



Organización Internacional del Café
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Diversification

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Diversification in coffee exporting countries

Review of past and present initiatives

Background

1. Diversification is one of the priorities of the Organization with a view to finding a solution to the coffee crisis which has aggravated the deterioration in the living conditions of many coffee growers in exporting countries. Diversification offers opportunities for bringing about changes that are compatible with existing comparative advantage and will permit a reduction of poverty in rural areas where coffee is the main or sole income-generating activity.

2. The purpose of this report is to review the situation of diversification programmes in exporting countries and explore prospects for diversification within the framework of the fight against poverty in coffee producing areas.

Action

The Board is requested to take note of this document.

Diversification initiatives in coffee exporting countries

Experience of the ICO Diversification Fund

1. The purpose of the Diversification Fund established under the International Coffee Agreement 1968 was to encourage mainly horizontal diversification in coffee exporting countries in order to alleviate the serious hardship caused by the marked imbalance between supply and demand consequent upon the existence of excess supplies in relation to requirements. Under the provisions of the 1968 Agreement, Members undertook to adjust their coffee production to the amount needed for domestic consumption, exports and stocks. The experience gained during the early years of the first Agreement led Members to the conclusion that more binding provisions concerning production were necessary if any progress were to be made in achieving the objectives of Article 48 on production aims. It would be desirable to find means of encouraging other forms of agricultural or agriculturally-based activity as an alternative to coffee production. A fund was created to channel part of the earnings from coffee exports into the strengthening and diversification of the agricultural sectors of the economies of Member countries¹.

2. The main purpose of the Fund was to limit coffee production in order to bring supply into reasonable balance with world demand and to maintain such balance. The Fund was established to divert resources from the cultivation of coffee to activities such as the cultivation of other crops which would not only enhance the country's economic position but would also enable coffee growers to increase their income. It was necessary, therefore, to establish measures to encourage producing countries to adopt coffee policies to rationalize production and marketing methods in order to safeguard the world coffee industry.

3. Programmes initiated by the Diversification Fund promoted the development of a broader base of agricultural activities in a number of countries. Table 1 below shows the main activities undertaken through the ICO Diversification Fund.

¹ *Report on the Diversification Fund of the International Coffee Organization, document EB-1704/79.*

Table 1: Diversification activities financed by the Diversification Fund

Country	Diversification activities	Results
Brazil	- Creation of an export corridor, which was a programme to finance projects that contributed towards increasing exports of agricultural products other than coffee; - Research in the field of food technology	- Increase in non-traditional agricultural production (maize, soya, sorghum, citrus juice, etc.)
Cameroon	- Project for the development of banana growing	- Increase in banana production
Colombia	- Credits for coffee farmers to develop cocoa growing in order to meet domestic consumption since per capita cocoa consumption in Colombia is one of the highest in the world	- Increase in cocoa production and reduction of imports
Dominican Republic	- Agricultural intensification and diversification	
Ecuador	- Credits for coffee farmers to diversify into seasonal crops (castor oil plants) and development of pasture for livestock production in coffee areas	- Increase in cattle production
Guatemala	- Expansion of oil palm production; - Production of citrus and tropical fruits	- Increase in products other than coffee
India	- Diversification in coffee farms by promoting cultivation of alternative products such as oranges, bananas, silver oak, etc.	
Indonesia	- Credits for coffee farmers to develop clove production in coffee producing areas	
Côte d'Ivoire	- Development of production of rice, the country's main foodstuff	- Reduction of rice imports
Madagascar	- Development of oil palm	- Substitution of imports
Nicaragua	- Development of cassava	
Rwanda	- Development of tea plantations	
Tanzania	- Development of tea plantations	
Togo	- Development of fruit crop	

4. During the last three decades, some developing countries have managed to diversify their exports while others still have extremely coffee-dependent economies. A recent European Commission study indicated that a large number of countries still depend on agricultural export products for at least 20% of their exports (Table 2)².

² Commission européenne "Commerce des produits de base agricoles, dépendance et pauvreté : analyse des défis pour les pays en développement" (European Commission: "Agricultural commodity trade, dependence and poverty: analysis of challenges facing developing countries"), Working Paper, SEC (2003) 908, Brussels, August 2003).

Table 2: Agricultural products accounting for more than 20% of total exports of goods by developing countries

Product	Dependent country
Coffee	Burundi (79%); Ethiopia (64%); Uganda (59%); Rwanda (56%); Sierra Leone (32%); Nicaragua (27%); El Salvador (24%); Guatemala (24%); Honduras (23%)
Sugar	Saint Kitts and Nevis (35%); Cuba (35%); Belize (26%); Guyana (24%); Fiji (23%); Mauritius (20%); Swaziland (20%)
Banana	Saint Lucia (54%); Saint Vincent (37%); Dominica (27%); Ecuador (24%); Costa Rica (21%); Panama (23%)
Cotton	Burkina Faso (39%); Chad (37%); Benin (33%); Mali (30%); Togo (23%); Somalia (23%)
Cocoa	Niue (71%); Sao Tome and Principe (69%); Côte d'Ivoire (36%); Ghana (24%)
Tobacco	Malawi (59%); Zimbabwe (22%)
Cashew nuts	Guinea-Bissau (48%)
Pumpkins	Tonga (44%)
Copra	Vanuatu (43%); Kiribati (42%)
Soya	Paraguay (39%)
Nutmeg	Grenada (38%)
Vanilla	Comoros (34%)
Tea	Kenya (26%)
Groundnuts	Gambia (20%)

Diversification programmes in the course of implementation

5. In the context of the fight against poverty in rural areas, which has been aggravated by the coffee crisis, a number of countries have undertaken diversification programmes. Other projects are awaiting financing for their implementation. One of these is the Mexican project for the reforestation programme to replace economically unproductive coffee farms in the Veracruz region. A request for financing has been submitted to the Common Fund for Commodities. Another project provides for access to credits to finance agricultural diversification in coffee producing areas in Côte d'Ivoire, Cameroon, Burundi and Rwanda. This is a pilot project designed to enable selected coffee farmers to develop food crops, livestock activities and processing of products for the local and regional markets. Oxfam has developed a similar project for the production of food crops in the Caribbean (Haiti, Dominica, Cuba and Venezuela). A project for intercropping coffee and maize, initiated in Colombia by the *Federación Nacional de Cafeteros de Colombia* (National Federation of Coffee Growers of Colombia), is described in document EB-3856/03 and its Addendum. A vertical diversification programme relating to alternative uses for coffee by-products has been prepared by Costa Rica and submitted to the Organization for eventual financing. It should be noted that the financing of diversification projects is still a problem for these countries.

Prospects

6. Against the current background of marked volatility in coffee prices and a serious imbalance between supply and consumption requirements, a new diversification programme should take into account not only a strategy of vertical diversification backed by a programme to promote an increase in domestic consumption but also the concept of assuring food supplies (food security) as a factor for reducing poverty.

7. Horizontal diversification should be envisaged not only as a means of replacing coffee growing by new cash crops since programmes of this nature could lead to social upheavals in coffee growing communities established for many decades. Instead there should be support programmes to enable coffee farmers to grow food crops on part of their plots set aside for coffee in order to assure food security for their families and a marketable surplus to supplement income from coffee. This strategy incorporates the concept of food security. The success of diversification programmes is dependent not only on the existence of a viable market for the alternative products concerned but also on the cooperation of developed countries. The products of diversification require, on the one hand, guaranteed access to markets in developed countries and, on the other, the reduction or elimination of tariff and non-tariff obstacles, in particular agricultural subsidies likely to reduce the competitiveness of products from developing countries.