# Donors and Partners Forum

## To support the renaissance of productivity, quality and trade in African coffees

Submitted by the Inter-African Coffee Organisation (IACO) for the attention of all invited to The First Donors and Partners Conference to be held on 5th November 2019 in Nairobi, Kenya

**Building a resilient and sustainable African coffee value chain**

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# I. Executive summary

1. The contribution of Africa's coffees to the world coffee trade has significantly declined since the 1970s, falling from a total production of 22 million 60kg bags in 1970, which represented 30% of global production, to the 16 million 60kg bags produced currently, reflecting a 23% decline. The volume of exports from the continent fell from 17 million bags in 1970 to the current level of 12 million bags, representing a 28% decline in African coffees traded on the global market.

   Its participation in the world coffee market has dropped from 32.4% in the 1970s to the current 9.9%. Likewise, the value of African coffees traded globally has fallen from US$3 billion in 1970s to the current US$ 1.8 billion in real terms. The quality has equally been affected over the same period.

   As a consequence, the livelihoods of the resource-poor smallholder producers of the commodity in Africa have dwindled. Likewise, governments dependent on the commodity for their foreign exchange earnings and for its contribution to GDP have suffered the same fate.

   Efforts by several partners, in particular countries, to revamp the sub-sector have not yielded the desired transformational effects due to the use of fragmented and non-holistic approaches. To reverse the above situation and re-establish coffee as a key source of livelihoods for resource-poor producers, and an anchor to the economies of coffee-dependent countries, the following minimum measures will have to be undertaken in the next 10 years:

   a. The competitiveness of coffee vis-à-vis other on-farm activities must be improved.

   b. Producers must be sensitised to have confidence in the economic benefits of being coffee farmers.

   c. Young people and women must be empowered to participate in the coffee value chain on the continent beyond their traditional role of labour supply.

   d. Domestic consumption must be increased.

   e. The continent must be enabled to play a stabilising role in global markets.

   f. Access to global markets must be improved.

2. Considering these points, this initiative is designed to achieve the following four broad objectives:

   i. Building a sustainable regional coffee supply chain.

   ii. Building demand, market linkages and private sector investment and re-investment by producers.

   iii. Promoting climate-resilient and environmentally responsible practices.

   iv. Managing knowledge, disseminating information and lessons learned and building inclusive and equitable partnerships.

   Realising these broad objectives will require the following to be undertaken through the consortium and/or by individual countries:

   a. Promoting the sustainable production and supply of given coffee origins.

   b. Branding and brand recognition within the international marketplace.

   c. Leveraging private sector investment to support the sustainability of African coffee brands/ origins.

   d. Influencing policy to support climate-resilient production within coffee systems.

   e. Repurposing statistics to demonstrate the economic viability of coffee production at smallholder level.

   f. Providing an online real-time coffee advisory service to smallholder coffee producers.

   g. Developing a living database of coffee farmers and farmers' fields, which includes the soil health characteristics of each farm.

h. Establishing and promoting precision agriculture for coffee and associated crops.

i. Putting in place a high-impact extension system encompassing e-extension and a reduced farmer extension ratio.

j. Establishing inclusive and equitable partnerships that catalyse sustainability in production and access to rewarding markets.

3. This initiative has been developed with the above aims in mind to mobilise the technical and financial support necessary to make smallholder coffee farmers once again believe in coffee farming, get government buy-in and leverage funding. We propose to realise the aims through partnerships within the framework of the Africa Coffee Facility (ACF), involving but not limited to the following institutions: African Export-Import Bank (Afreximbank); CAB International (CABI); the International Coffee Organisation and the Inter-African Coffee Organisation (IACO).

   The proposed tenure of the ACF is 10 years, with a five-year financing target of US$950 million during the first phase. A portfolio of grant and limited loan financing will form the basis of the Facility. The ACF has the potential to take full advantage of benefits from the African Continental Free Trade Area without compromising on the volumes and quality for export. We intend to professionalise the whole coffee value chain by working with individual producers, producer organisations and/or aggregators, local roasters, exporters and the regulatory bodies within the countries.

4. This initiative is sponsored by Afreximbank in order to leverage broader financial support from multilateral and bilateral partners with an interest in coffee development in Africa, the private sector, including importers and importer associations, IACO member states, regional economic communities, private foundations and other key coffee stakeholders. We have organised a Partners and Donors Forum to provide a platform for sensitisation on the urgent need to reverse the plummeting trend of African coffees and make the continent's coffee sub-sector sustainable in the face of a changing climate. The Partners and Donors Forum will be convened in Nairobi, Kenya, on 5th November 2019, to provide an occasion for the various institutions to understand the problems bedevilling Africa's coffee industry and to afford a real opportunity to revitalise coffee production, productivity and quality.

   We are inviting you to this important event given your profound interest in African coffees, particularly with respect to the impact of the commodity on the livelihoods of resource-poor, rural-based communities.

# II. Introduction

5. Agriculture is the economic fulcrum of most African countries and holds considerable promise for growth and job creation. The sector employs over 70% of Africa's workforce and accounts for about a third of the continent's GDP. There is significant poverty in Africa's rural economy, and more than 70% of the continent's poor live in rural communities and depend on agriculture for food and wealth creation, particularly from high value crops such as coffee.

6. Coffee is a primary source of income for more than 12 million households[1] continent-wide and contributes a significant proportion of tax income in a number of these countries. More specifically, countries with a high share of the total population depending on coffee farming include Burundi (38.2% of the total population); Tanzania (23.7%); Uganda (22.1%); Côte d'Ivoire (17.2%); Central African Republic (16.1%); Rwanda (14.7%); Ethiopia (14.2%); and Cameroon (13.2%). In current terms, the total value of exports by African exporting countries is estimated at US$1.9 billion (coffee year 2017/18), compared to US$5.4 billion for Asia, US$4.1 billion for Mexico and Central America, and US$8.4 billion for South America. The largest export value of African countries was recorded by Ethiopia (US$762.8 million), Uganda (US$468.4 million), Kenya (US$229.5 million) and Tanzania (US$129.2 million). Indeed, the coffee sub-sector in Africa has the potential to boost GDP, raise earnings and transform the rural economies and livelihoods of the coffee-dependent farming communities. The commodity holds great potential for catalysing private sector development, creating jobs and generating incomes for both the public and private sectors, including farmers, processors, cooperatives, exporting private enterprises and governments.

7. In view of Africa's young and growing population, labour-intensive sectors, such as agriculture and its sub-sectors (including coffee), must play a larger role in the continent's transformation. It is against this background that the IACO, representing the interests of the 25 member states, has requested Afreximbank to support the establishment of a special Fund, entitled the "Africa Coffee Facility (ACF)", to assist in addressing the challenges of Africa's coffee value chain. IACO has further requested the Bank to help with resource mobilisation for the ACF and to host the Facility once established. The request has been supported by two major partners, the ICO and CABI. The ICO is the main intergovernmental organisation for coffee, bringing together exporting and importing countries to tackle the challenges facing the world coffee sector through international cooperation. Its member countries represent 98% of world coffee production and 67% of world consumption. CABI is a global, intergovernmental, not-for-profit organisation working to improve people's lives worldwide by providing information and applying scientific expertise to solve problems in agriculture and the environment. CABI has vast knowledge and experience in coffee production, processing and marketing, and climate-resilient production systems.

8. It is expected that the Facility would provide funding to re-establish coffee as a key source of livelihoods for resource-poor producers, and an anchor to the economies of coffee-dependent countries. The Facility will drive the development of Africa's coffee value chain and foster its competitiveness and sustainability. This vision is supported by various partners in the coffee value chain, including international coffee roasters and green coffee trading companies.

# III. Current situation

9. Africa, the birthplace of coffee, is the region with the largest number of coffee-producing countries: 25, as opposed to 11 in Asia, 12 in Mexico and Central America and eight in South America. All African coffee-producing countries, except Ethiopia and Uganda, have exhibited negative production growth. Average annual production was over 20 million 60kg bags in 1970s, compared to 15 million 60kg bags currently. Today, the total output of Africa represents 10.5% of world production, compared to 30% in 1970. The average yields are mostly poor and declining, ranging from 100kg to 800kg per hectare. The low productivity and lack of agricultural intensification have led to the expansion of the agricultural frontier with the opening up of less favourable land for cultivation to compensate for the declining trends due to low productivity. African production has been seriously undermined by continued reliance on

1 Assuming an average family sise of five, the number of people depending on coffee in rural communities in the 25 African producing countries is well above 60 million.

outdated and often unproductive coffee varieties in the face of the widespread prevalence of pests and diseases, as well as a changing climate. Several farmers have benefited from coffee sub-sector development programmes in some of the coffee-producing countries. However, these initiatives cover a tiny proportion of coffee growers and have only minimal impact at national and continental levels. Many producing countries continue to practise subsistence farming and make only very limited use of modern technologies. The transfer of technologies to farmers, the provision of training and access to key services such as finance are limited and/or absent in many African countries. With the liberalisation of agricultural marketing in most African countries, coupled with the disengagement of African governments from support services such as extension to farmers, there is insufficient capacity in the private sector to fill the vacuum.

10. In summary, production systems in most African countries have significantly deteriorated and cooperative systems have collapsed. Smallholder farmers lack the entrepreneurial skills, while at the same time the primary cooperatives lack the entrepreneurial leadership and governance to drive the transformation of their business engagements. The bulk of farmers engaged in coffee production, and value chain, is made up of old men aged 65 years and above who are predominantly the face of the industry, with the exclusion of women and young people.

11. The coffee sub-sector has not been made attractive to young people, and therefore there is no generational handover to ensure future sustainability. With a significant proportion of Africa's population dependent on coffee, this bottom of the pyramid has been neglected in most instances, with a lack of empowerment and the inclusion of women and young people in gainful employment in the coffee value chain. Value addition is an important option for fostering the inclusion of women and young people in coffee value chains in Africa. This is, however, constrained by limited entrepreneurial skills and leadership in the sub-sector, the capacity of which, if boosted, could lead to the significant development of local markets and the promotion of consumption. With the exception of Ethiopia, processing activities, including roasting to enhance the value added by the coffee industry, are very limited and in most cases are carried out by informal sector workers.

## IV. What needs to change

12. A critical starting point towards building a resilient and sustainable African coffee value chain would be to transform the current system from subsistence to a commercial orientation. The key to this would be a change in the mindset of smallholder farmers to believe again in coffee as a commercial entity. This could then be supported by capacity enhancement at all levels of the supply side of the coffee value chain in Africa. The overall objective is to build a resilient and sustainable African coffee value chain to enhance productivity and quality, and thus catalyse/promote better returns from coffee farming. The following challenges need critical attention:

    a. An ageing population in the agricultural sector, with limited interest and uptake by the younger generation.

    b. The empowerment and inclusion of women and young people.

    c. Institutional weaknesses, where farmer organisations are either absent or weak, requiring the establishment of viable cooperatives with good governance.

    d. Low productivity, low yields and low returns.

    e. Lack of adaptation to climate change and remedial measures to stem environmental degradation occasioned by coffee production and processing activities.

    f. Lack of a value chain approach to the development of the coffee sector.

    Africa needs to fully exploit the existing opportunities in the transformation of the African coffee value chain, focusing on both the national and regional markets, to boost domestic demand and thus consumption.

# V. How change can be brought about

13. Beyond the traditional perspective of trading green coffee, African coffee-producing countries should be facilitated to develop a mainstream agribusiness approach to coffee value chain development. The development and/or promotion of domestic consumption should play a central role in this regard. In view of changing climatic conditions, coffee productivity should be promoted based on technologies that facilitate climate resilience. In this regard, holistic approaches should be embraced in all interventions targeted at increasing productivity, improving quality and promoting sustainability. All these require the establishment of sustainable and inclusive partnerships between players within the value chain, development partners and policy makers. The current initiative is designed with the above in mind and will help integrate smallholder coffee producers into the value chain, improving their standards of living and contributing to environmental conservation practices.

14. The ACF will address challenges facing and restricting the coffee sub-sector, to ensure that all opportunities are exploited, to foster Africa's competitive role in global coffee markets. **The overall aim of the Facility is to transform Africa's coffee sub-sector into a vibrant and resilient industry.** In this regard, it is expected that the Facility will provide funding for the total rejuvenation of the continent's coffee industry, including the rehabilitation of coffee orchards, the modernisation of extension and financial services, capacity enhancement at all levels of the coffee value chain, the promotion of domestic consumption, dialogue for supportive policies, the development of climate-resilient coffee systems, and better access to rewarding coffee markets. The ultimate goal is to improve the livelihoods of African coffee growers and maximise the contribution of coffee to the economies of African coffee-producing countries.

15. The Facility will support entrepreneurial leadership development, ensuring the sustainability of the industry through adherence to sustainable development goals, promoting coffee consumption in Africa, supporting research into alternative uses of coffee and coffee by-products and the development and propagation of technologies that use coffee in the transformation of African communities. The performance of the ACF will be determined by the following indicators during the next 10 years of the project's life:

    i. Improved livelihoods of smallholder coffee growers.
    ii. Increased contribution of coffee to the economies of producing countries.
    iii. Strengthened role and participation of women and young people in the coffee value chain.
    iv. The sustainability of Africa's coffee industry achieved in light of the challenges of climate change.
    v. Enhanced competitiveness of African coffee and increased resilience to external shocks such as downward pressure on price levels.
    vi. Increased value addition generated by Africa's coffee sub-sector.

# VI. Required investment and return on investment

16. Through these components and activities, the ACF is designed to contribute to increasing the volume and value of Africa's coffee production during the first five-year phase, as follows:

    i. Component I: Building a sustainable coffee supply (US$ 500 million).
    ii. Component II: Improving demand, market linkages and investments (US$100 million).
    iii. Component III: Putting in place climate change adaptation and environmentally responsible practices (US$200 million).
    iv. Component IV: Promoting knowledge management and dissemination (US$ 150 million).

17. As a **return on investment**, the ACF will help in **de-commoditising African coffee exports**, while **boosting the entrepreneurial capacity development** in the sector. It will also make a significant contribution to the **promotion of African domestic consumption of coffee**, thus taking advantage of market opportunities in Africa and beyond, stabilising the market for African producers, as well as addressing issues of the empowerment of women and young people. Regular supply of good quality coffee to international companies (traders, roasters) will increase the value of exports from the current annual average of US$1.8 billion to US$5 billion in five years. Local processing will provide additional tax revenue to countries while increasing employment opportunity for a growing young population.

18. The ACF will help address one of the biggest challenges faced by the coffee value chain in Africa, i.e. financing, where the weakest link is at the producer level. With better access to finance by farmers and other coffee value chain actors, they will be in a better position to grow their businesses and, by so doing, increase revenues and profits. Governments will, on the other hand, realise increased revenues from a more granular value chain, value added coffee exports and increased foreign exchange earnings.

19. As far as research institutions and researchers are concerned, the ACF will*:*

    i. Bridge the coffee technology divide by strengthening links between research institutions within Africa and those in developed world.

    ii. Make financing available to put relevant technologies into use.

    iii. Ensure the availability of scientific and technical information.

    iv. Increase in-field trials to ensure that technologies developed at research centres and recommended practices can be successfully applied at the farm level.

    v. Strengthen the infrastructural and human capacity for accelerated research turnover.

20. The success in processing and exporting coffee as a finished product will serve as a catalyst for increasing business opportunities, and further market development, leading to the following positive developments:

    i. The creation of employment opportunities.

    ii. Increased tax revenue.

    iii. A major boost in foreign exchange earnings.

21. International coffee roasters and trade houses will benefit from:

    i. A consistent supply of high-quality coffee in the required volumes.

    ii. An improved relationship between African coffee producers and traders/roasters.

    iii. Partnerships with local companies to identify and pursue opportunities up-stream for green and/or brown field investments in coffee-producing areas.

22. The ACF is expected to have positive environmental impacts, through farmers' adoption of environmentally friendly agronomic and primary processing practices, as well as participation in farmer groups which promote sustainable agriculture. It is expected that 50% of farmers would be introduced to climate-smart planting materials. Within the 10-year life of the project, about 50% of farmers will be able to adopt appropriate agroforestry systems. High-quality coffee exports under the sustainable coffee category are expected to increase by 40% within the Fund's 10 years. Coffee is a shade-loving plant and its traditional production practice is environmentally friendly; the programmes supported by the Facility will lead to the adoption of positive practice so that, within the 10 years of the project's life, farmers' vulnerability to weather events will be reduced by 25%.

23. The significant social impact of the Facility will be the reduction of the average age of farmers from 65 years and above to about 40–45 years during its 10-year life. Through projects and partnerships (including public–private partnerships) supported by the Facility, young people's entrepreneurship programmes will attract young people into coffee-agribusiness innovations throughout the value chain, with parallel investments in upgrading and modernising the infrastructure of the coffee industry.

## VII. Sustainability

24. Measures to ensure the sustainability of the Facility will include the selection of activities that not only make good economic and business sense but that are also in line with the national coffee strategies of the countries concerned and the strategic objectives of development partner organisations.

    Moreover, the design and implementation of ACF activities will involve coffee value chain stakeholders (growers, processors, governments, research entities, etc.) and development partners. The process of sustainability will be assisted by building capacity at different levels of the coffee value chain, as it is envisaged that different partners will recognise the value contributed by the various interventions and will commit funds to support the Facility.

    Given the fact that international coffee traders and roasters are interested in supporting the coffee sub-sector in Africa, as indicated in individual letters of commitment, this will help improve the productivity and quality of African coffee. These companies have indicated that they have set aside individual budgets for the medium to long term (5–10 years) for this purpose; this will also help make the intervention of the Facility more sustainable.

## VIII. Conclusion

25. The Partners and Donors Conference will provide an opportunity for the various institutions that have an interest in sustainable development and the improvement of the livelihoods of Africa's smallholder coffee farmers to invest in a joint mechanism that will work towards a holistic transformation of the African coffee value chain.

    For smallholder farmers, a shift from a subsistence orientation to a commercial mindset, with the empowerment and inclusion of women and young people, and entrepreneurial leadership development will catalyse the transformation of the African coffee value chain. The capacity building, including entrepreneurial thinking, governance and sound financial management, will lead to viable institutions and healthy operations in the value chain. A healthy and efficient coffee value chain in Africa will provide profitable business opportunities for the private sector in importing countries, while contributing to the efforts of governments in producing countries to attain the United Nations Sustainable Development Goals.

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