



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

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The European Commission has developed a standardised methodological framework for analysis of value chains (The Value Chain Analysis for Development (VCA4D) methodology <https://europa.eu/capacity4dev/valuechain-analysis-fordevelopment-vca4d/documents/methodologicalbrief-eng>), which has been applied to more than 45 value chains since 2016. VCA4D aims to understand to what extent the value chain allows for inclusive economic growth and whether it is both socially and environmentally sustainable.

The high-level conference 'Value Chain Analysis for Development: providing evidence for better policies and operations in agricultural value chains' which took place on 18th and 19th January 2023 took stock of lessons learnt from evidence on how knowledge on value chains can support decision-making. All documents and videos from the Conference are available here: https://capacity4dev.europa.eu/projects/value-chain-analysis-for-developmentvca4d/info/5-conference-documents-value-chainanalysis-development-providing-evidence-betterpolicies-and-operations-agricultural-value-chains_en

The transversal analyses presented at the Conference have analysed a minimum of three different VCA4D studies, providing cross-cutting analyses on thematic issues of interest to policymakers. The analyses and knowledge briefs are produced with the financial support of the European Union (VCA4D CTR 2017/392-416). Their content is the sole responsibility of the authors and do not necessarily reflect the views of the European Union nor of Agrinatura/ the VCA4D project.

Abstract

As a cash crop, coffee is vital for farmers, particularly smallholders, thanks to its capacity to generate income. However, income inequality among actors within the value chains (VCs) can be significant. The organisational and institutional arrangements established in these VCs influence both growth dynamics and the level of inclusiveness achieved. This knowledge brief draws on a cross-cutting analysis of the four VCA4D studies on coffee VCs in Angola, Ecuador, Honduras and Tanzania, examining how different modes of governance relate to their economic and inclusiveness performance.

Countries with well-established governance systems, where public and private actors are engaged (Honduras, Tanzania), and producers participate in shaping and implementing national coffee strategies, tend to achieve stronger economic outcomes than those that have shifted from strong state intervention to market-led regulation (Angola) or face institutional fragmentation (Ecuador). The relationship between governance and inclusiveness, however, appears less evident.

Background and issues

Governance of coffee VCs has been mostly examined from a global perspective, yet relatively few studies explore domestic strategies and national governance patterns, or how these influence economic performance and inclusiveness at the country level.

This knowledge brief therefore addresses the following questions:

- What factors have driven the long-term evolution of coffee production in the four countries?
- How do the four coffee 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 local coffee VC actors?
- What do the governance patterns interact with economic performance and inclusiveness outcomes?



Materials and method

This brief provides a descriptive overview of the structure and governance of each coffee VC, based on their functional analyses, and compares their economic growth and inclusiveness indicators as assessed by experts using the VCA4D methodology. The main indicators include farm gate prices; actors’ annual incomes and return on turnover; the value of production, value added (VA) across different segments of the VC; the rate of integration into the national economy and the driving effect ratio; VC balance of trade; the distribution of the net operating profits (NOP) among VC actors, distribution of employment, wages and female labour.

The quantitative indicators were calculated from the Agrifood Chain Analysis (AFA) datasets of the four studies, available through the Information and Knowledge Management System of the VCA4D project.

Findings

What is the coffee production trend over the long term in the four countries?

Angola: high production in the 60s followed by a significant drop never overcame. Coffee in Angola has a long history dating back to the Portuguese colonization (first plantations of Robusta in 1830, mainly in large estates). In the years following the Second World War, the growth of coffee consumption in the world led a strong increase in the production and the export from Angola. The support of the colonial state allowed the country to become the world’s fourth largest exporter in the period 1972-1975 (230,000 t) before the country’s independence. After this period, during 1975-2002, the country faced a long civil war and continuous political instability. As a result, the commercial circuits fell apart and support of the State declined. Production fell below 50,000 t in less than 3 years, and exports fell to less than 10,000 t in 1990 for a long time. The situation has improved very slightly since the mid-2000s, with a significant recovery driven first by the peace process, an effort spanning more than two decades, and more recently by the emergence of large commercial farms.

Ecuador: big fluctuations of the production from the end of the 90s. Ecuador’s coffee production story can be delineated into three distinct periods. The first, spanning 1961 to 1994, witnessed robust growth, peaking at over 400,000 ha and 186,000 t in 1994. Until the International Coffee Agreement (ICA) broke down in 1989, the VC benefited the quota system of the ICA (built in 1983), alongside favorable coffee bean prices. The second period, from 1995 to 2001, saw significant production fluctuations due to price volatility, climatic changes, and pest outbreaks. Through the third period, from 2002 to 2023, production declined due to the continuous drop in international coffee prices; diseases like rust and coffee berry borer; adoption of untested varieties; insufficient research and technical assistance leading to

low productivity; dollarization in 2000; increased labor costs; and lack of credit. Coffee cultivation was gradually abandoned as ageing plantations were not renewed, and producers turned to more profitable alternatives including cocoa, maize, and cattle raising.

Honduras: growth of coffee production all over the period. Since the early 1960s, Honduras has experienced a sustained rise in coffee production, becoming the fifth largest global producer by 2018. Currently, it accounts for 3-4% of global production, with 400,000 t of green coffee. The expansion is attributed to a significant increase in both planted areas (68% over the past 20 years) and yields (37% over the same period), accompanied by substantial governance changes, including institutional reforms.

Tanzania: stable and steady production in the long run. Before the 1994 liberalization, Tanzania’s coffee sector saw significant state involvement in milling and grading, with cooperatives providing stable payments to farmers regardless of global coffee prices. During post-liberalization, state control diminished, and Private Coffee Buyers (PCBs) emerged as key players, competing with cooperatives in the market. Coffee is predominantly traded at auctions, dominated by private companies. Tanzania’s coffee production exhibited moderate fluctuations within a specific range, maintaining relative stability around 50,000 t. While coffee constitutes only 3.5% of Tanzania’s total exports, it remains crucial for smallholders. There has been stagnation of the production in the north and a slight increase in the south, attributed to coffee renovation programs led by the Tanzanian Coffee Research Institute in response to coffee rust and berry diseases.

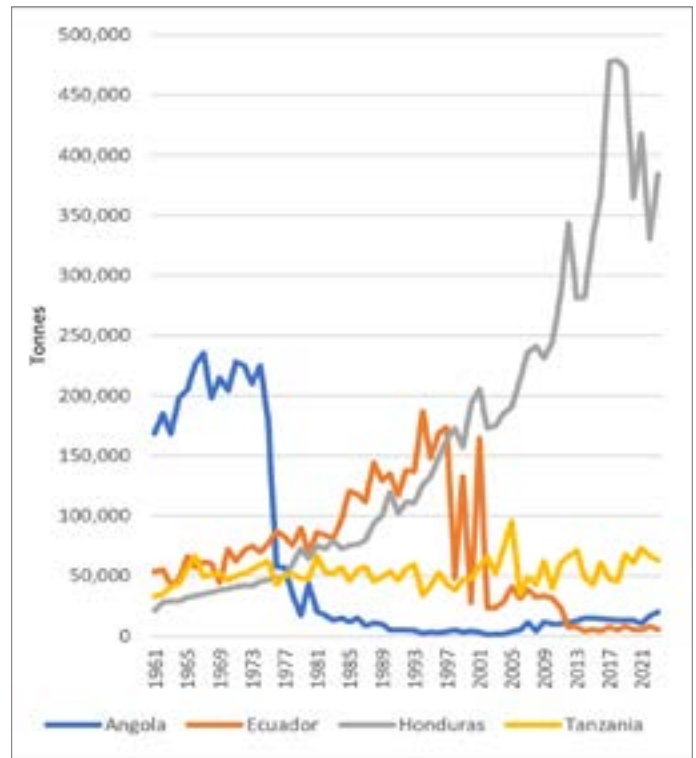


Figure 1: Evolution of coffee production in the 4 countries (1961-2023)

The model of Honduras with a defined public policy (including institutional reforms, financial mechanisms, a national coffee strategy, and coffee area renovation), a strong role of producer organizations (though not all producers are members) and active private sector participation (intermediaries, major exporters), illustrates a publicly steered coffee sector that performs well economically. Farms are fully involved in coffee production, dedicating around 50% of their working time to it (compared to 15-20% in other countries) and some of them diversified into differentiated coffee. This dynamism results in a great contribution of the coffee VC to the national and agricultural GDP (4% and 30% respectively) and to the agricultural exports (39%).

The share of public finances in direct VA is relatively low (3%), but it remains higher than in the other three countries, enabling greater public expenditure in support of the VC. With the highest driving effect ratio (41%), this VC generates the largest indirect benefits for other sectors of the national economy, reflecting strong economic linkages beyond the coffee sector. These positive outcomes mask persistent challenges, including weak institutional coordination, limited access to credit, and poor road infrastructure. Honduras is also the least inclusive country, with small producers and workers receiving only a tiny share of direct income.

Coffee is struggling to become a priority sector in Ecuador. Public policies are either weak or ineffective. Productivity levels are low due to limited research, technical assistance and access to credit. The associative movement is less developed than in Honduras, accounting for only 18% of producers. Producer organizations are small and inactive. The most powerful actors are private operators (e.g. intermediaries, exporters, and instant coffee companies) but they do not appear to support small producers through contract-farming, technical assistance, or similar initiatives.

In Ecuador, weak state and cooperative involvement in the VC has left producer support services underdeveloped. Despite a rebound in 2021, coffee production continues to decline. Unlike Honduras, Ecuador is a small producer, ranking 45th globally. Much of the VC relies on imported Asian coffee for instant coffee production, making processing a far larger contributor to economic growth than in the other three countries. Moreover, the driving effect ratio stands at a low level (less than 2%), indicating limited indirect effects on the national economy. Weakly supported, coffee producers have reduced their engagement in the VC due to rising production costs (e.g. labour costs), following dollarization. Nevertheless, pockets of prosperity remain in specialty coffee, which represents around 10% of production, notably from the Galapagos Islands. Coffee could serve as a spearhead in poverty reduction, as producer returns are high (rate of return 65% against 40% in other countries),

probably due to limited reliance on imported inputs. Also, the share of small producers in the VA generation is high. However, there is a risk that future policies will increasingly favour processing of imported raw materials, encouraged by import tax exemptions.

In Tanzania the effects of liberalization have likely been offset by a new organization within the VC. Conventional coffee remains highly competitive, and Tanzania ranks 16th in global production. Producers have shown little interest in diversifying towards certified coffee (coffee "Kilimanjaro" aside) but organic coffee exports still represent 10-12% of total coffee exports. Through the Coffee Industry Development Strategy (2011-2021) and renovation programs, the government plays a market-regulating role (Tanzanian Coffee Board, support for cooperatives, auctions). Regional and local authorities are also involved. However, large private companies (multinationals, exporters, private buyers) dominate the sector and set prices, as cooperatives have weakened under liberalisation.

This situation, however, does not appear to disadvantage workers and small producers (average farm size is the smallest of the four countries) who account for 90% of national production. Profit per hectare on small farms is the highest among the four countries, and small producers' share of income distribution is also highest at 42%. Job creation is also highest (0.85 FTE jobs per t of coffee), and integration into the national economy is strong, despite Tanzania not being an oil-producing country.

Lastly, in Angola, despite the State's persistent presence before liberalization (e.g. state companies, INCA -price setting, allocation of licenses and subsidies), the VC remains uncoordinated. The State largely withdrew during the civil war, and since 2002 efforts to establish a national strategy have struggled in a context of a lack of impulse and coordination. Institutional challenges persist, including INCA's failure and limited State-NGOs consultation. Despite recent private sector momentum, major obstacles remain: limited access to credit, land and information; weak technical support; poor transport infrastructure; and the need to improve agronomic practices and storage capacity.

Producers are highly disadvantaged in VA distribution, despite INCA's reference price, to the benefit of traders. They receive only 3% of VA, and annual coffee income per ha is the lowest among the four countries (less than €3). Small producers rely mainly on state subsidies. Compared to other countries, women face greater challenges (risk of exclusion, heavy workloads). However, the VC generates substantial employment, with wages representing the largest share of VA (44%), making it relatively more inclusive in this regard.

Conclusions and implications for policymakers

Global VC liberalization at the end of the 1980s impacted national trajectories of domestic coffee VCs differently. Over the last 50 years, at the extremes, Honduras rose from 15th to 7th place in global production rankings, while Angola fell from 4th to 34th. International market conditions, country's' contextual factors (dollarization in Ecuador, civil war in Angola, dependence on oil imports for Honduras and Tanzania) and different forms of governance, have influenced the performances of domestic coffee VCs.

Honduras illustrates a well-balanced public-private partnership, where professional organisations play a key role under a coherent sectoral policy, leading to strong macroeconomic performance. While the Honduran coffee VC is economically efficient, inclusive income distribution remains a concern. In contrast, Angolan VC appears largely deregulated, with minimal State or professional organisation involvement in its governance. As a result, production has fallen sharply, despite a slight recent recovery driven by new commercial farms. These actors don't appear willing to engage in VC regulation/governance alongside the State, unlike their Honduran counterparts. Overall, the share of income accruing to small producers in Angola remains extremely low. In Ecuador, the VC appears vulnerable due to multiple failures in establishing governance instruments (multi-stakeholder platform, sectoral financing, national strategy, etc.), leading to declining production, moderate economic performance, and producer disengagement despite relatively balanced income distribution. In Tanzania, although the cooperative movement is weak, the State and proactive local authorities implement a sectoral strategy that regulates the VC, despite strong private sector influence in governance. As producers are also involved in coffee processing, several microeconomic indicators reflect a highly favourable situation for small producers.

This transversal analysis focuses on governance within national borders, but it cannot overlook the strong privatization of the global VC linking these national actors, and the "coffee paradox" they face: decreasing coffee farmgate price alongside rising packaged coffee price. Countries with weak governance (Angola, Ecuador) struggle to prevent lower international prices from reaching farmers. Honduras has not better protected small producers, but its VC is prosperous, with room to improve income distribution. Tanzania shows a less impressive trajectory than Honduras but combines several assets for more balanced VC development in the future.

To conclude, this transversal analysis highlights a link between VC governance and contribution to economic growth, while its impact on inclusive growth is less clear. Effective governance can enhance competitiveness, support smallholders, and improve the long-term sustainability and resilience of the coffee sector. Strengthening transparent market institutions, farmer organizations, and extension services is therefore important for policy actions.

The messages for policymakers are diverse: develop balanced public-private partnerships with strong institutional coordination; foster responsible professional organizations; elaborate national and decentralized coffee strategies covering all VC stages; protect farmers from international price fluctuations; regulate markets so income properly benefits producers, especially smallholders; invest in roads and support services; strengthen regulatory instruments (multi-stakeholder platform, sectoral financing); promote research and technical assistance; and avoid leaving the VC's future solely to market forces.

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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