Local Food Aid Procurement in Ethiopia

A case study report for EC-PREP (UK Department for International Development)

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Executive summary

Background

This report focused on Ethiopia as part of a research project that aims to develop good practice guidelines for maximising the developmental impact of local and regional food aid procurement. The findings will also inform a position paper, which will furthermore draw upon insights from a similar study in Uganda and a literature review.

Local and regional procurement activities

Ethiopia is the largest regular recipient of food aid in the in Africa. The annual quantity is tending to increase over time, and the average for 2000 to 2004 exceeded 900,000 tonnes.

Local procurement started with the activities of the Relief Society of Tigray (REST), in 1983, but became a major activity in other areas of Ethiopia in 1996, the year when the EC begun supporting the activity. Since then, around a quarter of Ethiopia's food aid has been procured locally in the form of maize, wheat and sorghum, and the volume is on average equivalent to about 12% of Ethiopia's marketed surplus for these crops.

The main procurement agencies are the Ethiopian Government's Disaster Preparedness and Prevention Commission (DPPC), the World Food Programme (WFP) and EURONAID, all of which use some sort of tendering procedure, and purchase in lots of not less than 500 tonnes. These agencies regularly conduct annual cereal availability studies with a view to targeting their procurement over time and space, and protecting the market from adverse effects. However the quality of statistics is poor, there is limited co-ordination between the agencies concerned, and there are various procedural sources of delay.

Local procurement is cheaper than aid tied to donor country sources, and the food aid agencies estimate the saving at 25 to 30% of the landed cost of imports. Nevertheless, various donors, including the leading donor (USA), continue to tie their aid to home supplies.

Donors and Government are currently working on the implementation of a 'Productive Safety Net Programme' which involves a shift from food to cash distribution, and this may result in some reduction in the volume of food aid, or a reduction in the rate of increase. However, various geographical, logistical, climatic and security factors are likely to limit the extent to which the programme can be implemented, and in the light of this, it is concluded that food aid, including local procurement, will remain very important to Ethiopia in the foreseeable future.

Impact of local food aid procurement

The evidence base is very thin because food aid agencies have not, generally, conducted development impact assessments in the supplying economies. However, it is possible to draw several conclusions.

Local procurement has had an overall positive impact on rural welfare in Ethiopia, by supporting producer prices, creating employment through the value chain, and multiplier effects within the economy at large.

It provides a wider range of cereal grains for distribution to beneficiaries. Imported grain is predominantly wheat, but local grains include maize and sorghum, which are strongly preferred in some areas. Local procurement also has the advantage of creating extra demand for maize, a commodity that Ethiopia can regularly produce in excess over local market requirements, but due to logistical constraints, can rarely be exported.

However there is little evidence that local procurement has contributed to price stability between years; indeed this has not been an explicit objective. To achieve price stability, volumes procured would need to be closely related to the state of local harvests and rely on imported food in years of deficit. This is turn would require a high level of co-ordination between the leading donors (EU and USA), considerable delegation to their Addis Ababa offices, and very strong institutional arrangements to prevent the price stabilisation function becoming a hostage to short-term political pressures and, thereby, financially unsustainable.

The developmental impact of local procurement has been weakened by bureaucratic and procedural constraints, particularly donor rules preventing the multi-annual programming of funds, and the timing of crop assessments. The existence of the Ethiopia Food Security Reserve Administration's food aid pipeline and lending facility have greatly mitigated these problems, allowing procurement to be undertaken in a more programmed and market sensitive manner.

Local purchase has resulted in the development of an effective but narrow procurement channel, whose players are skilled in meeting strict delivery schedules and specifications for food aid commodities. With the exception of certain smaller agencies that have established relatively decentralised operations, there is no evidence that local purchase has led to changes in practices in the regular wholesale-retail trade.

In contrast to this situation, local purchase has the potential to kick-start massive improvements in local grain trading practices, which directly addressing weaknesses in the areas of product specification, warehousing capacity, trade financing, contract enforcement and price transparency. There are already plans to establish these institutions and the piloting of the warehouse receipt system is imminent. These initiatives enjoy a very high level of government support, but there is a risk that the level of direct state involvement will diminish their effectiveness.

Local procurement is largely responsible for the existence of a blended food industry, and this has had positive knock-on effects on suppliers of raw materials and packaging.

Recommendations

Impact Assessment

Donors and relief agencies should undertake assessments of the development impact of procurement in supplying economies.

Information Date base

Donors and relief agencies should strive to improve the food aid information basis, specifically to include all local and regional procurement.

Work with donors towards multi-annual cash commitments

Relief agencies should work with donors with a view to implementing a system of multi-annual, rather than annual, resource allocations for local procurement. This would eliminate the problems arising from occasional delays in the release of committed funds while allowing for medium-term planning and the scaling of local purchases in accordance with local production. Multi-annual cash contributions would also enable implementing agencies to provide producers, traders, and processors with a clearer indication of their future purchasing intentions with regards to quantities and timing, thereby reducing production and marketing risks.

Investigate the scope for using local procurement to develop more efficient domestic marketing institutions

Food aid agencies and donors supporting them should likewise study the opportunity for using local procurement to develop more efficient domestic marketing institutions, and be prepared to support if conditions are ripe for success. Support for these institutions will require substantial changes to donor regulations and procedures. For example, delivery of stocks should be in the form of warehouse receipts, and it could be required that bonds are posted in this form. Procurement through commodity exchanges means being able to dispense with the open tendering system.

Investigate the scope for more explicitly linking food aid procurement and price stabilisation

Food aid agencies and the donors supporting them should study the opportunity for more explicitly linking local food aid procurement and price stabilisation, but in a way that avoids the negative outcomes widely associated with price stabilisation interventions in Africa and elsewhere.

Training of private sector trading enterprises

Food aid agencies should consider sponsoring training initiatives targeting private sector traders and covering subjects such as warehouse management, pest and quality control, procurement systems, accounting and costing. This could contribute to broadening their supply base and ensuring compliance with contract specifications.

Contents

Abbreviations and Acronyms

AMC	Agricultural Marketing Corporation
DFID	Department for International Development (UK)
DPPC	Disaster Prevention and Preparedness Commission
EC	European Commission
EC-LFSU	European Commission Local Food Security Unit
EFSRA	Emergency Food Security Reserve Administration
EGTE	Ethiopian Grain Trading Enterprise
EU	European Union
GMRP	Grain Marketing Research Project
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (Germany)
ICRC	International Committee of the Red Cross
IFPRI	International Food Policy Research Institute
MIS	Market Information System
NGO	Non Government Organisation
NRI	Natural Resources Institute of the University of Greenwich, UK
QSAE	Quality and Standards Authority of Ethiopia
REST	Relief Society of Tigray
SIDA	Swedish International Development Agency
Tonne	Metric tonne
TPLF	Tigray People's Liberation Front
USA	United States of America
WFP	World Food Programme (United Nations)

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1. Introduction

This case study was undertaken as part of a research project that aims to develop good practice guidelines for maximising the developmental impact of local and regional food aid procurement. The project is funded under the EC-PREP research programme of the United Kingdom's Department for International Development (DFID) and is designed to enhance the pro-poor elements of the European Union's development activities. It is also expected to increase the impact of development assistance on poverty in developing countries and its contribution to achieving the International Development Goal of halving the number of people living in extreme poverty by 2015. Efficient and effective provision of food aid is recognised as an important element in achieving this goal.

Food aid has become a smaller component of aid, with its share of overseas development assistance falling from 22% in 1965 to 1 to 3% percent in the late 1990s (Abdulai *et al.*, 2004). Nevertheless, global food aid commodity flows over the past four years averaged 9.6 million tonnes per annum (World Food Programme, 2005). Many developing countries, especially in Sub-Saharan Africa, continue to receive large amounts of food aid and this situation is unlikely to change significantly in the foreseeable future due to low and often declining per capita food production and the emergency needs arising from man-made and natural disasters. Ethiopia is perhaps the most well known example. Annual food aid flows to Sub-Saharan Africa typically vary between 2 and 4 million tonnes; having peaked at over 6 million tonnes in the early 1990s (Abdulai *et al.*, 2004).[1] Managing food aid provision in ways that contribute to the development of the recipient countries' economies and minimise the much publicised disruptive effects of food aid should therefore constitute a priority for all agencies and governments involved. This report seeks to inform this debate.

Over the past decade, significant achievements have been made in increasing the proportion of food aid, mainly grain, procured in the recipient country or within neighbouring countries. These efforts reflect the widely held perception that local and regional purchases provide a more efficient and effective means of meeting emergency

[1] Leading food aid recipient countries in the region include Angola, Eritrea, Ethiopia, Kenya, Mozambique and Sudan.

and non-emergency food aid requirements than the alternative of importing food aid from distant, and often, donor countries. The potential advantages of local or regional procurement are often stated as lower purchasing, transport and handling costs, reduced delivery time, and the provision of more appropriate and more acceptable types of food to the beneficiaries. In addition, local and regional procurement may have other advantages that are less well documented in that they could contribute to agricultural and wider economic growth, a more transparent and efficient domestic marketing system, especially for grain, and reduced food aid dependency in the countries concerned.

However, these latter perceptions are not based on any systematic and critical review or analysis of the role that local and regional food aid procurement is playing and in particular, whether it is fulfilling its potential as a development tool in the areas where it is sourced. These are topics to be addressed by the EC-PREP research project. More specifically, answers to the following questions are being sought through a review of published and grey literature, and comparative case studies in Ethiopia and Uganda, countries with very different agricultural sectors and food aid procurement and delivery systems:

- Does local procurement of food aid give producers more sustainable futures in market-oriented production, or is it just creating dependency on unsustainable publicly funded purchases?
- Should food aid agencies procure through conventional tender systems, or should they deal more with small-scale producers and traders, either directly or through intermediaries such as NGOs?
- Can food aid procurement do more to stimulate development of local marketing systems through direct and indirect impacts on issues such as quality assurance and grading of produce, contracting, contract dispute settlement, market information, warehouse receipts and commodity exchanges?
- Which donor regulations and procedures are in most need of change in order to maximise the development impact of local and regional procurement, and how should this be achieved?

- What key indicators, if any, can be used to guide decisions on whether or not food aid commodities, and grain in particular, should be procured locally or regionally?

This case study focuses on Ethiopia, where we test the hypothesis that ***"local or regional procurement of food aid can make a much larger contribution to the economies of developing countries, and poor people in particular, and polices can be put in place to increase such benefits"***. Insights from the two case studies and the review of the literature will inform a final position paper on good practice for maximising the impact of local and regional food aid purchases on the economies of developing countries generally, and of Uganda and Ethiopia in particular.'

The authors of this report spent two weeks in Ethiopia in January 2005 gathering relevant documentation and data, and discussing local food aid procurement and its impact with key stakeholders and informants. Location of additional documentary information and discussions with informants continued until June 2005. The report focuses on cereals and cereal products, and a range of food aid purchasing agencies in Ethiopia.

Following this introduction, the next chapter provides an overview of the Ethiopia grain marketing system whilst the subsequent chapter provides information on local food aid procurement in Ethiopia. Chapter four describes the impact of local procurement on grain production and local markets. Some key conclusions of the study are presented in chapter five, and chapter six provides some recommendations on potential good practice in the prevailing situation of Ethiopia.

Note: It was noticeable, when collecting data, that there were sometimes significant differences and discrepancies within and between different information sources in Ethiopia. The authors have attempted to resolve some of these discrepancies. However, the reader should note that the quality of the data is not as good as should be expected from a major food aid recipient country such as Ethiopia.

2. Grain Marketing in Ethiopia

2.1 Background

Between 1980 and 1990, the formal grain trade was monopolised by the Agricultural Marketing Corporation (AMC), which purchased large volumes of grain from peasant farmers. The strict and rigorously enforced regulatory measures implemented by the AMC had far reaching effects on the welfare of market participants and on the performance of the whole economy. Private initiative to invest in productive activities was effectively stifled.

The grain market was liberalised in 1991, and this led to an increased number of participants in private sector grain trading and reportedly an improvement in the efficiency of grain marketing as a whole. Nevertheless, Ethiopian grain markets remain poorly integrated and are characterised by significant price volatility (Negassa and Jayne, 1997; Jayne *et al.*, 1998; Gabre-Madhin, 2001). During years of good harvest, grain markets in surplus producing areas are characterised by excessive supplies and abrupt price declines. The situation can be particularly serious during the period January to April, since farmers generally lack access to credit, thus being forced to sell their surplus soon after harvest in order to meet consumption needs, purchase production inputs, pay taxes, and fulfil social obligations.[2]. Difficulties in accessing formal credit by traders, who typically lack the scale and collateral to secure bank loans, exacerbate the problem by inhibiting stock building. Paradoxically, excessive supplies in surplus production areas are often accompanied by food scarcities and significant price rises in regions experiencing failed harvests.

During the process of market liberalisation, AMC was reorganised into a new Ethiopian Grain Trading Enterprise (EGTE), which was expected to focus on price stabilisation and to operate on a competitive basis in the grain market. In 1994-95, EGTE was mandated to stabilise markets and grain prices but in fact it has played only a minor role in these areas. EGTE is now involved in commercial operations and competes with other large grain trading companies and in common with such companies its trade in cereals is almost entirely for the domestic market although it has

[2] The main cereal harvest (*meher*) is during November and December, with the peak marketing season extending from January to March. There is a secondary harvest (*belg*) in April and May.

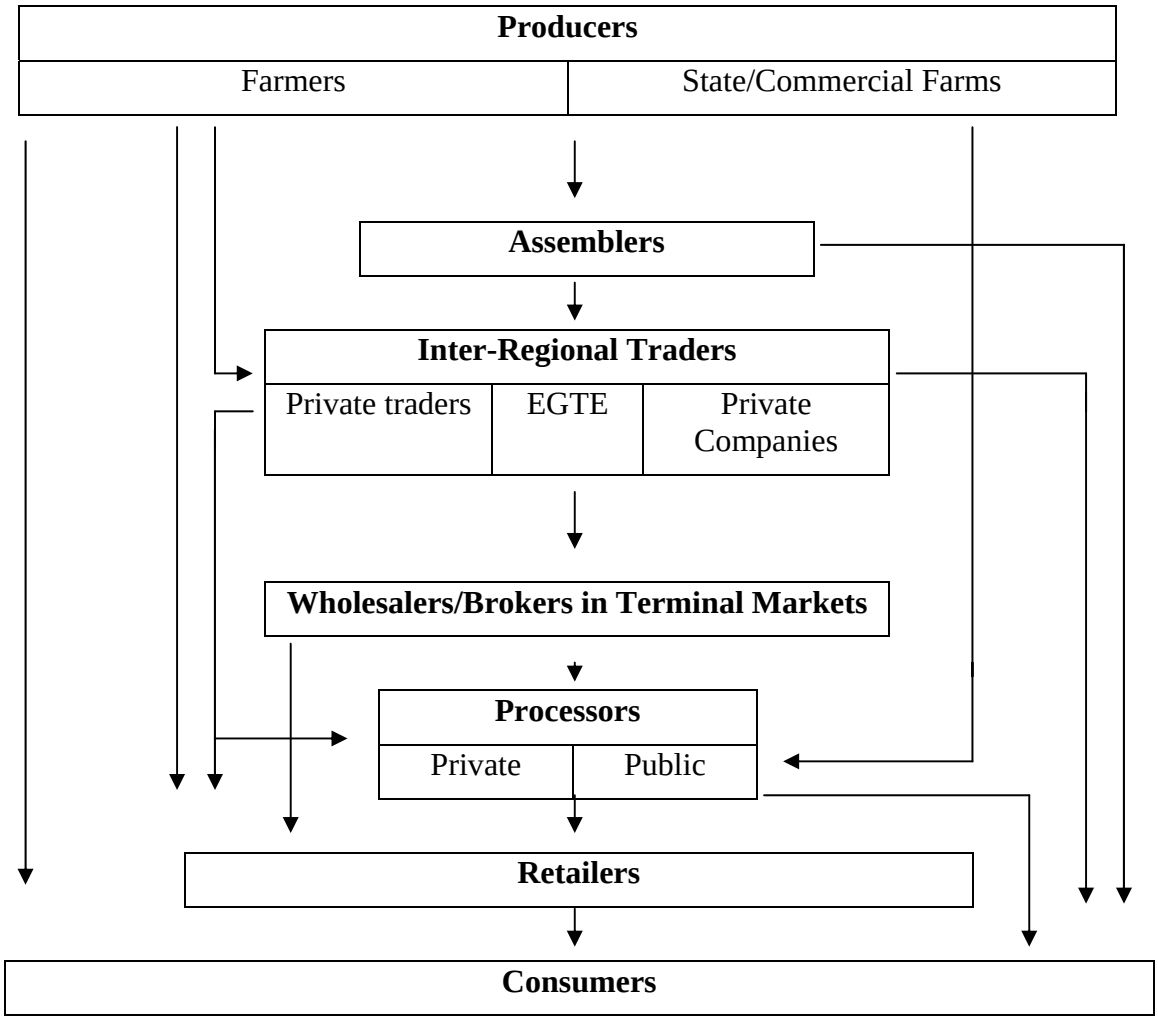
occasionally exported relatively small quantities of grains pulses and oilseeds. In 1996 and 1997, it provided more than 30% of the locally procured food aid grain. The EGTE, with its Head Office in Addis Ababa, has significant advantages over private traders since it has 17 branches with large warehouses located in the major producing areas and important urban market centres. Moreover, it has its own transport fleet and also operates a large number of temporary purchasing depots in production areas during the peak buying seasons.

2.2 The grain marketing chain

The grain marketing chain in Ethiopia is relatively short, primarily due to the low level of commercial grain processing and a lack of specialisation of grain wholesalers, who are often engaged in retail and other types of trade.

The system varies from one part of the country to another depending on whether the area is a surplus or deficit one. However, the market chain flowing from surplus to deficit areas is generally structured so that grain moves from producers to rural assemblers and regional wholesalers, then on through central market brokers, e.g. in Addis Ababa) to regional wholesalers (buyers), retailers, and finally to consumers (Fig. 2.1).

Figure 2.1 Grain market flows in Ethiopia



2.3 Market participants

Farmers

As mentioned above, farmers tend to sell large quantities of grain during and soon after the main (*meher*) harvest, but further sales may occur as they off-load grain stocks to avoid damage and loss caused by storage pests. It has been estimated that as much as 80% of annual farmers' sales occur before March.

Farmers may take grain to the nearest market themselves, often in single bags, where it is sold to wholesalers. They also sell small quantities to rural assemblers (often larger-scale farmers) who assemble grain from many sources and transport it to regional markets. Farmers may also have an opportunity to sell grain directly to retailers in regional market towns, to wholesalers in a regional market or to itinerant regional traders.

Rural assemblers

Rural assemblers, small traders and often farmer-traders, buy grain from farmers with a view to reselling to consumers or regional wholesalers. They typically operate independently, although they may sometimes act as agents for wholesalers on a fixed-fee or commission basis.

Regional wholesalers (sellers)

At the regional market level, wholesalers purchase grain and usually re-bag it after checking the quality and may store it for several weeks. These traders may specialise in certain types of grain. Their four major market outlets are: Addis Ababa central market or another terminal market, nearby mills, retail shops and direct sales to consumers.

Central market brokers

Grain brokers typically operate in Addis Ababa, and in some of the emerging market hubs such as Nazareth. They check the grain for quality, determine the market-clearing price, and then sell it on behalf of their client. Sales may be made to other traders, mills, hotels or restaurants, government agencies or NGOs. Grain brokers typically deal with other brokers representing buyers. If there is no immediate buyer, the grain may be stored in the broker's warehouse until one can be found. However, costs of transfer and storage are the seller's responsibility; hence such intermediate storage is unusual.

Regional wholesalers (buyers)

In deficit areas, regional wholesalers purchase grain from regional sellers, usually via a broker. Regional wholesalers have several market outlets including: retailers, hotels, or consumers, but large quantities are often sold to local relief agencies.

Retailers

Retailers in regional markets of deficit areas or in urban centres purchase grain in relatively small quantities (less than a tonne) from regional wholesalers. They may also purchase directly from farmers or from the central market, perhaps using the services of a broker.

Urban markets

The type and number of participants in urban markets is determined by whether a particular market is a surplus, deficit or terminal market.

In the main terminal market in Addis Ababa, the dominant participants are regional wholesalers from surplus and deficit areas, brokers, institutional buyers, retailers and consumers and the local traders. In surplus areas, the main participants are farmers, assemblers, wholesalers, retailers and consumers. In deficit regions the main participants are wholesalers bringing grain from surplus areas, wholesalers stationed in the market of the deficit area (and who receive supplies for surplus areas), retailers and consumers.

2.4 Market iformation

Market information at the farm gate level is non-existent and there is no formal system for determining the domestic price of grain. The farmers' primary source of market information appears to be the marketplace itself, and conversations with neighbours and traders.

The main sources of information on grain prices in Addis Ababa central market are individual contacts with agents, brokers, traders/merchants and transporters from different regions. Prices are set according to the sources of information.

Larger companies and medium to large scale grain traders obtain information from several sources including their own out-stationed staff, networks of traders, prevailing prices in the Addis Ababa central market and their regular client suppliers.

The Central Statistics Authority has been collecting producer and retail prices of a range of goods, including cereal grains for an increasing number of locations since 1996. Producer prices are collected from around 400 rural markets and retail prices from more than 25 urban centres. Data are presented as monthly price averages for each commodity and reports should be issued quarterly, although there have been some delays publishing the information.

The EGTE operates a market information system (MIS), with information on who is holding stocks and where, the quantities available at different locations, and spot prices. Data are updated weekly. The MIS was established originally under a Grain Marketing Research Project (GMRP)[3]. The information, initially derived from 26 markets, was made available commercially through grain market bulletins and some

[3] A collaborative project between the Ministry of Economic Development and Co-operation (MEDAC), Michigan State University and USAID.

information was published in newspapers and broadcast on local radio. The information was of particular value to the European Commission Local Food Security Unit (EC-LFSU) in its local procurement exercises. When the GMRP closed, the EC-LFSU entered into an agreement with EGTE whereby it would continue to support the MIS, although access to the data is limited to the two organisations.

2.5 Current grain market situation

Ethiopian grain markets are poorly integrated in comparison with many African countries. This can be attributed to a combination of factors, including: long distances between surplus and deficit regions; difficult terrain; poor security; inadequate transport infrastructure and services; limited access to market information; the predominance of small and weakly capitalised grain trading enterprises; the lack of purchasing power in destination markets, and the impact of food aid distribution. These factors inhibit inter-regional trade in Ethiopia and lead to significant price spreads between surplus and deficit areas[4].

A study by the World Bank (in press) shows that there has been a steady, albeit uneven, improvement in the performance of markets, in terms of spatial and seasonal margins. However, it found that short-term price volatility posed a major challenge to all players, reducing incentives for both spatial and temporal arbitrage. Markets in surplus areas are functioning reasonably well but there is limited or weak integration between surplus and deficit areas, attributable to lack of effective demand and the distribution of food aid, which displaces demand and causes trading opportunities to be missed. The authors find this conclusion to be credible and consistent with earlier findings of the International Food Policy Research Institute (IFPRI) in (Gabre-Madhin, 2001).

Certain inefficiencies can be attributed to private sector practices and the condition of market infrastructure. Wholesale trade through the Addis Mercato consists of brokers who marry the needs of traders in deficit areas to those with surpluses to offer, and is in some ways highly sophisticated. However, with no standardised weights, measures and grades, and no public forum for price discovery, the system is highly dependent on personal relationships and trust between traders in outlying areas and Addis brokers. Produce needs to be inspected visually and there is little forward contracting. Under

[4] Using IFPRI data, Deloitte Emerging Markets and NRI (2003) calculated average returns on simple arbitrage for maize between Nekempte and Addis, an all-weather route, at above 10% for 18 of the 48 months ending in October 2003.

such circumstances, potential trading opportunities are missed and there is considerable inefficiency, of kinds that might be overcome through innovations in marketing institutions, e.g. formal grading standards, efficient systems of contract enforcement, market information systems, warehouse receipts and a trading floor[5].

In Ethiopia, there are widespread perceptions that traders are profiteers, and this largely explains the strong official support for marketing co-operatives. However, there is no evidence that grain traders operating in regular commercial channels are, on average, able to realise abnormal profits. Marketing and search costs typically account for a large share of gross margins, and grain marketing entails significant risks and generates occasional losses to the agents involved (Gabre-Madhin, 2001).

Ethiopia's landlocked position and its poor integration in the Horn of Africa and other international markets are also important causes of intra- and inter-annual cereal price variability, particularly for maize, a commodity that the country is capable of regularly producing in surplus. Moving food into and out of Ethiopia is very expensive due to the long distances from the Red Sea ports and the inadequate transport logistics and commodity handling systems. Deloitte Emerging Markets and NRI (2003) found that there was a difference of approximately US $180 per tonne between import parity prices (wholesale Addis Ababa) and export parity prices (farm gate East Shewa). A further constraint to cross border trade is the bureaucracy surrounding vehicle registration, quality and phytosanitary regulations, taxes and tariffs. Consequently, Ethiopia is seldom in a position whereby commercial imports of cereals are viable, even when local supplies are scarce and prices are high.

The country is generally unable to channel some of its surplus abroad during bumper crop years when local prices are unduly depressed. While Ethiopia often produces maize in excess of domestic requirements, it only managed to export significant quantities of this cereal between February 2002 and January 2003, through the EGTE.[6] This was a period of atypically high prices in the world and regional markets presented Ethiopia with a rare opportunity.

[5] Gabre-Madhin (2001) discusses possible innovations.
[6] During this period, EGTE is reported to have exported 20,000 tonnes of maize to southern Africa through Dar-es-Salaam.

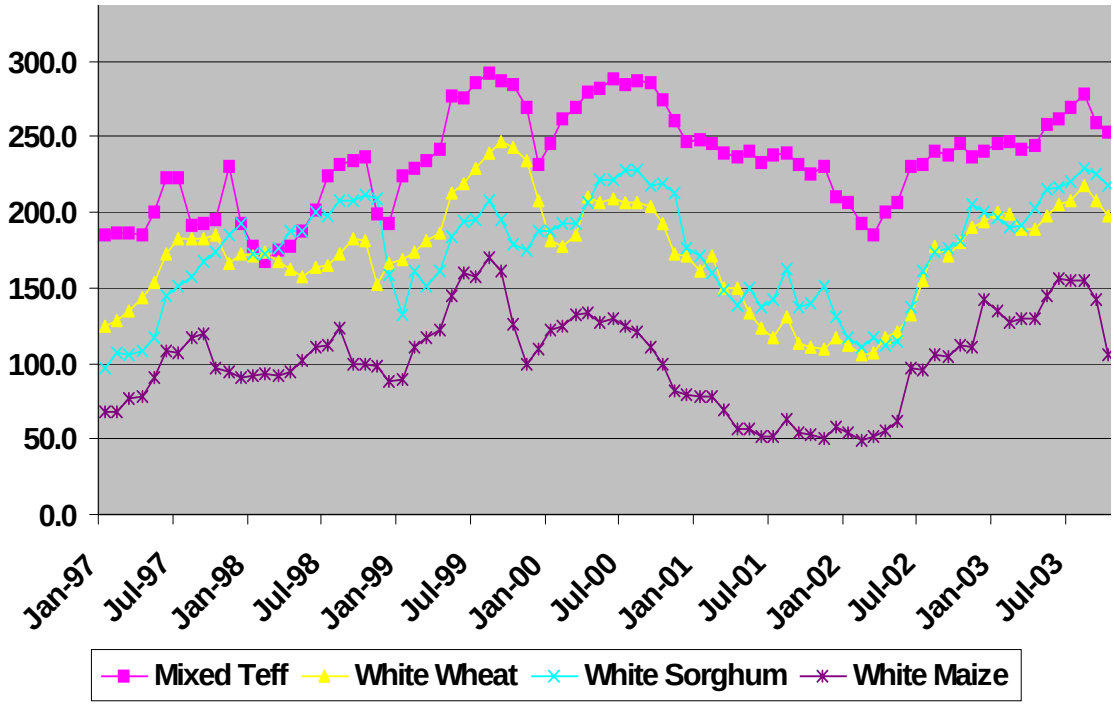
Weaknesses in the marketing system increase the risks and depress the returns from cereal production, discouraging the adoption of yield enhancing technologies and agricultural growth, and adversely affect food security, especially in deficit areas. Inter annual price volatility contributes to farmers' problems. They respond to long periods of high prices by scaling up production, but this eventually results in a collapse of market prices leading to major readjustment of production levels and another period of acute food scarcities. The presence of imported food aid brings forward the time when prices collapse since, even where not the object of monetisation, beneficiaries normally sell a portion back onto the market to meet their non-food needs[7].

Figure 2.2 illustrates the problem of grain prices collapsing periodically in Ethiopia. In 2001 and 2002, prices for both maize and wheat fell to unremunerative levels in many key surplus areas, and many farmers defaulted on their production loans.

In some ways the fall in the wheat price was more alarming than that for maize. For the latter crop, price crashes may be seen as a painful but necessary signal for producers to adjust production in line with demand. However, wheat is a crop for which Ethiopia is a high cost producer relative to major cereal producing countries, and demand generally outstrips domestic supply. The price fall in 2001 can be attributed in part to competition from imported food aid wheat, which beneficiaries sell back on to the market. Indeed as a relatively high value cereal, food aid recipients tend to value wheat as a source of cash revenue with which they can meet necessities in clothing, medicine, etc. that are not met by food aid packages.

[7] It is difficult to know exactly how much is sold back in this way. Based on a survey carried out in Ethiopia, Manfred Metz estimated that about 25 to 30% of relief rations, and 30 to 50% of food-for-work wages were monetised by the recipients (Thomson and Metz, 1999).

Figure 2.2 Wholesale Cereal Prices in Addis Ababa, 1997-2003, in Ethiopian Birr/Quintal



Source: Deloitte Emerging Markets and NRI (2003)

3. The Emergency Food Security Reserve Administration

The management of Ethiopia's food security reserve, originally created in the 1970s, became the responsibility of an autonomous unit of government, the Emergency Food Security Reserve Administration (EFSRA) in the late 1980s. The creation of the EFSRA was widely supported by the Ethiopian government, donor agencies and NGOs involved in the distribution of food aid to relief and development projects throughout the country. Over the past 20 or so years and after a number of reviews of the reserve's structure and function, its capacity has steadily increased from around 180,000mt to 307,000mt in the early 1990s to the current level of just over 400,000 mt. The EFSRA with headquarters in Addis Ababa is responsible for large bag warehouse storage facilities at seven locations: Dire Dawa, Kombolcha, Mekelle, Nazareth, Shashemane, Wereta, Woliyta and Sodo.

Currently, the EFSRA, despite its title, has less to do with dealing with emergencies but is more concerned with smoothing the flow of food aid to relief and development projects. Effective response to emergencies must be prompt and immediate, yet food aid deliveries may take some considerable time to organise. EFSRA stocks have therefore provided a convenient and necessary means of bridging the time between government and donor responses to emergencies and the arrival of consignments of food aid. Agencies can draw stocks from the reserve against pledges to repay similar quantities of food grain within an agreed time.

The reserve was initially established entirely with stocks of imported grain. However, since the mid-1990s the quantity of domestically produced grain, especially maize and sorghum, entering the reserve has been increasing steadily. Food aid agencies may distribute locally procured grain direct to beneficiaries but most of the grain is delivered to the reserve to repay loans. The arrangement is not without problems. When stock levels in the reserve are high and warehouse space is at a premium this may lead to extended delivery routes and high transport costs for locally procured grain. For example, the only available warehouse space for maize procured in the south of the country may be at an EFSRA site in the north of the country.

Raising the level of locally produced grains in the reserve increases the risk of quantitative and qualitative loss. Fortunately, the EFSRA has received considerable donor support (technical assistance, training and equipment) and is able to maintain

stocks in satisfactory condition for human consumption over extended storage periods. It is widely acknowledged that the EFSRA maintains a high standard of storage management and that losses due to pests and spillage are contained below 1% annually.

Grain held in the reserve is intended for use within Ethiopia, but there would seem to be no reason why it should not be made available for use within the region, by agencies such as the EC or WFP. The arrangement would mirror that in which the Sudan reserve loaned sorghum for EC operations in Ethiopia, and the EC subsequently repaid by procuring locally within Sudan (Walker and Boxall, 2004). In exactly the same way, EFSRA could loan grain for use in, say, Sudan, Somalia or northern Kenya. The above-mentioned bureaucratic constraints to cross-border trade in grain are likely to pose problems, but the Sudan/Ethiopia sorghum operation shows that these are not insurmountable.

4. Local Food Aid Procurement in Ethiopia

4.1 Food aid needs and trends

Over the past decade, Ethiopia has received nearly 6.2 million tonnes of food aid, more than any other country in Sub-Saharan Africa. During this period, an average of 6.7 million people a year, in a population of approximately 74 million, were considered to be in need of food aid (Table 4.1). This figure masks significant inter-annual variations, which were largely linked to weather conditions and agricultural production. Hence, over the last ten years, the number of people requiring food aid varied between 2.8 million in 1996, a bumper harvest year, and 13.2 million in 2003, when the country experienced acute food shortages following one of the worst droughts in living memory.

Table 4.1 Affected population, food aid requirements, and food aid distribution (1995-2004)

Year	*Affected population (Million)*		*Relief food requirements (Tonnes)*	*Relief food distributed* (Tonnes)*
	January Appeal	**July Update**		
1995	4.0	n.a.	498,563	230,930
1996	2.3	2.8	295,600	265,000
1997	1.9	3.4	427,800	352,600
1998	4.3	4.8	614,500	306,400
1999	2.5	7.2	775,500	502,600
2000	7.7	10.2	1,380,200	999,100
2001	6.2	4.6	639,246	575,670
2002	5.2	6.3	897,299	581,462
2003	11.2	13.2	1,802,394	1,515,338
2004	7.2	7.8	1,209,334	855,896
Average 1995-99	**3.0**	****4.6**	**522,393**	**331,506**
Average 2000-04	**7.5**	**8.4**	**1,185,695**	**905,493**
Average 1995-04	**5.3**	****6.7**	**854,044**	**618,500**

***** *Includes food aid imports and locally procured food aid.*

*** 1995 is not included*

Source: *DPPC Annual Appeals (1995-2002), Joint UN-Government Appeal for Emergency Assistance in Ethiopia (2003-2005), and information from NGOs*

***Note**: Whilst the authors believe this information to be based on sound evidence, it should be noted that Kuma (2002) cites different data. This is just one of many examples of an incomplete and unreliable food aid database in Ethiopia, in the absence of effective co-ordination.*

Recently, there has been an increase in Ethiopia's food aid dependency, both in terms of the population in need of assistance and the amount of relief food distributed. Over the past five years, the number of people requiring relief food averaged 8.4 million per annum, compared to 4.6 million between 1996 and 1999. The increase in food aid flows was even more pronounced, jumping from an average of 331,506 tonnes per annum during 1995-1999 to 905,493 tonnes per annum during 2000-2004 (Table 4.1). These trends are not significantly changed if one excludes 2003, which was an abnormal year in terms of the intensity of the drought. The fact that in 2004 nearly 8 million people were unable to feed themselves without relief assistance, despite the good cereal harvest, illustrates the extent of Ethiopia's food aid dependency.

Recurrent droughts have been a major factor behind increased levels of household food insecurity in Ethiopia. Droughts not only have an immediate negative impact on food production in affected areas, but also erode the ability of households to earn income in subsequent years and endure further shocks. The most obvious impacts of drought are reduction in household food production and income, localised food shortages and rises in local food prices. In order to cope with such events and minimise their effect on present consumption levels, the most vulnerable groups have to sell key assets, such as livestock, and reduce investments in human capital, such as education and health. These groups have therefore experienced an erosion of their already limited asset base and income earning capacity.

The effects of drought have been compounded by increased population pressure, especially in the highlands, where land degradation and declining farm size have emerged as major causes of household poverty and vulnerability. More recently, depressed coffee prices have resulted in a decline in one of the main sources of cash income and employment for the rural population in southern and western Ethiopia (EC and WFP, 2002; Robinson, 2003).

The increase in food aid dependency is partly linked to the long-term decline in per capita food production. Very slow adoption of yield-enhancing technologies has meant that domestic food production has failed to keep pace with a rapidly growing population. It is commonly believed that Ethiopia cannot grow enough food to feed its population and lacks the foreign exchange to meet the shortfall through commercial imports, thereby having to rely on external in-kind donations (Table 4.2). However, in

exceptional years, cereal assessment surveys have shown that food aid requirements might be met entirely from local procurement. Ethiopia's landlocked position further exacerbates the problem by inflating the cost of imported food. Commercial imports of cereals are normally not viable since import parity prices tend to exceed local wholesale prices (Deloitte Emerging Markets and NRI, 2003).

However, to understand the growing levels of food aid dependency in Ethiopia, it is important to go beyond an analysis of domestic food production and demand trends and take into consideration the inability of large segments of the population to access food. According to recent estimates, half of Ethiopians are considered poor and nearly 15 percent have a high probability of falling into poverty in the event of a single large shock (World Bank, 2004a). Poverty is particularly acute in rural areas, where many households can neither grow sufficient food nor earn the required cash income to meet their consumption needs through market purchases. Lack of purchasing power and effective demand amongst the poor explain in part why high levels of chronic food insecurity in deficit regions often coexist with grain market gluts in surplus producing areas. Other factors that contribute to this market disconnection include lack of effective market information, poor road systems, geographical barriers, and concerns about physical security in some regions.

Table 4.2: Food Balance Sheet for Ethiopia 1995 - 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Domestic Production of Grain (in MT)	7,633,784	10,481,874	10,409,353	8,249,374	10,079,011	8,933,623	10,505,842	10,372,304	7,263,481	11,646,187
Net Domestic Food Supply (in MT, CE)	6,315,190	8,664,865	8,608,739	6,821,534	8,336,333	7,388,008	8,681,680	8,569,907	5,992,512	9,613,647
Imported Food Aid (in MT, CE)	351,694	312,143	321,887	523,006	610,786	1,140,621	660,574	294,668	1,664,079	623,608
Commercial import (in MT, CE)	82,143	72,619	98,684	75,124	120,495	100,432	59,620	85,017	76,973	73,870
Commercial export (in MT, CE)	70,379	67,788	81,586	98,749	70,744	62,410	179,277	183,478	141,722	129,676
Contraband Food estimate (in MT, CE)	11,344	11,344	11,344	11,344	11,344	11,344	11,344	13,045	8,479	4,240
Food Available for Domestic Consumption (in MT, CE)	6,689,991	8,993,183	8,959,068	7,332,260	9,008,214	8,577,994	9,233,941	8,779,159	7,600,321	10,185,687
Total Population Estimate (in 000)	54,649.0	56,372.0	58,117.0	59,882.0	61,672.0	63,495.0	65,344.0	67,220.0	69,127.0	71,132.9
Food Requirement (in MT, CE)	8,761,656	9,037,897	9,317,666	9,600,642	9,887,625	10,179,899	10,476,342	10,777,114	11,082,855	11,404,451
Total food aid (imported and local purchase (in MT, CE)		424,206	439,359	593,559	734,181	1,375,709	911,789	454,527	1,886,048	839,765
Total food aid (imported and local purchase) as % of Food Requirement		4.7	4.7	6.2	7.4	13.5	8.7	4.2	17.0	7.4
Imported food aid (excluding local purchase) as % of Food Requirement		3.5	3.5	5.4	6.2	11.2	6.3	2.7	15.0	5.5
Local purchase (in MT, CE)		111,293.0	117,146.0	69,745.0	122,625.0	234,311.4	250,675.0	159,459.0	221,478.0	215,343.0
Local purchase as % of net Domestic Production		**1.3**	**1.4**	**1.0**	**1.5**	**3.2**	**2.9**	**1.9**	**3.7**	**2.2**
Net Domestic Production as % of Requirement	**72.1**	**95.9**	**92.4**	**71.1**	**84.3**	**72.6**	**82.9**	**79.5**	**54.1**	**84.3**

Notes:

1. Quantities of edible oil have been multiplied by 2.618 to convert them to cereal equivalent quantities (CE)
2. Net domestic production is assumed to be 83% of gross production
3. Domestic production (Source: CSA), Population (Source: CSA), Food aid and commercial imports (Source: WFP shipping bulletins)
4. The above analysis assumes zero stock change

Source: Agridev Consult, Addis Ababa

The main food deficit areas in Ethiopia are located in the southeast, east and northeast. Consequently, over the years these regions have experienced the greatest levels of food aid dependency. Around 75% of relief food distributed in Ethiopia is imported, with the remainder being procured locally or in neighbouring countries. The USA remains the leading donor of imported food aid, while the EC is the main agency funding local and regional purchases. The food aid basket comprises a large number of commodities, including wheat, pulses, fortified blended foods, edible oil, dried fruit, sugar and salt. Between 1995 and 2002 wheat grain comprised 76% of food grain imports, while maize and sorghum contributed 7% each (World Bank, 2003).

Until now, food aid has been distributed to Ethiopian households mostly through food-for-work and other relief schemes. This situation is likely to change in the coming years, as the country attempts to move away from relief interventions in the context of annual emergency appeals, to more development-oriented, multi-annual cash-based safety net programmes aimed at addressing the needs of the chronically food insecure.[8] Some agencies, such as the German technical agency (GTZ), the Netherlands Embassy, and Save the Children (UK), have already moved in this direction. The Government of Ethiopia intends to scale-up this approach through a cash-based Productive Safety Net Programme that is currently being developed in partnership with bilateral and multilateral donors (World Bank, 2004b).

It is hoped that a shift from food to cash distributions will enable beneficiaries to purchase inputs, food and other items according to their own preferences and thereby stimulate local market development. An injection of purchasing power into affected areas will not only generate demand and encourage inflow of goods through market channels, rather than relief channels, but at the same time will reduce the disincentive effects for agricultural producers that are associated with in-kind imports. Nevertheless, creating local purchasing power may not be sufficient to overcome constraints to commodity movements based on geographical, logistical, climatic and security constraints issues.

However, it remains to be seen whether the ambitious time-scale for implementation of the Productive Safety Net Programme will enable a smooth transition towards cash

[8] Vulnerable households outside the safety net will continue to be assisted under the existing annual emergency food aid appeal system.

transfers. This is an area of concern due to fears that the programme may place an undue burden on existing management capacity at the lower levels of government. It remains to be seen how well food markets in the different target areas will cope with significant injections of purchasing power, and how far it is possible to avoid scenarios of major price increases and food scarcities. In any case, food aid is certain to continue playing a significant role until Ethiopia is in a position to meet its food consumption needs through domestic production and commercial imports.

4.2 Rationale for local food aid procurement

Successive Ethiopian governments have requested donors to change from in-kind donations to cash contributions and local purchases since the mid 1980s. While some NGOs and donors have been involved in local and regional procurement of relief food since the early 1980s[9], the major food aid agencies only started moving in that direction in 1996 and then only after a further request from the government. This move was prompted by fears that continued high levels of food aid imports following the 1995/96 bumper harvest would unduly depress local grain prices and discourage farmers from future investments in cereal production, thus undermining on-going efforts by the government and development partners to achieve national food security.

The negative impacts of food aid imports are felt disproportionately in surplus producing regions. Many high-potential agricultural areas in Ethiopia frequently produce in excess of their own consumption needs even during drought years.[10] Continuing cereal price volatility in surplus producing areas is a serious concern. Significant wheat imports by food aid agencies not only depress the prices paid to cereal producers in these regions, but at the same time contribute nothing to bridging the gap between surplus and deficit areas within the country.

[9] Examples include Australian Agency for International Development, FARM Africa, GTZ, the Netherlands, Norway, Save the Children and REST.

[10] Major sorghum surplus producing areas include Homera in Deloitte Emerging Markets and NRI; North Gondar, North Shoa and South Wollo in Amhara; and West Shoa, West Wellega and West Hararghe in Oromyia. Gojam in Amhara is a major producer of maize and teff. Agewawie in Amhara and Jimma, West and East Shoa, and Arssi in Oromyia are other very significant maize surplus growing regions. East Gojam, North Shoa, North Gondar, and South Wollo in Amhara; West and East Shoa and Arssi in Oromyia; and Hadiya in SNNPR are major wheat supplying regions.

The review of the 1996 local purchase programme demonstrated that the average costs of locally procured grain were below landed import costs. It was also concluded that costs could have been further reduced (Wolday Amha *et al.*, 1997). More recently, other local procurement activities, by EuronAid in particular, have demonstrated that the costs of local purchase in such a poorly integrated market can still be less than the costs of inter-continental supply. The accepted view of those agencies involved in local procurement is that cost savings of around 25 to 30% can be expected when compared to landed costs of imports.

Over the last 20 years, local procurement has developed as a cost-effective means of sourcing a range of appropriate types of food, being both cheaper and faster than the alternative of importing food aid commodities from donor countries and the international market. Its potential to provide some degree of support to cereal prices and stimulate agricultural development is also widely recognised, e.g. Anon (1999), SIDA *et al.*, (2004 and 2005). However, it is necessary to recognise that the timing of announcements of local procurement is important: too early and it could lead to rapid or immediate price rises; too late and it may be difficult to find enough grain.

Local procurement in Ethiopia has been particularly successful because donors and relief agencies have been able to draw down their immediate requirements from government reserve stocks against a commitment to replay and this has invariably been from subsequent local purchase. Hence, the maintenance of an emergency food security reserve in Ethiopia has greatly facilitated the implementation of local and regional purchases. Since 1992 the reserve has been managed by EFSRA. Food aid agencies can borrow in-kind from the reserve at short notice, and are therefore able to initiate grain distributions before organising replacement supplies through local and regional procurement contracts. This support from the EFSRA allows the subsequent procurement exercises to be undertaken in a programmed and market sensitive manner. The EFSRA requires borrowers to pledge repayments within an agreed time. The fact that the EC previously defaulted on repayment of loans for around 18-24 months meant that the EFSRA faced a real crisis during a recent drought and there was a huge outcry from the donor community (including the EC) about the near failure of the reserve. The ability to borrow from the very efficient EFSRA has largely, offset the consequences of the complicated bureaucratic procedures of donor agencies, which are partly linked to the fact that cash allocations are made on an annual rather than multi-

annual basis, and are a common source of delays in tendering processes. This problem was particularly evident in the case of the EC, the main donor agency funding local procurement operations in Ethiopia.

Additionally, there are various procedural sources of delay: donors' slow and centralised procurement procedures (WFP requires tenders over a certain size to be approved in Rome, EuronAid in Brussels. These delays are frequently countered by the availability of food aid reserve stocks held and managed by the Ethiopian Food Reserve Administration.

All strategic grain reserve managers need to ensure that their stocks remain in good condition. Quality assurance becomes progressively more difficult as grain stocks age. Replacing old stock with newly harvested grain can have cost and logistical implications. Therefore, managers of reserve stocks normally respond positively to requests for loans of grain because it assists in the rotation of the stock. Nevertheless, it is necessary for the EFSRA to ensure that the grain received as loan repayment is of a satisfactory quality for long-term storage. This is a key point because some relief agencies do not have adequately trained food aid commodity procurement specialists with technical understanding of grain quality issues and there have been many instances of poor quality food aid grain being purchased. Repayments of grain that are refused by the EFSRA can only be accepted after further drying and/or cleaning and fumigation at cost to the relief agency.

The repayment of loans to EFSRA may not always be straightforward. Loan stocks may be drawn down for local use from warehouses in, say, Kombolcha and repayment would normally be expected at the same EFSRA warehouse. However, local purchases may eventually be made in the south of the country thus involving long transport routes (though admittedly not as long as with imported stocks). Similarly, if EFSRA warehouse space is at a premium when agencies are procuring locally to repay loans this may lead to extended delivery routes and higher than expected transport costs.

4.3 Agencies involved in local procurement and co-ordination

In Appendix 2, we provide a short history of local procurement in Ethiopia. The early activities, and much of the associated learning process, is tied up with the activities of REST which, starting in 1983, bought food in food surplus areas of Tigray to feed people in deficit areas (Smith, 1983). A crop assessment system was developed to

assist in planning of purchases. After two decades of experience, REST claims to have developed good relations and purchasing networks with producers and mid-level grain traders and this has assisted the smooth implementation of procurement activities.

The first half of the 1990s saw Australia and New Zealand supporting REST's activities, with a deliberate agenda of using local procurement as a development tool. In 1996, in response to government appeals to donors, the EC initiated a local procurement programme. In subsequent years a more widespread programme was introduced through its Ethiopia Food Security Unit and through EuronAid[11]. Since then the EU and its member states have made increased financial resources available for local purchases of relief food. The Ethiopian Government, through the Disaster Preparedness and Prevention Commission (DPPC), the World Food Programme (WFP) and EuronAid are the main parties making these purchases on a regular basis. DPPC is now the leading agency, accounting for 37% of all cereal purchases since 1996 while WFP and EuronAid accounted for 26 and 17% respectively. Other agencies such as GTZ and Save the Children (UK) have also procured food locally for their relief activities, albeit on a more infrequent basis (Table 4.3).

The EU (including member states) is the leading financial contributor accounting for 48% of the total quantity purchased in the country since 1996, and 56% in 2004. Significantly, food aid procurers are the largest buyers of grain in Ethiopia in what can be a very thin market (World Bank, 2003). It is understood that even in good years only 28% of the grain harvest is marketed.

The agencies involved in local procurement are conscious of the need to avoid purchasing excessive quantities for fear of inflating source prices and distorting markets. To this end an annual Cereal Availability Study, based on the REST model, was initiated in the late 1990s, and is now implemented every year to inform decisions regarding the quantity and type of grains available to be purchased locally. This assessment is currently sponsored by the EC, WFP and the Swedish International Development Agency (SIDA). Extracts from the most recent Cereal Availability Study are shown in Appendix 3.

Co-ordination amongst the concerned agencies is critical to ensure timely and smooth delivery of locally produced commodities, minimise undue disruption of local markets, and contract default by suppliers. Co-ordination used to be carried out under a Local Procurement Steering Committee that involved all major stakeholders, but this forum was disbanded in 2002, apparently due to changed priorities by DPPC, which has the mandate to lead local procurement operations. As a result, co-ordination is now undertaken in a more *ad hoc* and less structured manner, through WFP's logistics and procurement co-ordination meetings and bilateral meetings. The absence of formal co-ordination is almost certainly one of the contributory reasons for the poor quality of some of the available data. However, it does not fully explain why different parts of one of the large food aid agencies can issue conflicting information on types and volumes of food aid distributed in Ethiopia.

[11] EuronAid is an association owned and controlled by European NGOs active in the field of food aid and food security. It facilitates access by NGOs to institutional donors, mainly the EC, and provides a forum for exchanging information and sharing experiences.

Table 4.3 Local cereal purchases by food aid agencies (tonnes), 1996-2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004	Total
DPCC	-	-	31,000	-	100,000	80,002	57,869	223,463	53,660	545,994
WFP	-	82,880	-	564	22,862	56,164	71,000	53,639	99,809	386,918
EuronAid	36,458	22,628	7,957	24,500	16,879	65,003	21,249	34,486	21,695	250,855
EC	64,282	2,499	-	48,308	15,286	(Since 2000 financial contributions direct to DPPC)				130,375
GTZ	4,438	10,020	17,600	3,615	6,500	-	-	1,600	-	43,773
Save the children (UK)	-	-	-	11,800	-	10,000	6,400	3,221	1,250	32,671
Oromyia Govn	-	-	-	-	-	-	-	-	28,800	28,800
Farm Africa	-	-	-	-	17,000	-	-	-	-	17,000
REST	5,066	-	-	-	-	-	-	8,053		13,119
SOS-Sahel	-	-	-	-	6,700	-	-	-	-	6,700
ORDA	300	-	-	-	-	-	-	5,000	-	5,300
ACORD	300	-	-	-	-	-	-	-	-	300
Others	-	-	-	-	-	-	-	380	-	380
Total	110,844	118,027	56,557	88,787	185,227	211,169	161,518	354,842	205,964	1,492,935

Sources: *WFP, EC, DPPC, EuronAid, REST, SC (UK), and GTZ*

Note: No agency or organisation in Ethiopia has full oversight of the food aid local procurement activities. The authors believe that this listing is more accurate and representative of the local procurement in Ethiopia than other tabulated data circulating among donors. However, it is still believed to be an under-estimate because it does not include all of the actions by some of the smaller agencies. An example is REST, which was reported to procure several thousand tonnes in 1997 and 1998.

4.4 Types of locally procured food aid

Local food aid purchases in Ethiopia comprise mostly cereals, blended cereal foods known locally as faffa and famix, beans, salt and fortified biscuits (Table 4.4). Maize, wheat and sorghum are the focus of local procurement, accounting for more than 90 percent of total tonnage. This not only reflects the importance of cereals in the local diet and the availability of marketable surpluses in many parts of the country, but is also a consequence of product characteristics, namely affordability, familiarity and storability. Maize is much cheaper than wheat or sorghum and accounts for approximately 55 percent of total cereal purchases. Some agencies such as WFP and ICRC decide on which varieties of commodities, such as beans, to procure depending on prevailing market price.

The availability of sorghum and maize from local procurement, as opposed to the wheat, which comprises most of the grain imports, provides the opportunity to target grain types that are most preferred by beneficiaries.

Teff (*Eragrostis tef*) is traditionally a very important staple cereal in Ethiopia, but cost considerations have generally led relief agencies to exclude it from the locally procured commodity basket, although GTZ was able to procure 7,225 tonnes during 1998-2000 in South Gondar, Amhara Region. Fortified blended foods and beans are procured because of their rich nutritional content and the contributions they can make to a balanced diet.

Table 4.4 Local procurement of food aid commodities by DPPC, WFP and EuronAid (tonnes), 2001-2004

	Maize	Wheat	Sorghum	Blended Foods	Beans	Salt	Biscuits	Total
2001	128,908	40,402	37,920	5,871	2,988	540	1,292	217,921
2002	76,046	80,707	10,466	3,268	2,133	500	-	173,120
2003	201,393	62,288	45,066	14,412	13,708	391	-	337,258
2004	106,681	59,935	11,852	11,492	7,292	1,052	-	198,304
Total	513,028	243,332	105,304	35,043	26,121	2,483	1,292	926,603

Source: *EuronAid, DPPC and WFP*

Note: The authors believe that these data might not be complete, especially with regard to the minor commodities.

4.5 Trends in local food aid procurement

There has been a tendency for food aid purchased locally to increase in terms of tonnage. This situation reflects not only the greater availability of donor funds for in-country procurement, but also the overall rise of relief interventions in Ethiopia. Local annual cereal purchases averaged nearly 200,000 tonnes during 2000-2004, compared to almost 90,000 tonnes during the previous four years (Table 4.5).

Table 4.5 Imported and locally purchased food aid, 1995-2004

	Total relief food distributed	*Locally procured relief food**	*Percentage procured locally*
	Tonnes	*tonnes*	
1996	265,000	110,844	42
1997	352,600	118,027	33
1998	306,400	56,557	18
1999	502,600	88,787	18
2000	999,100	185,227	19
2001	575,670	211,169	37
2002	581,462	161,518	28
2003	1,515,338	354,842	23
2004	855,896	205,964	24
Total	5,954,066	1,492,935	25
Average 1996-99	356,650	93,554	26
Average 2000-04	905,493	223,744	24

** Local cereal purchases are used as a proxy for all locally procured food aid commodities.*
Source: *DPPC and authors' calculations*

Note*: Similar but different figures for food aid distributed during 1996 to 2001 are cited by Harrison (2002).*

Despite the recent increase in local food aid procurement, there has been no discernible decline of in-kind donations, which instead have also increased. The contribution of locally purchased cereals to total food aid distributions in Ethiopia fell from 42 percent in 1996 to 18 percent in 1998, increased to 37 percent in 2001, then declined again in 2003 to 23 percent (Table 4.5). Overall, one quarter of total relief food aid distributed in Ethiopia since 1996 has been sourced locally. The increase in local procurement of beans and fortified blended foods during the past two years has been more significant, although from a very low base (Table 4.4).

There is potential for further expansion of local procurement. Relief agencies can scale-up their local cereal purchases significantly during good agricultural years without causing undue disruption of domestic markets. At the same time, local

blended food manufacturers have considerable spare capacity and could easily supply larger tonnages to relief agencies. Between 2001 and 2003, local purchases of blended foods accounted for only 15 percent of international donations (Table 4.6). Greater reliance on local sourcing would enable Ethiopian suppliers to exploit economies of scale and would provide an incentive for further investment in processing industries to take increased advantage of opportunities for regional procurement of blended foods.

Table 4.6 Imported and locally purchased blended food, 2001-2003

Year	Blended food donations tonnes	Locally procured blended foods* tonnes	Percentage locally procured
2001	40,536	5,871	14.5%
2002	11,502	3,268	28.4%
2003	105,711	14,412	13.6%
Total	157,749	23,551	15.0%

**Only includes purchases by WFP and EuronAid.*
Source: *WFP and EuronAid*

4.6 Regional procurement

Local procurement can be accomplished by national NGOs. However, they are not well placed to undertake regional procurement, which requires larger organisations such as WFP and EuronAid with representations and political connections in the country of procurement and the country of delivery.

The improved political relationship between Ethiopia and Sudan has been conducive to food aid commodities procured in Sudan being supplied to Ethiopia and vice versa. In 2003, there was a need for sorghum food aid to be distributed in north western Ethiopia. A joint initiative by the EU and EuronAid delegations in Khartoum and Addis Ababa resulted in over 24,000 tonnes of white sorghum being borrowed from national reserves in Gedaref in eastern Sudan and moved over a newly constructed road to Woretta in Ethiopia. Between May and September 2003, there were a total of 1,144 truck movements over a distance of 445 km (Smalbruch and Walker (2004). The sorghum loan was subsequently repaid following an EU funded local procurement exercise in Sudan. This initiative by the EU and EuronAid was the most significant cross border movement of food aid between these two countries since 1991 when REST had a cross border operation to supply Tigray with 79,496 tonnes of food aid.

Similar operations might be possible by drawing on stocks from EFSRA for supply to Sudan. There have been significant movements of locally procured food aid out of Ethiopia. Information on regional procurement in Ethiopia is poorly documented, but it is reported by manufacturers that a quantity of fortified blended food was sent from Addis Ababa to Rwanda and Burundi in the 1990s. In late 2004, WFP co-ordinated a significant movement of food aid to Sudan. A total of 4,000 tonnes of fortified blended food was purchased from the three manufacturers in Addis Ababa and air freighted to Darfur in western Sudan. The improved political relationship between Ethiopia and Sudan could pave the way for further regional procurement. It is also understood that WFP procured 2,000 tonnes of beans to supply Kenya through Moyale in 2004. In the same year, the ICRC tendered in Ethiopia for the supply of 600 tonnes of beans to Sudan, and in 2005 it tendered for the supply of 6,100 tonnes of sorghum for Darfur.

4.7 Local procurement procedures

Food aid agencies normally procure using a tendering procedure, the details of which are often dependent on the source of the funding. The details differ between agencies but commonly the main activities include advertising, tendering against specific quality and packaging criteria, submission of bid bonds, and submission of performance bonds.

At least six donor organisations are involved in local food aid procurement in any given year. Nearly all tenders are placed with medium or large traders. In principle, both WFP and EuronAid would favour procuring from co-operatives but in practice, such organisations have limited capacity, have trouble in putting up the bid and performance bonds, and tend to lack experience in making stock available to schedule. Some co-operatives submit uncompetitive bids, perhaps because they are not familiar with reading the market conditions.

Experience on contractual default varies. EuronAid and Save the Children (UK) have never needed to cash a bid bond. ICRC has only once had to call in a performance bond in its last 60 contracts, and has only twice invoked penalty clauses in the contract. However, WFP reports that it has cashed many performance bonds.

Transport of the grain is the subject of a separate tendering procedure.

WFP

WFP makes ready use of stocks drawn from EFSRA for immediate distribution and then later repays the loans by local/regional procurement or international import. The quantities of commodities procured by WFP are reported differently depending on the sources in Ethiopia, but using the figures in Table 4.3, they have averaged over 60,000 tonnes annually over the past five years. This quantity is testimony to the fact that local procurement is cheaper than importation, WFP reports that it only purchases locally when costs are less than the landed price of imports at Djibouti. Although, there are exceptions where time is of the essence, this is good proof of the cost advantages of local purchase of cereals and beans in Ethiopia. There are always surpluses in Ethiopia with potential suppliers constantly looking to supply WFP.

The WFP procures locally by issuing tenders that invite bids from a restricted list of around 25 pre-qualified suppliers, of which 8 are reported to be of a reasonably small, but undefined size. The tender will normally indicate type of commodity required, quantity, quality specifications, packing and marking, and place of delivery for the whole consignment or sub lots. Minimum lots sizes could be as little as 500 tonnes. Whilst bids are not necessarily required to be from a stock position, the required response times can be minimal. For example, the tender inviting bids for the supply of white haricot beans issued on 27 December 2004 required bids to be received at the WFP office Addis Ababa by 4 January 2005. Bidders were not invited to the opening ceremony but were required to sign contracts within three days of notification of their bids being accepted. Delivery of the beans was expected to begin on 21 January 2005.

Bids are required to be valid for 30 days and should be accompanied by a bid bond for 3% of the contract value, valid for 60 days after the closing date of the tender. Should the successful bidders fail to sign the contract within seven days of being notified of the acceptance of their offer, or should the bidder withdraw from the bid process, WFP will be entitled to collect the amount of the bid bond. When signing the contract the bidder is required to submit a performance bond valued at 5% of the contract value.

WFP Addis Ababa has reported few problems with quality, other than occasional insect infestation. The main issue with suppliers tend to be contractual over timing, packaging and markings.

EuronAid

EuronAid procurement, normally following a draw down and distribution from the EFSRA, is by open tender, i.e. anyone can make a bid without having first been put on an approved list. The tender is advertised locally in Ethiopian newspapers and on the main EuronAid website approximately two weeks prior to the closing date. Terms and conditions are similar to those operated by WFP except that the bid bond is for 5% of the contract value, and the performance bond is for 10% of the contract value. Additionally, the EuronAid contract stipulates the penalty for late delivery for reasons other than force majeure as 1/1000 (one per thousand) per day of the value of the goods supplied after the due date. If commodities narrowly fail to meet quality specifications, for moisture content and other quality criteria, then penalties rather than rejection may apply. Minimum lot sizes are commonly around 400/500 tonnes to encourage small suppliers, but with little success. The opinion of the EC delegation in Addis Ababa was that procurement lots should be no smaller than 500 tonnes so as not to disrupt the trade pyramid. Bids are opened by an EU committee in the presence of candidate suppliers. The necessity of obtaining approval from The Hague at various stages in the process can result in unavoidable delays.

A physical check is made on the stock position of the preferred tender; the supplier must have 100% or sometimes 75% of the grain in stock. Grain dealers reported that delivery is a major business risk and that, because of logistical and infrastructural problems, they sometimes incur a financial loss. Quality is checked at the time of loading by representatives of EuronAid and then again by EFSRA staff at arrival at the reserve warehouses.

ICRC

The ICRC tenders against a list of registered grain dealers. In January 2005 there were 12 companies on the list. ICRC report that they do not use public tenders because of the additional staff time needed to process them. There is a preference to split large tenders into lots of around 2,500 to 3,000 tonnes. A few contracts have been offered in lots of 700 tonnes but this is done with reluctance because of the increased administrative workload. Potential bidders have two weeks to respond to invitations and are required to submit physical grain samples with their bid. Presumably, ICRC has procedures in place that prevent the presentation of exceptionally good samples

followed by the delivery of poorer quality stocks. The performance bond ranges from 2 to 4% depending on the size of the contract. The ICRC calculates that local procurement is around 25% cheaper than imported food aid. Transport is sometimes undertaken by ICRC trucks. ICRC has the advantage over other food aid procurers in that it has in-country funds. Hence, it does not suffer from the funding related delays experienced by WFP and EuronAid.

Save the Children (UK)

Borrows from the EFSRA. Both open and restricted tenders are used for minimum lots of 1,000 to 2,000 tonnes. It considers this size is supportive to small suppliers and also makes the management of contracts more realistic. It procures from a 100% stock position and uses cargo superintendents to monitor the quality and delivery performance. The bid bond is 2% and the performance bond is 6%.

GTZ

GTZ began procuring small lots of 10 and 20 tonnes in 1994 in western Tigray. At that time it was difficult to find any large producers or active traders. In 1995, when requirements increased to 3,000 tonnes it was necessary to procure using traders based in Addis Ababa and Nazareth. Lot sizes ranged from 50 to 100 tonnes and up to 60 traders and 5 co-operatives were involved. Many of them did not know how to tender. Staff of GTZ admitted that the administration of these small contracts was demanding but they witnessed the growth and development of the traders concerned and considered that good development impact had been achieved.

REST

REST encourages small to medium traders by inviting a relatively large number of merchants to supply at the lowest price quoted for the area, provided this does not conflict with competitive pricing or efficiency. Small lot sizes are also stipulated to promote the entry of smaller traders in the grain market.

4.8 Quality standards for locally procured grain

It is understood that there were problems with the quality of grain procured in Ethiopia in the 1990s, particularly for the EC. However, the consensus of opinion is that these difficulties have been overcome and most procurements now conform to the quality standards set out in the tender contracts.

Grain traders check the quality of grain and assess whether it is dry enough by simply looking at and handling the grain. They are confident that they are able to determine correctly the quality of any type of grain offered, based on their experience. They commonly identify the following as important quality characteristics: moisture content, damaged shrivelled and wrinkled grains, and foreign matter. These are in fact the characteristics used in grading of grain by the EFSRA and are perhaps an indication that they have been involved in the supply of grain to the reserve (through local procurement programmes).

EGTE has its own quality guidelines for purchasing grain, loosely based on standards set by the old Ethiopian Standards Authority (now the Quality and Standards Authority of Ethiopia, QSAE). EGTE commonly uses purchase specification as follows:

Moisture content	12.0% max.
Foreign matter	1.0% max.
Damaged, shrunken, weevilled and broken grains	3.0 - 5.0% max.
Contrasting classes (Other coloured grains)	3.0% max.

These limits might be relaxed if there is a danger that the specification would result in an insufficient volume of grain being purchased. The limits for damaged, shrunken, weevilled and broken grains varies according to the type of grain, the year of production and the season in which grain are purchased. Similarly, the limit for contrasting classes might be relaxed if the main concern was to purchase a large quantity of grain. For example, it was suggested that grain destined for food aid within Ethiopia would not need to have a restriction for contrasting classes (i.e. other coloured grains).

Some major companies involved in the grain trade are reported to have their own quality specialists, equipped with moisture meters and testing equipment. They have their own quality standards, again based loosely on the old national standards.

However, in reality the assessment of quality is on often undertaken with criteria similar to those used by EGTE.

Food aid quality specifications used by WFP and EC-LFSU, although reportedly derived from early European standards, are more likely to have their origins in the standards used by EGTE and EFSRA. The ICRC is understood to procure to quality standards similar to those set by the Ethiopian Bureau of Standards.

The QSAE has recently published new standards for maize, wheat and sorghum but their existence is not widely known. These standards set limits for a wider range of quality factors but are generally comparable to the specifications used by WFP and EFSRA (see Appendix 3 for details and comment).

4.9 Local suppliers of food aid

Grain

The number of grain suppliers selected annually through local procurement tenders of DPPC, WFP, EuronAid and Save the Children (UK) has averaged about 12 in three of the past four years, although the average increased to 17.3 in 2002 (Table 4.10). There is a lot of variation in the annual share of the business handled by the three largest suppliers. For the WFP and EuronAid tenders it averaged 61 to 62%. Whilst for DPPC it was much lower, typically 30 to 30% with a low of 11%.

Table 4.10 .Number of grain suppliers and levels of concentration, 2001-2004

	2001	2002	2003	2004
Number of suppliers				
DPPC	12	35	20	14
WFP	11	8	15	21
EuronAid	21	22	13	12
Save the Children (UK)	8	4	2	1
(Mean)	(13.0)	(17.3)	(12.5)	(12.0)
% Share of the three largest suppliers				
DPPC	35	39	11	32
WFP	66	76	49	58
EuronAid	53	59	63	68
Save the Children (UK)	40	94	-	-

Sources: *DPPC, WFP and EuronAid.*

Interestingly, most local companies supplying food aid agencies have limited involvement in the day-to-day grain trade. Their focus is on the local food aid market, although some may also supply wheat to flour mills as part of a diversified business portfolio, which may include activities such as commercial farming (Deloitte Emerging Markets and NRI, 2003). This suggests that the barriers to participation in food aid tenders are too high for the typical grain wholesaler, who generally lacks the size and organisation to comply with the minimum tonnage requirements, the strict delivery schedules, the product specifications of relief agencies and the contractual terminology. The possibility of financial losses due to adverse price movements and the imposition of financial penalties in case of non-compliance with contract clauses may also act as deterrents.

Blended foods

The production of blended cereal foods in Ethiopia began in 1960, at a small SIDA-funded unit in the Princess Tsehai Hospital, Addis Ababa, as dietary supplements for children with nutritional deficiencies. The unit developed into a government owned commercial unit known as Faffa around the time of the 1973 famine when it was expanded and moved to its present industrial site in Addis Ababa. The original production was evenly balanced between standard baby food compounds for retail sale and the supply to the relief agencies of specially compounded emergency relief blended food. Currently, the company produces around 90% for food aid and 10% for standard baby food outlets.

The Faffa Company produces two products for the relief agencies, i.e. faffa, which is based on wheat, and famix, which is based on maize. The former is more expensive and preferred in the highlands; the latter is cheaper and preferred in the lowlands. A typical composition of faffa is 57% wheat flour, 18% defatted soya, 10% chickpea, 8% sugar, 5% dried skimmed milk, 1% iodised salt, 1% vitamins and minerals. The powdered milk and vitamins are imported. All the other components are procured locally by open tender in the newspapers. Recently Faffa has started negotiating with emergent co-operatives for the supply of raw commodities. There is a strong emphasis on quality; to which the local suppliers are understood to have responded satisfactorily. Soya is not a common crop in Ethiopia and it is probable that the production of blended food for relief programmes has had a significant impact in increasing and

sustaining annual production. According to FAOSTAT, production grew from 21,000 tonnes in 1994 to 27,000 tonnes in 2004.

Faffa employs around 300 staff for both food aid and baby food production. Average annual production of relief food exceeds 7,000 tonnes at a reported value of around US $3 million (Table 4.11). The emphasis on food aid causes the annual volume of business to vary widely.

Table 4.11 Sales of blended food aid commodities by Faffa Food S.C., Addis Ababa, Ethiopia

	1999-2000		2000-2001		2001-2002		2002-2003		2003-2004	
Product Type	Tonnes	Value ('000 Birr)	Tonnes	Value ('000 Birr)	Tonnes	Value ('000 Birr)	Tonnes	Value ('000 Birr)	Tonnes	Value ('000 Birr)
Famix	7,947	27,811	7,092	27,589	3,517	10,778	9,232	36,560	5,887	22,399
Faffa	1,575	8,734	-	-	4	22	920	5,011	133	782
Total	9,522	36,545	7,092	27,589	3,521	10,800	10,152	41,571	6,020	23,181

Source: Faffa Foods S.C.
Note: Dates are conversions from the original Ethiopian calendar, e.g. July 2003-July 2004 approximates to Ethiopian calendar year 1996.
Exchange rate: US $1.00 = Ethiopian Birr 9.0422 on 3 March 2005

The other large producer of blended food aid is the private East African Group (Eth) Ltd, which began to produce baby food in 2001 and started to produce Unimix in October 2002. Unimix constituents vary, but in Ethiopia it is typically based on maize and soya, with a nutritional profile claimed to contain 10-12% protein, 6-8% fat and 68-70% carbohydrate (somewhat similar to corn soya blend). The formula for WFP contains no sugar; other purchasers commonly request 5% sugar. As with Faffa, this company sources most of its commodities from local farmers and traders, often using its own vehicles. It has supplied over 15,000 tonnes to the food aid sector in Ethiopia during 2003 and 2004. The company has produced high-energy food aid biscuits since 1999 and reports sales of 8,200 tonnes to WFP in 1999-2000, and 25,000 tonnes to the wider relief sector in 2003-2004. Kaliti Food Co. also supplied WFP with biscuits; production levels have been modest but since they were first produced in 1998, approximately 1,400 tonnes were supplied annually at least until 2000. East Africa Group (Eth) Ltd is in contact with a Norwegian church agency to supply Sudan via Djibouti. Unimix is processed to order having a stated shelf life of 6 months. The biscuits are understood to have a shelf life of 9 months. Owing to the relatively short

shelf life of these blended foods, the manufacturers tend not to carry much stock and produce to order.

At times of heavy demand in Ethiopia, Faffa and the other manufacturers work at full capacity. At other times there is spare capacity, so all four companies would be interested in supplying regional markets. Total national production capacity is reported to be 200 tonnes per day (Government of Ethiopia and Humanitarian Partners, 2004), although it is doubtful that information on all local production of blended foods and high-energy biscuits is fully reported in centralised statistics on food aid in Ethiopia.

5 Impact of Local Food Aid Procurement in Ethiopia

5.1 Impact assessment

It should be noted that whilst the major food aid agencies recognise the need for assessing the impact of food aid supplied to beneficiary communities, they do not appear to have recognised the need for impact assessment in the local or regional source markets. Exceptions to this deficiency in Ethiopia are REST and possibly one or two other NGOs. The absence of such impact assessments represents a significant inefficiency in the management of food aid systems and needs to be addressed if the development impacts are to be fully measured, understood and monitored.

5.2 Grain price stability

Since 1996, local food aid procurement has injected extra purchasing power into rural food markets, equivalent on average, to 12% of total marketed surplus for the three leading cereal crops, i.e. maize, sorghum and wheat. There can be little doubt that this has had an overall positive impact on rural welfare in Ethiopia, by supporting producer prices, creating employment through the value chain, and multiplier effects within the economy at large.

The figures in Table 5.1 suggest that local purchase may not have contributed to the stability of prices between years, since there has been no clear relationship between the level of local purchase and estimated marketed surpluses of the above-mentioned crops. Indeed local purchase was by far the highest in the year with the lowest surplus (2003). The high level of procurement in the latter year suggests food aid donors may have reacted in a delayed and untimely fashion to the low and unremunerative prices of 2001 and 2002.

If procurement is well timed and quantities are inversely related to the marketable surplus situation, local purchase will contribute to the stability of prices in the country (see reasoning in Box 1). However for this to happen, local procurement needs to be scaled right down in years of deficit and the country should rely on imported food. This finding is supported by work for the World Bank by Harrison (2002). Using a simple spreadsheet model to simulate the impact of grain price stabilisation, he found that in a bumper year, 100,000 tonnes of locally procured food aid would increase wholesale prices by 4% and farm gate prices by 9%.

It would clearly be most beneficial if local purchases were greater in years with large surpluses. Such a purchasing pattern would in effect be a form of public price stabilisation and could, if sufficient funding were available, ultimately involve a degree of stockpiling or pre-positioning. The EFSRA provides an effective and well managed mechanism for holding reserve stocks. However, although there has been some debate within Ethiopia and EFSRA in particular about EFSRA becoming a price stabilisation agency, this has so far been resisted.

Table 5.1 Local cereal purchases in Ethiopia and their share of domestic production and marketed surplus 1996-2004

Year	*Production of maize, sorghum and wheat**	*Estimated marketed surplus***	*Share of local purchases in relation to production*	*Share of local purchases in relation to marketed surplus*
	'000 tonnes	*'000 tonnes*	*%*	*%*
1996	5,485	1,536	2.0	7.1
1997	5,619	1,573	2.1	7.4
1998	5,105	1,429	1.1	4.0
1999	4,809	1,347	2.0	7.0
2000	4,919	1,377	3.8	13.5
2001	6,247	1,749	3.4	12.1
2002	5,791	1,621	2.7	9.7
2003	3,900	1,092	8.9	31.8
2004	6,942	1,944	3.0	10.6

** Annual production in Ethiopia falls across two calendar years, as the main harvest occurs in November and December and the secondary harvest in April and May. Because most production is marketed and consumed in the second year, we take this as the reference year. For example, 1996 is used as the production year for the 1995/96 harvest. Over the past nine years, maize has averaged 47% of production of these three crops, sorghum 28% and wheat 25%.*

*** Based on analysis of the 1998 data, it is assumed that 28% of the maize, sorghum and wheat crops are sold in the market. In reality, the marketed share varies between years and across cereal commodities.*

Source: DPPC and authors' calculations

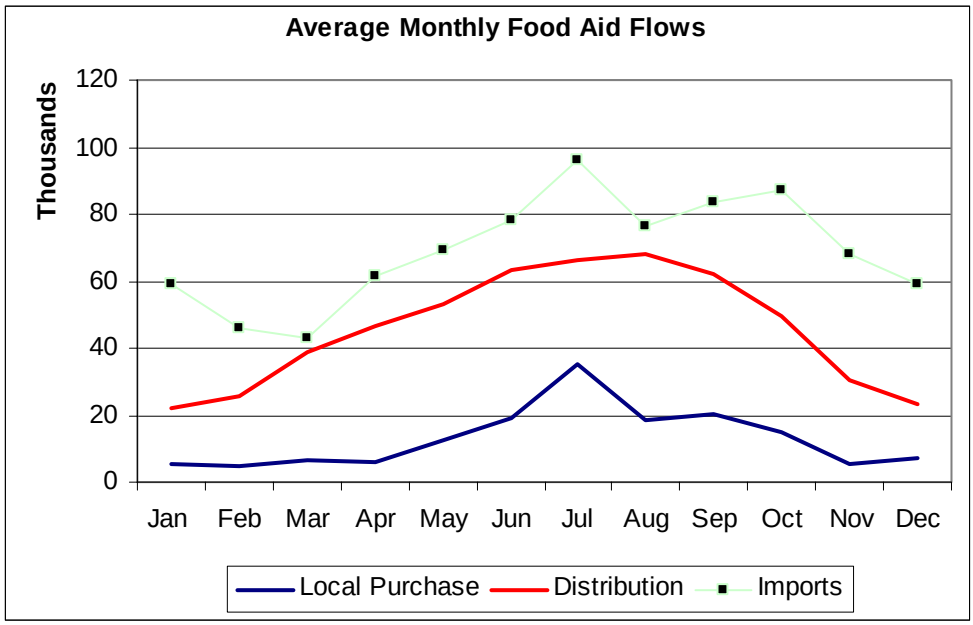
BOX 1: HOW LOCAL PURCHASE CAN CONTRIBUTE TO PRICE STABILITY

Short-run supply elasticities are very low, notably in Ethiopia (Abrar, 2001). Surplus producing smallholders prioritise their own food security and are reluctant to sell more than a part of their harvest. State or commercial farms sell nearly all they produce within the next marketing season. The response of farm prices to individual local tenders will depend mainly on the level of short term demand elasticity, which for staple crops, even in very poor countries, is also known to be low. The effect of local purchase is to increase prices, which, in the view of the low elasticities is likely to be more than proportionate to the level of procurement. Given that this has ranged between 4% and 32% of Ethiopia's estimated cereal surplus (Table 5.1), we conclude that local purchase can contribute materially to price stability.

Of course, in the long run supply elasticities are considerably higher, even for the smallholders who dominate production in Ethiopia. Farmers in areas with favourable resources will intensify production in response to the more stable and remunerative price regime resulting from local procurement operations, and this may eventually lead to price collapses and generally lower price levels, particularly for maize, a crop which Ethiopia can easily produce in excess of domestic demand. However, even under these circumstances, local purchase can mitigate the level of inter-annual price fluctuation, albeit around a lower equilibrium level.

Apart from improving the distribution of local purchase between years, improvements in the timing within particular years could potentially enhance the link between local purchases and farm-gate prices in surplus producing regions. As mentioned previously, tenders are often launched late during the marketing season because of delays in the allocation and disbursement of funds, so that local cereal purchases do not always coincide with periods of market gluts, when they are most needed. This finding is borne out by recent analysis of food aid procurement by World Bank (in press), showing that local procurement peaked in the lean season (in July), whereas it should logically peak after the harvest, i.e. in April-May.

FIGURE 5.1



Source: Agridev Consult, Addis Ababa

Late purchases may also

- inflate the cost of locally procured cereals,
- reduce the quantity that can be purchased with a given budget,
- result in traders defaulting on their contracts due to difficulties in obtaining the tonnages they were contracted to deliver, and
- prevent relief agencies from meeting their annual procurement targets.

The importance of tendering locally during the peak marketing months was highlighted in the assessment of the 1996 local procurement programme but has not yet been satisfactorily addressed by aid agencies (Wolday Amha *et al.*, 1997). The lack of multi-annual resource allocations for local procurement activities and the bureaucratic procedures of donors are major causes of delayed purchases. The fact that the annual cereal availability study is normally conducted in January and February,

and published in March, well into the peak marketing season, is another contributing factor. While this allows for a more accurate estimate of the quantities of cereal available for local purchase, an argument can be made for surveying in November and December, during the harvesting season. Estimating the availability of cereals based on evidence from the farm, rather than the stock in the hands of farmers and traders, may not be ideal from a methodological perspective but would enable food aid agencies to plan and implement their local procurement activities one or two months earlier.

The subject of price stabilisation needs to be approached cautiously, since we know from international experience, that price support and buffer stock mechanisms tend to become hostage to political pressures, and consequently costly and unsustainable. While this has been observed in Europe and other wealthy countries, the problem has proved particularly intractable in developing countries, notably in Africa. Largely because of the high cost and financial unsustainability of these operations, most countries are now left with small food security reserves without any role in stabilising prices (Coulter and Poulton, 2001). An equal problem with public reserves is that of 'overhang', whereby the existence of public grain stocks, and/or knowledge of government intentions to intervene in the market acts as a major disincentive to storage by private parties. Elsewhere in Africa, private players typically express considerable uncertainty as to how government will respond. Will it suddenly reduce import duties, import in its own right, and/or sell stocks at subsidised prices? These hypothetical events, which reflect the underlying political sensitivity of grain markets, make it particularly risky for private players to engage in long-term storage. Furthermore, it is a serious problem, which tends to defeat the object of price stabilisation, given that the failure of private players to participate in storage exacerbates price instability.

Difficulties of this kind are the norm in many African countries, and should be considered before attempting to give EFSRA a price stabilisation function in Ethiopia. One of the reasons why EFSRA has 'bucked the trend' and performed well is that it has served as a politically uncontentious food aid pipeline and not had an explicit role in price stabilisation. At the same time, success may also be attributed to the effective management and operation of the organisation. Indeed this feature suggests that it may be possible to find ways of insulating it from short-term political pressures that could weaken its operation in a price stabilisation role.

Donor policies probably pose a greater constraint to the development of local purchase as a price stabilisation mechanism. There would need to be funds available for local purchase at the critical times of the year and strict co-ordination of support for local purchases and food aid imports; multi annual funding would help. To achieve this there would need to be thorough reform of food aid management, in particular close co-operation between the EC and USAID, and major delegation of authority to their respective offices in Addis Ababa.

5.3 Development of grain marketing systems

With the exception of local food aid procurement and assistance with road and communications infrastructure, donors have so far not made significant investment in the development of agricultural markets in Ethiopia. This raises the question: has local procurement improved the performance of Ethiopian grain markets beyond the food aid ambit, i.e. in regular procurement, wholesale, processing and retail activities?

There was little evidence of widespread impact arising from local purchase and this study confirmed the finding of Deloitte Emerging Markets and NRI (2003), who interviewed seven traders participating in local tenders, and found that they had very limited involvement in the day-to-day grain trade. Some of them had a sideline in supplying mills but none acted as regular grain wholesalers.

GTZ and REST claim a gain in the number, size, and efficiency of grain traders in the locality of their procurement activities, but these pioneering organisations now account for a small percentage of total volumes procured, and their approach to procurement is atypical[12]. The lessons learned by REST and GTZ should be studied by the larger agencies. For the main part, it is evident that local purchases have developed a relatively small number of firms skilled at meeting strict delivery schedules and quality specifications for food aid commodities. Smaller traders supplying these firms have doubtless benefited from their involvement in the food-aid pipeline, but there was no direct evidence that this large-scale activity had led to changes in practices in the regular wholesale-retail trade.

[12] Unpublished studies by REST in surplus producing areas in Tigray, undertaken between 1993 and 1996, suggest the number of small traders and trader grain stores had increased significantly.

Potentially, local procurement can be used as a tool to bring about, at little cost, major institutional changes that enhance the efficiency of domestic food marketing systems. Indeed the volume of local purchase is so large that food aid agencies can, simply by amending their contractual terms, provide the necessary demand to ensure the successful take-off of the country's planned warehouse receipt system and a commodity exchange. It is truly a case of "he who pays the piper, calls the tune".

A warehouse receipt system is about to be piloted with maize and wheat, with eight warehouses (all owned by EGTE) and the Commercial Bank of Ethiopia providing the finance. A new Warehouse Receipts Proclamation has been passed and a regulatory function has been established at the Ministry of Agriculture and Rural Development. A commodity exchange has been under discussion for some time and has been actively promoted by IFPRI.

Grading standards will be implemented through the pilot warehouses, and the same entities can be called upon to guarantee the performance of contracts involving grain stored in those warehouses. If the pilot proves successful, other warehouses could be licensed to issue warehouse receipts, including EFSRA and private warehouses. Once the commodity exchange is established, it could register some of these warehouses as delivery locations for grain sold through the exchange.

Establishing these institutions is no easy task in a country like Ethiopia where the regular grain trade is fragmented to the point of being atomistic in nature. However, the food aid agencies have major procurement muscle and are in a position to kick-start their development. By so doing, they can potentially make major inroads in addressing weaknesses of domestic markets mentioned earlier, i.e. lack of product standardisation, lack of systems of contract enforcement, lack of efficient financing mechanisms, and lack of price discovery. This would be greatly preferable to the present situation where food aid procurement is developing a narrow, and arguably efficient, channel dedicated almost exclusively to the food aid business.

Grain stored in warehouses licensed under the new system would become a fungible commodity, in the sense of having various possible destinations, i.e. food aid, local trade, milling and feed milling. When traders store grain in anticipation of a food aid

tender, other private buyers can bid for them, in the knowledge that they can continue holding the stocks in the same warehouses, obtain bank financing against them and draw them down gradually as they need them.

The food aid agencies can have major leverage over the development of these institutions, and take steps to ensure that they perform as required. However, they will need to work in partnership with Government and private stakeholders to make the system a success. Here it is necessary to recognise some uncertainties. Looking at experience elsewhere in the world, successful initiatives in these areas usually arise from initiative in commercial farming sectors, trade and the banks. In Ethiopia's case, Government is providing most of the drive, and it is possible that this could constrain private players. Notably the players in the warehouse receipt pilot (EGTE and Commercial Bank of Ethiopia) are both from the public sector, and it is difficult for private players to acquire land to build warehouses. Moreover, it is possible that the high level of public sector involvement will result in political and bureaucratic criteria prevailing over the autonomy of the fledgling institutional framework.

As in the case of price stabilisation discussed above, the food aid agencies should adopt a cautious but positive approach to the development of marketing institutions, study the situation as it develops, and be ready to provide support if they find conditions are ripe for success.

5.4 Development of agro-industries

There is no doubt that the production industries for blended commodities such as faffa, famix and Unimix owe their existence to food aid procurement for distribution in Ethiopia and in surrounding countries. The four companies involved have diversified from baby food production to be largely suppliers to the food aid sector. For one of these companies, this business alone is worth around US $3 million/annum. Production of blended foods generates additional employment. The companies employ many hundreds of employees, albeit some are casual staff due the variable nature of food aid demand.

Local procurement generates extensive business for grain handlers and transporters in the rural regions, which would otherwise have been used to finance large freight companies based in the major cities or at the port of Djibouti.

5.5 Increase in cereal production

As indicated in Box 1, Ethiopian farming responds in aggregate to price incentives by increasing production over the medium to long term, so there can be no doubt that local procurement has contributed to increased production. The Australian Agency for International Development (1996) states that purchases in Tigre by REST have clearly increased market demand and contributed to an expansion in production in the Sheraro area as there has been an expansion in land cultivated and a marked increase in the use of fertiliser. Large-scale farms are growing in number, as is the use of heavy equipment for ploughing and cultivation.

5.6 Crop diversification

Soya is not a common crop in Ethiopia and whilst there is a limited market for soya as a constituent of poultry feed and as an export commodity it appears that its main use is in blended food-aid products. Both Faffa and East Africa Group, another blended food manufacturer, believe that their supply of the local and regional procurement markets have initiated significant increases in soya bean production in Ethiopia.

5.7 Improving food quality

The enforcement of strict quality procurement standards has undoubtedly raised the quality of grain offered for food aid local purchase. It will undoubtedly have raised the awareness and competence of those traders concerned.

5.8 Stimulating regional trade

The growth of the blended food sector has created the market potential for Ethiopian companies to supply neighbouring countries. Having met recent production demands to fulfil food orders for Sudan, there can be little doubt that the companies concerned will be looking for repeat business.

6. Conclusions

6.1 Although Ethiopia receives large quantities of food aid, both imported, and purchased locally and regionally, the data available on the locally procured commodities is fragmented, incomplete and often inconsistent. However, the data in Table 3.3 offers the best possible summary of local cereal purchases. Nevertheless, it is most probably an underestimation, because records appear to be based on incomplete data.

6.2 The lack of sound and consistent data possibly reflects the current lack of full co-ordination of the food aid sector in Ethiopia.

6.3 The Productive Safety Net Programme will result in a shift from food to cash distributions, and this may result in some reduction in food aid, or at least a reduction in the rate of increase. However, implementation is likely to be constrained by geographical, logistical, climatic and security factors. Hence, food aid, including local procurement, will remain very important to Ethiopia in the foreseeable future. In the light of this, we conclude that local purchase is sustainable, in the sense that donors are likely to sustain it over the medium to long-term.

6.4 Around a quarter of Ethiopia's food aid is procured locally, and this translates into between 4% and 32% of Ethiopia's estimated cereal production surplus. The authors conclude that this has had an overall positive impact on rural welfare in Ethiopia, by supporting producer prices, creating employment through the value chain, and multiplier effects within the economy at large.

6.5 The food aid agencies regularly conduct annual cereal availability studies with a view to protecting the market from adverse effects. However, due to funding and procedural delays, tenders are often launched late and this diminishes their cost-effectiveness and beneficial impact on the local economy.

6.6 All local procurement agencies use the classical tendering procedures, albeit with differences, e.g. between open and closed systems. Attempts to procure from farmer groups and other small suppliers have been largely ineffective.

6.7 The EFSRA has contributed greatly to the success of local procurement. Flexible replenishment arrangements allow subsequent procurement to be undertaken in a more programmed and market sensitive manner, while

EFSRA's lending facility has largely offset the adverse effects of complicated donor procedures of donor agencies, particularly the provision of funding on an annual basis.

6.8 The accepted view of development agencies is that local procurement can yield cost savings of around 25 to 30% compared to the landed costs of imports, and this is supported by recent findings by the Organisation for Economic Co-operation and Development.

6.9 Local procurement provides a wider range of cereal grains for distribution to beneficiaries. Imported grain is predominantly wheat, but local grains include maize and sorghum, which are strongly preferred in some areas. Local procurement is also faster than the alternative of importing food aid commodities from donor countries and the international market, although bureaucratic and funding delays often erode this advantage.

6.10 There is little evidence that local procurement has contributed to price stability between years, but if the volumes procured were related to the state of local harvests and the country relied on imported food in years of deficit, it could fulfil this function. However this would require a high level of co-ordination between the leading donors (EU and USA), considerable delegation to their Addis Ababa offices and very strong effective institutional arrangements to prevent the price stabilisation function becoming a hostage to local political pressures and, thereby, financially unsustainable.

6.11 Local purchase has resulted in the development of a somewhat narrow procurement channel, whose players are skilled in meeting strict delivery schedules and specifications for food aid commodities – clearly a beneficial outcome. However, with the exception of certain smaller agencies, which have established relatively decentralised operations, there was no evidence that local purchase had led to changes in practices in the regular wholesale-retail trade.

6.12 Whilst the food aid sector cannot be expected to make good the deficiencies in the Ethiopian grain marketing sector, it does have potential to support the introduction of warehouse recent systems and a commodity exchange. In turn, the introduction of these initiatives would create opportunities for a more efficient and transparent procurement system, not based on a tendering system.

6.13 The blended food industry owes much of its existence and continued development to local procurement for food aid use. The demands of this industry will also affect suppliers of raw materials and packaging.

6.14 While recognising the development benefits associated with some smaller procurement operations, we broadly accept the EC's argument in favour of larger tenders ("procurement lots should not be less than 500 tonnes in order not to disrupt the trade pyramid"), given that the economies of scale in grain procurement and the high level of institutional overheads which can be occasioned by small tenders. However if Ethiopia could develop an effective commodity exchange, this would provide an efficient means of downscaling procurement operations, and a transparent alternative to procuring all their grain through open tenders. Indeed, food aid agencies can test the system by placing relatively small bids through the exchange.

6.15 The above conclusions support the hypothesis that *"local or regional procurement of food aid can make a much larger contribution to the economies of developing countries, and poor people in particular, and policies can be put in place to increase such benefits"*. They also show that the realisation of this potential depends upon local circumstances and the skill of government and donor officials in providing the policies and supporting the development of institutional frameworks.

7. Recommendations

7.1 Impact Assessment

Donors and relief agencies should undertake assessments of the development impact of procurement in supplying economies.

7.2 Information Date base

Donors and relief agencies should strive to improve the food aid information base, specifically to include all local and regional procurement.

7.3 Work with donors towards multi-annual cash commitments

Relief agencies should work with donors with a view to implementing a system of multi-annual, rather than annual, resource allocations for local procurement. This would eliminate the problems arising from occasional delays in the release of committed funds while allowing for medium-term planning and the scaling of local purchases in accordance with local production. Multi-annual cash contributions would also enable implementing agencies to provide producers, traders, and processors with a clearer indication of their future purchasing intentions with regards to quantities and timing, thereby reducing production and marketing risks.

7.4 Investigate the scope for using local procurement to develop more efficient domestic marketing institutions

Food aid agencies and donors supporting them should likewise study the opportunity for using local procurement to develop more efficient domestic marketing institutions, and be prepared to support if conditions are ripe for success. Support for these institutions will require substantial changes to donor regulations and procedures. For example, delivery of stocks should be in the form of warehouse receipts, and it could be required that bonds are posted in this form. Procurement through commodity exchanges means being able to dispense with the open tendering system.

7.5 Investigate the scope for more explicitly linking food aid procurement and price stabilisation

Food aid agencies and the donors supporting them should study the opportunity for more explicitly linking local food aid procurement and price stabilisation, but in a way that avoids the negative outcomes widely associated with price stabilisation interventions in Africa and elsewhere.

7.6 Training of private sector trading enterprises

Food aid agencies should consider sponsoring training initiatives targeting private sector traders and covering subjects such as warehouse management, pest and quality control, procurement systems, accounting and costing. This could contribute to broadening their supply base and ensuring compliance with contract specifications.

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Appendix 1

Organisations Visited and People Met

10 January 2004	EuronAid Ethiopia Regional Support Office	Kassaye Chemeda Country Representative
	World Food Programme Ethiopia	Roberto Marchetti Head of Procurement
	Delegation of the European Commission in Ethiopia	Pascal Joannes Regional Grain Market Expert
11 January 2004	International Committee of the Red Cross Ethiopia	Marco Brudermann Head of Delegation
	Omer & Awad Baobed Grain Trading Company	Awad A Baobed General Manager
12 January 2004	International Committee of the Red Cross Ethiopia	Gunther Kreissl Head of Logistics
	Disaster Prevention and Preparedness Commission (DPPC)	Tadesse Bekele Fanta Head of Logistic Administration and Transport Co-ordination
	VOCA Ethiopia	Werqu Mekasha Country Director
	Federal Co-operative Commission	Haile Gebre Federal Commissioner
13 January 2004	Ethiopian Grain Trading Enterprise	Etagegne Geremew
	East African Group (Eth) Ltd Manufacturer of blended foods	B. S. Shetty Director
	World Food Programme Ethiopia	Georgia Shaver Country Director
14 January 2004	Save the Children (Ethiopia)	Wondwossen Katel Emergency Advisor
15 January 2004	Lume-Adama Farmers Co-operative Union	Demere Demissie General Manager
17 January 2004	DFID Ethiopia British Embassy	Tim Robertson Food Security Adviser
	The World Bank Ethiopia Country Office	Laketch Mikael Rural Development Specialist

	Japan International Co-operation Agency	Kimiaki Jin Deputy Resident Representative
	GTZ German Development Co-operation	Winfried Zarges Programme Co-ordinator
18 January 2004	Embassy of Kingdom of Netherlands	Hans Raadschilders First Secretary Rural Economic Development
	Faffa Food Share Company Manufacturer of blended foods	Derese Kassu General Manager
	World Food Programme Ethiopia	Ioannis Katsaros Senior Logistics Officer
	International Food Policy Research Institute (Ethiopia)	Eleni Z Gabre-Madhin Programme Leader
19 January 2004	Trader	Kabir Hussain
20 January 2004	Hawas Agribusiness PVT Ltd Co	Bulbula Tulle Managing Director

APPENDIX 2

THE HISTORY OF LOCAL PROCUREMENT IN ETHIOPIA

The origin of local food aid procurement can be traced to 1983 when food aid sorghum was purchased by European NGOs in eastern Sudan for transport to Ethiopia to feed drought migrants in western Tigray (Smith, 1983). The success of this mobilisation was limited because the Relief Society of Tigray (REST) had insufficient trucks for the quantities of grain involved and the summer rains were making the river crossings from Sudan impassable. The alternative was to purchase from areas of Tigray, such as the Shire and Wolkeit districts, which are traditionally surplus grain producing areas. At the request of church agencies, several donors released a total of US $200,000 for this purpose.

In mid-1983, REST undertook a crop assessment exercise that showed a surplus in western Tigray of 8,000 tonnes from the 1982-83 harvest (October to January). However, the Economics Department of the Tigray People's Liberation Front (TPLF) determined that only 3,000 tonnes could be purchased for food aid without disrupting normal economic patterns, notwithstanding the planned procedure of purchasing in lots of 80 tonnes so as to distribute the cash between merchants and lessen localised market impact. Funding constraints subsequently limited REST's procurement to around 585 tonnes. An impact assessment indicated that the procurement did not disrupt economic patterns, but purchases were judged to be sufficient to encourage farmers in surplus areas to increase production in the knowledge that there would be a market for their grain.

REST formalised its Internal Purchase Programme in 1986. The objective was to purchase food from surplus areas for distribution in food deficit areas. According to REST (1992), the stated advantages were that:

- it allows for a faster response and delivery time
- locally procured food is more familiar and culturally acceptable than imported food aid
- when funds arrive in time it is more economic
- it assists the long-term development process by increasing producer incentives and stimulating local markets

REST continued its crop assessment exercises to support the distribution of imported food aid and to underpin its substantial local procurement operations in Tigray with purchases of 40,446 tonnes of grain (1991), 3,831 tonnes (1992), 20,091 tonnes (1993), 11,116 tonnes (1994), 4,941 tonnes (1995), 5,066 tonnes (1996), and 8,053 in 2003 (REST 1992, REST 1994, Australian Agency for International Development 1996, Australian Agency for International Development 1997, and REST, 2003). The financial support of the Australian Government was the first recorded example in Ethiopia of an international food aid donor with a development agenda to improve local productivity by using local grain purchases. There was also financial support in 1994 from New Zealand.

After two decades of experience in conducting local purchases, REST claims to have developed good relations and purchasing networks with producers and mid-level grain traders and this has assisted the smooth implementation of procurement activities. REST maintains one major store in the western zone of Tigray to transact food purchases, receive commodities from traders, provide storage as required and, using private transporters, to dispatch directly to distribution sites following public tender.

In 1996, in response to Government appeals to donors, the European Commission (EC) initiated a local procurement programme. In subsequent years a more widespread programme was introduced through its Ethiopia Food Security Unit and through EuronAid[13]. The objectives were as follows (Anon 1999):

- to procure food aid (locally/regionally) as part of a more general policy support linking food aid with market development
- to improve food aid targeting through diversifying grain types
- to support domestic prices during years of good harvest in order to provide production incentives to farmers
- to encourage entry and expansion of the domestic grain trade by familiarising farmers with more formal contract arrangements and help integrate food aid activities into the broader domestic grain marketing system

Since then the EC and its member states have made increased financial resources available for local purchases of relief food. These purchases are now made on a regular basis by the Ethiopian Government through the Disaster Preparedness and Prevention Commission (DPPC), and by the World Food Programme (WFP) and EuronAid. Other agencies such as GTZ and Save the Children (UK) have also procured food locally for their relief activities, albeit on a more infrequent basis (see Table 4.3 in the main text).

DPPC has recently become the leading local food aid procurement agency, having made 37 per cent of all cereal purchases since 1996 while WFP and EuronAid accounted for 26 and 17 per cent respectively (Table 3.3). The Ethiopia Food Security Unit of the EC was directly involved in local procurement until 2000 but it has since ceased to act as a purchasing agency, opting instead to focus on the co-ordination and management of EC financial allocations to DPPC, EuronAid and WFP. The EC funding contribution to the local purchase operation of 2004 represents 56% of total procurement in this year, and 48% of the funding for the total quantity purchased in the country since 1996.

Most of the larger food aid organisations distribute imported food aid in addition to their local procurement activities. However, GTZ, which has procured over 43,000 tonnes over the past nine years, does not distribute any imported food aid on principle. GTZ believes that local procurement is a foundation for rural development.

Significantly, food aid procurers are the largest buyers of grain in Ethiopia in what can be a very thin market (World Bank, 2003). It is understood that even in good years only 28% of the grain harvest is marketed.

The agencies involved in local procurement are conscious of the need to avoid purchasing excessive quantities in the market for fear of inflating source prices and distorting markets. To this end an annual Cereal Availability Study, based on the REST model, was initiated in the late 1990s and is now implemented to inform decisions regarding the quantity and type of grains available to be purchased locally for relief purposes. This assessment is currently sponsored by the EC, WFP and the Swedish International Development Agency (SIDA), e.g. Delegation of the EC to Ethiopia *et al.* (2003), SIDA *et al*. (2004), and SIDA *et al*. (2005). Extracts from the most recent Cereal Availability Study are shown in Appendix 3.

[13] EuronAid is an association owned and controlled by European NGOs active in the field of food aid and food security. It facilitates access by NGOs to institutional donors, mainly the EC, provides a forum for exchanging information and sharing experiences.

Appendix 3

Extracts from 2005 Cereal Availability Study

Maize - potential availability for local purchase from selected surplus zones in 2005 (in tonnes)

		Production	Marketable Surplus	Potentially Available	Carryover Stock	Available Amount from State & Comm. Farms	Demand from Flour Mills	Net Potentially Available Maize
AMHARA	EAST GOJAM	76,023	11,403	1,711				1,711
	WEST GOJAM	206,087	80,374	20,093		17,848		37,941
	AGEWAWIE	64,737	20,068	4,014		18,852		22,866
	NORTH GONDER	62,010	11,162	1,674				1,674
	NORTH SHOA		0	0				0
	SOUTH WOLLO		0	0				0
	AMHARA TOTAL	408,857	123,008	27,492		36,700		64,192
TIGRAY	Houmera		0	0				0
OROMIYA	EAST WELLEGA	166,374	26,620	4,259		12,712		16,971
	ILLUBABOR	141,725	7,086	354				354
	JIMMA	256,172	87,099	21,775				21,775
	WEST SHOA	134,505	22,866	3,887				3,887
	ARSSI	74,811	29,176	2,188				2,188
	WEST WELLEGA	255,930	23,034	2,303				2,303
	WEST HARARGHE	32,724	10,144	0				0
	BALE	8,421	1,263	189				189
	EAST SHOA	124,076	38,464	7,693				7,693
	OROMIYA TOTAL	1,194,738	245,752	42,649		12,712		55,361
SNNPR	HADIYA	37,376	1,121	34				34
	KEMBATA A.T.							0
	SIDAMA	40,134	9,231	2,123		11,706		13,829
	SNNPR TOTAL	77,510	10,352	2,157		11,706		13,863
ADDIS ABABA					30,800		5,000	25,800
Grand Total (tonnes)		1,681,105	379,111	72,298	30,800	61,118	5,000	159,216

Wheat - potential availability for local purchase from selected surplus zones in 2005 (in tonnes)

		Production	Marketable Surplus	Potentially Available	Carryover Stock	Available Amount from State & comm. Farms	Net Demand from Flour Mills	Net Potentially Available Wheat
AMHARA	EAST GOJAM	98,720	22,706	5,222				5,222
	WEST GOJAM	27,774	6,388	1,469			9,155	-7,686
	AGEWAWIE	8,162	3,183	732				732
	NORTH GONDAR	45,304	30,807	15,403			2,135.5	13,268
	NORTH SHOA		0	0				0
	SOUTH WOLLO		0	0				0
	AMHARA TOTAL	179,960	63,084	22,827		0	11,291	11,537
TIGRAY	Houmera		0	0				0
OROMIYA	EAST WELLEGA	45,311	5,437	652				652
	ILLUBABOR	5,133	462	42				42
	JIMMA	30,656	8,584	1,717				1,717
	WEST SHOA	213,947	57,766	17,330			3,880	13,450
	ARSSI	547,294	93,040	27,912		25,414	2,647	50,679
	WEST Wellega	16,522	6,278	942				942
	WEST HARARGHE	7,251	3,408	682				682
	BALE	153,901	36,936	11,081		50,485	1,600	59,966
	EAST SHOA	191,949	90,216	27,065			22,241	4,824
	OROMIYA total	1,211,964	302,127	87,421		75,899	30,368	132,952
SNNPR	HADIYA	104,551	47,048	21,172			5,500	15,672
	KEMBATA A.T.						400	-400
	SIDAMA	7,505	1,426	271			1,000	-729
	SNNPR TOTAL	112,056	48,474	21,443			6,900	14,543
ADDIS ABABA					1,500		28,588.6	-27,089
Grand Total (tonnes)		1,503,980	413,685	131,691	1,500	75,899	77,147	131,943

Sorghum - potential availability for local purchase from selected surplus zones in 2005 (in tonnes)

		Production	Marketable Surplus	Potentially Available	Carryover Stock	Available Amount from State & comm. Farms	Net Demand from Flour Mills	Net Potentially Available Sorghum
AMHARA	EAST GOJAM	23,432	5,155	825				825
	WEST GOJAM	4,333	1,300	260				260
	AGEWAWIE	8,564	1,370	219		365		584
	NORTH GONDAR	197,082	35,475	10,642		25,558		36,200
	NORTH SHOA		0	0				0
	SOUTH WOLLO		0	0				0
	AMHARA TOTAL	233,411	43,300	11,946		25,923		37,869
TIGRAY	Houmera	34,084	22,155	14,401				14,401
OROMIYA	EAST WELLEGA	48,740	10,723	1,608		326		1,934
	ILLUBABOR	51,846	2,592	0				0
	JIMMA	77,908	20,256	3,038				3,038
	WEST SHOA	95,400	20,988	4,198				4,198
	ARSSI	33,032	1,321	0				0
	WEST WELLEGA	140,648	19,691	1,969				1,969
	WEST HARARGHE	77,341	13,921	0				0
	BALE	9,421	2,167	217				217
	EAST SHOA	0	0	0				0
	OROMYIA Total	534,337	91,660	11,030		**326**		11,356
SNNPR	HADIYA	7,674	767	77				77
	KEMBATA A.T.							0
	SIDAMA		0	0				0
	SNNPR TOTAL	7,674	767	77				77
ADDIS ABABA					170			170
Grand Total (tonnes)		809,506	157,882	37,454	170	26,249		63,873

Appendix 4

Details of Quality Grading Specifications in Ethiopia

Comparison of Ethiopia maize specifications

Item	Maximum allowable percentage				
	WFP	EFSRA		Ethiopian Standard	
		Grade 1	*Grade 2*	*Grade 1*	*Grade 2*
Moisture content	13.5%	13.5%	13.5%	13.0%	13.0%
Damaged, shrunken, weevilled	5.5%	5.5%	9.0%	3.0%	2.0%
Broken grains				2.0%	3.0%
Blemished grains including - stained, discoloured, sprouted, frost damaged, diseased, insect damaged and of which:	-	-	-	3.0%	5.0%
- diseased grains	-	-	-	0.5%	0.5%
- insect damaged grains	-	-	-	0.5%	1.5%
Immature grains	-	-	-	1.0%	2.0%
Other grains	-	-	-	0.5%	0.5%
Contrasting classes	-	-	-	1.0%	2.0%
Foreign matter (including weed seeds)	2.5%	2.5%	3.0%	0.5%	1.0%
Live insects	Nil	Nil	Nil	Nil	Nil
Total impurity	8.0%	8.0%	12.0%	8.0%	13.5%
Sound grain (minimum)	92.0%	92.0%	88.0%	92.0%	86.5%

Comparison of Ethiopia wheat specifications

Item	Maximum allowable percentage				
	WFP	EFSRA		Ethiopian Standard	
		Grade 1	*Grade 2*	*Grade 1*	*Grade 2*
Moisture content	13.5%	13.5%	13.5%	13.0%	13.0%
Damaged, shrunken, weevilled, broken grains	3.5%	2.8%	5.6%	-	-
Defective grains (total) Of which:				6.0%	9.0%
- Broken grains	-	-	-	1.0%	2.0%
- Shrivelled grains				3.0%	
- Unsound grains	-	-	-	1.0%	0.5%
- Sprouted grain				1.0%	
- Grains attacked by pests	-	-	-	1.0%	1.5%
- Other cereals				1.0%	
Contrasting classes	-	-	-	0.5%	2.0%
Foreign matter (including weed seeds)	2.5%	3.2%	4.9%	-	-
Organic extraneous matter	-	-	-	1.5%	1.5%
Inorganic extraneous matter	1.0%	-	-	0.5%	0.5%
Stones				0.1%	0.2%
Live insects	Nil	Nil	Nil	Nil	Nil
Total impurity	6.0%	6.0%	10.5%	8.6%	13.2%
Sound grain (minimum)	94.0%	94.0	89.5%	91.4%	86.7%

Comparison of Ethiopia sorghum specifications

Item	Maximum allowable percentage				
	WFP	EFSRA		Ethiopian Standard	
		Grade 1	*Grade 2*	*Grade 1*	*Grade 2*
Moisture content	14.0%	13.5%	13.5%	13.0%	13.0%
Defects (impurities)	3.0%	-	-	-	-
Sprouted grains	3.0%	-	-		
Frost damaged grains	0.5%	-	-		
Broken grains	2.0%	-	-	2.0%	4.0%
Damaged shrunken, broken, weevilled grains		5.5%	9.0%		
Foreign matter of which inorganic matter		2.5% -	3.0% -	1.0% 0.5%	1.5% 0.5%
Stones	0.01%	-	-		
Organic and inorganic extraneous matter	0.5%	-	-		
Blemished grains including - stained, discoloured, sprouted, frost damaged, diseased, insect damaged and of which:	-	-	-	3.0%	5.0%
- diseased grains	-	-	-	0.5%	0.5%
- insect damaged grains	-	-	-	0.5%	1.5%
Contrasting classes	-	-	-	1.0%	2.0%
Live insects	NIL	NIL	NIL	NIL	NIL
Total impurity		8.0%	12.0%	7.0%	12.50%
Sound grain (minimum)	-	92.0	88.0%	93.0%	87.5%

Some peculiarities in the definitions of some of the quality factors are seen in the WFP food aid specifications. For example in the sorghum specification, a limit of 3% is set for 'Defects (impurities).' This term is not defined and can lead to confusion. The term 'defects' commonly refers to defective (i.e. damaged) grains and the word 'impurities' is usually taken to mean foreign matter. In the specifications for maize and sorghum the term 'total impurities' refers to the sum of all damaged grains and foreign matter. The sorghum specification goes on to set limits for certain categories of damaged (defective) grains – sprouted, frost damaged and broken grains. It could be argued that any other type of damaged grain (insect damaged or diseased) should therefore be classified under the 'defects (impurities)' heading.

Limits are set for foreign matter (categorised in the specification as: (a) stones, and (b) extraneous organic and inorganic matter). However, stones are a form of inorganic extraneous matter and the need for a separate category of stones is questionable.

When traders were quizzed about the various quality factors, none could provide satisfactory explanations for the definitions used. Most indicated that, in practice, more emphasis was placed on the percentage of whole grains present. There is an inconsistency here, for although minimum percentages of whole grains are set for maize and wheat no such figure is given for sorghum. In the case of maize and wheat, the minimum percentage of whole grains is equal to 100 minus the percentage of total impurities. If the same approach is applied to sorghum, the minimum percentage of whole grains would be 90.99% yet traders claimed that they worked to a requirement of 92% whole grains (as used in the specification of the EFSRA).