



International Coffee Organization
Organización Internacional del Café
Organização Internacional do Café
Organisation Internationale du Café

EB 3752/00

30 June 2000
Original: English

E

Report

Executive Board/
International Coffee Council
25 - 29 September 2000
London, England

**Study on coffee marketing systems
and policies:**

Analytical report by a consultant

1. This project was approved by the Common Fund for Commodities in 1996, and was conducted by the World Bank, sponsored by the ICO. Nine countries participated in the project (Angola, Cameroon, the Democratic Republic of the Congo, Ethiopia, Ghana, Guatemala, India, Madagascar and Togo).
2. The conclusions of the study were presented to Members in May 1999, and following comments from Members and the CFC, the final version of the study and individual country profiles on the nine participating countries were presented at the Council session in May 2000.
3. A consultant was appointed to analyse the study and to highlight the main conclusions both on an overall and an individual country basis, and to make proposals for priorities for future action, in terms of coffee projects and recommendations for policy measures. The report of the consultant is attached for the information of Members.

EXECUTIVE SUMMARY

This paper will focus on identifying problems and propose project ideas based on nine “country profiles” and an overall study conducted by the World Bank.

General problems in the process of liberalisation include a lack of institutional support and awareness by growers, traders and exporters. Quality deterioration was a phenomenon in many of the countries studied. Despite the fact that growers’ income improved with reform, it is always subject to price fluctuations. Means of managing risk are limited for farmers unless they are organised into producer associations.

The other major problem of reform is the lack of loans from local banks since smallholders and new exporters are unable to fulfil the prerequisite conditions for loans. Prolonged war in Angola and the Democratic Republic of the Congo has damaged the coffee industry in these countries. In Madagascar, coffee problems related to other priorities of the government, while in cocoa producing countries coffee problems are overshadowed by cocoa. In countries where the private sector has long been involved in production and marketing systems, growers’ prices are high and marketing costs are low and investment in coffee is better. Guatemala and India in particular deserve mention.

To offset these problems project ideas which are most likely to minimise problems in the coffee sub-sector are suggested below:

1. Coffee sector strategy – the study would clarify the role of the coffee sub-sector in the economy, particularly in foreign trade. It would show the level of financial as well as regulatory support from Government and the program for coffee could be clearly developed.
2. Another project proposed is the smallholder survey. This project would identify specific problems growers face. The project is expected to come up with alternative solutions.
3. The establishment of a Coffee Development College in Guatemala is another project idea. The experience of the nine countries clearly indicates that there is a lot to be done to free the coffee trade. There are financial as well as regulatory constraints, and while Guatemala was already developing its coffee economy, ANACAFE gave the right leadership. Thus to learn from these experiences it is proposed that a Coffee Development College be established in Guatemala.

ANALYTICAL REPORT

The goal of this study is to highlight the main problems and project ideas arising from a study on marketing and trading policies and systems for nine selected coffee producing countries, sponsored by the International Coffee Organization and conducted by the World Bank. The analysis is presented on the basis of individual countries.

GHANA

Ghana is a producer of Robusta coffee. In the reform of the coffee sub-sector since 1992 the study has identified problems in the trading system including:

- Quality deterioration
- Inaccessibility to financial institutions
- Lack of information on local and international coffee market prices
- High collateral requirements
- High interest rates
- Inefficient supporting services.

Following liberalisation coffee quality deteriorated as new and inexperienced coffee traders and exporters, concerned with volumes rather than quality, entered the market. This encouraged growers to resort to strip harvesting, resulting in poor quality coffee. The collateral requirements requested by lending institutions are as high as 38% – much higher than those of overseas lending banks. As inputs were privatised and prices increased farmers were unable to buy these and thus their use declined. Extension and research services have changed hands with various government institutions. Coffee growers received these services through cocoa extension and research services.

Project ideas

Financial project study

The project could focus on ways of securing access to financial institutions by designing means of minimising risks by establishing producer and exporter associations. This could reduce risks to lending financial institutions. Rural credit systems also could be studied and a means of creating a revolving fund with local banks for loans at low interest rates focusing on smallholders. Sources of funding from multilateral and bilateral organizations and non-governmental organizations could be examined.

Technical assistance in developing nurseries

A private sector nursery development project will help to meet the urgent need for cuttings from farmers. The project study could include developing private nurseries and looking for financial aid for establishing these.

Information dissemination study

Dissemination of international coffee prices can help to increase the bargaining power of growers and traders in the coffee market. This study could look at:

- Mass media such as newspapers, radio, television
- Associations like producers and exporters
- Chambers of commerce, etc.

Growers survey

A smallholders grassroots project study would explore problems facing farmers and highlight the real problems of coffee marketing systems. The study could include:

- Rural credit facilities
- Price risk management
- Crop finance
- Supply services such as extension, research and inputs.

Sector strategy study

The lack of priority for the coffee industry seems to emanate from a lack of strategic vision for coffee as an economic entity. The study will encompass services such as finance, quality, price risk management, coffee regulation, infrastructure, government role, etc.

MADAGASCAR

Madagascar liberalised its coffee industry in 1988. The main problems which have hampered the free working of the market are:

- Low growers prices in inaccessible areas of the country as low as 40% of export f.o.b. value
- Decline in quality
- Poor road conditions in the main coffee producing regions
- Reduction in coffee farm areas
- Absence of grower representation (producer associations) and poor support services.

Coffee is not a priority in the country's economy. In the main coffee growing regions roads are extremely poor and rehabilitation is constrained by budgetary shortfalls. The other problem is low prices for inaccessible regions where minimum prices are as low as 40% whereas in accessible areas growers' prices are between 60-70% of the f.o.b. value. Support services are poor and quality standards have declined continuously. At times of low prices farmers switch to production of other crops.

Project ideas

There is room for improving existing problems in the industry. The following suggested project ideas are expected to bring changes in the system.

Coffee sector strategy study

The objective of this study would be to set priorities for coffee sub-sectors including:

- Rural credit facility
- Coffee quality
- Producer associations
- Organisational set up of the industry
- Role of government in providing finance and creating coffee friendly organisations
- Drawing up short, medium and long term plans
- Risk management system
- Supporting services
- Formation of associations
- Preparation of laws governing the coffee industry.

The end result of the project would be to find out problems facing growers and suggest policy recommendations which would bring a change in government outlook and thereby improve coffee policy.

Growers survey

This project would study selected smallholder farmers and concentrate on:

- Accessible coffee growing areas
- Inaccessible regions of the country
- In the selected regions, rural credit, support services, investment prospects and government role would be studied
- Other things to be surveyed include establishing farmer organisations including looking at sources of funding for growers to establish organisations such as producer associations and co-operatives

- Coffee quality would also be carefully surveyed
- Survey on extension and research input use, ways of improving coffee standards and the financial requirements for developing research and extension.

INDIA

It is a country where a Coffee Board (the Coffee Board of India) is playing an important and efficient role in developing coffee production and marketing systems. The Indian coffee industry has been long dominated by the private sector. Problems cited in the study are:

- Sales tax
- Small growers low quality standards
- Risk management.

Sales tax which has been reduced from 14% to 4% is believed by producers and traders to be an obstacle to efficient marketing system and has reduced small growers' prices. The other problem with liberalisation is the exposure of every participant in the marketing chain to the vagaries of price risk.

Project ideas

Developing coffee leaf rust resistance variety

The purpose is to develop cultivars which resist leaf rust disease. The research support could be in developing leaf rust resistance varieties. The study would look into:

- Leaf rust disease
- Study of research centres dealing with leaf rust disease
- Study of financial support for the research centre to conduct the desired leaf rust resistance varieties.

Domestic coffee consumption promotion

The following would be part of the study which would be on selected business centres:

- Survey of the existing local market by age and income groups
- Study of competing beverages such as tea, etc.
- Estimate promotion costs
- Survey interested groups to be involved in promoting coffee brands and share promotion costs.

CAMEROON

Cameroon is predominantly a Robusta producing country which began reforming its coffee market in 1991. The major problems cited in post liberalisation are:

- Poor quality
- Shortage of crop finance
- Decline in fertiliser use
- Poor rural infrastructure
- Lack of specific coffee extension services.

As in other countries, with the exception of Guatemala and India, quality deteriorated as inexperienced exporters and intermediaries entered the market. Finance, especially for the growers and new entrants, is not available as they lack guarantees. Use of fertilisers in smallholdings declined as prices increased following liberalisation. Roads have deteriorated due to lack of resources and there are no coffee specific extension services.

Project ideas

Coffee sector strategy study

Reforms have almost left coffee in the hands of the private sector which lacks strength. This has created confusion in directing the coffee sub-sector. Thus, the coffee strategy study would indicate both the role of government and private sector in the coffee industry and would include:

- Credit facilities
- Role of financial institutions in coffee development
- Risk management
- Development of warehouse warrants
- Futures market
- Impact of direct and indirect taxes on the coffee trade
- Organisational set up of coffee sub-sector
- Government and private sector role in coffee production marketing
- Crop finance.

Coffee Arabica rehabilitation study

For this project an initial study is needed to determine whether it is economical to rehabilitate the declining Arabica. If the results are positive a rehabilitation project could examine, among other things:

Quality improvement

The existing coffee type would be carefully studied particularly yield and quality aspects. Alternatives such as selecting good quality; high yield and disease resisting characteristics would be given due consideration, and different varieties of coffee Arabica would be tested. Ways of strengthening existing co-operatives by upgrading managerial and technical know-how would also be highlighted.

Smallholders survey

The project will make an economic survey of selected smallholders on:

(a) Input use vis-à-vis price

As prices for inputs, both fertilisers and pesticides, have increased, use of inputs by farmers has declined. The study will look carefully at the potential need for fertilisers and pesticides as opposed to the actual use of inputs. The study would conclude measures to be taken, which could be policy changes which might indicate public support as well as international aid.

(b) Rural credit

Credit has been the overriding problem for small growers. The study could look at existing credit facilities, interest rates and collateral requirements.

(c) Investment prospects

Investment opportunities in smallholder farms, incentives, such as bank loans, and investment tax laws could be studied.

(d) Research and extension services coverage

Research on coffee in areas under study would be examined, such as developing varieties in relation to yield, disease resistance characteristics and quality standards. The study would look at the efficiency level of research, particularly extension services:

- Land title rights
- In the selected farms for the study, land titles as a warrant for access to bank loans would be considered.

(e) *Risk management*

Farmers are subject to risk much of the time. The use of farmer associations in the study areas as a guarantee against price risks would be studied.

(f) *Coffee price information dissemination*

Much of the time information on local as well as international prices reaches farmers late. This would be studied and solutions suggested.

(g) *Need for financial and technical assistance*

Farmers are victims of marketing systems. From the survey, the need for financial and technical assistance and the type of assistance would be recommended including sources of finance.

TOGO

Togo is a producer of good quality Robusta coffee and reform of the coffee market began in 1996. Despite transition to the free market being quite smooth, certain problems have been observed during liberalisation including:

- Delay in price information dissemination
- Lack of crop finance for local exporters
- High input prices.

Local exporters have no access to foreign banks like other exporters who are subsidiaries of overseas trading houses. Interest rates of local banks are high and traders are not able to provide collateral to secure loans. High prices for inputs have greatly reduced their use and farmers tend to switch from coffee to other profitable crops.

Project ideas

Crop finance project

Crop financing has been a continuous problem in the coffee marketing system. In particular, local exporters and small growers are victims of the bureaucracy of financial institutions. Collateral requirements of local banks are difficult to fulfil and their interest rates are high. Thus the project will look at ways of minimising finance shortages for the coffee trade by examining the following:

- Local bank lending rules
- Interest rates

- Collateral requirements
- Warehouse receipts as collateral
- Exporters associations; small growers credit facilities; and the role of producer associations in securing loans for their members.

The study would try to specifically identify sources of funds for crop financing and also look for alternative sources of funds.

Strengthening and / or establishing producer associations

Small farmers are mostly at risk, and in a difficult situation in applying for loans. This study would survey existing producer co-operatives in selected smallholding areas. It would examine the strengths and weaknesses of the existing producer associations. In particular, their role in securing loans for their members and bargaining power in the coffee market would be assessed. The study would also examine the organisational set up of the associations. This would help to prepare rules and regulations in establishing new producer associations. Sources of finance for strengthening and establishing producer co-operatives would be explored.

ANGOLA

Angola is a producer of Robusta coffee and in the early 1970s was among the largest Robusta producing countries. The first phase of liberalisation began in 1993. The prolonged civil war in the country is a main reason for the devastation of the coffee sub-sector. Other problems include:

- Low prices for growers in inaccessible regions of the country
- High inflation
- Lack of banking facilities
- Collapse of research and extension services
- Non-availability of financial facilities
- Poor road and high transport cost.

The civil war devastated the country's economy. Coffee as an integral part of the economy suffered a serious setback in production as well as marketing. Production of 4 million bags in the 1970s fell sharply to 100,000 bags p.a. on average in the 1990s. Growers' prices are extremely low in inaccessible regions of the country and transport costs are high. Extension services and research are in a bad situation, and coffee quality is poor.

Project ideas

Coffee rehabilitation programme

The purpose of the study would be to rehabilitate the depleted coffee farms. The study would comprise:

- Identification of coffee farms suitable for rehabilitation from political and economic points of view
- Selection of potential farmers and farms
- Evaluation of the overall resettlement costs and sources of funding for the project over a given period of time, for instance five years
- Crop finance
- Establishing producer associations; rules and organisations.

Coffee sector strategy study

Coffee as an economic institution can be revived by clearly identifying its prospective role in foreign exchange earnings. The coffee sector study would help to indicate its future role in the country's economy. Project ideas to be studied include:

- Institutional organisations
- Producers and exporters associations formation study
- Warehouse receipt
- Financial institutions
- Supporting services
- Risk management.

ETHIOPIA

Ethiopia produces indigenous Arabica coffee. The first phase of reform began in 1991. Despite the fact that important achievements have been accomplished, there remain unsolved problems including:

- Crop finance
- Price risk
- Inefficient credit system and high collateral requirements
- Absence of specific coffee research and extension services
- Laws prohibiting business relations between exporters, growers and collectors.

The major problem in the Ethiopian coffee trade is the regulation which prohibits the business relationship of exporters with growers and collectors. The legal restriction on exporters to buy coffee only at auction is indirectly forcing the creation of illegal subsidiary

collectors or sister companies for exporters. Another problem is the difficulty in getting crop finance from the financial institutions with collateral requirements for loan advances which growers and smaller exporters in particular cannot afford.

Project ideas

Smallholders survey

Growers are subject to many risks such as prices, and loan finance. Thus the objective of the survey is to identify specific coffee problems which affect production and marketing. The survey could be carried in selected areas of the coffee producing regions of the country particularly on small farms. The survey would include:

- Rural credit facilities
- Price / farm gate / situations bargaining powers
- Business relationship between exporters, growers and coffee collectors
- Risk management instruments
- Extension services
- Information dissemination mechanism
- Role of producer associations.

Warehouse warrant project system

The stringent collateral prerequisites for loan advances from local banks have left growers and small exporters at financial risk. Warehouse warrants can minimise the financial risk by using these as a guarantee for loans. Warehouse warrants can be also used as a guarantee for overseas coffee buyers or financiers.

- The use of storage warrants for the existing modern warehouses in coffee producing regions located in big cities, such as Dire-Dawa, Jimma, Nazreth, Addis-Ababa, etc., would be studied
- Study potential warehouse construction for the coming five years
- Recommend legal aspects of using warehouse as warrants for loans
- Licensing of warehouses
- Using it as a receipt for overseas pre-financing trade houses.

Policy measures

Some problems in the coffee market could be solved through government policies including:

- Removing minimum registrations on export prices; and
- Freeing exporters to directly buy from farmers and collectors or establish their own legal subsidiaries.

DEMOCRATIC REPUBLIC OF THE CONGO

The Democratic Republic of the Congo is primarily a producer of Robusta coffee and liberalisation started in 1976. The long-established free but regulated marketing system had helped to improve growers' prices in accessible areas while those in isolated coffee farms get as low as 25 % of the export f.o.b. value. Other bottlenecks include:

- Civil war
- Low quality standards
- Poor infrastructure
- Inefficient extension and research services.

Project ideas

The current political situation has aggravated existing problems in the coffee sector and made it difficult to envisage projects implemented on a large scale in the near future. However, specific projects on selected coffee farms could be prepared.

Coffee farm rehabilitation programme

In areas where the peace situation is relatively good, pilot projects for rehabilitation of coffee farmers could be implemented on a small scale. This type of project could be used as a demonstration or as a pilot project within the study:

- A selection of potential farms
- Support services would be assessed
- Costs of supplying research, extension services, input credit facilities would be covered by the project, whereas the purchase of inputs and farm implements source of finance would be from the low credit facility made available by project management. The duration of the project would be five years. At the end of five years the project would be taken over, preferably by producer associations or government organisations.

The study would look into financial and technical know-how. Sources of finance could include the Common Fund for Commodities, the World Bank, NGOs and bilateral aid. The pilot project could be used as a demonstration for other farmers in the region.

Coffee sector strategy

Despite the political situation in the country being a determining factor, development of a coffee strategy for the country could include:

- Identifying the role of coffee in the country's economy, particularly in foreign trade
- Studying institutional set up of coffee

- Examining support services, in particular coffee specific research and extension services
- Drawing up a five-year plan of action programme
- Studying government financial and regulatory support for the coffee industry
- Production and export prospects
- International financial support for the study.

GUATEMALA

Guatemala primarily produces high quality Arabica coffee and is a country which deserves to be exemplified in the coffee industry. ANACAFE has given efficient managerial leadership. It is difficult to find any problems in the study. The nine countries profiles revealed that coffee, as an economic entity, lacked professional and organisation leadership. ANACAFE as a producer association has efficiently developed the coffee sector. The marketing system has created a conducive environment for the establishment of a Coffee Development College in Guatemala.

The project study would include:

- The need for establishing a coffee development college
- Reasons for choosing Guatemala as a centre for the college
- Producer co-operatives function in relation to its members
- ANACAFE relations with financial institutions
- Export regulations
- Growers' prices
- Quality standards
- Extension services and research centres working system
- Study the cost of establishing the college and costs of running it. Discover sources of funds in the form of grants and loans, and also examine means of self financing. Study time required for training - probably two years professional training.
- The other training at the college would be on job training. The purpose of "on the job training" is to develop modern agricultural practice particularly related to coffee production and marketing. The training could include class and field work on selected farms. The period of the training could be from 3-6 months. The cost of developing this programme has to be carefully worked out and sources of finance identified. The selection of course participants could be from producer co-operatives and business associations. The programme for the course would be prepared. The project would be initiated and sponsored by the ICO.