



COLUMBIA | SIPA

School of International and Public Affairs

## Value Chain Analysis – Day 1

Guest lecture by Carl Cervone

April 2, 2019

# Plan for the week

## Today

- The Value Chain Framework
- Global coffee value chain
- Break
- Case: Vietnam coffee
- Case: Colombia coffee

## Thursday

- Case: Ethiopia coffee
- Practical aspects / Q&A

# Why do value chain analysis?

## OUTPUTS

- Identify new opportunities
- Compare different opportunities
- Identify levers of value creation
- Quantify value creation potential
- ...
- ...
- ...
- ...

## OUTCOMES

- Inform project proposals
- Influence policy makers
- Influence business leaders
- Mobilize action (or funding)
- ...
- ...
- ...
- ...

# Thorough VC analysis should...

1

**MAP**

who the relevant actors are, what they do, how they relate to each other

2

**BREAKDOWN**

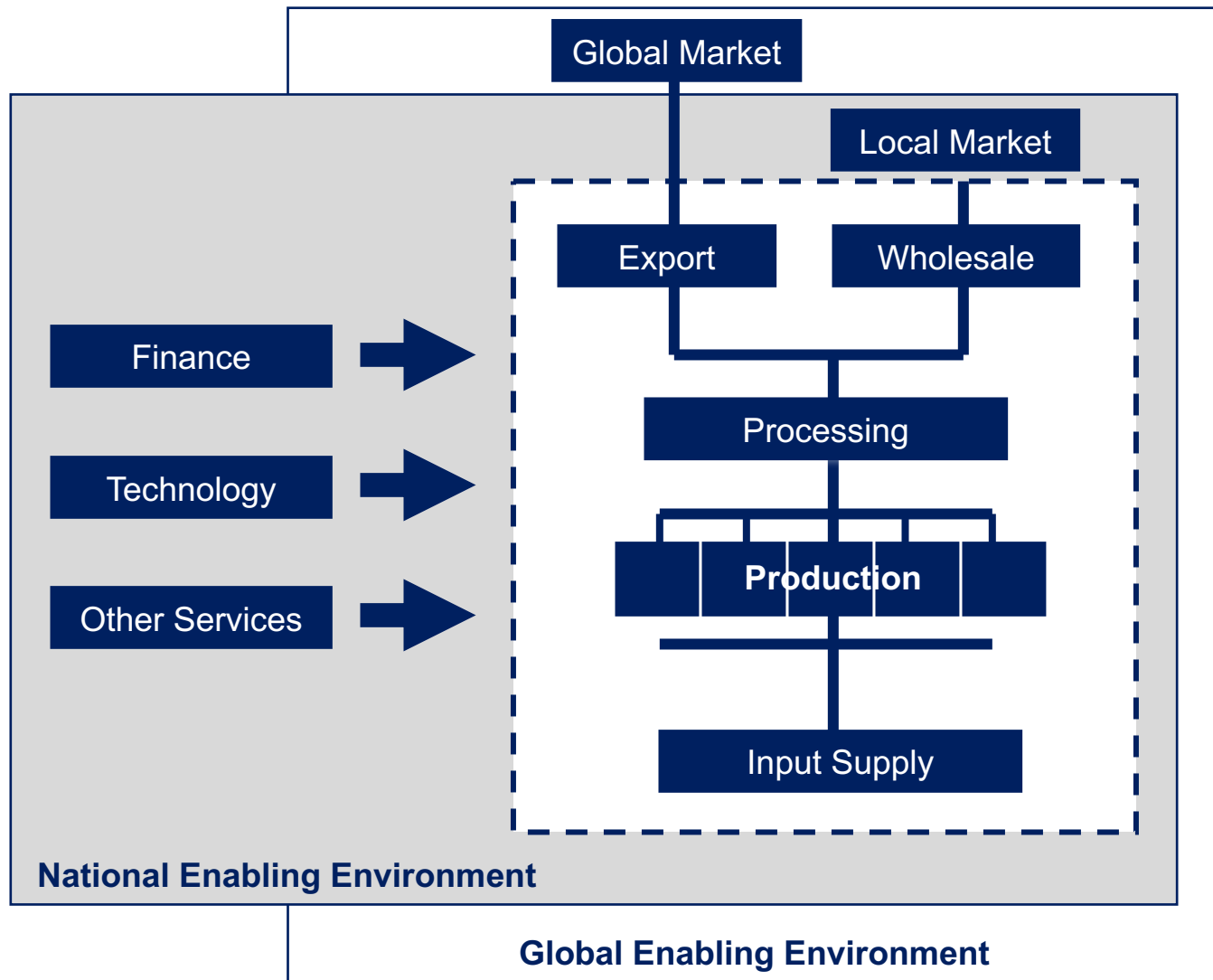
costs and revenues for each actor, how value flows through the chain

3

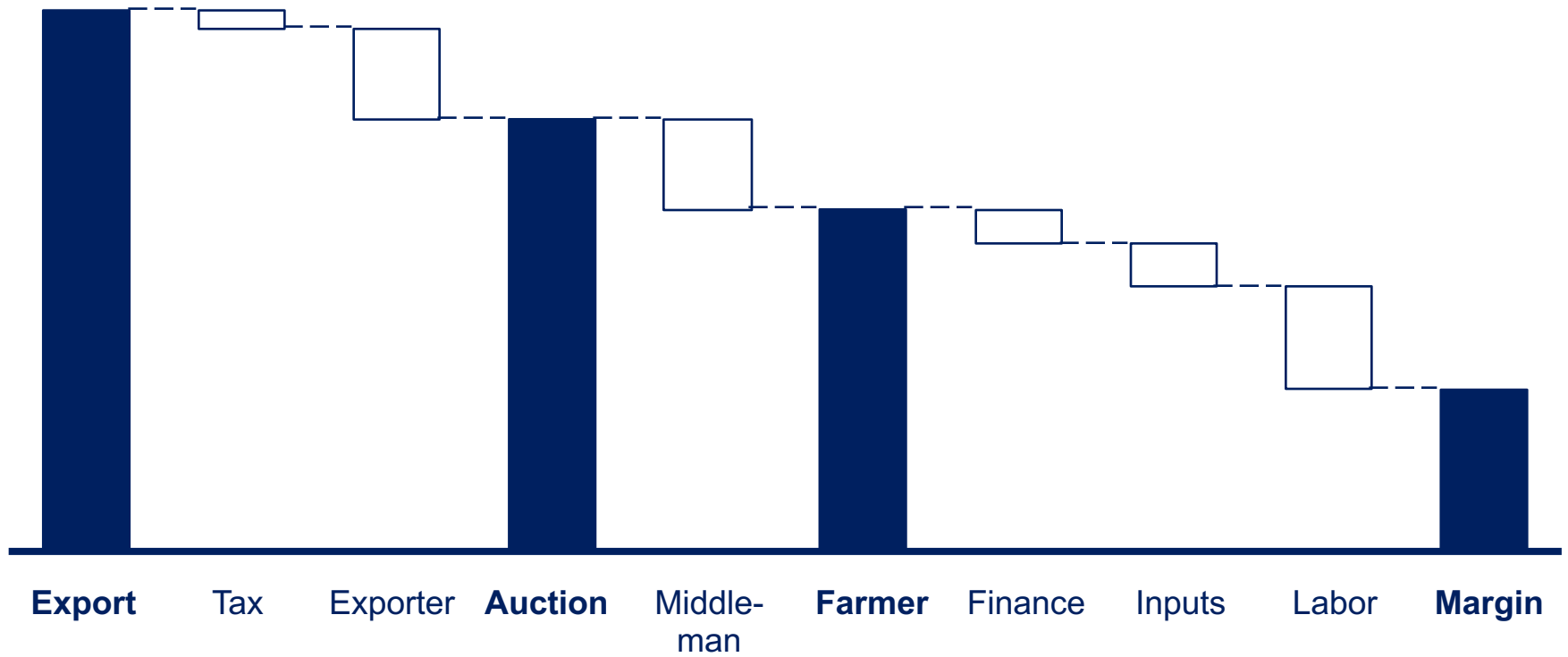
**BENCHMARK**

performance of the value chain against peer countries or sectors

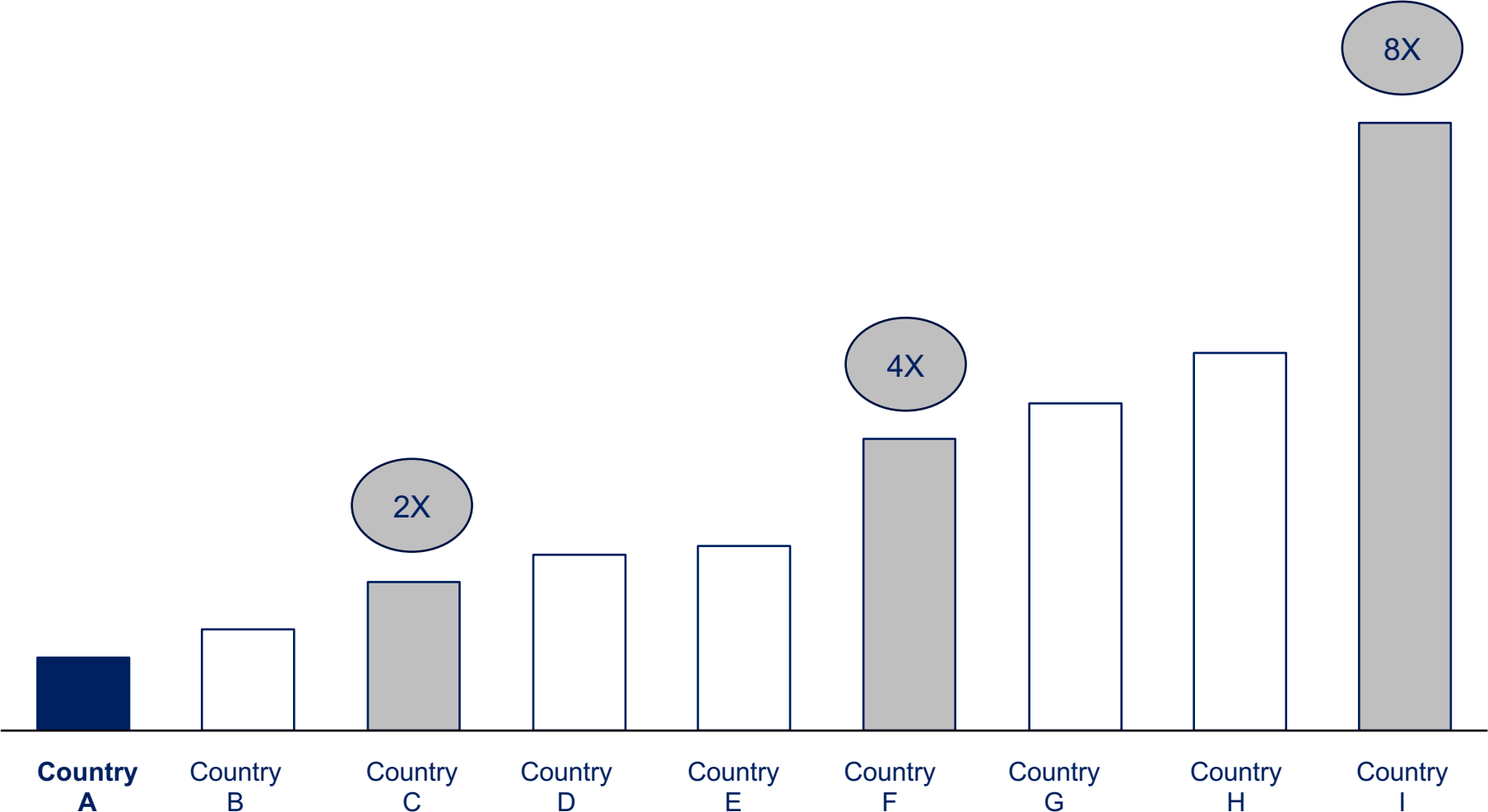
**Map** who the relevant actors are, what they do, how they relate to each other



# Breakdown costs and revenues for each actor, how value flows through the chain



# Benchmark performance of the value chain against peer countries or sectors

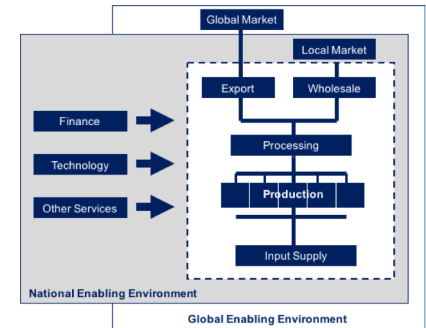


# Recap

1

MAP

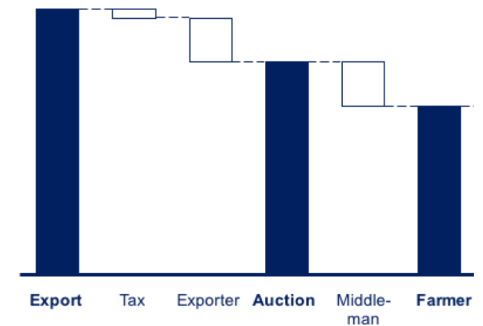
who the relevant actors are, what they do, how they relate to each other



2

BREAKDOWN

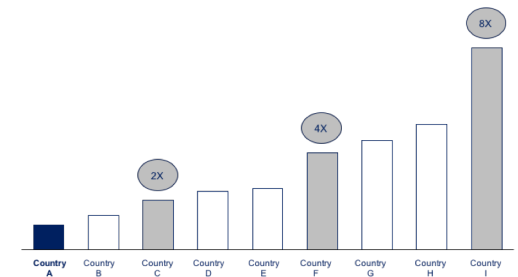
costs and revenues for each actor, how value flows through the chain



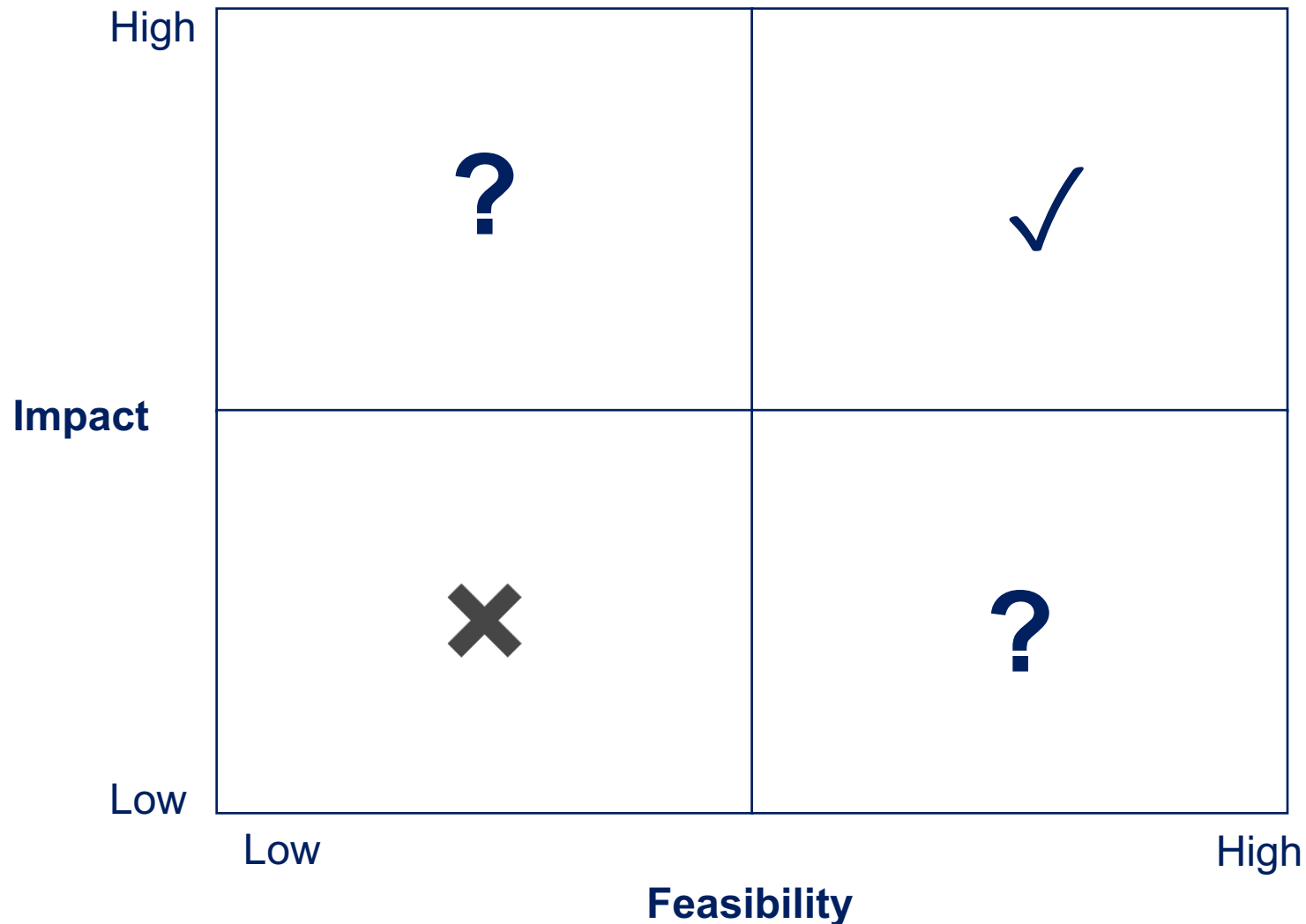
3

BENCHMARK

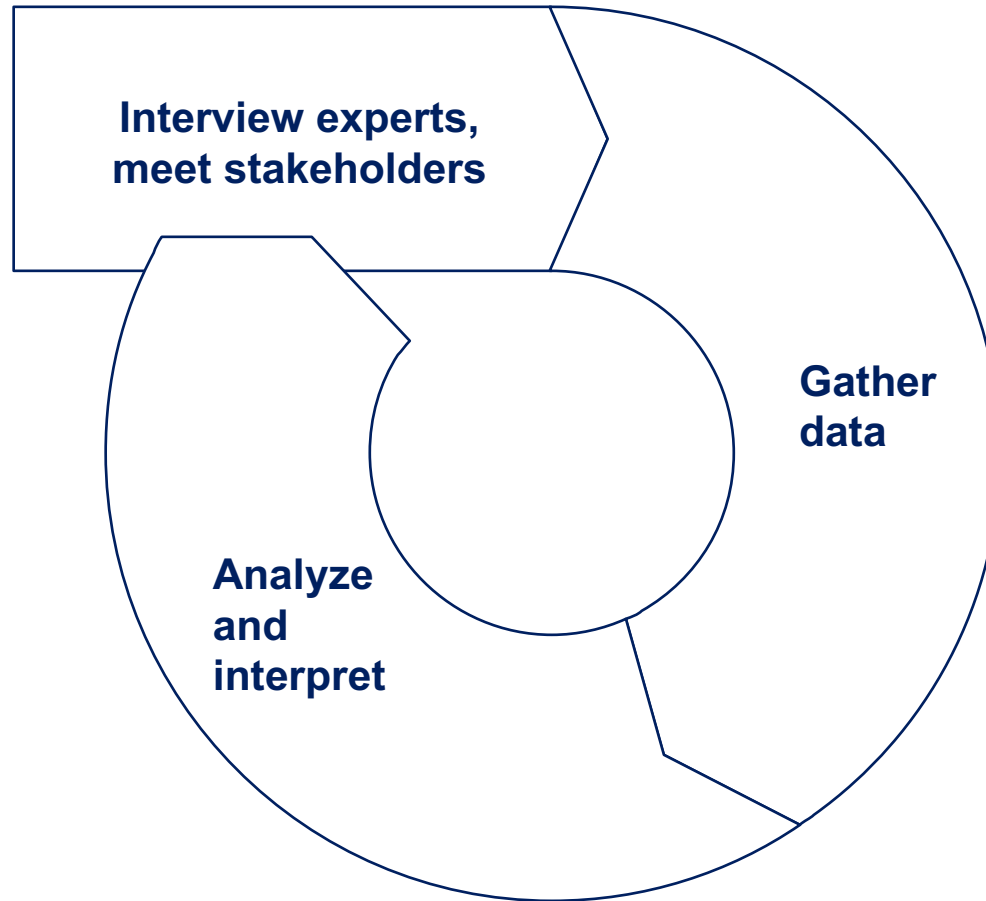
performance of the value chain against peer countries or sectors



After analysis, **prioritize** recommendations (based on some pre-defined selection criteria)



# Value chain analysis is an iterative process



# Plan for the week

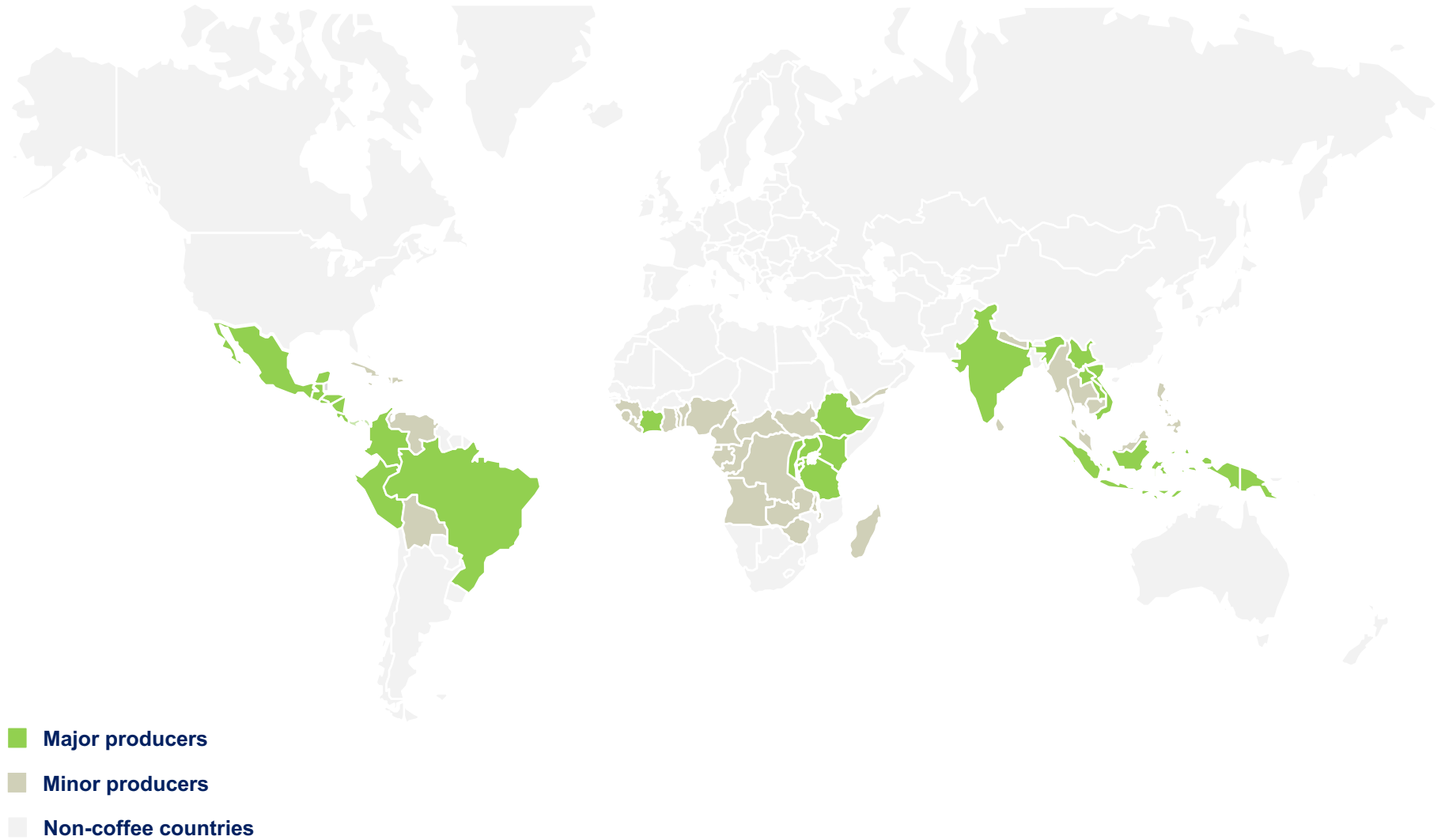
## Today

- The Value Chain Framework
- **Global coffee value chain**
- Break
- Case: Vietnam coffee
- Case: Colombia coffee

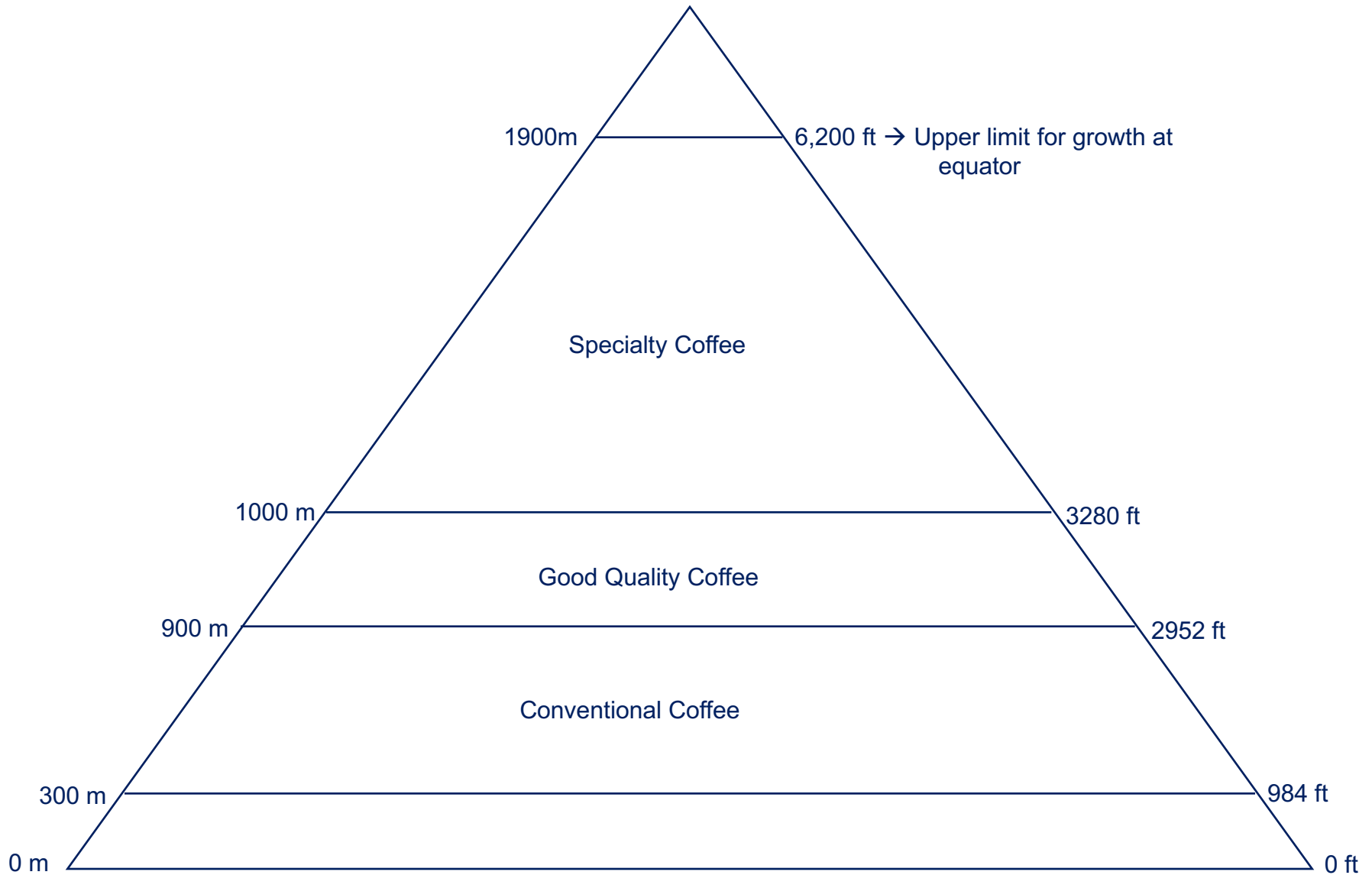
## Thursday

- Case: Ethiopia coffee
- Practical aspects / Q&A

# Coffee grows in the tropics



# Specialty coffee requires specific growing conditions



**95% OF THE WORLD'S COFFEE FARMS ARE SMALL (< 5HA)**



# THE OTHER EXTREME



# COFFEE "CHERRIES" ARE HARVESTED BY HAND



**COFFEE NEEDS TO BE PROCESSED IMMEDIATELY AFTER PICKING**



# CHERRY IS EITHER "PULPED"



**OR DRIED WITH THE FRUIT STILL ON THE BEAN**



# SECONDARY PROCESSING PREPARES "GREEN" COFFEE FOR EXPORT



**“CUPPING” IS USED TO EVALUATE COFFEE QUALITY**



# Value chain review



**Cherry**



**Parchment**



**Green**

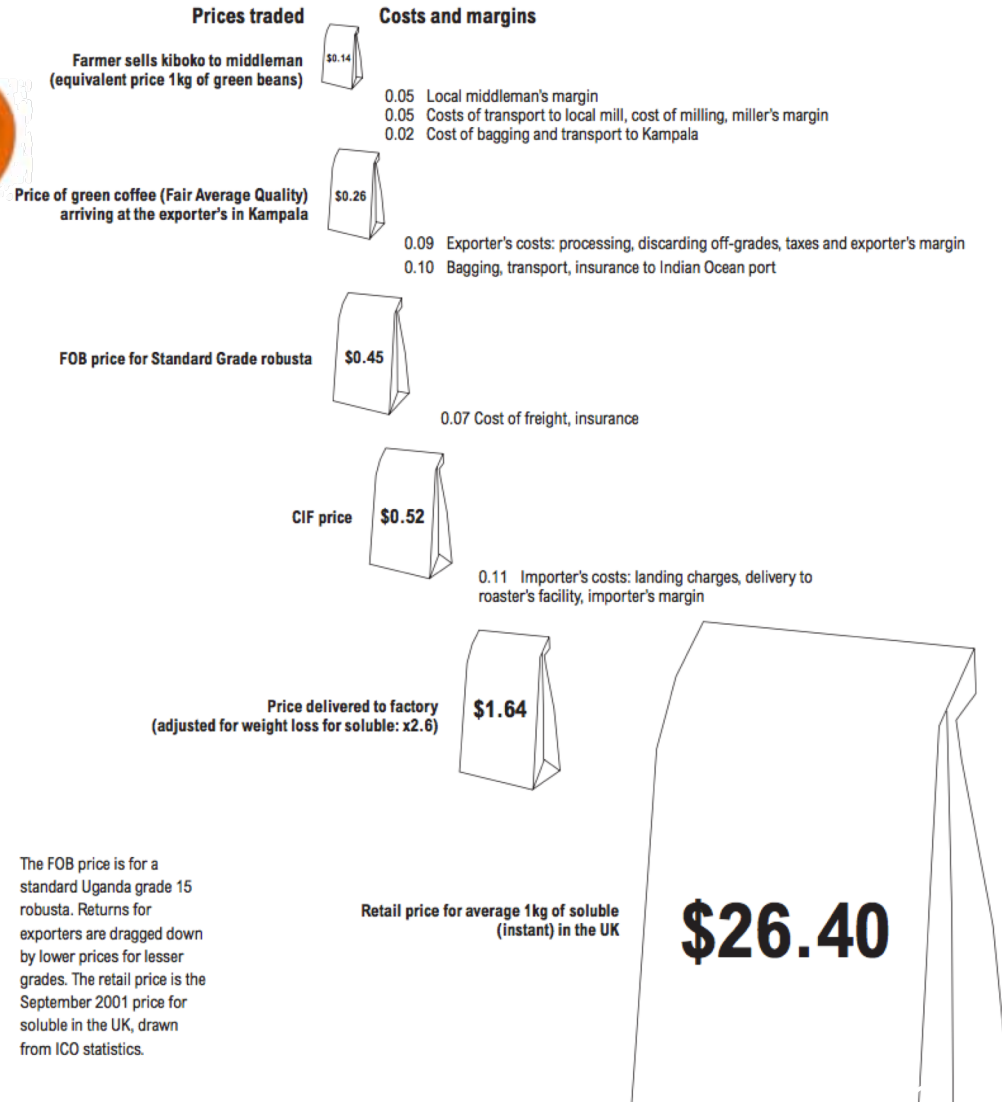


**Roasted**

# The “Coffee Crisis”

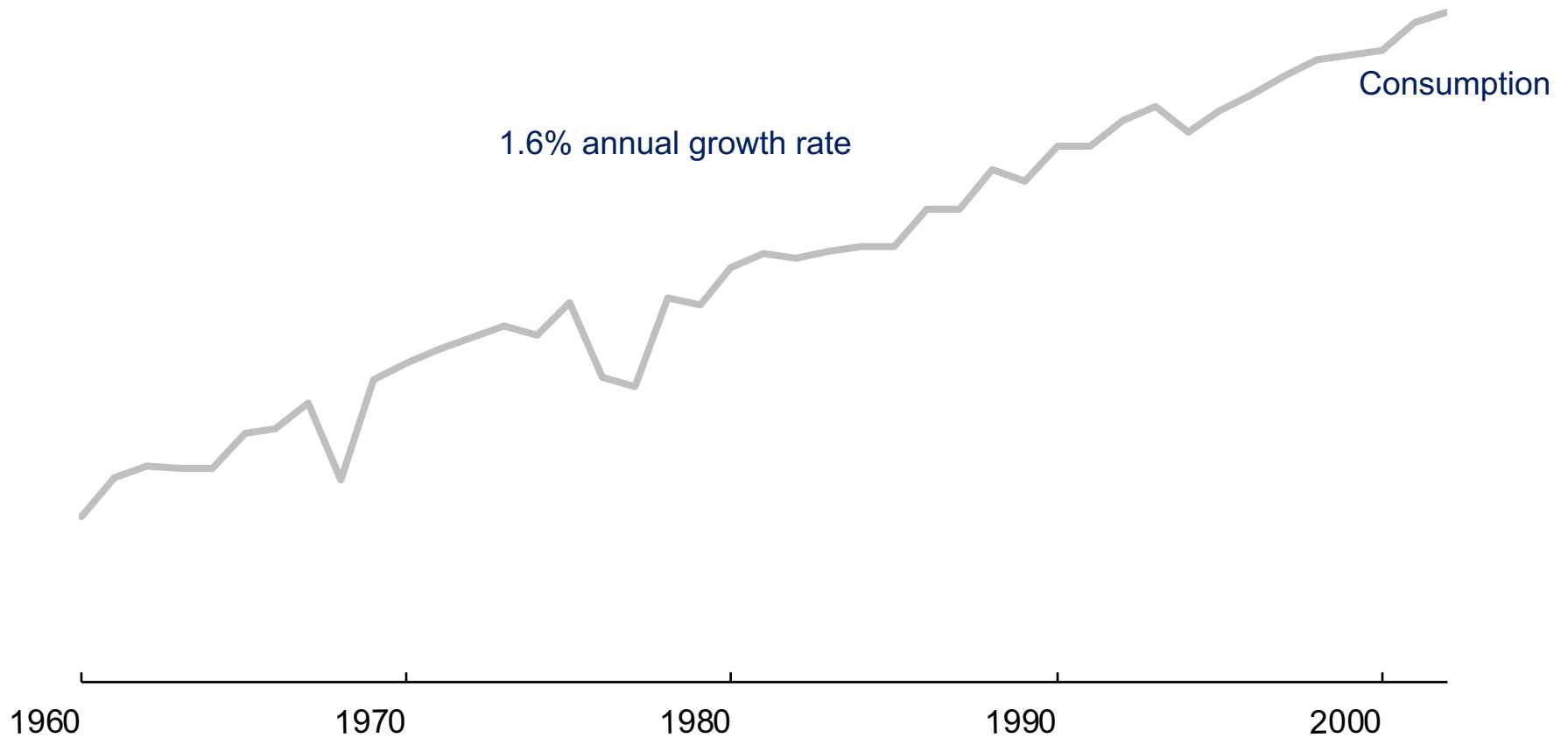
## Who is making profits in the coffee market chain?

All prices in US\$/kg November 2001 – February 2002

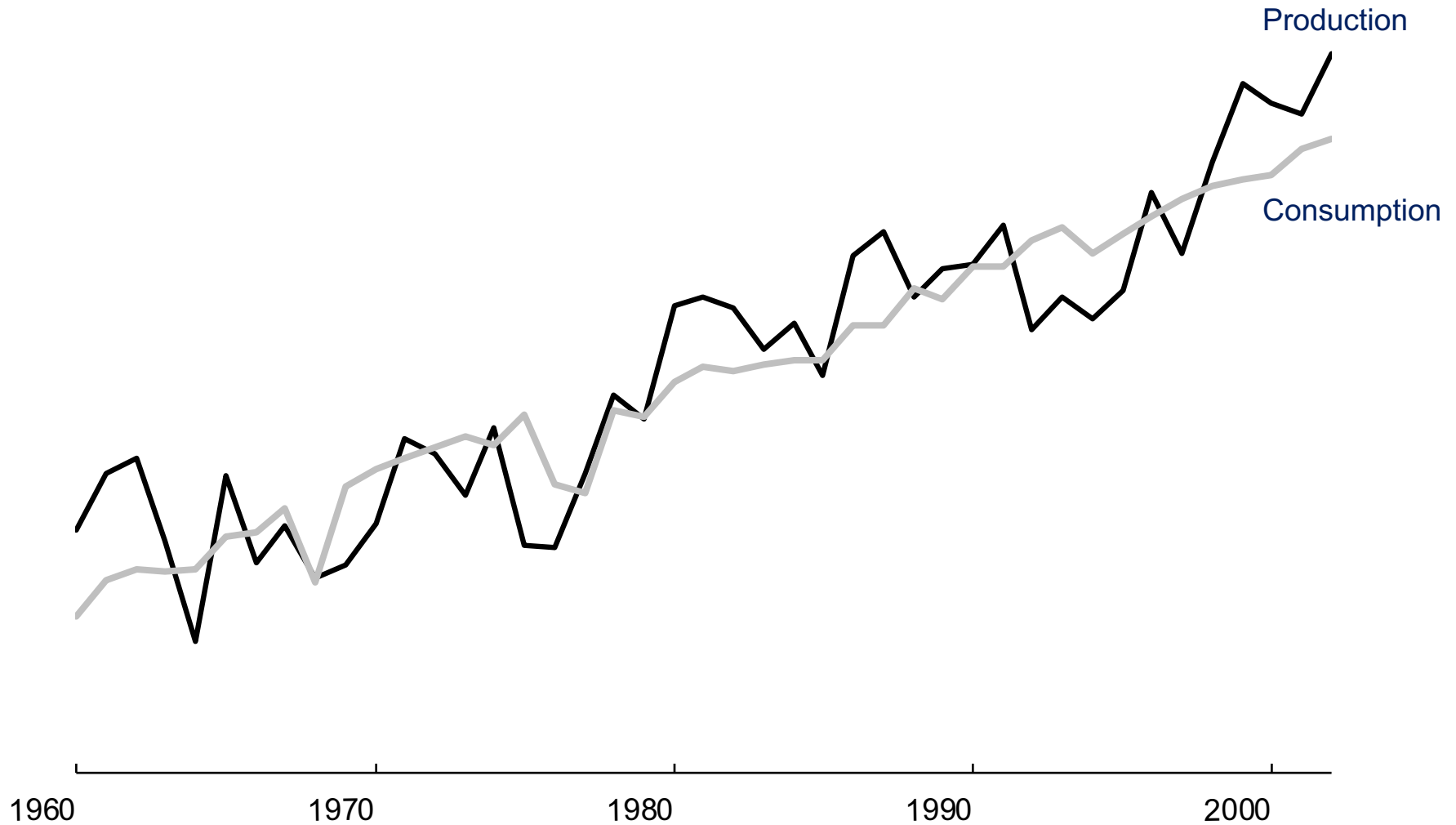


The FOB price is for a standard Uganda grade 15 robusta. Returns for exporters are dragged down by lower prices for lesser grades. The retail price is the September 2001 price for soluble in the UK, drawn from ICO statistics.

# Global coffee consumption has grown steadily



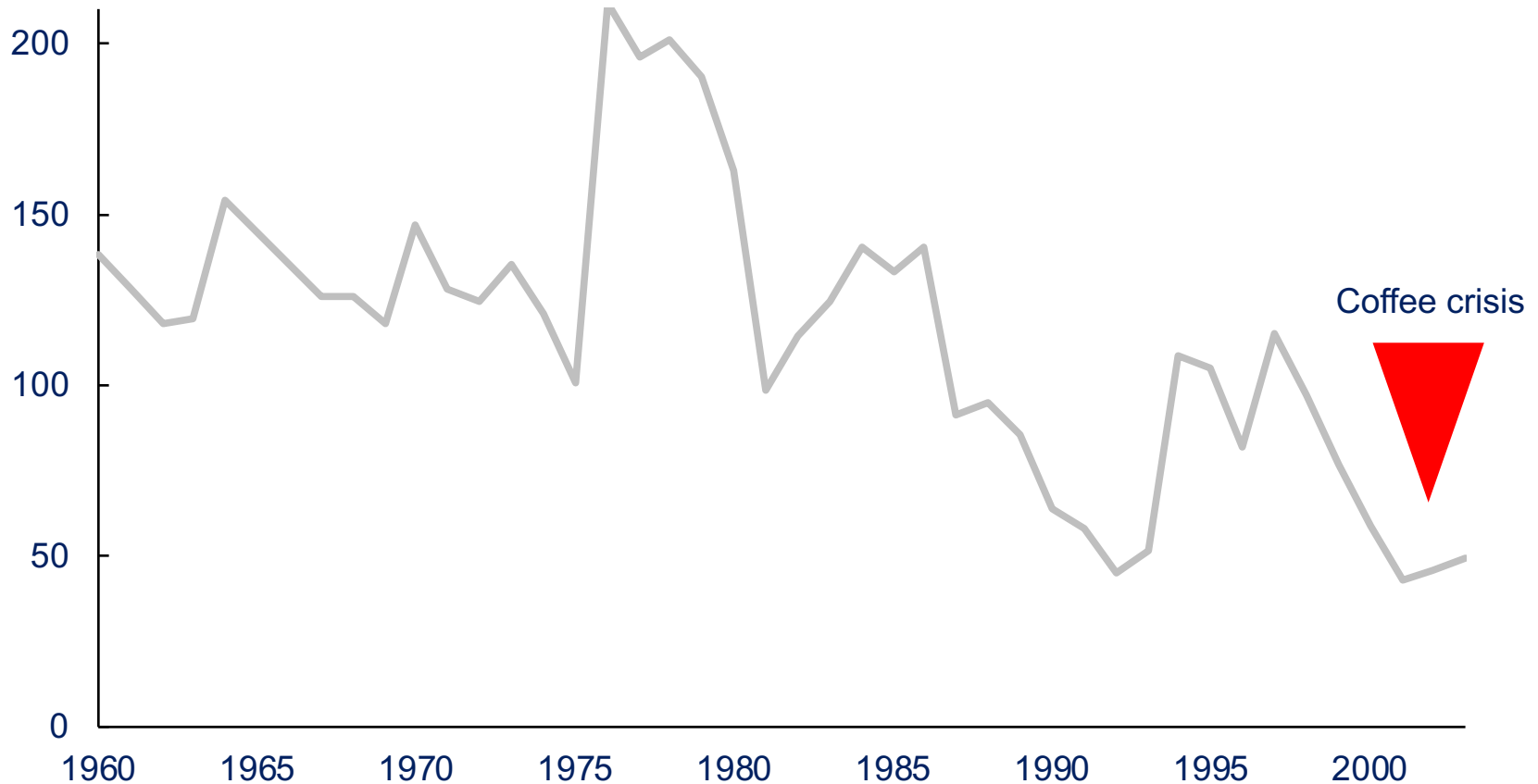
# Production is more volatile than consumption



# In 2003, production surpluses caused prices to drop to record lows

## Real price of green coffee

ICO indicator price, U.S. ¢ per lb., constant 2002 dollars\*

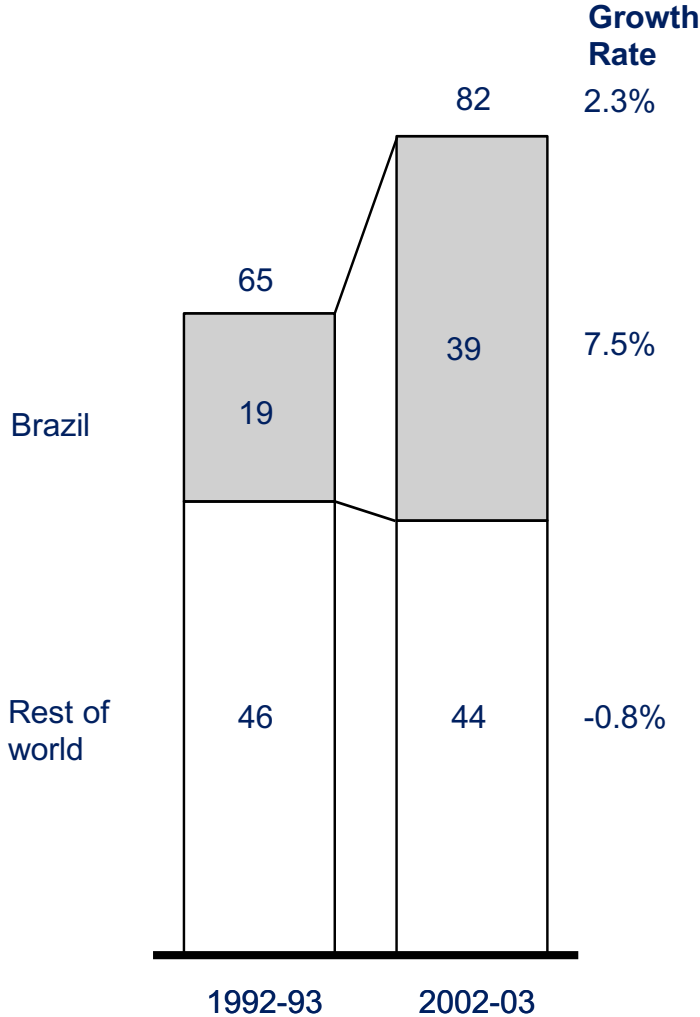


\* Real price index created by combining 1900-91 average U.S. import prices from *150 Years of Coffee* and 1992-2002 ICO indicator prices; all prices in 2002 dollars adjusted using World Bank Global Manufactured Unit Value index

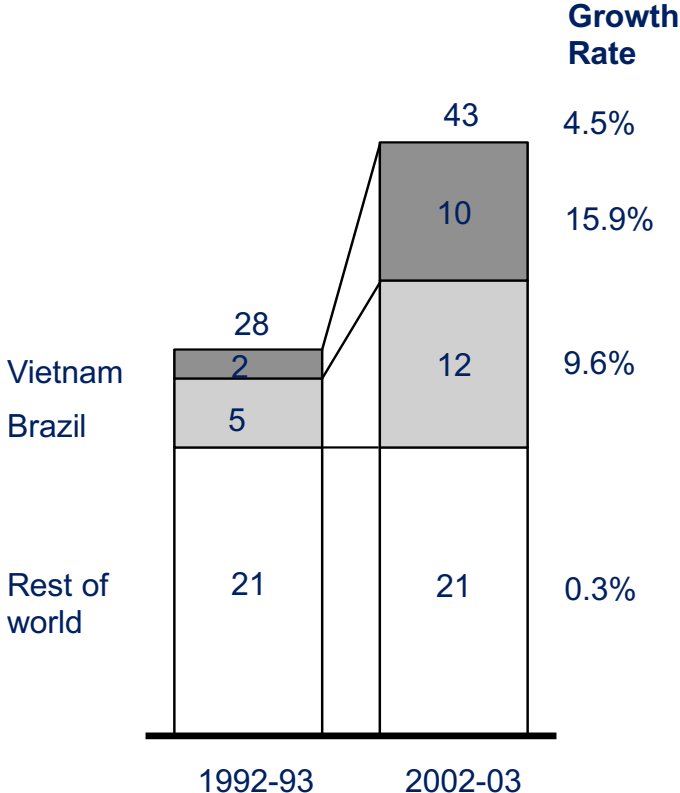
Source: ICO; World Bank; *150 Years of Coffee*, Marcellino Martins and E. Johnston

# Production increase was driven by Brazil and Vietnam

**Arabica production**  
(millions of 60 kg bags)

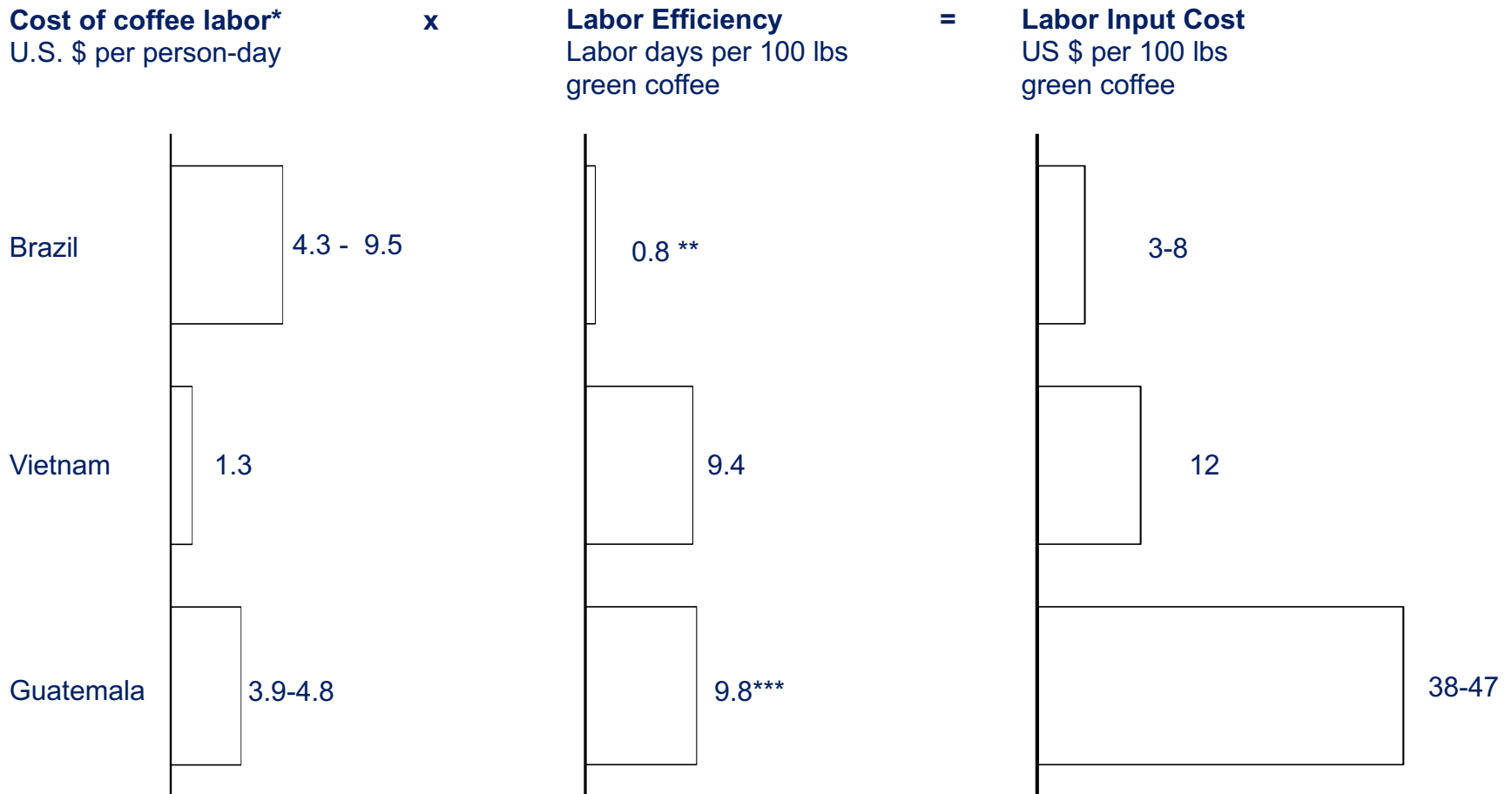


**Robusta production**  
(millions of 60 kg bags)



Source: USDA; interviews

# Brazil and Vietnam had a cost advantage due to low labor costs and high labor efficiency levels



\* Range based on direct wages (low-end) and fully loaded cost (high-end)

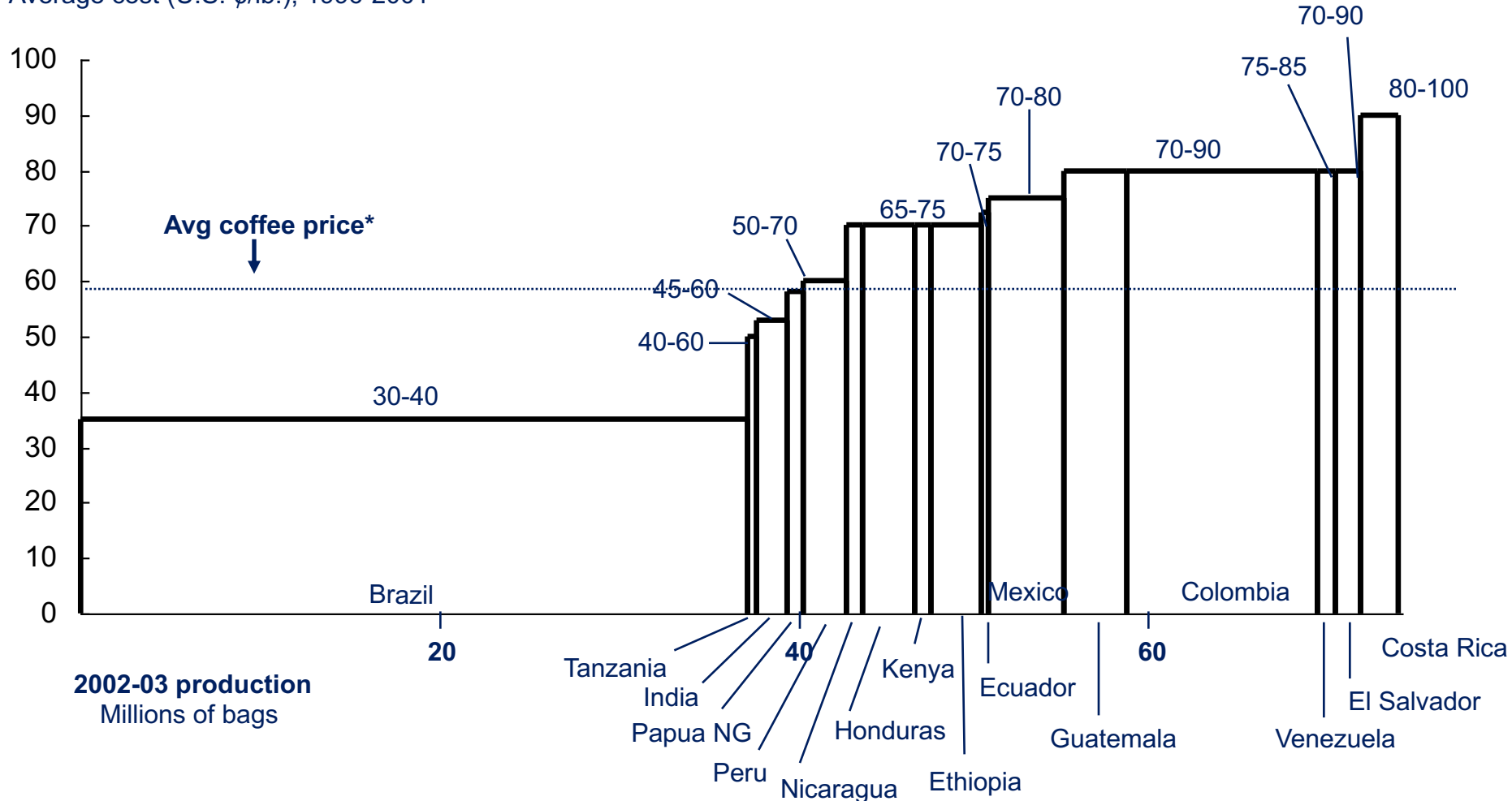
\*\* Assuming mechanical harvesting

\*\*\* Uses Guatemala wage of \$4.75 per day and includes wet-milling in labor costs

# Producers in higher-cost countries were not profitable

## Arabica FOB supply curve

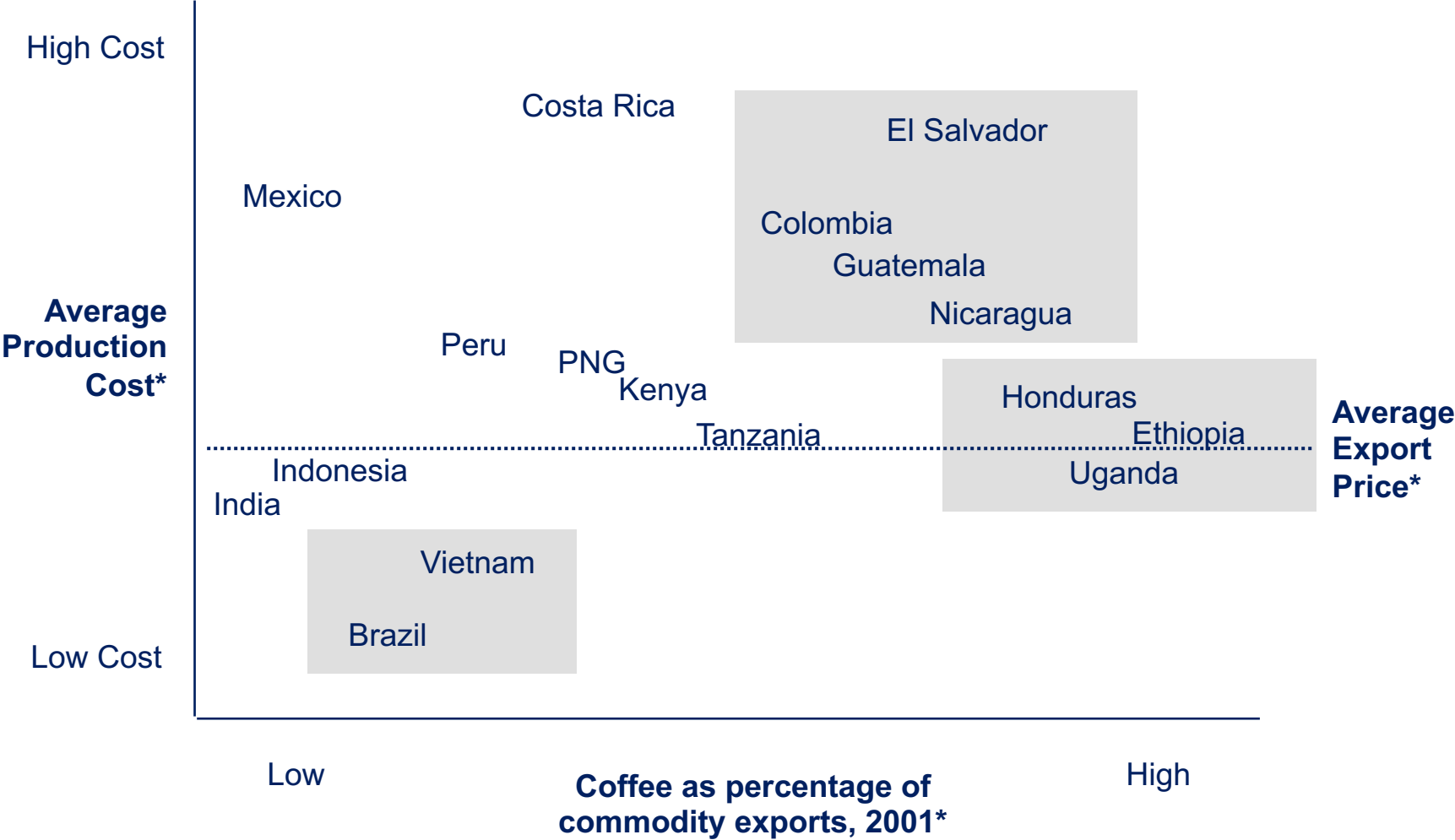
Average cost (U.S. ¢/lb.), 1996-2001



\* December 2003 contract as of 12/1

Source: ICO; USDA; TechnoServe; Volcafe; Judith Ganes Consulting; Coffee Business International; "Dealing with the Coffee Crisis in Central America," World Bank (2003); team analysis

# How do you think different countries responded?



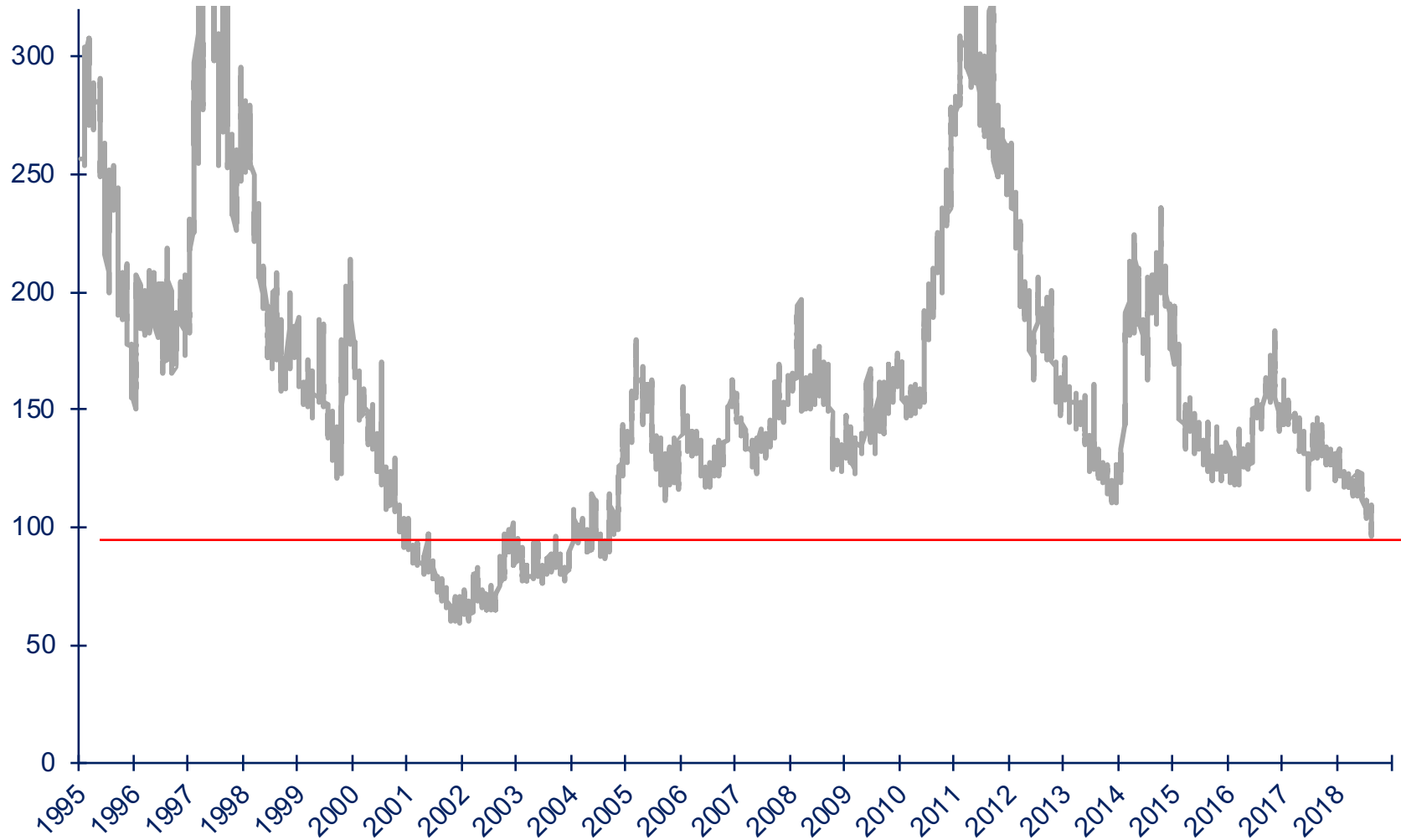
\* Cost positions are adjusted to reflect the relative prices differentials received by specific countries

Source: USDA; ICO Coffee Statistics, Sept 2002; Compete Coffee Coverage; TechnoServe; Economist Intelligence Unit; team analysis

# Coffee prices today

## Real price of green coffee

NY indicator price, U.S. ¢ per lb., constant 2018 dollars\*



\* Adjusted based on US inflation data

Source: Trading Economics

# Headlines this past week

“Low coffee price talks dominate 124th International Coffee Council”  
- [Global Coffee Report](#), April 2, 2019

“Coffee Producers Demand Immediate Action Amidst Price Crisis”  
- [Daily Coffee News](#), March 27, 2019

“Starbucks Has Brazil to Thank for Longest Coffee Rout Since 2001”  
- [Bloomberg](#), March 29, 2019

# Global coffee value chain review

1

**MAP**

- Diverse supply base: 20+ countries, 12.5 million farms, varying levels of sophistication
- Volatile export market

2

**BREAKDOWN**

- Prices set internationally; costs are local
- Labor costs and efficiency levels vary considerably by country

3

**BENCHMARK**

- Low cost countries (Brazil and Vietnam) increasing production
- High cost countries getting squeezed

# Plan for the week

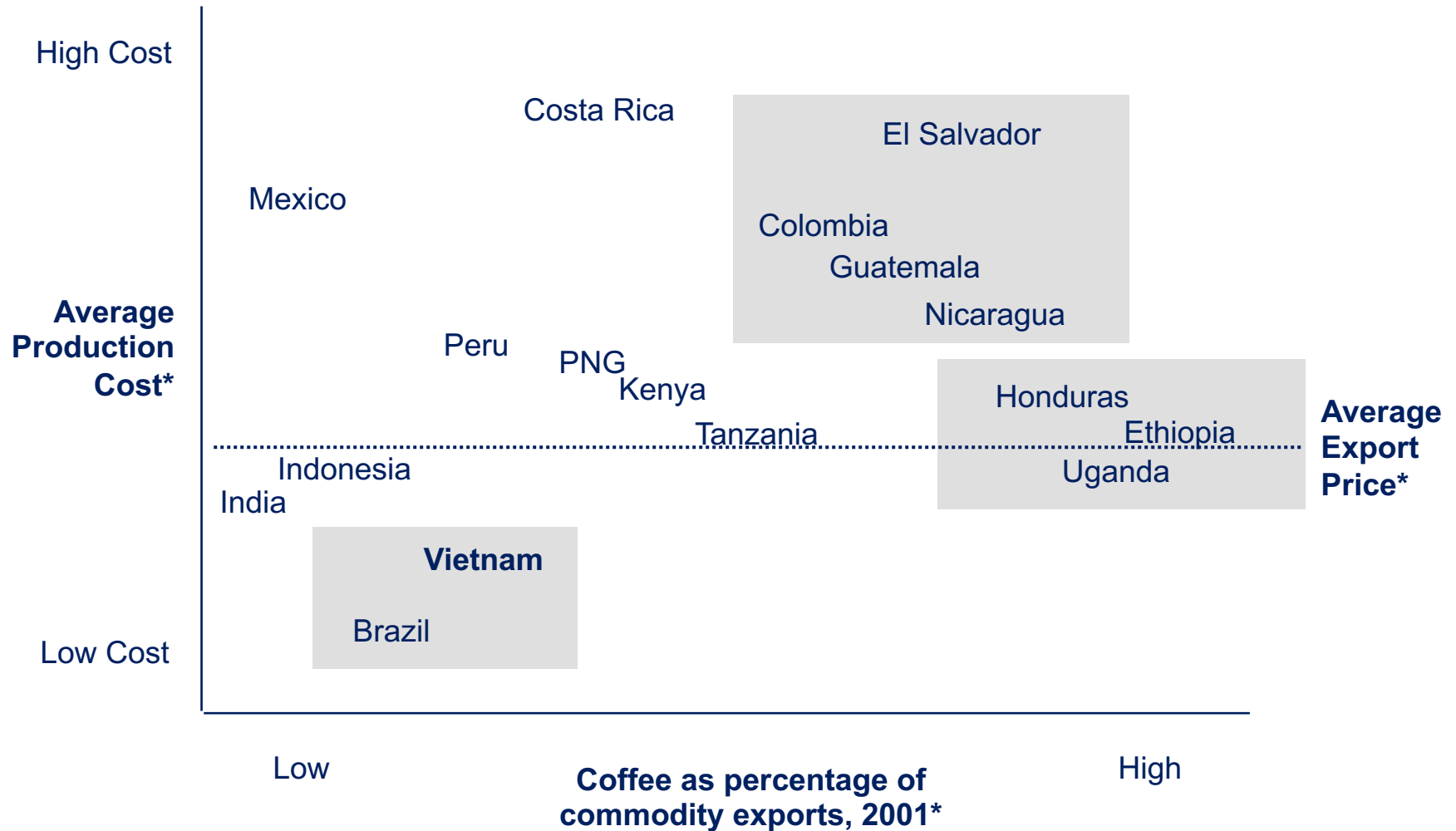
## Today

- The Value Chain Framework
- Global coffee value chain
- Break
- **Case: Vietnam coffee**
- Case: Colombia coffee

## Thursday

- Case: Ethiopia coffee
- Practical aspects / Q&A

# Vietnam: what happened next?

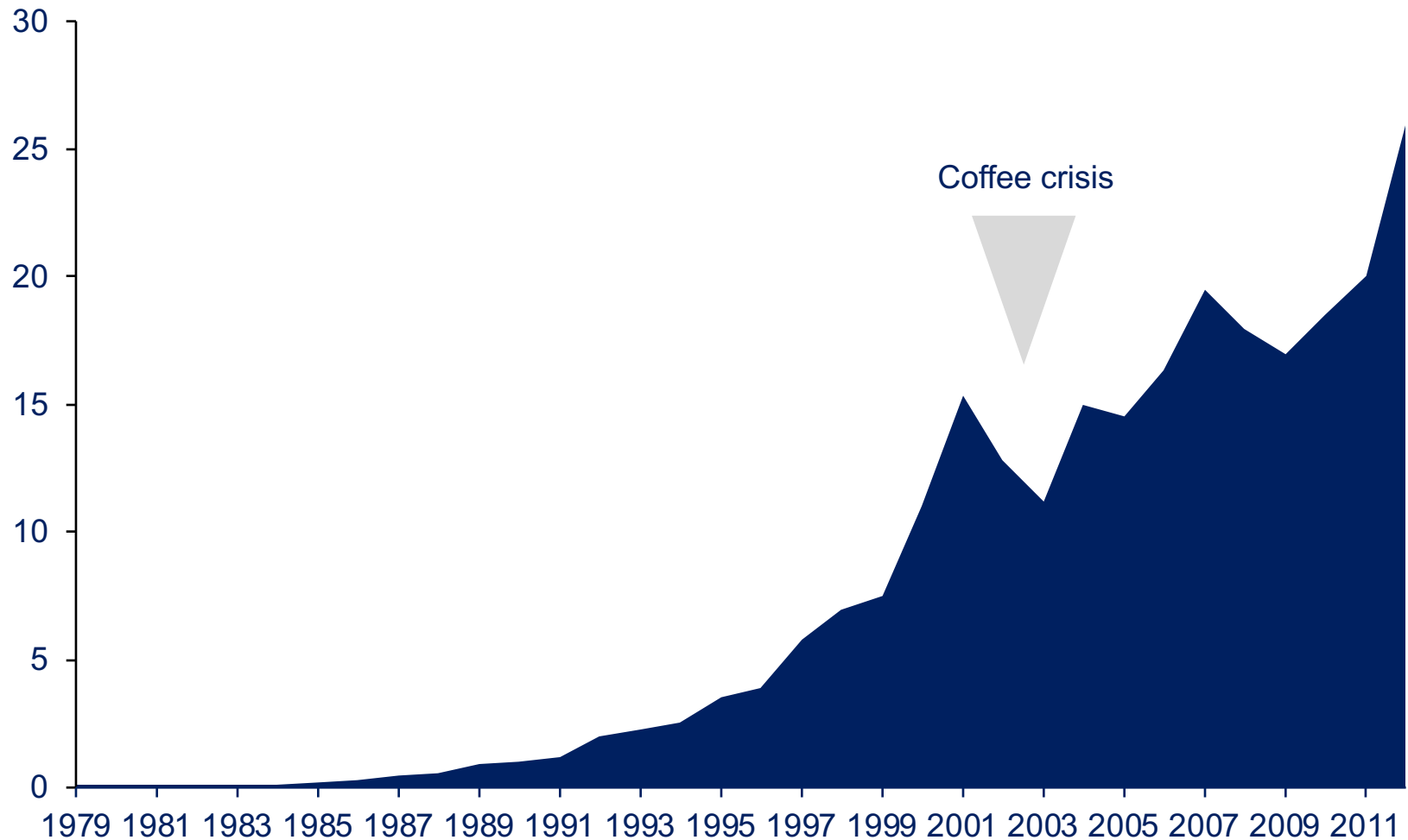


\* Cost positions are adjusted to reflect the relative prices differentials received by specific countries

Source: USDA; ICO Coffee Statistics, Sept 2002; Compete Coffee Coverage; TechnoServe; Economist Intelligence Unit; team analysis

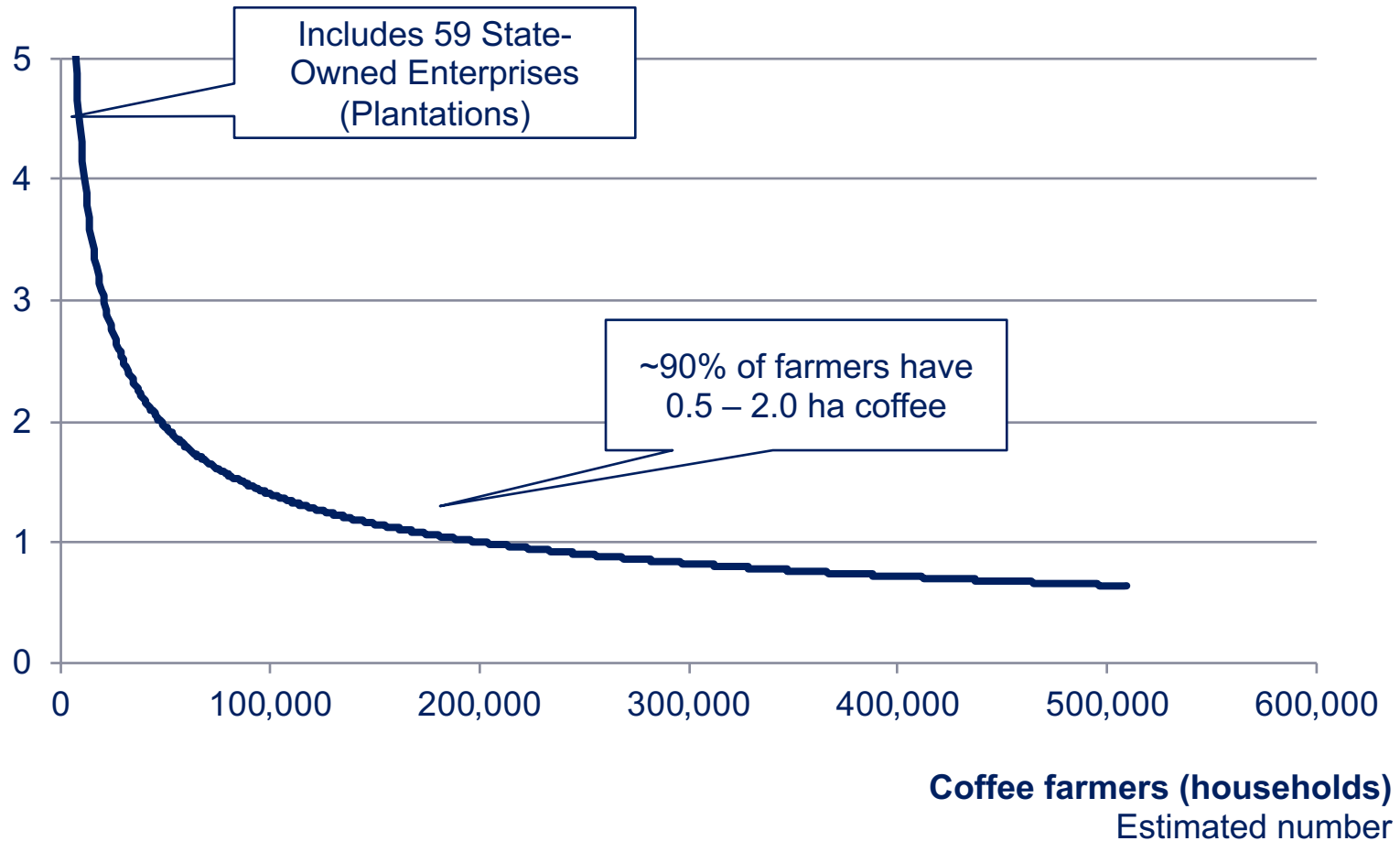
# Production doubles

**Vietnam coffee production**  
Bags (60-kg), millions

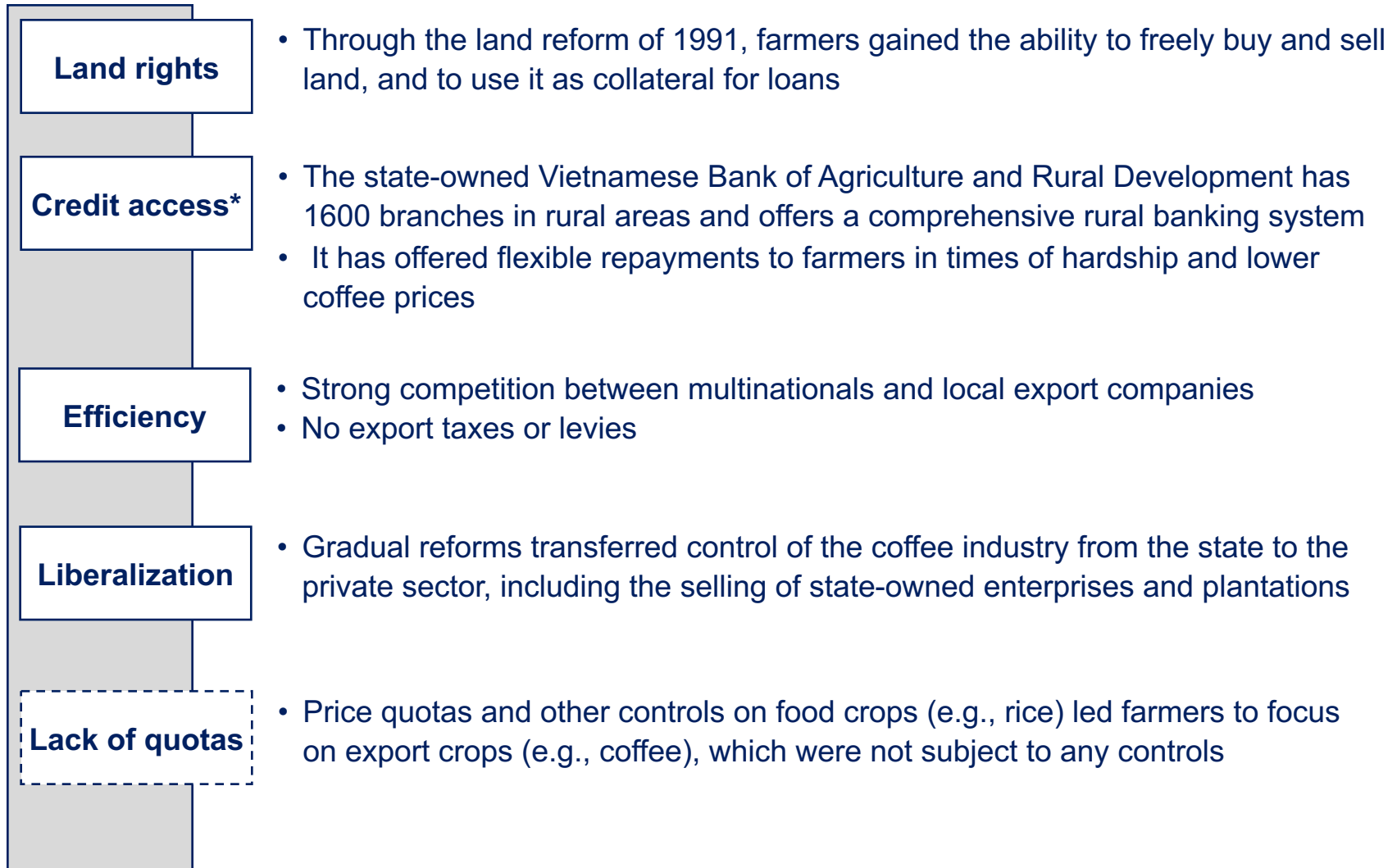


# Virtually all farmers are “small”

Land area under coffee  
Hectares



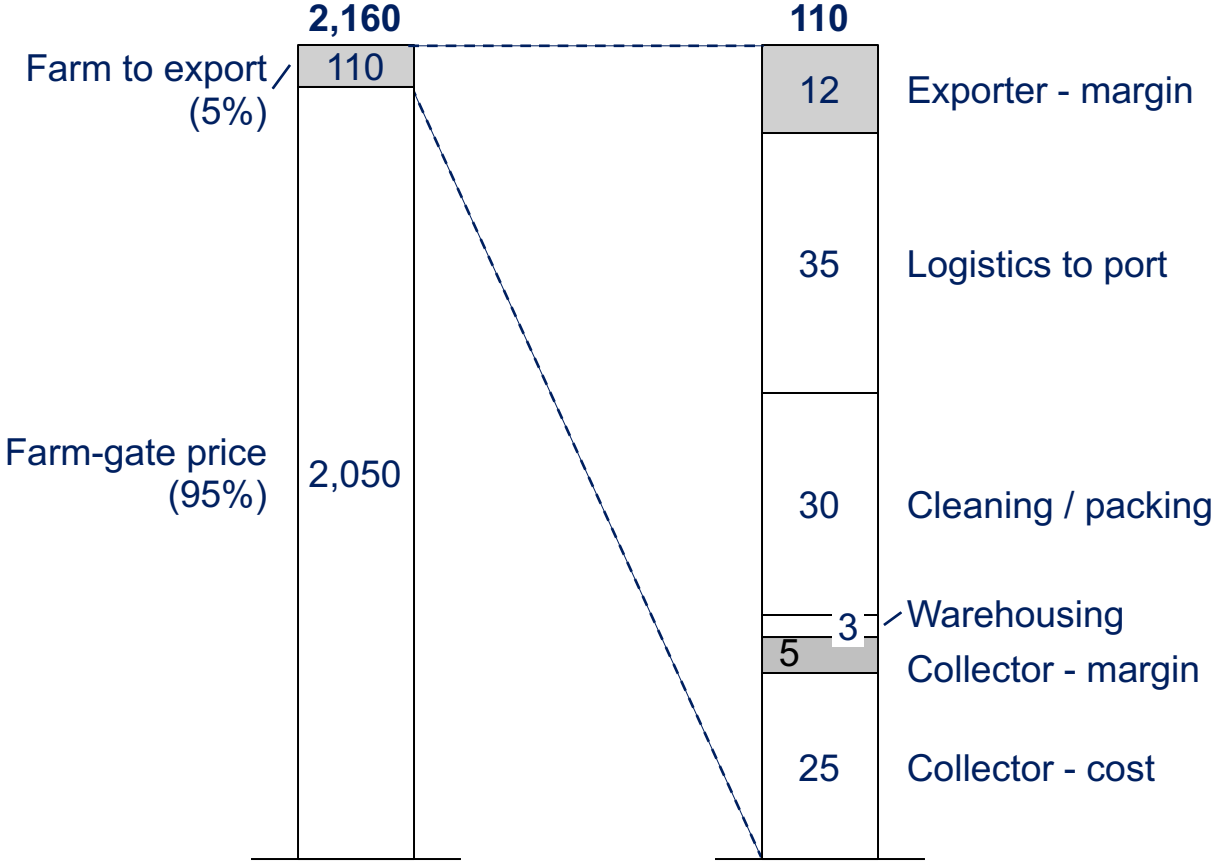
# A supportive enabling environment



\* Many in the Vietnamese industry still see smallholders' access to credit, especially for inputs, as a major challenge  
Source: Anthony Marsh / FAO

# Farmers earn 95% of the export price

**Illustrative Vietnam Robusta supply chain cost breakdown**  
 US\$ per ton green

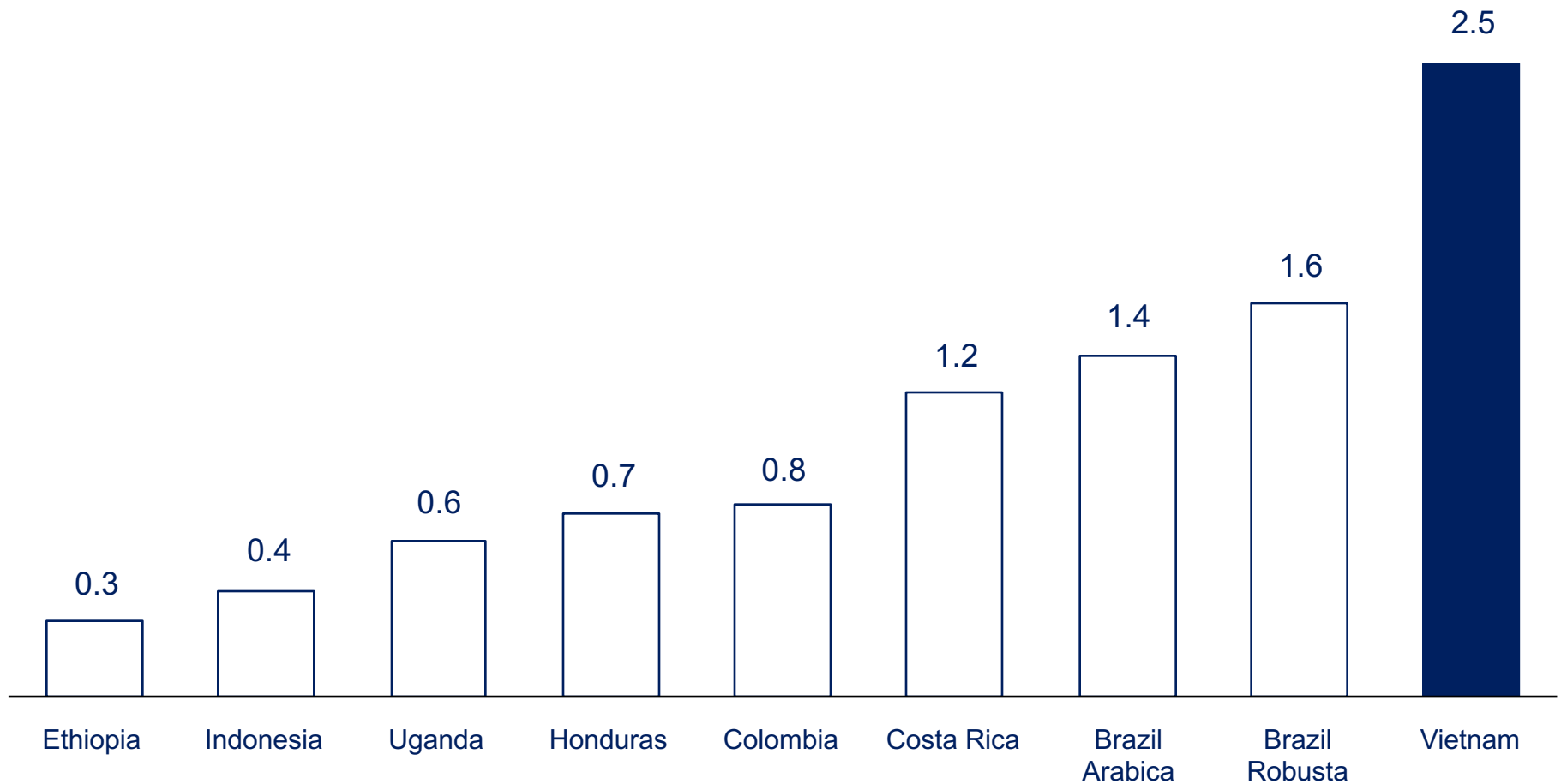


DATE: March 8, 2013 (for pricing)  
 Source: interviews with local and multinational exporters

# Highest farm yields in the world

## Average coffee farm yields\*

Metric tons green coffee per hectare



\*National average based on total production (average of last two crops) and area under coffee; includes both Arabica and Robusta unless noted otherwise

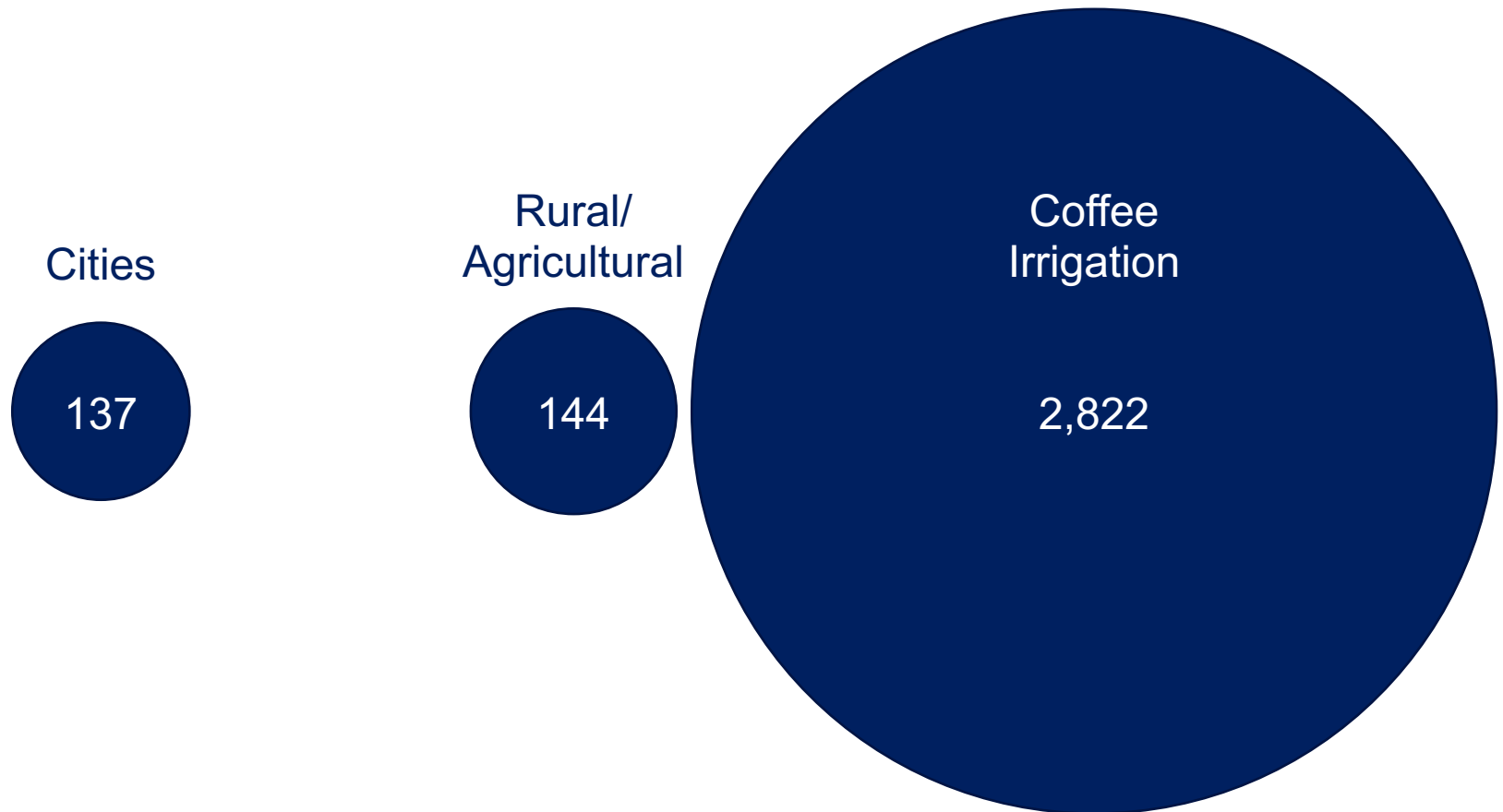
Source: USDA; TechnoServe analysis



# Coffee production has a large environmental footprint

## Total water demand in Vietnam's Central Highlands

Tons per household\* per year



\* Assumes average household size of 4.5

Source: D'Haeze 2004; Lu 2002; extrapolations to current estimated rates of urban and rural usage

# Vietnam review

1

**MAP**

- Approx. 500,000 mostly small-scale farmers
- Supportive enabling environment (land rights, credit access, lots of competition, etc.)

2

**BREAKDOWN**

- Farmers earn 95% of export price
- Margins for exporters / collectors are very slim (<1%)

3

**BENCHMARK**

- High farm yields and low costs relative to other coffee countries
- Production has a large environmental footprint

# Potential ways forward

## **Sustain**

- Improve environmental stewardship (water, etc.)

## **Add value**

- Develop capacity to roast and package locally, and sell into regional markets (e.g., China)

## **Local demand**

- Boost local coffee consumption, reducing exposure to volatile export prices

# Plan for the week

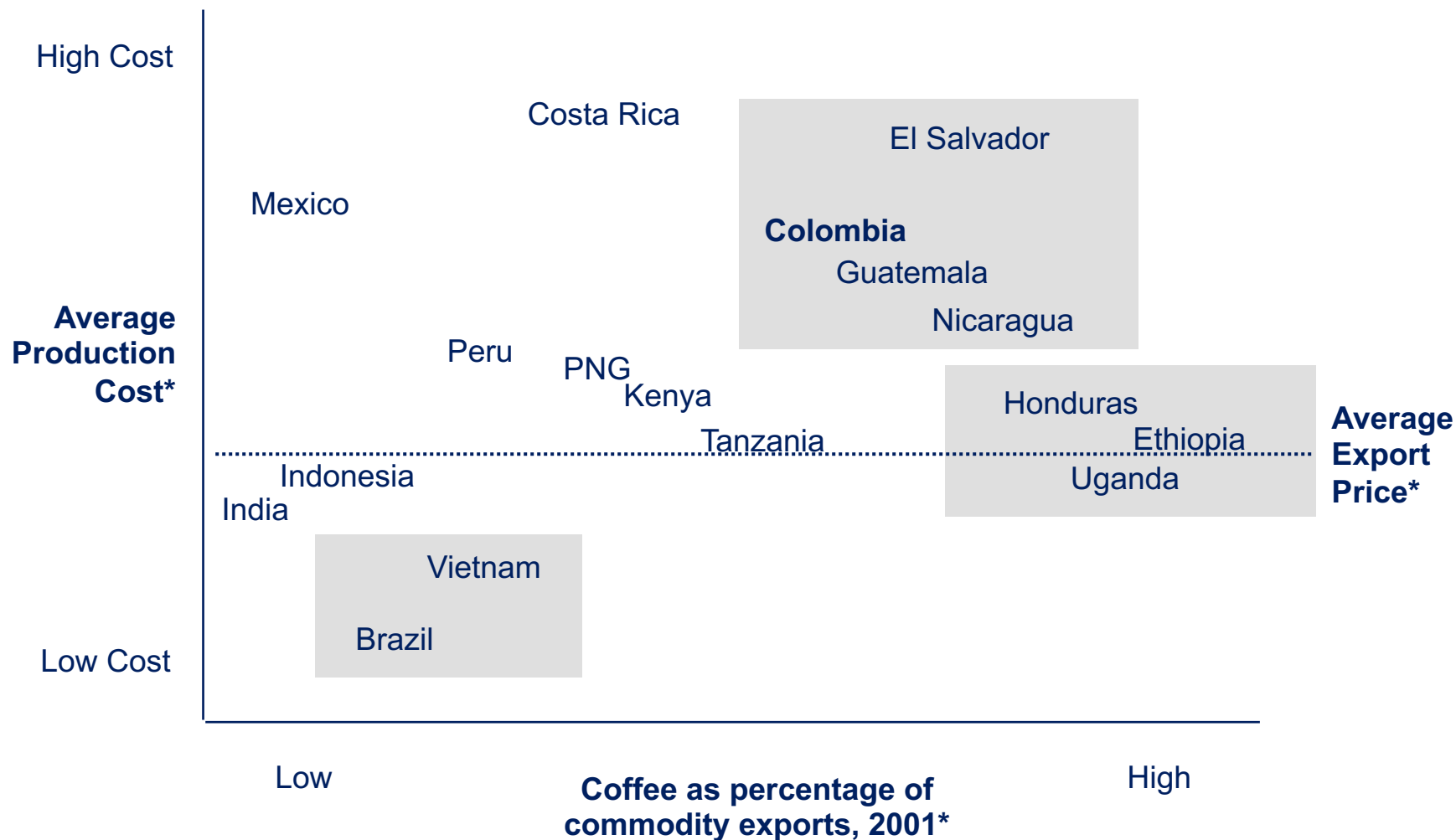
## Today

- The Value Chain Framework
- Global coffee value chain
- Break
- Case: Vietnam coffee
- **Case: Colombia coffee**

## Thursday

- Case: Ethiopia coffee
- Practical aspects / Q&A

# Colombia: at a cross roads

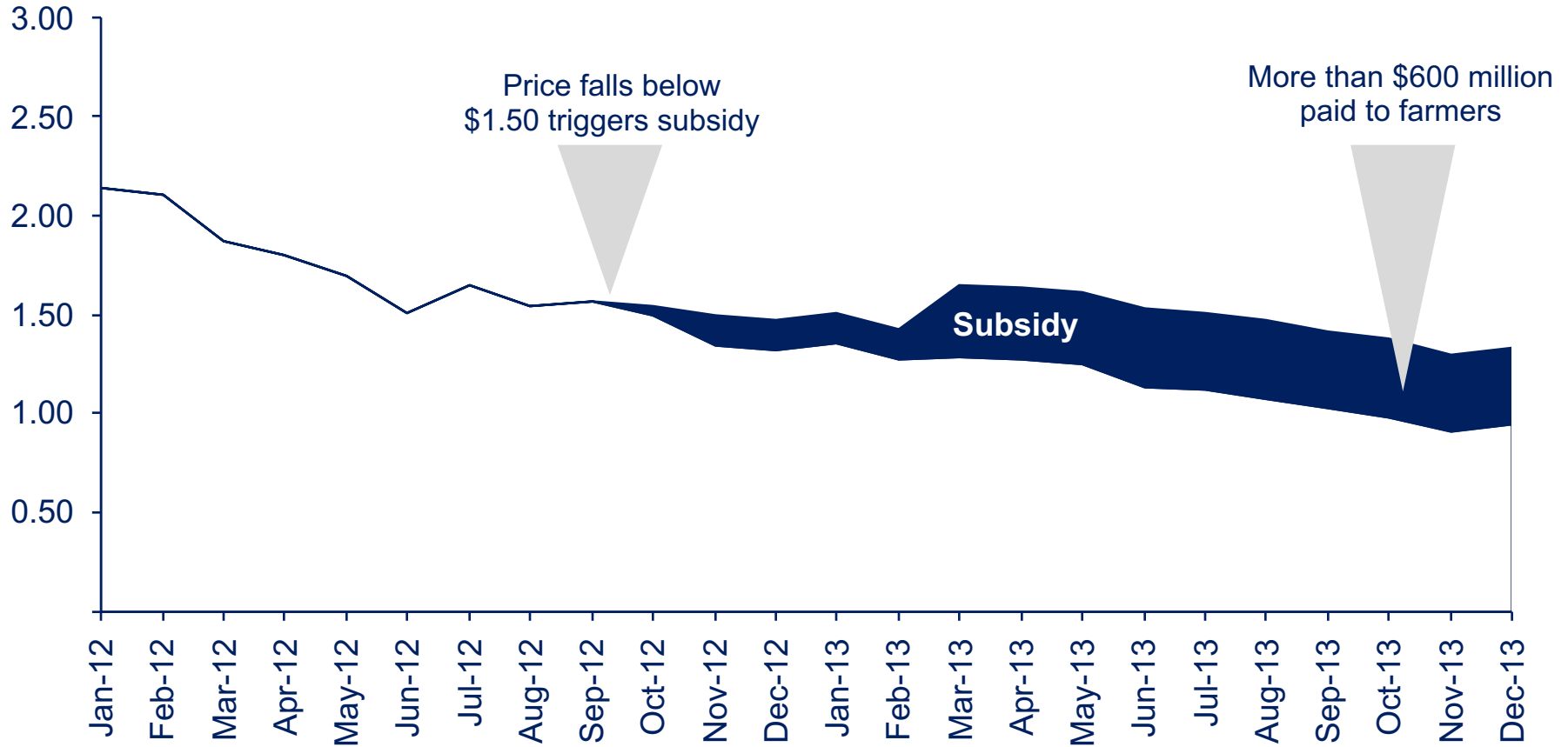


\* Cost positions are adjusted to reflect the relative prices differentials received by specific countries

Source: USDA; ICO Coffee Statistics, Sept 2002; Compete Coffee Coverage; TechnoServe; Economist Intelligence Unit; team analysis

# 10 years later: \$600 million subsidy to farmers

Colombia average farm-gate price  
US\$ per lb green

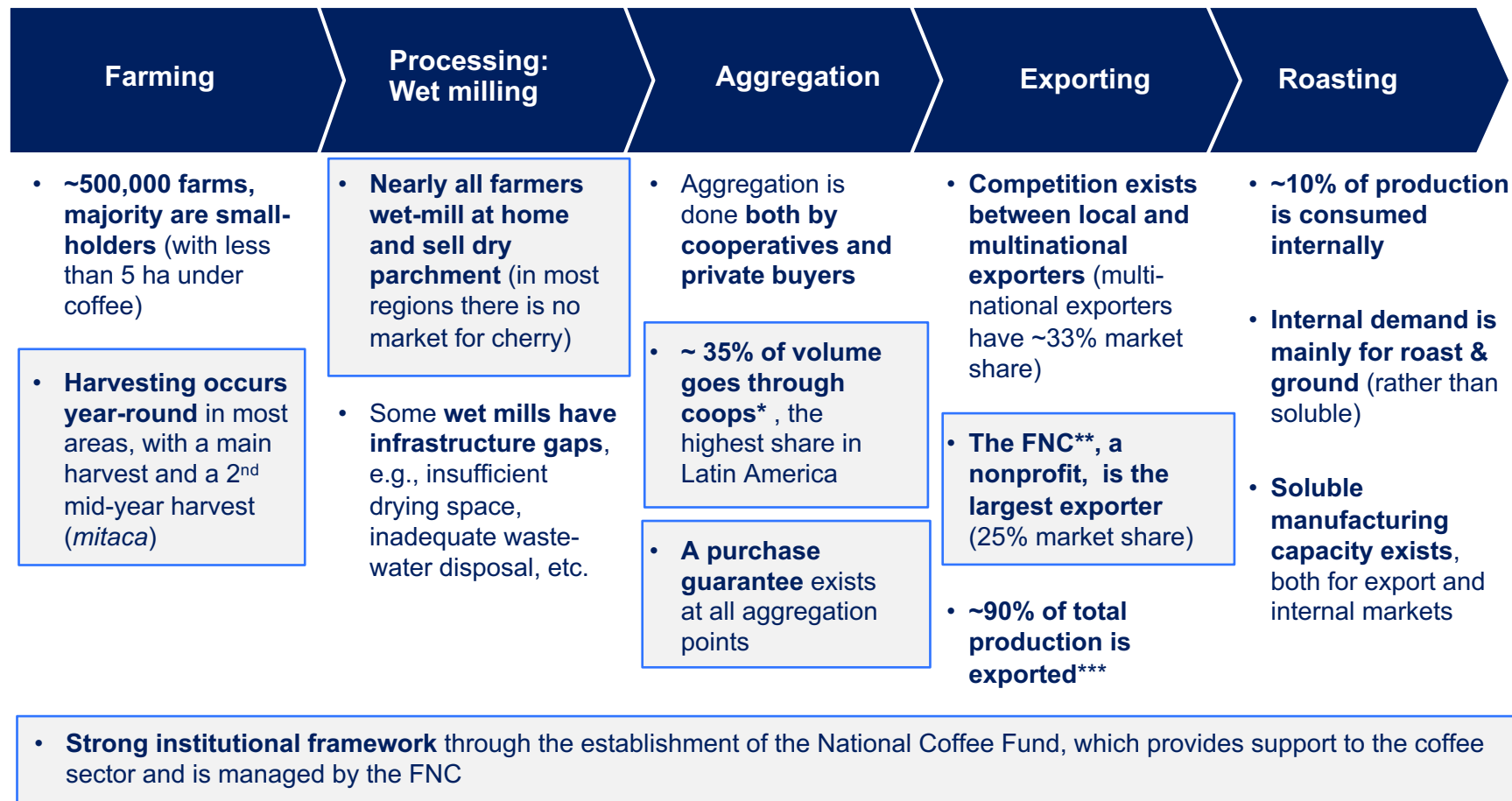


\*At current exchange rate; subsidy paid if internal base price is below COP 700,000; sum of income from coffee sale and subsidy cannot exceed COP 700,000; subsidy of COP 165,000 paid if price is below COP 480,000; otherwise payment of up to COP 145,000; between Oct 2012 and March 2013 producers received COP 20,000 and later 60,000 per load if price was below 650,000  
Source: FNC, TechnoServe analysis

# Colombia has a unique coffee value chain

## Colombia's coffee value chain (Arabica)

Distinctive to Colombia



\* There are 34 coops with 515 purchase points country-wide

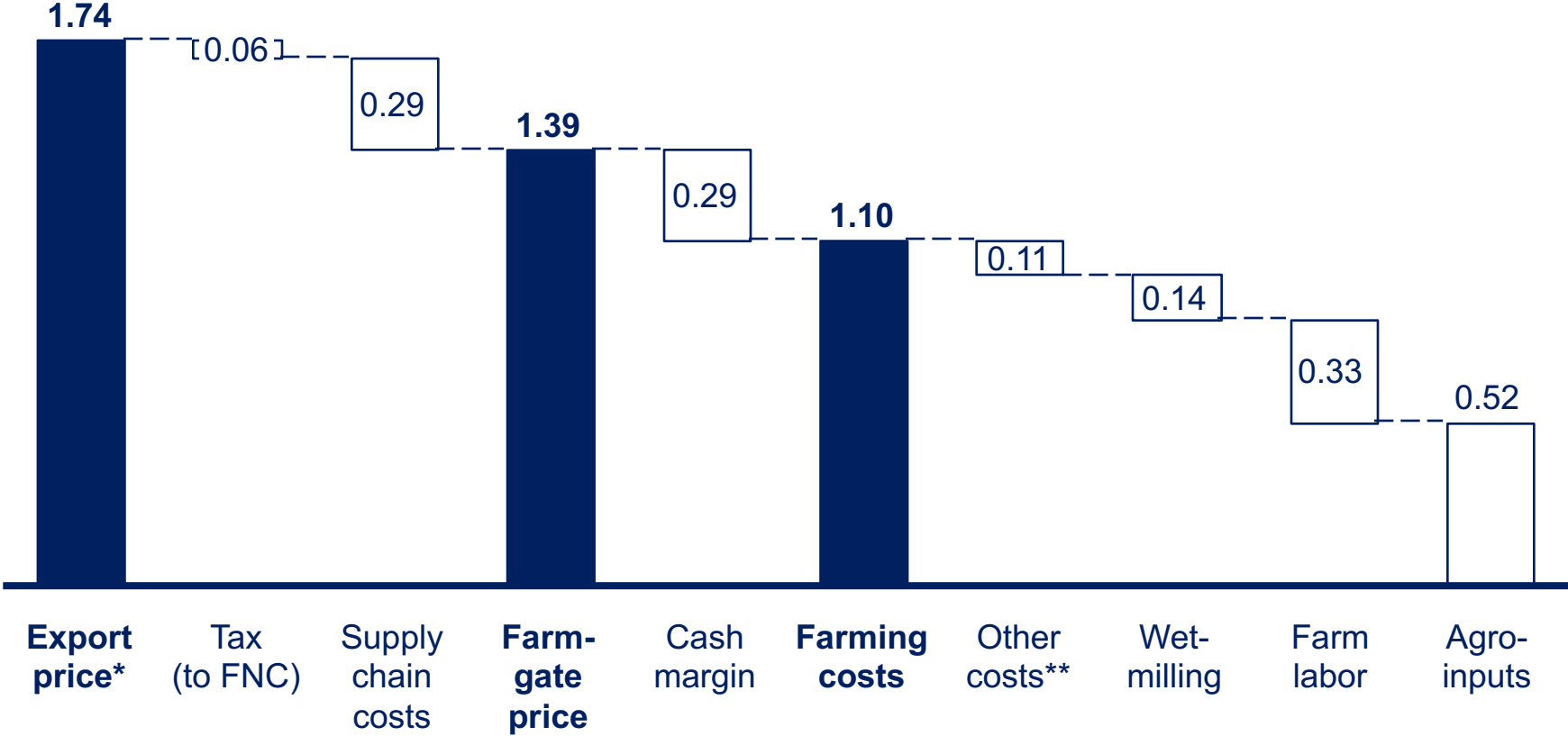
\*\* Federación Nacional de Café; responsible for the implementation of the National Coffee Fund

\*\*\* Coffee not fulfilling export quality standards is used for internal consumption

Source: FNC; interviews

# Farmer earns 80% of the export price

**Value chain analysis for average Colombian farm**  
 US\$ per lb green



Note: Cost of production does not include costs for installation of wet milling equipment, tree renovation or financing

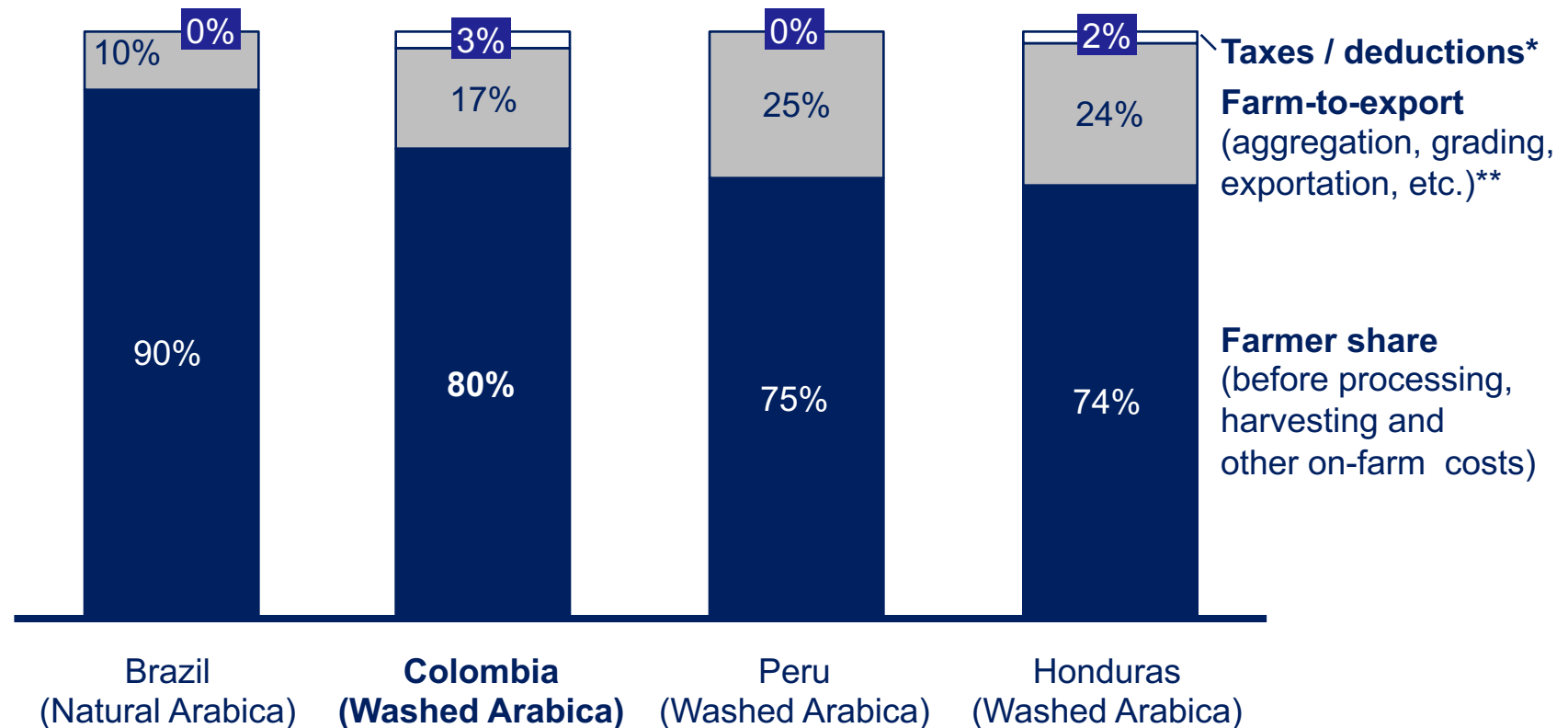
\* Normalized to 2012/13 average commodity prices – Arabica ICE “C” of \$1.50 but adjusted for market differentials

\*\* Includes farm tools, equipment, internal transport, etc.

Source: Stakeholder interviews, TechnoServe analysis

# Colombia's farm-to-export chain is efficient relative to regional peers (e.g., Peru, Honduras)

Efficiency levels of major Latin American coffee supply chains, 2012/13  
US\$ per pound green



\* Coffee contribution of US\$ 6 cents/lb in Colombia and US\$ 4.25 per 46-kg bag in Honduras (not considering 'retención' of US\$ 9 per 46 kg bag that is reimbursed to registered farmers after payment)

\*\* Calculated as difference between farm gate price and ICO price

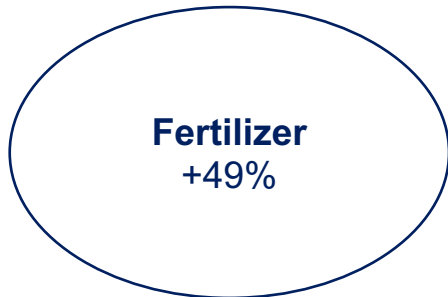
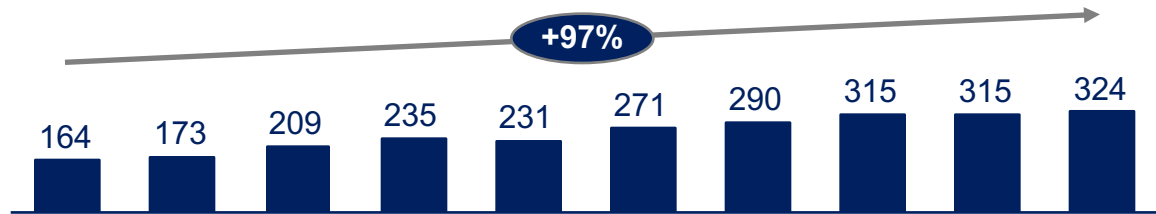
Source: trade statistics; TechnoServe analysis and interviews in Brazil, Colombia, Honduras and Peru

# Farming costs have risen rapidly

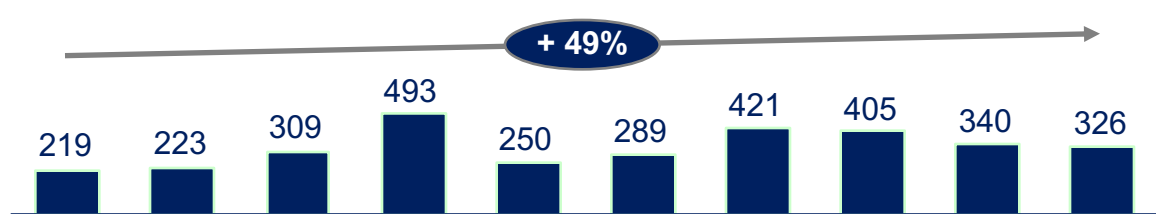
x% 2005-14 growth rate



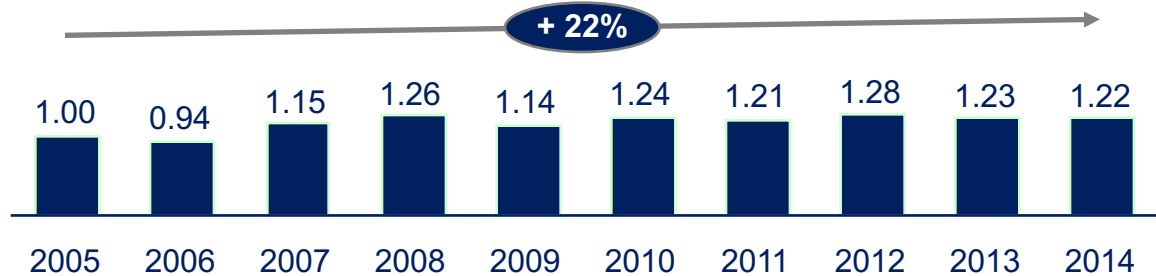
Minimum wage (US\$ per month)



Price of urea (US\$ per ton)\*



Colombian peso relative to US dollar, indexed (2005=100)\*\*



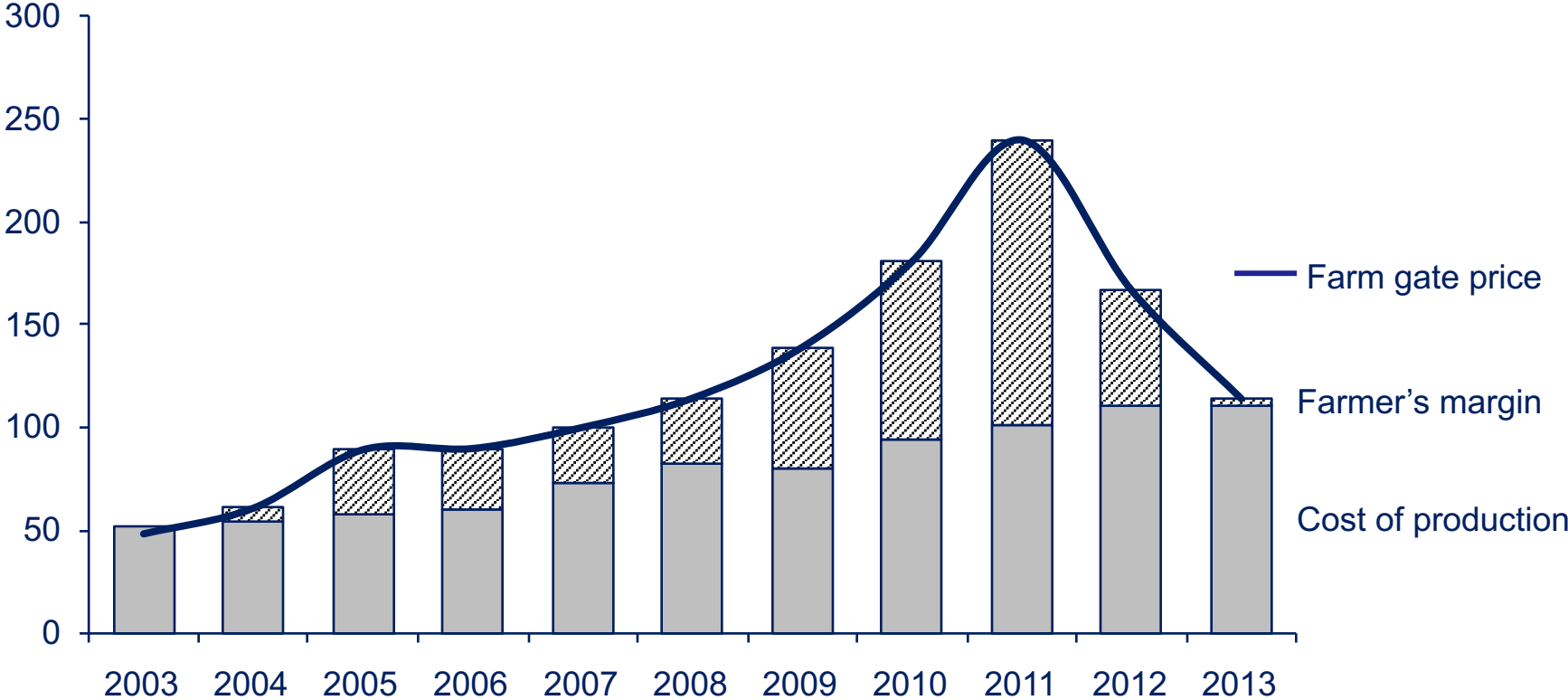
\* Average sales price of key importers; import taxes on fertilizers higher in Colombia than in other coffee producing countries

\*\* Rise is appreciation of the Colombian peso relative to the US dollar

Source: Ministerio de la Protección Social (minimum wage); indexmundi.com (urea price); xe.com (exchange rate)

# Farmers' margins have eroded

**Colombia prices and production costs\***  
US cents per lb green



\* Cash production costs  
Source: ICO, FNC, TechnoServe analysis

# Colombia insights

1

**MAP**

- Approx. 500,000 mostly small-scale farmers
- Unique supply chain with mix of private, public and cooperative operators
- Government subsidy

2

**BREAKDOWN**

- Farmers earn 80% of export price
- Farmers' margins shrinking due to rising cost base

3

**BENCHMARK**

- ???

# Potential ways forward

## Exit

- Shift away from coffee farming and move into other economic activities that provide better income prospects
- In particular, in peri-urban areas and in places most vulnerable to climate change

## Diversify

- Diversification into additional crops that provide income and decrease dependency on coffee prices
- In particular, in lower altitudes that are more susceptible to disease and climate change

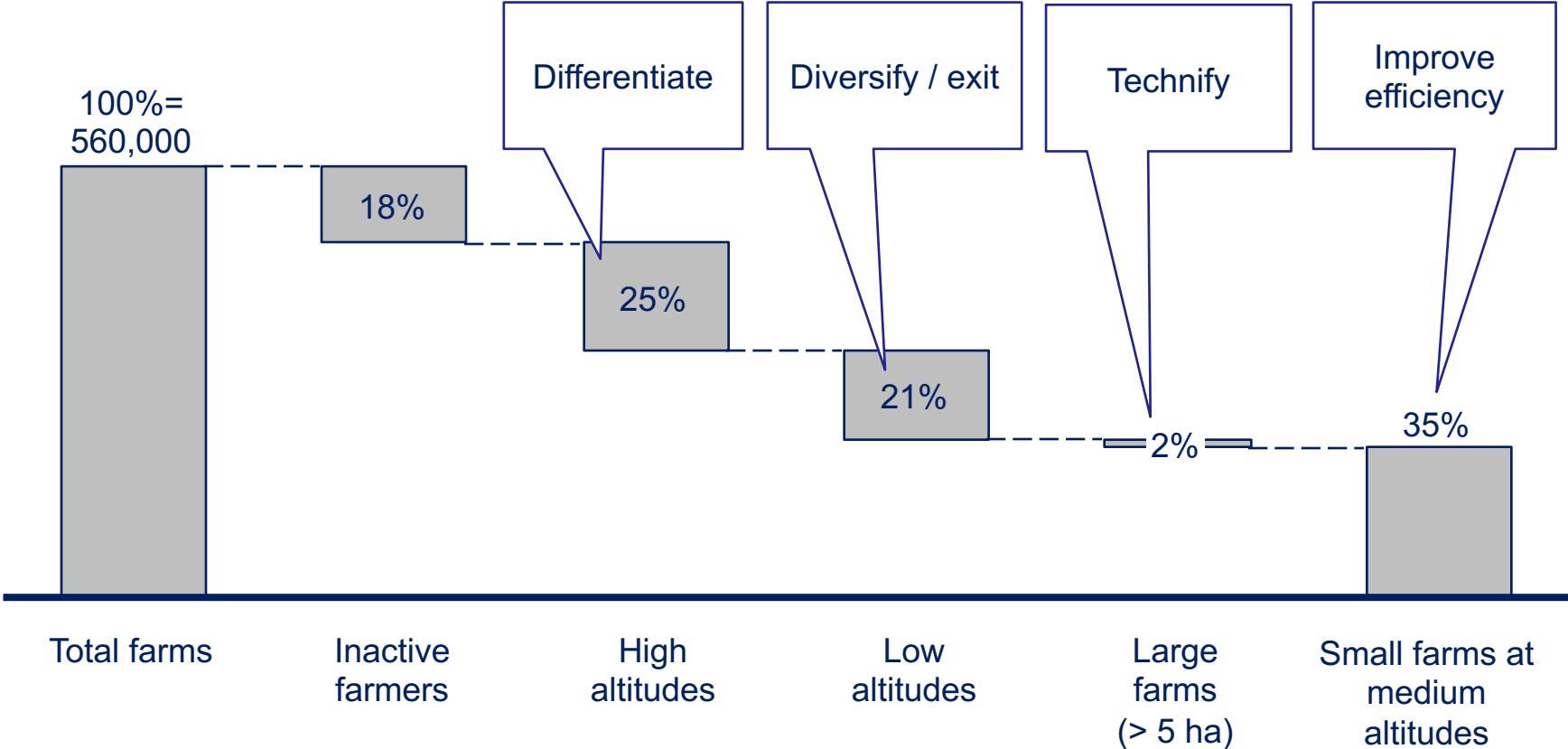
## Differentiate

- Focus on specialty coffee and implement activities to improve quality in order to achieve higher margins
- In particular for farmers at higher altitudes or with traditional varieties

## Improve efficiency

- Decrease cost of production in order to improve efficiency and gain higher profit margin

# Different strategies for different producer types



# Headlines today

**“Hit by a price crash, Colombia wants to break its coffee free from NYSE”**

“The government has announced some drastic measures to help, including the revision of debts, potential refinancing, support to purchase fertilizers and the renovation of coffee plantations, while also reactivating a subsidies fund.”

Read more: <http://www.digitaljournal.com/news/world/hit-by-a-price-crash-colombia-wants-to-break-its-coffee-free-from-nyse/article/544648#ixzz5jviEklpO>

# Plan for tomorrow

## Today

- The Value Chain Framework
- Global coffee value chain
- Break
- Case: Vietnam coffee
- Case: Colombia coffee

## Thursday

- Case: Ethiopia coffee
- Practical aspects / Q&A

# Homework

## **Background reading:**

“What is in a Bean? ECX and the Specialty Coffee Market”

## **Excel:**

Complete the ‘worksheet’ tab using the data in the preceding sheets

## **Questions to think about:**

1. Which problems in Ethiopia’s coffee value chain is ECX seeking to address?
2. How have Ethiopia's coffee export revenues changed since 2008?
3. What do the data suggest is the primary reason for the change?
4. How did the premium for Ethiopia's 'washed' coffee change over this period?
5. What share of the export price is the farmer capturing (as of 2010/11)?
6. Suppose you are interviewing an expert about the 2007/08 crop. The expert tells you that farmers received an average price of 4 birr per kg cherry for washed coffee and 3.3 birr per kg cherry for unwashed coffee that year (and the exchange rate was ~9 birr to the dollar). How would you interpret those prices? What share of the export price (for that harvest) does this represent?  
(Hint: the conversion ratio between ‘cherry’ and ‘green’ (exportable) coffee is 6 units to 1.)



COLUMBIA | SIPA

School of International and Public Affairs

## Value Chain Analysis – Day 2

Guest lecture by Carl Cervone

April 4, 2019

# Plan for today

## Tuesday

- The Value Chain Framework
- Global coffee value chain
- Break
- Case: Vietnam coffee
- Case: Colombia coffee

## Today

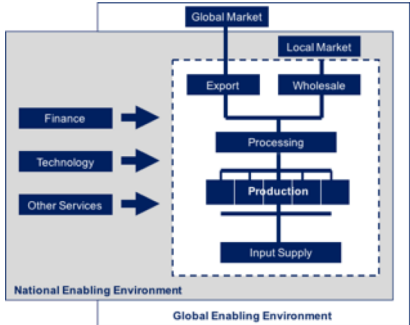
- **Case: Ethiopia coffee**
- Practical aspects / Q&A

# Review of value chain analysis steps

1

**MAP**

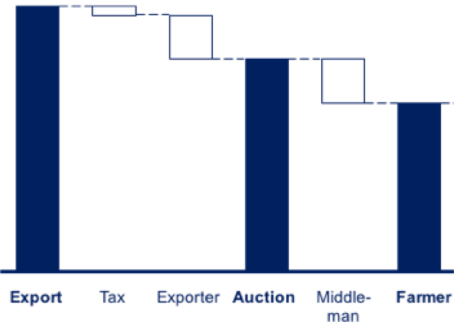
who the relevant actors are, what they do, how they relate to each other



2

**BREAKDOWN**

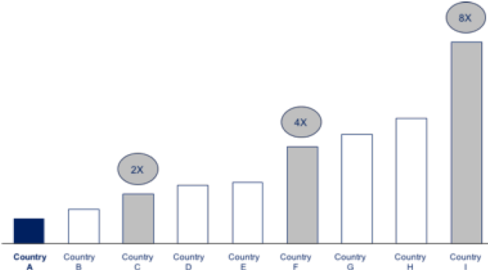
costs and revenues for each actor, how value flows through the chain



3

**BENCHMARK**

performance of the value chain against peer countries or sectors



# Review of global coffee value chain

1

**MAP**

- Diverse supply base: 20+ countries, 12.5 million farms, varying levels of sophistication
- Volatile export market

2

**BREAKDOWN**

- Prices set internationally; costs are local
- Labor costs and efficiency levels vary considerably by country

3

**BENCHMARK**

- Low cost countries (Brazil and Vietnam) increasing production
- High cost countries getting squeezed

# Review of global coffee value chain



**Cherry**



**Parchment**

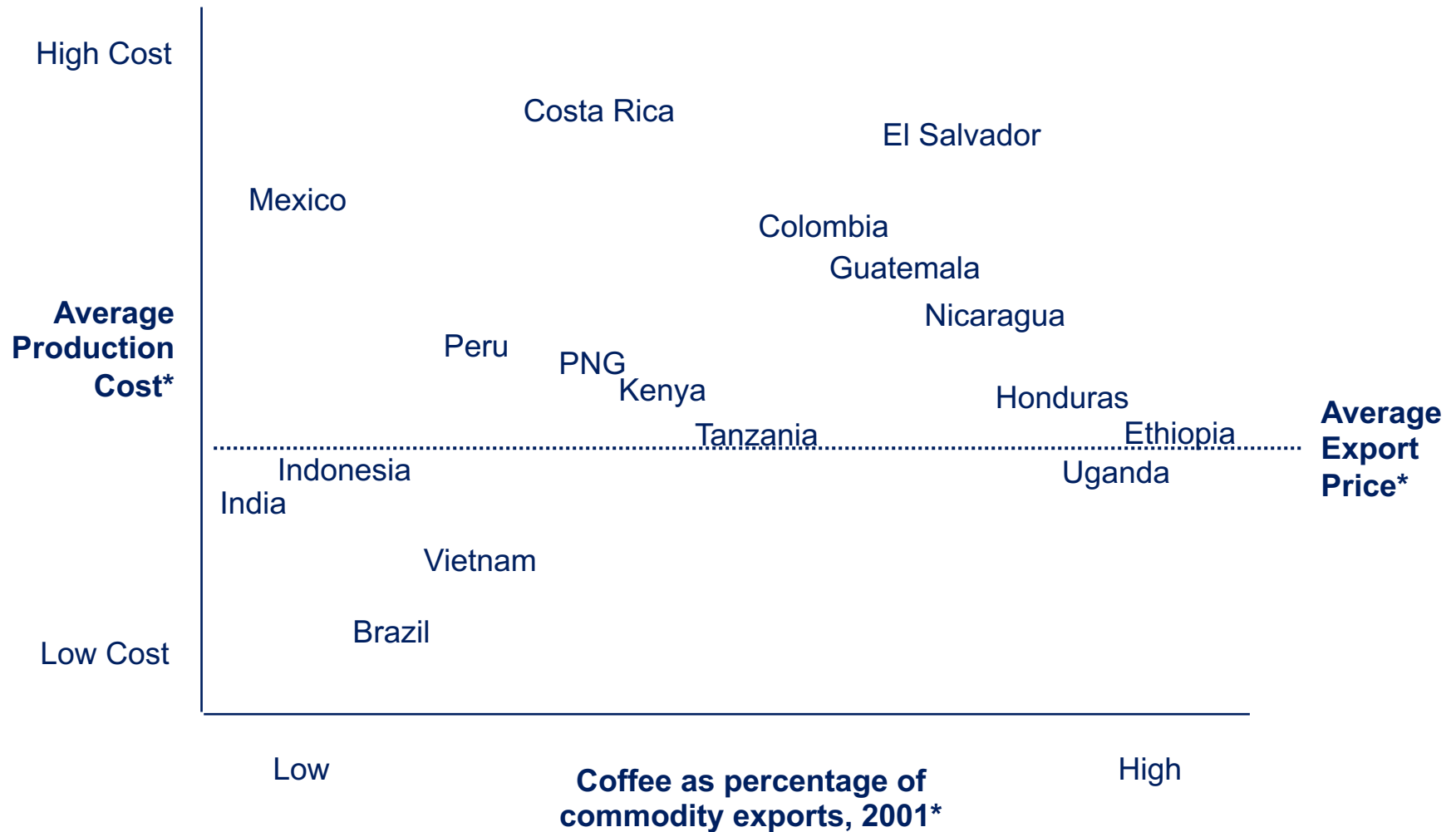


**Green**



**Roasted**

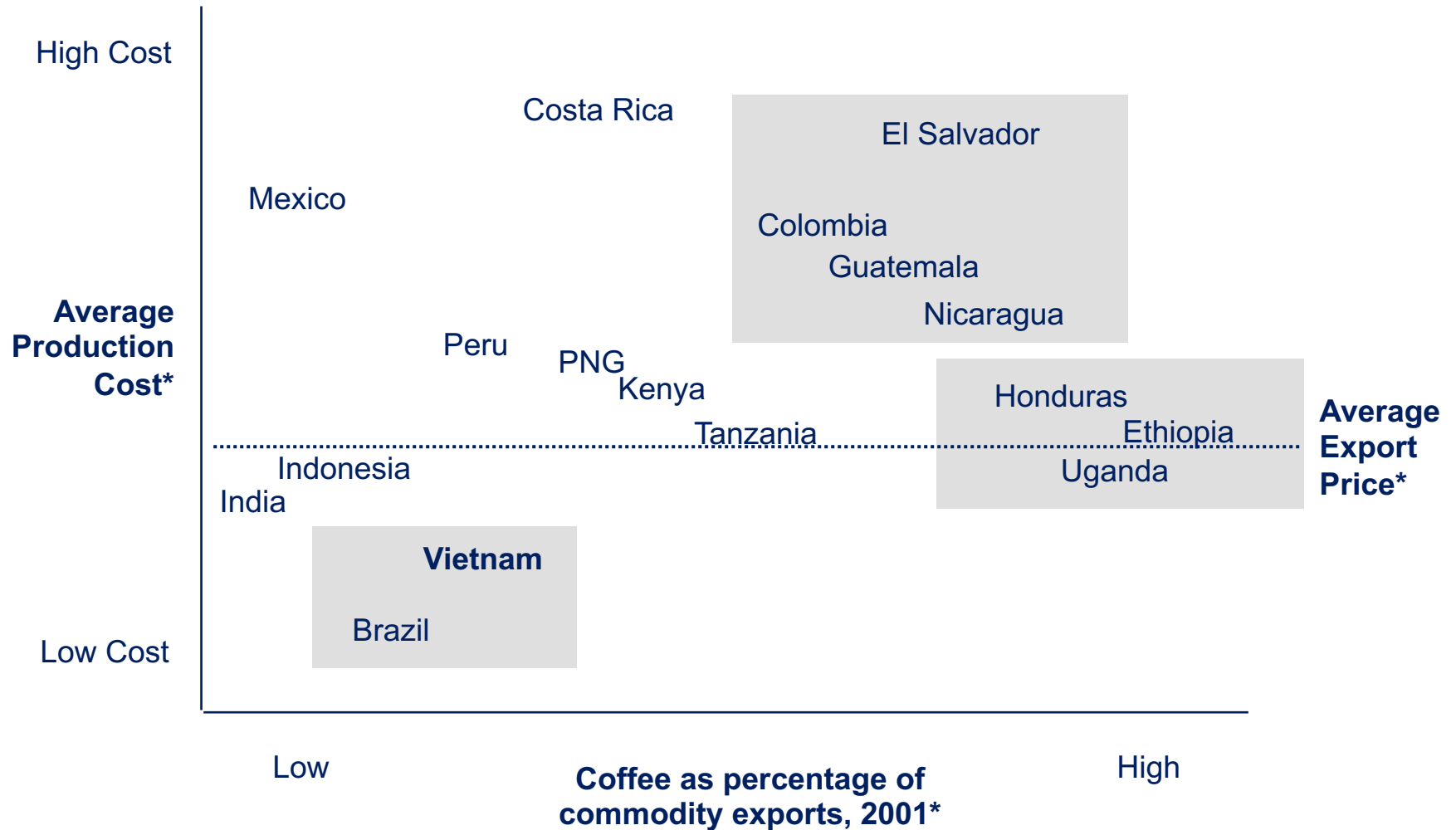
# What happened after the “coffee crisis” of 2001-3?



\* Cost positions are adjusted to reflect the relative prices differentials received by specific countries

Source: USDA; ICO Coffee Statistics, Sept 2002; Compete Coffee Coverage; TechnoServe; Economist Intelligence Unit; team analysis

# Vietnam: what happened next?



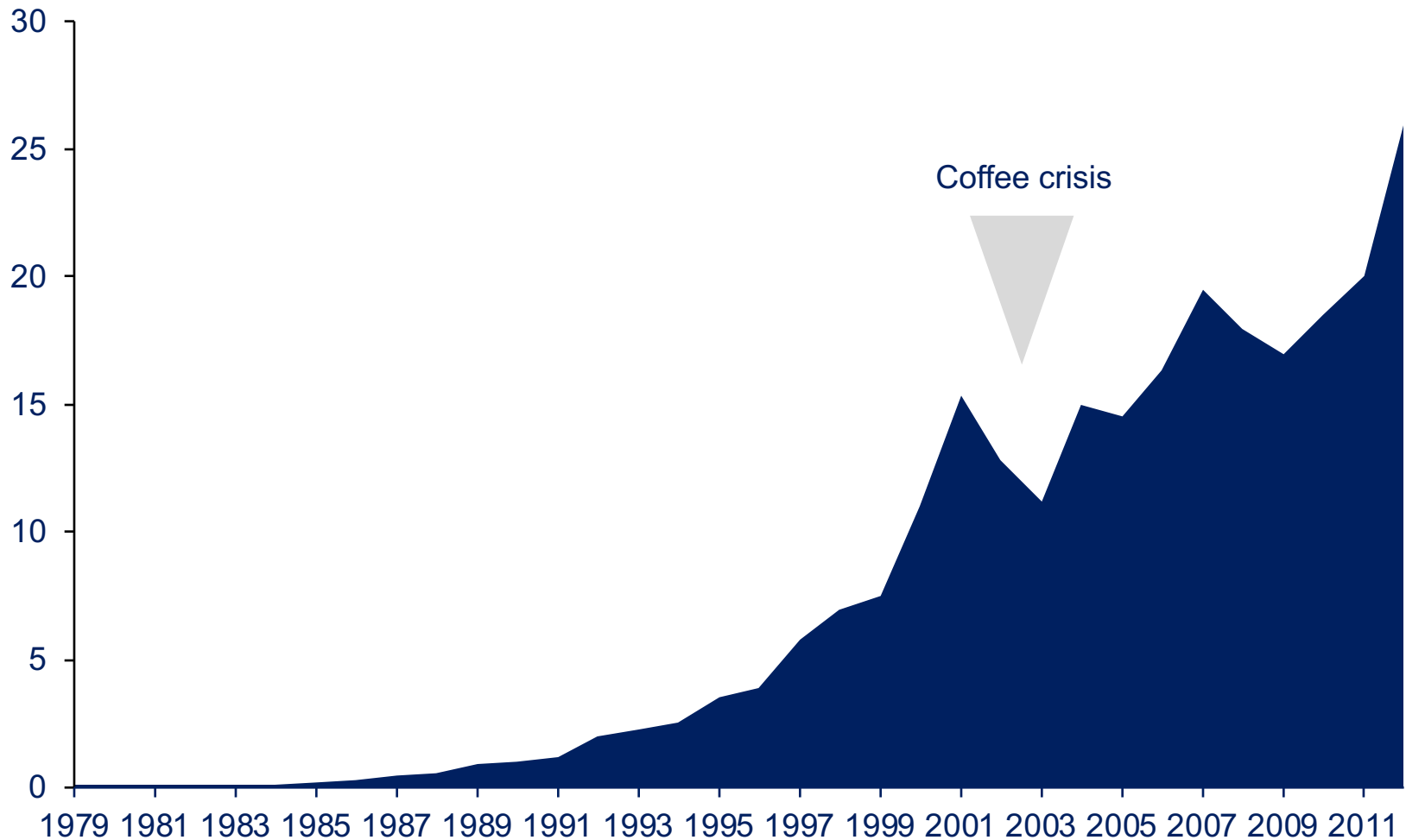
\* Cost positions are adjusted to reflect the relative prices differentials received by specific countries

Source: USDA; ICO Coffee Statistics, Sept 2002; Compete Coffee Coverage; TechnoServe; Economist Intelligence Unit; team analysis

# 10 years later: production doubles

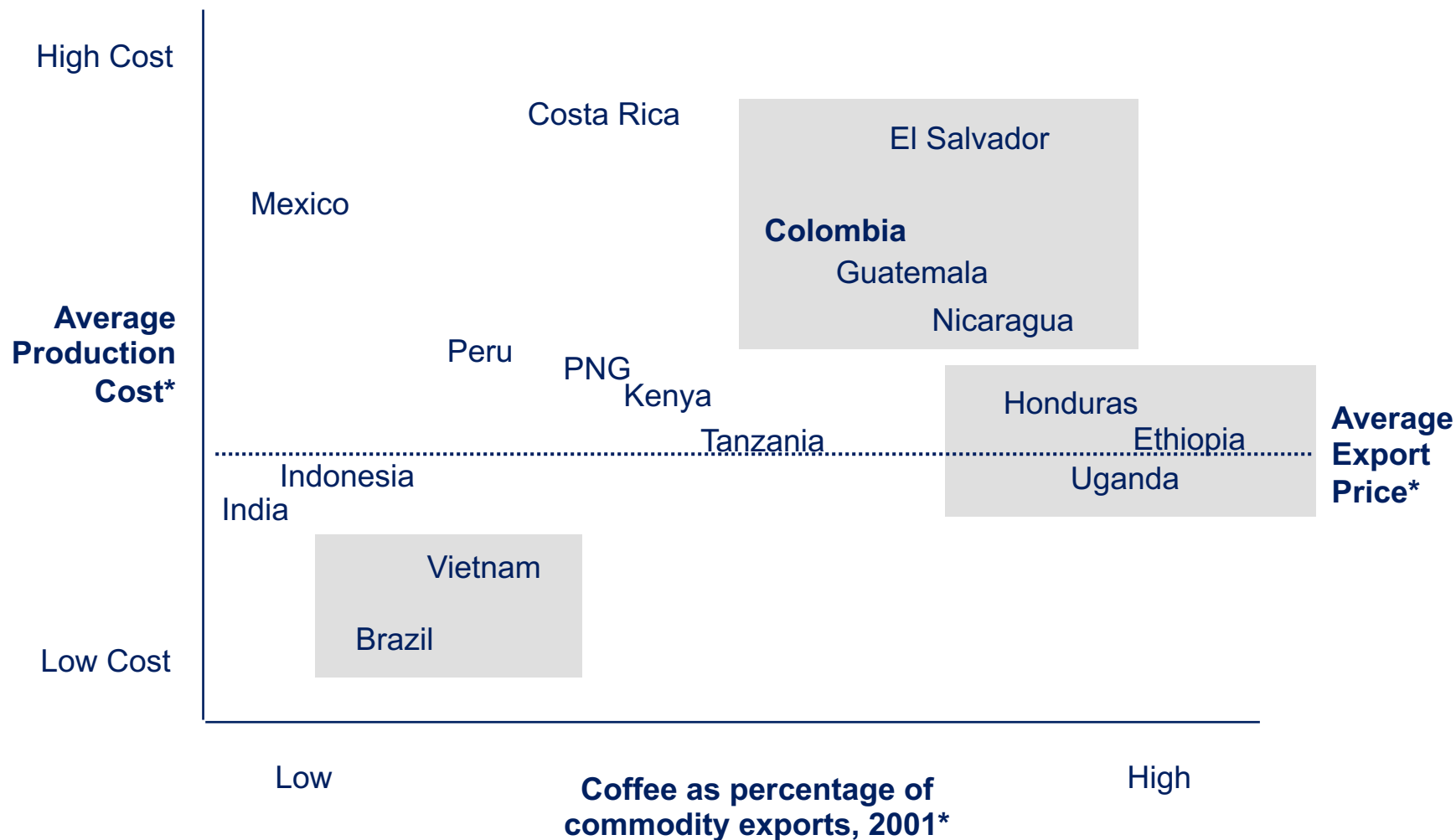
## Vietnam coffee production

Bags (60-kg), millions





# Colombia: at a cross roads

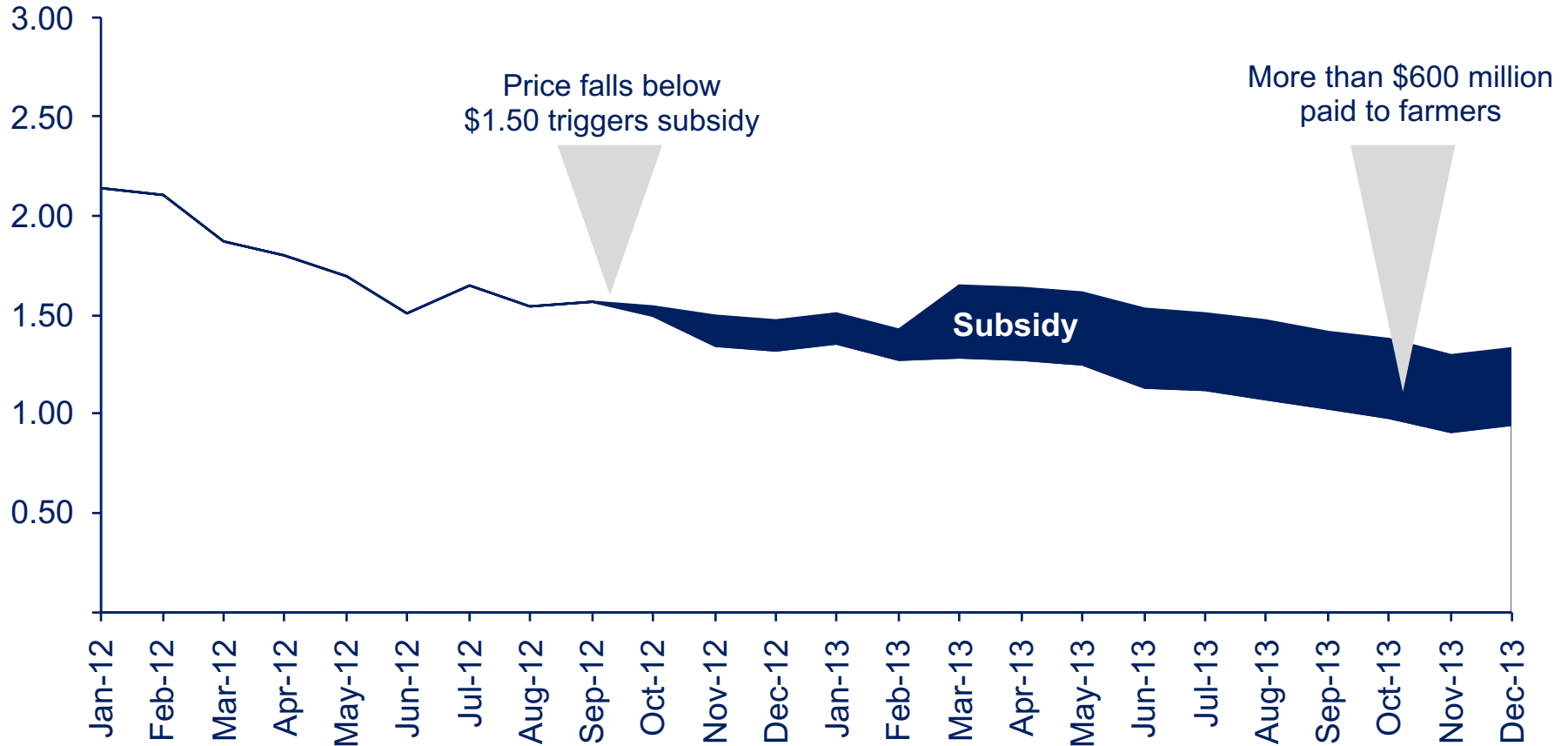


\* Cost positions are adjusted to reflect the relative prices differentials received by specific countries

Source: USDA; ICO Coffee Statistics, Sept 2002; Compete Coffee Coverage; TechnoServe; Economist Intelligence Unit; team analysis

# 10 years later: \$600 million subsidy to farmers

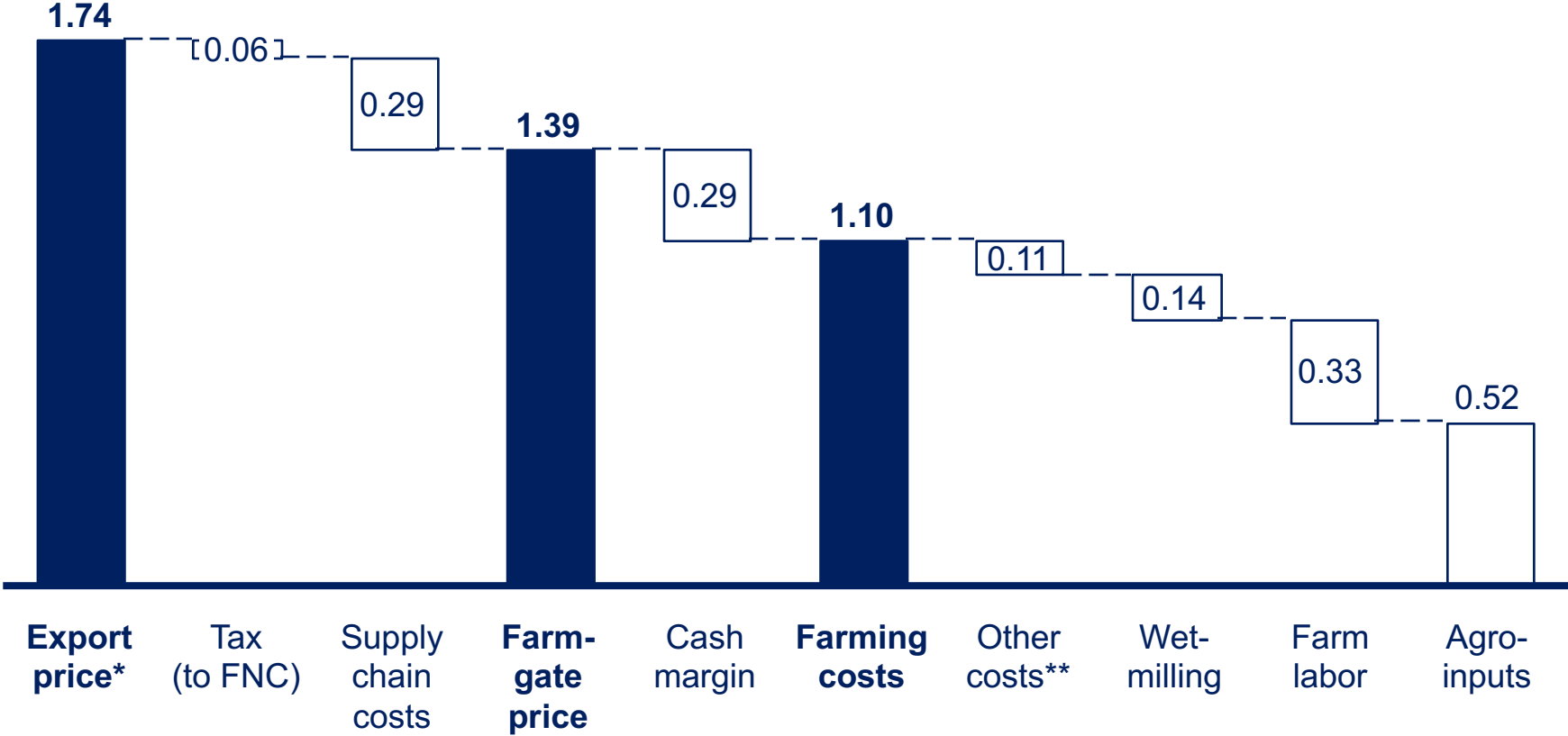
**Colombia average farm-gate price**  
US\$ per lb green



\*At current exchange rate; subsidy paid if internal base price is below COP 700,000; sum of income from coffee sale and subsidy cannot exceed COP 700,000; subsidy of COP 165,000 paid if price is below COP 480,000; otherwise payment of up to COP 145,000; between Oct 2012 and March 2013 producers received COP 20,000 and later 60,000 per load if price was below 650,000  
Source: FNC, TechnoServe analysis

# Farmer earns 80% of the export price

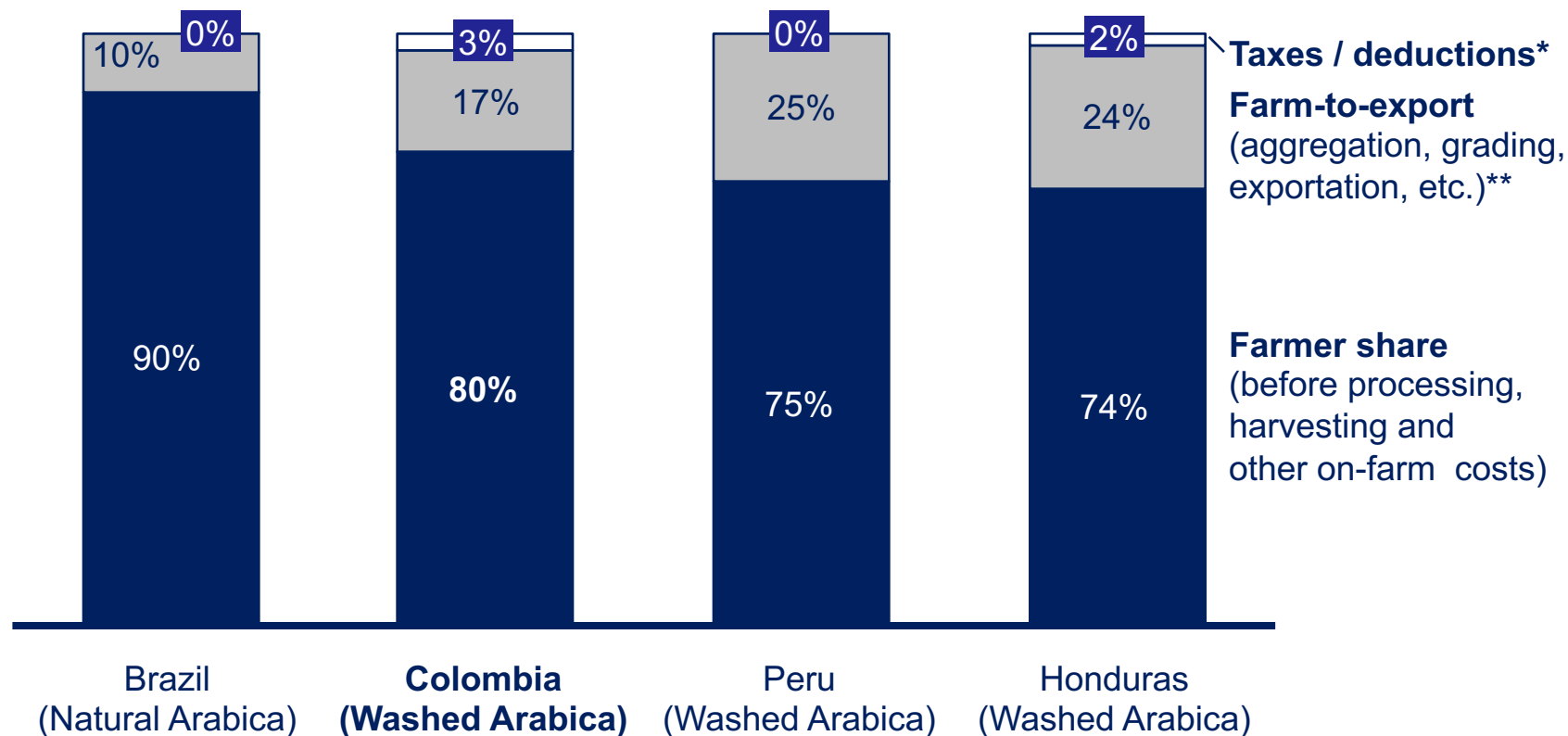
**Value chain analysis for average Colombian farm**  
 US\$ per lb green



Note: Cost of production does not include costs for installation of wet milling equipment, tree renovation or financing  
 \* Normalized to 2012/13 average commodity prices – Arabica ICE “C” of \$1.50 but adjusted for market differentials  
 \*\* Includes farm tools, equipment, internal transport, etc.  
 Source: Stakeholder interviews, TechnoServe analysis

# Colombia's farm-to-export chain is efficient relative to regional peers (e.g., Peru, Honduras)

Efficiency levels of major Latin American coffee supply chains, 2012/13  
US\$ per pound green



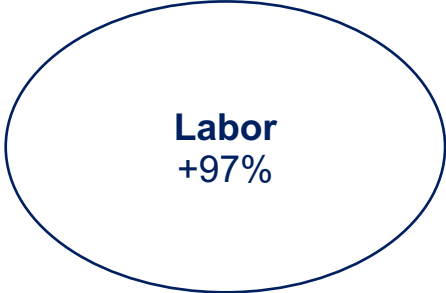
\* Coffee contribution of US\$ 6 cents/lb in Colombia and US\$ 4.25 per 46-kg bag in Honduras (not considering 'retención' of US\$ 9 per 46 kg bag that is reimbursed to registered farmers after payment)

\*\* Calculated as difference between farm gate price and ICO price

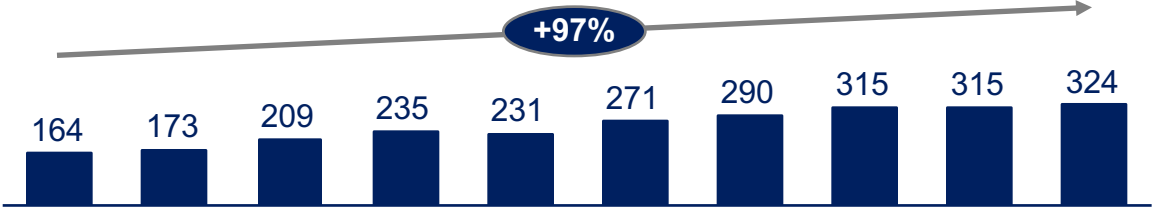
Source: trade statistics; TechnoServe analysis and interviews in Brazil, Colombia, Honduras and Peru

# Farming costs have risen rapidly

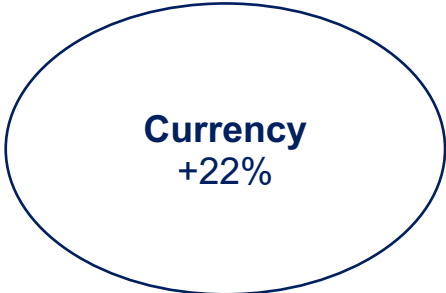
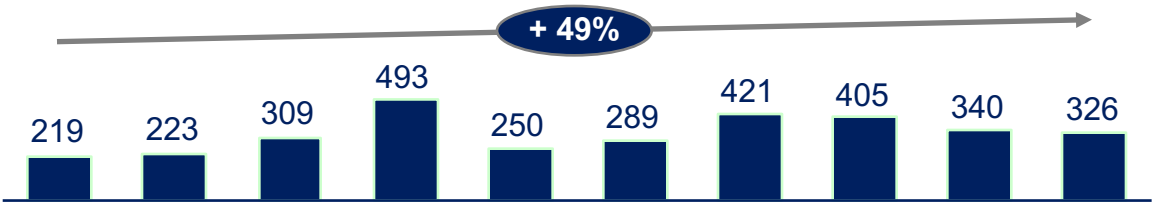
x% 2005-14 growth rate



Minimum wage (US\$ per month)



Price of urea (US\$ per ton)\*



Colombian peso relative to US dollar, indexed (2005=100)\*\*



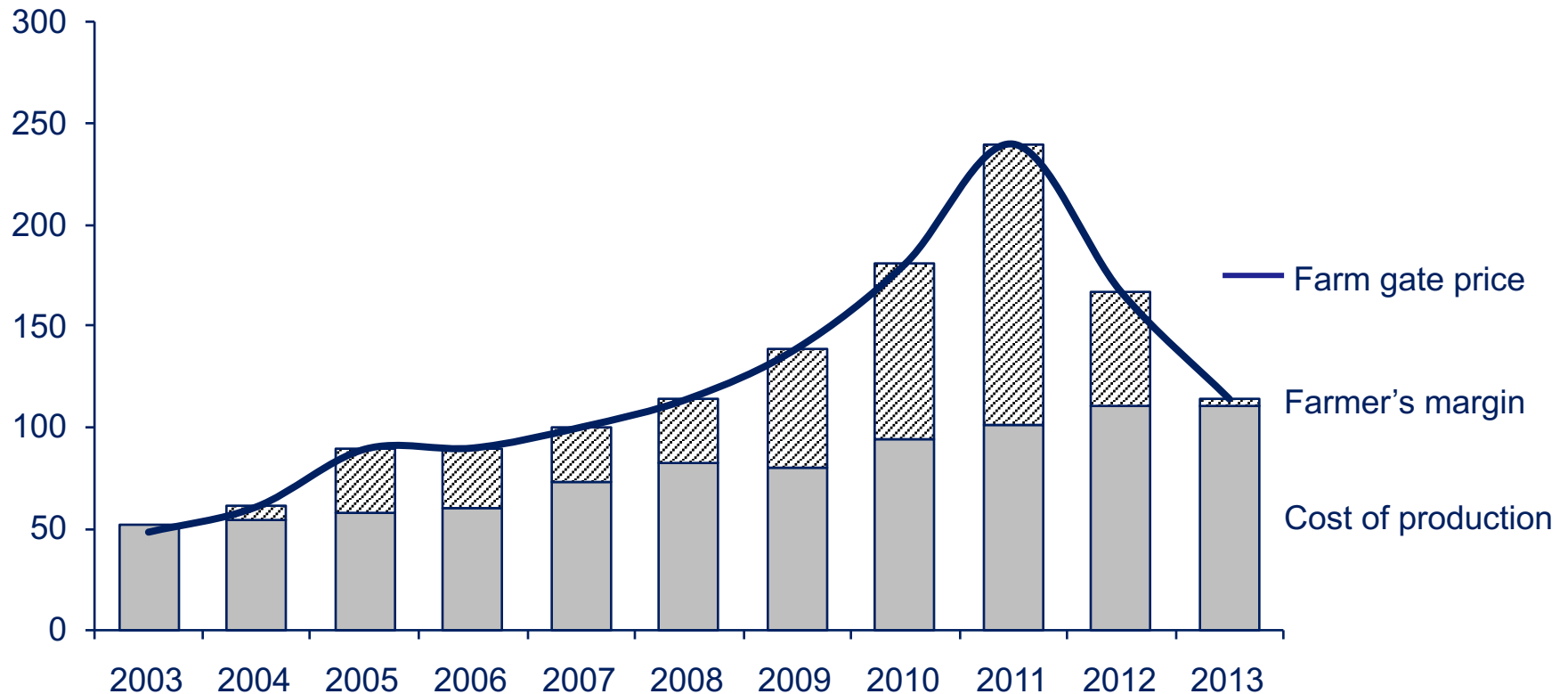
\* Average sales price of key importers; import taxes on fertilizers higher in Colombia than in other coffee producing countries

\*\* Rise is appreciation of the Colombian peso relative to the US dollar

Source: Ministerio de la Protección Social (minimum wage); indexmundi.com (urea price); xe.com (exchange rate)

# Farmers' margins have eroded

**Colombia prices and production costs\***  
US cents per lb green



\* Cash production costs  
Source: ICO, FNC, TechnoServe analysis

# Colombia insights

1

**MAP**

- Approx. 500,000 mostly small-scale farmers
- Unique supply chain with mix of private, public and cooperative operators
- Government subsidy

2

**BREAKDOWN**

- Farmers earn 80% of export price
- Farmers' margins shrinking due to rising cost base

3

**BENCHMARK**

- ???

# Potential ways forward

## Exit

- Shift away from coffee farming and move into other economic activities that provide better income prospects
- In particular, in peri-urban areas and in places most vulnerable to climate change

## Diversify

- Diversification into additional crops that provide income and decrease dependency on coffee prices
- In particular, in lower altitudes that are more susceptible to disease and climate change

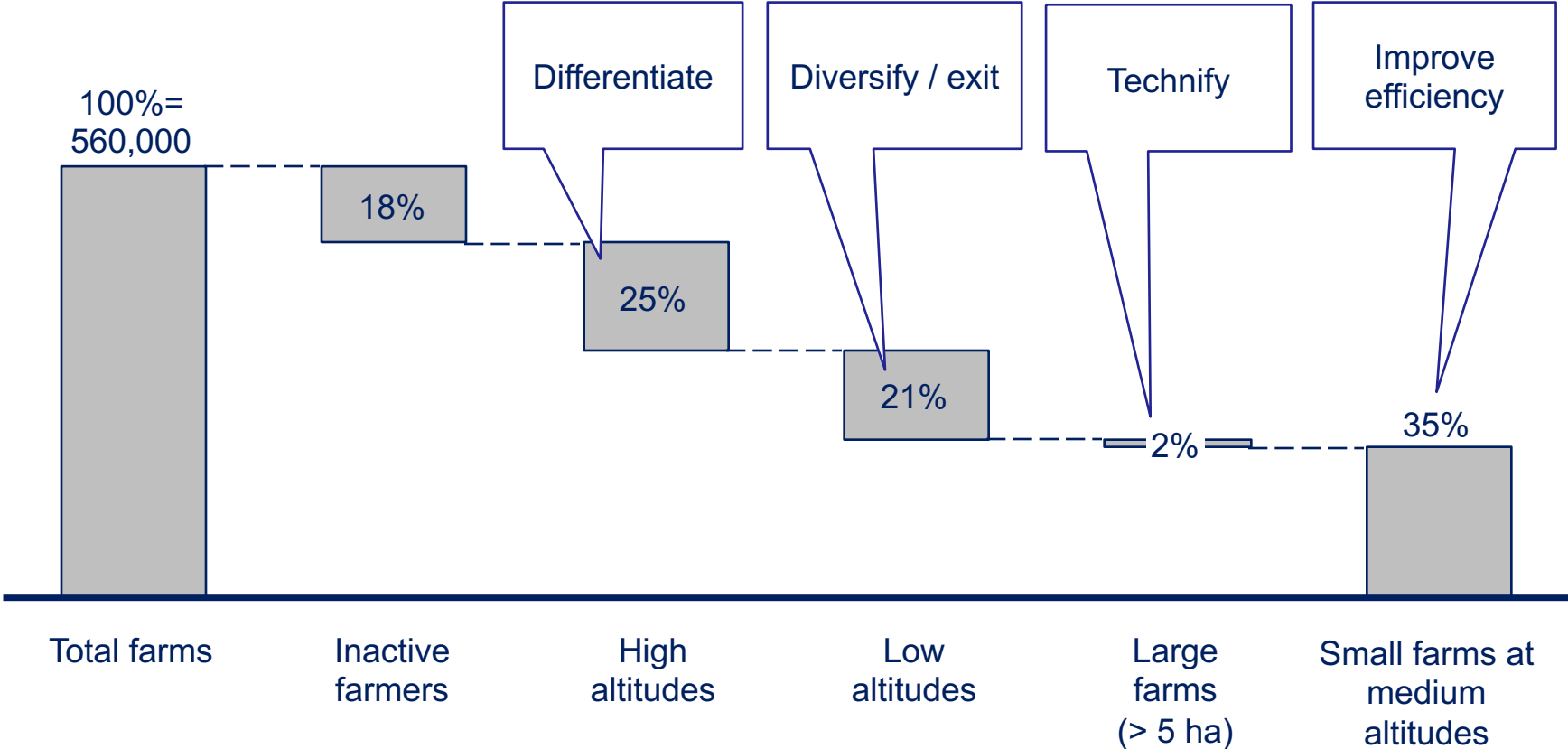
## Differentiate

- Focus on specialty coffee and implement activities to improve quality in order to achieve higher margins
- In particular for farmers at higher altitudes or with traditional varieties

## Improve efficiency

- Decrease cost of production in order to improve efficiency and gain higher profit margin

# Different strategies for different producer types



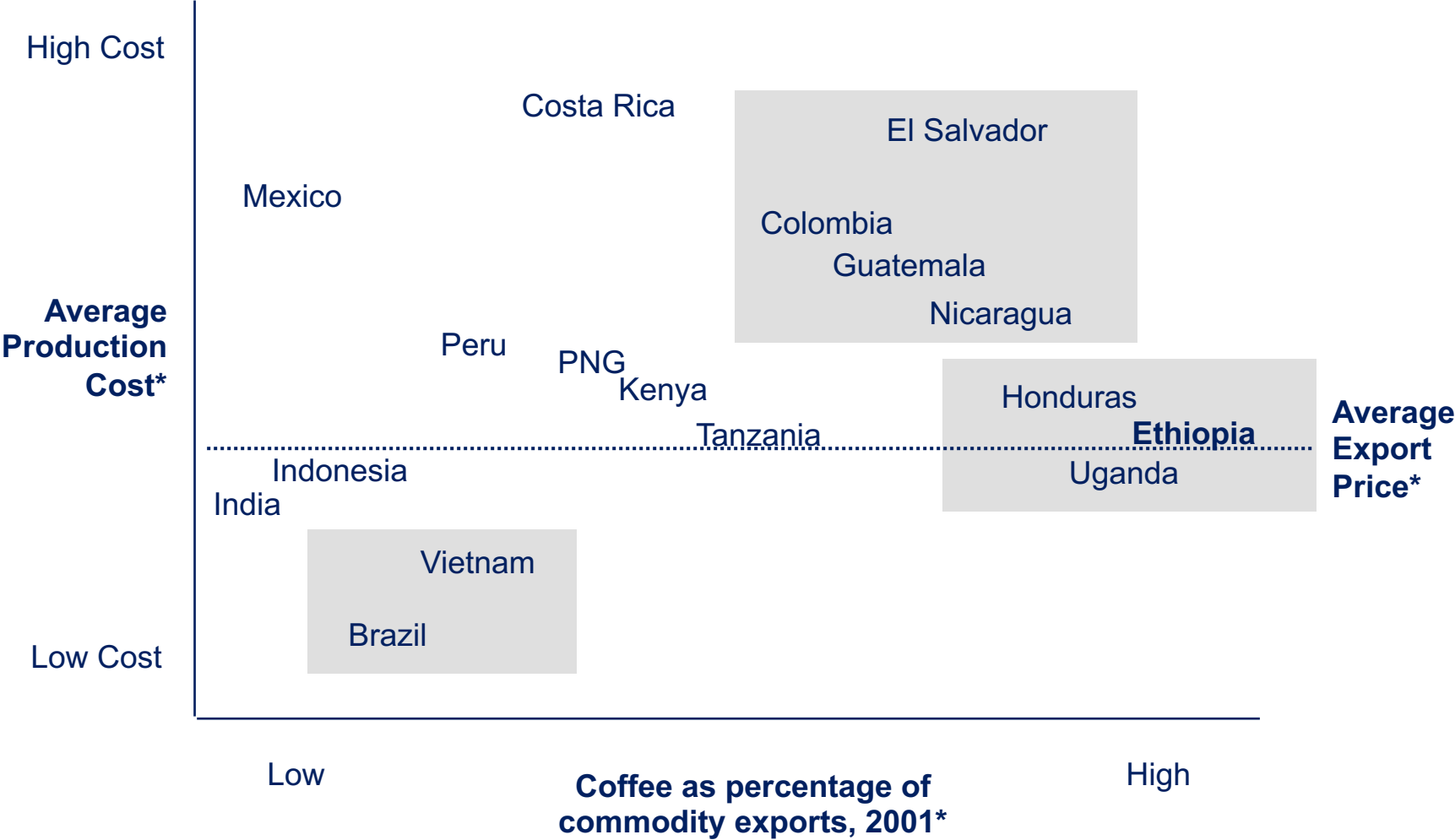
# Headlines today

**“Hit by a price crash, Colombia wants to break its coffee free from NYSE”**

“The government has announced some drastic measures to help, including the revision of debts, potential refinancing, support to purchase fertilizers and the renovation of coffee plantations, while also reactivating a subsidies fund.”

Read more: <http://www.digitaljournal.com/news/world/hit-by-a-price-crash-colombia-wants-to-break-its-coffee-free-from-nyse/article/544648#ixzz5jviEklpO>

# Ethiopia



\* Cost positions are adjusted to reflect the relative prices differentials received by specific countries

Source: USDA; ICO Coffee Statistics, Sept 2002; Compete Coffee Coverage; TechnoServe; Economist Intelligence Unit; team analysis

# Ethiopia coffee value chain map (export)

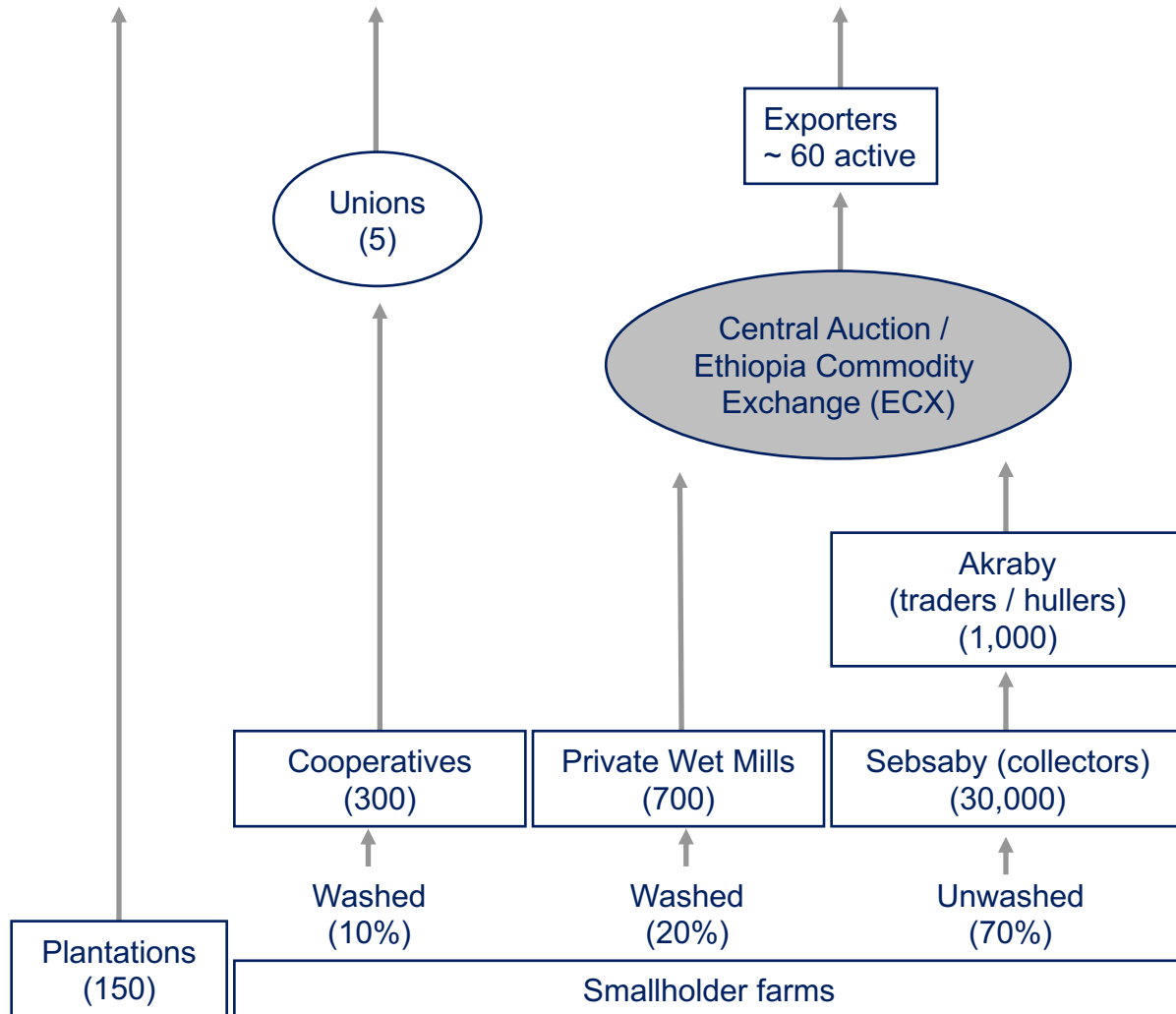
## Government

Coffee and Tea Authority (Government institution)

Ethiopia Commodity Exchange (ECX)

Jimma Agricultural Research Center (JARC)

## Coffee value chain



## Service providers

Banks

Equipment suppliers

Certifiers

## Stakeholder orgs.

Ethiopia Coffee Exporters Association (ECEA)

Ethiopia Coffee Growers, Producers & Exporters Association (ECGPEA)

# Two distinct value chains

## Unwashed (naturals, sundried)



- Coffee is dried and hulled locally
- Labor intensive (for farmer)
- Inconsistent quality – low price
- Low margin / high risk business
- Can be stored as savings

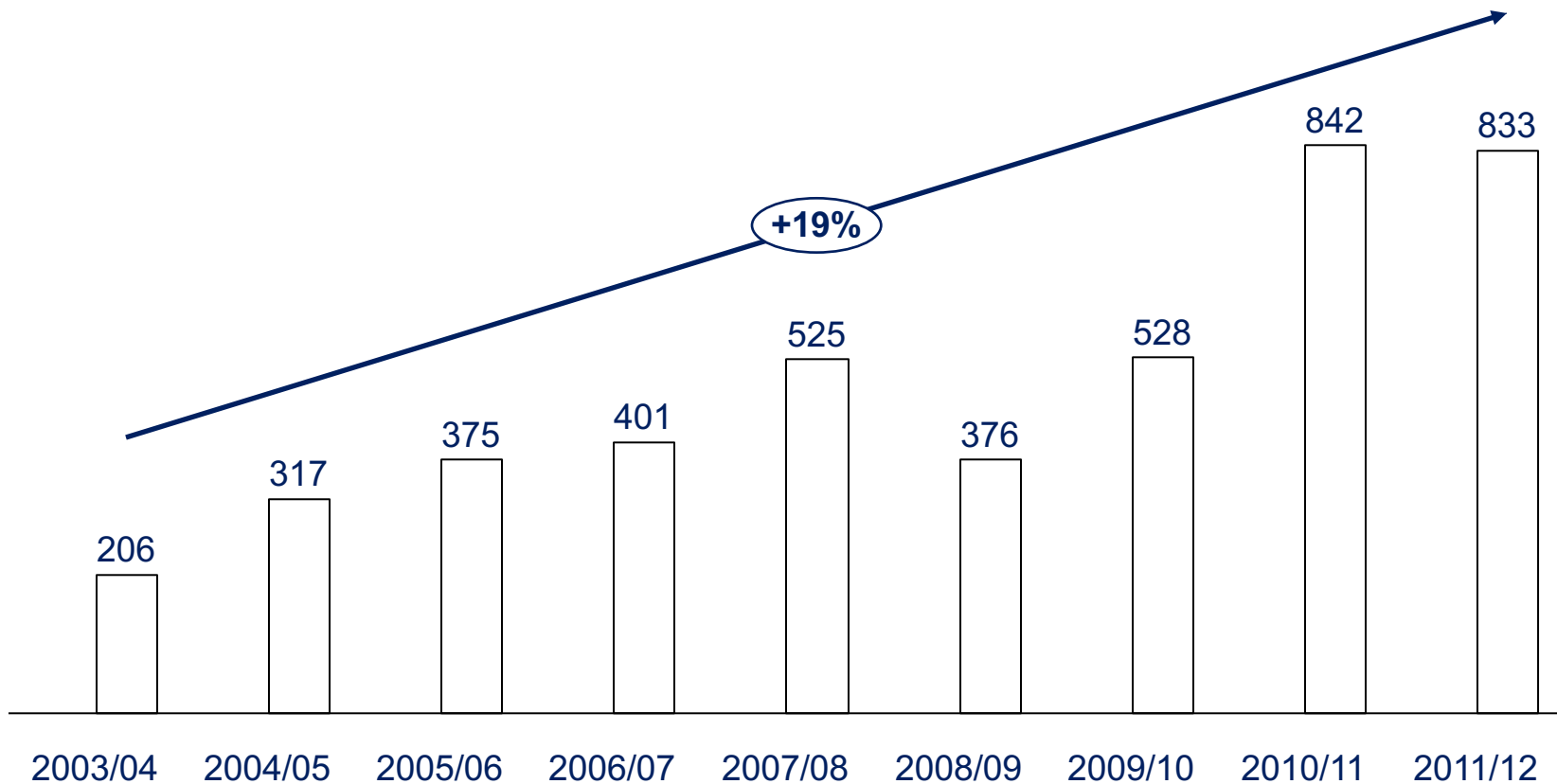
## Washed



- Farmers deliver ripe cherry to wet mill
- Wet mill processes into parchment
- Exported at a premium
- Large demand from specialty industry, as well as major roasters

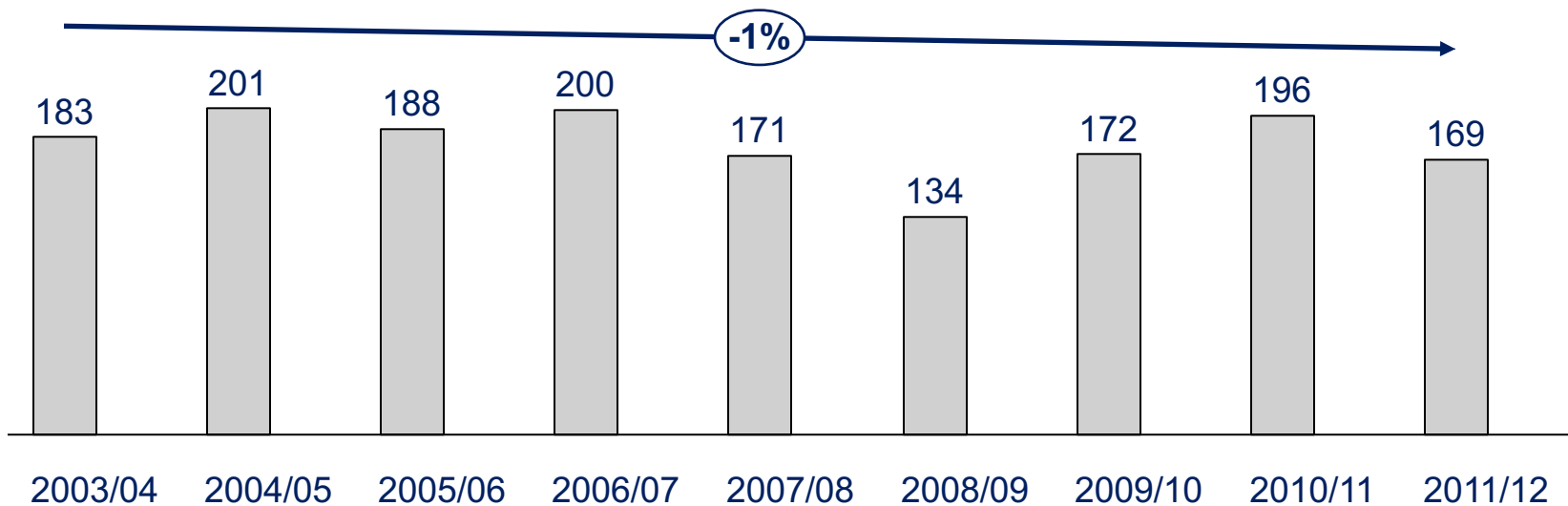
# The value of Ethiopia's coffee exports quadrupled between 2003/04 and 2011/12

Value of Ethiopia coffee exports (US\$ millions)



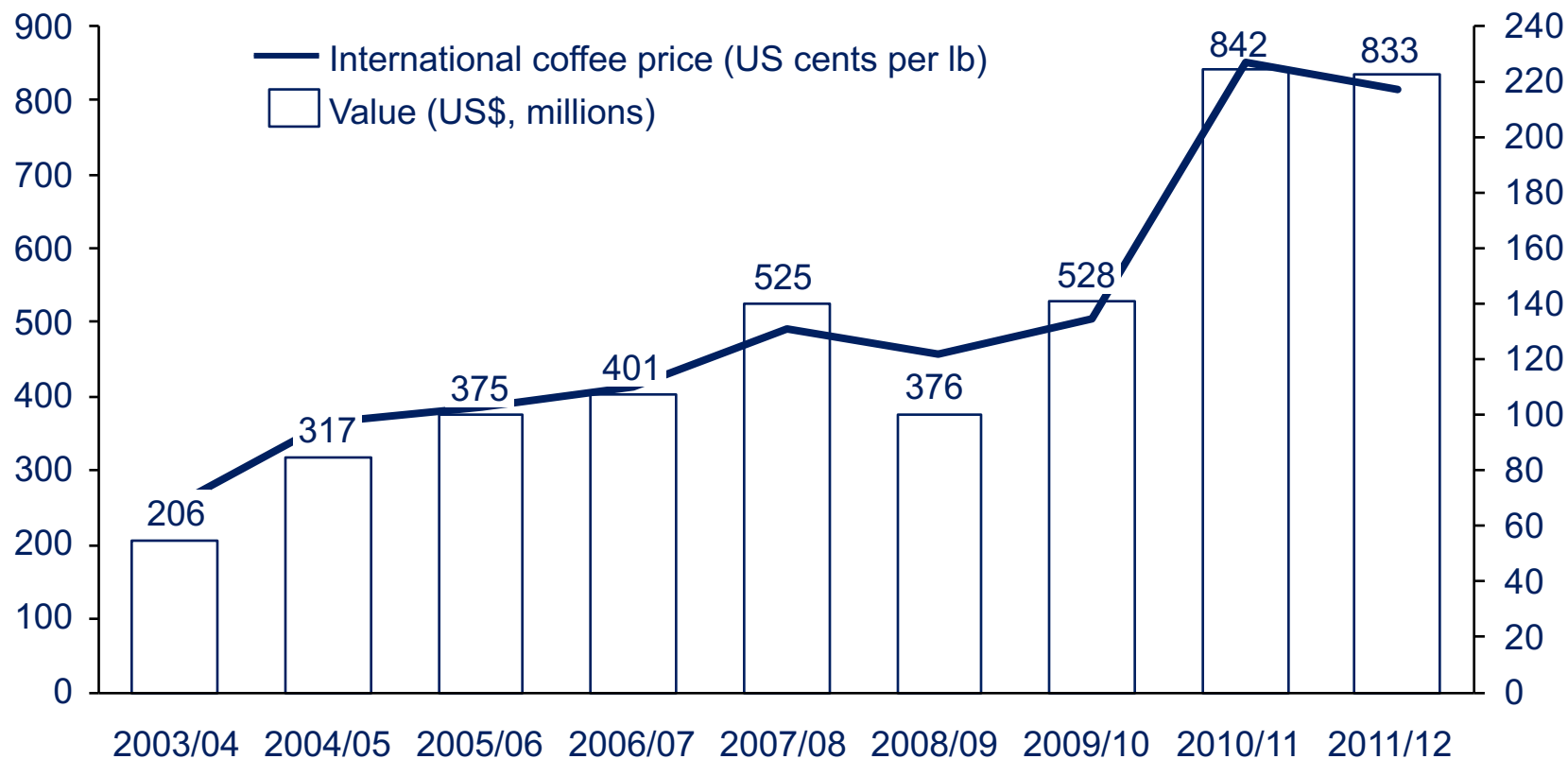
# However, export volumes stayed flat

Volume of Ethiopia coffee exports (tons, thousands)



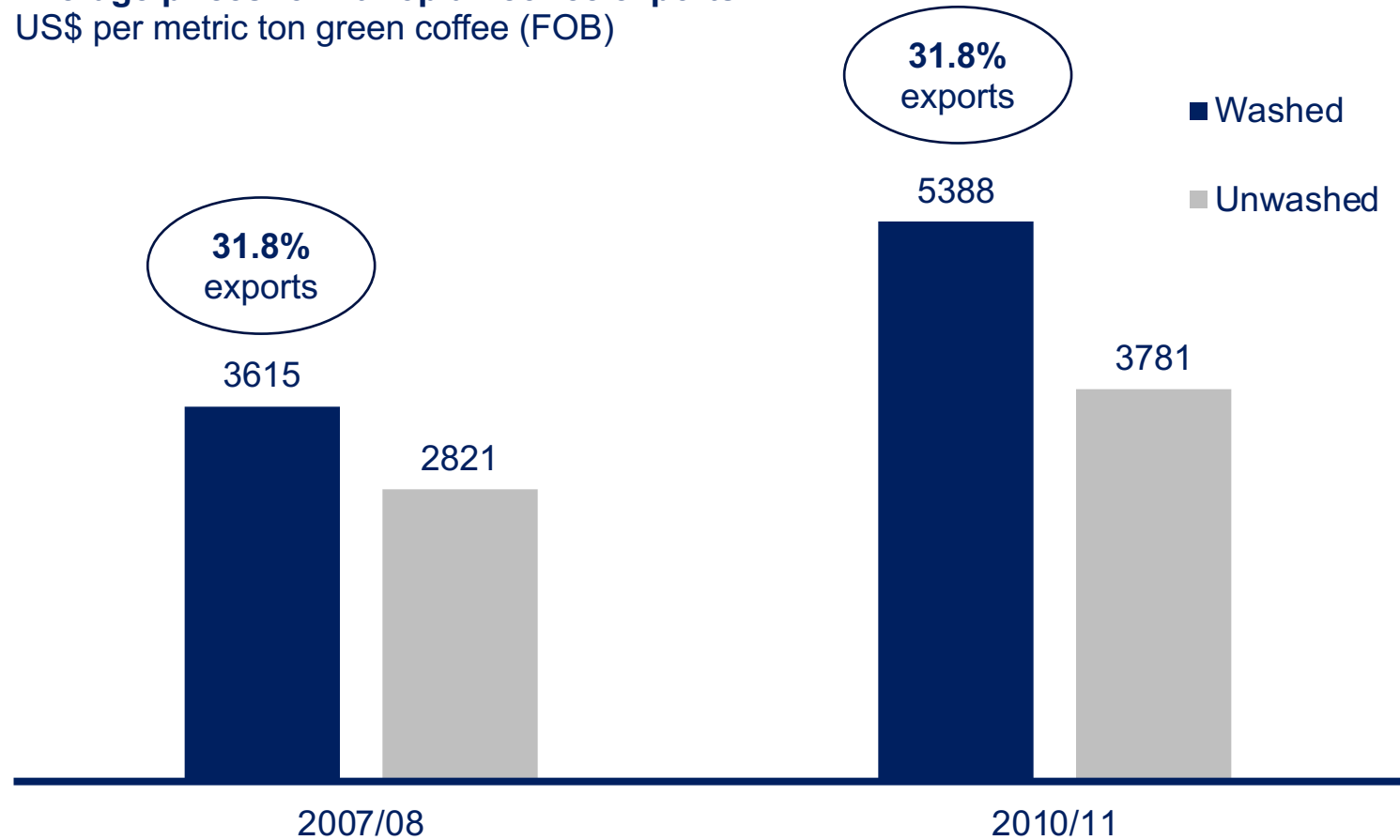
# Growth in export revenues resulted from rising prices

Value of Ethiopia coffee exports (US\$ millions)



# Washed coffee earns a premium over unwashed

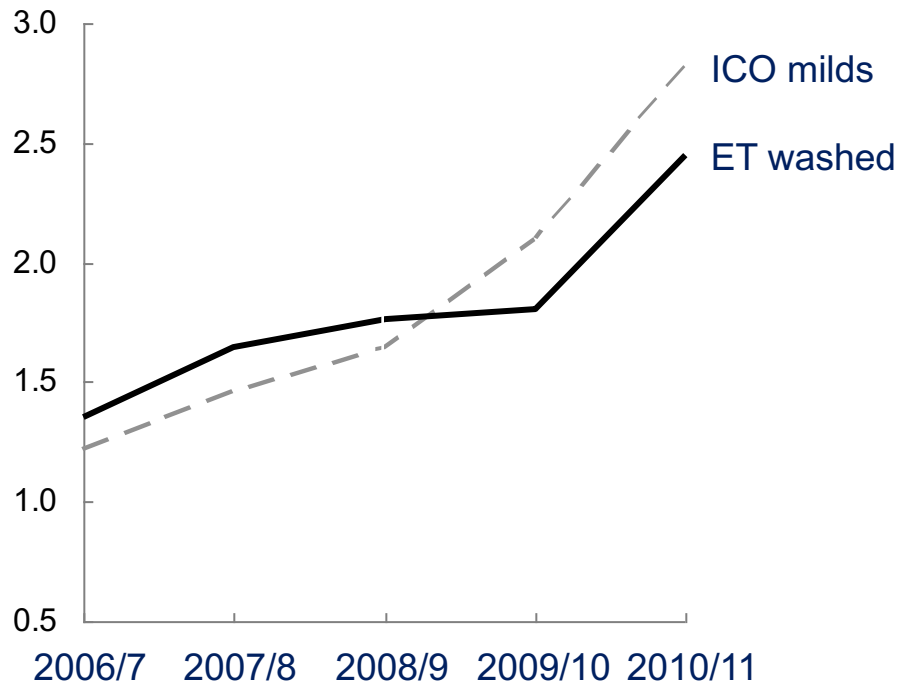
**Average prices for Ethiopian coffee exports**  
US\$ per metric ton green coffee (FOB)



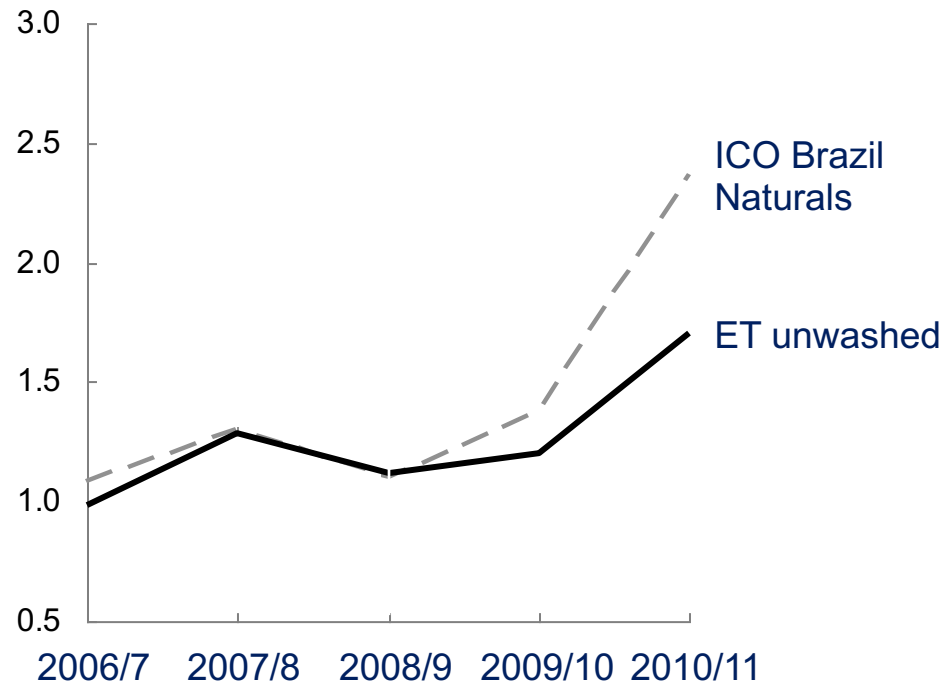
# Export differentials dropped after loss of traceability

**Ethiopia export prices vs ICO composite prices by crop year**  
US\$/lb green

## Washed comparison



## Unwashed comparison



# Market confirmed hypothesis of reduced demand

“Starbucks wants to buy an additional 2,000 tons, but only if it is traceable and identity preserved.”

“Lack of action in addressing the issue of traceability poses a real threat to Ethiopia. Once roasters have changed their blends – and believe me, they will if they cannot get hold of the coffee they want – then to get them back could take years and years....”

“Buyers need to do their own cupping to define quality, especially for specialty coffees.”

“Ethiopia is the only producing country in the world where buyers are not able to buy identity preserved lots and see the quality of the coffee before they buy it.”

“The buyer needs to be able to evaluate the coffee for himself. If he cannot, he will inevitably value the coffee at the “lowest common denominator” price according to what he might receive.”

“Coffee is not a commodity... Ethiopia has a lot of special, valuable coffee. Making it a commodity by standardizing and mixing makes it trade at the bottom.”

Buyers work in a very competitive international environment and demand reasonable prices for the quality offered. The market will push buyers in the direction of alternative countries.”

# Homework

## Background reading:

“What is in a Bean? ECX and the Specialty Coffee Market”

## Excel:

Complete the ‘worksheet’ tab using the data in the preceding sheets

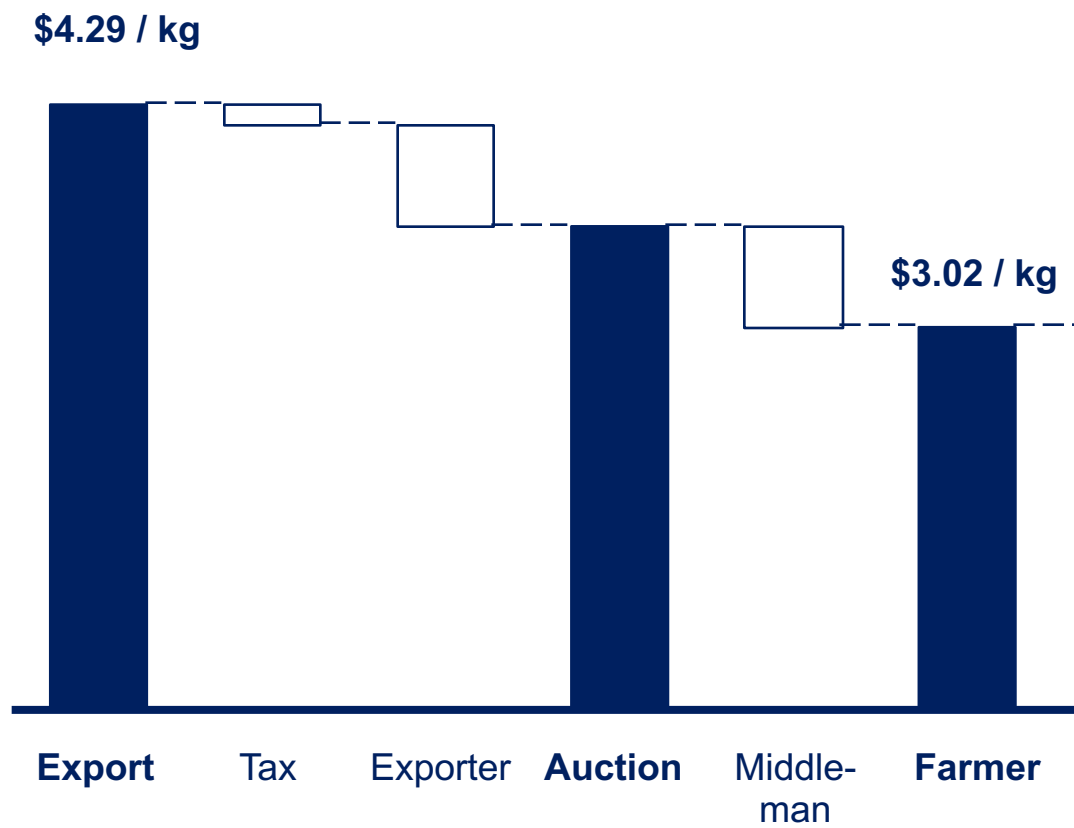
## Questions to think about:

1. Which problems in Ethiopia’s coffee value chain is ECX seeking to address?
2. How have Ethiopia's coffee export revenues changed since 2008?
3. What do the data suggest is the primary reason for the change?
4. How did the premium for Ethiopia's 'washed' coffee change over this period?
5. What share of the export price is the farmer capturing (as of 2010/11)?
6. Suppose you are interviewing an expert about the 2007/08 crop. The expert tells you that farmers received an average price of 4 birr per kg cherry for washed coffee and 3.3 birr per kg cherry for unwashed coffee that year (and the exchange rate was ~9 birr to the dollar). How would you interpret those prices? What share of the export price (for that harvest) does this represent?  
(Hint: the conversion ratio between ‘cherry’ and ‘green’ (exportable) coffee is 6 units to 1.)

# How have farmers fared?

<b>Indicator</b>	<b>2007/08</b>	<b>2010/11</b>	<b>Change</b>
Export revenues	\$525M	\$842M	+60%
Export volume	171K tons	196K tons	+15%
Avg. export price	\$3.07/kg	\$4.29/kg	+40%
Avg. farmer price	\$2.35/kg	\$3.02/kg	+29%
Share of export	76%	70%	-8%
Costs	\$0.72/kg	\$1.27/kg	+75%

# How do prices compare to other countries?



## Ethiopia:

- Farmer earns 70% (out of \$4.29 2010/11 export price)

## Colombia:

- Farmer earns 80% (out of \$3.83 2012/13 export price)

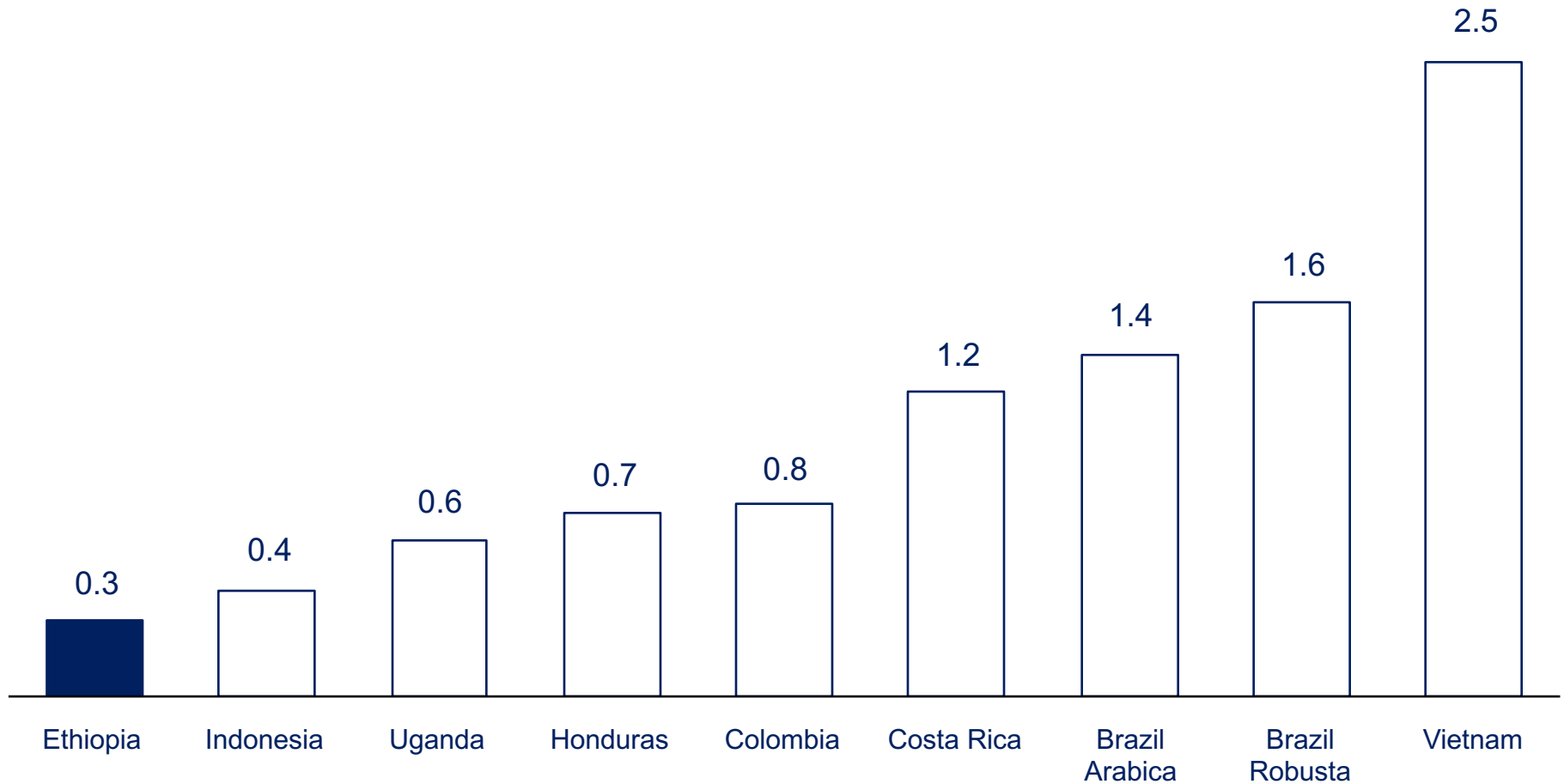
## Vietnam:

- Farmer earns 95% (out of \$2.16 2012/13 export price)

# How do yields compare to other countries?

## Average coffee farm yields\*

Metric tons green coffee per hectare



\*National average based on total production (average of last two crops) and area under coffee; includes both Arabica and Robusta unless noted otherwise

Source: USDA; TechnoServe analysis

# What are some ways forward?

## **Improve quality**

- Shift greater production from unwashed to washed
- Realize higher prices

## **Reduce costs**

- Find efficiency gains in the supply chain
- Transfer greater share of export price to farmer

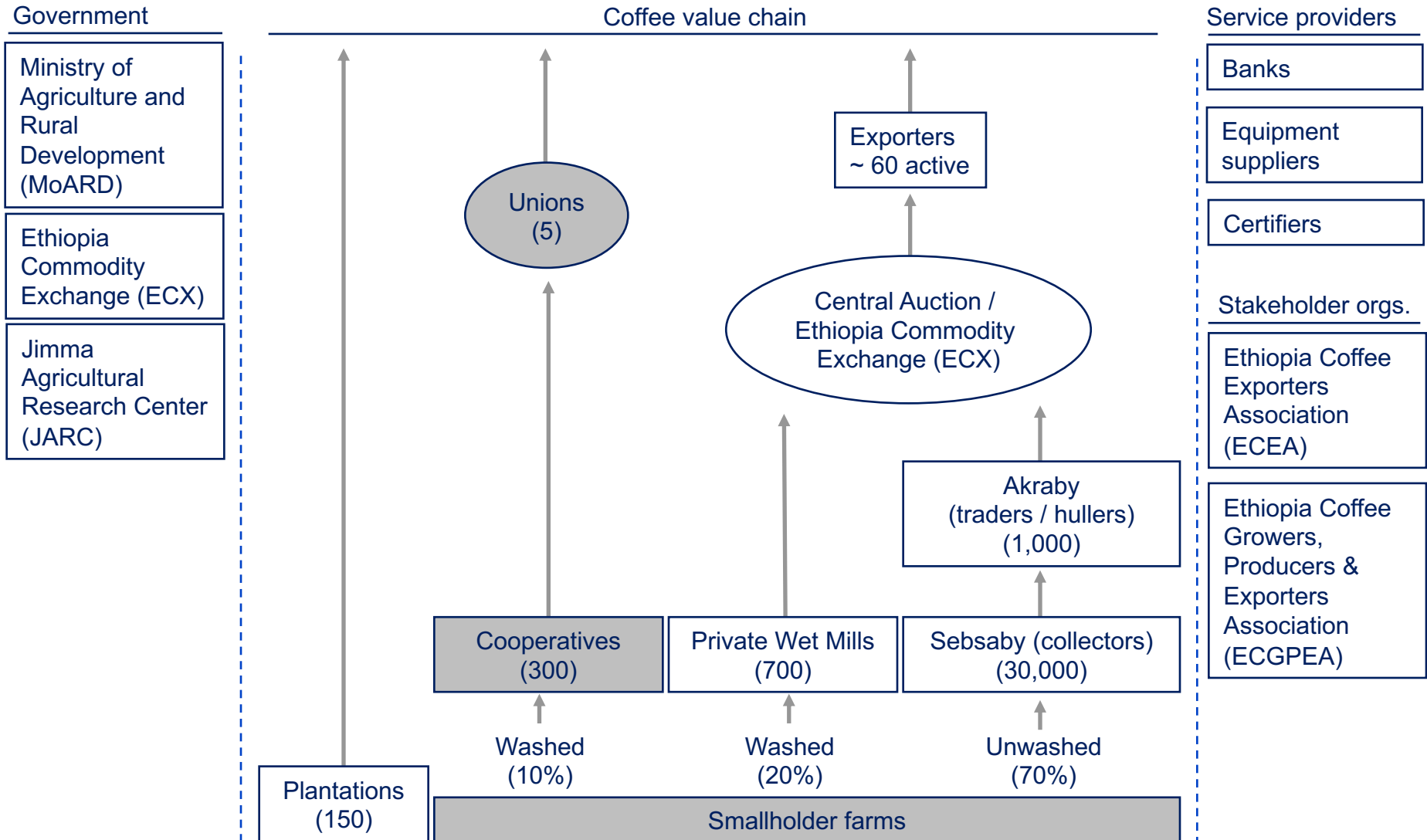
## **Increase farm yields**

- Help farmers to double yields
- Keep farming costs low

## **Reform policy**

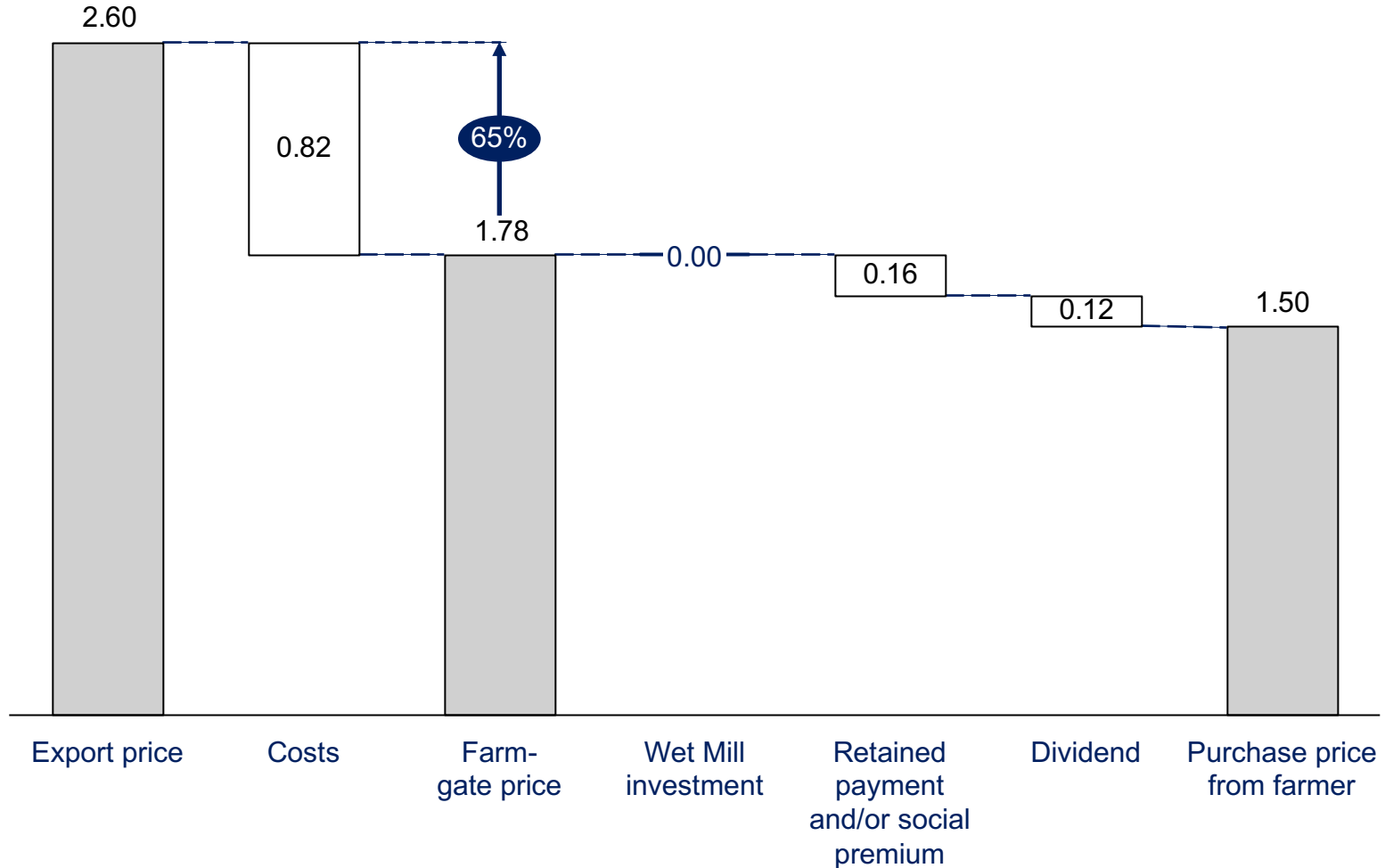
- Improve enabling environment
- ECX? Financial regulations? Cooperative monopolies?

# Zoom in on cooperative value chain



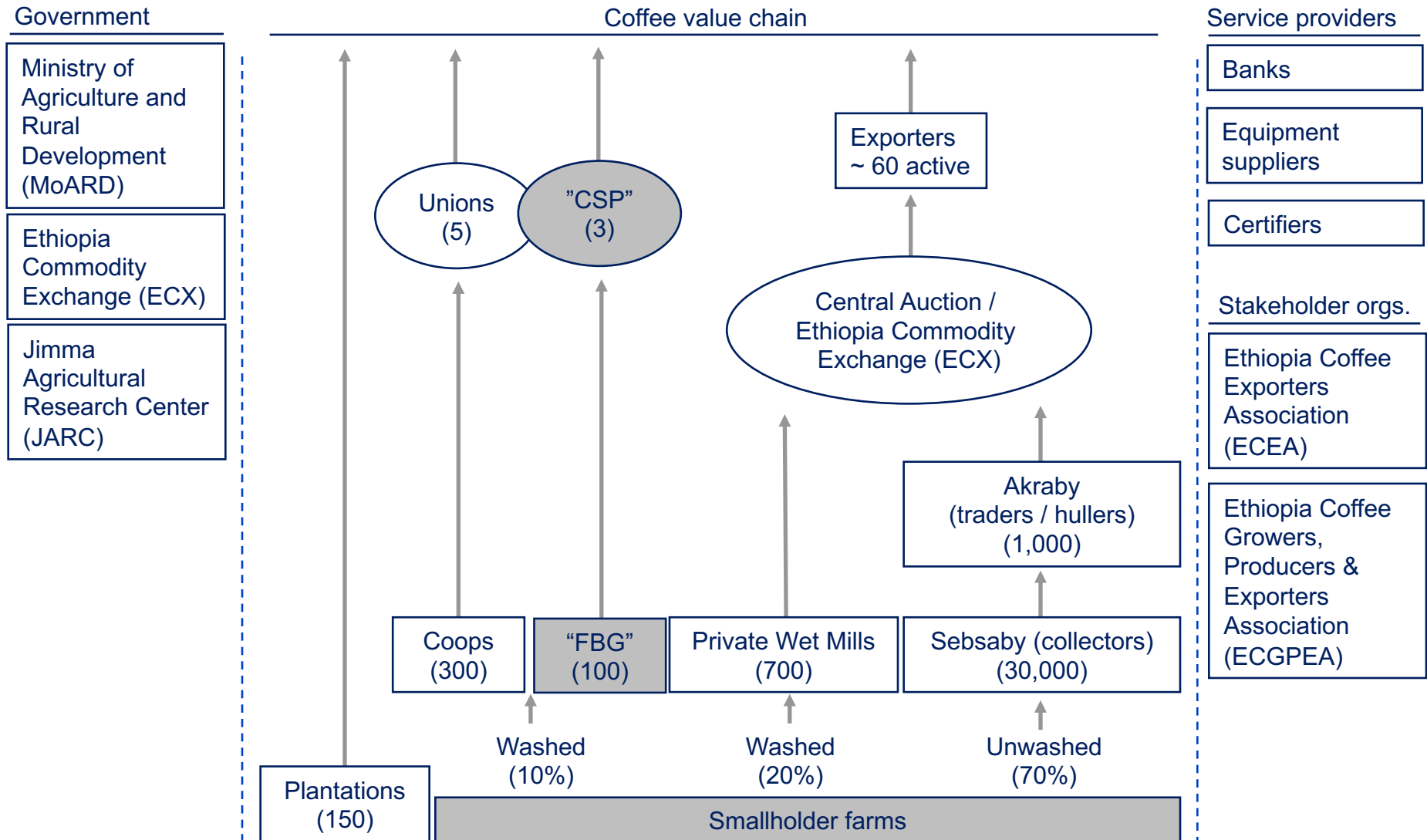
# Cooperatives can bypass ECX, but take 35% of value

Washed coffee cost analysis for traditional cooperatives (2010/11)  
US\$/lb green



\* Includes cooperatives in Southern Oromia, Sidama and Gedeo  
Source: TechnoServe interviews and analysis

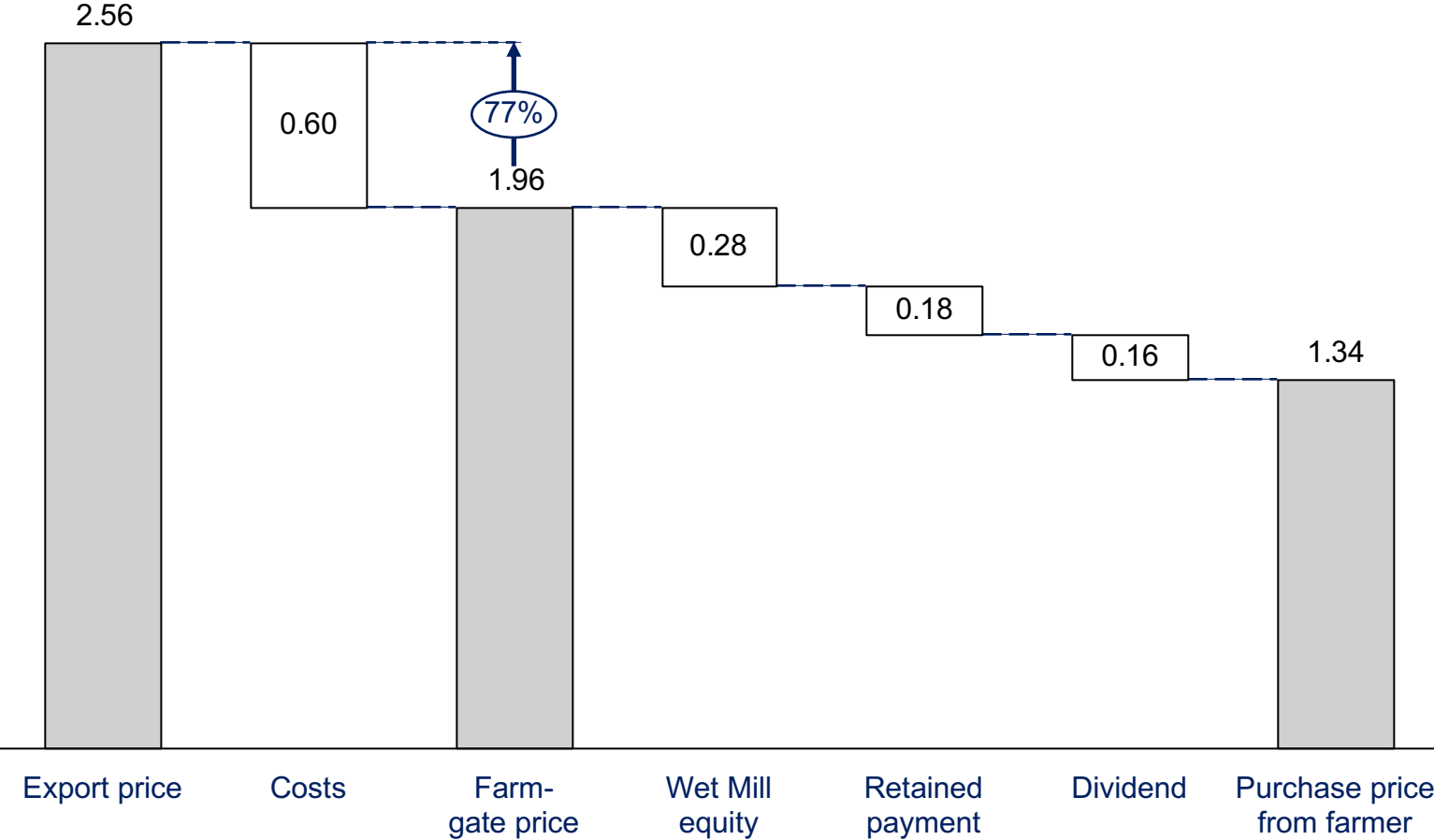
# TechnoServe introduced a new value chain model



# Farmers earned a higher share of the price

## Washed coffee cost analysis for cooperatives working with "CSP"

US\$/lb green



# Ethiopia today: changes underway

## ፌዴራል ነጋሪት ጋዜጣ

### FEDERAL NEGARIT GAZETTE

OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

ፃፉ ሃሰተኛ ዓመት ቁጥር ፸፪  
አዲስ አበባ ሐምሌ ፲፯ ቀን ፪ሺ፱ ዓ.ም

በኢትዮጵያ ፌዴራላዊ ዲሞክራሲያዊ ሪፐብሊክ  
የሕዝብ ተወካዮች ምክር ቤት ጠባቂነት የወጣ

23<sup>rd</sup> Year No. 72  
ADDIS ABABA, 24<sup>th</sup> July, 2017

<u>ማውጫ</u>	<u>CONTENT</u> :
<p>አዋጅ ቁጥር ፩ሺ፶፩/፪ሺ፱ ዓ.ም የቡና ገብይትና ጥራት ቁጥጥር አዋጅ ገፅ...፱ሺ.፯፻፵፫</p>	<p>Proclamation No.1051/2017 Coffee Marketing and Quality Control Proclamatio...page 9743</p>
<p>አዋጅ ቁጥር ፩ሺ፶፩/፪ሺ፱ <u>የቡና ገብይት እና ጥራት ቁጥጥር አዋጅ</u></p> <p>በዓለም አቀፍ ገበያ ተወዳዳሪ የሆነ በጥራውና እሴት የተጨመረበት የቡና ምርት በጥራትና በከፍተኛ መጠን፣ ቀጣይነት ባለውና የምርት ዱካውን በጠበቀ ሁኔታ ለማቅረብ የሚያስችል የቡና ገብይትና ጥራት ቁጥጥር ሥርዓት መዘርጋት በማስፈለጉ፤</p>	<p>PROCLAMATION NO. 1051/2017 <u>A PROCLAMATION TO PROVIDE FOR COFFEE MARKETING AND QUALITY CONTROL</u></p> <p>WHEREAS it has become necessary to establish a sustainable and traceable coffee marketing and quality control system which enables supply of quality, voluminous and competitive unfrosted and value-added coffee to the global market;</p>

# Ethiopia review

1

**MAP**

- ~1.5M (or more) small-scale farmers
- Two distinct value chains: washed vs unwashed
- Complicated regulatory environment

2

**BREAKDOWN**

- Farmers earn <75% of export price
- High supply chain costs, especially through cooperatives

3

**BENCHMARK**

- Declining competitiveness (rising costs, not meeting market demand)
- High potential for impact (quality improvement, yield improvement, cost reduction)

# Plan for today

## Tuesday

- The Value Chain Framework
- Global coffee value chain
- Break
- Case: Vietnam coffee
- Case: Colombia coffee

## Today

- Case: Ethiopia coffee
- **Practical aspects / Q&A**

# Some pointers

- Context, context, context
- Identify the right mix of stakeholders to interview
- Get diverse opinions
- Carry a USB drive (people never email data after you leave)
- Official statistics aren't always accurate
- Corroborate numbers with different sources
- Go bottom-up and top-down
- Talk through hypotheses with experts
- One-size-fits-all solutions are rare; segmentation is usually needed
- Keep slides simple