



# THE SUSTAINABLE COFFEE PROGRAM

A business case for sustainable coffee production

## ETHIOPIA

OCTOBER 2013

### The birthplace of coffee

Ethiopia is the largest coffee producer in Africa. It produces high quality washed coffees (30% of exports) as well as unwashed coffees (70% of exports) that often serve as a replacement for Brazilian Arabicas. Coffee is the backbone of the economy and the leading export. The European Union is the primary market, accounting for 60% of sales.

Ethiopia's 1.2 million smallholder farmers contribute over 90% of production. Most smallholders use traditional, farming practices that are already chemical-free. Aging tree stock is a key concern. Although there is a strong cooperative movement, smallholders still sell the vast majority of their coffee through private processors – both wet mills (washed) and hullers (unwashed). There is also a small but fast-growing plantation (estate) sector.

There is great potential for Ethiopia to increase production. In addition to improving yields, the area under coffee cultivation is expected to continue to rise in suitable farming areas, in line with the government's targets.

### Emerging sustainability trends

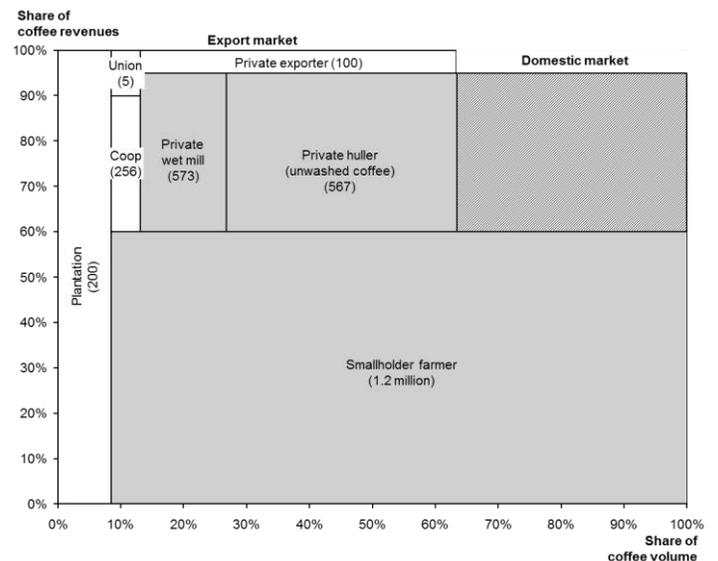
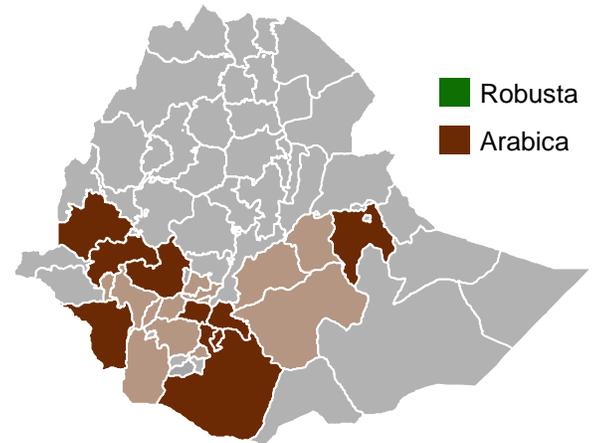
All private processors and exporters are required to conduct business through the Ethiopia Commodity Exchange (ECX). Introduced in 2008, the ECX receives and warehouses all coffee deliveries, bulks them into standard quality grades, and facilitates trade through a live exchange. It does not, however, enable supply chain traceability, a prerequisite for most sustainability initiatives.

Cooperatives (about 7% of exports) and large plantations (about 5%) are exempted from selling through ECX. Over 25% of their sales are certified, predominantly Fair Trade.

The segregation in Ethiopia's supply chain removes incentives for private processors or exporters to work direct with farmers or co-invest in projects. However, there is still a great need to help Ethiopia's farmers increase yields. For private processors, there is much to gain, both for owners and Government, by shifting to more sustainable practices.

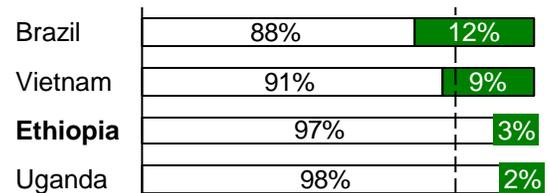
#### Quick facts:

- Smallholder farmers: 1.2 million
- Avg. coffee farm size: 0.67 hectares
- Avg. yield: 268 kg green/farmer
- Domestic consumption: 40% of total production
- Number of indigenous Arabica varieties: over 1,000



### Ratio of "sustainable" sales\*

Out of total 2011/12 crop exports



Conventional exports  
 "Sustainable" sales  
 8% Global Average "Sustainable" sales

\* Includes UTZ, Rainforest Alliance, Fair Trade, 4Cs



## Key opportunities

### Increasing smallholder productivity

More sustainable farming practices could help **one million coffee farmers double yields**, resulting in a 50-75% increase in farmer net incomes after eight years.

Farmers would require training on sustainable agronomic practices and, in particular, support to rejuvenate or replant old, unproductive trees. The projected impact would be an extra 5 million bags in annual production and **\$800 million in added export revenues**.

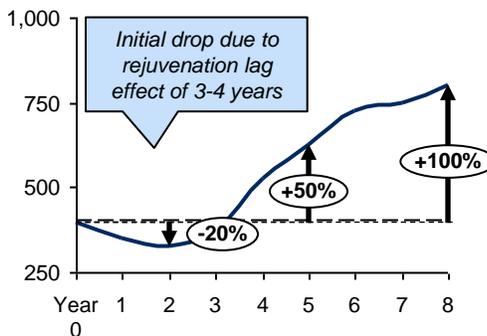
### Optimizing processing industries

Over 500 private wet mills and hulling stations (out of more than 1,000 total) could be operated more sustainably and efficiently.

At wet mills, **replacing old machines with “ecopulpers”** could bring down operating costs and reduce environmental impact, collectively saving 2 billion liters of water per year, in a time of growing water scarcity, and averting downstream pollution.

At hulling stations, investments in modern equipment and improved facilities could bring **efficiency gains and greatly improved working conditions**.

### Yields could double\* Kg green coffee per hectare

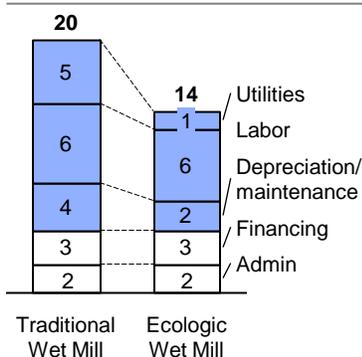


### Through improved agronomy practices

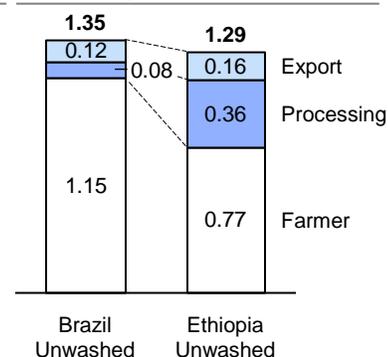
- Tree rejuvenation (stumping/pruning)
- Gradual replanting
- Compost, mulch, weeding, shade control
- Rock phosphate and lime (if necessary)
- Integrated pest management (IPM)

### Efficiency and sustainability could be improved... US\$ per lb green

#### At wet mills



#### At hulling stations



## A strategy for co-investing in sustainability

The potential to double yields offers an exceptionally strong return for donors and government: an initial investment of \$60 per farmer could create over \$250 per farmer in added net income by Year 8. To quicken adoption and reduce lost income during the initial years of the tree rejuvenation program, one option could be to finance farmers. Financing made available to smooth farmer cash flow in early years could be repaid in subsequent years through coffee sales deductions. Training and follow-up could be sustained by the Ethiopian government or other actors through improved extension service delivery.

There is a business case for many wet mills and hulling stations to invest in more sustainable practices, particularly older ones with outdated machinery. Although there may only be modest financial benefits for owners (i.e., a 10% IRR for the average mill), the estimated social and environmental gains represent a 2-to-1 return on investments in training and enforcing more sustainable practices.

Key sources: Ministry of Agriculture and Rural Development; Ethiopian Coffee Exporters Association; National Bank of Ethiopia; TechnoServe program analysis from 2007 to 2012.

prepared by

powered by

IDH [coffee@idhsustainabletrade.com](mailto:coffee@idhsustainabletrade.com)  
[www.idhsustainabletrade.com/coffee](http://www.idhsustainabletrade.com/coffee)

TechnoServe [corporatepartnerships@technoserve.org](mailto:corporatepartnerships@technoserve.org)  
[www.technoserve.org](http://www.technoserve.org)