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Areas of Concern in the Five Zones of Afar Region

448,500 people are facing serious food shortages in Afar Regional State. Last week in zone 5, hundreds of shoats were sold to traders for as little as 10 birr a head. ▶

Livelihood Disruption in Cash Crop and Surplus Producing Areas

Consequences of persistent low cereal market prices in Ethiopia



Besides the current humanitarian threat in the north-eastern parts of Ethiopia and Afar due to insecurity and delayed rains along with the likelihood that other chronic food insecure areas of the country will again become more vulnerable than expected, awareness should be raised concerning another persisting problem that has been surfacing over the last three years. This area of concern is arising principally in cash crop and surplus producing areas of Ethiopia that usually do not suffer food shortages and, even in times of crisis, are self-sufficient and hence not needing particular humanitarian attention. But recently things seemed to change and farmers in southern and western Ethiopia are facing problems that they have never dealt with before.

Many cash crop and surplus-producing farmers in these areas of the country say they are much better off not using the so-called government agricultural extension package that is not helping them anymore. Last year Alemu, a local farmer in Jimma zone had to sell two of his oxen to repay his loan taken to receive the extension package that includes improved seeds and fertilizers to produce cash crop for the market. Now he does not even have oxen to plough his land. Some of his neighbours who do not have cattle to sell cannot even repay the loan and face the risk of going to jail.

This farmer and his neighbours are not alone. There is now evidence that low cereal prices since 2000 combined with low coffee prices since early 1999, are having negative effects and disrupting the livelihoods of many rural people in cash crop and surplus producing areas in Ethiopia. Mono-croppers and poor

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DPPC Highlights Need for Emergency Relief Food for 2.2 Million Additional Beneficiaries

An alarming picture of the food situation in the country is reported. ▶

Severe Water Shortages and Massive Cattle Deaths in Shinile, Somali Region

In those areas that share a border with Afar region, massive cattle deaths were observed and a humanitarian crisis is developing. ▶

Need for Further Food Aid Contributions

Relief food assistance now available can only meet August and September requirements at reduced rations. ▶

Farewell Grant Offered Raises Controversy Among 1991 Returnees

The government offers start-up money for returnees to establish small businesses and start a new life. ▶

farmers are particularly affected and suffer most from the negative impact that followed. Because prices are so low, farmers cannot take in enough money to cover their production expenses. Therefore, the number of farmers that are unable to pay back credits for extension packages of fertilizer and improved seeds increased steadily. This also resulted in the significant decline of farm input utilization in 2001 and a decrease in production for maize, sorghum and wheat in the typical surplus producing areas of the country¹.

Since the mid-1990s the Ethiopian Government tried to adopt a "Green Revolution"² development approach, called the Agricultural-Development-Led-Industrialization (ADLI) that aims to enhance bottom-up broad-based economic growth. ADLI has indeed increased national food production as a result of the promotion and dissemination of nationwide agricultural extension packages. Although, an increase in food production has not been linked with the development of markets. Hence, the existing market with its insufficient information system and underdeveloped warehouse, storage and trading system proved unable to absorb and cope with significantly increased cereal production, particularly since 1996 when national surplus grain was first offered in markets in Ethiopia.

In 1976, during the time of the Derg, a corporation was established to stabilize food production and to promote agricultural development. In 1992, after the change of government, this corporation was renamed the Ethiopian Grain Trading Enterprise (EGTE) and substantially downsized, thereby undermining its capacity to play a price stabilization role in the Ethiopian grain market³. Since then grain production has increased substantially every year and hence also the availability of grain, especially maize, sorghum and wheat, for local purchase.

To support local production and to stabilise grain market prices, the Ethiopian Government arranged with donors to purchase a certain amount of food aid from domestic markets. A unique aspect of this success is that production increases are concentrated in the high-potential, surplus producing western and southern parts of the country whereas chronically food insecure marginal crop producing areas in the eastern and northern parts remained in constant need of relief assistance. To support local production by stabilising grain market prices while at the same time ensuring relief assistance to the food insecure, the Ethiopian Government has been encouraging donors to purchase food aid on domestic markets. However, since 1996 the objective to stabilise grain market prices through local purchases failed because of the boost in quantities produced and available for local purchase and the lack of capacity and financing on the donor and government side. In 2000 for example there was more than 520,000 mt of maize, sorghum and wheat available for local purchase of which only 38%, or 197,900 mt, was purchased by donors through their local purchase programs. In 2000, that very same year, cereal market prices started to plummet. Some cereal market prices like wheat and maize are now at their record lows and way below production costs. Even though temporarily cereal market prices are on the rise due to unfavourable climatic conditions and bleak main harvest production projections, prices

Even though temporarily cereal market prices are on the rise due to unfavourable climatic conditions and bleak main harvest production projections, prices for example for maize still remain below long term average and even more important, below production costs in the main production areas of western Ethiopia.

¹ Typical surplus producing areas in Ethiopia are: West Gojam, Arsi, Jimma, Illubabor, Shewa and Wellega.

² "Green Revolution" approaches were successfully implemented in countries such as India and China during the 1960s and 1970s to increase domestic food production.

³ In 2000 for example, EGTE purchased locally 44,341 MT of maize and wheat. That is less than 5% of the marketable surplus of the two cereals in Ethiopia (see Alemu A (2001) The current depressed cereal prices – Reasons, impacts and its policy implications on future sustainable agricultural development; The case of maize belt areas, Western Ethiopia. Report prepared for USAID/FEWSNet Ethiopia, June, Addis Ababa).

for example for maize still remain below long term average and even more important, below production costs in the main production areas of western Ethiopia⁴ (Nekemte).

Causes for farmer's livelihood disruption

Low coffee prices on the world market

Growing concern has risen in Ethiopia over the impact of a continued decline in international coffee prices. International coffee prices are at a 30-year low, having declined by more than 70% in the last four years alone. Persistent low coffee prices have generally reduced purchasing power and are now threatening the livelihood of the nation's coffee-grower households and laborers. Plummeting coffee prices have also led to a significant decline in government revenue. The current coffee crisis is bound to have a significant impact on the Ethiopian economy as a whole through a general reduction in the demand for goods and services and this may consequently increase levels of food insecurity and poverty.

Low local and national cereal prices

The causes for low local and national cereal prices are due to the increased availability of cereals, especially maize due to greater production because of the agricultural extension packages. Local markets proved to be unable to absorb the quantity of grain available and grain purchased by the government, donors and parastatal enterprises was too little to effectively stabilize prices. In Nekemte, for example, average wholesale prices for maize dropped by 50% from mid 1999 to the same period in 2000, from 142 to 75 birr per 100kg.⁵ And the prices dropped further from 2000 to 2001 even below 40 birr where they remained ever since July 2002. Hence, wholesale prices for maize in Nekemte plummeted by an incredible 75% from August 1999 to July 2002.

On top of the substantial surplus produced in-country in 2000, massive food aid imports floated in Ethiopia the same year to cope with the border conflict and the drought crisis when approximately 10 million people were estimated to be in need of food assistance. The FAO/WFP crop and food supply assessment mission to Ethiopia estimated that approximately 908,000 mt of relief food was distributed in the course of 2000. In many drought and war affected areas of Ethiopia relief food was traded on local markets throughout the country at "dumping prices"⁶. This caused significant market price decreases for maize wheat and sorghum especially in drought-affected areas. In Gode town, Somali Region for example the UN-EUE reported "wheat, maize and sorghum prices have been decreasing since April 2000 due to relief food distributions."⁷ Wheat retail prices in Gode town plummeted, from 260 birr per 100kg in May 1999 to 90 birr in June 2000, a 65% price reduction.

Not enough local purchase to stabilize prices in 2002

It has been estimated that in 2002 approximately 494,000 mt of quality cereal will be available for local purchase that is 8% less than in 2001. As of July 2002 around 200,000 mt have been purchased locally⁸. This amount represents approximately 40% of the potential available cereal for local purchase.



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⁴ FEWS (2002) Ethiopia Network on Food Security - Monthly Report. USAID Famine Early Warning System Network (FEWS NET) & the European Union's Local Food Security Unit (EU-LFSU), No 7, 12 July, Addis Ababa.

⁵ FAO & WFP (2001) FAO/WFP crop and food supply assessment mission to Ethiopia. FAO/WFP Special Report, January, Addis Ababa (Web: <http://www.fao.org/gIEWS/>).

⁶ This was witnessed and commented by the UN-EUE in a number of reports from 2000 and 2001.

⁷ Guinand Y F (2000) Considerable but yet insufficient humanitarian relief and rehabilitation activities in parts of drought affected Southern Somali Region. Internal UN-EUE report, April to July, Addis Ababa.

⁸ EU for DPPP: 70,000 mt; EU for WFP: 35,000 mt; Japan for WFP: 15,000 mt; Holland for SC-UK: 10,000 mt; SIDA: 15,000 mt; Euronaid: ~30,000 mt; Other NGOs: 25,000 mt.

Lack of effective demand

In Ethiopia there is an obvious lack of effective demand due to poverty, chronic food insecurity and limited export possibilities. Most of the chronically food insecure are not major participants in grain markets as they often rely on relief assistance as their main source of food. This coupled with limited export possibility to neighbouring countries the domestic grain market is becoming thinner, unable to absorb large supplies, which leads to decline in prices⁹.

Local cereal purchase- Direct operations cheaper but more risky

Before 2002 bidders carried out local purchases to replenish Emergency Food Security Reserve (EFSR) stocks from where relief food was borrowed. The disadvantage of this approach is that it is relatively expensive for donors because it involves two operations: food is borrowed out from the EFSR warehouses and transported to its final relief distribution points. Then subsequently traders who won local purchase bid contracts buy cereals on the local markets and deliver it to EFSR warehouses for repayment of stocks borrowed out. Under a new system introduced this year, bidders buy on local markets and transport the food directly to the distribution sites without involving the EFSR. This approach is about 30% cheaper for the donor compared to the previous practice. The problem is that some of the successful bidders started defaulting on their contracts by failing to deliver grain per the contract specifications and instead selling their grain on the market due to high transport costs and increases in prices in local markets in the period after the contracts were signed. For North and South Gondar some six trading companies already faulted on their contracts. The food was meant for pre-positioning in food insecure areas that become inaccessible as of mid July, at the height of main *meher* rainy season. Hence, thousands of relief food beneficiaries are unlikely to receive their food allocations in time or at all. Actually, 12,000 mt from the 70,000 mt purchased by the EU have not been delivered to destination. To prevent similar incidents in the future, the old, more expensive system may be preferable. Traders will be blacklisted when defaulting on shipment contracts for food aid. Raising the level of the bid bond is also another option to minimize default. In addition, the deposit required for granting a contract should be increased. The deadline for deliveries should be set a few weeks before the expected onset of the rainy season thus leaving some time to react, should a trader default.

Negative Effects on livelihoods of mono-croppers and poor farm households

Low coffee prices diminished household income for coffee growers. Since 1999, farmers reduced farm area covered by coffee by 20% in southern and southwest Ethiopia. When and where possible farmers try to substitute coffee with better priced cash crops such as sesame, but only well off farmers are able to do so because this requires substantial investment for seeds and other additional farm inputs. Generally, the purchasing power decreased for many poor cash crop farmers. Hence, these farmers now experience limited access to purchase food especially maize on the market. This results in a reduced market demand and provoked a downfall of maize prices. Farmers flooded the market with more maize to sell for whatever price to pay back credits granted for improved farm inputs. Furthermore, low coffee prices coupled with relatively good maize prices during 1999 and 2000 let many farmers shift from coffee to maize production resulting in increased

Farmers now produce less and lower quality or they are forced to sell more maize that further floods the market and prices continue to fall. They therefore earn less cash to buy food and are forced to sell assets such as livestock to pay back credits or to buy the necessary food they are lacking. This causes asset depletion that finally leads to food shortage, destitution and in severe cases to malnutrition and other serious health hazards.

⁹ Before trade relations with Eritrea were severed, followed by a border conflict, Ethiopia used to export in a significant quantity of grain annually (over 120,000 MT in 1996 alone). Good harvests in both Sudan and Kenya have limited Ethiopia's (informal) cross-border export to these countries in 2002 (FEWS NET).

availability of maize on the market that also contributed to the downfall of maize prices starting in 2000.

The widespread and persistent low cereal prices further reduced farm household incomes for coffee growers already affected by very low coffee prices. This caused difficulties to pay back extension package credits and hence, farm households have to sell even more of their production leaving less for home consumption. Outstanding credits, do not allow farmers to get new extension packages for the following agricultural season. Many farmers were denied for the current agricultural season in parts of SNNPR. Cash croppers in general, but especially maize cash croppers because maize requires intensive and regular input, were unable to buy the necessary agricultural inputs on the market because they lack cash. The coping mechanism they used and still use is to replant hybrid seeds meant for consumption and not for reproduction that degenerate quickly and hence generate a significant reduction in quality and yield, by as much as 30% for each harvest. That is where the vicious cycle and the road to the poverty trap starts: Farmers now produce less and lower quality or they are forced to sell more maize that further floods the market. They therefore earn less cash to buy food and are forced to sell assets such as livestock to pay back credits or to buy the necessary food they are lacking. This causes asset depletion that finally leads to food shortage, destitution and in severe cases to malnutrition and other serious health hazards. Not surprisingly, the most affected are maize monocroppers and poor farm households. The latter have no financial buffer to cope with crisis situations and therefore do not have much of an alternative than to encroach on essential household assets. Asset depletion has already started to grip and the poverty trap is about to snap for some farm households in lowland areas of Sidama zone SNNPR.¹⁰

Critical measures to improve the situation and to prevent food shortage

One can conclude that the cereal production in the surplus and cash crop producing areas of Ethiopia will substantially diminish for 2002 compared to the previous two years. Since those areas are surplus producing areas, their local food requirements should nevertheless be easily covered. It is more at the individual household level that the low prices and a yet unsuccessful government policy are affecting certain wealth groups, especially at the lower strata of the population segment.

Boost local cereal purchase for relief food as immediate measure

To raise local and national cereal prices it seems evident that local cereal purchase for food aid that only can represent an immediate and temporary solution would need to be boosted significantly. And it would only be efficient and have some effect on the market when at least ³/₄ of the estimated cereals available for local purchase could in fact be purchased. Unfortunately this is a very unlikely scenario. None of the important donors as well as the government has the capacity and the financial backing to do so. For some donors their mandate and foreign policy interests also represent significant constraints that hinder an effective local cereal purchase strategy. The proof can be observed now, as far less than half of the potentially available cereal for local purchase in Ethiopia has been purchased for relief purposes in 2002.

Provide relief and support national production

If the goal of government and donors is to provide relief and, at the same time, support national production, more financing has to be budgeted for local procurement and regional programs. Much more

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¹⁰ Dechassa L. (2002) Uncertain food security situation for farmers in Sidama Zone due to lack of access to farm inputs, UN-EUE mission report, May, Addis Ababa.

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cereal could be purchased and coordination among NGOs and donors by using a phased approach would be very important.

Farmers to substitute and diversify crops

Farmers already started to substitute coffee and maize for other crops. But certain limits have to be taken into account such as altitude and seed supply. A possibility would be to substitute maize with haricot beans or millet. An obvious shift would be from maize to locally available sorghum varieties because this crop does not necessarily need extra input to perform well.

Link production with market development

The long run solution lies in the fact that the Ethiopian Government, donors and agencies promoting improved farming methods, higher yields and increased production must link the development of production to the development of markets within and also outside Ethiopia. The latter cannot be feasible for international and overseas markets due to non-competitive prices of the Ethiopian grain¹¹. But a possibility would be to look into the development of regional markets with Ethiopia's neighbours such as Sudan, Kenya and Uganda.

Agricultural-Development-Led-Industrialization to be reviewed

The ADLI development approach and especially the production part with its extension packages needs to be reviewed together with the development of marketing structures and grain market information system in Ethiopia.

Support farmers through a national agricultural subsidy system

The reduced purchasing power of the population and the internal transport constraints remain the main obstacles to ensure acceptable food accessibility. Farmers clearly indicate that their preferred form of support would be an agricultural subsidy system for farm inputs and extension packages such as it is provided in developed countries of the world, to ensure stable market prices that would in turn reduce their loan and credit repayment burden. However, it is now too late in the season to support cereal market prices, since this would not benefit farmers who have already parted with their excess 2001 harvest stocks. Also, the opportunity to establish any mechanism to reassert farmers confidence in contracting new loans enabling the use of improved farm inputs has passed.

Written by Dr. Yves Guinand, UN-Emergencies Unit for Ethiopia.

For the complete report, please access

<http://www.telecom.net.et/~undp-eue/reports/cerealstudy0702.pdf>

Your comments are welcome: un-eue@un.org

NEWS

DPPC Highlights Need for Emergency Relief Food for 2.2 Million Additional Beneficiaries

The poor *belg* rain experienced in many areas has caused serious food shortages in several parts of the country. The impact of the rain has severely affected the important food sources in most of the *belg* producing areas. Major *belg* crops in a number of areas and early maturing non-*belg* crops, which are important sources of food during the lean months before the *meher* harvest, are affected. Livestock conditions are also endangered in some pastoral areas of the country that used to benefit from *belg* rains.

A DPPC led multi-agency team has recently completed its assessment of belg performance in highland and pastoral areas. Accordingly, an alarming picture of the food situation in the country is reported. This resulted in the issuance of a Special Alert by the DPPC.

¹¹ 1 MT of wheat produced in Ethiopia and ready for export at Djibouti port amounts to 220 US \$ where as the world market price stands around 105 US \$.

A DPPC led multi-agency team has recently completed its assessment of *belg* performance in highland and pastoral areas. Accordingly, an alarming picture of the food situation in the country is reported. This resulted in the issuance of a Special Alert by the DPPC highlighting needs for additional emergency relief food for over 2.2 million beneficiaries. The DPPC Special Alert can be reviewed by accessing <http://www.telecom.net.et/~undp-eue/reports/DPPCSpecialAlert0702.pdf>

Areas of Concern in the Five Zones of Afar

448,500 people are facing serious food shortages in Afar Regional State as a result of delayed sugum rains and subsequent clashes with Somali Issa over limited water and pasture sources that resulted in a change of traditional water and grazing sources.

Affected areas:

- Zone 1 Afambo and Assaita are heavily affected areas (source: ACF assessment). The situation is exacerbated due to the change in the course of the Awash River. Because of this, numerous animals including drought resistant camels have died. This might subsequently lead to a sanitation problem from the animal carcasses, especially if the Awash River is flooded in August
- Zone 2 Abale, Berahile, Erebiti, Koneba, and Dalol are the most affected areas in the zone (source: DPPC assesment).
- Zone 3 Awash Fentale, Amibara and Buremodaito are the hardest hit areas in zone 3 (source: UN-EUE/FAO assessment).
- Zone 4 There is still some pasture available and a possibility for the population to cope. They are in need of animal drugs (source: ACF assessment).
- Zone 5 Most of the pastoralists went to zone 3 to Gewane, and Oromiya zone in Amhara region (source: ANRS). Relief has been distributed (source: DPPC) and they are in need of animal drugs and fodder (UN-EUE assesment). Livestock marketing is a great concern as during the week of 22 August in Dalifage in Artuma woreda, hundreds of shoats were sold to traders for as little as 10 to 50 birr a head.

The UN-EUE has conducted several assessment missions to Afar and surrounding areas in June and July. The reports can be reviewed at <http://www.telecom.net.et/~undp-eue/Afar.htm>

Severe Water Shortage and Massive Cattle Deaths in Shinile Zone, Somali Region

The UN Emergencies Unit for Ethiopia (UN-EUE) conducted an assessment mission from 16 - 21 July 2002 to Ayisha, Afdem and Mieso woredas of Shinile zone. Due to delayed *gu* rains as well as the recent conflict with Afar over water and grazing land, massive cattle deaths were observed and a humanitarian crisis is developing in those areas that share a border with Afar region. In some areas, the only source of water is begging from truck drivers along the main Awash-Mille road. The full mission report can be found at <http://www.telecom.net.et/~undp-eue/reports/shinille0702.pdf>



In some areas of Shinile zone, the only source of water is begging from truck drivers along the main Awash-Mille road.

Need for Further Food Aid Contributions

Relief food requirements reached a peak in July, with 5.9 million people targeted for food assistance. Around 50,000 tons of food was dispatched to districts for distribution. Reduced rations (12.5 kg compared with the standard 15 kg per person per month) were used and yet food could cover only around two-thirds of the target population. Relief food assistance now available (around 115,000 tons of cereals) can only meet August and September requirements at reduced rations. Further contributions are urgently needed. The requirements from October to December are almost 100,000 tons of cereals, which needs to be covered by WFP, bilateral

contributions and NGOs. WFP has a shortfall of 87,430 tons against the current emergency operation, which runs to March 2003.

Farewell Grant Offered Raises Controversy Among 1991 Returnees

The Ethiopian Government has designed a rehabilitation program for more than 17,000 Ethiopians under its assistance for over eleven years since their return from Eritrea in 1991 after the country's independence. The government has provided shelter for these returnees at various spots all over Addis Ababa including *kebele* meeting halls and empty lots, as well as rationed aid, food-for-work and clothing. Since 1991, some of the returnees were given training in various areas offered by the Ethiopian government and NGOs mainly GTZ, Goal International and the Norwegian Church Aid.

Recently, the government offered start up money for returnees to establish small businesses and start a new life. Returnees would also be required to move out of their shelter areas. This proposal was not totally welcomed by the returnees. Their main complaint was that the average amount of 2,750 birr per household grant was too small and that the proposal did not incorporate housing or land. Some returnees also said that most of their family members still lack skills as the training programs were organized only for household heads.

Meanwhile, the first phase of grants were offered to 880 returnee households, in accordance with the proposed terms of the government, and were scheduled for implementation before June 2002. But due to the on set of the rainy season, the Government postponed their departure until September. However, some 234 households had yet to agree to accept the controversial grant and leave their shelters. Despite the rescheduling, those who wish to take the grants could do it any time. For the most vulnerable returnees such as the orphans, elderly, and sick, the government is preparing a separate rehabilitation plan to meet the special requirements of this group.

The latest proposal of the government seems to be the best possible, given the current critical needs in the country, including the recent food crisis. Therefore, both the government and the unfortunate returnees are placing their only hope on the support of NGOs for further assistance.

PRSP Stakeholders Identify Need for ADLI Revision

Representatives of civil societies, NGOs and private sector have called for a revision of the Agricultural-Development-Led Industrialization (ADLI) strategy designed by the Government of Ethiopia to alleviate the prevailing poverty in the country. Stakeholders said that ADLI alone cannot lift the country out of poverty but could rather bring about disastrous effects unless it was interlinked with other sectors of the economy. This information was provided at a recent press briefing in Addis Ababa on the issuance of the final draft of the Poverty Reduction Strategy Paper (PRSP) document last week. In this briefing, the chairman of the Ethiopian Economics Association, Dr. Befekadu Degefe, said that ADLI lacks the precise direction in terms of creation of jobs in the other sectors of the economy. (source: Ethiopian Herald, 26/07/02)

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A "home" in Aware shelter camp for a returnee from Eritrea after the country's independence.