Rapid Coffee Market Assessment

OPPORTUNITIES IN THE COFFEE SECTOR

August 2021

DRAFT

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1. SUMMARY

This report summarizes the results of from a rapid coffee market assessment conducted by the SMEPS research & development team on July – August 2021, for the MOKHA 1450. SMEPS conducted this rapid assessment targeting the main coffee market players in Yemen with the aims to a) identify and explore the work dynamics of the coffee industry within the ongoing conflict, b) determine the common practices between the coffee sector players, c) identify the indicators used to measure the coffee's quality and grade c) explore the infrastructure around the coffee industry. The assessment also explored the most prominent trends and challenges in this sector and examined the opportunities available for the growth of the coffee industry in Yemen.

2. BACKGROUND ABOUT SMEPS

The Small and Micro Enterprise Promotion Service (SMEPS) is a subsidiary of the Social Fund for Development (SFD) in Yemen, established in 2005 with a mandate of supporting private sector development through facilitating business development services, entrepreneurship and value chain development. Under the current conflict, SMEPS works to 1) strengthen the humanitarian-development nexus through implementing resilience and development projects aimed at creating more jobs and providing incomes 2) supporting the resilience of MSMEs in vital sectors to sustain existing jobs & create new ones. SMEPS aims to achieve its goals by pursuing creative strategies for Micro, Small and Medium Enterprises (MSME) of diversity and growth through the market systems development approach. With this approach, SMEPS interventions seek to build, strengthen and facilitate the economic and technical capacities of market-driven private-sector including the MSMEs themselves, rather than acting as a significant direct service-provider to MSMEs. SMEPS has focused on implementing many projects and studies in different fields such as health, education, coffee, fish, agriculture, private sectors, livelihoods, and others. These projects and studies are crucial in the development and growth of the Yemeni economy.

Since 2008, SMEPS has worked to support coffee farmers. Within the past years, many challenges were encountered as SMEPS saw the transformation and growth of coffee where it is cultivated by many small farmers, including a young generation of coffee farmers. SMEPS supported this transformation through conducting several awareness and promotional campaigns and facilitated large conferences that brought in all coffee players from farmers, academia, traders and retailers to improve the quality of coffee. These campaigns marked as a turning point for many small coffee farmers, most of whom are women. This brough the chance for the Yemeni coffee to compete with other well-known brands from more than 30 countries that participated in these events including Brazil, Jamaica and Tanzania. This also helped to increase coffee demand in the market as well as the opening of shops selling specialty coffees.

In addition, SMEPS had provided technical and financial support to coffee farmers with the ultimate goal of building and strengthening market linkages and increasing their production quality and capacity. SMEPS supported the first Yemeni certified coffee cupper and now is considered to be qualified Q-Grader (Cupper) having the capacity to train young generations. SMEPS held the first ever coffee cupping training that was led by the first Yemeni certified coffee cupper giving a learning opportunity for 122 youth cuppers in Yemen and encouraging them to be international cuppers. SMEPS has the ultimate willingness and passion to boost coffee economy and growth. It believes that this can be achieved by empowering and supporting the coffee market players to take all the opportunities available and strengthen their role.

3. INTRODUCTION

Coffee is Yemen's most important agricultural commodities. 45% of the Yemeni population are coffee farmers that live below the poverty line. Yemen prides itself on being the first cultivator of Coffee Arabica in the world, while many tend to think that the case is true for Ethiopia. However, the production of coffee has severely decreased where Yemen, a country that produced a vast majority of the world's coffee (more than 50,000 tons in the late 19th century), is today facing one of the worst humanitarian crises, the effects of which can also be seen and felt in the coffee sector. Since 2015, Yemeni coffee beans have become difficult to trade-in due to war and restrictions to transportation within the country. The most recent data shows a weak production level – about 9000 tons of coffee is being produced in Yemen per year.

Furthermore, coffee forms an important source of livelihood for Yemen's economy and particularly to the rural population. Estimates show that Yemen's untapped export potential in coffee is as high as 60% of the total export potential. Yemen's coffee export price is on average higher than the international average price, reflecting its superiority in quality. However, due to low productivity, this has not translated into high incomes. Low production is mainly due to shortage of water, pests, and diseases, costs of fertilizers and wages, etc. Further compounding the problem is Yemen's humanitarian crisis which has led to severe economic downfall and increased costs of trading, apart from improper logistics and infrastructure facilities.

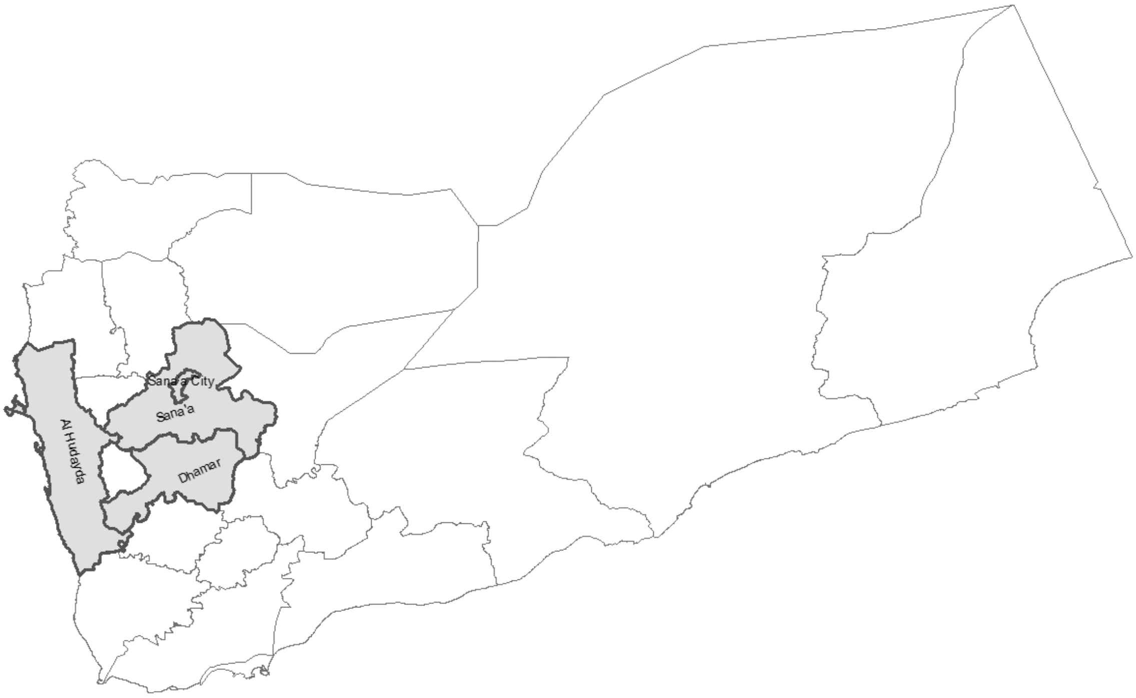
4. ASSESSMENT METHODOLOGY

This assessment was conducted in 4 main phases:

1. Phase (1): Desk Review to identify and target the main stakeholders for the survey and design the questionnaire forms for the targeted group as well testing the questionnaires it before conducting the surveys.
2. Phase (2): Field Assessment to collect data, process the data, code the data and analyze the data.
3. Phase (3): Team discussion of data findings.
4. Final phase (4): Reporting on data finding & analysis.

The assessment was conducted in July 2021 in four governorates - Amanat Alasimah, Sana'a, Hodeidah, Dhamar, targeting the most prominent traders, producers and famers as random samples to assess market gaps and opportunities. The surveys used a series of closed and open-ended questions to produce a better understanding of the gaps and opportunities in the coffee industry. The surveyor conducted in-person interviews with responses collected on paper-based surveys. The results were then transferred to Survey CTO, an Open Data Kit

(ODK) data collection platform, for review and analysis. Below map shows the targeted areas for the assessment.



Graph 1: Targeted areas for the rapid coffee market assessment

5. LIMITATIONS

In order to contextualize the findings of the assessment, it is important to be aware of the limitations. One limitation was the short time which allowed for the assessment to only be conducted in only four governorates as a rapid market assessment. In addition, the assessment was able to only focus on farmers and traders, more could be done in surveying other players in ample time and wider scope to have a wider understanding of the gaps in the sector.

6. ASSESSMENT RESULTS

Market Players Partnership and Membership Preferences

Figure 1: Market players memberships in associations

Results showed that 75% of the surveyed traders and farmers were not interested in building partnerships, being members of any associations or participating in joint/group initiatives. Surveyed participants stated that the main reasons for this was because they believed it was time consuming and there was lack of trust in such participations. Moreover, 90% of those surveyed work alone, without any partnerships with others, especially farmers, while only 17% of the coffee traders were part of associations.

The assessment shows that one of the analyses for this finding was related to the educational level, which had a clear impact on the decision of coffee players in joining partnerships or working as groups. Those who have higher educational degrees were more likely to work in partnerships, than those with lower educational levels.

Determinants of Coffee Market Prices

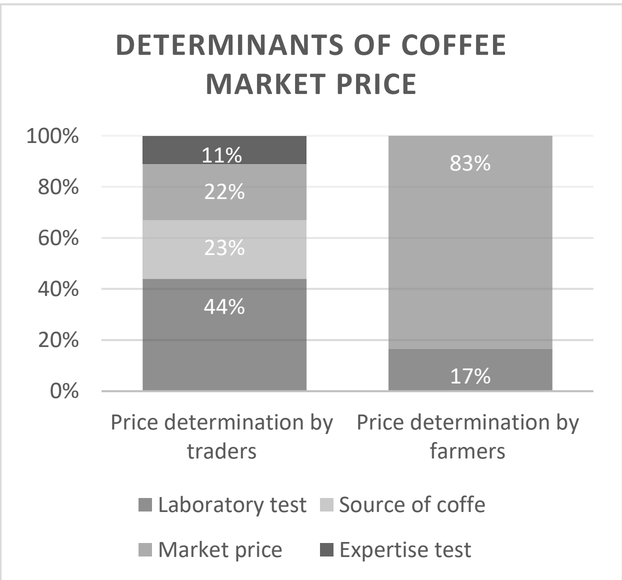


Figure 2: Determinants of coffee market price

The Yemeni coffee market has no dedicated authority or party that determines the prices of coffee. The comparison of findings showed that traders are more careful than farmers when it comes to determining the buying prices of coffee. Where the results demonstrated that 44% of traders conduct laboratory test to determine the quality and prices, but only 17% of farmers conduct laboratory testing. It is also clear in the assessment that the market demand and supply impact the coffee market prices for 83% of the surveyed farmers and only 22% of the traders.

Coffee Quality Testing

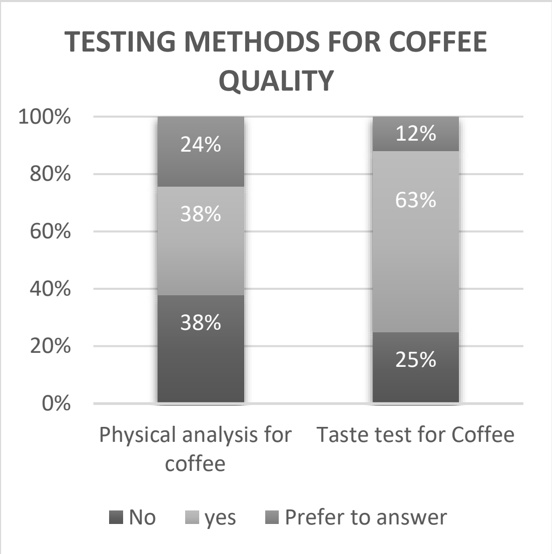


Figure 3: Testing methods for coffee quality

The data in the chart illustrates that 63% of coffee market players examine and taste the coffee they produce or sell, whereas 25% do not carry out such tests, and the rest (12%) preferred not to answer. In addition, 38% of coffee market players conduct physical analysis to test the quality of coffee while 38% do not conduct any physical analysis.

International Market Connectivity

The assessment also explored the connectivity of coffee market players with the international markets through looking into ways the market players collect information and communicates with the international markets. The results showed that 49% of the players did not have the capacity or know how to communicate with the international market while 25% of the players collect information and communicate using social media platforms. On the other hand, 13% use intermediary agencies and residents in other countries to promote and coordinate for their access to such markets. The remaining 13% conduct exposure visits international markets promoting for their products.

Payment Methods in the Coffee Market

96% of the surveyed players use cash as a means of payment in procuring inputs, while 4% procure on credit. During selling of their products, 50% sell on cash while 50% sell on credit.

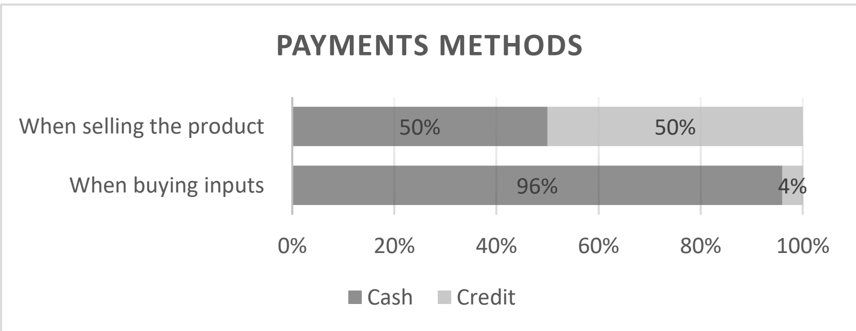


Figure 4: Payment's methods used among the market players

Primarily, the only trusted guarantee for credit payments while buying and selling is **trust and relationship** built between the market players. On the other hand, the guarantee for selling the coffee products is the **relationship, trust, friendship, family's (parents, grandparents) and close friends**. This approach has supported sustained trade of coffee in Yemen.

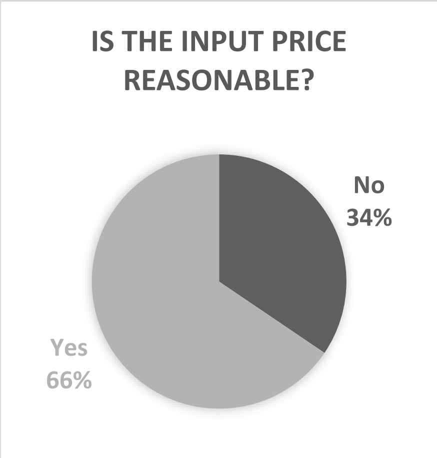


Figure 5: Input pricing in the coffee market

On the other hand, 66% of the coffee market players believe that the input cost for coffee is suitable and affordable compared to 34% who think otherwise. One of the traders stated that the Yemeni coffee deserves a higher price rate due its quality when it's purchased from the framers, however due to the low purchasing power in Yemen, it's challenging to exceed the market price currently and sell at higher prices.

To sum up, providing an opportunity for the coffee market player to expand and promote internationally will positively contribute to increase the coffee market value and production. This will help to increase the market production boosting the economy and improving the Yemenis livelihoods specifically in the rural areas.

Impact of infrastructure on the coffee market

Infrastructure plays a critical role in coffee market growth. This assessment explored the effectiveness of the infrastructure in the coffee sector. The graph below illustrates the satisfaction of the coffee market players with the services around the infrastructure, where only 2% of the targeted group that are fully satisfied with the current infrastructure, 36% are somehow satisfied and 39% are not satisfied.

According to the findings, the education service was the lowest rated service by the Yemeni coffee market players, followed by health and sanitation services, electricity and internet services. Water and road services were the highest ranked services by the coffee market players. The only service where some of the coffee market players were satisfied is the telecommunication services. For the rest of the services, the majority were unsatisfied as shown in the graph below.

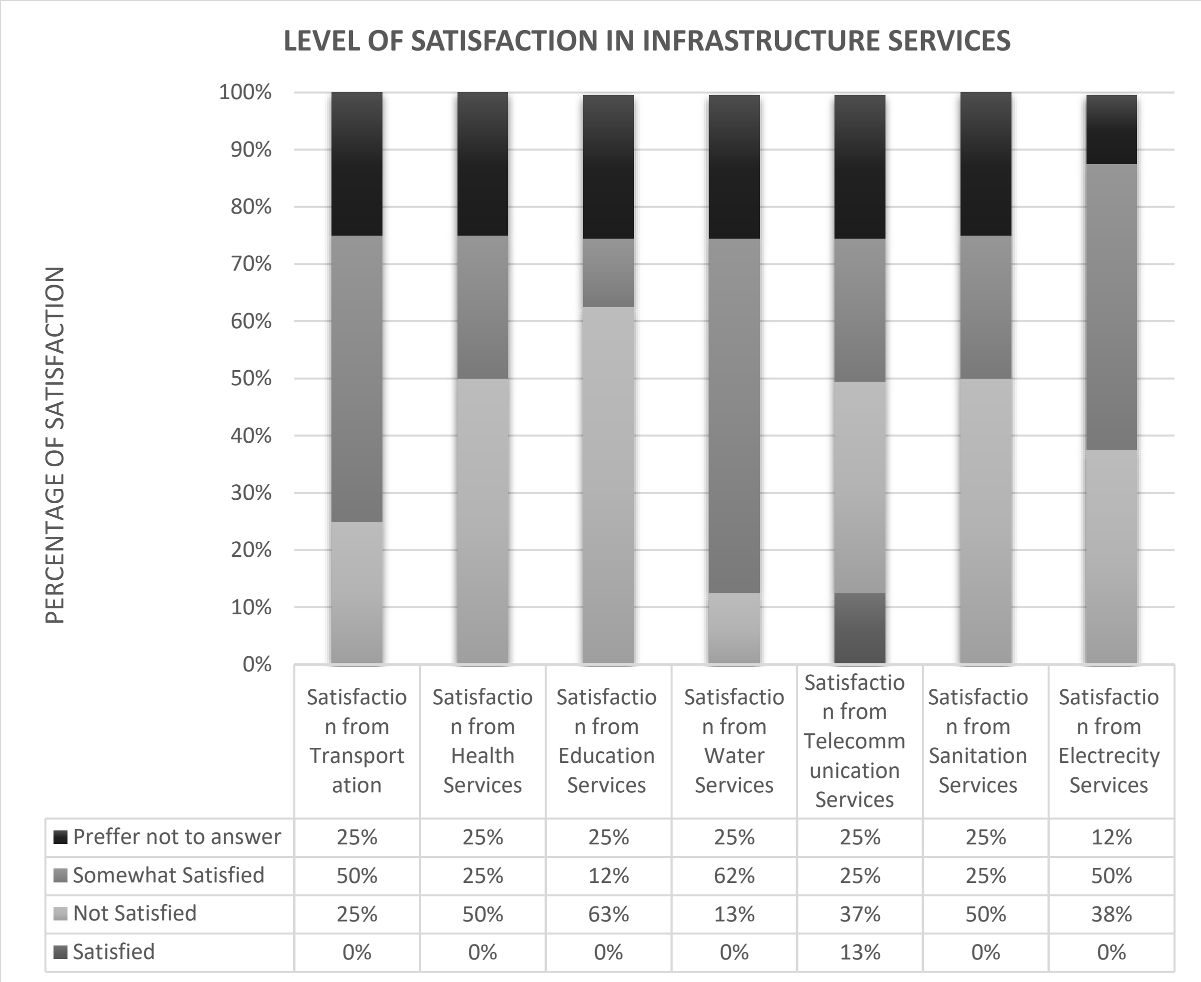


Figure 6: Market players satisfaction from the services around the infrastructure

a) *Transportation Accessibility for Coffee Market Players*

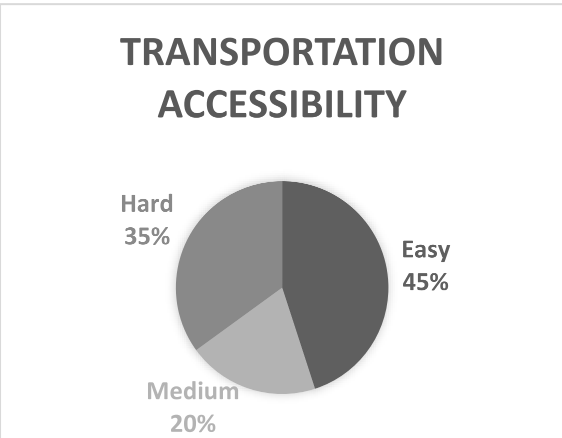


Figure 7: Accessibility of transportation in Yemen

Based on graph 6, 50% of the coffee market players were somehow satisfied from the transportation services, and 25% were unsatisfied.

Results also showed that transportation can be somehow accessible, where 45% from the players perceive is accessible but the increased price of fuel and diesel pause a constraint by increasing the transportation cost. 35% of the market players believe that transportation is challenging because of the security situation, internal road blockades and closure while 20%

believe that transportation is inaccessible and unattainable due to security, port closures & road blockades.

b) *Electricity and Alternative Energy*

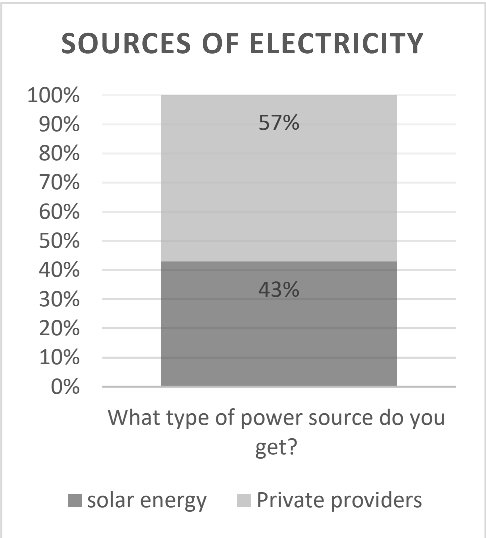


Figure 8: Common Sources of electricity used in Yemen

Findings from the graph 6 shows that 50% of coffee market players were somehow satisfied from the provided electricity services and 38% were not satisfied at all. Additionally, 57% of coffee market player get their electricity in Yemen through private providers whereas, 43% use solar energy for their businesses.

The power cuts from private providers are relatively low (rarely – sometimes), the cuts are around 20 minutes per day. The price of one kilowatt of electricity provided by the private providers is 300 Yemeni Rials. Moreover, the electricity provided by the private providers is generated by using diesel, which is sometimes troublesome. Sadly, the shortage of diesel is continuous around 75% - 99% of the time, the supply of diesel takes longer time to be provided sometimes it can take more than three months, which cause uncertainty on continued provision of electricity at affordable prices by these providers.

However, private providers provide electricity system with 3 VA power, which can be used for air conditioning systems that can protect the products from scents, smoke, and dust. The coffee market players use the conditioning systems as the following:

- 34% air conditioner.
- 33% regular ventilation air conditioning utilizing the windows covered with filter to prevent insects and dust entering.
- 17% ordinary ventilation.
- 16% private places with ventilation that is far from any scented places (such as cooking and smoking).

Other Findings:

Diversity of Coffee Production

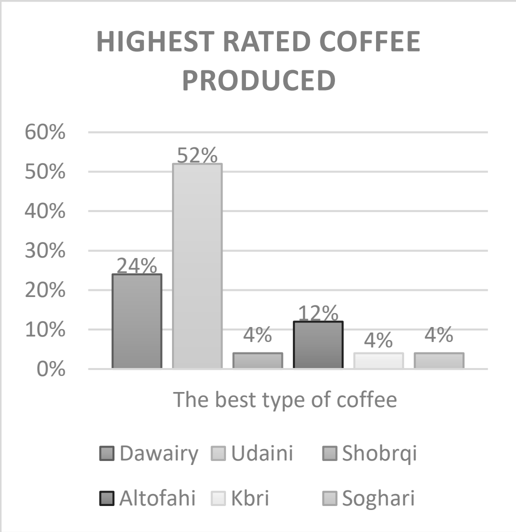


Figure 9: Best types of coffee rated by the coffee market players

The graph shows the most and least favorable types of coffee rated by the coffee market players. The Udaini coffee was the highest rated type of coffee followed by the Dawairy, Altofahi, Kbri, Shobriqi and Soghari.

Differentiation of Coffee for Quality and Grade

The coffee market players have specific indicators to differentiate & identify the quality and grade of coffee, these include:

- Size of coffee bean (without the shell)
- Coffee tree stems during the coffee harvesting period.
- Seeds quality.
- Age of the coffee tree.
- Coffee tree branches growth.
- Excessive production from the coffee tree.

Challenges in the Coffee Sector

There are many challenges facing the coffee sector in Yemen. Surveyed players ranked them from the most important to the least important as numbered below (1 being the most important).

1. Legal legislation that delays the operations in coffee industry.
2. Lack of confidence among the suppliers and their impulsiveness for results.
3. The high cost of production inputs.
4. Difficult and expensive shipment procedures.
5. Lack of flood irrigation water.

6. Spread of diseases and pests.
7. Low coffee yield.
8. Selling and buying prices are not reasonable/suitable.
9. Processing space is not enough.
10. Shortage of processing treatment centers.
11. Scarcity of equipment and devices for examination and testing
12. Lack of research papers and studies in the coffee sector.

Training & Capacity Support Received

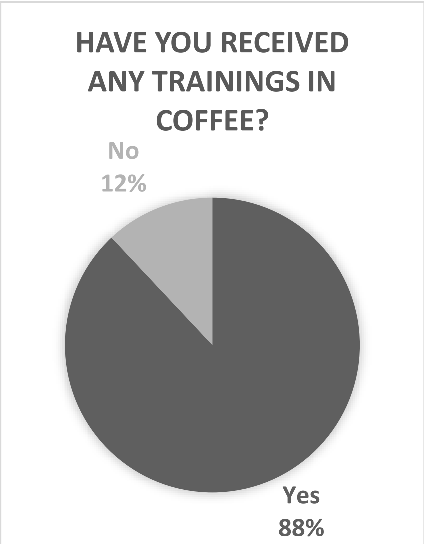


Figure 10: Percentage of market players that received trainings in their field

Results in the graph shows that 88% of the coffee market players surveyed have received trainings in several fields whereas the rest 12% did not receive any kind of trainings. Those who were trained expressed that the training was beneficial and had positive impacts on their businesses. Some of the training the market players received includes:

- Tasting skills of certified coffee cupper.
- Knowledge and skills developed in their coffee work field.
- Expanded on-job skills in the coffee sector.
- Cultivation and pests' control skills gained.
- Coffee roasting and tasting skills attained.
- Drying and preserving coffee skills attained.

Support Received

Figure 10: Percentage of market players that received support from organizations/associations

Only 17% of the surveyed farmers have received some kind of support, mostly in the form of on the farm training & capacity building, from organizations and associations while 83% of them did not receive any sort of support. On the other hand, all surveyed traders stated that they had not received any form of support, whether in training capacity or financial.

Investment & Support Opportunities in the Coffee Sector

Based on the assessment findings and analysis of the sector, we find that the sector needs critical support and investments in several areas to sustain and boost the performance of the sector as a whole. Below are the sectors for support and investment ranked from the most to least important:

1. Sorting, peeling and classification.
2. Packaging & purification.
3. Proper Drying Centers.
4. Research and studies centers.
5. Humidity and density testing devices.
6. Coffee training centers.

Moreover, the coffee market traders need additional services from the government listed below as the most to least important:

1. Strengthening market linkages through fairs & exhibitions.
2. Capacity building & training of coffee enterprises in business management, logistics and finance.
3. Provide technical guidelines for coffee producers to improve production and reduce operation costs.
4. Develop preventive & monitoring methods to control ‘cheating’ in the coffee sector i.e., in prices, quality and classification.
5. Raise taxes on imported coffee.
6. Market re-organization & legislation.
7. Improve the infrastructure to support the coffee sector.
8. Reducing the prices of coffee and its production costs.
9. Encourage the exporters to raise the prices to help producers provide higher quality.

Regarding to the specific needs of the coffee farmers, below are some the listed needs from most to the least important:

1. Good quality seedlings.
2. Logistics & transport facilitations.
3. Electricity services.
4. Construction of water tanks & other sources.
5. Support in setting suitable market prices to sell coffee.
6. Regulation of imported coffee.