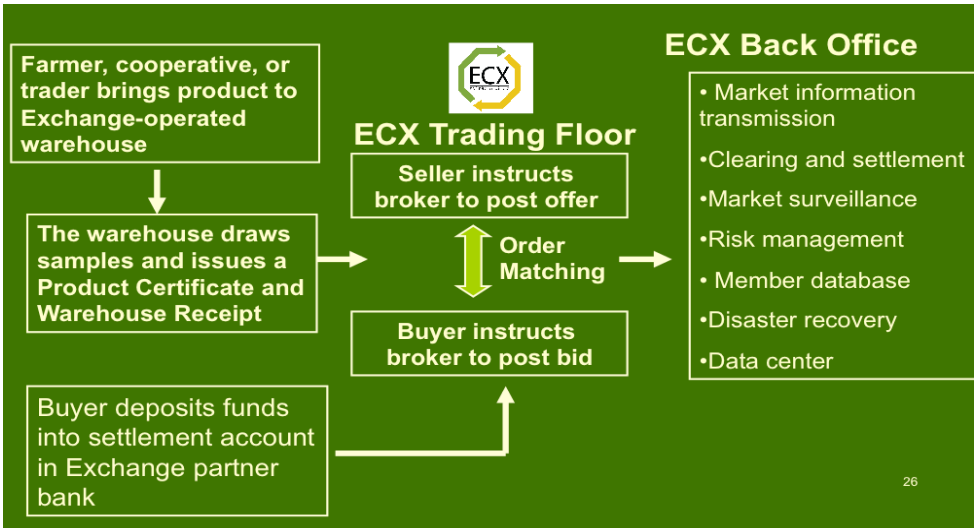
In Figures 4.1 and 4.2 below, the Ethiopia Commodity Exchange, the coffee trading structure and its working modalities are illustrated. ECX, promoted by the Government of Ethiopia, was designed as a public-private partnership enterprise. The corporate governance of ECX maintains a healthy balance of owner and member interests and the Management Board is composed of owner representatives and 5 private member representatives. ECX deals with the following commodities: coffee, sesame, haricot beans, maize and wheat.

Figure 4.1. Trading Structure within ECX[24]



Source: Ethiopia Commodity Exchange, 2009

Figure 4.2. How ECX works



Source: Ethiopia Commodity Exchange, 2009

A large share of all the produced coffee is sold on the ECX floor either through organized coffee farmers' cooperatives/unions or middlemen. Among ECX's board members are GoE officials, providing them with an opportunity to have a regulatory hand in the coffee marketing process. The main reason for establishing ECX was the elimination of a huge number of middlemen involved in

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

coffee distribution and to enable coffee farmers to benefit from prevailing market prices. Coffee sold through ECX is considered as commodity coffee and is not entitled to possible premiums benefitting organic coffee.

One of ECX main functions is quality control and grading that is carried out via liquoring and inspection units located in the major coffee producing localities where the coffee is also weighed and inventoried in ECX operated warehouses. The coffee-grading and quality control system involves both green and cup-quality assessments, which are used to determine the cleanliness of the cup and the origin, taste and character of the coffee.

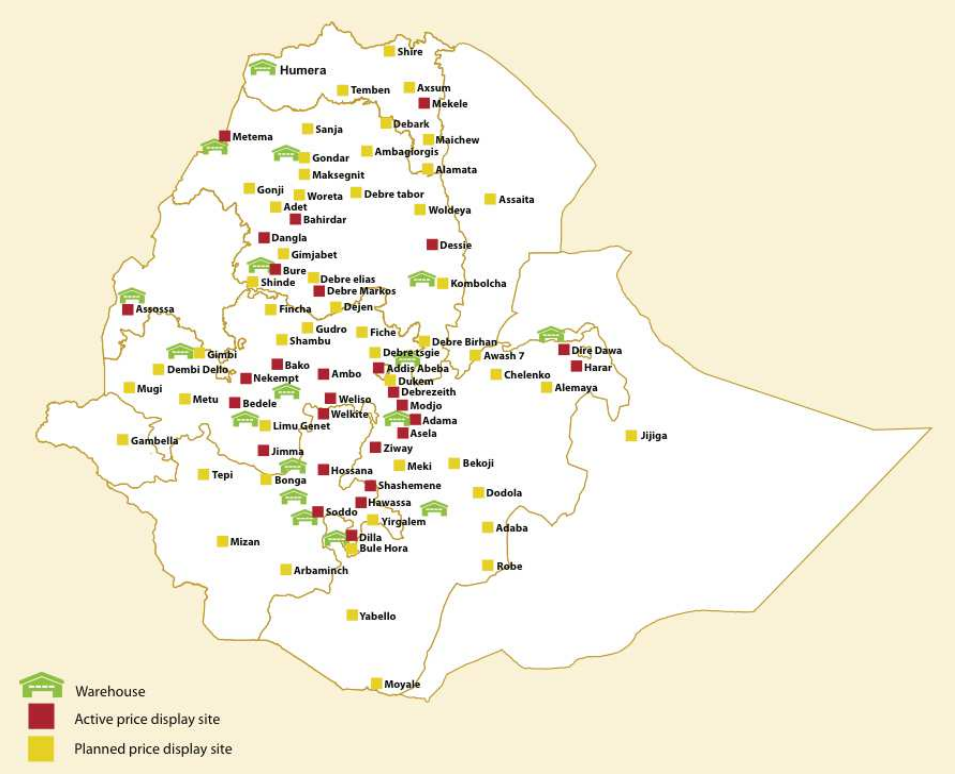
Maintenance of high quality is important in the export market in order to maintain Ethiopia's reputation as a dependable supplier. Coffee grading and quality control in Ethiopia is conducted at three major levels: regional, central and export. In every major coffee-producing district, there is a quality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

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

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

In Figure 4.3 are illustrated the locations, in 2011, of the active and planned ECX facilities, according to a publication of the International Food Policy Research Institute (IFPRI) dated 2012[25],

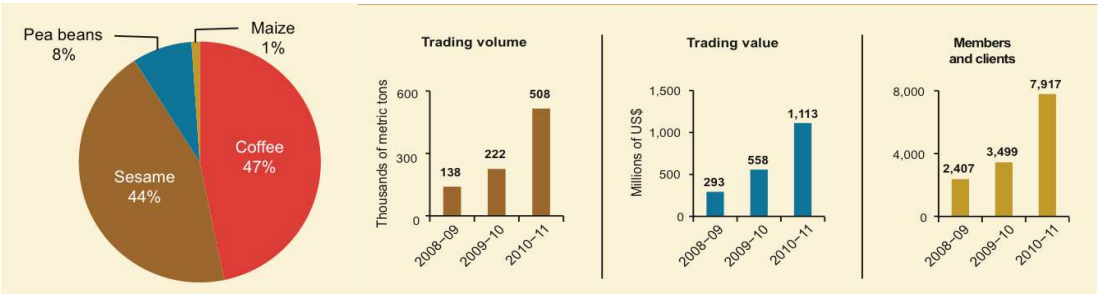
Figure 4.3. Locations, in 2011, of the active and planned ECX facilities.



Source: Ethiopa Commodity Exchange, 2012

Figure 4.4 illustrates: (i) the percentage of major commodities traded in ECX in 2011 and, (ii) the evolution of trading volumes, trading value, members and clients in the years from 2008/09 to 2010/11.

Figure 4.4. Percentages of major commodities traded in ECX in 2011 and evolution of main indicators from 2008/09 to 2010/11



Source: Ethiopia Commodity Exchange, 2012

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

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

***ANNEX 5*. OBSERVATIONS BY THE ETHIOPIAN COFFEE EXPORTERS' ASSOCIATION ON THE EXPORT PERFORMANCE IN 2012/2013 EFY**

According to the Ethiopian Coffee Exporters' Association (ECEA) in 2012/13 EFY:

a) Export in washed coffee accounted for 25.4 per cent in volume and 26.9 per cent in value and in the previous nine years averaged 26 per cent. As a consequence, increase in washing capacity in the country, mentioned in Annex 3, was sufficient to realize an increased coffee production, but it did not allow for an increase in the share of washed over sun-dried coffee.

b) Specialty coffee which fetches premium price in the international coffee market accounted only for 3.1 per cent of the traded volume in which specialty washed held 2.62 and specialty unwashed a 0.63 per cent share. Local coffee types which are sold for local consumption held more than 12 per cent share of the total coffee volume traded for the year.

c) A record volume of close to 200,000t was exported during the year with revenue for the country of US$ 745 million.

d) The coffee export income obtained accounted for 24.2 per cent of the total national export earnings of the year (US$ 3.08 billion). This share was the lowest so far observed in the export income of the country, which implies that other commodity exports, especially gold, have become important items. Coffee and gold alone accounted for more than 43 per cent of the country's total export income for EFY 2012/13.

e) The export volume was a historic level that exceeded the previous year's export of 169.400t by 17.3 per cent. This export revenue, however, was less by 10.6 per cent compared with the previous year. Therefore, despite a significant rise in volume, the coffee export performance in value terms was lower. The decline in revenues was caused by the reduction by more than 30 per cent in the price of Arabica coffee in the global coffee market. As a result, the average price went down to 3.7 US$/kg from 4.9 US$/kg in 2010/11 and 4.3 US$/kg in 2011/12. Price of Arabica coffee in the international market continued to decline due to the sustained structural over-supply of coffee from Brazil, Colombia, Honduras, Vietnam etc., in the face of an economic recession in the developed economies of the north and a shift in coffee consumption behaviour of coffee importing developed countries. As a result, the price of Arabica coffee at the New York Inter Continental Exchange (ICE) which started at 4.0 US$/kg monthly average price in July 2012 continued to fall to reach 2.7 US$/kg in June 2013. This shows that the monthly average Arabica coffee price fell by about 46 per cent in a twelve months period. Similarly, ECX export coffee price, which registered a monthly average price of 4.4 US$/kg in July 2012 also continued to decline, reaching 3.3 US$/kg in June 2013. Although Ethiopian coffee is not generally sold or traded on the international market in line with the trading value of Arabica coffees at ICE markets, the ICE daily market price is considered as the basis for negotiating most contract sales prices between Ethiopian coffee exporters and international buyers. Comparing ECX and ICE coffee trading values, all washed coffee export sale deals are normally struck at plus 0.44 US$/kg, for Yirgacheffe washed export coffee at plus 0.88 US$/kg above the ICE price and for all unwashed coffees at below 0.38 to 0.66 US$/kg. The monthly weighted average prices of July – June 2012/13 at both ECX and ICE markets for all coffees show that the two markets were fairly interrelated or connected. But though they are correlated, the price-declining rate for the two markets was not similar.

ANNEX 6. **CERTIFIED COFFEE, SPECIALTY COFFEE AND THE DST PLATFORM ESTABLISHED IN THE ECX (**indications provided to the international buyers by USAID in the Ethiopian Coffee Buying Manual, produced in March 2011)

1. Organic

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

2. Fairtrade

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

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

3. Exporters/ECX

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

4. Direct Specialty Trade (DST)

The introduction of this platform is a response to the emerging important trends in the international coffee market. As noted above, tracing the coffee to given attributes is an important means of adding value in the market. These attributes can be identity of the grower, social/community, economic, or environmental factors. DST is a mechanism to provide the benefits of the organized ECX marketplace (where the integrity of the product, the integrity of the transaction, and the integrity of the actors are maintained) while enabling traceability to market-desired attributes. Ethiopian laws governing the trade of coffee allow producers to directly export the coffee produced on their own farm without having to sell it to suppliers who then sell it to exporters. However, due to the small scale and weak capacity of most Ethiopian coffee producers and their geographic dispersion, there is a coordination failure in the market in that it is costly and risky for small farmers and international buyers to find each other and directly transact. The ECX Direct Specialty Trade addresses this problem. Producers may use the platform as a way to grade and store specialty coffees they intend to offer directly to the international market. The difference with the existing ECX system is that the identity of the producer is maintained throughout the transaction while providing the usual services of quality certification and inventory management. The other difference is that the actual sales contract is not executed as part of DST, because the transaction between producer and buyer is an international trade conducted in dollar, not Birr. Thus, beyond quality control and inventory management, ECX would conduct a DST bidding session where sellers (producers) and international buyers meet to bid on prices. However, once a price is agreed, the international sales contract is concluded bilaterally, registered with the appropriate authorities (National Bank of Ethiopia) and executed outside of ECX. The role of ECX would thus be to coordinate the price discovery without engaging in the payment and clearing, as is the case in the existing ECX system. Finally, ECX market data dissemination would enable all market players to be informed about the prices and qualities discovered in the DST bidding session. Thus, although different in significant aspects from the existing ECX model, the DST represents an important value addition to the market in that it redresses a coordination and information failure. It creates an incentive for buyers interested in traceable and thus certified coffees to source supply directly from Ethiopian farmers. As shown above, this is likely to be a rapidly growing market segment and one in which Ethiopia has the potential to be a global market leader. For producers, DST is a means to empower themselves by directly accessing the international market and negotiating better prices for specialty coffee that has a recognized value premium.

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

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

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

5. Traceability and transparency on return to farmers

A core objective of DST is to allow traceability based trading through ECX. However, in addition, DST can also offer transparency in the pricing and returns to growers, which is also of interest to the market. However, because transparency also comes at the cost of losing valuable business information to the seller, and may enable the raising of the final price to the consumer, there is an additional premium that should be priced into the sale when such financial disclosure is made. Thus, the DST Operational Agreement annexed to the international sales contract also contains an optional Transparency Clause, in which the fee paid to the service provider and the average price of the cherry offered to the specific farmers would be disclosed. This allows the buyer to impute the returns to the grower out of the final FOB price. To avail this information, the buyer would be required to add a fixed “transparency premium” established in advance by the Exchange, to the agreed bid price. With or without this transparency clause, ECX is also committed to ensuring that DST assures a fair return to

the farmers who produced the specialty coffee. Thus, ECX commits to all sides of the market that it will ensure, through reviewing the fees specified in the Agreement and through auditing from time to time, that a minimum farmer share of 85 per cent of final FOB price is maintained. This is a major branding of the DST initiative if a national marketing system can make such a commitment and ensure that this principle is maintained.

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

6. Unions

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

7. Private growers

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

ANNEX 7. THE DEVELOPMENT PLANS IN ETHIOPIA AND THE GROWTH AND TRANSFORMATION PLAN (GTP) FOR THE PERIOD 2010/11 – 2014/15

The economic plans of Ethiopia, the first of which was enunciated in 1995, allotted high importance to agriculture on the success of which the development of the other sectors, above all industry, is to hinge upon. Specifically, poverty alleviation and the parrying off of food aid remains the constant goal in the economic plans professed, subsequently leading up to the present. The Ministry of Economic Development and Cooperation (MoFED) has the responsibility to prepare, in cooperation with the concerned organs, the country's economic and social development plan as well as following up the implementation of the same when ratified. MoFED has accordingly coordinated the design and implementation of the Sustainable Development and Poverty Reduction Program (SDPRP), which covered the period 2002/03 – 2004/05 and, subsequently, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), that run from 2005/06 to 2009/10. During these plan periods, remarkable achievements were registered and during the PASDEP the economy grew on average at 11.2% per annum. On the basis of the experience gained has been prepared and adopted in November 2010 the Growth and Transformation Plan (GTP) for the period 2010/11 – 2014/15.

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

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

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

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

Moreover, the GTP within the ambit of its two volumes (i.e. Volume I, Main Text and Volume II, Policy Matrix) establishes detailed targets for each sector/subsector and for each of the five years of the plan period in the context of two growth scenarios: Base Case and High Case Scenarios. Under the first, Ethiopia's economy is projected to grow at an average annual rate of 11.2 per cent, in the same way as in the last year of the PASDEP period. Under the second, an average annual rate of 14.9 per cent is projected. The targets, however, sometimes sound rather ambitious even in the base case scenario; for instance, the growth in coffee export volume is projected at about 3.5 times in the period and coffee export earnings at about 3.9 times. Among the various GTP targets, those who have more relevance for the coffee sector are listed in the following Table 7.1.

Table 7.1. GTP targets relevant to the coffee sector (base case scenario)

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

Source: GTP – Main Text and Policy Matrix

According to the GTP, it is expected that, in the 5-year period of the plan, substantial changes of the contributions that each sector gives to the economy will take place. In the following Table 7.2 these expected changes are indicated.

Table 7.2. Projected trends in the structure of GDP by sector (base case scenario)

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

Source: GTP – Main Text

For what concerns the expected changes in the contributions of the three economic sectors to the country GDP, the results until 2011/12 are illustrated in Table 7.3.

Table 7.3. Achievements in the change of GDP structure by sector (base case scenario).

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

Source: GTP - APR 2011/2012 (draft)

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

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

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

***ANNEX 8*. ACTIVITIES OF INTERNATIONAL/BILATERAL DONORS AND NGO IN THE COFFEE SECTOR IN ETHIOPIA**

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

- The European Commission (EC) that, in the last 30 or so years, provided Ethiopia with about 130 million Euro in support of the development of the coffee sector by virtue of the four phases of the Coffee Improvement Program (CIP I, CIP II, CIP III and CIP IV) it implemented. At present, in response to a specific request from the Ministry of Finance and Economic Development (MoFED), the EC is now funding the preparation of a comprehensive coffee strategy for the country. Consultants in its service have almost completed the preparation of the strategy and the first draft is expected to be ready for circulation by May 2014.
- USAID's largest contribution to the GoE Agricultural Growth Program (AGP) is the funding of the "Agricultural Growth Program – Agribusiness and Market Development (AGP-AMDe)". In line with the overall objectives of AGP, AGP-AMDe works to sustainably reduce poverty and hunger by improving the productivity and competitiveness of value chains that offer jobs and income opportunities for rural households. Target value chains are maize, wheat, sesame, coffee, honey and chickpeas. The project is implemented in the high rainfall regions of Amhara, Oromia, SNNPR and Tigray by strengthening agricultural productivity and markets. USAID is funding also another program where the coffee subsector is involved, namely, the "Cooperative Development Programme", which is aimed at organizing smallholders into cooperatives in order to capitalize on the wide variety of highly differentiated gourmet coffees grown in Ethiopia and establish Ethiopia as a market leader in the fast growing specialty coffee market. The two programs are implemented through the American NGO ACDI/VOCA. USAID is the most important bilateral donor for the coffee sector in Ethiopia and, in the past, it has supported also the establishment of the ECX.
- Bill & Melinda Gates Foundation provided a grant of US$ 47 million to the international NGO TechnoServe for the implementation of a "Coffee Initiative" in four countries: Ethiopia, Kenya, Rwanda and Tanzania. The project implementation took place from 2008 to 2011 and was concentrated on providing support to smallholders and their cooperatives and on the improvement of coffee quality (increase of washing capacity and focus on specialty coffees). In Ethiopia, the "Coffee Initiative" has achieved important results in facilitating the access of farmers and cooperatives to credit that was facing various obstructions stemming from several constraints. Limits to financing are still seriously hampering new investments in washing stations and adequate operations of existing stations. Recognizing these limitations, the "Coffee Initiative" led a major effort in 2010 to unlock substantial amounts of capital for clients by helping to establish a new relationship between the International Finance Corporation (IFC) and Nib International Bank, a major commercial bank in Ethiopia with an interest in developing its agribusiness portfolio, especially loans made to coffee cooperatives.
- ACDI/VOCA. The name ACDI/VOCA dates back to the 1997 merger of Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance. Both were non-profit international economic development organizations founded by the U.S. cooperative community. In addition to the two USAID-funded programs mentioned above, this NGO implemented several initiatives in the rural development sector in Ethiopia. In the coffee sub sector, ACDI/VOCA has been implementing, from 2008 to 2012, a Cordaid-funded[26] "Ethiopian Coffee Development Program (ECDP)", which managed to increase smallholder incomes by focusing on four areas in the coffee value chain. To address constraints in these areas, ACDI/VOCA provided training and technical assistance to farmers in topics such as composting, pruning, timely cherry picking and sun drying on raised beds. It also worked addressing exporters, unions, washing station owners, cooperatives and farmers to implement a system of traceability to guarantee that quality characteristics were preserved from the farm to the cup and to ensure that premiums for this quality make their way back to smallholder producers.
- TechnoServe, after the completion of the above mentioned project financed by the Gate Foundation, remains involved in the coffee sector in Ethiopia with further initiatives.
- OXFAM which has in the past led an unprecedented global campaign against the specialty coffee giant Starbucks, which helped Ethiopia to establish trademark protection for some of its specialty coffees.

[26] *Cordaid (Catholic Organisation for Relief & Development Aid) is a foundation based in The Netherlands.*

- Italian Cooperation – The Ethio – Italian Development Cooperation's "Agricultural Value Chains Project in Oromia" aims at developing two mains traditional crops: durum wheat and natural coffee. This has been running since 2011 in Bale Zone, with the technical assistance of the Overseas Agronomic Institute under the Italian Ministry of Foreign Affairs. In line with GTP, the project is enabling smallholder farmers to significantly contribute to the main productive challenges of Ethiopia. Regarding the improvement of natural coffee, the work is concentrated in the Harenna Forest of the Bale Mountain National Park, Dello Mena. Twelve primary coffee cooperatives (with about 2,000 members) have been receiving training and technical assistance for improving harvesting and sun drying of cherries. This is being implemented in collaboration with the Slow Food Foundation for Biodiversity, Italy, reaping astonishing results with regard to coffee quality as testified by top ranks in cup testing, as well as by price increases of the coffee harvested by about 66 per cent. A union federating 12 cooperatives was established to, inter alia, better coping with marketing issues and hitches. The next challenge is to fully capacitate the union to operate the direct export of its produce, while adopting a rigorous traceability system within its cooperative members. The final goal is to allow the recognition of the Harenna Forest Natural Coffee as specialty brand.

ANNEX 9. ABSTRACTS OF ILLYCAFFE' S.p.A. COMPANY CHARACTERISTICS

illycaffè S.p.a. is a family-owned coffee roaster founded by Francesco Illy in 1933 in Trieste (Italy). The company is specialized in producing a unique blend of the highest quality 100% *Arabica* coffee for espresso. The company has direct contacts with the origin producers in order to constantly source the best green coffee beans. The products range includes whole beans, roast and ground, capsules and pods and the ready to drink illyissimo, distributed globally. The company produces also home coffee machines. The company sells its coffee and coffee machines in 140 Countries among the best hotels, coffee bars and restaurants. Its traditional distribution channels are hotels, restaurants, cafeterias and retailers. The internet sales are also growing. The company is also present in offices through Mitaca, a company 50 per cent owned by illycaffè. Its gross revenue in 2013 has been around 370 million Euros.

illycaffè has started purchasing the best Ethiopian coffees from the very beginning of its history and has been dealing directly with the Ethiopian entrepreneurs more than 20 years ago. Today, the illy blend is still enriched by the uniqueness of best Ethiopian washed coffees. Besides, illycaffè bought more than 150,000 bags in the last 3 years for a value of more than US$ 50 million. On average, every year illycaffè purchases the finest 1 per cent of Ethiopia's coffee production or 2 per cent of Ethiopia's green coffee export. illycaffè is the number 1 Italian coffee buyer, importing every year more than 50 per cent of the Ethiopian coffee imported in Italy. illycaffè has also started to sell single origins coffee, being in this way a sort of ambassador of the quality produced in the selected countries including Ethiopia. This is another proof of the importance given by illycaffè to the Ethiopian coffee. (http://www.illy.com/wps/wcm/connect/en/coffee-at-home/caffe-illy-monoarabica#paesi-di-origine_Ethiopia)

illycaffè has a unique trading system which is applied to all its purchases based on higher than market prices, especially rewarding quality, providing technical assistance and forming direct relationship with its coffee suppliers as well as the surrounding communities. This strategy is essential to provide the high organoleptic quality those illycaffè needs, as quality generated by nature could be spoiled by wrong postharvest management. To avoid this, a full integrated supply chain has to be implemented in each origin, involving all the actors from the coffee farmer to the final exporter. For this the interest of illycaffè in participating to this Project. This system has been even certified by an independent, highly competent and renowned certifying agent: Det Norske Veritas, thus, making illycaffè the first company in the world to do so.

The Ernesto Illy Foundation, an aspiration of the Illy family, has the mission to cultivate and develop knowledge, ethics and sustainability as absolute values as well as research as the method to obtaining truth and progress of humankind, as Ernesto Illy taught us.
Activities that could be related to the present Project are that one with the University of Addis Ababa to preserve and develop the original germoplasm of the Ethiopian coffee plant (http://www.fondazionernestoilly.org/fondazioneEilly/ENG/Activities-NativeCoffeePlantEthiopia.htm) that could provide a good link to the cooperatives to the advanced research on coffee. Other important activity is the master's degree in Coffee Economics and Science that could be the best place where to train the main actors of the coffee sector. Is a university master's degree, organized and proposed by a renowned group of leaders in the field of education that offer an in-depth multidisciplinary preparation that embraces the entire productive cycle of coffee, (http://www.fondazionernestoilly.org/fondazioneEilly/ENG/Activities-Master.htm).

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

Source: illycaffè

Due Diligence Report[27] - illycaffè

Section 1 Identifier Sheet

1.1	**Business Partner**	illycaffè S.p.a.
1.2	**Business Partner Contact**	Andrea Illy
1.3	**Address**	Via Flavia 110, 34147 Trieste, Italy
1.4	**Previous Partnerships with UNIDO**	None
1.5	**UNIDO lead branch/unit or office**	PTC/BIT/CBL as well as PTC/AGR/RES, PTC/AGR/ABD
1.6	**Requesting UNIDO officer**	Gerardo Patacconi
1.7	**Partnership Duration**	4 years (3 years implementation)
1.8	**Purpose and Scope of the Partnership:**	

The project aims at valorisation of the coffee produced in parts of Ethiopia in order to improve inclusiveness and sustainability of the coffee supply chain. To this end, the project will support and train selected clusters of farmers and cooperatives aiming at improving quality and productivity through strengthening the collection, storage, processing and marketing and distribution system.

Since preliminary discussions started in August 2011, UNIDO and illycaffè have been exploring the potential for a joint project on sustainable supply chains in the coffee industry. Ethiopia, as the most important producer of Arabica coffee and major supplier to illycaffè, was chosen as a pilot country in order to gain experiences towards a replicable model. Close consultations followed with the Ministry of Industry of the FDR of Ethiopia, to whom an official request for support of the project was submitted in February 2013.

Ethiopia produces around 6-7 million bags per year of pure Arabica coffee. It is the 3rd largest producer of Arabica coffee in the world after Brazil and Colombia and the number one coffee producer in Africa accounting for more than 70 percent of the entire Arabica coffee production on the continent. Moreover, coffee constitutes the country's largest export commodity generating about a third of the country's export revenues. It is central to the Ethiopian economy, a crucial source of income for millions of small-scale farmers and by extension the basis of many more livelihoods.

However, only 10 percent of the Ethiopian export volume is of premium quality. Compared to other major coffee producing countries, mostly in Central America, this is a small portion of the total output. Ethiopia therefore faces both a challenge to compete and a big opportunity to benefit from the growth in demand for high quality coffee. This can be achieved with improved practices for higher productivity and better quality. The experiences and lessons from this project can then be applied to other Eastern African countries.

As the major buyer of supreme quality coffee from Ethiopia and thanks to the unique relationship between illycaffè and its suppliers, it is best placed to inform and contribute to this project. On average, every year IllyCaffé purchases the finest 1% of the Ethiopian coffee production or 2% of the Ethiopian green coffee export. Apart from illycaffè, UNIDO's main counterparts in this project are the Ministry of Industry and the Ministry of Agriculture.

[27] *Disclaimer: Please note this evaluation relies on a research exercise based on open sources. The findings reflect the information available at the time of the screening and within the limitations of this exercise. The Business Partnership Group cannot claim warranty for the accuracy, completeness, currency of any information originating from external Internet sites, press and public sources. Information related is necessarily brief and should be read in the context of the fuller details available in the external sources to which hypertext links are provided. Nothing shall prevent users from making further inquiries into the matters presented or consult additional sources as they become available.*

Tentative project objectives:

- Enable rural, small-holding farmers to produce high quality coffee according to industry standards and get access to international markets via local cooperatives/associations.
- Upgrade farmer cooperatives/associations in terms of processing equipment and technical/managerial skills.
- Upgrade small scale support industries in terms of technical skills and equipment,
- Training of trainers.
- Strengthen public institutions to support CDM initiatives.

Section 2 Company Overview

2.1 Company profile and key figures

Francesco Illy, inventor of the first modern espresso machine, founded illycaffè in 1933. His grandson and current President and CEO, Andrea Illy[28], represents the third generation of the illy family enterprise, managing around 800 employees worldwide. Targeting the premium quality segment of the market, the company produces and sells worldwide a single blend of quality espresso coffee made of nine varieties of Arabica. According to the company, illy sells in 140 countries, attaining gross revenues of EUR 361 million in 2012. illycaffè is headquartered in Trieste, Italy.

It offers ground coffee and whole beans, in steel containers, single-use capsules and pods. illycaffè also sells and coffee machines; fine chocolates, teas, and jams; and cups, mugs, and accessories, through distributors around the world, as well as online. illy also produces espresso machines; cups designed by contemporary artisans and runs a worldwide chain of Italian-style coffee bars(espressamente illy) as well as the Artisti del Gusto an international network of independent cafes and baristas. illy also brought out its own capsule system through Mitaca, a company owned 50% by illy, and the illy issimo, premade coffee distributed globally through a joint venture with the Coca Cola Company.

The holding company Gruppo illy SpA, is led by Riccardo Illy, with interests in chocolate, tea, wine and confections. Besides illycaffè, Gruppo illy includes: Agrimontana - jams and confiture (stake acquired December, 2005), Domori - chocolate (acquired July 2006), Dammann Frères -tea (since March 2007), Mastrojanni – winery in Montalcino, Italy - (since September 2008).

The Ernesto Illy Foundation, named after the late president of illycaffè, endeavours to contribute to promoting knowledge, ethics and sustainability as absolute values of life and enterprise. Operating as a family foundation, Anna Rossi Illy serves as the president, her daughter as Vice President, and three children are represented on the Board of Directors. The foundation's day-to-day operations are headed by Roberto Morelli. The University of Sao Paulo through the Fundação Instituto de Administração and the International School for Advanced Studies of Trieste are contributing members of the Foundation. Among the Foundation's major activities are the master program on coffee and an award for scientists in the field of health or environmental research.

2.2 Membership in the UN Global Compact

illycaffè joined the Global Compact on 5 July 2012.

[28] Andrea Illy co-founded Ilko Coffee in 2008, serves as Chairman of the Promotion and Market Development Committee of the International Coffee Organization. He is a member of the Advisory Board and Chairman, of the sustainability committee, D.E Master Blenders 1753. Illy is the president of the Association Scientifique Internationale pour le Café in Paris. Andrea Illy is also president of the fondazione Altagamma, member of the Sustainable Business Leadership Council, Menus of Change and Mentor to the 2013 World Economic Forum Annual Meeting.

3.1	Environmental Policies

illy stresses its role in ecosystem conservation and environmental stewardship within its sustainability practices. The most prevalent environmental challenges for the coffee sector include carbon emissions during roasting and transportation of beans, water consumption, especially at the growth and production level, as well as waste creation through packaging.
At illy's sole production facility in Trieste, roasting takes place in an ultra-low emissions facility, where smoke emission amounts to one twentieth the legally permitted limit. A recently completed project recovers part of the heat emitted during roasting by heating up water to be used throughout the plant.[29]

Given the water intensity of coffee processing (the production of dried storable green beans from cherries)[30], next to energy consumption for roasting, water consumption represents a large part of the environmental impact of coffee. Although the processing takes place locally at the farm level, illy engages its suppliers to minimize the water used for processing the beans it purchases[31]. illy's agronomists and Università del caffè faculty work with farmers in the producing countries to share the latest research and implement best practices, emphasizing low impact, manual methods[32].

illycaffè also shows commitment to environmentally-friendly solutions for packaging: it uses tinplate for jars (3 kg, 250 g, serving) and polypropylene for Iperespresso capsules; both materials are 100% recyclable. For secondary and tertiary packaging, recycled materials are preferred: 80% of paper and cardboard purchased and 90% of pallets used are recycled.[33] Among the first companies to introduce a pre-portioned single cup solution illy has been producing single-serve pods made of paper since the 1970. While this system with a very limited environmental impact is still on the market, illy also brought out a controversial capsule variant.

Exactly this choice to produce single-serve capsules has exposed the company to criticism from civil society. illycaffè, however, argues that its capsules are made of pure polypropylene, that can be more easily re- or at minimum down-cycled than the complex hybrid technologies with aluminum layers. In spite of the possibility to recycle the capsules, to date the vast majority of capsules end up in landfills.[34] Achieving higher rates would require an infrastructure for systematic collection and transport of used capsules to be separated into the organic waste component (used ground coffee) and the plastic containers to be washed and recycled.

For the U.S. market only, illy North America has joined a capsule collection and recycling programme that now covers most capsule producers.[35] Launched in 2012, the trial programme has so far collected 40,000 capsules (about 2% of sales). As explained by illycaffè the coffee inside the capsules gets

[29] http://www.illy.com/wps/wcm/connect/en/company/good-for-the-environment
[30] The processing of the raw fruits requires removing the outer layers of fruit flesh and other matter. This is done most commonly in one of two ways, using the dry or the washed method. Via the dry method, fruits are spread out in the sun to naturally dry and the outer layers are mechanically removed in one stage. The washed method on the other hand uses water and mechanical pressure to destroy and partially remove the outer fleshy parts surrounding the seeds or beans. This process is very water intensive and produces highly contaminated waste-water that needs treatment before release into the ecosystem. illy has invested into the semi-washed method described below.
[31] illy has conducted research and trials to optimize the so-called semi-washed method, that considerably reduces the water consumption at the farm level prior to shipment. It encourages farmers to use this method were applicable.
http://www.ethicalcorp.com/communications-reporting/coffee-sourcing-%E2%80%93-ethical-espressos According to illy, the semi-washed method preserves up to 90% of the water consumed in other methods and greatly reduces polluting waste water.
http://www.irahscoffeeandyogurt.com/uploads/pdfs/IE_1319_Illy_Eco_Presentationsep7.pdf
Also see WEF World Economic Forum (2011).
http://www3.weforum.org/docs/WEF_GGC_ProfileBook_2011.pdf
[32] This includes minimal water usage, waste water reduction, natural shading of plants with native trees and minimization of synthetic product usage. see footnote 4 above.
[33] http://valuereport.illy.com/en/?page=product-disposal-and-recyclable-packs
[34] http://www.packagingeurope.com/Packaging-Europe-News/55882/British-Plastics-Manufacturer-Serves-up-Compostable-Coffee-Pods.html
http://www.independent.co.uk/life-style/food-and-drink/features/coffee-pods-why-we-all-want-what-george-clooney-is-having-8182487.html
http://www.zerowasteeurope.eu/2013/03/looking-for-solutions-to-single-use-coffee-capsules/
[35] "iperEspresso Capsule Recycle Program". Conducted by Terracycle, a recycling company specialized in food and beverage packaging. http://www.plasticsnews.com/article/20130603/NEWS/130609998/coffee-makers-wrestle-with-recyclability-of-single-serve-pods. Terra Cycle, http://www.terracycle.com/en-US/news.html?page=21
criticism of greenwashing the single-serve system: http://www.treehugger.com/corporate-responsibility/coffee-pod-greenwashing-comes-america-illy-and-terracycle.html, http://portlandtribune.com/sl/198376-retailer-to-collect-single-serve-coffee-capsules-for-recycling

composted, and the plastic from the capsule recycled into products such as park benches, pavers and composite lumber.[36] There is no information available on whether illy plans to upscale or roll-out the programme elsewhere.

Rank-a-brand assigns illycaffè the lowest of 6 categories in terms of environment, climate, labor issues, and transparency.[37] illycaffè's weak performance, however, largely reflects the lack of publicized empirical information on its environmental performance and policies, as well as illy's non-participation in voluntary certification schemes.[38]

Nevertheless, the company has a track record of investment in research and innovation towards more sustainable technologies along the entire coffee life-cycle. For several years, illycaffè has maintained a research collaboration with the Center for the Environment at Oxford University assessing the most sustainable growing conditions for Arabica coffee. The cooperation has also produced a series of pioneering growing, production and processing techniques, including the ecologically-sound "semi-washed" method.[39]

Illy has worked with the Brazilian Ministry of Agriculture and the Brazilian Agency for Agro-zootechnical Research on sustainability of Brazilian coffee sector, its resistance to climate change, and agricultural best practices.[40] Along the same lines, illy engages with other coffee produces in the forum of the Sustainable Agriculture Initiative Platform's Coffee Working Group.[41] The working group[42], chaired by illy's Giacomo Celi, focuses on the issue of carbon footprint associated with green coffee production. Among other projects the working group set out to design Product Category Rules for green coffee in order to publicize these results in standardized environmental statements.

In 2012 illycaffè signed a voluntary agreement with the Ministry of the Environment and Protection of Land and Sea for the analysis, reduction, and neutralization of the coffee sector's impact on climate.[43] The goal of this programme is to define a management system for CO2 emissions that can serve as a model for the entire coffee industry. According to the company website, the project's first results arrived early in 2013 and will be processed and analyzed to identify future actions to reduce its carbon footprint over the entire lifecycle of coffee.[44]

illy's Sustainability Road Map defines the strategic goals for 2020. These goals include by 2013-14 to reach better recyclability of the capsules, use only electricity from renewable sources, improve the efficiency of the transport of raw materials and finished products, as well as to reduce environmental impact from the design stage, through Life Cycle Assessment methodologies. By 2020 the company plans to complete advanced research and survey in order to better calculate carbon footprint, and work with specialized institutions to reduce greenhouse gas emissions.[45]

[36] Mark Romano, Senior Director, Education, Quality and Sustainability, illycaffè North America. Food Republic, 25 June 2013. http://www.foodrepublic.com/2013/06/25/what-happens-after-you-enjoy-your-coffee-using-ipe

[37] http://www.rankabrand.org/coffee-brands/illycaff%C3%A8

[38] Although illy has obtained ISO and other international quality certificates, illy has abstained from joining other certification movements, such as the Fair Trade label. Existing schemes did not correspond with illy's understanding of sustainable business, for which reason, illy has cooperated with DNV in order to design the Responsible Supply Chain Certificate. For further information read: "Coffee Sourcing – Ethical Espressos" Ethical Corp (2008)
"The Story Behind a Cup of Coffee" DNV (2011), "Why illycaffè doesn't sell fair-trade coffee" Fast Company (2010)
"Illy, a leading global coffee company tackles sustainability and stumbles" Coffee Review (2010)

[39] WEF "Trailblazers, Shapers and Innovators – Models of Success from the Community of Global Growth Companies". World Economic Forum (2011). http://www3.weforum.org/docs/WEF_GGC_ProfileBook_2011.pdf

[40] http://worldcoffeeresearch.org/files/2013/08/illy-Donation.pdf www.coffeegenome.org/about/ICGN_country_member_list.pdf
http://valuereport.illy.com/en/?page=environmental-commitment-in-the-plantations

[41] The Sustainable Agriculture Initiative, a non-profit food industry organization, founded in 2002 by Nestlé, Unilever and Danone aims to support the development of sustainable agriculture involving stakeholders of the food chain. http://www.saiplatform.org/, http://www.saiplatform.org/projects/3/46/University-of-Coffee-for-coffee-growers

[42] SAI Platform's Working Group on Green Coffee was formed on April 1st, 2003. Members of the Working Group on Coffee: Illycafe, Mondelez, Nestlé, D.E MASTER BLENDERS 1753 and Tchibo. http://www.saiplatform.org/activities/working-groups/coffee, http://www.ico.org/presents/1112/sai.pdf.

[43] http://www.illy.com/wps/wcm/connect/it/press/comunicati-stampa/accordo-illycaffe-ministero-ambiente-italia, http://www.foodweb.it/2012/06/caffe-eco-intesa-tra-illy-e-ministero-ambiente/

[44] http://valuereport.illy.com/en/?page=carbon-footprint-and-management-of-emissions#agreement
The project was illustrated by the Minister of the Environment Corrado Clini and by Andrea Illy on 18 June during the RIO+20 Conference as part of a meeting on "Carbon Footprinting: Public-Private Projects".

[45] http://valuereport.illy.com/en/?page=improvement-goals-relating-to-environmental-value

3.2	Social Standards

In order to enhance sustainable production illy has introduced a policy of sourcing directly from farmers and adding a 30 percent premium on international market Arabica prices[46]. The premiums accrue directly at the farmers to account for the greater cost and effort required to achieve superior quality cutting out middlemen.

In spite of certain similarities with the Fairtrade system, illy chose not to join in the Fairtrade mark.[47] Illy argues that ethical certifications increase the price without improving the quality vis-à-vis non-certified products that are cheaper.[48] illy, on the other hand, rewards the highest quality farmers for supreme coffee quality. This practice also reduces farmers' vulnerability to the volatility of the global coffee market, by guaranteed sales of the harvest at pre-set prices. illy reportedly buys 100 percent of the green beans directly from over 3,000 farmers Brazil, Ethiopia, Columbia, Guatemala and India.[49]

In order to address the issues of volatile global coffee markets, farmer's economic inclusion and access to information and technology, illy joined the Coffee Working Group of the Sustainable Agriculture Initiative, chaired by illy's Giacomo Celi.[50] Among other projects, the working group, set out to design Product Category Rules for green coffee in order to communicate the results of the analyses in standardized environmental statements.[51] illy is a World Economic Forum Global Growth Partner.[52]

illy has been engaging in social and environmental work for 20 years mainly in Central America, South America, India and Africa. The Ernesto illy foundation introduced the Quality Award for Brazil Espresso Coffee in 1991 to support sustainable production methods and higher incomes for coffee growers. Over 10,000 coffee farmers have participated in the competition, earning more than $2 million (USD) in prize money. This year, the Prize has been awarded for the 22nd time.[53]

Another illy initiative called Cup of Kindness, has been implemented in partnership with Share Our Strength (SOS), a global nonprofit organization dedicated to fighting hunger.[54] SOS Ethiopia and illy funded two schools in Ethiopia.[55] illy's Università del caffè ("University of Coffee")[56] provides instruction at no cost to coffee growers. In 20 universities worldwide, it provides in-field training to producers on the most environmentally responsible cultivation, harvesting and processing techniques and the business of sustainable agriculture.

In 2011 illy became the first company recognized with the Responsible Supply Chain Process certification from DNV[57] in recognition of sustainability in every aspect of its coffee sourcing, particularly the ethical, long-term direct relationships with coffee growers. The certification attests to the sustainable practices along illy's supply chain and the quality of illy's relationship with its suppliers[58].

[46] Article in the Newspaper The Globe and Mail. http://www.theglobeandmail.com/report-on-business/careers/careers-leadership/lunch-then-coffee-with-andrea-illy-italys-chief-barista/article7887496/?page=all

[47] http://www.ethicalcorp.com/communications-reporting/coffee-sourcing-%E2%80%93-ethical-espressos

[48] He admits the premium Illy charges consumers is higher than those for Fairtrade, but argues this reflects the higher quality of the product. He also says that the this method doesn't raise the onus on producers without reward.
http://www.ethicalcorp.com/communications-reporting/coffee-sourcing-%E2%80%93-ethical-espressos
http://www.theguardian.com/lifeandstyle/wordofmouth/2007/may/26/isfairtradefairenough
http://www.fastcompany.com/1706189/why-illycaffe-doesnt-sell-fair-trade-coffee

[49] http://www.cbre.co.uk/uk_en/imgs_styles/lilly

[50] For background information on the Sustainable Agriculture Initiative, see footnote 12 above.

[51] The SAI working Group produced a Common Understanding of Mainstream Sustainable Coffee together with the Common Code for the Coffee Community. In December 2007, the Working Group published Principles and Practices for Sustainable Green Coffee Production. It also compiled a "toolbox" of practical tools aimed at guiding farmers and all interested parties in the implementation of best practices at farm level. These documents all draw from practical experience from twelve pilot projects conducted under the responsibility of the Working Group's member companies. http://www.saiplatform.org/activities/working-groups/coffee

[52] World Economic Forum Global Growth Company Partners are among the most influential and successful companies within their industries. These companies are well respected in their home markets and have grown successfully beyond their borders since inception. They are exceptionally committed to the mission of the WEF and contribute actively to the it's projects and initiatives.

[53] http://www.illy.com/wps/wcm/connect/en/company/ernesto-illy-prize

[54] 1998 start of illy's partnership with Share Our Strength (SOS), a global nonprofit organization dedicated to fighting hunger. illy has contributed more than $1.5 million (USD) in over a decade.

[55] Illy and SOS Ethiopia launched an initiative for building and funding the School of Moyale Woreda. illy has also contributed to the construction of a primary and secondary school in Sisota.

[56] http://www.saiplatform.org/projects/3/46/University-of-Coffee-for-coffee-growers

[57] www.dnv.com/resources/publications/dnv_forum/2011/forum_2_2011/thestorybehindacupofcoffee.asp

[58] illycaffè is the first global coffee producer to even apply the „Responsible Supply Chain Process Standard", that has been developed by DNV. The standard considers the company's entire supply chain as well as its ability to translate sustainability into profitable business for everybody involved. After audits and intensive efforts on the part of illy to incorporate the

In the light of the above it comes as a surprise that illycaffè received a poor score by a German NGO, that evaluates companies' policies and documented practices on child labor, production monitoring and accusations of child labor. It should be noted that no instances have been reported implicating illycaffè or its suppliers. However, although illy has a strong internal policy on child labor, it apparently does not monitor suppliers on this account. This is especially problematic since illy sources from Kenya, where reportedly up to 50 percent of coffee workers are underage, and other countries known to use child labor in the coffee industry. While illy stresses the close relationship with the coffee farms it works with, there is no mention of a systematic monitoring or verification scheme covering its supply-chain. Also this research exercise could not uncover new information on illy's monitoring practices.

3.3 Governance Conduct

The Board of Directors represents the stakeholders. The Directors take on special roles and assume full responsibility for the environmental, social, and economic results, which are subject to annual approval on the part of the Stakeholders' Assembly. The Chairman of the Board of Director also serves as Chief Executive Officer. There are five independent directors, and a total of 9 non-executive directors. Three out the nine directors are women. The Board of Directors is composed of: Andrea Illy (Chairman), Riccardo Illy (Vice President), Anna Rossi Illy (Honorary President), Anna Illy, Pierluigi Celli, Maurizio Dallocchio, Giancarlo Michellone, Mario Cannata, Marina Salamon.[59]

The Executive Committee is composed of one independent and two dependent directors, and has wide decision-making powers in managing the company's day to day operations. A supervisory and monitoring body is composed of two independent and one dependent directors. It oversees and supervises the functioning and effectiveness of and compliance with the Organizational Model for the prevention of corporate offences. In 2012 there was a report to the Supervisory and Monitoring Body not related to a legal offence (an employee reported an illness which he felt was incompatible with his workplace), which was nevertheless dealt with and solved within two weeks. Apart from this episode, there were no disputes referred to the body.[60]

In addition, illycaffè has adopted a Code of Ethics[61] which sets out the ethical commitment and responsibilities of executive, employees, and contractors in conducting corporate functions, and a dedicated channel of communications to prevent or report any behavior contrary to the Code of Ethics. illy follows a policy of active engagement with stakeholders, as laid out in its Sustainability Manifesto[62] and the Code of Ethics. illycaffè consults stakeholders through communication channels and tools on emerging questions that relate to sustainability and responsible business.

In 2010 the company established a Sustainability Committee chaired by the Chief Sustainability Officer. In 2012 the Sustainability Committee dealt with the most relevant sustainability issues for illycaffè, including the drafting of a Sustainability road map; the full integration of sustainability programmes in the corporate strategic plan; relations with institutions and communities in coffee-producing countries with regards to sustainable agriculture and investments in the local community; the drafting of the first Sustainable Value Report; Responsible Supply Chain Process certifications; projects for calculating illycaffè's carbon footprint in collaboration with the Ministry of the Environment, the environmental impact of espresso capsules; and various feasibility studies to reduce the environmental impact and improve the energy efficiency of productive facilities.[63]

suggestions made, DNV certified illycaffè as the first company to meet the standard. See the DNV publication http://www.dnvba.com/de/DNV%20%20Downloads/DNV_Direkt_01_2013_download.pdf

[59] http://valuereport.illy.com/en/?page=corporate-governance
[60] http://valuereport.illy.com/en/?page=corporate-governance
[61] http://valuereport.illy.com/assets/download/code_of_ethics.pdf
[62] illy Sustainability Manifesto (2010). http://valuereport.illy.com/assets/download/illy_sustainability_manifesto.pdf
[63] http://valuereport.illy.com/en/?page=sustainability-strategy-and-governance

Section 4 Outcome of Due Diligence Findings

4.1	**Based on the information presented above, is the company recommended for cooperation with UNIDO. *Please mark the relevant boxes with an X*.**		
	YES	**NO**	**Further recommendations**
	X		From its early days on, illy has shown a consistent track record of socially and environmentally conscious business built on close relationships with up- and downstream stakeholders. illy displays a long-term perspective on business success as a family enterprise which allows it to invest in sustainable progress and innovation, as well as its social and natural environment. Therefore, a partnership with illy offers the potential of becoming a sound and lasting relationship. Such a partnership with a high-end manufacturer holds considerable strategic value for UNIDO, while the coffee industry faces a number of challenges on the economic, environmental and social fronts.
4.2	**Place and date**		**Vienna, 14 November 2013**

ANNEX 10. STATEMENTS ON THE IMPORTANCE OF ENHANCING THE QUALITY OF THE ETHIOPIAN COFFEE

1. Statements on the importance of enhancing quality of the Ethiopian coffee (from the "Ethiopian Agro-Industry Strategy, Coffee subsector – November 2009"). They remain valid and fully shareable.

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

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

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

2. Selected statements on the importance of enhancing quality of the Ethiopian coffee (from the "Ethiopia Coffee Industry Value Chain Analysis – USAID – 18 June 2010). From a quantitative standpoint, the calculations need to be updated but, from a qualitative standpoint, they maintain their validity and are fully shareable.

Specialty coffees

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

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

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

The financial impact, even at the same production levels, is significant. In value terms, ….moving from 20 to 50 per cent specialty share (achievable even with the current number of washing stations) represents an increase of 11 per cent above 2007/08 export values. Increasing specialty export share

to 80 per cent would increase export revenue by 21 per cent. A 10 per cent increase in export volume (either through increasing production or through moving more production into exports) increases export earnings by 34 per cent above 2007/08 value….

Sustainable Coffees

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

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

ANNEX 11. LOGICAL FRAMEWORK MATRIX

	INTERVENTION LOGIC	INDICATORS	MEANS OF VERIFICATION
GENERAL OBJECTIVE	• To increase income of smallholder farmers deriving from coffee.	• XX% Increase of income of farmers	• Reports from cooperatives and unions. • Interviews with private collectors and farmers
OUTCOMES	• The actors of the coffee value chain will operate in a coordinated manner and direct their efforts to the general interest of the country, resulting in an increased sustainability and inclusiveness of the smallholder farmers. • Increased value addition of exported Ethiopian coffee thus reducing the bulk sales of raw coffee as well as improving the international recognition of its quality.		• Reports from MoT and MOI.
OUTPUTS	0. Baseline Study and Action Plan from the inception phase validated by stakeholders..	• PSC meetings stakeholders' workshop reports	• Relevant documents
	1. The coordination among the coffee value chain actors is improved	• First OCF meeting took place.	• OCF meeting report.
	2. The volume of roasted exported coffee is increased.	• Number of new roasting/grinding/packing plants in operation for export increased • XX% increase in export volume of processed coffee	• Surveys and reports from MOT and MOI
	3. The quality of exported coffee is increased.	• . • Number of washing stations put in operational conditions • Number of new washing stations established. • Number of farms that have shifted from ground drying to drying beds.	• Surveys/Interviews • Surveys/Interviews • Surveys/Interviews • Surveys/Interviews
	4. The quality of the Ethiopian coffee is internationally recognized.	• Quantity of coffee that is exported maintaining trace of its production location. • Quantity of high quality coffee sold on the local market. • Proposal to extend existing certifications approved by OCF. Proposal implementation started. • Proposed for global campaign is approved by OCF. Implementation of some campaign activities started	• Official data. • Interviews with unions and cooperatives. • Official data. • Official documents. • Documents. • Interviews. • Documents. • Interviews.

Output 0: INCEPTION PHASE (All the Activities relevant to the Outputs from 1 to 4 are reviewed, if necessary modified and detailed)	
Activities[64]	**Responsibility**
0.1. Establish PCU, PSC and the Project office.	UNIDO, MoI, PCU
0.2. Analyse in detail the Coffee Strategy that is under preparation by EC.	PCU
0.3. Also on the basis of findings contained in the documents relevant to the mentioned Coffee Strategy, deepen the analysis of the coffee value chain that has been made during the preparation of this Project Document and proceed with a mapping of the main elements useful for a detailed formulation including, among others, the following: (i) roasting establishments and their capacity; (ii) geographical distribution of smallholders organized in cooperatives and identification of areas where the cooperatives are less present; (iii) geographical distribution of the washing stations in operation and of washing stations that are not in full operation; (iv) geographical distribution of prevailing utilization of drying beds for coffee sun drying; (v) mapping of the existing coffee certifications and of the countries where they are recognized; (vi) mapping of all existing specialty coffee in Ethiopia.	PCU, international and national consultants
0.4. Identify the area/areas of intervention, based on the above-mentioned mapping activity and taking into consideration the advantages of concentrating the Project activities in the same area.	PCU, international and national consultants
0.5. Identify potential investors in roasting and secondary processing that can receive assistance from the Project.	PCU, international and national consultants
0.6. Identify groups of smallholder farmers that can be organized in cooperatives.	PCU, international and national consultants
0.7. Identify cooperatives, unions and private entrepreneurs that can receive assistance from the Project for the establishment of new washing stations and upgrading/rehabilitation of existing ones.	PCU, international and national consultants
0.8. Determine one or more possible locations or existing washing stations where one (or more) technologically and environmental sound plants can be erected (or upgraded) in order to represent “pilot plant” for other investments.	PCU, international and national consultants
0.9. Identify smallholder farmers and/or cooperatives that can be assisted in the introduction of drying beds for the coffee sun drying.	PCU, international and national consultants
0.10. Verify, with donors and NGOs[65] working in the coffee sector, the possibility and convenience to subcontract one or more project activities to them (e.g. formation of new cooperatives or unions, construction of drying beds, etc.) in order for the Project to benefit from their experience and successes.	PCU
0.11. Prepare a Baseline Study and an Action Plan where: (i) all the results of the above mentioned diagnostic analysis aimed at a detailed formulation are quoted, (ii) all the four Outputs and the relevant Activities are detailed (and, if necessary, modified), (iii) the beneficiary actors (potential roasters, cooperatives, unions, etc.) are identified, (iv) the locations of physical interventions are established, (v) the Project budget is reviewed and made coherent with the detailed Activities.	PCU, international and national consultants
0.12. Discuss, comment and approve the Baseline Study and the Action Plan and the Monitoring and evaluation system	PSC
0.13. Develop a communication strategy	PCU, international and national consultants
0.14. Evaluation	Evaluation Team & Donors

[64] *For the Activities under Output 0, the competences of illycaffè can be utilized.*

[65] *With the term NGOs, in this Table 8, are intended not only Non-Governmental Organizations, but also implementing structures of the donors and other organizations normally used by the donors for project implementation*.

Output 1: The coordination among the coffee value chain actors is obtained	
Activities	**Responsibility**
1.1. Preparation of a draft document on the purpose, composition, operating principles of the Organized Coffee Forum (OCF).	PCU, international and national consultants
1.2. Presentation and discussion of the draft document with all direct and supporting actors, starting with GoE institutions (i.e. MoI, MoA, MoT and MoFED).	PCU
1.3. Preparation of comments and proposals for amendments to the draft document on OCF by all the actors.	MoI, MoA, MoT, MoFED and all the actors of the coffee value chain
1.4. Finalization of the OCF document by PCU, endorsement by the PSC and approval by the actors.	PCU, international and national consultants, MoI, MoA, MoT, MoFED and all the actors of the coffee value chain
1.5. Organize and conduct the first meeting of the OCF.	PCU
1.6. Train local cluster/cooperative development agents to support the upgrading and empowering of small farms cooperatives.	PCU
1.7. Support at least 2 local clusters/cooperative in collective actions and contracting/negotiation skills	PCU
Output 2: The volume of roasted exported coffee is increased	
Activities	**Responsibility**
2.1. Identify new potential investors, starting with existing roasters, exporters and cooperative unions, but evaluating also the potential for investments from abroad.	PCU, national consultant
2.2. Identify constraints and select potential investors (possibly at least three national potential investors).	PCU, national consultant
2.3. Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology, marketing and training.	PCU, international and national consultants
2.4. Provide financial advice to selected investors.	PCU, international and national consultants
2.5. Provide technical assistance to selected investors during the implementation of their investment projects.	PCU, international and national consultants
Output 3: The quality of exported coffee is increased	
Activities	**Responsibility**[66]
3.1. Based on the area of intervention selected with the Activity 0.4, negotiate and sign with one or more NGO that have accrued experience in the establishment of new coffee cooperatives and/or unions, agreement/s to subcontract specific activities.	PCU, national consultants
3.2. Promotion of cooperatives with farmers.	PCU, selected NGO/NGOs
3.3. Support the physical establishment of cooperatives and/or unions, including provision of technical assistance (e.g. for the design of the organization structure) and provision of good and services necessary for the start-up of the organizations.	PCU, selected NGO/NGOs
3.4. Support the first operations of the new cooperatives/unions	PCU, selected NGO/NGOs

[66] *Should the subcontracting of activities to NGO/NGOs prove not to be feasible or advisable, the activity will be carried out through consultants.*

3.5. Based on the area of intervention selected with the Activity 0.4 and the washing stations identified, negotiate and sign with one or more NGOs that have accrued experience in improving and supporting washing stations, agreement/s to subcontract specific activities. Implementing NGOs should be always flanked by UNIDO consultants to ensure that the UNIDO specific knowledge in processing and environment safeguarding is applied.	PCU, national consultants
3.6. Analyse the cause of the malfunctioning of the washing stations, propose solutions to the owners and agree on the actions to be taken to make the stations fully operational.	PCU, selected NGO/NGOs, owners of the washing stations
3.7. Provide: (i) technical assistance during rehabilitation, (ii) management training, (iii) maintenance training and, (iv) equipment (if necessary).	PCU, selected NGO/NGOs
3.8. Provide technical assistance during the first operational period after rehabilitation.	PCU, selected NGO/NGOs
3.9. Based on the area of intervention selected with the Activity 0.4 and the identified locations for new washing stations, negotiate and sign with one or more NGOs that have accrued experience in creating new washing stations, agreement/s to subcontract specific activities. Implementing NGO should be always flanked by UNIDO consultants to ensure that the UNIDO specific knowledge in processing and environment safeguarding is applied.	PCU, selected NGO/NGOs, national consultants
3.10. Identify new potential investors willing to establish new washing stations, starting with existing owners of washing stations, cooperatives and unions.	PCU, selected NGO/NGOs, international and national consultants
3.11. Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology and training.	PCU, selected NGO/NGOs, international and national consultants
3.12. Provide financial advice to selected investors.	PCU, selected NGO/NGOs, international and national consultants
3.13. Provide technical assistance to selected investors during the implementation of their investment projects.	PCU, selected NGO/NGOs, international and national consultants
3.14. Provide: (i) technical assistance during plant erection, (ii) management training, (iii) maintenance training and, (iv) equipment (if necessary).	PCU, selected NGO/NGOs, international and national consultants
3.15. Provide technical assistance during the first operational period after plant construction.	PCU, selected NGO/NGOs, international and national consultants
3.16. Based on the area of intervention selected with the Activity 0.4 and the identified locations for extension of the utilization of drying beds, negotiate and sign with one or more NGOs that have accrued experience in supporting the farmers in utilizing drying beds, agreement/s to subcontract specific activities.	PCU, national consultants
3.17. Identify farmers/cooperatives willing to utilize drying beds.	PCU, selected NGO/NGOs, national consultants
3.18. Provide farmers/cooperatives with: (i) technical assistance during erection of drying beds, (ii) training on utilization and maintenance of drying beds and, (iv) materials for the drying beds.	PCU, selected NGO/NGOs, national consultants
Output 4: The quality and sustainability of the Ethiopian coffee is internationally recognized	
Activities[67]	**Responsibility**
4.1. Analyse and update the situation regarding coffee traceability by considering: (i) the efforts by ECX on traceability through the DST platform, (ii) the efforts and initiatives that other donors are implementing or planning regarding traceability and, (iii) the possibility to increase the traceability also for the share of coffee that is directly exported by growers and in particular by the unions. The analysis will be carried out in consultation with all the actors involved in coffee marketing.	PCU, international and national consultants

[67] *For the Activities under Output 4, the competences of illycaffè can be utilized.*

4.2. Prepare a proposal to remove/reduce existing obstacles to traceability in ECX, submit it to the OCF and request its implementation.	PCU, international and national consultants
4.3. Design and implement actions allowing the increase of traceability.	PCU, international and national consultants
4.4. Carry out a social and environmental impact analysis to define and implement corrective actions	PCU, international and national consultants
4.5. Prepare a proposal aimed at allowing the sale on the local market of a limited quantity of Ethiopian coffee of the best quality. In order to avoid any loss deriving by the reduction in export revenue, the proposal should foresee two options: (i) to allow only the sale to tourists or individuals that can pay in foreign currency and, (ii) to allow also the sale to Ethiopians paying in Birr, but at premium price that can compensate any loss in foreign currency.	PCU, international and national consultants
4.6. Submit the proposal to the OCF and request its implementation.	PCU
4.7. Provide support to the concerned institutions for the implementation of the proposal.	PCU, international and national consultants
4.8. Identify sustainability bottlenecks (social and environmental issues) and market demand (buyers and international sustainability standards) and propose corrective actions to be incorporated in the draft proposal.	PCU, international and national consultants
4.9. Prepare a draft proposal to extend existing certifications to other countries and to introduce new certifications.	PCU, international and national consultants
4.10. Submit the draft proposal to the OCF, receive comments, prepare a final version and obtain the approval by OCF.	PCU, OCF, international and national consultants
4.11. Provide technical assistance to the organizations appointed to implement the proposal, first of all to the cooperative unions.	PCU, international and national consultants
4.12. Prepare the draft design of a promotional campaign of the Ethiopian coffee on the international market	PCU, PCU, international and national consultants
4.13. Submit the draft design to the OCF, receive comments, prepare a final version and obtain the approval by OCF.	PCU, OCF, international and national consultants
4.14. Implement some of the priority activities foreseen in the approved promotional campaign, for instance prepare a web page simple and readable also by coffee consumers, which illustrates the qualities and the peculiarities of the Ethiopian coffee.	PCU, international and national consultants
4.15. Communicate the results of the Project to a multi-stakeholders platform (including all OCF members and all the donors active in Ethiopia in the various sectors)	PCU, national consultants
4.16. Provide international training to few selected individuals that are operating with the actors of the coffee value chain and organize one study tour in Europe.	PCU, training institution[68]

[68] For the international training, the facilities of Fondazione Ernesto Illy can be utilized.

ANNEX 12. **RISK MANAGEMENT MATRIX**

Number	Risks	Potential adverse impact	Risk level (H/M/L)	Risk management strategy	Responsibility
1	Cooperatives, unions and private traders do not have the capacity to transfer part of the increased revenue to the farmers.	Cooperatives and unions have this capacity. The lack of capacity by private traders can reduce the possible benefits to the farmers and the incentive for them to increase quality and yield.	**L**	Appropriate remedial actions taken by all parties in OCF.	MoI, MoT, MoA, UNIDO
2	The Coffee Strategy is not completed and made available on time for the preparation of the Baseline Study.	Quality of Baseline Study is reduced.	**L**	More intense activity for collection of information by PCU during the Inception Phase	PCU, UNIDO
3	The coffee value chain actors do not show interest in participating to the OCF.	OCF effectiveness is reduced or nullified.	**M**	Importance and benefits from OCF are promoted among all the actors.	MoI, UNIDO, PCU
4	Potential investors in secondary processing and interested to receive support from the Project are not found.	Increase of roasting capacity is not achieved.	**L**	Research for potential investors is intensified also abroad.	MoI, UNIDO, PCU
5	Farmers and/or cooperatives interested to be organized into cooperatives and/or unions are not found.	New cooperatives and/or unions are not established.	**L**	Research for interested farmers and/or cooperatives is intensified also seeking support from NGOs that have already given support for the establishment of these organizations.	PCU
6	Owners of not fully operational washing stations that are interested to receive support from the Project are not found.	Washing stations are not rehabilitated.	**L**	Research for interested owners of washing stations (to be rehabilitated) is intensified also seeking support from NGOs that have already given support for rehabilitation of washing stations.	PCU
7	Potential investors in washing stations interested to receive support from the Project are not found.	New washing stations are not established.	**L**	Research for potential investors in washing stations is intensified also seeking support from NGOs that have already given support for the establishment of new washing stations.	PCU

8	Farmers interested to improve the quality of the cherries through drying beds and willing to receive support from the Project are not found.	Utilization of drying beds is not expanded.	**L**	Research for farmers interested to improve the quality of the cherries through drying beds is intensified also seeking support from NGOs that have already given support for the utilization of drying beds.	PCU
9	The involved actors are not interested to increase the traceability.	Traceability of coffee is not increased.	**L**	Importance and benefits from an increased traceability are promoted among all the actors.	MoI, UNIDO, PCU
10	The concerned Institutions do not agree to sell quality coffee on the local market.	The sale of quality coffee on the local market, albeit in small quantity, continues to be banned.	**M**	Importance and benefits deriving from the utilization of the local market as vehicle for the international recognition of the Ethiopian coffee quality are promoted among all the actors.	MoI, UNIDO, PCU
11	The concerned actors are not interested in extending the certifications.	The existing certifications are not extended.	**L**	Importance and benefits deriving from an extension of the existing certifications are promoted among all the actors	MoI, UNIDO, PCU
12	The actors do not agree to proceed with an international campaign.	The international promotion campaign does not take place.	**L**	Importance and benefits deriving from an international promotion campaign for the international recognition of the Ethiopian coffee quality are promoted among all the actors.	MoI, UNIDO, PCU
13	The volatility of coffee demand and price may impact on market access/export quota and on volume for Ethiopian coffee.		**L**	This is rated as a low problem as the Ethiopian coffee is belonging to the highest quality and not subject to this fluctuation.	

H = High, M = Medium, L = Low

Annex 13. **Timeline of the activities**

Timing for the implementation of the various Activities

Output	ACTIVITY	Year 1				Year 2				Year 3			
		Phase 1		Phase 2								Phase 3	
		Quarters											
		1	2	3	4	1	2	3	4	1	2	3	4
0	0.1												
	0.2												
	0.3												
	0.4												
	0.5												
	0.6												
	0.7												
	0.8												
	0.9												
	0.10												
	0.11												
	0.12												
	0.13												
	0.14												
1	1.1												
	1,2												
	1.3												
	1.4												
	1.5												
	1.6												
	1.7												
2	2.1												
	2.2												
	2.3												
	2.4												
	2.5												
3	3.1												
	3.2												
	3.3												
	3.4												
4	4.1												
	4.2												
	4.3												
	4.4												
	4.5												
	4.6												
	4.7												
	4.8												

Output	ACTIVITY	Year 1				Year 2				Year 3			
		Phase 1		Phase 2								Phase 3	
		Quarters											
		1	2	3	4	1	2	3	4	1	2	3	4
	4.9												
	4.10												
	4.11												
	4.12												
	4.13												
	4.14												
	4.15												
	4.16												

Annex 14 ESTIMATED DETAILED BUDGET SUBJECT TO CHANGES AFTER FROM INCEPTION PHASE

ANNEX 14 - PROJECT BUDGET	UNIDO budget lines														Year 1	Year 2	Year 3
Components	11-00 Int'l experts / consultants	11-00 w/m	total 11	1300 support staff	15-00 project staff travel	16-00 UNIDO staff travel	17-00 Local experts / consultants	17-00 w/m	total 17	21-00 Sub-contracts	30-00 Training	45-00 Equipment	51-00 Miscellaneous	TOTAL			

Output 0: INCEPTION PHASE - All the Activities relevant to the Outputs from 1 to 4 are reviewed, if necessary modified and detailed																	
0.1.Establish PCU, PSC and the Project office.	7,000	36	252,000	68,000	35,000	25,000	1,800	108	194,400		20,000	80,000	60,000		302,466	222,466	209,468
0.2.Analyse in detail the Coffee Strategy prepared by EU	12,000	0.5	6,000												6,000		
0.3. Also on the basis of findings contained in the documents relevant to the mentioned Coffee Strategy, deepen the analysis of the coffee value chain that has been made during the preparation of this Project Document and proceed with a mapping of the main elements useful for a detailed formulation including, among others, the following: (i) roasting establishments and their capacity; (ii) geographical distribution of smallholders organized in cooperatives and identification of areas where the cooperatives are less present; (iii) geographical distribution of the washing stations in operation and of washing stations that are not in full operation; (iv) geographical distribution of prevailing utilization of drying beds for coffee sun drying; (v) mapping of the existing coffee certifications and of the countries where they are recognized; (vi) mapping of all existing specialty coffee in Ethiopia.	12,000	3	36,000												36,000		
0.4. Identify the area/areas of intervention, based on the above-mentioned mapping activity and taking into consideration the advantages of concentrating the Project activities in the same area.																	
0.5. Identify potential investors in roasting and secondary processing that can receive assistance from the Project.																	
0.6.Identify groups of smallholder farmers that can be organized in cooperatives.																	
0.7.Identify cooperatives, unions and private entrepreneurs that can receive assistance from the Project for the establishment of new washing stations and upgrading/rehabilitation of existing ones.																	
0.8.Determine one or more possible locations or existing washing stations where one (or more) technologically and environmental sound plants can be erected (or upgraded) in order to represent “pilot plant” for other investments.																	

0.9. Identify smallholder farmers and/or cooperatives that can be assisted in the introduction of drying beds for the coffee sun drying.																	
0.10. Verify, with donors and NGOs[1] working in the coffee sector, the possibility and convenience to subcontract one or more project activities to them (e.g. formation of new cooperatives or unions, construction of drying beds, etc.) in order for the Project to benefit from their experience and successes.																	
0.11. Prepare a Baseline Study and an Action Plan where: (i) all the results of the above mentioned diagnostic analysis aimed at a detailed formulation are quoted, (ii) all the four Outputs and the relevant Activities are detailed (and, if necessary, modified), (iii) the beneficiary actors (potential roasters, cooperatives, unions, etc.) are identified, (iv) the locations of physical interventions are established, (v) the Project budget is reviewed and made coherent with the detailed Activities.	12,000	2	24,000												24,000		
0.12.Discuss, comment and approve the Baseline Study and the Action Plan and the Monitoring and evaluation system	12,000	0.5	6,000												6,000		
0.13.Develop a communication strategy	12,000	3	36,000								20,000	20,000	30,000		32,000	32,000	42,000
0.14.Monitoring and Evaluation			60,000														60,000
total			**420,000**	**68,000**	**35,000**	**25,000**			**194400**		**40,000**	**100,000**	**90,000**	**972,400**	**406466**	**254466**	**311468**
Output 1: The coordination among the coffee value chain actors is obtained	**11-00 Int'l experts / consultants**	**11-00 w/m**	**total 11**	**1300 support staff**	**15-00 project staff travel**	**16-00 UNIDO staff travel**	**17-00 Local experts / consultants**	**17-00 w/m**	**total 17**	**21-00 Sub-contracts**	**30-00 Training**	**45-00 Equipment**	**51-00 Miscellaneous**	**TOTAL**			
1.1. Preparation of a draft document on the purpose, composition, operating principles of the Organized Coffee Forum (OCF).	12,000	2	24000												24,000		
1.2. Presentation and discussion of the draft document with all direct and supporting actors, starting with GoE institutions (i.e. MoI, MoA, MoT and MoFED).																	
1.3. Preparation of comments and proposals for amendments to the draft document on OCF by all the actors.																	

1.4. Finalization of the OCF document by PCU, endorsement by the PSC and approval by the actors.																	
1.5. Organize and conduct the first meeting of the OCF.											10,000	5,000	5,000		20,000		
1.6. Train local cluster/cooperative development agents to support the upgrading and empowering of small farms cooperatives.	12,000	4	48000												48,000		
1.7. Support at least 2 local clusters/cooperative in collective actions and contracting/negotiation skills	12,000	9	108000				1,800	72	129600		30,000				89,200	89,200	89,200
Total			**180000**						**129600**		**40000**	**5000**	**5000**	**359600**	**181,200**	**89200**	**89200**
Output 2: The volume of roasted exported coffee is increased	**11-00 Int'l experts / consultants**	**11-00 w/m**	**total 11**	**1300 support staff**	**15-00 project staff travel**	**16-00 UNIDO staff travel**	**17-00 Local experts / consultants**	**17-00 w/m**	**total 17**	**21-00 Sub-contracts**	**30-00 Training**	**45-00 Equipment**	**51-00 Miscellaneous**	**TOTAL**			
2.1. Identify new potential investors, starting with existing roasters, exporters and cooperative unions, but evaluating also the potential for investments from abroad.	12,000	6	72000												24,000	48,000	
2.2. Identify constraints and select potential investors (possibly at least three national potential investors).																	
2.3. Provide pre-investment technical assistance to selected investors, including feasibility studies, selection of technology, marketing and training.										300,000						300,000	
2.4. Provide financial advice to selected investors.							2,000	24	48000			2,500				26,500	24,000
2.5. Provide technical assistance to selected investors during the implementation of their investment projects.	12,000	12	144000				2,000	24	48000		60,000	2,500	20,000			168,500	106,000
Total			**216000**						**96000**	**300000**	**60000**	**5000**	**20000**	**697000**	**24,000**	**543,000**	**130000**
Output 3: The quality of exported coffee is increased	**11-00 Int'l experts / consultants**	**11-00 w/m**	**total 11**	**1300 support staff**	**15-00 project staff travel**	**16-00 UNIDO staff travel**	**17-00 Local experts / consultants**	**17-00 w/m**	**total 17**	**21-00 Sub-contracts**	**30-00 Training**	**45-00 Equipment**	**51-00 Miscellaneous**	**TOTAL**			
3.1. Based on the area of intervention selected with the Activity 0.4, negotiate and sign with one or more NGO that have accrued experience in the establishment of new coffee cooperatives and/or unions, agreement/s to subcontract specific activities.										200,000					200,000		
3.2. Promotion of cooperatives with farmers.																	

3.3. Support the physical establishment of cooperatives and/or unions, including provision of technical assistance (e.g. for the design of the organization structure) and provision of good and services necessary for the start up of the organizations.	12,000	12	144000				1,800	24	43200		50,000	35,000	15,000		88,000	123,600	51,600
3.4. Support the first operations of the new cooperatives/unions	12,000	12	144000				1,800	24	43200							165,600	45,600
TOTAL			**288000**						**86400**	**200,000**	**50000**	**35,000**	**15000**	**674400**	**288,000**	**289200**	**97200**
Output 4: The quality and sustainability of the Ethiopian coffee is internationally recognized	**11-00 Int'l experts / consultants**	**11-00 w/m**	**total 11**	**1300 support staff**	**15-00 project staff travel**	**16-00 UNIDO staff travel**	**17-00 Local experts / consultants**	**17-00 w/m**	**total 17**	**21-00 Sub-contracts**	**30-00 Training**	**45-00 Equipment**	**51-00 Miscellaneous**	**TOTAL**			
4.1. Analyse and update the situation regarding coffee traceability by considering: (i) the efforts by ECX on traceability through the DST platform, (ii) the efforts and initiatives that other donors are implementing or planning regarding traceability and, (iii) the possibility to increase the traceability also for the share of coffee that is directly exported by growers and in particular by the unions. The analysis will be carried out in consultation with all the actors involved in coffee marketing.	12,000	3	36000													36,000	
4.2. Prepare a proposal to remove/reduce existing obstacles to traceability in ECX, submit it to the OCF and request its implementation.	12,000	1	12000													12,000	
4.3. Design and implement actions allowing the increase of traceability.	12,000	12	144000													96,000	48,000
4.4. Carry out a social and environmental impact analysis to define and implement corrective actions																	
4.5. Prepare a proposal aimed at allowing the sale on the local market of a limited quantity of Ethiopian coffee of the best quality. In order to avoid any loss deriving by the reduction in export revenue, the proposal should foresee two options: (i) to allow only the sale to tourists or individuals that can pay in foreign currency and, (ii) to allow also the sale to Ethiopians paying in Birr, but at premium price that can compensate any loss in foreign currency.	12,000	2	24,000													24,000	
4.6. Submit the proposal to the OCF and request its implementation.	12,000	1	12000													12,000	
4.7. Provide support to the concerned institutions for the implementation of the proposal.							1,800	24	43200							21,600	21,600
4.8. Identify sustainability bottlenecks (social and environmental issues) and market demand (buyers and international sustainability standards) propose corrective actions to be incorporated in the draft proposal.	12,000	4	48000				1800	24	43200							69,600	21,600

4.9. Prepare a draft proposal to extend existing certifications to other countries and to introduce new certifications.	12,000	2	24000													24,000	
4.10. Submit the draft proposal to the OCF, receive comments, prepare a final version and obtain the approval by OCF.	12,000	1	12000													12,000	
4.11. Provide technical assistance to the organizations appointed to implement the proposal, first of all to the cooperative unions.										200,000						50,000	150,000
4.12. Prepare the draft design of a promotional campaign of the Ethiopian coffee on the international market										100,000							100,000
4.13. Submit the draft design to the OCF, receive comments, prepare a final version and obtain the approval by OCF.																	
4.14. Implement some of the priority activities foreseen in the approved promotional campaign, for instance prepare a web page simple and readable also by coffee consumers, which illustrates the qualities and the peculiarities of the Ethiopian coffee.																	
4.15. Communicate the results of the Project to a multi-stakeholders platform (including all OCF members and all the donors active in Ethiopia in the various sectors)											25,000		14,000				39,000
4.16. Provide international training to few selected individuals that are operating with the actors of the coffee value chain and organize one study tour in Europe.											100,000						100,000
Total			**312000**						**86400**	**300000**	**125,000**		**14000**	**837400**		**357200**	**480200**
TOTAL			**1416000**	**68000**	**35000**	**25000**			**592800**	**800000**	**315000**	**145000**	**144000**	**3540800**	**899,666**	**1,533,066**	**1108068**
13% Project Support Costs														**460304**	116,957	199,298	144,049
Contribution in kind by Illy Caffe`														**100000**		60,000	40,000
GRAND TOTAL														**4,101,104**	**1,016,623**	**1,792,364**	**1,292,117**