



وكالة تنمية المنشآت
الصغيرة و الأَصغر
Small & Micro Enterprise
Promotion Service

التابعة للصندوق الاجتماعي للتنمية
Subsidiary of the Social Fund for Development



RAPID DESK-BASED ASSESSMENT ON THE COFFEE SECTOR

RAPID DESK-BASED ASSESSMENT ON THE COFFEE SECTOR

14TH, AUGUST 2019

Background

Even prior to the conflict in 2015, Yemen was a low-income country and one of the poorest in the Arab world. It was highly dependent on its declining oil resources for revenue which accounted for roughly %25 of GDP and %70 of all government revenue (World Bank, 2012). In 2006, Yemen tried to counter the effects of its declining oil resources by diversifying its economy through an economic reform program initiated and through its efforts in acceding the World Trade Organization. One of the reforms was to boost the agricultural sector and focus on high value crops such as coffee, which represent one of Yemen's few comparative advantages. This advantage is based on coffee's tradition, history, and unique flavor profile, which allows for its clear differentiation in international markets. Coffee represents a real opportunity to contribute to sustainable growth, social development and economic recovery and offering an alternative that could help in curbing the spread of Qat in rural areas.

Coffee is produced in an estimated 12 out of the 21 Yemeni Governorates, benefitting more than 640,000 people, and covering close to 35,000 hectares (Ha). From 2007 to 2012, coffee production in Yemen was almost stagnant at approximately 300,000 bags (empirical data accounts for 385,000 bags). As seen in the total coffee production there was a small increase in production, from 18,788 Metric Tons (MT) in 2008 to 19,828 (MT) in 2012 which correlates with the slight increase in area planted. While the Yemeni coffee trade enjoys some of the highest prices in the world, it also has some of the lowest yields. The official average production by smallholders is 550kg/ha. However, interviews with various local farmers lower this estimate to around 350kg/ha. (GIZ/SMEPS/USAID, 2008). Recent statistics are not available.

Prior to the conflict, coffee trade was managed by a limited number of political elite traders. However, recent years have shown growth in traders with young traders joining the market place and an open to competition in the market. It remains though, that the sector suffers from scarcity of water and productivity. Collective support is needed to boost the sectors production, productivity and quality.

Previous Studies & Common Findings

Over the past decade, several studies have been conducted on the coffee value chain in Yemen, including a joint study by the German Development Corporation (GIZ), USAID and SMEPS in 2008 as well as a comprehensive agricultural value chain study conducted by the World Bank, SMEPS and independent consultants in 2009.

All of these studies highlight two main constraints Yemeni coffee value chain: 1. Low productivity, 2. Quality. These have been summarized and grouped as, productivity, access to markets and quality, creation of a coffee entity, structural problems (such as water scarcity and limited fertile land) decreased internal consumption, and policy issues including: joining the International Coffee Organization (ICO), policy dialog amongst coffee stakeholders, and accession to the WTO.

1. **Productivity:** All findings show this as one of the biggest problems in coffee sector leading to increase in prices, poses challenges in finding potential external buyers, and also makes it very difficult for exporters to sustain a long-term relationship with external markets due to instability of production

2. **Access to markets and quality improvement:** Lack of information along the value chain makes it difficult for farmers to adapt to international and specialty coffee markets. Coffee value chain actors lack the means of passing this information to farmers on best practices and tools of enhancing the coffee quality according to SCA (Specialty Coffee Association) standards such drying beds, packaging, processing.

3. **Establishment of a coffee ‘entity’:** A coffee entity was created in 2008/2007. This entity’s main role was to monitor the coffee chain ensuring quality standards are taken under consideration, fair pricing among all value chain actors, and marketing for coffee in external market. The entity failed due to lack of commitment and dominance in the coffee trade industry by elites.

4. When analyzing new market opportunities to generate sustainable income for rural communities, SMEPS / World Bank 2009, USAID 2008, GTZ 2008, and USAID 2005 studies recommend working towards differentiated specialty coffee markets. However, there are some other constraints such as the **limited capacity of local institutions** and lack of a common language between producers, collectors, processors, and exporters that have impeded steady advances in the industry.

5. **Structural conditions** such as water scarcity and limited fertile land available have received less attention, as they require relatively higher investments. Recovering areas once planted in coffee would require a strategy to lure producers away.

6. The **political situation and security factors** impact any efforts made to enable the economy to enter the competitive path of open markets by threatening or disrupting the economy, particularly in the country’s rural areas.

One criticism of these previous studies is that they clustered with coffee value chain as a ‘one market’ commodity with all chain players having almost similar weights despite their effects on the chain; they considered farmers and exporters as the highest in weight among other players. However, the chain has changed since the last studies with two coffee markets in the chain (Specialty Market & Commercial Market); each having its own value chain. In specialty coffee market, exporters take the lead on most of the value chain sections as they handle the quality assurance, collection, processing, exporting, leading to the direct benefit of the farmer, shortening the value chain and building long term between farmer and exporter.

This new chain, which is called ‘The Third Wave’, has its impact on encouraging farmers to produce very high-quality coffee in exchange of high price. Third wave customers retain curious stance about coffee details; they care about the farmers, what prices they get for their high-quality coffee and how purchasing this coffee with high prices will impact those farmers, society and the community.

Main actors & players in the Yemeni Coffee Sector

1. SMEPS (Talooq and Buraa)

Since 2008, the Small and Micro Enterprise Promotion Services (SMEPS), a subsidiary of the Social Fund for Development (SFD) in Yemen, has worked to support coffee farmers. Within those eleven years, many challenges were encountered as SMEPS saw a transformation of coffee from a politicized commodity whose production was dominated by elites to a more inclusive commodity, celebrated and cultivated by many small farmers, including a young generation of coffee farmers, who experienced a reigniting of the culture of coffee in them. The transformation started with country-wide awareness and promotional campaigns that brought in all coffee players from farmers, academia, traders, retailers and baristas to improve the quality of coffee to the very recent support in providing resilient grants to coffee farmers to improve their production, quality and incomes.

SMEPS main role is facilitating; bringing different market players together, creating new markets, providing access to services and strengthening market linkages. Obvious impact has been felt during the past years with the expansion of coffee trade and coffee players; including young traders, encouraging coffee export and support to small-scale farmers. Alongside this, SMEPS continues to contribute in:

- Training farmers on pre and post harvesting processes (pruning and picking coffee cherries, using natural fertilizers, proper drying, storing and packaging, modern irrigation techniques)
- Provision of resilience grants to affected farmers to procure irrigation systems, agricultural inputs, drying beds etc.)

- Supporting coffee farmers with water sources – harvesting tanks.
- Supporting Bura'a and Talooq associations with financial and technical support, exposure visits and linking talooq association with internal & external specialty markets as well as exporters.
- Providing cupping courses and quality enhancement sessions.

Outcomes:

- SMEPS increased the level of awareness on the cultural value of coffee and its importance attracting youth and young people to the industry, creating a competitive market for coffee and raising the reputation in external specialty markets.
- The awareness SMEPS spread about specialty coffee standards and Cupping courses that SMEPS held has led to the increase in certified coffee cuppers who play an important role to increase the momentum in the specialty coffee market as they deal closely with farmers, collectors, and external market buyers, as external buyers consider those certified cuppers as trusted sellers.
- SMEPS has invested a lot in supporting women farmers who are the primary workers in coffee farms. By doing so, women have been empowered to be literate in various issues and have been able to make decisions on coffee farming in the households.
- Technical support to framers and associations have significantly increased production and quality increasing the incomes of farmers and household livelihoods.
- Water harvesting tanks solved a huge part of the problem for coffee farmers increasing their productivity.

2. ACTED (Rayma)

The Agency for Technical Cooperation and Development (ACTED) worked in supporting smallholder coffee producers in Raymah providing the following support:

- Farmer training on pre and post-harvest process (pruning and picking coffee cherries)
- Distribution of fertilizers to farmers and showing them how to use it
- Establishing 8 cooperatives in Raymah.
- Capacity building to cooperatives
- Linking cooperatives to international markets

3. New Exporters & Processors

New coffee startups exporters and processors that have been established by certified coffee cuppers as well as Yemeni companies and a few international companies.

These work in:

- Supporting farmers and local traders improve their quality and standards as per certified coffee standards

- Invest in building the capacities of associations through technical support and exposure visits.
- Partnering with farmers to improve the quality of coffee.
- Advocating for Yemeni coffee and farmers in external markets.

Such created partnerships between exporters, processors and farmers will have tangible impact within 4 to 5 years as they support farmers and associations to increase production and quality.

Recommended Interventions:

1. Support farmers and associations to increase the productivity and production:

Intervention: Support to smallholder farmers through resilience grants and technical support to establish harvest and water tanks as well as adopt to modern irrigation systems and technologies. Supporting coffee associations with grants and technical support to establish social enterprises and other systems for information sharing with their members as well as link them with traders, exporters and processors. In addition, associations should be built on marketing and advocacy for their members and coffee.

2. Lack of standards and compliance with international standards endanger the Yemeni coffee industry's capacity to respond to the increased demand for quality coffee in the international markets. Irregular harvesting practices, minimal post-harvesting methodologies, and deficient drying and de-pulping techniques decrease the uniformity and quality of coffees.

Intervention: Support specialty coffee companies, traders and processors with matching grants/ access to finance (through linking them with MFIs) to introduce new technologies in coffee quality assurance, cupping etc.

3. Other intervention proposals include:

- Organizing exhibitions and exposure visits for coffee value chain players such as exporters, processors and coffee companies to introduce new technologies in the sector.
- Providing innovation grants to new startups such as ideas on introducing Yemeni Qishr (coffee husk) in a creative packaged way
- Conducting frequent cupping trainings and session to qualify a larger number of people in the field
- njecting financing funds to coffee associations to buy quality coffee from farmers. These funds go back to being revolving funds in the associations for supporting their members.
- Establishing coffee associations on coffee producing areas where there are no associations.