Linking Smallholder Producer Groups to Higher Value Markets

“Ethiopia’s Coffee Cooperatives: A Case Study”

Presentation to
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ACDI/VOCA’s Work With Producer Groups

- ACDI/VOCA has worked in 145 countries worldwide for over 35 years
- Rural Producer Organizations are a key element in all our practice areas
- ACDI/VOCA a leader in using value chain approach to link RPOs and SMEs to competitive industries in a sustainable manner
- RPOs in cereals, coffee and cocoa, horticulture and livestock in Africa, Asia and Latin America
- Helped found NASFAM in Malawi
- Founding member of EAFCA
- Agricultural Cooperatives in Ethiopia (ACE) Program from 1999 – 2006
- Promote democratic associations that are based on the principles of user-owned, user-controlled, user benefits
- Increase business management capacity, promoting agriculture as a business at the farm level
- Develop value chain competitiveness strategy to maximize RPO benefits from sustainable market access
- Identify market actors with incentives to make investments necessary to overcome constraints facing RPOs
Main Constraints Facing RPOs

• Poverty, Illiteracy

• Lack of understanding on the part of administration of policy environment needed for successful integration of RPOs

• Business environment and provision of services favors upper end of the value chain

• Globalization, Rapidly changing market environment

• Poor horizontal and vertical linkages in industry

• Economies of Scale

• Poor Infrastructure

• Lack of trained personnel capable of understanding complicated, quality driven market environment

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Specific Market Constraints Facing RPOs

- Price Volatility
- Over supplied market (130m bag supply vs. 113m bag demand)
- Market dominated by five major buyers
- Broker driven market linkages (old relationships)
- Little product differentiation, no producer incentives for quality (commodity driven market)
- Producers lack market information, awareness and requirements (Demand driven market)
- Lack of business management and marketing skills
What is a Value Chain?

**Value chain**—all the activities and services that bring a product (or a service) from its conception to its end use in a particular industry.

**Value chain approach**—addressing constraints and opportunities at multiple levels of a value chain.
Value Chain Actors

- Global Retailers
- National Retailers
- Exporters
- Wholesalers
- Processors
- Producers
- Input Suppliers

- Sector specific providers
- Cross-cutting providers
- Financial (cross cutting)
Value Chain Factors

1. End Market
2. Business Enabling Environment
   - Global
   - National
3. Inter-Firm Cooperation
   - Vertical
   - Horizontal
4. Supporting Markets
   - Sector specific
   - Cross cutting
   - Financial
5. Firm Level Upgrading
Input Suppliers

Financial (cross-cutting) providers

Sector specific providers

Global Retailers

National Retailers

Wholesalers

Exporter

Processors

Producers

Input Suppliers

Flow of Relationships:
- Products
- Services
- Information

Market Relationships
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
- Third largest producer in Africa
- Tenth largest producer in the world
- Accounts for over 35% of export earnings
- Contributes over 25% of GNP
- More than 25% of population depends on coffee production and trade
- Farm gate price of red cherry just 43% of its level in 1990s
Ethiopian Coffee Map

Lubabber
Djimmah
Tepi
Bebeka
Lekempti
Limu
Yirga Cheffe
Sidamo
Harar
Coffee Production Systems

Forest Coffee

Garden Coffee

Semi-Forest

Plantation
Participants in Coffee Marketing System

1. Producers – smallholders
2. Collectors (*sebsabis*)
3. Wholesalers (suppliers or *akrabis*)
4. Private exporters
   - only allowed to buy coffee from the auction market
   - over 180 licensed exporters
   - 72 active exporters
5. Coffee marketing cooperatives (4)
   - allowed to directly export “specialty coffee”
6. Central Liquoring Unit (CLU – government grading & export certification)
7. Central Coffee Auction
Coffee Export Marketing Value Chain

Export Market

- Private Exporters
  - Gov't Huller
  - Cooperative Huller

- Private Collectors
  - Private Wash/dry (red cherry)
  - Farmer dry (dry cherry)
  - Cooperative wash/dry (red cherry)

- Private suppliers
  - Plantation

All coffee for Private Exporters sold through auction (does not change ownership)

All coffee goes to CLU for grading (does not change ownership)
Coffee Export Regulation

- The changes in the policy environment that occurred after 1991, particularly revised coop law in 95 and 98, improved legal environment for RPOs.

- 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 given for “Specialty Coffee” only (specialty, premium, gourmet, FairTrade, organic: direct sales contract at premium).
Producer Cooperative Capacity Building

• Extensive Training:
  - Organization, Structure and Management
  - Bookkeeping and Accounting
  - Marketing
  - Finance and Credit

• Tailored Technical Assistance:
  - Bylaw drafting
  - Roles and responsibilities of the Board of Directors
  - Professional management (manager and accountant)
  - Agronomy, Harvesting, Drying, Post-Harvest
  - Processing
Cooperative Union Capacity Building

- Management capacity building: market requirements and demands (coffee quality and marketing specialists)

- Attendance at Industry trade shows (SCAA, SCAE, EAFCA, Japan)

- Cupping training through Coffee Quality Institute

- Establishment of cupping labs at the union level

- Market training and buyer linkages (Green Mountain Coffee, Thanksgiving Coffee, Sustainable Harvest, Volcafe, Royal Coffee, Starbucks)

- Assistance and training in certification procedures (organic, FairTrade, Rainforest Alliance)
Cooperative Union Mission

- Increase farmers' share of FOB price
- Take advantage of economies of scale
- Stabilize local market
- Open international market
- Protect cooperatives/farmers from illegal domestic market actors
- Maximize efficiency of member cooperatives
- Promote and reward quality coffee production
- Provide training and education
- Provide saving and credit services
- Four unions formed (comprised of 95 primary cooperatives)
- Benefits more than 180,000 smallholders
- Cultivated area: 176,000 ha.
- Annual production: 108,000 tons
- Infrastructure (washing stations, dryers, hullers, warehouses, vehicles)
Cooperative Union Direct Export

Farmer/Member

Red cherry
- Coop
- Washing

Dry cherry
- Coop
- Hulling

CFCU
- Milling process
- Bagging for shipment

CLU
- Export

- Milling/hulling
- Air cleaning
- Grading by size
- Grading by bean density
- Manual sorting

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Union Achievements

• Increased farmers’ share of FOB price
• Increased price per/lb (premiums over NY “C”)
• Total share of coffee export for cooperatives increased from 0% before 2001 to 8% in 2006 (12,000 tons 2005 - $0.25M 01” - $31.9M 05’)
• Washed coffee export share increased from 0% before 2001 to 14% in 2005
• Improved financial position of RPOs
• Dividends paid to members
• Increased technical and management efficiency of member cooperatives
• Improving the quality of Ethiopian coffee and increasing exports
• Increased bargaining power of producers
• Certifications & memberships (Organic, FairTrade, UTZ Kapeh, SCAA, EAFCA)
Coffee Market Triage

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 4
- FAQ mild Arabica
- Supermarkets, Dunkin Donuts, Wal-Mart

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The “Q” Program

- Establish designated region of origin
- Certify quality and traceability
- Train “Q” graders & cuppers
- “Q” Certificate
- Traceability protocols
The Future: Potential: The “Q” Market

- Create alternative trading platform (internet-based)
- Separate from commercial quantities and prices of NY “C” market
- Product differentiated market based on quality (target 10m bags)
- Coded, traceable certification program
- Differentiated washed robusta potential for impacting RPOs
Thank You