



International Coffee Organization
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**Diversification of production in marginal
coffee plantations in the State of Veracruz,
Mexico**

Background

1. This document contains a summary of a new project aimed at providing alternative production and development options to coffee growers in marginal areas in the State of Veracruz, and developing a viable diversification model for mild Arabica coffee producers that could be replicated in other countries with similar constraints.
2. The proposal has been submitted by the Agriculture Trade Commission of the State of Veracruz.
3. A complete version of the project proposal is available on request.

Action

The Executive Board is requested to consider this proposal and, if appropriate, to recommend approval by the Council in May 2004.

**PROJECT PROPOSAL TO
THE COMMON FUND FOR COMMODITIES**

Project summary

- 1. Project title:** Diversification of production in marginal coffee plantations in the State of Veracruz
- 2. Duration:** Two years (first stage)
- 3. Location:** Central region of the State of Veracruz, Mexico, land under 600 m. altitude
- 4. Nature of the project:** To provide alternative production and development options to coffee growers in marginal areas suffering from the crisis caused by low prices, and hence develop a viable diversification model for mild Arabica coffee producers that could be replicated.
- 5. Estimated total cost:** US\$7,870,782
- 6. Financing sought from the CFC:** US\$5,108,434
(50% loan, 50% grant)
- 7. Counterpart co-financing:** Mexican Government: US\$2,412,348
University of Veracruz: US\$350,000
- 8. Project Executing Agency:** University of Veracruz
- 9. Supervisory Body:** International Coffee Organization
- 10. Estimated starting date:** To be decided

Overview

This project has its origins in the problems and poverty undergone by coffee farmers in Mexico, which is a result of the current crisis in the coffee global market. This project is presented as an alternative solution.

Coffee supply, demand and forecast

The fall of prices experienced by the coffee market since mid 1998 reached alarming proportions in the coffee year 2001/02. Perspectives for upcoming years are even less encouraging. This situation, which is affecting all coffee groups, has had negative consequences that are even more transcendental for the rural sector, especially for small producers from marginal farms.

The analysis of fundamental factors of the market shows that the negative pressure on prices is caused mainly by an oversupply in the global market that has caused fluctuations and price instability.

Problems, issues and opportunities for coffee

The current coffee crisis is different from previous ones. One of the main characteristics of the new phenomenon is the creation of new low-cost production areas in different parts of the world, such as the case of Vietnam. Another important characteristic is transfer of production to areas where the climate is no longer a major risk factor, as is the case with Brazil.

As a consequence of this international panorama, the impact on the Mexican market, specially in Veracruz, has been disastrous, causing considerable losses in the coffee sector, derived from high domestic production costs that cannot compete with international low prices¹. It is estimated that the production cost of a pound of gold coffee is around US\$0.70, and prices in the New York stock market have been below this figure in the past 2 years.

The production of Mexican coffee exhibits a downward trend for the cycle 2002/03 estimated at under 4 million bags. This decrease was constant in the 2001/02 cycle, which was of 4.1 million against 4.8 and 6.2 in the 2000/01 and 1999/00 cycles.

Whilst global supply has increased, demand has stayed at a level similar to that of 2000/01, which was of 106.9 million bags. Despite the low price level, consumption per individual has remained stable. A slight increase in importing countries was registered, and it remained the same in traditional consumer countries. A lasting balance between offer and supply has not

¹ See *“Productive retrofitting of marginal coffee areas”*; *Integral professional services for regional development, 2002*.

been maintained. In Mexico, consumption per capita has increased, and it is now between 450 gr to 800 gr pa, placing amongst the smallest coffee consumer countries in the world. This increase is due in part to pro-coffee publicity campaigns that the government of Veracruz began in 2000, and which was continued by the federal government in 2002. The slogans for these two campaigns were “Everything is better with coffee” and “Coffee does it for you”.

Importance of the project

This “Project for Production Diversification of Marginal Coffee Areas in the State of Veracruz, Mexico”, aims to support alternative activities capable of securing additional income to coffee farmers and broadening investment decisions. It is necessary to point out that the plans are focused on providing support to marginal producers who wish to guide their efforts to other crops and diversify their productive plant and diminish inherent risk of single crop farming, thus improving their income sources. This is, in general, the diversification of marginal plantations introducing crops that can yield additional income to coffee farmers, in the short, medium and long terms. If the objectives of this project are accomplished, the expected social impact will improve the quality of life of these small coffee producers in marginal areas, emigration will diminish, and the production of proscribed crops will be prevented.

FRAMEWORK

Basic Product:	Coffee
Title of the Project:	Production Diversification of Marginal Coffee Areas in the State of Veracruz.
Scheduled date for the project to begin:	To be decided
Date of this outline:	November 27, 2003

Descriptive outline	Objectively Verifiable indicators	Means of verification	Important hypothesis
Goal of the program	Measures to reach the goal		Related to a long term value of the project
To improve the quality of life of coffee growers located in areas at an altitude under 600 above sea level (hereinafter marginal areas); for 4,000 hectares in the central region of Veracruz State	Identify productive options (forestry and agricultural) that generate the greatest economic value, that guarantee the producers a raise in their income levels. Enclose the production of Veracruz coffee, so that the coffee consistently complies with quality levels.	Reports of the studies realized by the Universidad Veracruzana on current and potential crops in the area target and their profitability. Production statistics of forestry and agricultural crops. Statistics of Veracruz Coffee Council Statistics of the National Institute for Statistics, Geography and Informatics (INEGI). Statistics of production and marketing of the integrator companies participating in the project.	Responsible and comprehensive identification and participation with the project from involved institutions and agents will be promoted and maintained
Objectives of the project	Conditions indicating that the objective has been achieved. Situation by the end of the project		Related to a linkage between objective and goal
A) Develop a program for production diversification in marginal coffee farms in Veracruz State in 4,000 hectares representing 10% of the marginal coffee area. The successful operation of this pilot project will allow for the extension of this program to the remaining 90% B) Promote the creation of a business culture among the producers through the creation of integrator enterprises. C) Keep and maintain the agro forestry system generating environmental benefits D) Foster the rooting of coffee producers in the target areas and diminish emigration.	A) Successful diversification of over 90% of the target plantations in this pilot project. B) Creation of at least 3 integrator enterprises of production and processing and one marketing company. C) Conversion and maintenance of an area corresponding to at least 30% of the coffee area. D) Rooting of over 90% of the involved coffee producers in the area.	A) Universidad Veracruzana studies on crops in the target areas: pre, during and post project. B) Universidad Veracruzana's reports on the crops of target areas, with additional statistics of the Institute. C) Universidad Veracruzana and State Population Council statistics. D) Incorporation papers and accounting books with the corresponding balance sheets of the products handled.	A) The mechanism of the project proves to be feasible and sustainable in economical, social, political and environmental terms. B) Agro forestry systems of the project are economically feasible for involved producers. C) Crop diversification generates the cash flows needed for farmers to stay in their plots. D) Integrator companies guarantee marketing and shifting of produced and processed goods.

<p>Results:</p> <p>A) Adequate handling of the cultivation of coffee in these areas, maintaining a consistent quality for special markets.</p> <p>B) Diversification through alternative crops to generate profit in the short and medium term for producers.</p> <p>C) Improvement of the income of the coffee producers involved in this project.</p> <p>D) Creation of scale economies through the integration of small producers.</p> <p>E) Generation of environmental services (water, carbon sequestration and fauna habitat).</p>	<p>A) Gradual marketing of 70% to 80% of target plantations' produce in this pilot project.</p> <p>B, C, D and E) Participation of approximately 1,900 producers, with a total area of 4,000 hectares diversified with crops such as pepper, vanilla, and ornamental plants (flamingo flower and parlor palm) together with the forestry component.</p>	<p>A) Financial statements of the integrator enterprises created for this project.</p> <p>B and C) Studies by the Veracruz Coffee Council on the productivity of coffee sector and the quality of its product.</p> <p>D) Statistics of the National Institute for Statistics, Geography and Informatics (INEGI), National Institute of Ecology (INE) and of the National Commission of Forestry.</p> <p>E) Records of the involved producers and corresponding follow-up.</p>	<p>A) The project generates the necessary profit to pay off financing and also to support the farmers and their families and positive external factors that improve their quality of life.</p> <p>B and C) Diversification of the marginal coffee target area has an impact on yield and average quality of the sector.</p> <p>D) There is a commitment to maintain the agro forestry system created by the involved parties.</p> <p>E) Farmers receive the benefits of the project and are fully involved in its development, being organized through the proposed integrator enterprises, thus obtaining a better positioning of the products in the market.</p>
<p>Activities</p>	<p>Level of effort/expenses for each activity</p>		
<p>1.- Preliminary case study of the 4,000 ha.</p> <p>2.- Creation of data banks and a system of geographical information for micro region analysis.</p> <p>3.- Technology transfer and training of participant institutions and/or parties.</p> <p>4.- Technical and private sectors support the establishment of guidelines for certificate of depository receipt and recourse indemnity.</p> <p>5.- General coordination of programs and economical and technological innovations.</p>	<p>Component I (USD\$ 722 000). Development of designs and strategies for diversification.</p> <p>Component II (USD\$ 2,328 000) Timber Forest Resource.</p> <p>Component III (USD\$ 4,518 000) System for the Diversification of Coffee farms.</p> <p>Components IV (USD\$ 177 000) Integration of Production for Marketing.</p>	<p>Quarterly reports of the project development from the Universidad Veracruzana Operation Committee.</p> <p>Verification reports required or performed by participating institutions.</p> <p>Field reports to evaluate and confirm the execution of the project.</p>	<p>A) Preliminary case study shows the feasibility of the project.</p> <p>B) The financing scheme is executed as scheduled and planned.</p> <p>C) Participating institutions and agents effectively assume and perform their roles.</p>