Linking Smallholders in Ethiopia and Rwanda to Higher Value Coffee Markets

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May 21, 2008

SOME FACTS ABOUT ETHIOPIAN COFFEE

- Ethiopia: birthplace of Arabica coffee
- Total production: 180,000–276,000 tons per year on 400,000 ha
- Four production systems: forest, semi-forest, garden, plantation
- 95% of Ethiopian coffee produced by smallholders
- 3rd largest producer in Africa; 10th largest producer in the world
- Accounts for over 35% of export earnings and 25% of GNP
- More than 25% of population depends on coffee production and trade

HORIZONTAL & VERTICAL LINKAGES: PRIMARY PRODUCER COOPS AND UNION FORMATION

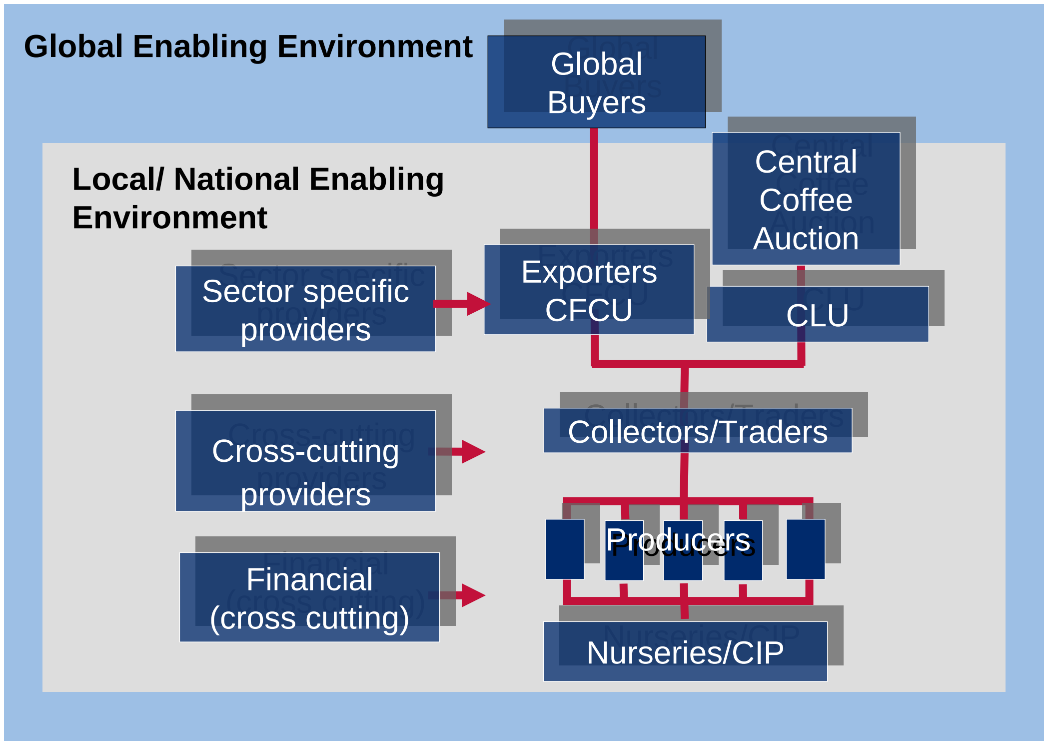
- Four unions formed (comprised of 154 primary cooperatives)
- Represents more than 180,000 smallholders, area 180,000 ha. 108,000 mt/yr production
- Infrastructure
  - Coffee washing stations
  - Drying facilities
  - Coffee hulleries
  - Warehouses
  - Vehicles
- Incentives
  - Quality Driven Market
  - Traceability Required for premiums

COFFEE EXPORT REGULATION CHANGES

- Original Ethiopian coffee export law established to prohibit producers from being exporters and exporters being producers
- Formation of cooperative unions: establishes a licensed export entity owned by a conglomerate of producer cooperatives
- Government of Ethiopia grants cooperative unions authority to export directly: first direct producer–exporter linkage
- Authority to by-pass auction given for “Specialty Coffee” only

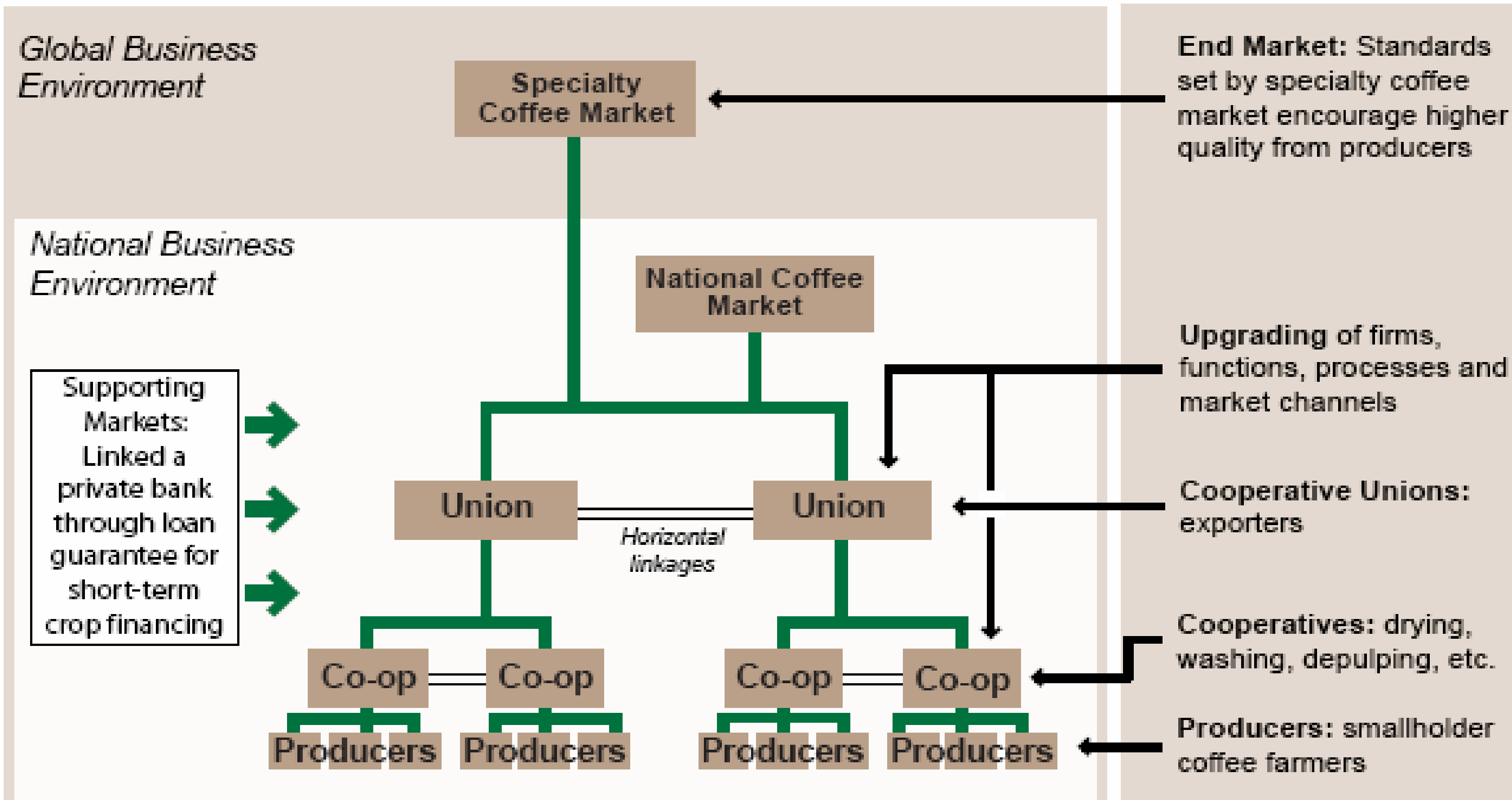
  - specialty, premium, gourmet, FairTrade, organic: direct sales contract at premium

PARTICIPANTS IN THE VALUE CHAIN

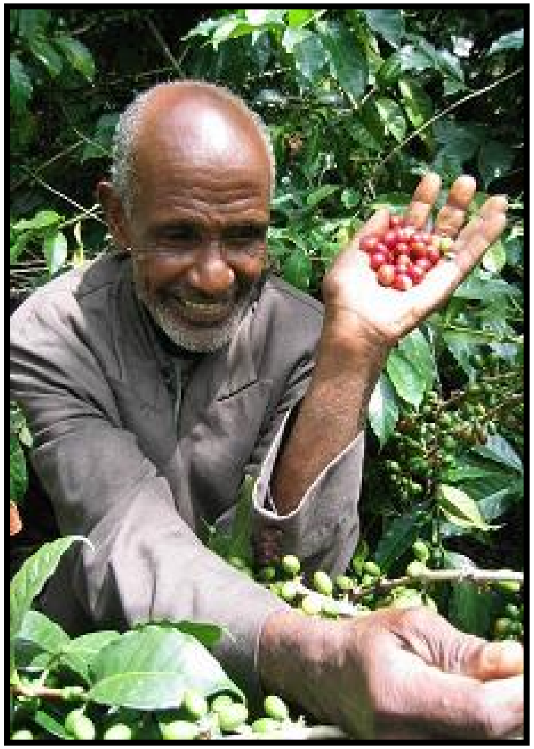


1. Global Buyers
2. Central Coffee Auction
3. Central Liquoring Unit (CLU)
4. Coffee Farmers Cooperative Unions (CFCU)
5. Private Exporters
6. Wholesalers
7. Local Collectors
8. Producers
9. Nurseries/Coffee Improvement Program

COOPERATIVE UNION DIRECT EXPORT



COOPERATIVE UNION CAPACITY BUILDING

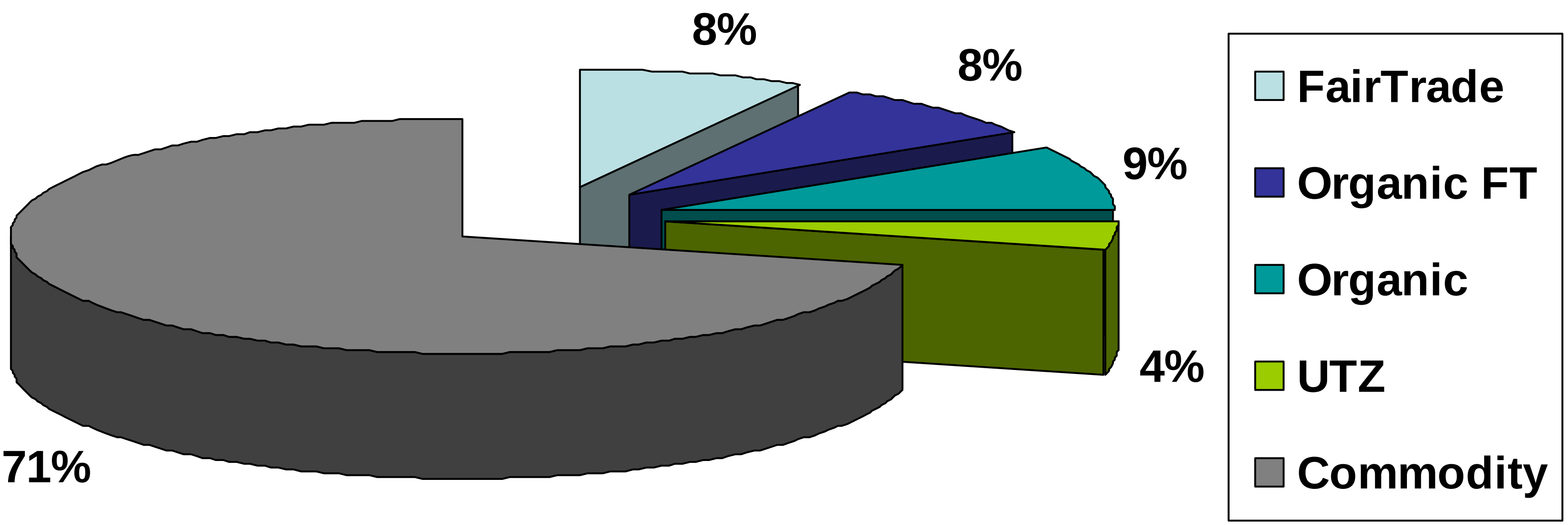


- Management capacity building: Quality driven market requirements and demands
  - coffee quality and marketing specialists
- Cupping training through Coffee Quality Institute
- Establishment of cupping labs at the union level
- Market training and buyer linkages
  - Green Mountain, Thanksgiving Coffee, Sustainable Harvest, Volcafe, Royal Coffee, Starbucks, other small roasters
- Assistance and training in certification procedures
  - organic, FairTrade, Rainforest Alliance

UNION ACHIEVEMENTS

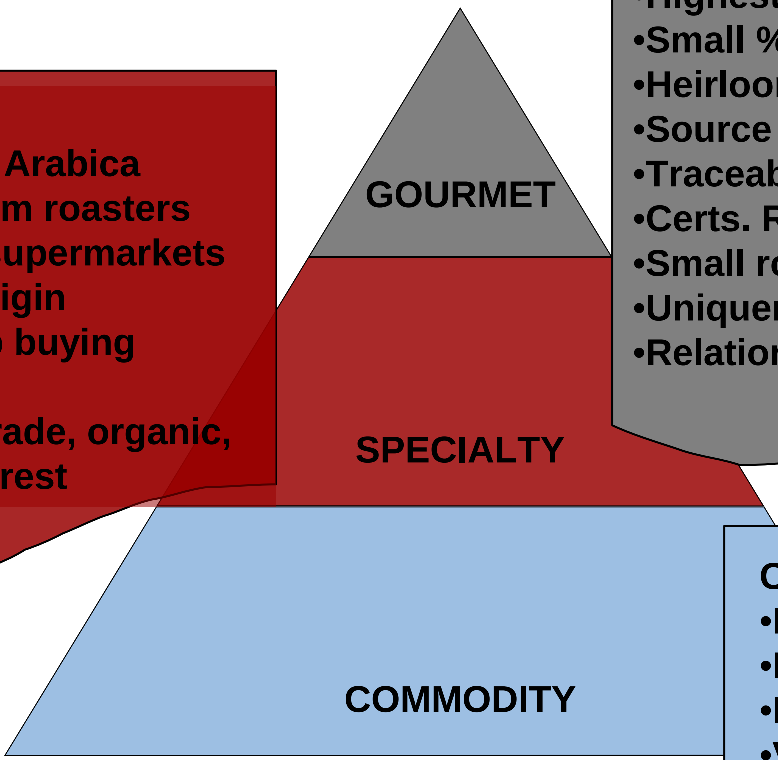
- Increased farmers' share of FOB price
- Improved quality, increased bargaining power of producers
- Total share of coffee export for cooperatives increased from 0 to 8% (2001- 2006)
  - 12,000 tons 2005; $.25M - $31.9M ('01–'05)
- Dividends paid to members
  - $1.63M 2004
- Increased technical and management efficiency of member cooperative
- Certifications & memberships
  - Organic, FairTrade, UTZ Kapeh, SCAA, EAFCA

COFFEE SALES BY MARKET SEGMENTS (2005/06)



COFFEE MARKET DIFFERENTIATION

Specialty:
- High quality Arabica
- Small/medium roasters
- Starbucks, supermarkets
- Source of origin
- Relationship buying
- Traceability
- Certs. FairTrade, organic, UTZ, RainForest

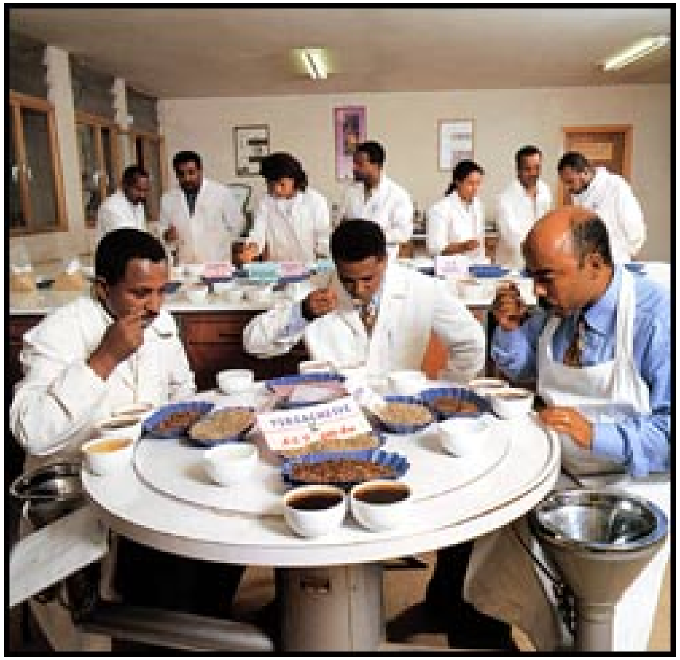


Gourmet:
- Highest quality Arabica
- Highest standards
- Small % of total volume
- Heirloom
- Source of origin
- Traceability
- Certs. RainForest, organic
- Small roasters
- Uniqueness
- Relationship buying

Commodity:
- High percentage Robusta
- Blends produced by Big 5
- FAQ mild Arabica
- VolCafe, Royal Coffee, NPG supply supermarkets

FUTURE POTENTIAL: THE “Q” MARKET

- Establish designated region of origin
- Certify quality and traceability
- Train “Q” graders & cuppers
- “Q” certificate
- Separated Trading mechanism

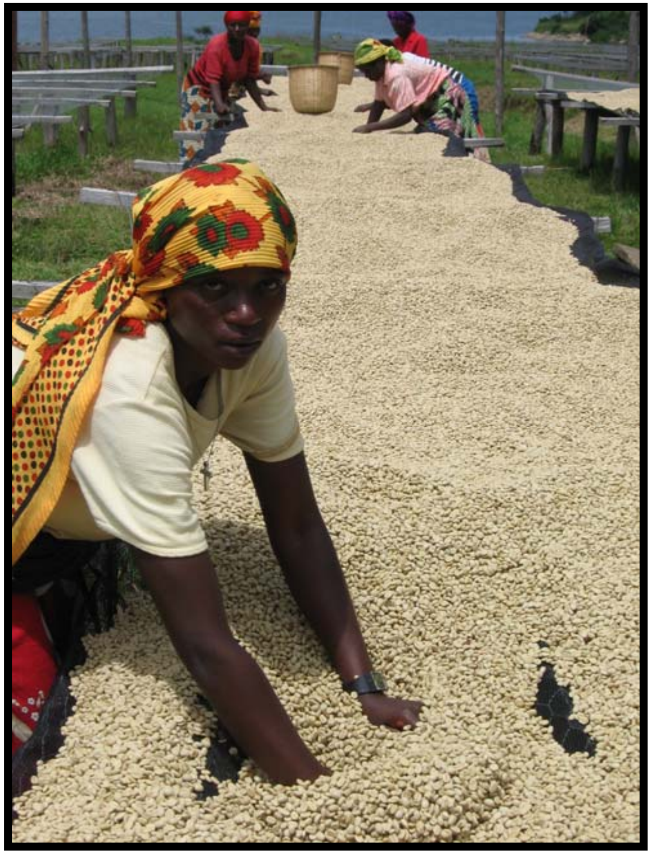


RWANDA SUCCESS

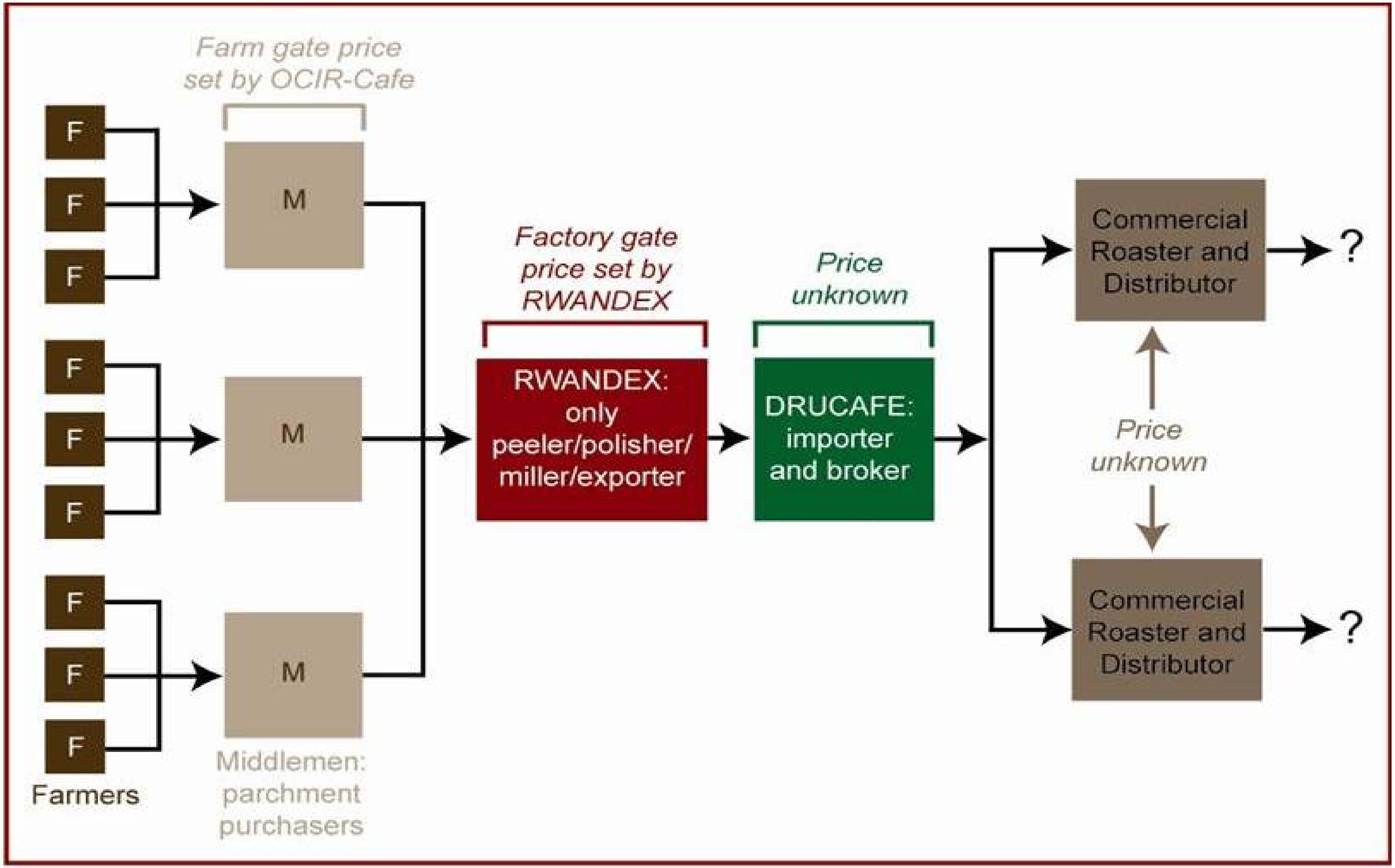
- Bourbon Mayaguez
- Gourmet, specialty & FairTrade certified
- Building new coffee washing stations
- African coffee – hot international segment
- Coops – COOPAC doubling membership

RWANDA: RAISING THE BAR

- Bourbon Mayaguez Arabica since 1900's
- Exports down but rising 14,000 MT, $15M in 2003
- 1995 - liberalized marketing system: coops or private owners can now negotiate sales with specialty roasters
- Coffee washing stations almost defunct
- New coffee washing stations began in 2001



RWANDA: VALUE CHAIN DIFFERENCE



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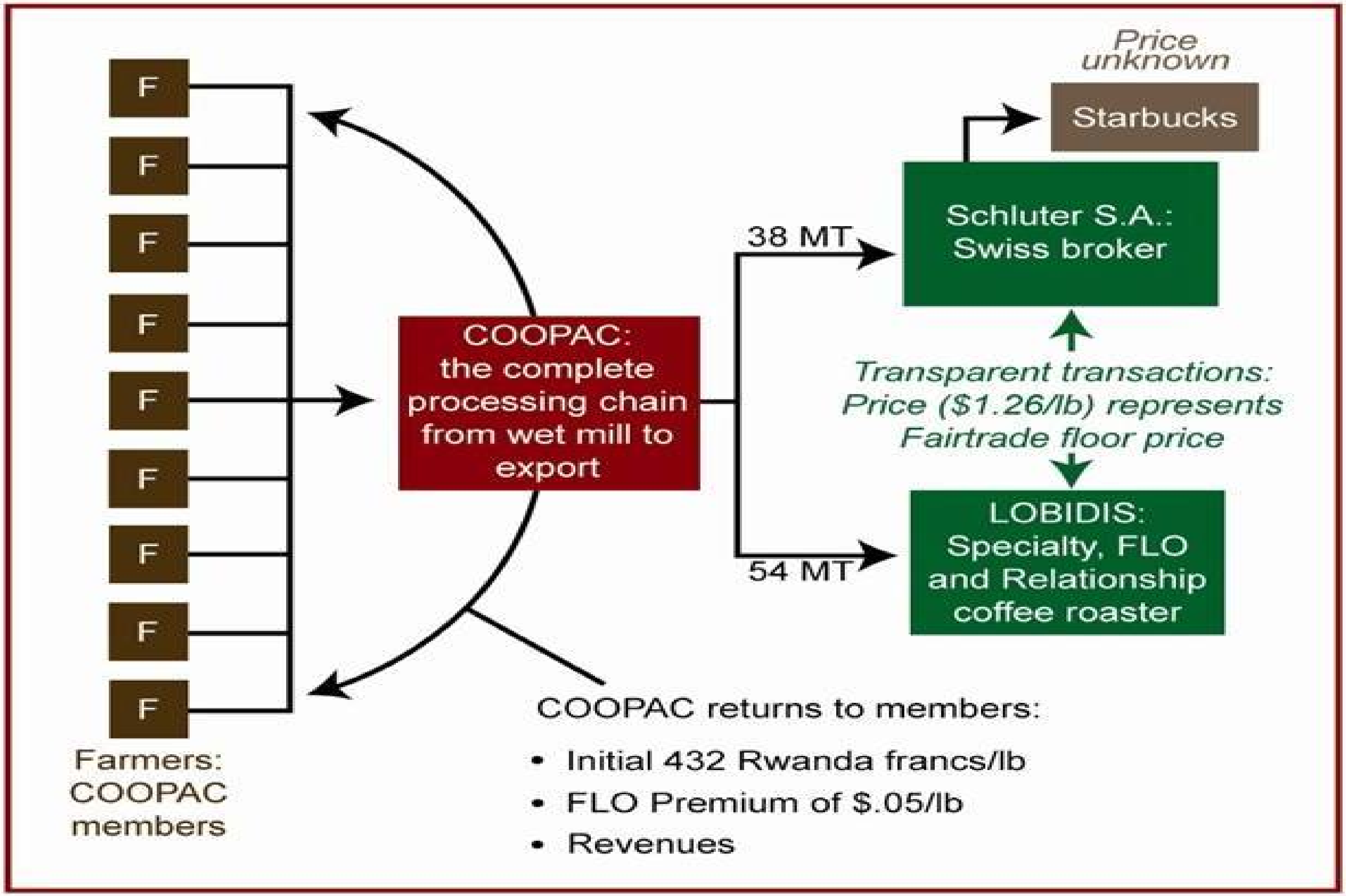

RWANDA: RAISING THE BAR

- COOPAC
  - 110 farmers in 2001
  - Currently > 2,200 members
- Fully-washed green
  - 93 MT Exports FLO-certified to EU in 2005
  - 200 MT exports projected & possible in 2006
- SCAA Show Charlotte 2005

RWANDA: RAISING THE BAR

- Fully-washed Grade A
- Specialty strengths
  - Altitudes & attitudes
  - Soils & rainfall
- Relationship Buying
  - Twice NY-C rate plus greater efficiency
- FairTrade Labeling Organization (FLO)
  - COOPAC: Switzerland (Starbucks) & Belgium
  - FLO premium plus shorter value chain
- 18,000 MT produced; 46 CWS in 2005

LESSONS LEARNED

- Market understanding at producer level essential
- Scale-up at a rate that can be met by organization’s management capacity
- Beneficiary organizations can influence policy decisions
- Producer–buyer interaction creates trust and transparency
- Improved linkages between producers and lead firms, increased competitiveness pressure
- Mind the gap: the difference between specialty and FAQ

THANK YOU!

Please visit www.microlinks.org/breakfast for seminar presentations and papers

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May 21, 2008