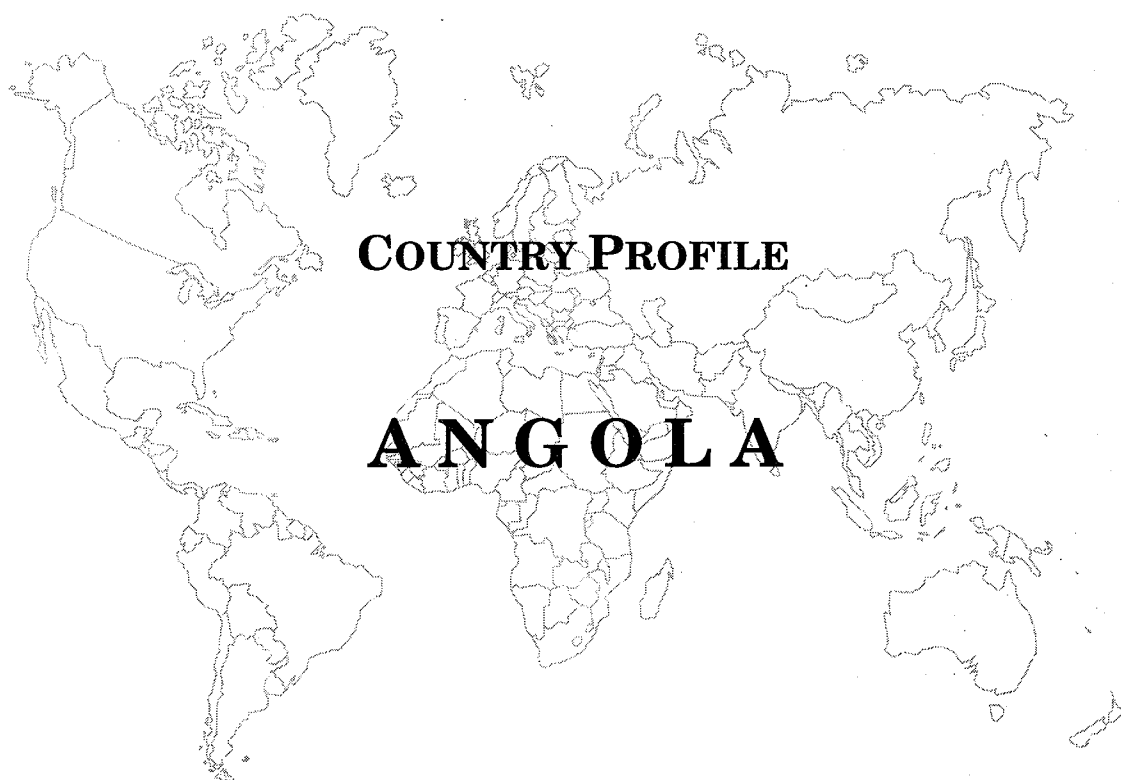


**ICO/CFC STUDY OF
MARKETING AND TRADING POLICIES AND SYSTEMS
IN SELECTED COFFEE PRODUCING COUNTRIES**



COMMON FUND FOR COMMODITIES



INTERNATIONAL COFFEE ORGANIZATION



THE WORLD BANK

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**ICO/CFC Study of
Marketing and Trading Policies
and Systems in Selected Coffee
Producing Countries:
ANGOLA COUNTRY PROFILE**

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Executive Summary: Angola

BACKGROUND

Angola is primarily a producer of robusta coffee and was an example of a marketing board system prior to liberalisation. The liberalisation process began in 1991/92. Prior to independence, Angolan production was primarily plantation based and peaked at 4.0 million bags in 1972/73. However, with the exodus of the Portuguese settlers following independence and civil war, production has fallen dramatically. Annual production in the 1990s averaged under 100,000 bags.

Prolonged civil war, since independence in 1975, between the government and the main opposition party (UNITA) has de-stabilised the economy and destroyed much of the country's economic and social infrastructure, thus creating a difficult environment for the coffee sector to operate in. Similarly, the coffee sector liberalisation process began in 1991/92 at a time when there were further political and military disturbances. The overvalued exchange rate, high inflation rate and high interest rates continue to reduce incentives in the coffee sector.

In 1975, many of the plantations were nationalised and a number of state enterprises were created. Following liberalisation in 1993, the government, under its privatisation programme, liquidated all of these state coffee plantation companies and is currently selling off their constituent farms. These farms have been subdivided and some have been sold at token prices to the private sector. However, most of the beneficiaries lack the know-how, the will and the resources to operate the farms. Also, the breakdown of the security situation following the 1992 election prevented the new farm owners from rehabilitating the farms.

From 1983 until liberalisation, a state owned company, Cafangol, was responsible for coffee marketing and exports in all provinces except Uige. In Uige, the state farms sold coffee to another state owned company, Uigimex, who processed and exported it. Angola began to partially liberalise its coffee sector in 1991/92 when private intermediaries were permitted to buy coffee from farmers and compete with the two state owned exporters. There are 25 licensed exporters including the parastatals, although in 1998, only five companies handled over 90% of exports. All export processing/grading is conducted in Luanda where there are three exports processing/grading facilities.

Despite the liberalisation, a number of government organisations are still involved in the sector. The Secretary of State for Coffee through the State Secretariat for Coffee (Secafé) is responsible for monitoring and regulating the coffee industry. Although, the National Coffee Institute (INCA) carries out these functions on behalf of the Secafé. All market participants are required to be licensed and the procedures can be very bureaucratic.

THE REFORMS

Despite the liberalisation, the government, through the INCA, determines the minimum producer price and the margins of other operators (traders and exporters). The INCA announces the minimum producer price at the beginning of the coffee season (May) and at any time there is a change. The basis of the calculation of the minimum price is that one third of the f.o.b. value is received by each key player in the marketing chain:

producer, trader and exporter. This price is disseminated by INCA through its field staff, although there are often delays in the setting of the price and publicising this information to growers. The actual price paid to producers is dependent upon security, the distance from Luanda, the state of the roads, availability of transport facilities etc. In areas which are still recovering from the war, marketing costs are high due to the poor infrastructure. In addition, in these areas there is often a lack of competition among buyers, and producers obtain a low price. In areas which are safe, there is competition and grower prices are higher than the minimum government price. In December 1998, in the Kwanza Sul, Gabella and Calulo regions, the price paid to growers was around 86% of the f.o.b. price. In Uige and Kwanza Norte, on the other hand, the price paid to the coffee producer was around 40% of the f.o.b. price. The high level of inflation and depreciation of the currency, mean that some growers retain their coffee as a store of value and also speculate on local price movements. Sometimes producers sell their coffee in US dollars and speculate at the exchange rate in the parallel market.

In the early 1970s, Angola produced one of the most neutral and best quality robusta coffees in the world. Since independence, the quality, as well as the quantity of production has declined. However, premiums (measured as the export unit value as a proportion of the ICO robusta indicator) were maintained until the 1990s, largely because the quantities on offer are so small. Since liberalisation in 1991/92, the export unit value as a proportion of the robusta indicator has declined. This is partly because of the pressure exerted by traders on producers for them to sell their coffee quickly. This means that growers rush to harvest the coffee, dry it and market it in a shorter period than before liberalisation. Furthermore, the low pesticide use does not permit growers to defend themselves against coffee berry disease which has a negative effect on both quality and quantity.

A lack of banking facilities is a major constraint to exporters. The banks that exist are unwilling to finance most of the exporters as they consider the business too risky. It is only the larger exporters who are financed and even in this case crop finance is generally made available against coffee in store. Exporters who have close links with overseas buyers are often pre-financed from overseas. Prior to liberalisation, the banks were happy to finance the sector as the coffee price was fixed in advance of the season by the government and the margins of each operator were determined and known. The risk of default to the bank was therefore very low.

Due to the small volumes of coffee involved and the high degree of competition between exporters, the exporters do not sell coffee forward. In most cases, exporters sell coffee in the spot market once it is in their warehouses. This means that they are subject to all the price risk between the time of buying the coffee and its sale.

Supporting Services

Since the mid-1970s, there has been a substantial reduction in both the availability of inputs and knowledge and application of correct husbandry techniques by farmers. There has been an almost complete collapse of extension and research services. Little public funding is available to support the coffee industry and any initiatives that have arisen are driven by the private sector or individual estates. The INCA is responsible for coffee research and extension.

The market for agricultural inputs is small, even though inputs are subsidised by the government. Even if farmers use inputs they are often not available when farmers require them. Input distribution is under the control of a number of state owned

companies. For the coffee sector, Procafé and the Fund for the Development of Coffee (FDCA) are responsible for importing inputs (at official prices) and distributing them among growers. In the Uige region Uigimex supplies inputs.

The availability of credit and financial services are negligible. Some coffee farmers are financed by local traders in return for the supply of coffee once it is harvested. Also, Procafé distributes inputs to some traders who then sell them to farmers either for cash or on credit.

Internal transport by road, river and railway has been severely dislocated by the civil war and a lack of expenditure on maintaining the transport infrastructure. Transporting coffee to the coast for export from the northern provinces has been a major difficulty as roads are prime targets for guerrillas. In some zones, it has proved impossible to use lorries. Furthermore, a number of areas are inaccessible due to the fear of land mines. The poor state of rural roads means that transport costs are high as vehicles risk damage and travel time is extended.

INTRODUCTION

Angola is primarily a producer of robusta coffee and was an example of a marketing board system prior to liberalisation. The liberalisation process began in 1991/92. Prior to independence, Angolan production was primarily plantation based and peaked at 4.0 million bags in 1972/73. However, with the exodus of the Portuguese settlers and civil war, production has fallen dramatically. Annual production in the 1990s averaged under 100,000 bags.

The Angola profile firstly provides an overview of the Angolan coffee sector and the macroeconomic setting within which the marketing system operates. The profile then details the supporting services that are provided to the farmer and how the provision of these services has changed in recent years. The marketing system, both before and after liberalisation, is then described and the effects of the changes to the marketing system on pricing policy, regulation, crop finance, risk management, taxation and institutions are then discussed. Finally, the reforms are evaluated by examining changes to grower prices, quality and production. As discussed in the profile, apart from the considerable upheavals in the international coffee market itself in the 1990s, the reform process must be seen against the background of an industry which had been in decline since the 1970s. In addition, continuing political instability has reduced much of the impact of any change to the marketing system.

OVERVIEW

Trends in Coffee Production and Exports

Production

Angola was one of the largest robusta producers in the world in the mid-1970s and output peaked at 4.0 million bags in 1972/73. However, the effects of the civil war and the exodus of Portuguese settlers (who were responsible for much of the coffee production) resulted in a massive decline in production. Annual production declined from an average of over 3 million bags in the early 1970s to just 80,000 bags in 1997/98. Small volumes of arabica are also produced (Table 1 and Diagram 1).

Table 1: Angola — Trends in Production, Trade ('000 bags) and Prices (US c/lb)

	Total	Production Arabica	Robusta	Exports	Grower Price	EUV
1960s	1,968					
1970s	2,449					
1979/80	289	20	269	960		
1980/81	586	30	556	693	49	108
1981/82	344	20	324	816	70	115
1982/83	290	20	270	472	91	115
1983/84	217	20	197	417	92	127
1984/85	254	20	234	312	92	131
1985/86	190	20	170	362	92	159
1986/87	231	20	211	276	92	115
1987/88	232	20	212	204	92	111
1988/89	183	15	168	129	92	102
1989/90	120	15	105	97	88	57
1990/91	110	15	95	61	84	69
1991/92	90	10	80	88	66	55
1992/93	75	10	65	50	22	53
1993/94	75	6	69	11	57	81
1994/95	80	4	76	25	116	148
1995/96	60	8	52	56	53	81
1996/97	70	10	60	46	43	66
1997/98	80	10	70	50	-	-

Source: LMC, ICO

Until the mid-1970s, the majority of coffee was cultivated on a variety of plantations (*fazendas*) owned and managed by the Portuguese. These varied in size from substantial commercial holdings, employing thousands of labourers, to small family-owned plantations. Of the 596,000 hectares under coffee at independence, over half were estates of more than 100 hectares (Table 2).

Table 2: Angola — Area under Coffee and Farm Size, 1975 (Hectares)

Farm Size	
0 to 10 (average 2)	119,000
10 to 100	124,000
100 to 300	143,000
More than 300	210,000
Total	596,000

Source: SECAFÉ

Following independence in 1975, the Portuguese left their farms as Angola was plunged into war and most of the workforce on the coffee estates, comprising largely of Ovimbundu migrant workers, returned to their ethnic regions. In addition, the departure of the "bush traders" left the smallholder coffee sector without any marketing structure. The plantations were nationalised and 33 state enterprises were created with

about 400 large plantations covering about 235,000 hectares (of which about 50,000 hectares were coffee). There were also an estimated 15,000 small farms, many of which were government owned. The small farms covered between 1 hectare to 250 hectares, the average farm size was 5 hectares.

Under its privatisation programme, the government liquidated all 33 state coffee plantation companies in 1993 and continues to sell-off their constituent farms. These farms were subdivided and some sold at token prices to the private sector. The main beneficiaries of the privatisation process were civil servants working in the coffee or agriculture sector and other privileged individuals. Most of the beneficiaries lack the know how, the will and the resources to operate the farms. The situation has been aggravated by the non-residency of the farms' owners. Also, the breakdown of the security situation following the 1992 election did not allow the new farm owners to rehabilitate the farms.

A lack of maintenance, expertise and input use and the high incidence of coffee berry disease have reduced incentives to produce. Small farmers have also suffered from a policy environment which did not favour coffee production. Hence, smallholders concentrated their efforts on food production for domestic markets although war and pervasive insecurity in rural areas disrupted any rural trading activities. On the areas that are still farmed, yields are low at an estimated 250kg to 280kg per hectare.

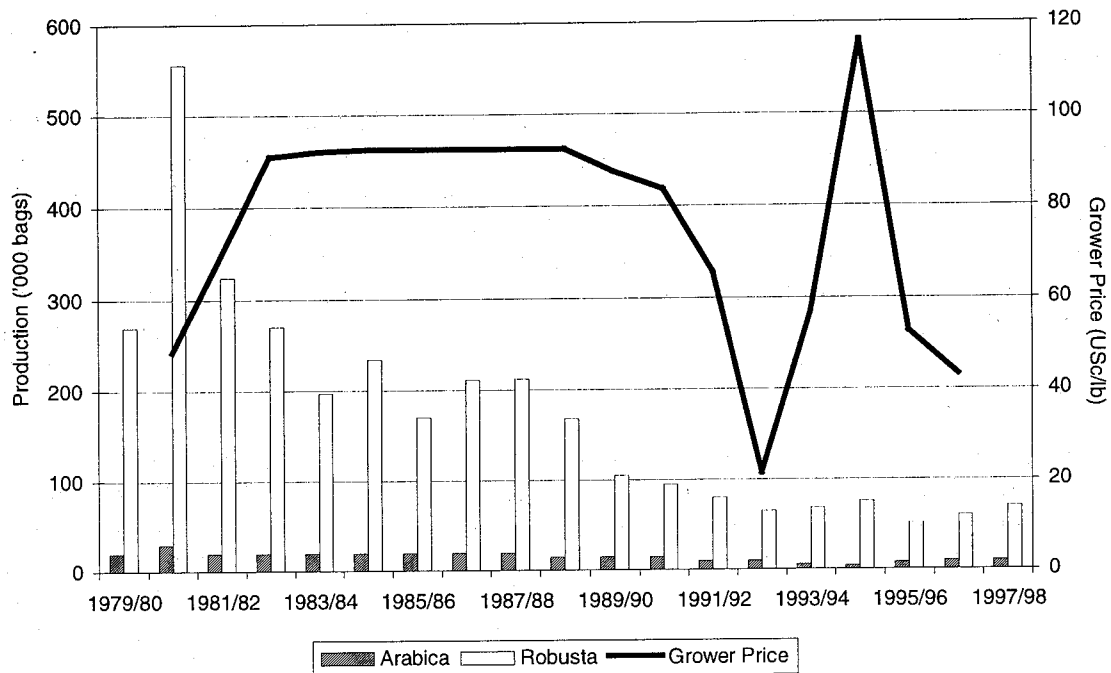
Most of coffee production was concentrated in the five provinces of Uige, Kwanza Norte, Kwanza Sul, Bengo and Cabinda. There were also some farms in the Zaire and Malange provinces. About 5% of Angola's coffee exports were arabica and this was grown in the central highlands of the provinces of Benguela, Bié, Huambo, Huila and Moxico (Table 3). Due to the need to address poverty arising from population displacement, the war and the unattractive employment prospects in the robusta producing area in the north, the government is committed to supporting increased production of arabica coffee in this part of the country.

Table 3: Angola — Coffee Areas, Production and Yields, 1973

Province	Area (Hectares)	% of total area	Production (Tonnes)	Yields (kg/ha)
Kuanza Norte	182,000	34.7	82,500	453
Uige	161,000	30.7	74,050	460
Kuanga Sul	120,000	22.9	40,700	339
Luanda	20,300	3.9	2,500	123
Cabinda	9,500	1.8	1,900	200
Benguela	9,200	1.8	1,800	196
Malange	3,500	0.7	650	186
Bié	10,000	0.0	3,250	325
Huambo	5,000	1.0	1,450	290
Zaire	3,000	0.6	700	233
Huila	1,500	0.3	400	267
Total	525,000		209,900	400

Source: Diagnostic of Coffee sub-sector (1998)

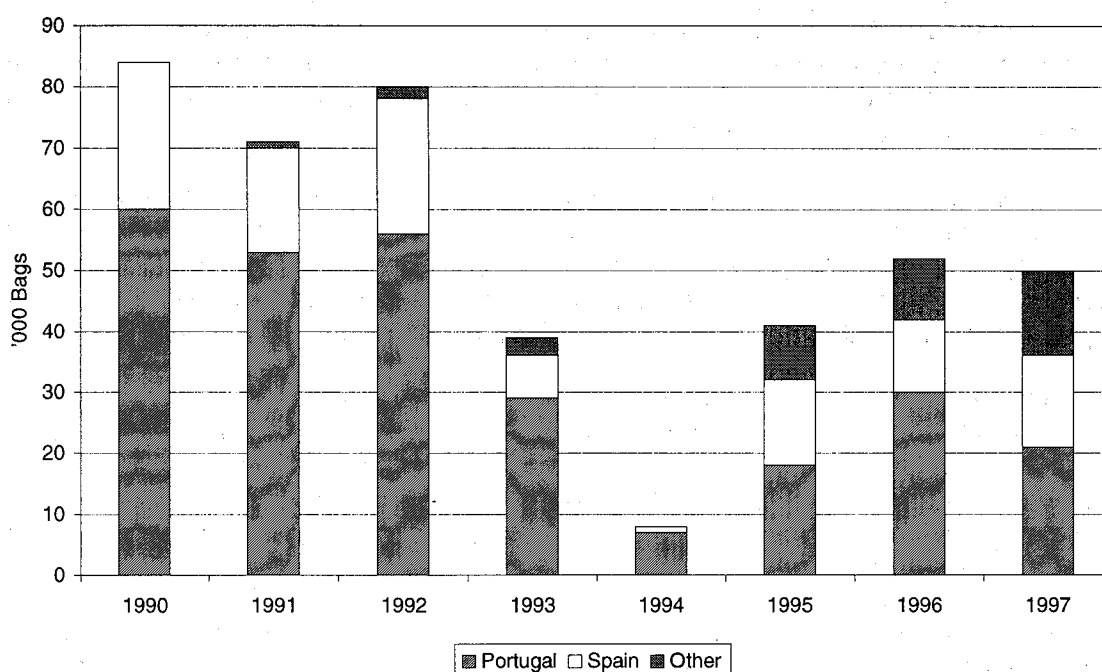
Diagram 1: Angola — Coffee Production and Grower Price



Exports

Annual exports have fallen to under 100,000 bags in the 1990s. Not only has production fallen drastically, exports have been limited by the civil war which severely limited the free movement of people and goods. Coffee grown in the northern region, under the control of UNITA, is often smuggled into D.R.Congo and exported to Central & Eastern Europe in exchange for weapons. Since 1989, all ICO recorded shipments have been to the European Union, mainly to Portugal and Spain (Diagram 2).

Diagram 2: Angola — Main Export Markets, 1990-1997



Coffee in the Economy

With the decline of the coffee sector, coffee is no longer an important source of foreign exchange. Oil and diamond exports account for almost all commodity export revenues (Table 4). Over 60% of GDP is generated by the oil sector.

Table 4: Angola — Commodity Exports (US\$ mn)

	1993	1994	1995	1996	1997
Total Exports	1,481	2,875	3,496	4,798	4,626
Petroleum	1,448	2,817	3,416	4,645	4,493
Diamonds	31	57	75	148	128
Coffee	2	1	5	5	5

Source: National Institute of Statistics

GOVERNMENT POLICY

Macroeconomic Environment

Prolonged civil war since independence in 1975 between the new government and the main opposition party (UNITA) has de-stabilised the economy and destroyed much of the country's economic and social infrastructure. The latest peace accord was agreed in November 1994, the Lusaka Peace Accords, and still holds, although there are signs that both the Angolan Armed Forces and UNITA are preparing for renewed fighting.

Since independence and until recently, the government pursued a centrally planned economy with all activity controlled and carried out directly by the government. There was an extensive bureaucracy, including rigid price controls, strict foreign exchange allocations and the rationing of consumer goods through state-controlled shops. The bureaucratic structure which was created, introduced great rigidity, complexity and distortions in economic management.

Expansionary fiscal and monetary policies were combined with freezes on producer and consumer prices, nominal wages and the exchange rate, keeping them at artificially low levels. The price and wage freeze encouraged the emergence of parallel markets and the large currency over-valuation resulted in the virtual elimination of all exports (except for oil and diamonds) and a heavy dependence on imports.

The allocation of foreign exchange was, in theory, based on economic and social priorities with the exception of some companies (e.g. the oil and mining sectors) which retain their foreign currency earnings and operated outside of the foreign exchange allocation process. However, Angola did not have the capacity to carry out the task of prioritising foreign exchange demands and the system resulted in an inefficient and haphazard allocation of foreign exchange.

The liberalisation of the economy started in 1990; some price controls were lifted, the new Kwanza was devalued and industry, together with some land, were privatised. As part of the adjustment, the new Kwanza was devalued by almost 100% (in April 1994) and the official exchange rate is being brought in to line with the free market rate. A new currency, the "re-adjusted" Kwanza, was introduced in July 1995. However, the currency is still overvalued by around 55%. GDP has grown strongly since 1994, although the official annual rate of inflation rose to over 1,600% in 1996 before falling to 150% in 1997 and 60% in 1998. Interest rates are around 50%. Despite abundant fertile land, mining, fishing, petroleum and energy resources, the economy is one of the most under-developed and distorted in Africa. The population is around 12 million (Table 5).

Table 5: Angola — Macroeconomic Conditions, 1990-1997

	1990	1991	1992	1993	1994	1995	1996	1997
Exchange Rate (Kzr:US\$)	0.03	0.07	0.50	4.90	153	2,729	80,250	350,000
Real GDP Growth	34%	16%	3%	-24%	8%	13%	9%	10%
GDP (1990 prices) Bn Kzr	227	237	244	183	199	224	244	268
GDP (1990 prices) Millions US\$	7,669	8,899	7,535	11,195	4,050	9,151	6,207	4,142
Per Capita GDP (US\$ per head)	767	864	711	1,027	362	789	522	342
Inflation (CPI)	43%	176%	496%	1838%	976%	3780%	1650%	150%
Population (millions)	10.0	10.3	10.6	10.9	11.2	11.6	11.9	12.1

Source: EIU, LMC

Agriculture/Coffee Policy

The economy is primarily dependent on its natural resources with oil the most important component of GDP. The agriculture sector accounts for 20% of Angola's GDP and more than 70% of total employment.

During the period of Portuguese colonial rule, Angola's economic development was centred on coffee production which increased from 230,000 bags in 1940 to 4.0 million bags in 1972/73, when Angola was one of the world's four main coffee exporters. The country was self-sufficient in food crops. Agriculture had a dual structure, with a commercial sector of about 800,000 hectares managed by Portuguese settlers using modern technologies and a traditional sector composed primarily of subsistence smallholders cultivating about 3.4 million hectares. The agriculture sector was well supported by an extensive transportation and marketing infrastructure. When Angola gained independence from Portugal in 1975, coffee production and the wider economy suffered from the mass exodus of educated/skilled Portuguese workers, the start of the civil war, the government appropriation of agricultural land and strategic industry, and the adoption of centralised planning.

The system of price controls severely distorted relative prices, artificially stimulating consumption of goods with lower relative prices while discouraging the production of such goods. The severe shortages of goods and services at official prices led to the rapid development of parallel markets, in which prices were freely determined by demand and supply. Private producers were discouraged from selling export crops at the official prices because these were too low (in part due to the over-valued exchange rate) and there was no significant possibility of selling export crops on the parallel market. Since parallel market prices for cassava were more attractive than the official prices for coffee, many peasant farmers uprooted coffee trees in order to plant cassava. Furthermore, smallholder producers lost interest in coffee because of the inefficiency of the state marketing structures.

The parallel markets still play an important role in the Angolan economy and provide most consumers and many producers with the opportunity to obtain goods and services which are not available in the official market. While these markets are technically illegal, they are tolerated by the government.

The modern sector of the Angolan economy (except for oil) is dominated by state enterprises, despite severe deficiencies in qualified staff. Under the Ministry of Agriculture alone there are more than 100 public enterprises and agencies including state farms and other commercial and service organisations.

The government is currently committed to rehabilitating the coffee sector and views it as a dynamic sector which could create employment opportunities for many Angolans, especially the young, demobilised soldiers and displaced people in the rural areas. Rehabilitating the coffee sector could help alleviate rural poverty, upgrade rural living conditions and reduce the rural exodus.

Research and Extension

With the departure of the Portuguese in the mid-1970s and the civil war, there has been a substantial reduction in both the availability of inputs and knowledge and application of correct husbandry techniques by farmers. There has been an almost complete collapse of extension and research services. Little public funding is available to support the coffee industry and any initiatives that have arisen are driven by the private sector or individual estates.

The strengthening of research and higher education in the agricultural sciences constituted a major thrust of the World Bank sponsored Agricultural Services Project which was near to implementation at the outbreak of renewed hostilities in 1992. Since then most research activities have been on hold. The Angola National Institute for

Coffee (INCA) has three research stations: Gabela, Amboim located in Kwanza Sul and Uige. They are responsible for robusta research and the production and distribution of seedlings. However, two stations are not operational following the damage arising from the war and a lack of resources to rehabilitate the infrastructure and resettle staff.

A general extension system, run by the *Instituto de Desenvolvimento Agrário* (IDA) in the Ministry of Agriculture, operates in the field via agrarian development stations (EDA). Excessive centralisation and severe limitations in qualified staff have inhibited the effectiveness of the extension service.

The Angola National Institute for Coffee (INCA) has staff in each of the coffee growing provinces and municipalities, although the actual level of extension advice offered to farmers is minimal.

Input Distribution

The market for agricultural inputs is small even though inputs are subsidised by the government. Even if farmers use inputs they are often not available when farmers require them. Input distribution is under the control of a number of state owned companies that operate under the Ministry of Agriculture. ENAMA (*Empresa Nacional de Mecanização Agrícola*) imports heavy equipment for the agricultural sector, ANGOSEMENTES imports seeds at the official exchange rate and DINAMA (*Distribuidora Nacional de Materiais Angolanos*) imports fertiliser and pesticides and distributes them to the countryside.

For the coffee sector, *Procafé* and the Fund for the Development of Coffee (FDCA) are responsible for importing inputs (at official prices) and distributing them among growers. In the Uige region, another state owned company Uigimex supplies inputs.

ENCODIPA (*Empresa Nacional de Comercialização e Distribuição de Produtos Agrícolas*), which is under the Ministry of Commerce, is responsible for providing consumer goods to rural areas in exchange for agricultural products. However, ENCODIPA's stores in the countryside are almost empty.

Credit

The availability of credit and financial services are negligible. In 1991, the government established a new institution, the Agriculture, Livestock and Fisheries Credit Office (CAP), to provide finance to the agricultural sector. However, a lack of available funds and continued unrest mean that it has had little impact. The existing banking system is underdeveloped and high interest rates and inflation are further constraints to the banking system.

Some coffee farmers are financed by local traders in return for the supply of coffee once it is harvested. Also, *Procafé* distributes inputs to some traders who then sell them to farmers either for cash or on credit.

Infrastructure

Internal transport by road, river and railway has been severely dislocated by the civil war and a lack of expenditure on maintaining the transport infrastructure. Transporting coffee to the coast for export from the northern provinces has been a major difficulty

as roads are prime targets for guerrillas. In some zones, it has proved impossible to use lorries. Furthermore, a number of areas are inaccessible due to the fear of land mines. In an effort to overcome these problems, the government in 1990 offered an average 3.5% commission on the coffee price to transport companies or agents delivering coffee from the north.

The poor state of rural roads means that transport costs are high as vehicles risk damage and travel time is extended. The cost of transport by lorry is between 2,500 to 10,000 kwz per kg.

The major export port for coffee is Luanda after the breakdown of facilities at Lobito (Banguela province), Amboim and Cabinda. Coffee from Uige is also exported from Luanda despite the province's long distance from the port. Marketing and export costs of coffee from both Uige and Cabinda would be cheaper if it was exported from Cabinda (now out of operation) or the export points of Congo Brazzaville or Democratic Republic of Congo. However, this is not politically acceptable. In addition, it is argued that the two provinces lack appropriate export grading facilities.

MARKETING SYSTEMS

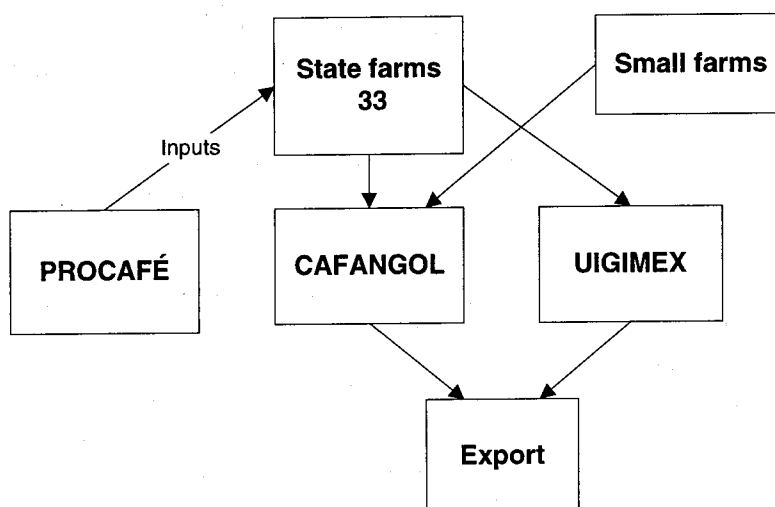
Marketing Channels

The majority of production is sun-dried by growers. A small proportion of robusta, around 1%, is washed and cleaned. Of the arabica produced, half is wet processed and the remainder sun-dried.

Pre-Liberalisation

Prior to independence, marketing was carried out by private traders and exporters under the supervision of the *Instituto do Café de Angola*. Following independence, coffee trading was nationalised and *Encafé*, a government-controlled enterprise, was established and given responsibility for the production, purchase and distribution of coffee. From 1983 to liberalisation, a state owned company, *Empresa de Rebenefício e Exportação do Café de Angola* (Cafangol), was responsible for coffee marketing and exports in all provinces except Uige. In Uige, the state farms sold coffee to another state owned company, Uigimex, who processed and exported it (Diagram 3).

Diagram 3: Pre-liberalisation Marketing Channels



Post-Liberalisation

Angola began to partially liberalise its coffee sector in 1991/92 when private intermediaries were permitted to buy coffee from farmers. Private companies were licensed to compete with Cafangol and Ugimex for exports. There are now 25 licensed exporters including the parastatals (Diagram 4).

Small scale farmers sell their coffee crop (hulled or unhulled) to the traders or to the field agents of the export companies. For farmers who hull their own coffee, most hulling factories are located within the coffee farms and are being operated by the individuals to whom the farms were sold. However, the machines are old and frequently break down and spare parts are difficult to acquire.

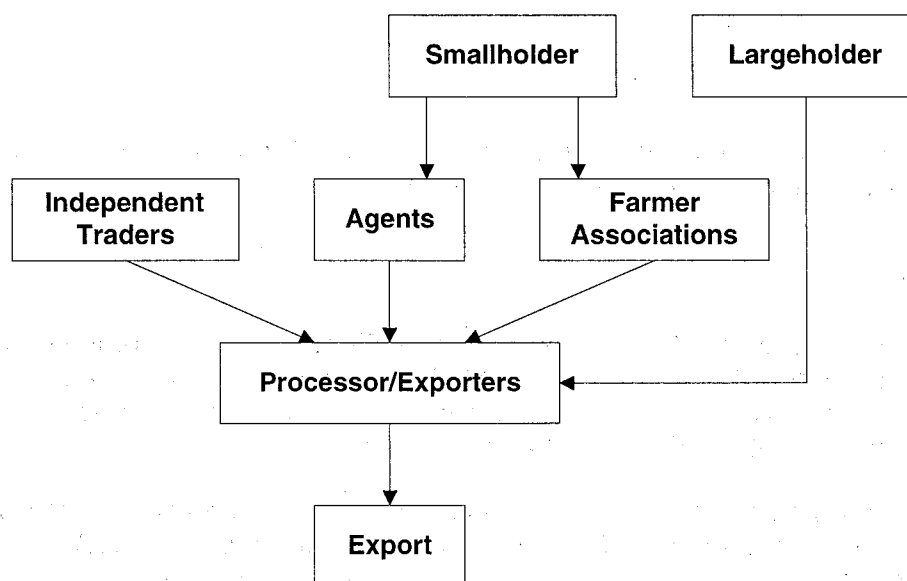
The traders sell the crop to exporters and agents deliver coffee to the exporters. There are also some producer associations who gather coffee from their members and then sell it to exporters. Exporters hull the sun-dried coffee at their own processing mills (Diagram 4).

Export processing of commercial coffee is conducted in Luanda where there are three export processing/grading facilities. One belongs to Cafangol and the other two are private and belong to Griangol and FCA. Cafangol has another functioning facility at Amboim in Kwanza Sul and another facility that is no longer functioning at Labito (Benguela Province). Due to the low coffee output, these facilities all operate below capacity. The processing factories compete for coffee. Cafangol and Griangol charge US\$ 0.20 per kg, whereas FCA charges US\$ 0.15 per kg.

When exporters do not have enough commercial coffee to meet an export contract they supplement their lots with coffee purchased from other exporters.

In 1995, following liberalisation, the crop was handled by ten exporters, this rose to 18 in 1996 but by 1998 had fallen back to 11 companies. Although only five companies in 1998 accounted for over 90% of exports. Cafangol had a market share of around 10% in 1997. With the exception of one exporter, all traders and exporters are locally owned.

Diagram 4: Post-liberalisation Marketing Chain



Pricing Policy

Despite the liberalisation, the government, through the INCA, determines the minimum producer price and the margins of other operators (traders and exporters). The INCA announces the minimum producer price at the beginning of the coffee season (May) and at any time there is a change. The basis of the calculation of the minimum price is that one third of the f.o.b. value is received by each key player in the marketing chain: producer, trader and exporter.

The minimum price is disseminated by INCA through its field staff, although there are often delays in the setting of the price and publicising this information to growers. There is no collection or dissemination of actual grower prices by INCA or any other agency.

In December 1998, the prevailing government minimum price set for all coffee producing areas was 327,000 kwz/kg for hulled robusta coffee (150,000 kwz/kg for dried cherry) and 417,000 kwz/kg for hulled arabica coffee (195,000 kwz/kg for dried cherry). These prices are, in practice, a maximum in the areas where access is difficult (i.e., due to poor security, the poor state of roads or the long distance from Luanda) and where price information is limited (i.e., Uige, Kwanza Norte etc.). In areas where access is easy and marketing is competitive (i.e., Kwanza Sul and Calulo), much higher prices are paid. The INCA's reference margins are set out in Table 6.

Table 6: Angola — Reference Margins (US\$ per Tonne)

Producer price	400
Local Hulling	40
Storage/ transport	20
Traders margin	300
Transport	70
Grading/ bagging	35
Port costs	55
Marketing (2%)	30
Taxes	75
Exporters margin	475
FOB Price	1,500

Source: SECAFÉ

Due to the frequent depreciation of the Angolan currency, processed coffee is sometimes quoted for and paid for in US dollars at the internal market level.

Taxation

The only taxation payable by the coffee sector is a levy of 3% on coffee exports which is paid to INCA to remunerate it for the services it provides.

Regulation

The Secretary of State for Coffee (*Secretário de Estado de Café*) through the State Secretariat for Coffee (Secafé) is responsible for monitoring and regulating the coffee industry. Although, supervising and monitoring the coffee sector is carried out by the National Coffee Institute (INCA) on behalf of the Secafé.

All market participants are required to be licensed and the procedures can be very bureaucratic. With regards to traders, the licensing is carried out by INCA who deliver a "card of trader" to each trader. There are no special criteria for obtaining a card of trader. The card is renewable every year.

For exporters, the licensing is carried out by the Ministry of Commerce (External Commerce) on the recommendation of the INCA. The licence fee costs around US\$ 40. In order to obtain a licence, the exporter must be a (recognised) firm and have authorisation from the Ministry of Commerce, a warehouse in good condition, a bank account in the local commercial bank and financing to cover an amount of coffee equivalent to the value of 15 tonnes of coffee.

Quality

Internally, traders purchase coffee according to their own quality criteria. These criteria are used in assessing the price to be paid to growers. Some producers, however, have the impression that these criteria merely serve to lower the producer price. Traders' quality criteria are based upon the moisture content of the coffee beans and the number of physical defects.

After processing, export standards are determined by screen size and the number of defects.

- The screen size is classified as Large (90% passing screen 17), Medium (90% passing Screen 15) and Small (50% passing screen 15); and
- The level of defects is classified as Superior, 2AA, 2BB, 3CC, 4DD (within each screen size).

Angolan coffee is usually 70% to 80% grade 2BB.

Export quality control is carried out by INCA and based on:

- The moisture content of the coffee beans: 12% is recommended (the international market value);
- The physical defects of beans (colour of beans, black beans);
- Roasting characteristics; and
- The cup test (to detect defects and organoleptic characteristics).

Crop Finance

A lack of banking facilities is a major constraint to exporters. The banks that exist are unwilling to finance most of the exporters as they consider the business too risky. It is only the larger exporters who are financed and even in this case crop finance is generally made available against coffee in store. Exporters who have close links with overseas buyers are often pre-financed from overseas.

Prior to liberalisation, the banks were happy to finance the sector as the coffee price was fixed in advance of the season by the government and the margins of each operator were determined and known. The risk of default to the bank was therefore very low.

Risk Management

Due to the small volumes of coffee involved and the high degree of competition between exporters, the exporters do not sell coffee forward. In most cases, exporters sell coffee in the spot market once it is in their warehouses. This means that they are subject to all the price risk between the time of buying the coffee and its sale. The mode of payment is f.o.b. Angolan port for shipment within a maximum of 90 days, in US dollars by an irrevocable letter of credit.

INSTITUTIONS/ORGANISATION

There are a number of public sector institutions associated with agriculture in general, and in the coffee sector in particular, at the national, provincial and local levels which regulate, control and provide services to the coffee sector. The private sector and grower organisations are not involved in monitoring the coffee sector's activities or the formulation and implementation of sector policies. The major organisations operating in the sector are:

Secafé

The State Secretariat for Coffee (Secafé) was created in 1988 to promote national coffee policy. Previously, coffee was under the Ministry of Agriculture and Rural Development with a Vice Minister responsible for coffee. The creation of Secafé, with the Secretary of State for Coffee having a ministerial status, was a clear message of government commitment to coffee development. It is responsible for regulatory monitoring, research and development functions in the coffee industry. It also has a number of parastatals operating under it. Like many public institutions, Secafé is overstaffed and morale of the staff is low.

In 1998, the government has started restructuring Secafé and a number of the parastatals that it controls are due to be privatised.

INCA

The Angola National Institute for Coffee (INCA) is an executive organisation under the control of Secafé. It is responsible for research, extension, licensing, setting and disseminating the minimum price, issuing certificates of origin and checking the reliability and accuracy of weight measurements. Despite its wide remit, its ability to undertake these functions is limited by a lack of both human and financial resources.

FDCA

The Fund for the Development of Coffee in Angola (FDCA) was created in 1998 to support coffee development in Angola. It is totally financed by the government and managed by Secafé. In the recent past, it has imported and distributed agricultural inputs (hoes, spades, axes, machetes) to farmers at subsidised prices. It provides processing equipment to some existing co-operatives and private operators. It supports farms' harvesting operations and provides small amounts of credit to some bush traders.

Given the extent of overlap of the FDCA and INCA, the roles of the two institutions might usefully be clarified.

Cafangol

Cafangol was created in 1983 to succeed Encafé as the government owned enterprise responsible for the production and purchasing of coffee prior to liberalisation. Cafangol had a monopoly power over coffee marketing and exports in all provinces except Uige. It also originally had a monopoly for coffee processing. Following liberalisation it competes with private sector exporters for coffee. From its export processing facilities, Cafangol offers export processing and grading facilities to the majority of coffee exporters. Cafangol also operates a coffee roasting facility. In 1997 it produced about 36 tons of roasted coffee.

Uigimex

Uigimex is another parastatal and operates solely in the Uige region. It processes and exports coffee and supplies and distributes inputs to farmers. It also has a coffee roasting facility. Uigimex was created to address the unique situation of Uige which was a major producing province and a long distance away from Luanda. Since liberalisation, the volume of coffee it handles has declined.

Procafé

Procafé is another parastatal under Secafé and is in charge of importing inputs and distributing them to coffee growers. As with the other parastatals, Procafé's activities have declined and are currently at a very modest level.

Private Sector Institutions

Currently, there are no exporters' or traders' associations which means that there are no formal institutions for the private sector to establish dialogue with the government on policy issues affecting their operations.

The producers' associations that are in operation are in an embryonic state and very weak. They have to be promoted and supported by the government if they are to play a pivotal role in the industry's development.

EVALUATION OF REFORMS

The coffee sector liberalisation process has been hampered by wider political and macroeconomic constraints. The process began in 1991/92 at a time when there were political and military disturbances. Similarly, the process of liberalising the economy and promoting economic growth has been further hindered by the continuing distrust between the government and UNITA and the increasing dependence on oil at the expense of the non-oil sectors. UNITA still has claims on a large proportion of the agricultural and mineral rich land in the north.

The over-valued exchange rate, high inflation and interest rates also act to reduce incentives in the coffee sector.

Grower Prices

The actual price paid to producers is dependent upon security, the distance from Luanda, the state of the roads, availability of transport facilities etc. In areas which are still recovering from the war, marketing costs are high due to the poor infrastructure. In addition, in these areas there is often a lack of competition among buyers, and producers obtain a low price. In areas which are safe, there is competition and grower prices are higher than the minimum government price. In December 1998, in the Kwanza Sul, Gabela and Calulo regions, the price paid to growers was around 850,000 kwz/kg (around 86% of the f.o.b. price). In the Uige and Kwanza Norte areas, the price paid to the coffee producer was around 400,000 kwz/kg (around 40% of the f.o.b. price).

Some exporters/traders pay higher prices but this is more a reflection of distortions in the foreign exchange market, which are caused by both restrictions in foreign currency exchange and foreign currency transfer, and the over-valued exchange rate.

The high level of inflation and depreciation of the currency, mean that some growers retain their coffee as a store of value and also speculate on local price movements. Sometimes producers sell their coffee in US dollars and speculate at the exchange rate in the parallel market.

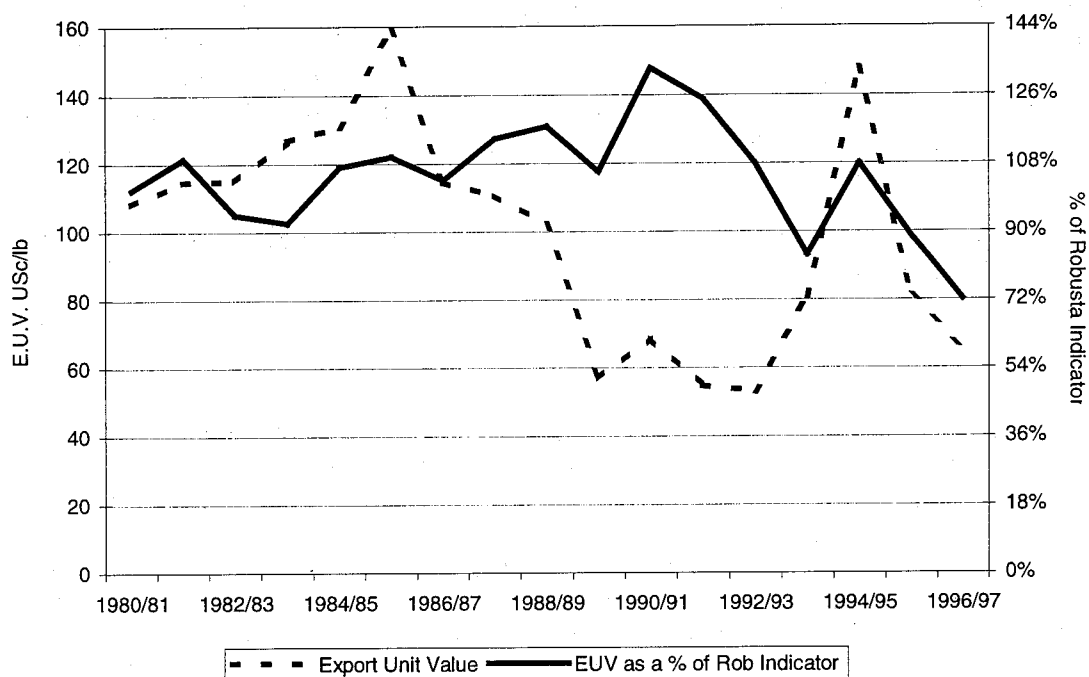
Quality

In the early 1970s, Angola produced one of the most neutral and best quality robusta coffees in the world. Since independence, the quality, as well as the quantity of production has declined. However, premiums (measured as the export unit value as a proportion of the ICO robusta indicator) were maintained until the 1990s, largely because the quantities on offer are so small. Since liberalisation in 1991/92, the export unit value as a proportion of the robusta indicator has declined. This is partly because

of the pressure exerted by traders on producers for them to sell their coffee quickly. This means that growers rush to harvest their coffee, dry it and market it in a shorter period than before liberalisation. Furthermore, the low pesticide use does not permit growers to defend themselves against coffee berry disease which has a negative effect on both quality and quantity.

Nowadays, coffee is sold subject to sample because quality controls and the quality certificate issued by INCA are not considered reliable by international buyers. The INCA quality control laboratory uses obsolete equipment and lacks qualified staff. However, even prior to liberalisation, during the period following independence, the majority of sales to overseas buyers were made on a sample basis.

Diagram 5: Angola — Export Unit Value against ICO Robusta Indicator



Production

The underlying political and economic uncertainty have limited confidence and investment in the sector. Consequently, coffee production has continued to stagnate despite liberalisation.

