



# Livelihood disruption in cash crop and surplus producing areas

*Consequences of persistent low cereal market prices in Ethiopia*

*A situation analysis July 2002*

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## 1 Introduction and background

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



Petty trader in Bahir Dar selling maize grain (Photo by Dominic Hartcourt-Webster. UN-EUE. August 2001)

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.

This article tries to describe and analyse the consequences of persistent low cereal and coffee market prices that affect and disrupt livelihoods and recommends critical measures to

improve the situation and to prevent food shortage in cash crop and surplus producing areas of Ethiopia. The

negative effects on livelihoods are illustrated with case studies in selected areas affected by persisting low coffee and cereal market prices.

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 farmers were particularly affected and suffered 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 country (EC/LFSU & WFP, 2002).

Since the mid-1990s the Ethiopian Government tried to adopt a “Green Revolution”<sup>1</sup> development approach, called the Agricultural-Development-Led-Industrialization (ADLI) that aims to enhance broad-based economic growth through the poor. 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. 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. 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 programmes (Alemu, 2001). 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.

## **2 Causes for farmers’ livelihood disruption**

### **2.1 Low coffee prices on the world market**

Growing concern has risen in Ethiopia over the impact of a continued decline in international coffee prices. The International Coffee Organization (ICO) quoted international coffee prices are at a 30-year low, having declined by more than 70% in the last four years alone (EC/LFSU & WFP, 2002). The present situation largely arises from a situation of excess supply of coffee consistently outstripping consumption. Coffee supplies to international markets have grown by 3.6% since 1996, while demand has only increased by 1.5%. Brazil, the world’s largest

<sup>1</sup> “Green Revolution” approaches were successfully implemented in countries such as India and China during the 1960s and 1970s to increase domestic food production.

producer, had a bumper harvest last year and Vietnam, a relative new comer, has surged from a low-level grower to one of the world's largest (EC/LFSU & WFP, 2002).



Individual coffee plantation along Jimma-Bedele road in Jimma zone (Photo by Yves Guinand, UN-EUE, November 1999)

Low coffee prices generally reduced purchasing power and are threatening the livelihood of the nation's coffee-grower households and laborers in cash crop and surplus producing areas since 1999. 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. According to the grain availability study"(...) this may consequently increase levels of food

insecurity and poverty in the country." (EC/LFSU & WFP, 2002: p.17/18)

## 2.2 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 (see section 2.2.3 Not enough local purchase to stabilize prices in 2000, 2001 and most likely also in 2002, p.6). In Nekempt, for example, average wholesale prices for maize dropped by 50% from the period August to October 1999 to the same period in 2000, from 142 ETB/100kg to 75 ETB/100kg (FAO & WFP, 2001). And the prices further dropped from 2000 to 2001 even below 40 ETB/100kg where they remained ever since until July 2002 (FEWSNET Ethiopia; see also chart on p.4). Hence, wholesale prices for maize in Nekempt 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 the year 2000 (FAO & WFP, 2001). In many drought and war affected areas of Ethiopia relief food was traded on local markets



Cereal grain at Bahir Dar market for sale (Photo by Francois Piguet, UN-EUE, February 2002)

throughout the country at “dumping prices”<sup>2</sup>. This caused especially in the drought-affected areas significant market price decreases for maize wheat and sorghum. 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.” (Guinand, 2000a: p.9) Maize market prices in Gode town plummeted, from 240 ETB/100kg in May 1999 to 124 ETB/100kg in June 2000, a 48% price reduction. Wheat for the same period decreased from 260 ETB/100kg to 90 ETB/100kg, a 65% price reduction.

### **2.2.1 For example maize in western Ethiopia<sup>3</sup>**

Maize, together with teff, remains the preferred crop in western Ethiopia as well as in the central parts of the country. However, maize is also the crop requiring the most inputs and thus financial investment. To plant one hectare of maize a farmer will have to invest about 600 ETB for the purchase of 25kg of improved maize seed at 130 ETB, for 100 kg of each Di-Amonium Phosphate (DAP) and UREA<sup>4</sup> fertilizers at 280 ETB and 218 ETB respectively. Such investment combined with adequate rainfall, land preparation and seed variety should provide for a yield of over 5,000kg/ha. In comparison, a farmer can also use either 2<sup>nd</sup> generation hybrid seed or indigenous seed without inputs which will yield between 1,300kg/ha and 2,000kg/ha, i.e. only  $\frac{1}{3}$  of the yield expected when using improved farm inputs, assuming adequate rainfall and land preparation.



Maize plants before harvest & grazing cattle, Jimma zone  
(Photo by Yves Guinand, UN-EUE, November 1999)

With the revenue price for farmers having fetched as low as between 15 to 20 ETB/100kg from November 2001 to March 2002, period during which all farmers sold their harvested stocks, the costs of inputs were much higher than the price obtained for the sold production. Farmers have struggled to repay loans for the purchase of improved farm inputs and are no longer willing to risk and commit to a dangerous financial venture. Although in May 2002 market prices have increased to around 40 ETB/100kg, this is not enough at all to convince farmers to invest again in farm inputs because this limited price rise remains well below production costs of approximately 70 ETB/100kg of improved maize.

The chart below (next page), “real retail prices of white maize in Nekempt: 13 months trend and long term monthly average”, shows the variations maize wholesale prices applied by traders<sup>5</sup> in

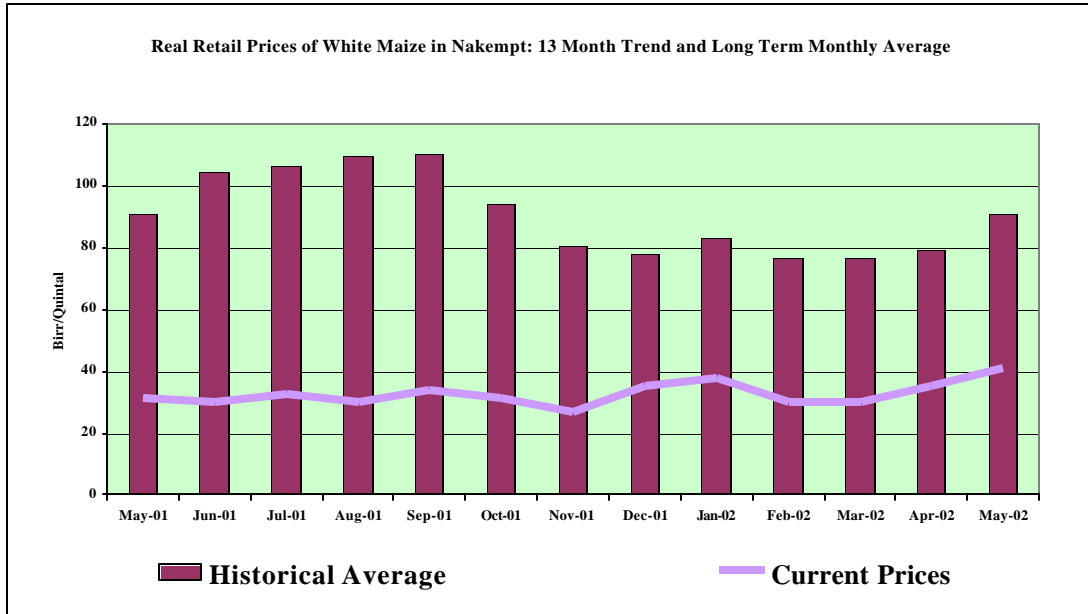
<sup>2</sup> This was witnessed and commented by the UN-EUE in a number of reports from 2000 and 2001, i.e. Guinand, 2000a & 2000b; Guinand, 2001a, 2001b & 2001c.

<sup>3</sup> This section has partly been extracted from the UN-EUE mission report Raymakers & Sewonet, 2002.

<sup>4</sup> Urea is a fertilizer that contains Nitrogen.

<sup>5</sup> Maize wholesale prices applied by traders are of course higher than the prices per 100kg received by farmers during the same period. This explains the discrepancies from 15 to 20 ETB/100kg to farmers compared to 30 to 40 ETB/100kg for traders for the same month.

Nekempt, East Wellega zone capital have experienced during the last 13 months. These prices indicate a drop of at least 50% below their historical averages<sup>6</sup>.



(Source: FEWSNET Ethiopia)

The Cereal Availability Study states “(...) the typical upward movement in cereal prices that occurs after the *meher* harvest in most seasons has not been manifested during the typical lean season of 2001 (...). The trend analysis also shows that maize, wheat and sorghum prices are still declining in Addis Ababa [as of February 2002] and almost in all surplus and deficit markets of the country at an alarming pace. Unless this trend is reversed, further decline in the use of purchased inputs (...) and consequent decrease in production can be expected during the 2002 *belg* and *meher* production seasons. A significant decline in farm input utilization was already documented and reported during the 2001/02-*meher*-production season.” (EC/LFSU & WFP, 2002: p. 26)

### 2.2.2 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 possibilities to neighbouring countries causes the domestic grain market to become thinner, unable to absorb large supplies, which leads to decline in prices. Before trade relations with Eritrea were severed, followed by the 1998 to 2000 border conflict, Ethiopia used to export significant quantities of grain annually to Eritrea (over 120,000 MT in 1996 alone). Good harvests in both Sudan and Kenya in 2001 have furthermore limited Ethiopia’s (informal) cross-border export to these countries in 2002.

<sup>6</sup> One should highlight that although it is the favoured crop in western Ethiopia, maize also carries the most volatile market prices.

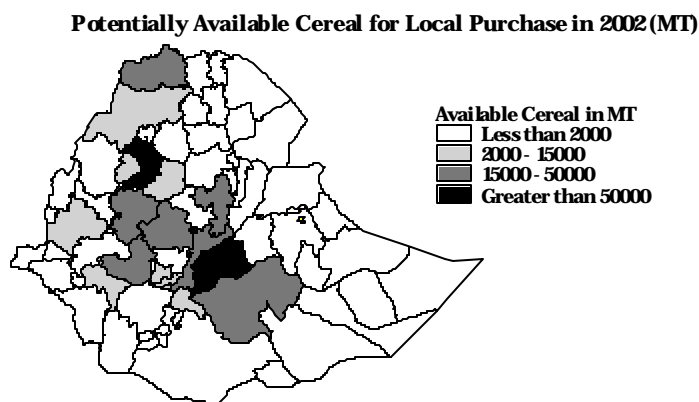


### 2.2.3 *Not enough local purchase to stabilize prices in 2000, 2001 and most likely also in 2002*

During Derg time the Agricultural Marketing Corporation (AMC) was established in 1976 to stabilize food production and consumption and to promote agricultural development. In 1992 the new government downsized the AMC substantially and renamed it the Ethiopian Grain Trade Enterprise (EGTE). Unfortunately, ever since 1992 EGTE's role in local grain purchases and price stabilization is very minor<sup>7</sup> (Alemu, 2001).

When in 1995 for the first time in Ethiopian history a maize surplus was produced, the government of Ethiopia decided to initiate the local food-aid purchase programme in 1996 and the EU and WFP started the programme in response to the government's request. This measure boosted local purchases and hence the support of domestic production especially during surplus and price depression periods. In 2000 for example approximately 200,000 MT of cereals were purchased through this local purchase programme that represented 38% of the quantity estimated to be available for local purchase in 2000 (Alemu, 2001). And in 2001 slightly more than 236,000 MT were purchased locally. This is the largest local purchase of food aid by the government and donors ever since. Nevertheless, it still represents less than 50% of the more than 536,000 MT that was available in 2001 for local purchase. Therefore and as a matter of fact, until now, only modest amounts of food aid are purchased locally (EC/LFSU & WFP, 2002).

The map below shows typical areas of cash crop production including coffee, and the potential availability of cereals (maize, sorghum and wheat) in 2002. The areas are Jimma, East Wellega, West Gojam, West Shewa, East Shewa Bale, Arsi and North Shewa. It has been estimated that



(Source: Cereal Availability Study, April 2002: EC/LFSU & WFP, 2002:p. 21, Figure 5)

in 2002 approximately 494,000 MT of quality cereal will be available for local purchase that is 8% less than in 2001 (EC/LFSU & WFP, 2002). As of July 2002 around 200,000 MT have been purchased locally of which 70,000 MT by the EU for DPPC, 35,000 MT by the EU for WFP, 15,000 MT by Japan for WFP, 10,000 MT by Holland for SC-UK, 15,000 MT by SIDA, around 31,400 MT by Euronaid and 25,000 MT by other NGOs. This amount represents approximately 40% of the potential available cereal for local purchase.

<sup>7</sup> 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 (Alemu, 2001).

It has to be kept in mind that national surplus production increased enormously since 1995. In the beginning, surplus production was modest and local prices stable. But with surplus quantities produced in the country, the government can and wants to cope with so much cereal surplus. The government, an important importer of Ethiopian white maize is cut off since 1998.



Traders loading grain bags to a village somewhere in North Gondar zone, Amhara Region. (Photo by Hugo Rami, UN-EUE, May 2002)

#### 2.2.4 Local cereal purchase - Direct operations

Before 2002 bidders carried out local purchases to replenish (EFSR) stocks from where relief food was borrowed. This system is relatively expensive for donors because it involves transporting the EFSR warehouses and transported to its final recipients. Under a new system introduced this year, traders who won local purchase bid contracts buy cereals on the local market and deliver it to EFSR warehouses for repayment of stocks borrowed.

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 (see box next page featuring a recent example from Amhara Region).

#### Opportunistic traders abuse food aid in Amhara Region

(by Hugo Rami, UN-EUE, May 2002)

The European Union (EU) agreed this year to finance the purchase of cereals (maize) for food aid on the local market, mainly in Gojam. The substantial infusion of cash into the market system was intended to help the national economy as a whole and in particular local cereal producers, who suffered from very low prices. Starting from June the rains make deliveries by road to remote places practically impossible. The federal DPPC invited traders for bidding and issued tender-contracts for cereal deliveries to Jana Mora, Beyeda, Ilnat (North Gondar) and Lay Gayint and Simada (South Gondar) woredas. Unfortunately the exercise as intended failed to a large extent. The blame lies with the traders and their opportunistic behaviour. Instead of the fast and timely deliveries the DPPC had hoped for, traders delivered either too late or not at all, putting their financial interest over the interest of the needy population. The DPPC at the regional and zonal level suspects the following: The traders bought the grains at the very low price of 25-30 ETB/100kg. Instead of delivering the maize immediately, the traders then opted to sell the cereal again on the local market, where the prices in April and May 2002 had risen to up to 60 ETB/100kg. Traders that default loose only a 10% deposit that they have to make when entering the contract, way below the profits that the traders could make with buying and selling on the local market. Many of the beneficiaries who have been working in Employment Generation Schemes (EGS) and Food for work (FFW) projects since January were left empty handed until June and will probably end up hungry during the lean season! Trading companies that up to June 7 did not fulfil their commitments are: *Ambassel Trading House* (Muja, Semada woreda), *Nur Hussein Trading*

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. Even though DPPC managed to replace some of the food that was lost by defaulting traders, the default of bidders is actually very high. According to various sources of information, the default rate is higher than 50%, particularly from bidders contracted by NGOs.

To prevent further such defrauding, the EU is likely to turn back to the old, more expensive system of replenishing borrowings from Emergency Food Security

Reserve (EFSR). Nevertheless, traders that default on shipment contracts for food aid should be blacklisted. 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.

### 3 Negative effects on livelihoods of mono-croppers and poor farm households

#### 3.1 General effects on affected cash crop producing farmers

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 (EC/LFSU & WFP, 2002). 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 availability of maize on the market that also contributed to the downfall of maize prices starting in 2000 (EC/LFSU & WFP, 2002; & Alemu, 2001).

The low local and national cereal prices, reduced farm household incomes even more on top of the already low coffee prices for those producing coffee. This caused difficulties to pay back extension package credits and hence, these farm households have to sell even more of their production leaving less for home



Fallow farm plot in Jimma zone. Lack of cash to purchase (improved) seeds let farmers leave some of their plots fallow (Photo by Yves Guinand, UN-FIIF, October 1999)



UN-EUE & Oromiya RegionalDPPB National Harvest Assessment participants discussing agricultural issues with coffee growers at a local coffee washing station in Jimma zone (Photo by Yves Guinand, UN-EUE, November 1999)



consumption. Outstanding credits do not allow farmers to get new extension packages for the following agricultural season. Many farmers were denied credits 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, also could and cannot 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 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. Not surprisingly, the most affected are maize mono-croppers 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. As a UN-EUE report on Sidama zone in SNNPR illustrates, asset depletion has already started to grip and the poverty trap is about to snap for some farm households in lowland areas<sup>8</sup> (Dechassa, 2002).

### **3.2 Case studies in selected areas affected by persisting low coffee and cereal market prices**

#### **3.2.1 East- and West-Wellega, Jimma and West-Shewa zones: Pressure on credit repayment impacts on farm input use and induces asset depletion**

For the past 7 years the agricultural extension program, implemented through the Ministry of Agriculture until 2000 and pursued at regional level afterwards, has obtained great success in carrying Ethiopia to improved food self-sufficiency. The participation of farmers into the scheme has increased steadily through the years. The chart on the next page demonstrates the growing participation of farmers in East-Wellega zone between 1995 and 2001. For 2002 however, the Zonal Agricultural Office of East-Wellega zone had already reduced the number of planned plots (=1/2 a hectare) to be served through their packages for all crops combined from 133,017 plots in 2001, to 94,964 plots for this year, out of which 32,021 plots are planned for maize. This target will not be reached. The participation for maize plots has already dropped by 88% to about 4,000 plots, and packages for other crops also lack interest with farmers unable and unwilling to undertake farm input investments.

Year	Plots (1/2 hectare)	Yield (MT)
1995	600	879
1996	23,258	28,024
1997	28,258	34,262
1998	98,929	94,690
1999	137,252	126,428
2000	157,830	149,317
2001	133,017	123,772
2002	94,964 (planned)	

(Source: Zonal Agricultural Office of East-Wellega, May 2002)

For as long as debts from previous years had been paid off, farmers were able to obtain adequate improved seeds and fertilizer with flexible payment modalities depending on the financial capacity of each farmer. Either 100% cash payment on package delivery, or 50% down payment and 50% payment after harvesting, or 100% payment after harvesting.

<sup>8</sup> See section 3.2.2, p.10

An annual interest of 10.5% was included upon repayment.

Whereas the loan repayment performances in previous years were upwards of 95%, this percentage has substantially diminished following the last 2001-harvest season. The BoA of Jimma zone reported a repayment performance of only 80%, as for East-Wellega the repayment performance was between 60% and 70%. For Bako woreda in West-Shewa, the repayment performance was as low as 20% in June 2002, clearly demonstrating the stress and pressure farmers have had to endure to ensure or fail to repay their loans. This asset depletion further exacerbates the level of poverty many parts of the rural population already find themselves in, and could further lead to localized conflicts in the most affected or more recalcitrant areas.

The struggle farmers have encountered in repaying their credits and loans has compelled them to sell part of their assets, household items, livestock or even oxen. The increase in number of cows and oxen offered for sale on the local markets combined with a reduction in income and purchasing power results in substantial price drops for those animals over the last two years. Whereas an average size oxen fetched around 1,300 to 1,400 ETB two to three years ago, a farmer will only get about 700 ETB for a similar animal. An equal 50% price reduction can be noted with cows from 600/700 ETB to 250/350 ETB. However, prices for goats and sheep have remained stable since their prevalence on markets is less.

### **3.2.2 Lowlands of Sidama Zone: Malnutrition and relief food distributions**

Although population pressure, land shortage, soil erosion (especially, in the dry midlands) are the main production problems, farmers in Sidama zone are or used to be self-sufficient and food secure.

Nevertheless, the food security situation in Sidama Zone declined gradually since 1999 when many parts of Ethiopia started to be hit by drought. Following the poor harvest of the same year, significant drop of coffee and livestock prices and incidences of hailstorms in 2000 and 2001 further aggravated the situation. The fact that the damages and consequences of the drought were not acknowledged at higher administrative levels and hence not addressed on time worsened livelihood conditions. As a matter of fact, the SNNP region removed its zonal DPPDs in 1999 so that until 2001 there has been no focal point for early warning and emergency activities at zonal level. Although the absence of an early warning and emergency focal point can explain that no humanitarian measures were taken, Sidama Zone officials themselves were also responsible for their wrong judgement at a time when they believed that there could not be a crisis in an area that is traditionally known for its self-sufficiency. The lowland areas of the zone (Alata Wondo, Borecha, Darra, Bensa and Awassa Zuria woredas) are usually more vulnerable mainly due to moisture stress and water logging hampering, less diversification of food sources and minimum use of improved farm inputs due to lack of cash and credit facilities to purchase the inputs, especially after government



Interviewing farmers in Illubabor zone, Oromiya Region (Photo by Yves Guinand, UN-EUE, November 1999)

stopped its farm inputs credit program in 2000. The cumulative effect of all factors that negatively influence people's livelihoods in Sidama zone has provoked a critical food security situation that requires humanitarian assistance.

Since 1995 when the government started to distribute farm inputs on credit, farmers of Sidama zone are intensively using improved farm inputs such as chemical fertilizers and improved seeds, especially for maize. In 1999 there was no good harvest despite intensive use of improved farm inputs that were acquired on credit. Many farm households were unable to pay back their credits. Coincidentally, in 2000 the government relinquished its farm inputs credit program and instead advised farmers to buy the inputs themselves. However, farmers could not afford to pay back their previous loans and to purchase new inputs. Therefore, they had to reutilize hybrid maize seeds for forthcoming production. These hybrid maize seeds have been designed for one-time use and exclusively for consumption. These seeds are inappropriate for production due to progressive degeneration and declining yield. Over 30% yield reduction is expected every year when second generation hybrid maize is used as seed even with the use of fertilizer. However, many farmers are now relying on the degenerating hybrid seeds for production that is rapidly declining. A visit in May 2002 to Sidama woreda in SNNPR revealed that some farmers are using hybrid maize seeds for the third time in a row and that they expect a very low yield and harvest for this coming *meher* season (Dechassa, 2002).

The price for maize was 65 ETB/100kg in May 2002. But the minimum price for a 100kg maize bag should be at least 70 ETB in order to break-even production costs that includes the use of fertilizer and improved seeds. Furthermore, 90 ETB/100kg a farmer gets for a coffee bag is discouraging compared with 200 ETB/100kg that he used to receive before. The following table shows the distribution of farm inputs in Sidama zone for the last three years.

Improved inputs used (MT)	Year			Remark
	2000	2001	2002	
Chemical fertilizer	2739.95	734.20	311.90	Until 10 May '02
Seeds (mainly maize)	519.06	30.78	13.60	

(Source: Sidama Zone Agricultural Office in Awassa, May 2002)

The above figures clearly indicate that the use of farm inputs has significantly dropped within the last three years. As already indicated in this article, most farmers embarked on the use of improper and poor quality seeds if they have in their stock. Many farmers purchased maize seeds on local markets that are of doubtful origin and certainly of low quality. Some of the farmers reported that these seeds could very well be third generation degenerated hybrid maize that are useless for production. Thus, due to all the adverse factors already mentioned, *meher* production for Sidama zone is expected to be even lower than last year (which was rated as a poor harvest year) and food shortage is expected in the lowland woredas of the zone.

Due to the above mentioned unfortunate and unfavourable circumstances the household economy of many farm families is seriously affected. Based on the SNNPR DPPB 2001 *meher* pre-harvest assessment, 90,215 people (plus 15,000 children) were identified to need food assistance from March to July 2002. Relief food distributions (maize and supplementary food) started at the beginning of May, i.e. two months later than planned. In both woredas urgent allocation and

distribution of adequate supplementary foods is crucial as the nutritional status of many children and elderly people is critical. The UN-EUE mission observed on a number of occasions people collecting and consuming wild weeds and wild foods. Collection and consumption of wild food is an indicator for food shortage either among a certain segment of the population, usually the poorest or if the consumption becomes widespread and people start to consume food that are obviously for one reason or another normally not consumed.

Cases of malnutrition were reported and observed in May 2002 in Alata Wondo and Borecha woredas of Sidama Zone. Following the report from Sidama zonal DPPD a team of experts drawn from EU, DPPC, Regional DPPB and Sidama Zone DPPD conducted an assessment on the food situation at the end of April 2002. This assessment hastened the allocation of relief food to both most seriously affected woredas. The UN-EUE mission can confirm malnutrition among the population in the two woredas. Cases of acute but also chronic malnutrition such as Kwashiorkor and Marasmus were observed in many children under five years of age. The picture below has been taken in Alata Wondo woreda, where these women and children had gathered shortly after the mission's unexpected visit. The SNNPR DPPB 2001 *meher* pre-harvest assessment identified a total of 15,000 children and mothers that are eligible for an immediate supplementary food distribution. Certainly, none-addressed needs and ignorance or overlooking the seriousness of the food security situation in the lowlands of Sidama zone may have led to the current health and nutritional situation whereby many affected people show signs of malnutrition in the areas visited by the UN-EUE.



Malnourished children with their mothers in Alata Wondo woreda, Sidama Zone, SNNPR (Photo by Dechassa Lemessa, UN-EUE, May 2002)

#### **4 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 compared to the previous two years, this assuming average climatic conditions for the remaining crop maturing cycle.

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. The Sidama case study clearly indicates this development and tendency.

#### *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  $\frac{3}{4}$  of the estimated cereals available for local purchase could in fact be purchased. Unfortunately this is



a very unlikely scenario that never happened before due to the fact that none of the important donors do have the capacity and the financial backing to do so. The government as well seems highly unlikely to commit itself into such important local cereal purchases. The proof can be observed now, as only 40% of the potentially available cereal for local purchase in Ethiopia has been purchased for relief purposes. As of today it seems very unlikely that much more will be purchased even if there would be right now an immediate need to assist with additional food allocations in and around Afar Region where failed and delayed rains as well as a number of tribal clashes and conflicts contributed to a deteriorating livelihood and humanitarian situation.

#### *Provide relief and support national production*

The UN-EUE supports the following argument forwarded by the EC/LFSU & WFP cereal availability study that “(..) 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 cereal can be purchased and coordination among NGOs and donors and use of a phased approach for the purchase of the above quantity is very important. In order to avoid distortions of local markets, such as drastic hike in prices, and also to avoid tenders competing each other, DPPC should play a coordinating role of 2002 local purchase activities in the country.” (EC/LFSU & WFP, 2002: p. 27)

#### *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.

#### *Credit rescheduling*

The payback period for loans to farmers for agricultural extension packages could be rescheduled into a longer multi-annual payback frame. This way, farmers could reimburse their loans when they have a good harvest and/or when the prices on the market are up. On the other hand such a longer term pay back system would allow farmers to skip pay back or to reduce the amount of money for reimbursing the credit in a year such as now in 2002, when market prices are low and/or when the expected harvest will be lower than expected.

#### *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 Ethiopia and also outside Ethiopia. The latter cannot be feasible for international and overseas markets due to non-competitive prices of the Ethiopian grain<sup>9</sup>. 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*

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<sup>9</sup> 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 \$.

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 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 stocks of the 2001 harvest. Also, the opportunity to establish any mechanism to reassert farmers confidence in contracting new loans enabling the use of improved farm inputs has passed.

DISCLAIMER

The designations employed and the presentation of material in this document do not imply the expression of any opinion whatsoever of the UN concerning the legal status of any country, territory, city or area of its authorities, or concerning the delimitation of its frontiers or boundaries.

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## 5 Annex

### Abbreviations

ADLI	Agricultural-Development-Led Industrialization
AMC	Agricultural Marketing Corporation
DAP	Di-Amonium Phosphate
DPPB	Disaster Prevention and Preparedness Bureau (mostly at Regional level)
DPPC	Disaster Prevention and Preparedness Commission (Federal Government level)
DPPD	Disaster Prevention and Preparedness Department (mostly at zonal level)
EC	European Commission
EFSR	Emergency Food Security Reserve
EGTE	Ethiopian Grain Trade Enterprise
ETB	Ethiopian Birr
EU	European Union
ICO	International Coffee Organization
LFSU	Local Food Security Unit
MT	Metric Ton
NGO	Non-Governmental-Organisation
SC-UK	Save the Children Fund United Kingdom
SNNPR	Southern Nations, Nationalities & People's Region
SIDA	Swedish International Development Agency
UN-EUE	United Nations Emergencies Unit for Ethiopia
WFP	World Food Programme

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