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**Fostering Integration of the Ethiopian Roasted Coffee Value Chain into Regional Value Chains**

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**Roasted coffee export value chain in Ethiopia**

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

# **ROASTED COFFEE EXPORT VALUE CHAIN IN ETHIOPIA**

**United Nations Conference on Trade and Development**

**Dr. Shiferaw Mitiku**

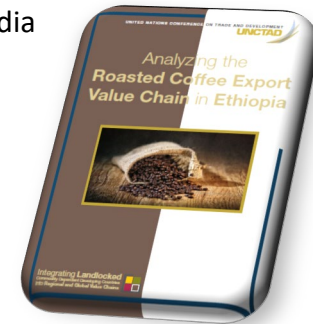
**(National Survey Consultant on Coffee Value Chain)**



# Short Bio of Dr Shiferaw Mitiku

## ❖ *Educational Background*

- PhD holder from the Kerala Agricultural University with Cooperation, Banking and Management specialization in Rural Marketing with Research trust area of Production, Processing and Marketing of Agricultural Products
- Produced his PhD Dissertation on Coffee Export Marketing Strategies for Ethiopia and India
- MA-Marketing Management
- BA-Business Management
- International Diploma on Freight Forwarding-FIATA
- Diploma in HRM & Marketing
- Advances in Hardware and software Troubleshooting and Network Administration



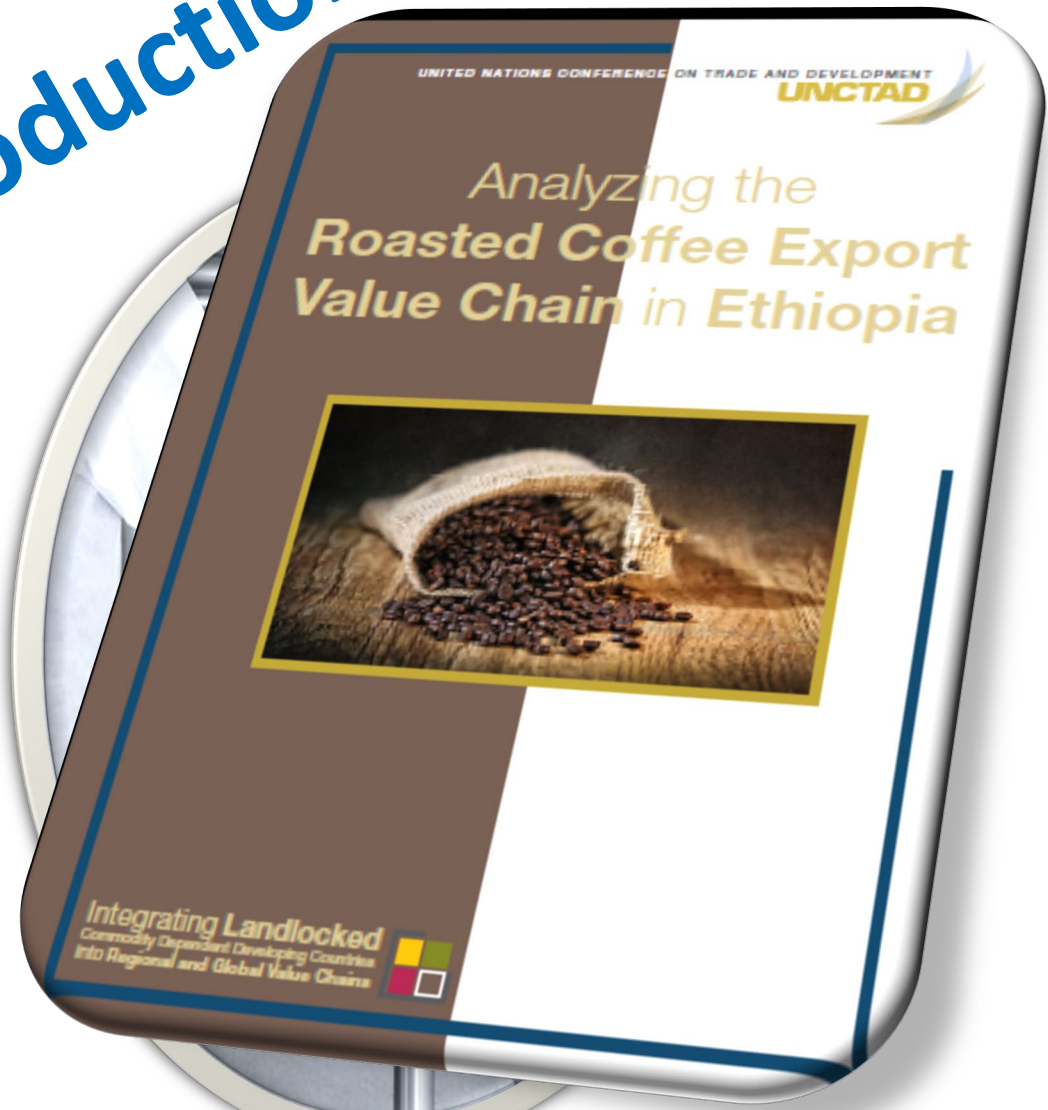
## ❖ *Expertise*

- Assistant Professor of Logistics and Supply Chain Management of the Addis Ababa University
- Policy Research Adviser to African Constituency Bureau of the Global Fund(2020)
- Advisor to the Ministry of Health (EFDRE-MoH) (2020-2022)-ENITAG
- National Coffee Value Chain Consultant for UNCTAD,2019
- National Ecommerce Development Consultant for UNIDO 2018
- Visiting Assistant Professor to the East African Centre of Excellence, UR
- Research Expert of United Nations University Institute for Natural Resources in Africa (UNU-INRA) 2015
- Business and Information Science Program Coordinator MOH-AARHB

## ❖ *Research Exposure*

- Organized 5 International Conference and 10 National Level Conference held in Ghana, Ethiopia and India)
- Published more than 30 international Journal Publications including the UN working paper & policy Brief
- Presented his findings in more than 20 International and National level conferences

# Introduction



# Content

- ❖ **Introduction**
- ❖ **Section 1: Materials and Methods**
- ❖ **Section 2: Business Analysis of the Roasting Coffee Industry in Ethiopia**
  - **2.1 Economic and Legal Background**
  - **2.2 How is Coffee Roasted in Ethiopia?**
  - **2.3 Types and Sources of Inputs of Ethiopian Coffee Roasters**
  - **2.4 Communication and e-Commerce Strategies**
  - **2.5 SWOT Analysis of the Ethiopian Roasted Coffee Exporters**
- ❖ **Section 3: Value Chain Analysis**
  - **3.1 Coffee Traders Role in Roasted Coffee Value Chain**
  - **3.2 Coffee Quality Laboratories and Certification Bodies**
  - **3.3 SWOT Analysis of Coffee Quality Control Laboratories**
  - **3.4 Transportation Services**
  - **3.5 SWOT analysis of Transport Service Providers to Coffee Roaster**
- ❖ **Section 4: Government and Public Administrations Involved in the Roasted Coffee Value Chain**
  - **4.1 ECX's Role on Roasted Coffee Export Value Chain**
  - **4.2 The role Ethiopian Coffee & Tea Development Authority's Role on Roasted Coffee Export Value Chain**
  - **4.3 Performance Analysis**
- ❖ **Section 5: Recommendations and Conclusion**

# Introduction

- Ethiopia is the largest producer of coffee in Sub-Saharan Africa and is the fifth largest coffee producer in the world (next to Brazil, Vietnam, Colombia, and Indonesia),
- Contributing about 12.5 percent (4,666,560 tons) of the total world coffee production for the year 2018.
- Accounts a market share of 2.92 percent (215,340 tons) of the total global coffee export (10256220 tons)
- The 1<sup>st</sup> top in Africa and 5<sup>th</sup> in the world in terms of production and the 2<sup>nd</sup> top in Africa and 9<sup>th</sup> in the world in terms of export for the year 2018 (ICO. 2019).
- ❖ The coffee industry is of paramount importance to the Ethiopian economy, for generating high revenue (about 41.5% of the total revenue from Ethiopian exports
- ❖ Providing a vital role as a source of income for about one-fourth of the country's population.
- ❖ The average value of exports has grown in three folds between the years 2001-2016. The quantities exported increased by 60 percent over the same period.
- ❖ About 25% of the total population of Ethiopia is dependent on production, processing, distribution and export of coffee. Besides, coffee is the first top foreign currency contributor of the nation

# Introduction

- Nevertheless, the Ethiopian economy seizes only a limited share of the value of the coffee business created through the transformation of coffee outside Ethiopia.
- The upstream segment of the coffee value chain draws much attention in Ethiopia, with several initiatives from the local authorities, private investors (exporters, traders, cooperatives/unions and commercial farmers), cooperation agencies (EU, USAID, JICA); and international organizations.
- By contrast, the **downstream segment of the coffee value chain** and opportunities to transform green coffee in Ethiopia remains largely unexplored.

# Introduction

- In this regard past studies conducted by both academic institutions and development partners mainly focuses on **coffee value chain analysis in general** and to the knowledge of the researcher no prior study is conducted specific to roasted coffee export value chain analysis from Ethiopia perspective.
- The scope of Existing empirical evidences are limited to coffee value chain actors namely green coffee supplier, traders or intermediaries and coffee exporters perspective in generic way, not specific to exportable roasted coffee value chain analysis.
- The present study focused towards exportable roasted coffee and value chain actors in the exportable roasted coffee mainly, to input suppliers (warehouse service, transport service providers, market intermediary mainly traders), public administration, coffee quality certifying organizations as well as public administration.





# Objectives



01

Analyzing the downstream value chain of roasted coffee export in Ethiopia.

02

Identifying the major SWOT of roasted coffee export value chain actors

03

Assessing the role of support institutions (Public administration and government) in the export of roasted coffee value chain.

04

Determining upgrading strategy for the roasted coffee export value chain actors in Ethiopia

05

Drawing key recommendation that would enhance the competitiveness of Ethiopian roasted coffee exporters



# MATERIALS AND METHODS



# Research Method

- The study adapted both qualitative and quantitative research approach as it consulted both primary and secondary sources of data with qualitative and quantitative nature.
- Primary and secondary data were collected with the help of structured open ended and close-ended questionnaire as well as interview and organizational databases.
- The collected data were analyzed using descriptive statistics using SWOT Matrix for each roasted coffee value chain actors
- secondary sources of data were also collected from the Ethiopian Commodity Exchange, Ethiopian Airlines and Ethiopian Coffee Quality Inspection and certification center.

- Roasted Coffee value chain stakeholder (Population and Sample design) method is described below.
  - *Coffee roasters*
  - *Public administration and government actors (such as The*
    - *Ethiopian Commodity Exchange (ECX),*
    - *The Ethiopian Coffee and Tea Development and Marketing Authority*
    - *Ministry of Trade and Industry*
    - *Food, Beverage and Pharmaceuticals Development Institute*
    - *Ethiopian Roasted Coffee Exporters Association*
  - *Laboratories and certification bodies*
  - *Input suppliers* like the Ethiopian Commodity Exchange (ECX), Traders, transporters, warehouse service supplier
  - **Public administration and government**

- Based on the Ethiopian Ministry of Trade and Industry (2019), the total population size of licensed processed coffee exporters as of May 2019 accounts to 150 companies .In order to determine the sample size of roasted coffee exporters the Carvalho's (1984) sample size determination table is considered.
- However, based on the information collected from the Ethiopian Food, Beverage and Pharmaceuticals Development Institute and the Ethiopian Revenue Authority, only fifteen of the total exporters have both international (export market) and domestic market experience in supplying roasted coffee.
- The remaining licensed processed coffee exporters are only supplying to the domestic market or almost have no experience of serving the international market. Hence, all the 15 roasted coffee exporters (with domestic and international market experience) were included using census method.

# Major Findings



# SECTION 2: BUSINESS ANALYSIS OF THE ROASTING COFFEE INDUSTRY IN ETHIOPIA

## Section 2: Business Analysis of the Roasting Coffee Industry in Ethiopia

- ❖ **2.1 Economic and Legal Background**
  - A. Economic Overview
  - B. Legal overview
- ❖ **2.2 How is Coffee Roasted in Ethiopia?**
- ❖ **2.3 Types and Sources of Inputs of Ethiopian Coffee Roasters**
  - A. Coffee Processing
  - B. Transportation Services
  - C. Packaging Services
- ❖ **2.4 Communication and e-Commerce Strategies**
  - A. Marketing Strategy
  - B. Commerce Strategies of the Ethiopian Coffee Roasters
  - C. Differentiation Strategy
- ❖ **2.5 SWOT Analysis of the Ethiopian Roasted Coffee Exporters**
  - A. Strength of the Ethiopian Roasted Coffee Exporters
  - B. Weakness of the Ethiopian Roasted Coffee Exporters
  - C. Opportunities for Ethiopian Roasted Coffee Exporters
  - D. Threats for Ethiopian Roasted Coffee Exporters





# Business Analysis of the Roasting Coffee Industry in Ethiopia

## Economic and Legal Background

- Roasted coffee exports are gradually increasing, but **represent only a small fraction of the total export of coffee**, amounting to 11.6 tons from the total 176.13 tons (0.007% of coffee exports, 2.2 tons from of total 199.45 tons of coffee exports, and 166.5 tons from the total 215.34 of total coffee exports) in the years 2006, 2010 and 2019 respectively
- This shows that the majority of coffee produced in Ethiopia is exported **without much value addition**.
- The value addition in the coffee supply chain still occurs mainly in importing countries.
- Roasted coffee remains largely sold domestically due to limitations related to logistics and competition with well established brands in developed markets
- Primary data from selected coffee roasters found out that most of the sales are made domestically for the past five years

## Economic and Legal Background

The regulation of the sector is changing on a frequent basis, as new regulations are enforced frequently in 2008, 2009, 2010, 2017, and 2018 at national and international level.

1. *Regulation No. 433/2018. The Coffee Marketing and Quality Control page 10568.*
2. The coffee quality control is also strictly regulated, under ***Proclamation No. 1051/2017. Coffee Marketing and Quality Control***
3. *Proclamation No. 675 /2010. International Coffee Agreement 2007 Ratification Proclamation Page 5299.*
4. *Regulation (No. 161/2009). Coffee Quality Control and Transaction*
5. *Proclamation No. 602/2008. Coffee Quality Control and Marketing :* prohibits to selling, by any person in the coffee trading business, export standard unroasted or roasted ground coffee on the domestic market.

## Economic and Legal Background

### The existing legal ground:

- Defines Obligations of roasted coffee exporters and for domestic consumption
- Defines Coffee exporters special licensing requirement
- Identifies obligations for Service Providers (coffee processing and warehousing, packaging)
- The packaging industry is reserved for domestic investors and benefits from customs duties exemption and other taxes on materials used for export processing.
- Tax on Coffee Exported from Ethiopia is subjected to be taxed at a rate of 6.5% of the FOB Price.
- Interviewees affirmed that **there is no export tax imposed on roasted coffee export**

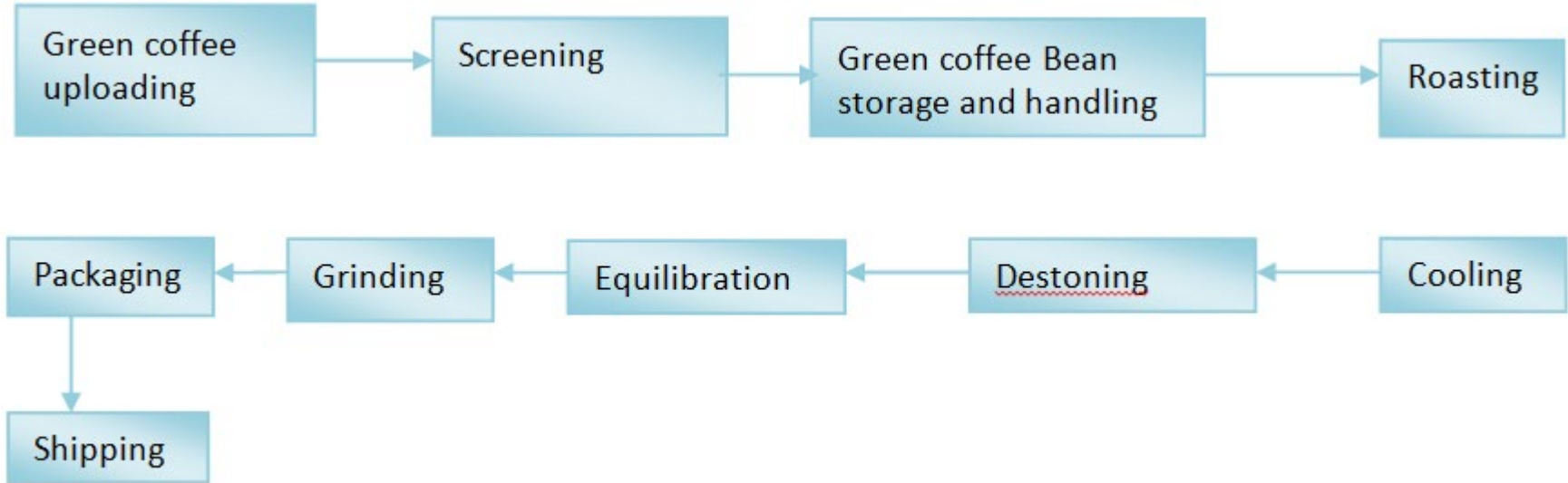
## ❖ How is Coffee Roasted in Ethiopia?

***Coffee roasting operation has different process flows stages.***

- ***1<sup>st</sup> , bags of green coffee beans are hand or machine-opened, dumped into a hopper, and screened to remove debris.***
- ***2<sup>nd</sup> , the green beans then weighed and transferred by belt or pneumatic conveyor to storage hoppers.***
- ***3<sup>rd</sup> , from the storage hoppers, the green beans conveyed to the roaster.***
- ***4<sup>th</sup> , roasters typically operate at temperatures between 370° and 540°C (698° and 1004°F), and the beans are roasted for a period of time ranging from a few minutes to about 30 minutes.***
- ***5<sup>th</sup> stage, following roasting, the coffee beans will be cooled and run through a DE stoner (equilibration).***
- ***6<sup>th</sup> stage, the roasted beans are ground, usually by multi-stage grinders.***
- ***7<sup>th</sup> , some roasted beans are packaged and shipped as whole beans.***
- ***8<sup>th</sup> , the ground coffee is vacuum-sealed and shipped.***

# Business Analysis of the Roasting Coffee Industry in Ethiopia

## ❖ How is Coffee Roasted in Ethiopia?



# Business Analysis of the Roasting Coffee Industry in Ethiopia

## ❖ How is Coffee Roasted in Ethiopia?

Types of Technology used	Total number of coffee roasters used technology (N=22)	Percentage of coffee roasters adopted technology
Cleaning machine	9	40.91
Sorter	8	36.36
Roaster	19	86.36
Grinder	21	95.45
Bagging machine	21	95.45
Coffee processing plant	19	86.4

## ❖ How is Coffee Roasted in Ethiopia?

The following are few among coffee processing technologies adopted by the Ethiopian coffee roasters:

- Coffee roasting machine
- Roasting profile testing machine,
- Convection roaster
- Grinder and bagging machine,
- Sealing machine,
- sorter (color sorters and maturity level sorter, size sorter),
- Coffee processing plant,
- Vacuum cleaner,
- Roasting drum
- After burner technology (friendly to the environment)
- Using nitrogen gas packaging,
- Locally made pre-grinder,
- Blending machine,
- Semi-automatic weighing machine,
- Data coding machine
- ochratoxin testing technology,
- Hot air neutek,
- De stoner machine



# : Business Analysis of the Roasting Coffee Industry in Ethiopia

## ❖ Types and Sources of Inputs of Ethiopian Coffee Roasters

- **A. Coffee Processing**
- **B. Transportation Services**
- **C. Packaging Services**



# Business Analysis of the Roasting Coffee Industry in Ethiopia



## Types and Sources of Inputs of Ethiopian Coffee Roasters

Input suppliers	Types of Input supplied to coffee Roasters
<ul style="list-style-type: none"> <li>➤ Ethiopian Commodity Exchange</li> </ul>	<ul style="list-style-type: none"> <li>➤ Coffee supplier</li> <li>➤ Provides coffee quality control laboratory service</li> <li>➤ Warehouse service</li> </ul>
<ul style="list-style-type: none"> <li>➤ ECX</li> <li>➤ Traders</li> <li>➤ Farmers</li> <li>➤ Unions</li> </ul>	<ul style="list-style-type: none"> <li>➤ Green Coffee suppliers</li> </ul>
<ul style="list-style-type: none"> <li>➤ Ethiopian Tea Authority</li> </ul>	<ul style="list-style-type: none"> <li>➤ Coffee quality Control Laboratory and Certification Service</li> <li>➤ Coffee quality Control laboratory arbitration service</li> </ul>
<ul style="list-style-type: none"> <li>➤ German based suppliers</li> </ul>	<ul style="list-style-type: none"> <li>➤ Poetry-Coffee mug supplier</li> </ul>
<ul style="list-style-type: none"> <li>➤ China, Indian, Dubai, and Kenya based suppliers</li> </ul>	<ul style="list-style-type: none"> <li>➤ packaging suppliers</li> </ul>
<ul style="list-style-type: none"> <li>➤ 3Y packaging company, SYD PLC</li> <li>➤ Wonji Paper and pulp factory</li> </ul>	<ul style="list-style-type: none"> <li>➤ packaging material supplier for local market</li> </ul>

# : Business Analysis of the Roasting Coffee Industry in Ethiopia

## ❖ Types and Sources of Inputs of Ethiopian Coffee Roasters

### A. Coffee Processing

- Coffee roasters buy graded coffee at the ECX and they add value by sorting the coffee by size and grade level, cleaning, roasting, grinding, blending the coffee and bagging the roasted and/ ground coffee.
- About 95.5% of the respondent affirmed that major Coffee processing activities such as Coffee picking/Harvesting, Sorting coffee by maturity level and by their color, Parchment coffee (seed coat removal) and Washing and drying (wet method, dry method) **done by other company**
- About 95.5% of the respondent affirmed that major Coffee processing activities such as Sorting/cleaning the coffee, Roasting the coffee, Blending the coffee, Grinding the coffee and bagging the roasted or grinded coffee done by **themselves using technologies**.

# Business Analysis of the Roasting Coffee Industry in Ethiopia

## ❖ Types and Sources of Inputs of Ethiopian Coffee Roasters

### **B. Transportation Services**

- The average freight cost the freight cost that incurs to export a kilogram of coffee to major Ethiopian Roasted coffee export destination ranges from a minimum freight cost of 1.1 USD to a maximum of 4 USD, with an average freight cost of 2.45USD per Kilogram.
- It is common to use Lorries, trucks, and pickups as the major transpiration mechanisms to move coffee from the ECX's warehouse to the coffee roasters warehouse. Such type of transportation cost is not included in the above calculated average freight cost.
- Hence, freight cost is considered as one of the major challenges for the Ethiopian coffee roasters

# Business Analysis of the Roasting Coffee Industry in Ethiopia

## ❖ Types and Sources of Inputs of Ethiopian Coffee Roasters

### ➤ C. Packaging Services

Does your company have its own packaging technology?	Percent (N=22)
Yes	50
No	50
Total	100
From where did your firm sources quality input for packaging of roasted coffee?	Percent
From the local market	23.3
Both from local and the International market	13.6
From the International market	59.1
Total	100
Are their quality inputs suppliers in the local market for packaging?	Percent
Yes	13.6
No	81.8
Total	100



## ❖ Communication and e-Commerce Strategies

### **E-commerce strategies of the Ethiopian coffee roasters**

- About 82 of coffee roasters use an existing platform or have their own website
- However, Only 18% of the coffee roasters have experience of selling coffee online
- About 82% of them had no experience in selling roasted coffee online.
- Based on the analysis made on coffee roasters website functionalities, it was found out that few of them only allow buyers placing purchase orders and settling payments and majority of them requires preliminary email conversation, for buyers to place purchase order & settle payment

## ❖ Communication and e-Commerce Strategies

### E-commerce strategies of the Ethiopian coffee roasters

- The websites of coffee roasters are analyzed to assess their functionality and interactivity using e-commerce service quality assessment parameters namely website features and customer service.
- The website features of coffee roasters are assessed using their **functionalities, easy of navigation, information accessibility and content reliability**, accordingly, most of the website assessed with the four criteria found to be relatively **weak** to satisfy these criteria.
- Only a few of them do meet them and allow international sales

# Differentiation strategy

- **Price (cost) differentiation**
- **Product differentiation (product quality)**
- **Image differentiation (brand building, building good reputation)**
- **Making direct purchase from farmer cooperatives at a better price for a better traceability, “revolutionary fair chain” practices**
- **Adopting a world-class roasting and packaging facility**
- **Engaged with different Corporate Social Responsibility practices on coffee growing community, such as creating good access to water and education, helping coffee growers to enhance the quality of coffee**
- **Using personnel differentiation by understanding the export market requirements**
- **Distribution strategy differentiation through collaboration with export market partners**

# Business Analysis of the Roasting Coffee Industry in Ethiopia

## SWOT Analysis of the Ethiopian Roasted Coffee Exporters

### Strength of the Ethiopian Roasted Coffee Exporters

- Availability of high-quality raw coffee, cheap labor and roasting expertise
- Availability of own cupping centers and coffee quality laboratories for a close traceability and control quality.
- Availability of Origin coffee with many varieties of coffee Arabica with low caffeine content, which would help coffee roasters to creating any kind of flavor (blending).
- High demand for roasted coffee resulted from the good image built in the domestic and export of green coffee



# Business Analysis of the Roasting Coffee Industry in Ethiopia

## SWOT Analysis of the Ethiopian Roasted Coffee Exporters

### **Weakness** of the Ethiopian Roasted Coffee Exporters

- **Weak supply chain information integration among public administrations**
- **High price competition between roasted coffee exporters in Ethiopia hence, Ethiopian exporters may form a CARTEL.**
- **Reduced competitiveness of smaller exporters, due to indivisibilities and export pricing that favors full truck load and container load**
- **Limited financial capacity to adopt the latest coffee processing technologies**
- **Unavailability of quality packaging (input) service provider in the local**
- **Insufficient access to export markets due tariff barriers as they prefer to import raw coffee to play the value addition by themselves**
- **Non tariff barriers like challenge in establishing reliable e-commerce platforms to reach international customers as no e-commerce legal ground is in place**

# Business Analysis of the Roasting Coffee Industry in Ethiopia

## SWOT Analysis of the Ethiopian Roasted Coffee Exporters

### **Opportunities** for Ethiopian Roasted Coffee Exporters

- Growing demand for organic and origin Arabica coffee, including in emerging economies, which corresponds to Ethiopian coffee.
- Higher price for value added products of coffee (roasted and ground coffee) compared to the price of green coffee export.
- Roasted coffee business generates foreign currency inflows, which allow importing packaging material and coffee processing technologies.
- Roasted coffee promotion made by tourists visiting Ethiopia, whose number is growing.
- Provision of income tax exemption for roasted coffee business upon investment in Ethiopia from 2-4 years.

# VALUE CHAIN ANALYSIS

## SWOT Analysis of the Ethiopian Roasted Coffee Exporters

### **Threats** for Ethiopian Roasted Coffee Exporters

- Fierce competition from International coffee roasters ,buying green coffee from Ethiopia at lower prices.
- Weak financial systems (banking industry) as coffee exporters are not using SWIFT system.
- Unavailability of regulation and proclamation governing roasted coffee export
- Inefficient custom services with important delays and complex bureaucratic procedures, however, this is mainly because exporters are required to meet different public administration offices in order to get the services of the customs office.
- Restrictions on roasting coffee activities, including the prohibition on selling exportable grade coffee on the local market, (even when the local market price is better than the international price)
- Challenge of access to international certifying organizations in the local market

# VALUE CHAIN ANALYSIS

## Coffee Traders Role in Roasted Coffee Value Chain

### **Traders' roles are complex and include:**

- Controlling the quality of green coffee.
- Enforcing and assisting in enforcement of food safety/standardization bill as applicable to coffee.

### **A) Strength of Ethiopian Coffee Traders**

- Availability of skillful personnel to buy quality coffee (capability)
- Availability of warehouse and transport services
- Availability of multi-market competition between coffee roasters and coffee traders as the two actors are also supplying roasted coffee to the international market

# VALUE CHAIN ANALYSIS

## Coffee Traders Role in Roasted Coffee Value Chain

### ❖ **Weakness of Ethiopian Coffee Traders**

- lack of in house coffee laboratory support
- lack of sorter machine by color, size, maturity level
- Perceived quality deviation between the sample coffee sold at the trading floor and coffee received at ECX warehouse by coffee buyers (coffee roasters).

### ❖ **Opportunity of Ethiopian Coffee Traders**

- Availability of quality coffee
- Rich experience in the coffee industry

### ❖ **Challenges of Ethiopian Coffee Traders**

- High employee turnover. It is challenging to get loyal employees that remain in the same organization
- Selling coffee to Ethiopian coffee roaster is possible only via ECX

# VALUE CHAIN ANALYSIS

## Coffee quality laboratories and certification bodies

- Coffee is graded and classified all over the roasting coffee value chain by official authorities and by certification organizations, with the aim of **producing the best cup quality** and thereby securing the highest price.
- However, there is **no universal grading and classification system** as each export destination requires different certification.

# VALUE CHAIN ANALYSIS

## Coffee quality laboratories and certification bodies

### ➤ Quality control laboratories in Ethiopia

- ECX Trading floor-Quality Laboratory
- The Ethiopian Coffee Quality Inspection and Certification Center
- Roasting company's laboratories

### ❖ International Certifying Bodies in Ethiopia

- [CERES] Certification of Environmental Standards – GmbH
- [CUC] Control Union Certifications
- [ECO] EcoCert S.A.
- [LETIS] LETIS S.A.
- [OCI] OneCert International Private Limited
- [ONE] OneCert, Inc.

### ❖ Types of certifications by International Certifying Bodies in Ethiopia

- Fair Trade Certification Cost
- UTZ coffee Certified program
- Rainforest Alliance certification
- Smithsonian Bird Friendly Certificate
- Organic Certification Costs

# VALUE CHAIN ANALYSIS

## SWOT analysis of Coffee Quality Control Laboratories

### **Strengths in the development of Coffee Quality Laboratories**

- All coffee beans are controlled and graded all over the roasting coffee value chain in Ethiopia, based on a solid methodology.
- There is a network of laboratories providing services which includes chemical, mechanical, microbiology, electrical, and radiation testing.
- There is an effective arbitration process monitored by the Ethiopian Coffee and Tea Authority.
- There are specific controls made on coffee exports, guaranteeing coffee quality and ensuring export standards of coffee.
- Ethiopian officials provide training facility to newly employed staff to solve the challenges of unavailability of coffee experts.



# VALUE CHAIN ANALYSIS

## SWOT analysis of Coffee Quality Control Laboratories

### **Weaknesses in the development of Coffee Quality Laboratories**

- Limited access to testing technologies as individual exporters also having their technologies.
- Insufficient focus on roasted coffee as export standard coffee is not allowed to be sold locally
- Unavailability of international accreditation bodies on the local market other than their agent,

# VALUE CHAIN ANALYSIS

## SWOT analysis of Coffee Quality Control Laboratories

### **Opportunities to support the development of Coffee Quality Laboratories**

- There is an increasing demand of coffee exporters and coffee buyers for laboratories services
- High control on contraband business by the Government of Ethiopia through the various proclamations,
- Availability of coffee testing, grading, inspection and certification services in the local market

# VALUE CHAIN ANALYSIS

## SWOT analysis of Coffee Quality Control Laboratories

### **Threats in the development of Coffee Quality Laboratories**

- Increase in the number of complaints from clients regarding the coffee grade
- Insufficient knowledge transfer from different international accreditation bodies to local laboratories.
- Challenge for local experts to participate in short term and long-term training on coffee testing in buyers' countries.

# VALUE CHAIN ANALYSIS

## Transportation services

**Coffee roasters generally use trucks to move green coffee and air freight for their export of roasted coffee.**

### ***Domestic transport (green coffee)***

- There is quality control system to ensure the safety and security of the movement of green coffee by transport service provider
- Moving coffee from one destination to the other destination it is very risky business, subjected to contraband business as there might be change of the coffee, stealing the coffee, mixing the coffee with different grade or type of coffee or selling the coffee in illegal way



## Transportation services

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# Transportation services

### *International transport (export of roasted coffee)*

- It is noted that Airfreight service does not consider “less than Container Load transport or Less than Truck size transport” to the coffee exporters as transportation service depends on the weight and balance (cargo) considering cubic meter not the kilogram.
- Freight cost decreases as the quantity of export increases to all major export destinations.
- Averaging the freight cost per kilogram of coffee in all roasted coffee export destinations decreases as the quantity export increases (from 2.85USD per kg of roasted coffee up to 45 kg to 1.97USD per kg beyond 4,000 kg).

# VALUE CHAIN ANALYSIS

## Coffee Traders Role in Roasted Coffee Value Chain

### Strengths of Transport Service Provider

- Availability of domestic flights. Accessibility and availability of EAL in major coffee growing regions of the country, this will lead local coffee growers and coffee exporters to easily access international market.
- Strong integration between private transport service providers (when the demand requirement is above the firm's transport service provider capacity)

### Weakness of Transport Service Provider

- Roasted coffee is not getting the privilege given to other perishable products (like flower) in order to reduce the freight cost
- No transport union or association that would engage all transporters to facilitating domestic and international trade
- Weak capacity (accessibility) when there is bulk demand in the

# VALUE CHAIN ANALYSIS

## Coffee Traders Role in Roasted Coffee Value Chain

### Opportunities of Transport Service Provider

- There is high demand for transportation service, leading to the transformation of the transport industry in Ethiopia.
- There is an initiative to modernize the ECX warehouse management and warehouse security that would improve the responsiveness of the warehouse service which would result to reduce dalliance in transportation service
- Service reliability for commonly used clients (coffee roasters) regardless of the market volatility in the market.



# VALUE CHAIN ANALYSIS

## Coffee Traders Role in Roasted Coffee Value Chain

### **Threats of transport service provider**

- Coffee Roasters might be discouraged due to the high cost of transportation services
- There is a high bargaining power practice between transport service provider and coffee traders or coffee roasters

# VALUE CHAIN ANALYSIS

## GOVERNMENT AND PUBLIC ADMINISTRATIONS INVOLVED IN THE ROASTED COFFEE VALUE CHAIN

➤ **The role of public administrations varies from organization to organization, based on their missions and mandates.**

### ❖ **Ethiopian Commodity Exchange's role on Roasted Coffee Export Value Chain**

The Ethiopian Commodity exchange plays a pivotal role in the coffee value chain as it deals with providing

- (a) Warehouse service to coffee buyers and suppliers,
- (b) Coffee quality laboratory service and
- (c) Electronic trading floor exchange service.

# VALUE CHAIN ANALYSIS

## GOVERNMENT AND PUBLIC ADMINISTRATIONS INVOLVED IN THE ROASTED COFFEE VALUE CHAIN

More specifically, the mission of the Ethiopian Commodity Exchange includes the following services:

- coffee quality checking,
- the promotion of Ethiopian coffee,
- providing an electronic trading platform,
- providing loan provision, and licensing,
- keeping members informed with price movements in current international coffee markets;
- providing trainings and holding seminars on coffee transaction and quality;
- Creating awareness to members of the Association on Government policies and regulations that are directly related with the sector; and
- (h) playing a conciliatory role on conflicts that arise among members of the Association and between the Association and the Government.



# VALUE CHAIN ANALYSIS

## GOVERNMENT AND PUBLIC ADMINISTRATIONS INVOLVED IN THE ROASTED COFFEE VALUE CHAIN

### ❖ **Ethiopian Coffee & Tea Development Authority's role on Roasted Coffee Export Value Chain**

- **Devising legal frameworks, policies and directives that govern the entire supply chain actor in the coffee business**
- **Ensuring sustainability of coffee supply at the grass root level (coffee plantation)**
- **Providing technical support and field support to all actors in the coffee supply chain in the country (from coffee plantation to value added products of coffee at the export destinations)**
- **Facilitating coffee export, coffee processing, warehousing services, parking services for coffee loaded vessels and weighbridge services**
- **Promoting the Ethiopian coffee to the international market through organizing different promotional campaigns, trade fairs and exhibitions, workshops and conferences**
- **Playing arbitration role in conflict related to the quality of coffee supplied by the ECX**
- **Providing capacity building to coffee exporters through short term training**

# VALUE CHAIN ANALYSIS

## GOVERNMENT AND PUBLIC ADMINISTRATIONS INVOLVED IN THE ROASTED COFFEE VALUE CHAIN

### **Ethiopian Roasted Coffee Exporters Association.**

**This association is responsible to plays significant role in the development of roasted coffee export; the few among its roles are presented below:**

- **promoting Ethiopian roasted coffee in the world market and**
- **participate in various coffee exhibitions and conferences to make Ethiopian roasted coffee known all over the world;**
- **Keep members of the Association informed on Government policies and regulations that are directly related with the roasted sector, as well as on price trends.**
- **provide different services to its members and serves as a focal institution for the working and business relationship between the Government and its members, its members and Ethiopian roasted coffee importers.**

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**Food, Beverage, and Pharmaceutical Industry Development Institute** responsible to

- Formulate policies, strategies, and action plans that assist in the acceleration of the development of the coffee industry.
- Identify through research and development relevant technologies applicable to the development of the coffee industry;
- Prepare and disseminate project profiles that may help the expansion of investment in the coffee industry;
- prepare and conduct practical trainings on technology, technical matters, marketing, and management and other tailor-made trainings that may assist the development and competitiveness of the coffee industry.
- Undertake international benchmarking studies to enhance the development and competitiveness of the coffee industry

# Recommendations



# Recommendations

- **As freight cost is high for roasted coffee export, the Government of Ethiopia may consider reducing the Ethiopian Airlines on the freight rate to motivate export of value-added products of coffee.**
- **Despite abundant labor force availability, finding skilled work force with coffee processing competencies remains a major challenge for coffee roasters.**
- **Quality inconsistency in green coffee supply affects the demand for Ethiopian roasted coffee in the export market. Hence, green coffee traders as well as coffee roasters have to stimulate the consumption of quality coffee locally, which will lead in return to an increase in the quality of coffee being exported**
- **The quantity limitation imposed by the ECX, which states that coffee buyers at ECX trading floor cannot buy less than 5000 KG of coffee (full truck size), regardless of the quantity demand requirement by the export market, has been found to be a hindrance to most coffee roasters. Hence, coffee roasters may use optional way of accessing coffee other than ECX (farmers, Traders, Unions),**
- **Coffee roasters as well as Ethiopian coffee exporter in general should make use of the trade fair, international coffee conferences being organized by the government as well as development partners to create market linkage opportunities**

# Recommendations

- **Easing the access to export permit.** The National Bank of Ethiopia may facilitate the issuance of export permits.
- **Revising freight costs (ET).** The Ethiopian Airlines may revisit its freight rates for roasted coffee.
- **Improving the quality controls in the green coffee value chain.** Ministry of Agriculture and Ethiopian Coffee & Tea Authority should consider improving the quality controls and grading homogeneity to support the efforts of coffee roasters in accessing international markets.
- **Coffee Roasters Exporters Association** should play a stronger role in promoting the Ethiopian roasted coffee and creating market linkages with the international market.
- **Through a stronger chain integration between coffee suppliers and buyers,** the ECX has to reduce the burden of the quantity limitation imposed on coffee buyers (minimum 5000kg).
- **The Ethiopian Government should consider launching new training and education facilities** to meet the domestic labor market needs for the development of the roasted coffee value chain.

# Discussion agenda for policy intervention

- **Packaging service provider:** No packaging supplier is currently responding to the needs of roasted coffee exporters in Ethiopia, due to the high level of packaging requirements on international market.
- **Coffee Quality Laboratories and Certification Bodies:** As the demand for coffee quality laboratory services is increasing, the number of complaints received from the coffee quality laboratory is also increasing.
- **How Ethiopian roasters can win the competition with well established brands in developed markets considering limitations related to logistics?**
- **Ecommerce capability:** The website features of Ethiopian coffee roasters are assessed using their functionalities, easy of navigation, information accessibility and content reliability, accordingly, most of the website assessed with the four criteria found to be relatively weak to satisfy these criteria and only a few of them allow international sales? What are the major challenges and intervention?

# Thank you

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