

USAID Supports Coffee Growers Around the Globe

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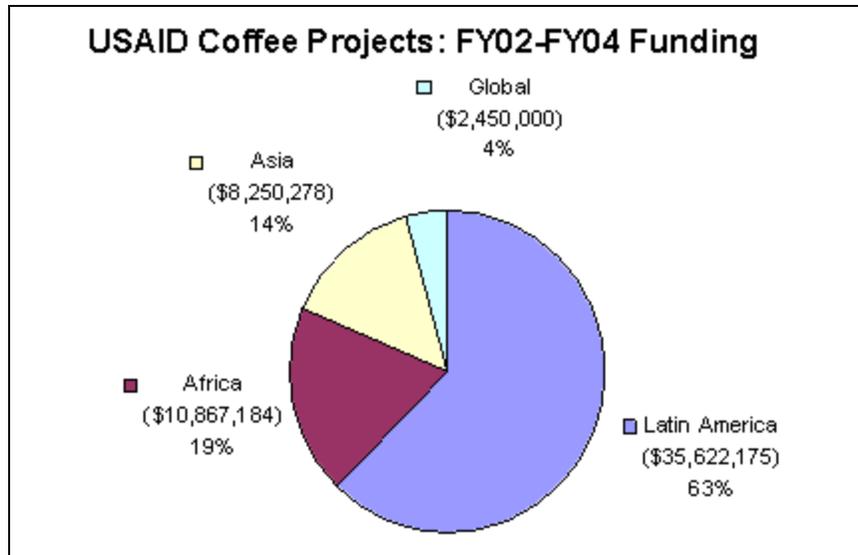
The coffee market is going through a period of dramatic change, caused by two primary forces. First, global supplies of mild Arabica coffees are outrunning demand at the same time that Brazil and other Robusta producers are developing techniques to improve the market acceptance of what have traditionally been considered lower quality coffees. Second, while demand for coffee, generally, is fairly flat, the demand for coffees at the very highest levels of cupping quality is experiencing strong growth in the U.S., Europe, and Japan.

Over the decade of the 1990's, about 5.4 million tons of coffee was marketed each year. In 2002, inflation -adjusted coffee prices plummeted to a 100 year low. The effects were particularly hard felt in Central America, Colombia, and East Africa with both large and small-scale producers unable to cover the costs of their production. While the situation has often been called a 'crisis', the changes in the coffee market appear to be structural in nature. A number of factors have come into play: shifts in production locations and technologies, the introduction of new processing technologies, the expansion of the quality market but overlying all of this is an overall stagnant demand for coffee.

USAID'S RESPONSE TO THE COFFEE CRISIS:

USAID Coffee Activities work to create sustainable smallholder coffee systems, which provide significant income, employment, social, environmental, and consumer benefits. Where potential exists for farmers to effectively compete within the coffee sector, USAID is working to improve local capacity to produce and effectively market high quality coffee thereby increasing the price farmers earn for their product. USAID is supporting small and medium-sized producers to properly process and grade their coffee to ensure that the beans retain quality characteristics. USAID is creating new market information systems that are providing local producers with critical information on coffee pricing. At the same time, USAID programs assist farmers that cannot effectively compete within the coffee sector to diversify their activities and identify other sources of income by providing viable alternative crops or other business ventures wherever feasible, expanding access to credit to scale up successful practices, and promoting a favorable policy environment for agribusiness development.

Over the past three years, from 2002 to 2004, USAID has invested over \$57 million on coffee projects in over 18 countries in Latin America, East Africa and Asia.



USAID Global and Regional Partnerships

USAID has realized considerable success in enlisting private sector support to address the global coffee crisis. A USAID supported alliance with Starbucks and Conservation International is improving coffee quality, certifying sustainable practices, and providing premium prices for certified sustainable coffee meeting buyer requirements. By 2007, it is anticipated that Starbucks will purchase 225 million pounds of coffee meeting the buyer guidelines developed by the alliance. The buyer guidelines guarantee graduated price premiums based on a quality scoring system. With proper capacity building and farmer extension services to enable farmers to meet these guidelines, the buyer guidelines provide a much-needed incentive system that safeguards a long-term sustainable supply of coffee and a decent livelihood for farmers. This exciting alliance scales up a longstanding and fruitful relationship between Conservation International and Starbucks.

Ecologic Finance, with USAID and private sector funds, is providing access to trade financing for farmers who implement sustainable coffee growing practices. In 2003 and 2004, EcoLogic Finance made available 5.7 million in trade credit to over 24 different coffee farmer organizations in Mexico, Guatemala, Nicaragua, Costa Rica and Peru. In all cases funds arrived in time for coops to have cash in hand to pay their growers at harvest time. The credit enabled the export of 2.6 million pounds of coffee that generated \$3.2 million in revenues. These loans allow the community-based enterprises to leap frog local middlemen who eat into the profit margins and instead sell directly to values driven coffee importers and roasters in consumer countries.

USAID is supporting transparent price mechanisms through an Alternative Market Development Program implemented by the Coffee Quality Institute (CQI). CQI is associated with the Specialty Coffee Association of America (SCAA) and the National Coffee Association (NCA). An innovation in connecting quality coffee growers with buyers has been the Q-auction, an online auctioning of quality coffee that delivers 75% of revenues back to producers, and 2% to a national fund for community development. Q-coffee meets specified standards of high quality determined by CQI. Sales from the q-auctions have reached levels supporting 185-bag containers, the industry standard. By selling in quantities supported by the supply chains of major retail buyers, producers are more robustly integrated into the specialty coffee supply chain. Additionally, Q-auctions are reaching prices more than twice the New York Commodity exchange rate for coffee.

Another USAID supported CQI program is the Coffee Corps. Since April 2003, 47 pro bono coffee corps consultants devoted over 5,000 hours of technical assistance in 16 countries. Coffee Corps recruits highly qualified professionals from within the coffee industry who are willing to volunteer their time and expertise to assist coffee producers and cooperatives to meet quality grades and standards. The local groups may identify needs ranging from business-to-business assistance (such as providing cupping training or environmental management input) to social and humanitarian needs (helping to build a school or a health center in a coffee community).

Colombia

USAID Fact Sheet

USAID is funding a five-year, \$9.8 million program to increase the quality of small farmer's coffee, thus increasing their incomes. The Colombian USAID program works with twenty-five producer groups to assist them to increase their purchasing power, differentiate their coffee, and develop brand names where possible. USAID also provides de-pulping machines, drying patios, coffee tree nursery supplies, plant material, and fertilizers. Producers, cooperative representatives and local technicians have been trained in coffee-cupping/grading techniques, allowing for ongoing assessment of product quality and identification of critical points where technological interventions or processes can be changed or increased. USAID is linking producers to buyers to meet the quality demanded by consumers. Many roasters and importers have traveled to origin to meet beneficiaries, cup coffees and provide feedback to the farmers, groups and cooperatives on product differentiation, quality control and strategic marketing approaches to enter U.S. and E.U. ROPEAN UNION (E.U.) markets. Sales contracts between producers and roasters are significantly above the New York Commodity Exchange price.

Rwanda

Rwanda has the ideal range of altitudes, appropriate soils and sufficient rainfall to grow quality coffee. The Bourbon Mayaguez arabica variety planted during colonial times is known for its superior cupping qualities, and the colonial era plantings are considered heirloom plantings by coffee aficionados. With USAID assistance, Rwandan farmers are learning to compete in markets for gourmet, specialty, and Fair Trade coffees.

Since 2001, USAID-supported projects have resulted in construction of more than ten coffee washing stations - six by smallholder cooperatives - that produced 1,000 tons of fully-washed A grade coffee in 2004. Regulatory reform has allowed individual cooperatives or private owners to negotiate directly with specialty roasters in the U.S. and E.U. rope, allowing Rwanda cooperatives and entreprenE.U.rs to sell to specialty markets such as Starbucks and Lobodis, a Fair Trade roaster in France, at more than twice the market rate of about \$0.60/lb.

Tanzania

The Southern Highlands Agricultural Marketing and Business Acceleration (SHAMBA), funded by USAID, Monsanto Foundation, and Southern Highland Dairy Development Project, helps Southern Highlands farmers increase their incomes by developing and strengthening their businesses through product improvement, increased access to finance, and market linkages to the commercial sector. This activity has resulted in direct export of specialty coffee from Southern Highlands coffee growers to U.S. and E.U. buyers, taking advantage of new direct export procedures introduced by the Tanzania Coffee Board. Coffee growers in the targeted region are also seeing increased sales, higher prices, and greater profits.

Honduras

A USAID-funded sustainability-building program for Honduran coffee growers is creating local cupping capacity to further differentiate specialty and quality coffee from standard coffees, deepen penetration into the Honduran specialty market, and identify local and international companies to participate in the farm-to-market chain. After establishing local cupping capacity in two regions in Honduras, the first national specialty coffee competition resulted in purchase of the winning coffee at \$13/lb. Specialty buyers are also linked directly to producers to deliver greater income to cooperatives and plantations.

Nicaragua

USAID is providing agribusiness development, farmer extension services, and access to credit services to smallholder coffee producers attempting to gain or expand entry into the quality coffee market. A faith-based implementing partners providing increased market access to similar groups committed to improving the livelihood of producers through fair trade premiums and other measures. Approximately 800 farmers, with a goal of adding another 400 farmers, have improved their coffee quality and thereby gained access to new markets. These farmers are receiving approximately 40% above the NY Commodity Exchange price for twenty-five containers (10,300 quintals of green coffee). The 'Mission Blend' specialty coffee is sold wholesale to U.S. church groups and retail to mission-based visitors to Nicaragua - approximately 50,000 each year.