



**Proposal from Costa Rica and  
Guatemala to support a study  
on improving the income of  
smallholders**

1. The Executive Director presents his compliments and, for the information of Members, attaches a letter from Costa Rica and Guatemala seeking the support of the International Coffee Organization (ICO) to fund a specialized study with the aim of increasing the income and economic stability of smallholder coffee producers (Annex I).
2. A more detailed proposal is also attached (Annex II), setting out the objectives, activities and budget for the study. The study will be undertaken by the Columbia Centre on Sustainable Investment, under the direction of Professor Jeffrey Sachs, and is estimated to cost US\$190,000 over a period of 12 months. The ICO is being asked to contribute US\$20,000 to part-fund the implementation of the study. Research results will be provided in two papers.
3. The first paper will be presented to the Council by Professor Sachs on Thursday 12 April 2018, giving an overview of the movements of coffee prices and trends along the coffee value chain. The second paper will be delivered by mid-September 2018, looking at future pricing and supply/demand due to trends in global markets, in addition to alternative proposals to increase farmer's incomes.
4. Members are invited to consider this proposal.

Guatemala, 6 March 2018

Mr José Sette  
Executive Director  
International Coffee Organization (ICO)

Dear Mr Sette,

We trust that you are well and hope that the new year will be successful and productive, both for yourself and for the International Coffee Organization.

As you know, the 1<sup>st</sup> World Coffee Producers Forum was held in the city of Medellin, Colombia, in July 2017. The key purpose of the Forum, which was attended by representatives of all coffee-producing countries, was to analyse the sustainability of coffee production, particularly in economic terms.

The Forum gave rise to a number of agreements, particularly the development of a specialized study analysing and explaining why prices have remained so low in recent years, and identifying options that may bring about changes in the current difficult circumstances.

The Monitoring Committee of the Forum, chaired by the National Federation of Coffee Growers of Colombia, has been in contact with Prof. Jeffrey Sachs, a world-renowned economist who we believe will be an ideal person to run the study.

Prof. Sachs, as head of the working group, has submitted a technical and economic proposal for the study, with the support of the Columbia Center on Sustainable Investment (Columbia University). The main objective will be to assess ways to increase incomes and economic sustainability for small coffee producers, by analysing historical price movements and trends along the coffee value chain, reviewing future pricing and supply/demand prospects, and examining various policies and other possible solutions that could help augment income. The total cost of the study amounts to US\$190,000 over a projected implementation period of 12 months.

Despite the economic crisis affecting coffee institutions due to the declining viability of coffee growing, the world's producing countries and regions recognise the importance and relevance of this study and are therefore committed to contributing towards and meeting its overall cost, though a considerable amount remains to be paid. Therefore, in the light of the aims of the ICO and the strategic value of investing together with producer countries in an effort to restore the economic sustainability of coffee production, we seek your support in the form of an ICO contribution of US\$20,000 to part-fund the implementation of the study. We would like you, as Executive Director, to identify and prioritize the resources needed from the budget allocated to the Programme of Activities within the ICO's General Budget.

I-2

The contribution of the ICO will send a clear message to the world's coffee-producing countries that the ICO is a valuable institution which is committed to sustainability.

We thank you in advance for considering our proposal and look forward to hearing from you.

Yours sincerely,

(signed) Ricardo Arenas  
Chairman of the Board of Directors  
Anacafé, Guatemala

(signed) Ronald Peters  
Executive Director  
ICAFFE, Costa Rica

Cc: Board of Directors, PROMECAFE/Juan Esteban Orduz, National Federation of Coffee Growers of Colombia/Representatives to the ICO of member countries of PROMECAFE/Archive



## Proposal: Economic and Policy Analysis for Improving Smallholder Coffee Producers' Incomes

Duration: 12 months

I.	Objective:.....	1
II.	Activities and rationale .....	1
III.	Budget.....	2
IV.	About the Columbia Center on Sustainable Investment.....	2

The World Coffee Producers Forum seeks to better understand the economic situation of smallholder coffee producers, in the context of market forces, and to assess policy alternatives that would support the sustainable production of coffee while improving incomes of coffee producers.

The Columbia Center on Sustainable Investment (CCSI) proposes to undertake, under the direction of Professor Jeffrey Sachs, economic and policy research to support the WCPF's understanding of the issues. Our work would be divided into two main papers: the first one covering pricing along the entire value chain over the past 40 or so years, and the second covering future prospects as well as alternative proposals to augment farmers' incomes. These two papers are discussed further below.

### I. Objective:

Assess ways to increase incomes and economic sustainability for smallholder coffee producers, by analyzing historical price movements and trends along the coffee value chain, reviewing future pricing and supply/demand prospects, and examining various policy and other solutions that could help augment income.

### II. Activities

CCSI will undertake economic, legal, and policy research aimed at supporting increased understanding of smallholder coffee producers' economic situation, how it has changed in past decades and how it might change in the future. Research results will be provided in the form of two papers.

#### Paper 1:

The first paper will be delivered by the end of March 2018, to be presented at the ICO meeting in April. It will take a broad overview of the movements of prices from around 1980 to the present, and from farm gate to final consumers, looking at trends in prices

along the entire value chain. The paper will seek to understand farm gate prices as determined by the fundamentals of global supply and demand, including storage, speculation, and other factors, as well as regional specificities and global and regional macroeconomics to the extent possible. Long-term trends in farm gate prices will be assessed, as well as price markups along the way to the consumer. Research will also examine other factors that affect farmers' incomes, including factors related to production costs. Taken together, this information will provide a baseline model for projecting long-term movements in prices, and a basis for understanding the ways in which smallholder coffee producers' income relates to global and regional market forces.

#### Paper 2:

The second paper will be delivered by mid-September. It will look at future pricing and supply/demand prospects due to trends in global markets, such as those related to demography, coffee-drinking habits, climate change, and structural change in the supply chain of the industry. This paper will also consider various alternative proposals to augment farmers' incomes, including, for example, fair-trade mechanisms, export taxes in supplying countries, consumer taxes in consuming countries rebated to producing countries, and direct tie-in's of roasters and producers. Assessments of these proposals will take into consideration the identified global market trends, and will explore each proposal's potential benefits and limitations in mitigating the accompanying challenges that smallholder coffee producers will confront.

### III. Budget

To undertake the activities described above, CCSI seeks a total of **USD \$190,000 for 12 months**, with disbursement along the following lines:

- \$30,000 upon signing project agreement
- \$80,000 upon delivery of the first paper
- \$80,000 upon delivery of the second paper

Payment would cover all staff time, travel, and other expenses necessary to undertake the work.

### IV. About the Columbia Center on Sustainable Investment

The Columbia Center on Sustainable Investment (CCSI) is a joint center of Columbia Law School and the Earth Institute at Columbia University. CCSI is the only university-based applied research center and forum dedicated to the study, practice, and discussion of sustainable international investment worldwide. Its mission is to develop practical approaches for governments, investors, communities, and other stakeholders to maximize the benefits of international investment for sustainable development. CCSI conducts robust research; develop accessible resources and tools; convene nuanced dialogue; and provide trainings, advisory support, and technical input. CCSI's Advisory Board is chaired by Professor Jeffrey Sachs.