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[VCA4D]
VALUE CHAIN ANALYSIS FOR DEVELOPMENT

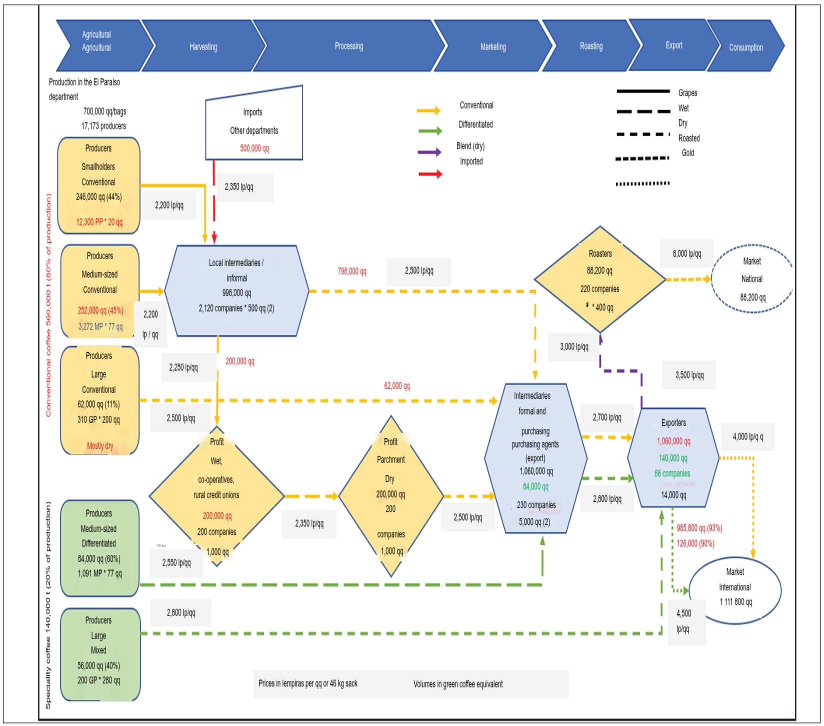
Update of the analysis of the coffee value chain in Honduras

Value chain analyses assist in informing policy dialogue and investment operations. They help the understanding of how agricultural, aquaculture and fisheries development fits within market dynamics. They permit an assessment of the value chains' impact on smallholders, businesses, society, and environment.

The European Commission has developed a standardised methodological framework for analysis [(https://capacity4dev.europa.eu/projects/value-chain-analysis-for-development-vca4d/info_en).](https://capacity4dev.europa.eu/projects/value-chain-analysis-for-development-vca4d/info_en) It aims to understand to what extent the value chain allows for inclusive economic growth and whether it is both socially and environmentally

Value chain context

Coffee is Honduras's main agricultural export. This small country is currently Central America's leading coffee exporter (it was the lowest-ranked in the mid-1970s), the sixth largest globally and the third largest to the European Union (EU), after Brazil and Vietnam, accounting for 8.2% of its imports.



Honduran coffee is heavily dependent on this market, with more than 50% of its annual production going to the EU. However, exports have shown a downward trend: from 71% in the 2016–2017 harvest to 55% in 2022–2023.

Over the past six decades, the Honduran coffee value chain has demonstrated remarkable dynamism. However, developments in the past five years risk undermining its contribution to reducing rural poverty in several regions of the country.

Three key transformations have shaped the sector's recent evolution: (i) a decline in market share in Europe — although it remains the main destination — alongside an increase in shipments to North America and Asia; (ii) an expansion in the number of exporters, despite the fact that the largest of these accounts for around a quarter of total exports; and (iii) growth in exports of speciality coffee.

Intervention de l'UE

The EU supports various projects aimed at helping small-scale coffee producers in the east of the country, in particular a project focused on the competitive, inclusive and sustainable development of value chains (VCs), including coffee, in the department of El Paraíso. It also backs measures to tackle coffee leaf rust, a disease that has significantly impacted production since the 2010s.

An analysis of the coffee value chain in Honduras was carried out in 2018 using the VCA4D methodology. The update to the study in 2024 focused on areas where changes have occurred since 2018 and/or which could be affected by the entry into force of the Deforestation-Free Products Regulation (RDUE). In terms of geographical coverage, the analysis examines the situation in the department of El Paraíso in greater depth, although most of the data relates to the of the value chain.

Figure 1: Graphical representation of the value chain in the department of El Paraíso in 2022

Functional analysis

The value chain has been affected by a decline in production over the last five harvests (Figure 2), attributed to mass emigration, labour shortages, the abandonment of farms and the resurgence of both rust and the coffee borer beetle.

Decline in production due to labour migration

The reversal, from 2018 onwards, of the trend of production growth, both in El Paraíso and at national level, is linked to the acceleration of migration to cities and the United States. These massive flows of migrants include both coffee farmers (affected by the 2013 coffee leaf rust crisis and by the fall of more than 40 per cent in international coffee prices between October 2016 and 2018) and rural workers in general, against a backdrop of deteriorating living conditions, poverty and insecurity.

Mass emigration, including that of workers from neighbouring countries such as Nicaragua and Guatemala — which have traditionally supplied harvest labour to Honduras — has led to a marked labour shortage, particularly for harvesting and, to a lesser extent, for clearing coffee plantations, with medium-sized and large estates being hit hardest. Furthermore, it has led to instances of farms being abandoned.

The resurgence of coffee rust and extreme weather events —such as Tropical Depression Eta and Hurricane Iota in 2020—also played a decisive role in the fall in production.

Restructuring of marketing channels

At the same time, marketing channels have been restructured in response to the reduced availability of coffee and the increase in the number of exporters, resulting from the relaxation of the requirements for operating in this segment of the coffee industry. In El Paraíso, the first prize won by a local producer at the 2017 Cup of Excellence highlighted the quality potential of the region's coffee and its distinctive flavour profiles,

This trend has led several exporters to increase their direct purchases from organised groups of coffee farmers to secure their supply chain, which has had a negative impact on intermediaries' turnover.

The rise of niche coffees

The opening up of the export market to new players is taking place against a backdrop of declining export volumes. Recently, the rise in coffee prices on the New York Stock Exchange has helped to maintain the total value of exports (Figure 2). The proportion of speciality coffees has risen from less than 30 per cent to over 50 per cent in the country over the last decade.

However, the contraction in global demand for certified coffee—driven by reduced consumer purchasing power in importing countries as a result of inflation linked to the COVID-19 pandemic and the war in Ukraine—has forced producers to sell approximately half of their certified output as conventional coffee.

Institutional setbacks and technical advances

Honduras was a model of good coffee value chain governance through producer trade organisations that played a central role in the coffee sector's institutional framework, and through an effective public-private partnership. However, these alliances have gradually weakened. The business climate has deteriorated in recent years due to friction between the executive branch and stakeholders in the coffee sector, leading to the paralysis of the Honduran National Coffee Council (CONACAFE), despite previous progress in the legal framework regarding the environment and gender in the coffee subsector.

At a technical level, the main changes in the country involved the dissemination of existing practices, primarily the expansion of certified coffee production, the use of solar drying of wet parchment, and the development of drying infrastructure at dry-processing facilities, which enable coffee from other departments of the country to be processed in El Paraíso.

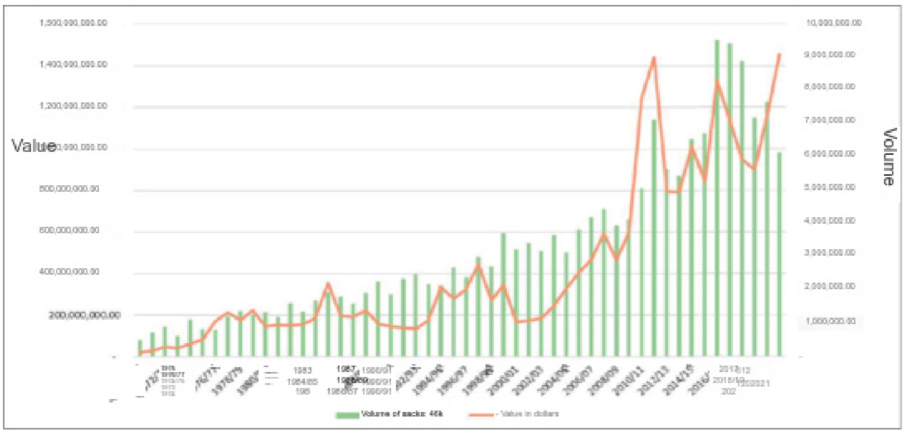


Figure 2: Long-term evolution of Honduran coffee exports in terms of volume and value [source IHCAFE]

What is the contribution of the value chain to economic growth?

The coffee value chain contributes significantly to the country's economic growth (trade balance, GDP, public finances, etc.), but this growth is not particularly inclusive. In the study area, this income gap primarily benefits actors based outside the department of El Paraíso—exporters and formal intermediaries—to the detriment of coffee producers of all sizes and local processing and marketing actors.

A more unequal distribution of benefits

At national level, the recent significant rise in export coffee prices did not benefit all stakeholders equally. According to the calculation assumptions used, and in the absence of detailed monitoring of technical and economic data and prices at the various stages of the coffee value chain, in the department of El Paraíso, the main individual beneficiaries are exporters and, to a lesser extent, informal local intermediaries. Furthermore, the stakeholders receiving the largest share of the total profits generated in the value chain are once again the exporters (38%); and small-scale conventional coffee producers (15%), due to their sheer numbers (Figure 3).

The pass-through of international coffee price increases has been limited for other value chain actors, notably processors. Large-scale producers have also seen the benefits of higher coffee prices largely offset by rising production costs. Although the economic situation of small-scale conventional coffee producers and medium-scale differentiated coffee producers has improved, the gains achieved remain insufficient to match the approximately 30% increase in living costs observed between the two periods.

Rising prices and improved coffee quality are sustaining economic growth

The annual value added (VA) of the coffee value chain in El Paraíso is projected to reach 2,253 million HNL (€87 million) in 2023, representing 43% of the value of coffee production in quintales oro. This figure comprises 55% net profits, 13% depreciation, 25% wages, 4% financial expenses and 3% taxes.

The key players contributing most to the creation of value added are exporters (25%), roasters (19%), small-scale conventional coffee producers (12%), medium-scale conventional coffee producers and formal intermediaries (10%). Thus, exporters, based outside this region, generate 25% of the VA of the El Paraíso coffee sub-supply chain, but capture 38% of the profits.

At national level, the current trend at current prices shows a fall in gross coffee VA towards the end of the 2010s, mainly due to a decline in production; and a rise since 2021, driven by higher prices. The long-term trend, since the early 2000s, shows growth in gross VA at constant prices (2000), although with a turning point from 2018 onwards. The updated study confirms this turning point and the decline in gross VA at constant prices in subsequent years, a trend also observed in coffee processing (post-harvest processing).

The combined contribution of the cultivation and processing sectors to national GDP is estimated at between 3 and 5 %, confirming the importance of the coffee supply chain to the Honduran economy. Coffee is the crop that contributes most to agricultural GDP, accounting for 25%. The economic analysis shows that Honduras has made progress in the quality of its coffees, which is recognised on the international market, by selling coffees at prices above the New York Stock Exchange price for conventional coffee and by developing the marketing of differentiated coffees. Coffee's contribution to Honduras's trade balance has varied considerably from year to year; on average, coffee accounts for approximately 20–25% of the country's foreign exchange earnings. Coffee transactions contribute up to 8% to tax revenue.

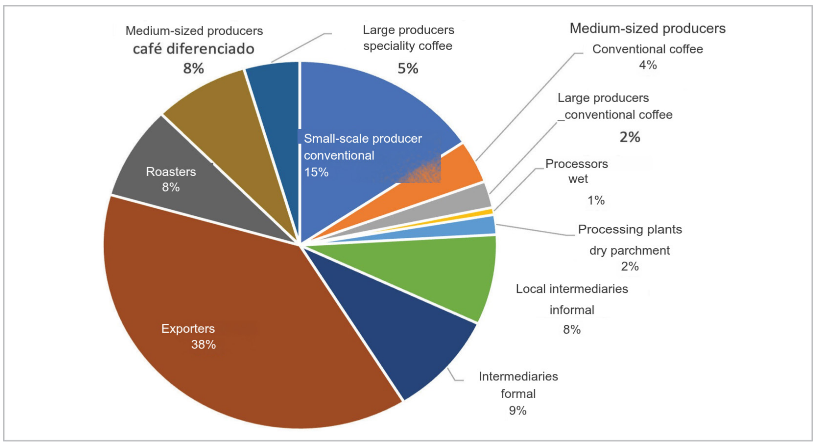


Figure 3: Distribution of net operating profit amongst the direct stakeholders in the El Paraíso sub-supply chain

Is the economic growth inclusive?

Around 100,000 families in Honduras depend primarily on coffee, 92% of whom are smallholders. Coffee generates employment for approximately 1 million people.

The 2018 study confirmed the economic viability of the value chain and highlighted the need to improve the inclusion of smallholder farmers within it. The analysis identified strategic areas for promoting inclusive development: improving the productivity and value of smallholders' production, and strengthening their capacities through collective schemes that enable them to capture a greater share of value.

Limited progress

Productivity in terms of volume did not increase and even showed a decline, although the value of production grew, driven by the rise in prices for high-quality coffee from 2016 onwards. Smallholders' incomes improved slightly at current prices, but fell at constant prices.

Income distribution within the coffee sector showed no improvement, and the benefits of rising international prices and the increased value of Honduran coffee were not shared equitably amongst all stakeholders.

Impacts on land tenure and other social areas

Over the last eight years, changes relating to migration, the labour force and the restructuring of marketing channels within the VC have had an impact on land tenure and social capital.

With regard to land tenure, inequality in the distribution of planted coffee has become more pronounced at the national level, as a result of a significant decline in the number of producers with fewer than 3 manzanas (mz) of coffee, and a simultaneous increase in both the number and the total area of producers with more than 100 mz (Figure 5). During the period analysed, the concentration of land planted with coffee has increased at national level.

The persistent legal uncertainty faced by many producers, who lack a public deed or a notarised private document, limits their registration in IHCAFE's producer register and excludes them from the benefits established by CONACAFE.

Progress has been made in combating child labour in the coffee sector, and gender policies have been incorporated into the coffee subsector. However, the coffee sector remains only moderately attractive, particularly when compared with the option of migration.

Improvements in social capital

In terms of social capital, the capacity for collective action has not shown significant changes; only around 15% of coffee farmers are members of cooperatives and associative enterprises (just 10% in El Paraíso), apart from the growth in the participation of Rural Savings and Credit Cooperatives (CRACs) in the coffee sector. Their strengthening is due to their growing role in liaising between their coffee-growing members and exporters through direct purchasing mechanisms. Against a general backdrop of low levels of association, the CRACs are playing a key role in the transition towards more direct relationships between producers and exporters. This phenomenon is more pronounced in the Department of El Paraíso than in other departments.

The CRACs are emerging as a driving force for regional development that remains largely unrecognised. Their potential to strengthen collective action and improve the share of small-scale producers in the distribution of the value of the VC may be underestimated.

Range of area (mz)	Number of producers		Area planted with coffee		Total production		Average production per producer	
	Honduras	El Paraíso	Honduras	El Paraíso	Honduras	El Paraíso	Honduras	El Paraíso
<= 3	-11%	-15%	-10%	-5%	-37%	-43%	-29%	-33%
3 < <= 10	-5%	7%	-5%	6%	-37%	-39%	-34%	-43%
10 < <= 30	-3%	-2%	-2%	-3%	-38%	-47%	-36%	-46%
30 < <= 100	3%	-3%	5%	-3%	-28%	-39%	-30%	-37%
>100	41%	-8%	35%	-24%	12%	-53%	-21%	-49%
Totals	-8%	-6%	-3%	0%	-34%	-42%	-28%	-38%

Figure 5: Relative variation in production indicators by range of coffee-planted area during the period of declining production (2017 and 2021) [source: compiled by the authors based on data from IHCAFE]

Is the value chain environmentally sustainable?

Given the importance of the EU market for Honduran coffee trade, non-compliance with the European Union's Deforestation-Free Regulation (RDUE) by domestic producers could have a significant economic impact on the sector.

Primarily agroforestry systems

Honduras is characterised by the fact that between 85% and 90% of its coffee is grown in shade-based agroforestry systems. This model is considered to be more environmentally sustainable, offering benefits such as carbon sequestration, greater soil moisture retention, better adaptation to climate change and additional opportunities for economic activity.

Honduran coffee farming is highly vulnerable to climate change, which has contributed to the spread of coffee rust and the coffee berry borer. Although CONACAFE published the Climate Change Policy for the Honduran Coffee Sub-sector in 2022, progress in the sector's response remains limited.

Prolonged periods of low prices are restricting investment in modernisation and adaptation, affecting future productivity and quality, whilst the impact of climate change has driven migration amongst coffee-growing families.

Coffee cultivation is restricted to altitudes above 1,800 metres to protect high-altitude forests, which are increasingly threatened by deforestation. However, the country lacks a specific strategy to promote deforestation-free coffee.

Although it was recommended in 2018 to strengthen integrated natural resource management, no significant progress has been reported by 2023. The recently adopted environmental policy has not yet been implemented.

Risk of non-compliance with the EU Regulation and its consequences

No consolidated information is available on the proportion of coffee production associated with deforestation in recent years. Private data indicated that in 2021, fewer than 100 coffee plots were deforested in the country and will begin production in the next harvest. It would be useful to verify this information and, in coordination with IHCAFE, define appropriate measures for plots that do not comply with the EU Regulation's no-deforestation criterion.

From a legal perspective, it is estimated that between 20 and 25% of producers produce and market their coffee without being registered with IHCAFE, which constitutes a breach of national regulations. This situation represents the main barrier to compliance with the EU Regulation, as approximately 1.4 million sacks could not be exported to the EU (estimate based on the 2022–23 harvest). Failing to facilitate the path to legal compliance for these producers amounts to limiting their access to the European market and increasing the risk of their exclusion from the supply chain in the medium and long term.

With regard to the capacity to segregate part of the production according to its compliance with the EU Regulation, the field mission demonstrated that some stakeholders are developing robust traceability systems that would enable such segregation. However, the cases observed involve large exporters in partnership with large intermediaries, which raises doubts about the feasibility of other, smaller stakeholders making the same investments.

In this context, the most affected actors in the chain would be the small-scale actors at every stage of the conventional coffee supply chain: producers, intermediaries and small exporters who market conventional coffee through relatively formal processes. If demand for traceable coffee becomes widespread due to compliance with the EUDR, small intermediaries could face difficulties in sustaining their operations. This raises challenges for small, isolated producers to continue accessing the market.

Several interviews highlighted concerns that the regulation could, as an unintended consequence, lead to (i) compliance costs – including the logistical and administrative costs associated with traceability (Figure 6) – being passed on to smallholder farmers, and that (ii) these farmers may be unable to demonstrate compliance due to a lack of documentation, burdensome processes or high costs. However, the study found no evidence that these costs have been passed on to producers. In the cases observed, the cost of traceability (including geolocation) has been borne by large intermediaries and exporters, as well as by programmes or projects funded by European operators.

Figure 6: A producer showing his solar dryer on the farm. There are significant differences between regions in terms of production, marketing and processing capacity. El Paraíso stands out for having better infrastructure and drying capacity, which means that producers from other regions send their coffee there during the harvest when their own facilities are at full capacity. This dynamic creates risks of blending and poses challenges for traceability, as it involves an additional stage of transport. @ Frédéric Baron

Main findings and recommendations

El Paraíso and the western departments share certain trends: a shift in production from 2018 onwards, improved coffee quality, direct purchases by exporters in production areas, significant labour migration, and low involvement of various stakeholders. El Paraíso is distinguished by a lower level of technology, which hampers its production dynamics; significant growth in coffee drying activities from other departments; and the expansion of Rural Savings and Credit Cooperatives (CRACs), which could help reduce inequalities.

The following recommendations are put forward to improve the coffee value chain's contribution to inclusive and sustainable economic growth, as well as to compliance with the EUDR.

- Understanding price negotiation. A detailed study of how prices are negotiated between the various stakeholders at different stages of the value chain, centred on the 'market price', would be key to analysing income distribution more accurately and identifying levers for more inclusive economic growth.
- Development of a technical and economic framework. Beyond purchase and sale prices, it would be advisable to monitor the evolution of costs for various types of stakeholders. It would be useful to explore collaboration with the country's universities and research centres to generate technical and economic benchmarks that would help guide institutional support for the coffee sector and improve income distribution.
- Making better use of the potential of the CRACs to foster collective action. Against a backdrop of low levels of membership, this potential appears to be underestimated and has the capacity to improve the share of value that smallholders could capture.
- Improving IHCAFE's register of producers. IHCAFE could benefit from partnerships with private sector stakeholders, including European operators, who already have data on plots of land. It could also work in collaboration with the Forest Conservation Institute (ICF) to verify information on the ground, both regarding the exact geolocations of plots and recorded deforestation.
- Monitoring of labour availability and the abandonment of coffee farms. There is a need to increase the information on labour availability and the abandonment of coffee farms, as well as their consequences. It is recommended that a system be established to track both quantitative data (physical availability of labour, cost of working days, number of abandoned farms, producer turnover) and qualitative data (challenges faced by farms, motivations of young people).
- Strengthening direct sales to exporters. Conditions should be created to bolster direct sales to exporters, through organisation and the provision of adequate equipment for wet processing, drying and cupping laboratories.
- Establishment of a national framework for due diligence. Such a framework could help clarify the country's objectives, identify necessary support and reforms, and define guidelines for traceability and legality. Furthermore, it would enable the government to be accountable for its commitments and foster public-private partnerships.
- Generation of reliable baseline data and information for due diligence. It is necessary to clarify the role that national public information systems could play in supporting operators' compliance with the EU Regulation and in providing information for cross-country comparative assessments (benchmarking system).
- Clarification of legislation. The IHCAFE marketing agreement constitutes the main legal framework for coffee in Honduras, although it would be useful to supplement this with a more comprehensive legal analysis. A robust segregation and traceability mechanism is required to prevent the mixing of coffee that does not comply with the RDUE with that which does, in order to safeguard the legal compliance of stakeholders in future harvests.

Value Chain Analysis for Development (VCA4D) is a tool funded by the European Commission / INTPA and is implemented in partnership with Agrinatura. Agrinatura (http://agrinatura-eu.eu) is the European Alliance of Universities and Research Centers involved in agricultural research and capacity building for development. The information and knowledge produced through the value chain studies are intended to support the Delegations of the European Union and their partners in improving policy dialogue, investing in value chains and better understanding the changes linked to their actions. VCA4D uses a systematic methodological framework for analysing value chains in agriculture, livestock, fishery, aquaculture and agroforestry. More information including reports and communication material can be found at: https://europa.eu/capacity4dev/value-chain-analysis-for-development-vca4d-

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