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**Potential for diversification  
in coffee exporting countries**

**Executive Summary**

## **Background**

1. This document contains the final version of the Executive Summary of Volume I (Guidelines for Policy Makers) of the study on the potential for diversification in coffee exporting countries, and the conclusions of the country case studies for Honduras and Nicaragua, India, Malawi, Tanzania, Uganda and Zimbabwe contained in Volume II (Country Case Studies). These documents have been submitted by the Project Executing Agency, the Natural Resources Institute.

2. A CD-Rom containing the text of both volumes will be distributed at the 96<sup>th</sup> Session of the International Coffee Council from 25 – 29 September 2006.

## **Action**

The Council is requested to take note of this report.

## Executive Summary

The Common Fund for Commodities (CFC) together with the International Coffee Organization (ICO) has identified diversification in coffee producing countries as an important area for action in the context of sustained low coffee prices and the “coffee crisis”. The current crisis is severely impacting millions of small-scale coffee growers, their families and communities in many developing world producer countries as well as workers and others involved in the coffee chain.

The global objective of this study is to explore the possibility of carrying out practical diversification programmes within the framework of the fight against poverty in coffee producing areas and to promote rural income growth, taking into account the various constraints of each of the selected countries.

This report therefore aims to contribute to a greater understanding of factors that facilitate successful diversification, including the necessary ‘cushions’. We have reviewed literature and experience in diversification to date and relate it to the specific situation of coffee farmers and offer guidelines to policy makers for identifying and designing diversification initiatives in coffee producing countries.

The report is structured as follows. In the introductory chapter we explain what we mean by diversification and set out the objectives and framework for the study. We set out in Chapter 2 the factors that are pushing coffee farmers and other key stakeholders in the chain to consider livelihood options other than coffee and also the ‘pull’ factors, i.e. opportunities that may be taken up by farmers, traders and processors. Chapter 3 is concerned with the characteristics of coffee farmers and other stakeholders in the coffee chain in exporting countries. In Chapter 4 the different diversification options for coffee producers are set out in greater detail, both vertical and horizontal. Chapter 5 discusses the necessary conditions for successful diversification for coffee farmers. The Diversification of Enterprise in Coffee Countries and Areas (DECCA) process as a framework for action is explained in Chapter 6. In Chapter 7 we make recommendations for the way forward, based on our own experience and the feedback from a Workshop held at International Coffee Organization. There are seven Appendices to the main report. The first is a list of people contacted during the course of the study. In Appendix 2 we provide more detail on options for differentiated coffee. Appendix 3 outlines the local economic development (LED), Rural Economic and Enterprise Development (REED) and Territorial Approach to Rural Business Development TA-RBD approaches. Appendix 5 outlines some recent risk mitigation measures for rural finance. Appendix 6 contains details of the Workshop held at the International Coffee Organization on May 24 to present and discuss the draft report and case studies. Appendix 7 contains the PowerPoint presentations made at the Workshop.

Material for this study was collected through a combination of literature reviews, country case studies (based on key informant interviews, analysis of published and grey literature and data sets that were available) and discussions with relevant people in the trade. The report was written by NRI in collaboration with CFC project partners in the case study countries. The case study countries were identified by CFC, namely Honduras, India, Malawi, Nicaragua, Tanzania, Uganda and Zimbabwe. Full

case study reports are contained in Volume 2. NRI developed a framework for the case studies which were then written by CFC partners, with some inputs from NRI staff.

Terms of reference for the study were agreed in July 2005. We commenced a review of literature on diversification in the coffee and related sectors in August 2005 and based on this developed a draft framework for the case studies which was shared with collaborators in September 2005. Drafts of the case studies were completed early in 2006 and were reviewed and revised in spring 2006. In the meantime the material from the literature review and case studies was analysed and the main report was written leading to the development of the DECCA framework for action.

Diversification is a cross-cutting issue and therefore requires a multi-dimensional approach. It is a long term process that involves change at the farmer level and amongst entrepreneurs, supported by service providers in the private and public sectors and a conducive policy environment. We therefore consider diversification from a number of levels from the farm household to national policy makers. Broadly speaking, this report examines diversification in terms of two routes available to producers:

1. Measures that seek to capture a higher proportion of the value chain (i.e. to move the producer up the value chain) which we will term *vertical diversification*, and
2. Investment in alternative crops or products including non-agricultural products: *horizontal diversification*.

We set out the factors that are pushing coffee farmers and other key stakeholders along the chain to consider livelihood options other than coffee. The nature of the coffee market (particularly over-supply and the resultant downward pressure on prices; increased price volatility and declining terms of trade) and the general economic environment mean that farmers are receiving poor returns from the production of coffee, partly because a greater proportion of the value added from coffee is captured outside the producing country as well as technical changes in the dynamics of supply which mean that many producers are no longer competitive. These characteristics and changes in the coffee market are impacting on producers, especially smallholders, and “pushing” them to diversify out of coffee. Moreover, the kinds of coffee demanded in the market are changing. There are however opportunities that may be taken up by farmers, traders and processors in other agricultural sectors and outside of agriculture in the rural non-farm economy (RNFE) and beyond. At the micro level we consider the way in which farmers have diversified their livelihoods both to minimise the risks associated with dependence on one cash crop such as coffee and to capture the benefits associated with adding value to the crop or investing in alternative opportunities.

There is a wide range of opportunities for diversification both in terms of vertical diversification and horizontal which have differing resource implications. Options for vertical diversification range from on-farm agronomic and post harvest efficiency to improved institutions for marketing and organisation to transforming the product and marketing a differentiated product. The viability of vertical diversification options depends upon scope for improving competitiveness and the ability to produce and market a quality product. Differentiated coffee, for example, is not the answer for all

farmers. Options for horizontal diversification can be presented in terms of new markets for high value agriculture (particularly horticulture, but also spices and nuts) and options beyond agriculture in the rural non-farm economy. The development of the RNFE in developing countries is a remarkably wide subject. A significant challenge to the policy maker is how to go about prioritising? Principles governing intervention in the RNFE include:

- Prioritise activities targeting attractive markets
- Support producers to meet market requirements
- Improve market access
- Whenever relevant and feasible, promote the development of common interest producer associations and co-operatives
- Develop flexible and innovative institutional coalitions
- Adopt a sub-sector approach
- Develop sustainability strategies from the beginning

Vertical and horizontal approaches are not mutually exclusive, since coffee growers can pursue a diversified strategy that combines increased competitiveness within coffee along with the introduction of other activities.

However, can all coffee farmers take up these new opportunities? The location and assets of coffee farmers may restrict their ability to participate in these new markets. While most farmers are facing sustained low prices for their coffee, not all farmers are the same in terms of their ability to cope with the unfavourable conditions of the coffee market or take up alternative means of sustaining their livelihoods. Some farmers, especially larger scale coffee farmers may produce a wide variety of cash crops and have access to other sources of income for their households whereas smaller farmers may be dependent upon coffee for cash income and cultivate other crops solely for household consumption. However, the way in which coffee production is integrated into livelihoods varies between areas and countries, market access for perishable food commodities being but one variable.

There are wide variations in the ability of coffee farmers to diversify. Alternatives are often scarce and may only offer opportunities to a limited number of people. Problems also lie in the policy environment and the vibrancy, or lack of it, of the local economy and also international markets. In addition, coffee farmers may not have the skills or resources to exploit other alternatives, or may not be able to access the new markets that are emerging due to remoteness or terrain, even if they could produce the crops. Indeed, the coffee sector is often characterised by low mobility, while marketing and support services can be a weak link.

For diversification opportunities to be adopted in a sustainable manner a number of factors must be in place. Importantly there needs to be a good balance between public sector co-ordination and private sector participation and a supportive institutional framework. There needs to be market focus as well as appropriate technology and skills inputs, support systems and collective action. The policy and regulatory environment must support enterprise. Whilst the emerging literature offers some useful principles that should guide action for diversification, there is little outside Central America that specifically discusses the coffee sector and almost nothing that provides a unifying framework for action. We therefore turn to the evolving literature on local economic development (LED) in order to provide a picture of the

requirements at different levels. A LED framework enables a conceptual link between the household/community level to the regional and national levels and to understand the factors driving the market for coffee and alternative crops or economic activities.

On the basis of our review of diversification experience, literature and wider spatial analyses and approaches to LED we have developed the Diversification of Enterprise in Coffee Countries and Areas (DECCA) process as a framework for action. Through this approach we aim to provide specific guidance for policy makers regarding the steps that they could make, in collaboration with relevant stakeholders from across the market chain and in the private sector, and suggest tools that they may use at the different steps in the policy making process with regard to diversification.

The DECCA process is designed to operate at the Area level so that diversification initiatives are demand driven, from the bottom up, i.e. from the farmer group or enterprise level. A multi-stakeholder Forum drives the process with oversight and co-ordination from a public sector Champion. This champion will be pivotal in providing a coordination function between stakeholders, particularly across government. Private sector participation is critical as is a market-led approach using resources from a Challenge Fund. It is important however that the state maintains an oversight role and co-ordinates the players, especially over the long-term.

Key steps in the DECCA process include:

1. Identification of public sector champion
2. Formation of DECCA Forum at National level
3. Establishment of DECCA Challenge Fund
4. Establishment of DECCA Forum at area level
5. Objectives for DECCA Challenge Fund established at Area level by Forum
6. Initiation of DECCA process at area level
  - a. Initial appraisal
  - b. Market opportunities identification by Area Forum
  - c. Participatory value chain analysis by Task Groups
  - d. Applications to DECCA Challenge Fund
7. Decision on allocation of DECCA Challenge Fund by area Forum
8. Review of process and feedback to national level Forum
9. Another DECCA cycle in same or another area.

Key features of the DECCA process are its ability to facilitate co-ordination between the various stakeholders at the national and area levels as well as provide entry points for government action and involvement of other stakeholders. DECCA is designed to operate at the area level and to be demand driven from the bottom up, i.e. from the farmer group or enterprise. The area selected can vary between countries and even within countries, depending on the location of coffee production and local needs.

A critical assumption behind DECCA is that appropriate institutional capacity to promote a process of change can be built up. Institutional development is necessary to coordinate resources, manage the evolution of effective markets and develop support structures. Diversification should not be regarded as a seasonal activity; it is a long term process that is positively linked to the process of development itself. If diversification is approached in a comprehensive and sustained manner, there are

likely to be positive externalities for the whole economy. In order to ensure that diversification is more than short-term efforts to counteract price volatility, a more developmental approach that enhances competitiveness throughout the economy must be taken. For this government leadership and a long term commitment are crucial, especially if the benefits of diversification are to be shared throughout the coffee producing areas.

It is apparent that diversification is a complex issue with no simple solutions. In outlining the DECCA approach a range of tools may be used at the different stages of the process.

It is recommended that a number of steps be undertaken to assist in diversification:

- Two or three areas should be selected for the development of DECCA pilot diversification projects. These areas should be selected on the basis of stakeholder commitment and the type of coffee growing area.
- The formulation of proposals for practical pilot diversification schemes can be assisted through the CFC Project Preparation Facility.
- While the CFC is prepared to support properly planned pilots there is also a need to identify and secure funding for these initiatives. Funding sources might include governments, multilateral and bilateral donors, NGOs and the private sector, co-ordinated through a Challenge Fund which could facilitate co-operation between donors and others.
- Within the selected area there is a need to identify a champion, establish a national and area forum and identify sustainable diversification alternatives – the study provides details of the various tools that can be used to do this. Further work would be required at the regional, national and producing area levels to identify the most appropriate institutions in each case to lead the DECCA process and to ensure effective participation of relevant stakeholders. The challenges of building appropriate capacity in under-resourced government ministries and other public sector institutions in some producing countries should not be under-estimated. It may be necessary to consider external inputs to build up public sector capacities to formulate and lead the DECCA process and resulting diversification projects, including the development of suitable frameworks for integrating perspectives and skills across government departments, the civil service and working effectively with the private sector.
- Pilot results should be considered in national and regional contexts. Efforts should be made to get diversification issues and area approaches into Governments PRSP, PER and national plans. Observers from other coffee exporting countries should be invited to participate to ensure that lessons are shared between coffee producing areas on a regional basis.
- As pilot projects are developed it is important to develop and refine the DECCA project design as part of an ongoing learning process.

## **VOLUME II**

### **COUNTRY CASE STUDIES**

#### **HONDURAS AND NICARAGUA**

##### **Conclusions**

This case study shows that numerous coffee sector diversification initiatives have been undertaken in Central America since the 1980s. In particular, the most recent slump of international coffee prices between 1999 and 2004 and the resulting shocks at micro and macro-levels in the economies concerned has led to a renewed debate and interventions. Whilst at a national scale the crisis led to reduced foreign exchange earnings, at household level it resulted, amongst other things, in income decline, job losses, and the related social consequences.

Whilst early assessments suggested that (often landless) labourers in the coffee sector were hit hardest by the crisis, more systematic assessments concluded that small-scale, self-employed coffee farmers were the group that was relatively most affected by the price decline. As for poverty dynamics, the vast majority of coffee labour households remained virtually trapped in chronic poverty and experienced little upward mobility.

Both horizontal and vertical diversification measures are being undertaken in both Honduras and Nicaragua. Horizontal diversification measures appear to focus on crop diversification (e.g. production of horticultural crops targeting domestic and overseas markets). Although growth facilitating macro-economic policies and a flexible labour market may have helped to increase employment in RNFE sectors, this does not necessarily benefit the poor to a great extent in that the latter often lack the assets required (e.g. education and skills) to benefit from the more knowledge and capital-intensive RNFE options.

Vertical measures seek to capture a higher proportion of the coffee value chain (i.e. to move the producer up the chain) and improve the competitiveness of the sector. In particular, donors such as USAID are funding projects involving government agencies, NGOs or private sector companies, which target differentiated specialty markets (e.g. gourmet, fair-trade, shade-grown and organic coffee). Such measures include, improving quality, increasing value added, and promotional strategies. Nevertheless, it appears that despite substantial efforts both Honduras and Nicaragua still have some way to go if they are to exploit their full potential in these markets. In part, this may be due to competition from neighbouring countries which are better established in these markets (e.g. Guatemala and Costa Rica).

Profitability analyses of diversification measures are required to calculate the rate of return to investment and labour compared to traditional coffee production in different locations and farming systems.

A new four year project, which is sponsored by the ICO and funded by the CFC with counterpart contributions from the Governments of Honduras and Nicaragua, has been launched in April 2006. The project has been designed to rehabilitate the coffee sectors in both Honduras and Nicaragua, and focuses on the construction and modernisation of coffee processing facilities in the two countries.

Strategies to deal with shocks require multi-level, integrated approaches that include efforts to:

- Ensure macroeconomic stability and growth;
- Broaden and strengthen people's ability to manage risk ex-ante through investments in people's economic mobility, and development of more effective insurance and market-based risk management mechanisms;
- Develop appropriate, well-targeted safety nets;
- Strengthen data, information, and monitoring system.

As a final note of caution we recall Wyeth's (1989) point that enthusiasm for diversification from coffee is inversely related to the income from coffee. Some farmers that may have diversified from coffee two or three years ago when the international price was at record low levels may be less likely to consider moving out of coffee now that prices are at a higher level. Similarly the enthusiasm of governments may be waning as coffee revenues look healthier. This reinforces one of our main conclusions, that diversification requires a long-term commitment from all players along the chain.



## INDIA

### Conclusions

As already mentioned elsewhere, the coffee growing areas cannot profitably be converted into alternate agricultural activities due to pecuniary conditions prevailing in coffee areas. Coffee plantations are vital for the survival of the ecosystem in the ecologically sensitive Western Ghats, which is recognised as one of the biodiversity hotspots of the world. Coffee is also ideally suited and already established as an important crop for afforestation of Eastern Ghats, which suffer from 'shifting cultivation' practices adopted by native tribal people. The shade grown conditions prevailing in coffee plantations, offer good scope for diversification with many intercrops. The only non-coffee activity that could be promoted is eco-tourism. Thus, the diversification initiative should be 'within' the coffee plantations rather than 'from coffee'.

On the vertical diversification front, there is a very good scope for improving the returns to the growers through value addition.

The SWOT analysis presented below throws light on the prospects of diversification in coffee holdings in India.

### Strengths

1. Ideal conditions for growing many plantations crops within the coffee holdings.
2. Many distinct agro-climatic zones and varieties suitable for production of high quality specialty coffees.

### Weaknesses

1. High percentage of marginal, small and tribal growers who are vulnerable to price fluctuations in coffee and intercrops.
2. Poor economic condition of marginal, tribal and small growers to make investments for quality improvement.
3. Failure of small coffee growers to form co-operatives/groups that would help them in producing 'quantities with quality', negotiate prices for their products and move up in the value chain.

### Opportunities

1. Massive consumer base with good purchasing power for promoting coffee consumption within the country. This provides an opportunity for the coffee growers to enter upstream in the value chain.

2. Great scope for promoting eco-tourism, leisure and adventure tourism in coffee hills, to improve the overall economic conditions of the coffee areas.

### **Threats**

1. Emergence of new origins with high efficiency and low production costs, has greatly affected the prices not only of coffee but also of various other plantation crops grown in coffee estates as intercrops e.g. pepper, cardamom, vanilla etc. Presently, the prices of the main crop coffee and the various intercrops remain economical thus enabling the growers to sustain their livelihoods and plantations. If prices of coffee and other intercrops fall to uneconomical levels, then the growers may abandon their plantations, thus having an adverse effect on the environment.
2. Apart from price fluctuations, the rapid changes in weather conditions including recurring droughts lead to reduced crops and the flare up of pests and diseases. Growers are unable to control the pests and diseases, without government intervention, due to their poor economic condition.

Thus, although the conditions are favourable and wide opportunities are existing for both horizontal and vertical diversifications in the Indian coffee industry, very few growers have the economic resources, stability and market acumen to succeed in the export of high quality specialty coffees and/or move up the value chain. The vast majority of marginal, small and tribal growers are unable to benefit from the opportunities.

One of the major weaknesses of the marginal and small growers is their inability to form groups/co-operatives. Efforts should be made to encourage the community approach to creating infrastructure facilities for quality improvement, product storage and value addition. The subsidy extended for the processing/storage infrastructure is common for all categories of growers and is also unattractive. There should be a differential scale of support for smallholdings to encourage them to adopt quality up-gradation. Efforts aimed at facilitating certification of marginal, tribal and small holdings under 'Fair Trade' label and creating market linkages for such coffees would also be highly rewarding in the long run. Another initiative could be at the level of identifying economically viable, new intercrops and subsidiary activities (dairying, apiary etc.) suitable for small and marginal growers.

## **MALAWI**

### **Conclusions**

#### **Strengths**

In the coffee growing areas, the country has good physical elements such as good climate, fertile soils and numerous water streams for easy production. There is a lot of irrigation potential. It has a well-established extension on the ground backed by research from the public sector. It has well-developed farmer groups such as associations for various types of enterprises. It also has cheap labour costs. There are numerous credit/loan institutions for all businesses, small-scale production, estate farming to industrial type and marketing. The introduction of flea markets is assisting traders to get adequate quantities of products from one place. There are good training institutions for agricultural production. Demand for many crops, even export crops such as macadamia and cashew nuts, is already identified. Malawian coffee is being sold as high quality, speciality or single origin coffee. The coffee industry in Malawi is small and can easily be organised. The farmers are also well introduced to a lot other crops apart from coffee.

#### **Weaknesses**

There are high transport costs due to poorly developed roads in the coffee areas and compounded to this, Malawi is a land-locked country. The cost of inputs such as fertilisers and chemicals is high for many smallholder farmers. Marketing knowledge and systems are not well developed as producers depend on traders to buy what they produce in the production areas hence being subjected to exploitative pricing. Government support in developing specific industries is weak but it concentrates its support for resource poor farmers without a development agenda. The cost of borrowing is still very high and out of reach for most small-scale farmers. The country has low wage rates and is suffering from a heavy brain drain which frustrates training efforts. There are generally few resources and capacity for good pioneer projects. Use of information technology is very low due to high costs and limited appreciation of its usefulness.

#### **Opportunities**

Malawi has stagnated in its traditional crops of tobacco, tea, cotton, sugar and coffee and is suffering heavy competition on the world market but other opportunities remain untapped. Marketing is generally not well advanced and if developed can increase producers' income. Local demand is so high that the country is a net importer of most agricultural products such as wheat, fruits, potatoes, milk and poultry. Malawi is a small coffee producer and the world market can easily absorb its high quality coffee. The many small roasters in the coffee speciality market would be interested in the limited volumes of Malawi single origin coffees.

The number of companies investing in farm inputs and the agriculture production-consumption chain is increasing rapidly. The presence of uranium and large coal deposits is a non-agricultural opportunity.

### **Threats**

Malawi is regularly affected by drought. Pest and diseases are a threat to tropical agriculture especially because Malawi has limited capacity development. Price fluctuations beyond control are a threat since Malawi is a price taker on the international market, it being a small producer nation.

## TANZANIA

### Conclusions

As this Tanzania case study illustrates, a wide range of factors can affect diversification activities as far as private investment, production and employment are concerned. These factors include virtually all aspects of the development agenda, ranging from financial sector development, education and health, to other infrastructural issues, the regulatory environment, taxation, governance, the environment for foreign direct investment, and so on. These factors, combined with the many constraints that coffee smallholders face necessitate an interrelated and holistic approach to diversification. Access is needed to suitable infrastructure, finance, inputs, economic policies, transport, training, management and business skills along with the need to have a conducive and supportive environment. For example, the lack of liquidity is a very serious problem for many coffee smallholders and the development of better organised and more competitive credit and savings institutions would help to reduce this constraint but these institutions often face several different constraints when providing credit (e.g. weather, disease and price volatility) leading to increased risks of default.

From the previous analysis it is possible to draw some conclusions, which include:

- The recognition of the inter-relationship of these financial and marketing constraints and the policy options to overcome them is leading to an increasingly holistic approach to diversification and development strategies aimed at poverty alleviation particularly for many millions of smallholders. Nevertheless there is also a need to prioritise with regard to the various inputs and support for diversification initiatives.
- In achieving diversification objectives, there is a vital role for the private sector and for farmer/producer organisation-led initiatives. Institutional capacity building is very important.
- It is often difficult for many coffee smallholders to benefit from diversification initiatives for a variety of reasons e.g. the lack of assets (land, finance, education etc.) and unsuitable geographical location.
- Private sector led initiatives with a supporting enabling environment provided predominantly by government is vital for successful diversification initiatives.
- Suitable market information and analysis is needed to understand the market that is being accessed, whether local, regional or international. There is a need for the rigorous evaluation of options and their cost competitiveness. Viable opportunities should be identified not only in agriculture but also in the wider rural non-farm economy (RNFE).

- Within international markets, and to a lesser extent, regional and local markets, quality standards are rising and greater technical skills are required.
- There are limited opportunities for some niche products – especially specialty, organic and fair trade products – and not all coffee farmers are able to take up these opportunities.
- Diversification in other crops and activities is not a panacea for smallholders and can involve a number of risks. There is a need to be aware of, and try to minimise these various risks. Therefore, it is important that prior to encouraging coffee farmers to diversify into alternative crops and activities, as much detailed information as possible is made available on such aspects as market size, prices, quality needs, tariff and non-tariff barriers, and likely risks.
- It is vital to provide smallholders with business support and training.
- It is important that key stakeholders – farmers, public and private sector, NGOs and donors - are involved in decision making and the implementation process.
- For successful diversification initiatives, adequate support – particularly financial and technical – is vital, as well as the need for a champion.
- The development of the RNFE can present a significant number of diversification options. Nevertheless, it is a remarkably wide subject and a significant challenge to policy makers is how to go about prioritising support and initiatives.
- Vertical and horizontal approaches are not mutually exclusive, since coffee growers can pursue a diversified strategy that combines increased competitiveness within coffee along with the introduction of other activities.

## UGANDA

### Conclusions

Uganda is endowed with naturally good, fertile soils, a good climate with two rainy seasons that enables two crop cycles in most production areas. Whereas land availability is increasingly becoming a constraint due to rapid population growth, the multiple enterprise farming system continues to enable production of both a cash crop and food crops from the limited land resources without compromising food security of the farmers. This is evidenced by the fairly good GDP contribution by the agricultural sector (though declining) as indicated in Table 6.1 below:

**Table 6.1: Uganda's GDP contribution from different sectors**

Financial year	1999/00	2000/01	2001/02	2002/03	2003/04
Agriculture	40.9%	40.7%	39.7%	38.7%	38.5%
Industry	18.6%	18.7%	19.0%	19.5%	19.4%
Services	40.5%	40.6%	41.2%	41.8%	42.0%

Source: MAAIF, Statistical Abstract 2004

Coffee production is mainly produced by small holder farmers on low input/output ratios. However, outputs are enhanced through farmers adoption of high yielding and disease resistant clonal varieties that are able to attain up to 4 metric tonnes of FAQ per hectare per season, when good management practices are employed. The fact that no artificial fertilizers and chemicals are used in coffee production systems (especially for Robusta) is a big opportunity for the Uganda Robustas to enhance their presence on global markets for organic coffee.

The liberalization of the coffee sub-sector and commodity marketing system in general has energized the farmers as their commodities are sold on “*cash sale basis*” unlike in pre-liberalization marketing systems where farmers were subjected to long periods of waiting before being paid for the commodity delivered through the Government’s parastatal Marketing Boards. Coffee farmers currently obtain a higher proportion of the price in relation to the international commodity market – on average, between 70 – 80%. This has stimulated production to some extent, as coffee farmers are assured of a good market price paid in cash, on production of the commodity for sale.

For the over half a century coffee has supported farmers and the national economy as a major export crop, the farmers have not let go and despite the numerous constraints facing the sub-sector, demand for planting material is still on a positive note, giving hope to the well being of the population and continued strength of the national economy. It is important to note the

disappointing drop in growth rate of cash crop production from 4.6% in 2002/03 to 1.8% in 2003/04 which was due to an estimated fall of 8.65% in coffee output as a result of coffee wilt disease. Coffee accounts for about 60% of total cash crop output.

The main notable weaknesses within the coffee sub-sector emanate from the initial over assumption that the liberalization would solely drive the sector forward. Numerous benefits from the liberalization policy, particularly in respect to price improvements and on cash basis to farmers are commendable but the draw backs especially in terms of quality deterioration and constraints in accessibility to production credit and trade finance are major weaknesses that need to be adequately addressed.

The advent of the coffee wilt disease (CWD) which has resulted in decimation of about 50 percent of the Robusta coffee tree population is threatening the survival of the entire coffee industry. Declining export volumes over the past years confirm the effect of CWD, despite more of the replanted coffee coming into production every other year.

Uganda's export sector is dominated by unprocessed products that are subject to volatile price fluctuations and weather distortions. The share of non traditional exports (NTEs) has been increasing with the highest share of 61.7% being recorded in 2001. This demonstrates that export earnings and farmer incomes could be improved further through strategic marketing, enterprise diversification and product value addition. The diversification initiatives can be made pro poor people by ensuring that poorer farmers have full participation in the design and implementation process but more importantly, by ensuring that such initiatives are market driven whereby any effort by the producer leads him/her to a better market and more income.

In light of the increasing population growth and an accelerated scramble for land expected in future, it is more likely that the Ugandan coffee farmer shall remain small for the foreseeable future and them to make meaningful and sustainable impact on producers' livelihoods, there is a need for designing and implementing effective productivity improvements and market targeted diversification programmes. The Government, private sector and the producers need to be equal partners for such programmes to succeed.



## ZIMBABWE

### **Conclusions and recommendations**

Horizontal diversification in the coffee sector is based on individual initiative. Favourable climatic soil conditions, synergies between enterprises and government support programmes for land reform catalysed the diversification process. Factors that influence horizontal diversification include viability, cropping intensity, mobility of factors of production or compatibility of enterprises, access to markets and policies such as exchange control regulations. In addition, costs of production are a crucial factor in choice of diversification options in the small-scale sector.

There is good potential for vertical diversification into roast coffee although efforts into this direction have not met with much success. The marketing chains for horizontal diversification are short for both the large and small-scale sectors. They are characterised by few buyers. Small-scale growers are not well organised whilst their large scale counterparts are well organised and represented by their associations.

We consider factors that may promote or hinder diversification from coffee through considering strengths, weaknesses, opportunities and threats (SWOT). These lead to logical conclusions on regarding a strategy for the diversification process in Zimbabwe where specific diversification initiatives by external forces have not been experienced.

### **Strengths**

Currently the diversification drive could further be strengthened by certain factors inherent in the coffee sector. The availability of high quality raw materials for processing into coffee products remains a major strength for vertical diversification.

The current decline in coffee production is a temporary setback and strength from the coffee disease management perspective as reduced production will facilitate the breakdown of pest and disease cycles rendering a reduction in pest and disease management costs so that when production recovers there will be a more sustainable supply base of raw coffee.

A lot of effort has been put in imparting knowledge and skills in farmers on coffee management, processing and marketing. Facilities for farmer training and human resources to train these farmers are also in place.

The availability of good irrigation, transport and communications infrastructure is a major strength. The high mobility of other factors of production for coffee is an additional strength. These elements enable new agricultural products to be produced and marketed efficiently.

The availability of financial support plays a major role in divesture from coffee particularly in the resettlement areas. A sound agricultural research, training and extension system compliments financial support.

Diversification is influenced by the degree of innovativeness within a system. Local farmers are highly innovative, which is an advantage to the process.

### **Weaknesses**

The livelihood diversification options highlighted under the large-scale coffee sector are capital intensive. The high entry costs limit the number of participants who would engage in such ventures as they are constrained by lack of capital.

Most of the commodities produced under individual diversification initiatives are sold to niche markets. Farmers who wish to diversify into these commodities lack information and knowledge about these markets.

Owing to poor organisation farmers lack bargaining power when it comes to price negotiations. Consequently, prices realised for their produce are very low. Stiff competition, poor road and communication infrastructure, and low produce quality exacerbate this problem.

The coffee industry does not currently produce adequate volumes of coffee to economically beneficiate. Economies of scale can therefore not be realised which compromise competitiveness.

Research, extension and training capacity is available although not adequate. Funding is also a limiting factor.

### **Opportunities**

The high potential for intensive agriculture in Chipinge, Chimanimani, Mutare and Mutasa districts offer wide opportunities for horizontal diversification into forestry, horticulture and livestock production. Large scale dairy has been identified as the optimum economic enterprise for this province.

The availability of non-farm income generating activities such as informal trade and gold panning facilitates diversification from coffee. The existence of strong institutions such as the Zimbabwe Investment Centre, Export Processing Zones and Zimbabwe Farmers Unions greatly enhance this process.

The Fast-Track Land Reform Programme by default accelerated diversification from coffee into maize, wheat, tobacco, livestock and soya beans as resettled farmers abandoned coffee production in favour of these enterprises.

The Government initiative to promote the beneficiation of local produce is a welcome move. In this regard, South Africa is a potential market for coffees from Zimbabwe.

Interlinked markets of inputs and some commodities such as tea provide opportunities for funding inputs for other commodities within the diversification process. The process facilitates and accelerates diversification.

Lucrative non agricultural opportunities such as cross border trade, mining and crafts which exist in the coffee growing areas offer opportunities for diversification. The provision of financial support for investment in these areas by Government is an added advantage.

The support provided by donors and private companies such as development of irrigation and outgrowers catalyses diversification from coffee into other crops.

### **Threats**

The constraint of arable land and rugged terrain presents challenges in exploiting the diversification potential.

The current macro economic instability prevailing in the country is a major threat to diversification and business in general. Hyperinflation and very high interest rates discourage investment. Shortages of energy, foreign currency, spare parts and equipment add fuel to a burning fire.

Stagnant nominal prices for agricultural commodities and negative real prices threaten diversification into alternative agricultural activities.

The economic crisis the country is currently experiencing has increased the country risk making the borrowing of offshore funds difficult and expensive.

Local coffee brands face stiff competition from high quality foreign brands both within and outside. The decline in the supply of raw materials is a major threat to vertical diversification. This has the potential of triggering losses in market share thereby jeopardising inroads made in vertical diversification. Some of the businesses that had ventured into coffee processing, especially those under Export Processing Zones have closed shop.

Lack of commitment by the Government to implement the recommendations of business institutions on measures to put in place a healthy policy environment may threaten diversification.

Loans are very expensive (interest rates are above 400%) which limit access to credit. Lack of affordable finance may constrain diversification especially into alternative agricultural commodities.

### **Strategies for improving livelihoods in coffee growing areas**

#### **Options to be promoted**

Encourage dairy production in the large-scale sector, especially in Manicaland, Harare and Mashonaland West and other livestock in other areas (both large and small-scale).

#### **Production and marketing feasibility studies**

Focus on Manicaland given its arable land constraint and agricultural intensification potential in coffee growing areas, assessing the viability of each or combinations of possible diversification options; market research for these options.

In order to facilitate the diversification of other coffee farmers into ventures such as tourism, mining, transport and earth moving a detailed study that would analyse the viability of these options, financing mechanisms and risk analysis should be carried out.

#### **Market research**

Coffee market in South Africa market research to identify the tastes and preferences of this market, the volumes it can absorb, the country's business culture, the coffee market structure, investment regulations, etc.

Studies to identify niche markets and to develop markets for lucrative crops such as macadamia.

#### **Agricultural intensification**

Investment in dams and irrigation, led by government but in partnership with non-governmental organisation and the private sector.

## **Mining**

Government should put in place deliberate empowerment policies that give priority to accessing mining claims to communities who reside in areas that have mineral wealth so that coffee farmers in these areas benefit. In addition more financial resources including foreign currency should be availed to small-scale miners to enable them to procure mining equipment. Closed mines within the coffee growing areas should be resuscitated in order to enhance employment opportunities.

## **Land**

Under the Fast-Track Resettlement Programme the government should allocate land to coffee farmers in order to widen their production base through diversification.

## **Mechanisms to facilitate small-scale farmers to participate in niche markets**

Outgrower schemes in crops such as tea, macadamia, bananas, etc should be promoted, so as to fully exploit the synergies arising from interlinks between commercial crop markets and input markets, thus sustaining the financing of diversification through internalising this function.

## **Business environment**

Farmers' organisations and business institutions should lobby for a healthy business environment that nurtures a diversified economy so as to promote vertical and horizontal diversification within the coffee sector. In addition, the Government should rejuvenate or capacitate the Zimbabwe Investment Centre and Export Processing Zones Authority to be as effective as they were before the Fast-Track Land Reform Programme.

The business and coffee sector should lobby for financial support for coffee production under low cost facilities such as the Productive and Export Sector Facility so as to build economic volumes for beneficiation.

## **Macro economic policy**

Government should restore real positive prices for agricultural commodities through the advocacy of sound economic policies.

The Government should adopt the recommendation by the Utete Commission to honour Bilateral Investment Promotion and Protection Agreements so as to restore some of the gains made in vertical and horizontal diversification within the coffee sector.

### **Research and training**

Research institutions should be encouraged to put more effort in developing technologies that intensify agricultural production so as to enhance the potential for diversification within the coffee sector. Government should be lobbied to capacitate research, extension and training institutions financially and materially.

Training plays a leading role in enabling the poor to empower themselves with the necessary skills and knowledge that will enable them to identify economic opportunities around them and diversify in such areas.