



## TERMS OF REFERENCE (TOR)

### MARKET SYSTEM ANALYSIS OF NEPALESE COFFEE

#### 1. Introduction:

Under “European Union support to the Competitiveness of Quality Coffee in Nepal”, a Consortium of Good Neighbors International and Beautiful Coffee Nepal, has been implementing **Coffee Value Chain Development Project (CVCDP)** in Kaski, Syangja, Gulmi and Palpa districts in western Nepal. The overall objective of the CVCDP is to reduce poverty and stimulate trade led economic growth through strengthening of competitiveness of small scale coffee growers. To achieve its overall objective, the CVCDP mainly focuses on increasing coverage, production and productivity of organic and conventional coffee, institutionalize coffee value chain and effective policy advocacy through capacity strengthening of institutions in coffee sector, and improving marketing system of coffee at domestic and international market. The CVCDP intends to reach over 3,000 coffee farmers directly and support them to produce high quality coffee and perform appropriate processing and trading through cooperatives so that the benefits derived from coffee sector trickles down the rural economy. To achieve its objective, the project has been implementing a variety of activities through coffee producer groups/cooperatives and their associations at district level. Sensitization of coffee value chain actors on current demand and supply situation as well as recommendation of business interventions to promote coffee sector is the key activity that the CVCDP envisages to improve marketing system of coffee in domestic and international market. A study on identifying bottlenecks at different level of value chain of Nepalese coffee as well as signifying the area of intervention (leverage points) is of dire need for actors involved in coffee value chain.

Therefore, the CVCDP proposes this study which shall capture current demand and supply situation of Nepalese Coffee in domestic and export market as well as pin point constraints and opportunities that exist at each level of the coffee value chain, from input supply to consumption. Findings and recommendation of this study are anticipated to be useful not only for the CVCDP to direct its activities but also may guide stakeholders and market actors for effective policy formulation and execution of the collective actions to hoist the coffee sub-sector.

## **2. Objective of the study:**

This study aims to understand the current demand and supply situation of Nepalese Coffee in domestic and export market as well as identify leverage points based on constraints and opportunities exist at each function of the value chain, from input supply to consumption. This study shall be further braced by the consumption and import pattern existing in domestic coffee market in Nepal.

## **3. Scope of the study:**

The study should be based on primary data as far as possible. However, secondary data may be used wherever needed. The study will need to assess the historical and present demand and supply situation of Nepalese Coffee as well as pin point business intervention based on constraints and opportunities existing in each level of Nepalese Coffee value chain. It is expected that annual historical data about import and export and domestic consumption from 1999-2016 will be utilized. The study will estimate the gap between demand and domestic coffee production, and will indicate the role of imports and exports in contributing to the gap. All coffee products (instant, raw bean, filter) will need to be examined to assess coffee consumption and import pattern in domestic market. Consumer preference study with urban consumers is proposed in order to examine the attitude of the domestic consumer. Perception and practical application of quality parameters of coffee by the market actors from production to marketing shall be the key part of the study. Similarly, the trend on use of Nepal Coffee logo for marketing as well as opportunities and constraints associated with its use must be well assessed by the study. This study is also expected to highlight the scope of establishing the monitoring mechanism for materialization of Nepal Coffee logo.

Details of information required are provided in the methodology section.

#### **4. Methodology:**

##### **4.1.1 Assessing demand and supply situation:**

The study shall clearly show demand and supply situation along with assessment of cost, price and quality parameters of Nepalese coffee. It should also clearly indicate the gap between production and demand (sufficiency or deficiency) over years. Following parameters on demand and supply side can be assessed to show the results:

##### **4.1.1.1 Supply side:**

The study will need to consider the following supply side parameters, in addition to others that the consultant may identify:

- Quantity of import of coffee including instant and filter coffees.
- Annual physical production and value of coffee (dry cherry, dry parchment and green bean)
- Production and import trend of coffee till 2017
- Annual percentage growth in physical production and value of production of coffee has the coffee sub sector's share been increasing, stable, or decreasing?
- Annual percentage growth in import with its value of different coffee products, has the coffee import share been increasing, stable, or decreasing?
- Constraints and opportunities associated with existing organic certification practice and way forward for its wider adaptability
- Cost of production and cost: benefit analysis of coffee production; benefit shared during value addition; (should clearly indicate how cooperatives and associated farmers can be benefitted by value addition)

##### **4.1.1.2 Demand Side**

- Total (domestic and export) demand of Nepalese Coffee (green bean) and its trend over years
- Domestic demand and its trend (quantity and type of coffee and consumer preference in domestic market)
- Annual percentage growth of demand in domestic and export market

- Involvement of cooperatives and private traders on collection and trading of Nepali Coffee
- Price trend of Nepali Coffee: Analysis of Price trend of different brands of Nepali coffee in the market (retail as well as wholesale) compared to minimum support price fixed by Price Fixing Committee in NTCDB. Compare the price of Nepali coffee with international market price (available in ICO website) to see if Nepali coffee can sustain in the market with the high price as compared to coffee produced in India and other countries.

#### **4.1.2 Business intervention for each level (function) of Nepalese coffee value chain**

Based on the constraints and opportunities, this study should identify leverage points persisted and suggest interventions for each level (function) of coffee value chain. Participatory Market System Analysis (PMSA) engaging all kind of market actors ie input suppliers, producers, processors, traders and government stakeholders (enablers) etc. is suggested to identify the leverage points and recommend business intervention for each level of Nepalese Coffee value chain. PMSA is suggested to be carried out with following market actors:

- Input suppliers: Agrovets (must deal only about organic coffee production), Nursery owners etc
- Producers: Farmers associated with Coffee Cooperatives and Coffee Producer Groups
- Processors: Pulping, hulling and roasting operators
- Traders: Coffee buyers and exporters
- Enablers: Government stakeholders associated with coffee production, marketing and export

Outcomes of the PMSA shall recommend business interventions needed to promote coffee sub-sector in: Input supply, Production, Processing and Marketing system of Nepalese coffee along with proposed business linkages among core market actors to uplift the sector.

#### **4.1.4. Conclusions and Recommendations**

Based on the analysis of overall market system of the Nepalese coffee, necessary recommendations and conclusions shall be presented. Recommendation of well-defined list of business/market interventions are expected from this study. Besides, the study may also suggest what should be the strategy to maintain the present price of Nepali coffee in the market? What should be the price trend for the coming years? Option of maintaining/increasing the price of Nepali coffee with enhanced quality might not be feasible as Nepali coffee is already enjoying the price which is very high, that of specialty coffee.

#### **4.1.5. Informational Sources**

It is expected that the study will rely on primary data sources as far as possible and supplemented by secondary data as required. A quick review of the Coffee database in Nepal, 2014, CoPP/Helvetas and NTCDB will provide an insight of the Nepalese coffee sector. A review of publications from different agencies including that of National Tea and Coffee Development Board (NTCDB), and those of other agencies will be undertaken as the primary sources of information. Trade related data can be obtained from Trade Promotion and Export Centre and Agri-Business Trade and Business Directorate. In addition to this, the consultant will make visits to major coffee market centers and townships of Nepal to understand the actual consumption pattern and type of coffee consumed and reasons. The consultant will also conduct Participatory Market System Analysis (PMSA) with core market actors and enablers of the Nepalese coffee sector and recommend interventions for each function of the coffee value chain.

### **5. Study Team and Terms of Reference**

The study team (consultants for the study) shall comprises an agriculture market economist (Lead) and an agriculturist with experience in the coffee sector. CVCDP's officials are also available to provide technical information about the coffee farming during the course of study.

### **5.1 Terms of Reference of Coffee Economist**

The consultant will essentially consider the methodology in section 4 above as the terms of reference. The consultant will prepare a high quality report for submission to CVCDP. The report should include carefully analyzed findings, and recommended future interventions. It should also necessarily include the executive summary.

### **5.2 Qualification of Consultant**

The consultant (Lead) shall have at least master's degree in agricultural economics or economics with a minimum of 7 years of experience in coffee/agriculture project studies or a PhD with 5 years of agricultural/market studies background. S/he must possess good statistical knowledge, and knowledge of quantitative data analysis. S/he must be well versed with the trade related data and idea on import export transactions and knowledgeable about the policy, rules and regulations pertaining to cash based agriculture commodity.

### **6. Duration of Study**

It is expected that the study will be completed within two months from the date of signing the contract. The survey may require an estimated 35 working days for overall study and reporting. The final report shall be submitted before the end of June 2018. The report shall be finalised within two weeks of submission of the draft report incorporating comments and feedbacks from the concerned officials of GNI Nepal, BeaCoN and NTCDB.

<b>SN</b>	<b>Task</b>	<b>No of Days</b>
1	National consultative meeting	1
2	Preparation of detail methodology of the study (design forms and formats, checklists, PMSA guidelines)	3
3	Secondary data collection	5
4	Field observation, semi-structured interview and KII and FGD	10
5	Participatory Market System Analysis (PMSA) workshop	6
6	Data and information analysis	3
7	Report writing	6
8	Final report presentation	1
<b>Total</b>		<b>35</b>

## **7. Deliverables**

The following outputs are expected out of the study

- Action plan of the study within 10 days after signing of agreement
- Draft report: within 1.5 months of contract agreement
- Final report: within 2 months of contract agreement, the consultant should present the findings of the study to concerned personnel of GNI Nepal and BeaCoN at the day of final report submission
- All electronic version of the data input, analysis and model specification

## **8. Limitations**

The consultant shall communicate any inconveniences, data inconsistency and findings related concerns to the CVCDP's assigned personnel. The methodology and relevant tools can be adjusted in consultation with Project Management team.