

**Value Chain Analysis for Development: providing evidence for better policies
and operations in agricultural value chains**

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The role of governance in the performance of the domestic coffee value chains in Honduras, Ecuador, Tanzania, Angola



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Question and issues



- Analysis of four coffee VCA4D cases –Honduras (2016), Ecuador (2019), Tanzania (2018) and Angola (2019) - to understand how the forms of governance influence the performance of the domestic VCs. Although the value chains (VCs) were all affected by the end of the International Coffee Agreement in 1989, they show different long-term situations.
- Main topic questions:

What are the factors driving **the coffee production evolution** in the four countries?

How do the four VCs behave in terms of **governance**?

What are the **economic and inclusiveness performances** of the four VCs?

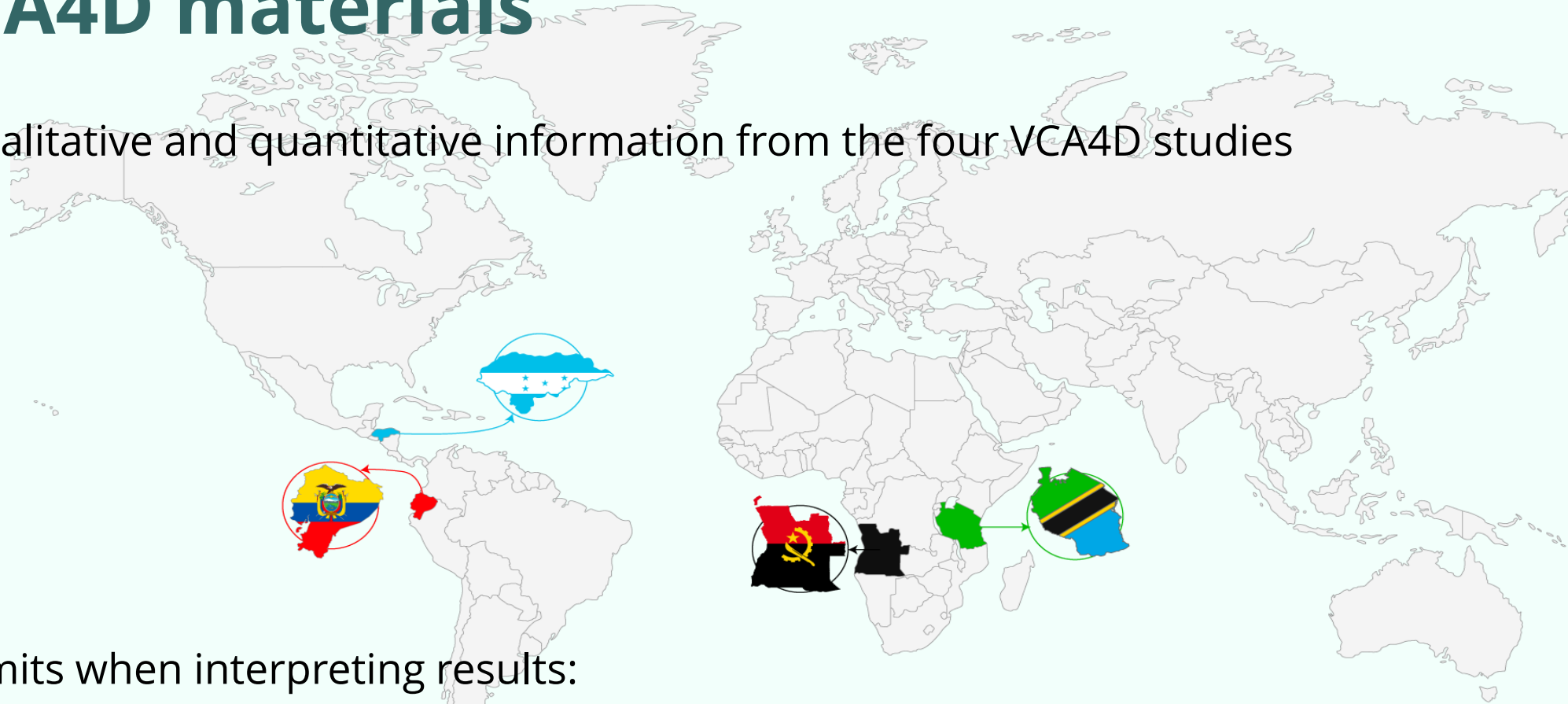
How is **income generated** and distributed among the VC actors?

Can **we link governance and performance** through this cross-cutting approach ?



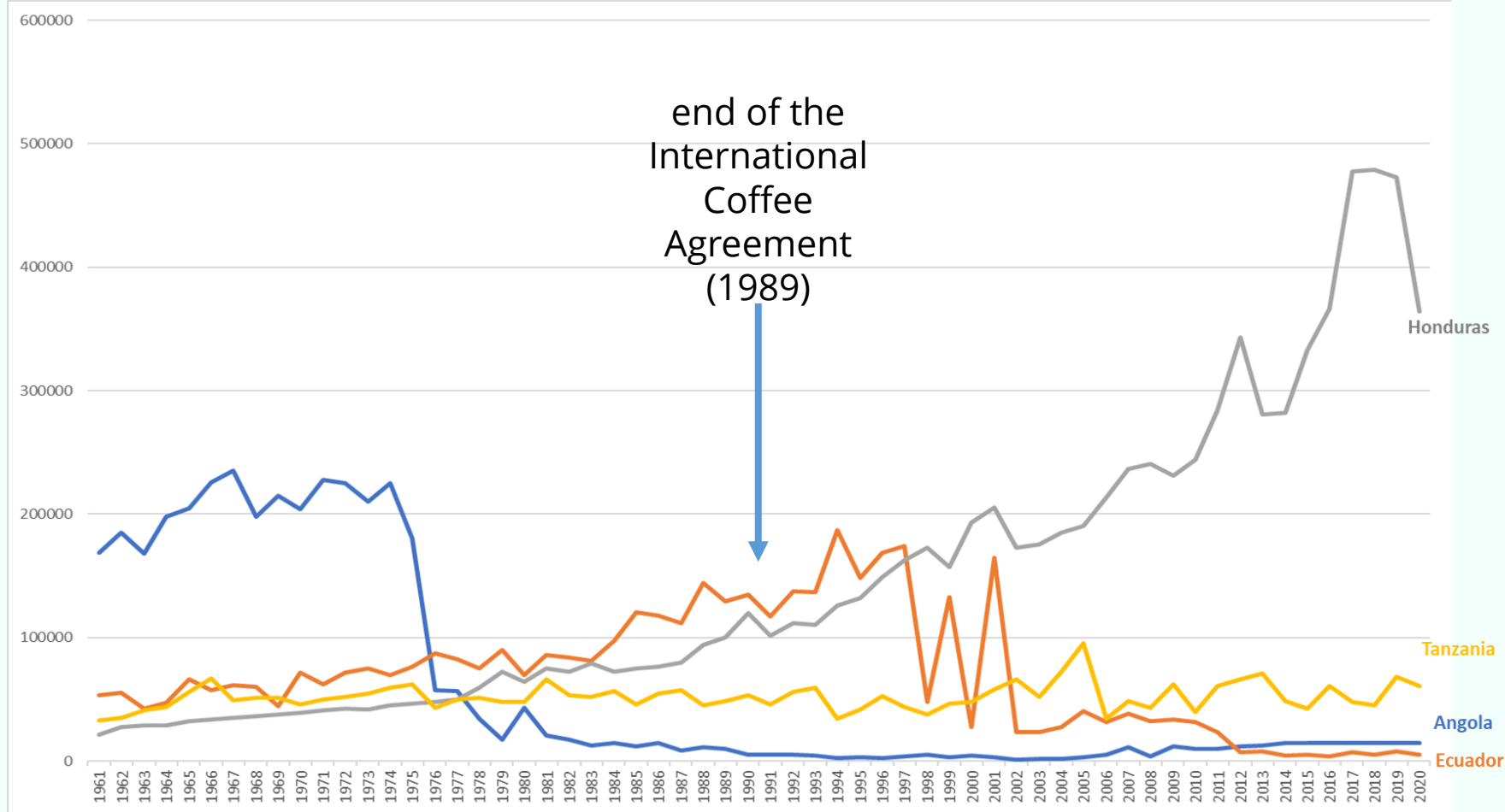
VCA4D materials

- Qualitative and quantitative information from the four VCA4D studies



- Limits when interpreting results:
 - Unavailable or not standardized indicators
 - Differences in the structures of the VCs and the scopes of the studies
 - Region-based coffee VC analysis in Tanzania (Songwe and Mbeya Regions)
 - Inclusion of imported coffee in the VC analysis in Ecuador (it is processed by the instant coffee industry)

Evolution of coffee production



Honduras: high and steady growth of production

Ecuador: growth with fluctuations, then drop of production

Tanzania: stable level of production over the period

Angola: drastic drop, then stagnation at a low level of production

➔ Differences based on diverging production dynamics (explained by countries' choices over the long term, as well as by public coffee policies adopted in response to the rupture in 1989 of the International Coffee Agreement)



Key features of the VCs

HONDURAS

326.000 t of green coffee
on 225.000 ha (2015-2016)
97.000 growers
Yield: 1.45 t/ha
3.36 t/grower
Average surface (ha) per
producer = 2.3
Labour productivity: 3.9t/FTE
100% Arabica
19% Differentiated

ECUADOR

13.200 t
on 38.500 ha (2018-2019)
37.000 growers
Yield: 0.34 t/ha
0.36 t/grower
Average surface (ha) per producer =
1.04
Labour productivity: 1.4 t/FTE
65% Arabica
10% Differentiated

TANZANIA

42.000 t
on 275.000 ha (2017-2018)
450.000 small growers (1%
organic certified in one district*)
+ 110 large estates
Yield: 0.15 t/ha
0.09 t/grower
Average surface (ha) per
producer = 0.6
Labour productivity: 1.2 t/FTE
70% Arabica (Arabica region)
10% Differentiated

ANGOLA

9.200 t of dry coffee
on 44.000 ha (2018-2019)
26.000 growers
Yield: 0.21 t/ha
0.37 t/ grower
Average surface (ha) per producer = 1.7
Labour productivity: 2.2 t/FTE
Mainly Robusta
0% Differentiated

- Largest coffee cultivated area in Tanzania and Honduras
- Production of much more coffee in Honduras than Tanzania, with much less producers due to higher yield
- Honduras as an important player in the international market
- Highest labour productivity in Honduras, followed by Angola, Ecuador and Tanzania (t of coffee per FTE job)

Two main groups in coffee production:

conventional coffee and differentiated coffee, for which the Arabica and Robusta species are mainly used depending on agroecological conditions and actors/country strategies



Governance of the value chains

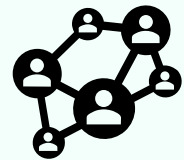
Public Policies



Access to services and inputs

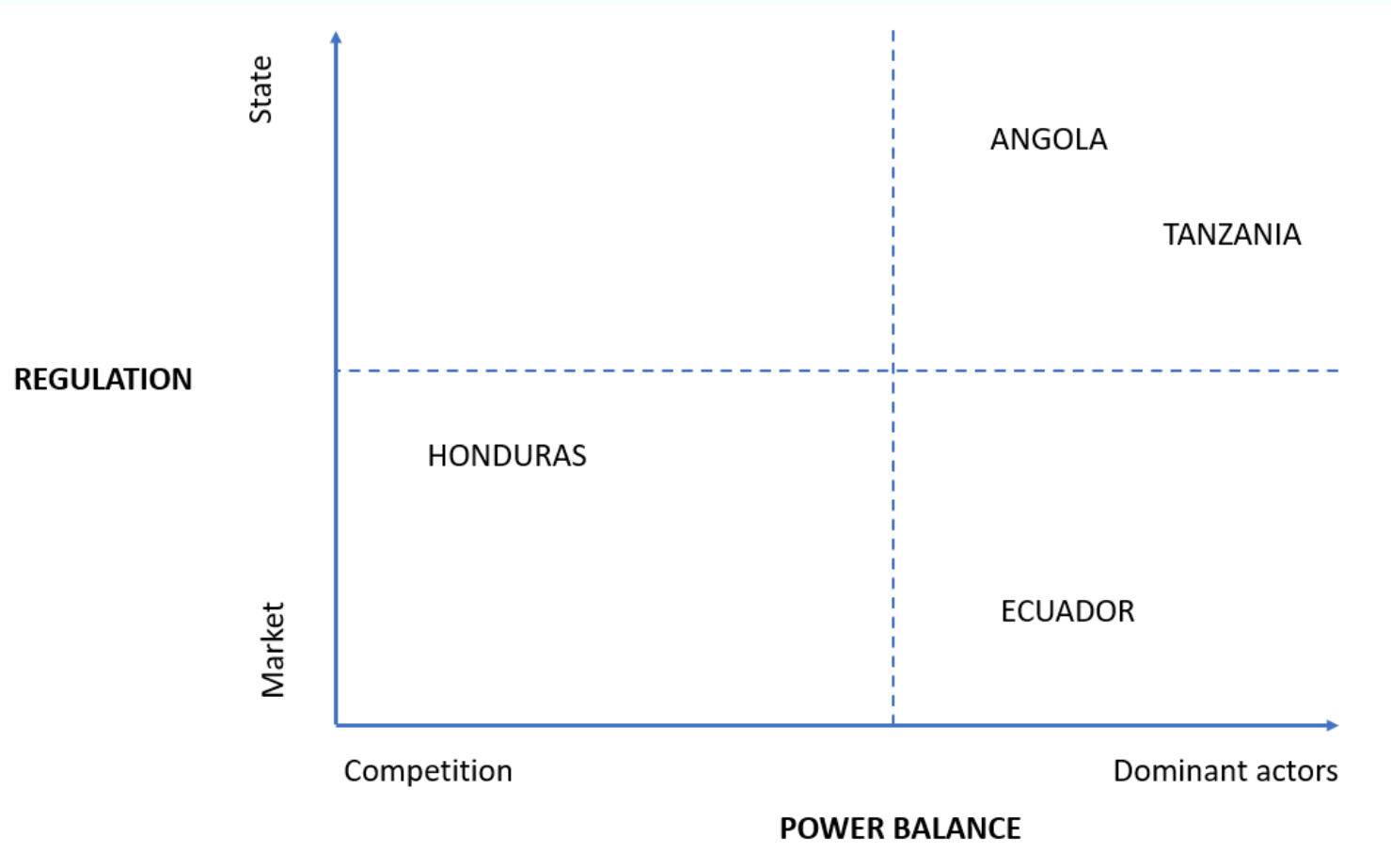


Coordination and power balance



| | Honduras | Ecuador | Tanzania | Angola |
|---------------------------------------|---|--|---|--|
| Public Policies | <ul style="list-style-type: none"> - Transformation of IHCAFE into a private figure of public interest, with participation of all VC actors - New financial mechanisms within the National Coffee Fund | <ul style="list-style-type: none"> - Creation (1995) and dissolution (2015) of the National Coffee Council (private figure with public interest) and transfer of duties to MoA - Dollarization of the economy - Abolition of the tax mechanism dedicated to financing the sector (Constitution reform 2008) | <ul style="list-style-type: none"> - State regulation of the trade channels through licensing mechanism allocated to private actors (regional coffee stock exchanges) | <ul style="list-style-type: none"> - State regulation of the trade channels and setting of producer prices |
| Access to services and inputs | <ul style="list-style-type: none"> - Technical assistance mechanisms from the State and producer organizations: training and extension services, access to inputs | <ul style="list-style-type: none"> - Limited access to technical assistance (provided by international cooperation and input stores) - Limited access to credit | <ul style="list-style-type: none"> - Limited access to technical assistance, inputs and processing facilities, due to the lack of investment in processing units - With exception for vertically integrated producers | <ul style="list-style-type: none"> - Limited access to technical assistance, inputs and processing facilities, due to the lack of investment in processing units |
| Coordination and power balance | <ul style="list-style-type: none"> - Participation of 4 major producer organizations and 1 exporter association in the definition of public policies - Low representation of very small producers - Vertical integration limited to processors and exporters, in a dominant position | <ul style="list-style-type: none"> - Weak organization of producers, except in the differentiated sub-chains (mostly at regional level with support of local authorities) - Instant coffee processors and exporters in a dominant position | <ul style="list-style-type: none"> - Weak producers' cooperatives - Some producers vertically integrated with processors, traders and exporters - Traders and exporters in a dominant position | <ul style="list-style-type: none"> - Inactive cooperatives - Exporters in a dominant position, particularly at regional coffee stock exchanges level, leading to market distortion |

Regulation and power relations



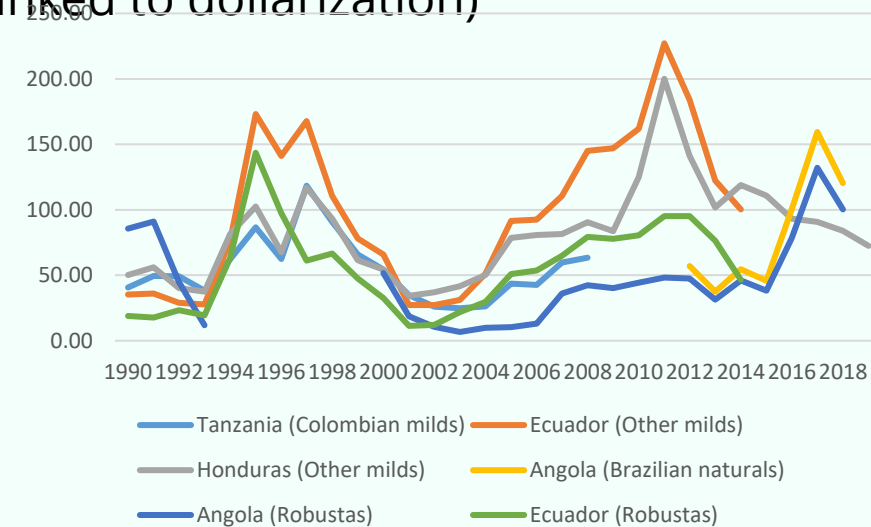
- **Honduras:** regulation through a shared governance by the VC actors; relatively low barriers to entry
- **Ecuador:** low impact of State intervention; strong weight of the instant coffee industry in the VC
- **Tanzania:** strong State regulation through licensing; strong control of the exporters on auctions causing distortion of competition
- **Angola:** strong State intervention through price fixing; strong control of main marketing channels to the detriment of small and medium producers

Profitability and sustainability of producers



| INDICATORS | Honduras | Ecuador | Tanzania | Angola |
|---|----------|---------|----------|--------|
| Net operating profit (NOP) by producers (annual income €) | 876 | 524 | 480 | 4.6 |
| NOP / ha | 380 | 503 | 800 | 2.70 |
| Return on turnover (operating profit/production) | 43% | 65% | 44% | 40% |
| Benchmarks for farmers' net income (minimum wage in €) | 4000 | 4864 | 480 | 732 |
| Percentage of producers' annual income of the minimum wage | 22% | 11% | 100% | 0.6% |

- The highest return on turnover ratio in Ecuador due to a better price for the producers and despite the high cost of labour (linked to dollarization)



- Return on turnover ratio around 40-45% in the other 3 countries
- Share of the coffee annual income in the minimum wage: the highest in Tanzania and the lowest in Angola, only 11% of the minimum wage in Ecuador

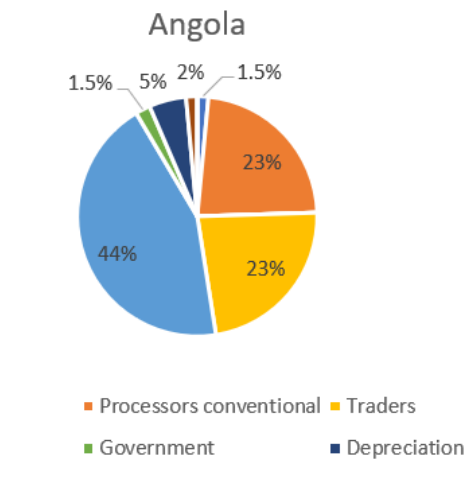
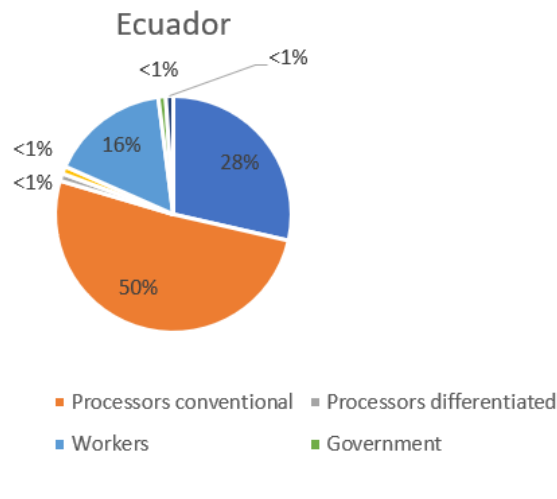
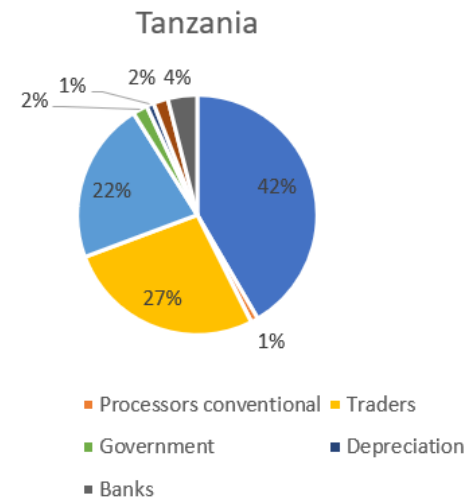
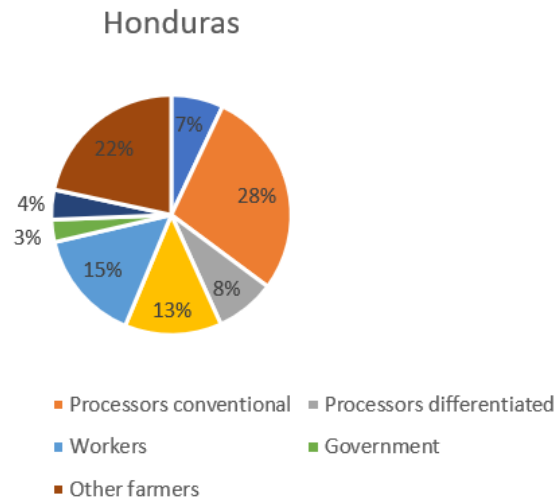
Impact on the national economy



| | HONDURAS | ECUADOR | TANZANIA | ANGOLA |
|--|---------------------------------|---------------------------------|--|----------------------------------|
| Value of final VC production | 30 billion HNL 1 billion € | 294 million \$ 265 million € | 76 billion TZS 30 million € | 4.5 billion KWZ 9 million € |
| Direct VA | 17 billion HNL 629 million € | 247 million \$ 222 million € | 47 billion TZS 19 million € | 3.5 billion KWZ 7 million € |
| Total VA | 24 billion HNL 889 million € | 250 million \$ 225 million € | 53 billion TZS 21.2 million € | 3.8 billion KWZ 7.6 million € |
| Total VA in percentage of the GDP | 4 | 0.23 | 0.05 (national GDP) 0.7 (regional GDP (Songwe and Mbeya Regions)) | 0.008 |
| VC agricultural actors' Value Added in percentage of the agriculture sector GDP | 30 | 2.6 | NA | 0.073 |
| Rate of integration into the Economy (total VA/VC production) | 81% | 85% | 71% | 86% |
| Balance of trade of the VC | 32.7 million € | 746 million € | 25 253 € | 4.6 million € |
| DRC | 0.7 | 0.4 | 0.2 | 0.5 |

- The biggest coffee production value in Honduras (€ 1 billion)
- The lowest production value in Angola due to the reduction of trade channels
- Important indirect value added for the national economy in Honduras (€ 260 million)
- Significant contribution to growth in Honduras and very tiny contribution in Angola

Distribution of income (direct value added)



- The lowest share of the profits for the actors in the direct VA in Angola (49%) and the highest in Ecuador (84%).
- In Angola, only 4% of the VA created by the VC is returned to farmers (2% to small farmers) and a big part is returned as incomes to workers (44%).
- In Honduras, the small farmers receive only 7% of the direct VA and the medium and large farmers 22%.
- In Tanzania, a big part of the VA (64%) benefit to small farmers and workers.

Conclusions and implications for decision making



- Deregulation of the coffee market influencing collective action
- Shared governance through public-private structures rebalancing the power relationships
- Balanced public-private regulation positively impacting macroeconomic indicators (contribution to GDP, level of operating income, job creation, etc.)
- Weak institutional governance preventing the transmission of international prices to farm gate prices (« coffee paradox » at the global perspective)
- Better governance and improved performance within the differentiated coffee sub-chains
- Economic performance : growth versus inclusiveness ?
- Support to more efficient governance and awareness of inclusiveness should be better taken into account by policymakers



**Thank you
for your
attention!**

<https://europa.eu/capacity4dev/value-chain-analysis-for-development-vca4d-/events/conference-value-chain-analysis-development-providing-evidence-better-policies-and-operations>