

AFRICAN COFFEE IN CRISIS:WHICH WAY FORWARD?

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PRESENTATION OUTLINE

The Global Coffee Situation

- *Pre and Post 1989*
- *Global Coffee Supply/Demand Equation*

African Coffee Situation

- *Policy Shift and Resultant Challenges*
- *Socio-Economic Impact*

Liberalization Policy: A Trojan Horse?

Way Forward for African Coffee

Why Invest in African Coffee?

THE GLOBAL COFFEE SITUATION

- **UNTIL 1989, COFFEE PRODUCTION WAS DRIVEN BY A QUOTA SYSTEM IN THE INTERNATIONAL COFFEE AGREEMENT**

During That Time:

- **AFRICA PRODUCED AN ANNUAL AVERAGE OF 24.4_m BAGS BETWEEN 1980-1990**
and
- **CONTRIBUTED 27% TO WORLD COFFEE PRODUCTION**

GLOBAL SITUATION CONTD

- **BUT QUOTA SYSTEM SCRAPPED IN 1989 TO ALLOW FOR COMPETITION**
- **CONSEQUENTLY, COMPETITION INTENSIFIED WHICH LED TO AN OVER SUPPLY COFFEE MARKET**

POST QUOTA CONDITION

- **BRAZIL, *for example*, DOUBLED PROD FROM 24.5M TO 48M BAGS BETWEEN 1990 AND YEAR 2000**
- AND**
- **VIETNAM PRODUCTION WENT FROM A MERE 1M BAGS IN 1990 TO 15M IN 2001 – i.e. A WHOPPING 1,400% INCREASE**

THESE IMPRESSIVE PERFORMANCES ACHIEVED DUE TO MASSIVE PUBLIC INVESTMENTS BY THE 2 COUNTRIES IN THE COFFEE SECTOR

IMPACT?

THE EXPANSION OF PRODUCTION OCCURRED UNDER:

➤ **STABLE DEMAND CONDITIONS**

AND AS A RESULT?

❖ **LED TO COLLAPSED COFFEE PRICES, ESPECIALLY BETWEEN 2000 AND 2004**

GLOBAL SUPPLY/DEMAND SITUATION

- **GLOBALLY, AVERAGE COFFEE PRICES FELL FROM US\$1.28/LB IN 1983 TO US\$0.50/LB IN 2002 – a 61% DIP**
- **AND COFFEE PRICES HAVE SINCE BEEN CYCLICAL AND CAUSED MAINLY BY SUPPLY FLUCTUATIONS RATHER THAN BY DEMAND***

POLICY SHIFT IN AFRICA

In Africa, the Coffee Sector was Further Hit by a Policy Shift:

- THE SECTOR WAS LIBERALIZED AND PRIVATIZED IN LATE 1980s & EARLY 1990s*
- UNFORTUNATELY, THE PRIVATE SECTOR WAS TOO WEAK AND LACKED CAPACITY TO FILL THE GAP LEFT BY THE STATE

NEW CHALLENGES IN AFRICAN COFFEE

Privatization Brought New Challenges:

- Reduced Investment in the Sector
- Poor & Deteriorating Infrastructure
- Low & Decreasing Production & Productivity
- Over-aged Trees
- Over-aged Farming Population
- Poor Access to Finance

CHALLENGES CONTD

- Weak/Non Extension Support
- Poor Coffee Quality
- Poor Farmgate Price, and
- Abandoned Coffee Farms

The Combined Effects of These Challenges Have Been Disastrous

SUPPLY RESPONSE

- ***First***, AFRICAN COFFEE PRODUCTION HAS DECLINED SINCE 1990 BY CLOSE TO 40%, FROM 24.4_M BAGS IN THE 1980s TO 15.4_M BAGS LAST COFFEE YEAR, and
- ***Second***, ITS GLOBAL SHARE REDUCED BY MORE THAN 50%, FROM 27% TO 12%.

SOCIO-ECONOMIC IMPACT

What do All These Mean for Africa? **POVERTY!!**

- AT NATIONAL LEVEL, REDUCED REVENUES HAVE DISLOCATED BALANCE OF PAYMENTS POSITION & DISTORTED NATIONAL DEVELOPMENT PLANS
- AT THE HOUSEHOLD LEVEL, INCREASED UNEMPLOYMENT AND WORSENING POVERTY

Leading to:

- LIMITED ACCESS TO SOCIAL AMENITIES LIKE EDUCATION, HEALTH, WATER&SANITATION etc. and

IMPACT CONTD

- IRREPARABLE LOSS OF LIVELIHOODS WITH FATAL RESULTS, IN SOME CASES*

There is a Growing Genuine Fear That Many Coffee Producing Countries in Africa Stand the Risk of Missing Out on the MDGs

COPING STRATEGIES

- **FOR SOME COFFEE FARMERS, ITS BEEN POSSIBLE TO SHIFT INTO OTHER PERIENNIAL CROPS LIKE OIL PALM AND RUBBER**
- **BUT FOR MOST OF THEM, THERE'S BEEN NO SUCH OPTIONS**

LIBERALIZATION – A TROJAN HORSE?

- ***IN SUMMARY, LIBERALIZATION HAS INSTEAD WOUNDED THE AFRICAN COFFEE INDUSTRY***
- ***THE POLICY HAS FAILED TO BRING ANY GROWTH TO THE AFRICAN COFFEE SECTOR***
- ***RATHER, IT HAS INFLICTED SOCIO-ECONOMIC DIFFICULTIES ON THE 33 MILLION RESOURCE-POOR FARMERS AND THEIR FAMILIES***

WHAT NEXT?

ABANDON LIBERALIZATION POLICY?

NO! Not Necessarily

Indiscriminate State Controls Has Its Own Challenges and There are Obviously Bad Examples in Africa

WAY FORWARD FOR AFRICAN COFFEE

My View is:

- *First*, TO RE-THINK POLICY AND CARRY OUT POLICY ANALYSIS AS PART OF THE POLICY PROCESS AND GET THE POLICY MIX RIGHT
- *Second*, TO RESIST WHOLESALE PRIVATIZATION; INSTEAD, I URGE GOVTS. TO ENCOURAGE PRIVATE SECTOR **PARTICIPATION** IN THE COFFEE INDUSTRY, AS AGAINST **PRIVATIZATION**

WAY FORWARD CONT'D

Participation means de-coupling the various operational activities along the Coffee Chain, determine which ones could better be carried out by the Private and those by the Public Sectors and assign roles as the case may be.

- **IN OTHER WORDS, LET'S ENCOURAGE AND PROMOTE PUBLIC/PRIVATE PARTNERSHIP**

WAY FORWARD CONTD

- ***Third,* TO RE-INTRODUCE AND/OR INCREASE PUBLIC SECTOR SPENDING FOR INFRASTRUCTURAL AND OTHER COFFEE DEVELOPMENT PROGRAMS TO ENHANCE PRODUCTIVITY***
- ***Fourth,* TO PURSUE PRICING POLICIES THAT CONSISTENTLY INCREASE SHARE OF EXPORT PRICES TO FARMERS, AS IN TANZANIA; and to a LARGE EXTENT, IN UGANDA AND ETHIOPIA**

**% SHARE OF EXPORT PRICES PAID
FARMERS IN SELECTED AFRICAN
COUNTRIES, 2004-2008**

| | <u>04</u> | <u>05</u> | <u>06</u> | <u>07</u> | <u>08</u> |
|-------------------------|------------------|------------------|------------------|------------------|------------------|
| <u>Arabicas:</u> | | | | | |
| Tanzania | 36 | 40 | 41 | 49 | 61 |
| Uganda | 68 | 49 | 54 | 56 | N/A |
| Ethiopia | 94 | 54 | 62 | 68 | 54 |

Production in Tanzania, Ethiopia and Uganda is Picking up as Farmers Earn Higher Proportion of Export Prices.

SHARE CONTD

| | <u>04</u> | <u>05</u> | <u>06</u> | <u>07</u> | <u>08</u> |
|-------------------------|------------------|------------------|------------------|------------------|------------------|
| <u>Robustas:</u> | | | | | |
| Angola | 30 | 21 | 22 | 49 | N/A |
| Cote d'Ivoire | 59 | 73 | 65 | 53 | 46 |
| Togo | 73 | 80 | 79 | 86 | 59 |
| Uganda | 99 | 91 | 79 | 70 | N/A |

WAY FORWARD CONTD

- **Fifth**, TO DEVELOP PROGRAMS TO PROMOTE AND TRAIN COFFEE FARMER GROUPS FOR 4 MAIN REASONS:
 - *First, to Help Coffee Farmers Improve Their 'BANK-ABILITY' and Access to Credit*
 - *Second, to Help Farmers Improve Their Access to Information and Markets*
 - *Third, to Strengthen Their Bargaining Power, and*
 - *Finally, to Use the Groups as Entry Points for technology transfer.*

WAY FORWARD CONT'D

- **Sixth**, FOR COUNTRIES SETTING INDICATOR PRICES, PLEASE MONITOR TO ENSURE COMPLIANCE, and
- **Seventh**, TO CREATE STABILIZATION FUND TO **SOLELY** SUPPORT COFFEE PRICES AND ITS DEVELOPMENT

WHY INVEST IN AFRICA COFFEE?

**• ROBUST GLOBAL COFFEE DEMAND,
GROWING AT 2-2.5% P.A. AND
EXPECTED TO CONTINUE***

**• IN AFRICA, THE BOOMING
TOURISM INDUSTRY AND THE
RELATIVELY BETTER GDP GROWTH
PERFORMANCE PROVIDE HUGE
MARKET OPPORTUNITIES FOR
COFFEE CONSUMPTION.**

MOTIVATION CONT'D

- TIME FOR AFRICA TO STRATEGIZE TO
PROVIDE THE GROWING COFFEE NEEDS**
- AFRICA HAS HUGE SUITABLE LANDS FOR
COFFEE PROD. AT COMPETITIVE PRICING, and**
- ABUNDANT LABOR AT COMPETITIVE COSTS.***

THANK YOU

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