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**Potential for diversification  
in coffee exporting countries**

**Executive Summary**

## **Background**

This document contains an Executive Summary of Volume I (Guidelines for Policy makers) of the study on the potential for diversification in coffee exporting countries (Volume II, comprising the case studies, will be available in May 2006). A copy of the full report is available to Members on request. The results of the study will be discussed at the workshop on the potential for diversification in coffee exporting countries on 24 May 2006. The recommendations and comments of the participants attending the workshop will be incorporated in the final study report.

## **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.

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 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. 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 non-farm rural economy and beyond.

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. Options for horizontal diversification can be presented in terms of new markets for high value agriculture and options beyond agriculture in the rural non-farm economy.

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.

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**. Private sector participation is critical as is a **market-led approach** using resources from a **Challenge Fund**.

**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