



International Coffee Organization
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**Development of domestic coffee markets in
India, Indonesia and Mexico**

Project proposal

Background

1. This document is supported by the Governments of India, Indonesia and Mexico and contains a summary of a project proposal already approved in principle by the ICO to create a reliable additional market for growers and to prepare the local industry to export value-added products¹.
2. The proposal has been circulated to the Virtual Screening Committee (VSC) for additional technical suggestions and its comments which will be taken into consideration.

Action

The Executive Board is requested to note this document.

¹ In September 2002, the Promotion Committee approved in principle a project to increase domestic consumption of coffee in producing countries (see paragraph 6 of document PC-5/02).

PROJECT SUMMARY

Project Title: Development of domestic coffee markets in India, Indonesia and Mexico

Duration: Three years (36 months)

Location: India, Indonesia and Mexico

Nature of project: Development of domestic demand for coffee in India, Indonesia and Mexico in order to create a reliable additional market for growers and to prepare the local industry to export value-added products.

Brief description: The project aims to demonstrate, on a pilot basis, that domestic demand for coffee can be developed by means of: dissemination of the positive effects of coffee on health; a campaign aimed at educating consumers about the types and qualities of coffee available in each market; a programme to increase awareness of coffee by the target audience, with intensive use of public relations tools; and capacity building along the coffee production and marketing chain, with the benefits of vertical diversification (establishment of additional channels for coffee growers), value addition (increased sales of roast, ground and soluble coffee) and preparing the industry to export value-added products (improved technology, packaging, marketing and coffee quality).

The components of the project are:

- use of existing positive coffee and health resources to disseminate the benefits of coffee drinking to health professionals and consumers;
- a campaign aimed at educating consumers about the types and qualities of coffee available in each market;
- a coffee awareness campaign based on intensive public relations efforts to position coffee as a modern desirable beverage among consumers;
- Capacity building to train stakeholders to participate in and benefit from the programme, making it sustainable in the long run; and

- Consumer surveys to investigate coffee drinking habits and perceptions about coffee in order to gather information, monitor and evaluate the project.

Estimated total cost: US\$5,993,915.79

Financing

sought from the Fund: US\$2,995,421.05

Mode of financing: Grant

Counterpart contributions: India – US\$1,000,736.85
Indonesia – US\$997,789.47
Mexico – US\$999,968.42

Project Executing Agency: International Trade Centre (ITC)

Collaborating agencies: India – Coffee Board of India
Indonesia – Asosiasi Eksportir Kopi Indonesia (AEKI)
Mexico – Asociación Mexicana de la Cadena Productiva de Café (AMECAFÉ)

Supervisory body: International Coffee Organization

Estimated starting date: 1 January 2008

OVERVIEW OF THE COMMODITY IN THE COUNTRIES DIRECTLY INVOLVED

India

India has traditionally produced Arabica coffee, but in the last few years the production of Robusta has surpassed that of Arabica.

With total production of 4.7 million bags in 2006, the country exported 3.5 million bags leaving only 1.2 million bags for the domestic market. This is reflected in the low per capita consumption of 0.08 kg/year.

Coffee drinking is not a popular habit in India, as the coffee culture is confined to four southern states. It is a traditional tea drinking country; there is low awareness of the quality of coffee available, and there are many misconceptions about coffee and health.

Coffee is traditionally mixed with chicory and drunk with milk. Soluble coffee products account for the majority of the market. Coffee preparation methods (filters) are considered old-fashioned, messy and time-consuming. However, coffee is becoming popular among the upper-classes, especially with youngsters, who like to spend time in the coffee shops of the big cities and find coffee trendy and western.

Indonesia

Indonesia is the world's fourth largest coffee producer. The country produces mainly Robusta coffee (93% of the total production is Robusta, whereas only 7% is Arabica).

Of 6.8 million bags produced in 2006, 4.7 million bags were exported (98% of which were green coffee exports). Approximately 2 million bags are used locally, which translates into per capita consumption of 0.5 kg/year.

The majority of the population does not have access to good quality coffee because better quality beans are exported and coffee is mixed with other products, like maize, especially in rural areas. A large percentage of coffee is still sold unbranded and traditional preparation systems are disliked by youngsters. The positive benefits of coffee drinking are largely unknown.

On the positive side, there is a dynamic coffee shop sector in urban areas, where supermarkets offer an increasing variety of coffee products. The consumption of easy-to-prepare soluble coffee beverages is growing faster than roast and ground coffee.

Mexico

Mexico is the biggest Arabica coffee producer and exporter of North America. More than 80% of total production of 4.2 million bags in 2006 was exported, mainly to the United States.

In 2006, there were approximately 486,000 coffee farms in Mexico, 99% of which belonged to small growers and were less than 10 hectares in size. High costs of production affect the country's competitiveness in international markets. Development of the domestic market is a good alternative to protect coffee growers' income.

Domestic consumption accounts for only 1.3 million bags, which corresponds to per capita consumption of 0.8 kg/year.

Coffee is a common drink in Mexico, usually drunk in the morning. Soluble coffee has a dominant share of the market. In recent years coffee has faced strong competition from soft drinks, especially among teenagers and youngsters.

Consumers are confused about the types of coffee products available and have misconceptions about coffee and health. Coffee shops are becoming popular, especially in the big cities, but are still expensive for the majority of the population.

Problems, issues and opportunities

India, Indonesia and Mexico are coffee producing countries that export the majority of their production. Each of the three countries exports over 70% of their production.

With low rates of domestic consumption – India has per capita consumption of only 0.08 kg/year, Indonesia 0.5 kg/year and Mexico 0.8 kg/year, compared with Costa Rica's 4.0 kg/year and Brazil's 5.2 kg/year – these countries depend on international prices to sustain their coffee business. Recent surveys, research and workshops with stakeholders demonstrate that there is strong potential and excellent opportunities to develop the domestic coffee market in these three countries with benefits to all involved.

The benefits will accrue both to the public and private sectors of the three countries. The public sector will benefit from the expansion of the local tax base, creation of employment opportunities, and development of entrepreneurship and innovation, in a sector that is usually traditional and slow-moving. Greater benefits will go to the private coffee sector: value addition to the product, that will be industrialized and sold as roasted or soluble coffee; better conditions to export value-added products, as a result of the strengthening of the local coffee

industry; and, last but not least, vertical diversification, with the creation of opportunities for local players in the coffee business to sell not only green beans, which are a raw material or commodity, but also value-added products of all types, all the way up the supply chain to the cup.

The greatest benefit of all will be to coffee growers, especially small growers, who constitute more than 90% in each country. Growers will have the ability to sell to the local industry either directly or with the participation of fewer intermediaries than when coffee is exported. Small growers will have a much better chance to add value to their coffee when it is sold in the domestic market rather than exported, given the difficulties they have to add value to exports in comparison with larger growers.

The Brazilian experience of increasing domestic coffee consumption shows that it is usual for growers to obtain better prices for coffee sold in the local market rather than exported. In other words, domestic prices for the types of coffees used by local industry are often above international prices for the same quality beans.

The methodology behind this market development proposal is based on the ICO Step-by-Step Guide to Promote Coffee Consumption in Producing Countries, which was developed on the basis of the experience of Brazil and several other producing countries that have introduced programmes to develop their local coffee markets in recent years.

The idea of choosing India, Indonesia and Mexico for a pilot project to test the methodology of the ICO Step-by-Step Guide is based on the fact that they are coffee producing countries located in different regions, with very different cultures and habits that are representative of their respective regions. In addition, all three have large populations – India has over 1 billion people, Indonesia has 245 million people and Mexico has 107 million inhabitants – but have low coffee consumption.

India, Indonesia and Mexico are developing economies whose per capita income has been growing well in recent years. In 2006, India had GDP growth of 7.6% and its per capita income was US\$657.00; Indonesia had GDP growth of 5.6% and per capita income of US\$1,100.00; and Mexico had GDP growth of 3% with per capita income of US\$6,450.00.

Large populations, low coffee consumption and increasing per capita income allied to strong indications of growing interest in coffee make India, Indonesia and Mexico the ideal target countries for this pilot project.

Relevance of the proposed project to the ICO's commodity strategy

The ICO's development strategy for coffee (document EB-3768/01 Rev. 3) identifies and prioritizes coffee development issues and suggests strategic actions to address them including: promotion of a sustainable coffee economy; encouraging consumption; quality enhancement; diversification and market improvement, with special concern for the millions of smallholders who depend on coffee for their livelihoods. The project addresses all these strategic areas.

The promotion of a **sustainable coffee economy** will be achieved by developing the local coffee market, with a direct impact on coffee growers' incomes: creation of a captive market for the country's coffee, shortening the supply chain, ability to sell value-added finished products, etc. The development of the local market will improve technology, packaging and marketing skills which will in turn create positive conditions to access overseas markets for finished products and to export value-added coffee. The market will be developed by removing obstacles to consumption, educating consumers about products and qualities, training the industry about quality, in summary, by **encouraging consumption** through a series of coordinated actions. **Diversification** will be achieved by developing additional markets for coffee growers who will have the option to enter value-added markets for finished products and even coffee sold by the cup. The development of the local market will create opportunities for vertical diversification into finished products and will help the coffee sector to prepare to export industrialized products, another path to vertical diversification. **Quality** enhancement will be an overriding theme behind all project activities, which will place particular emphasis on consumers and coffee sector education. Capacity building will address quality enhancement as an instrument to attract consumers and add value. Finally, **market improvement** will benefit the whole supply chain as a result of higher coffee prices and better access to additional markets, locally and abroad. **Small growers** will benefit the most not only because they are an overwhelming majority in the three countries but also because the project will create conditions for them to compete in areas that are otherwise difficult or even impossible for them to enter.

In a CFC/ICO workshop on coffee development priorities held at the ICO in September 2006 (see document CFC/ICO 8/06), it was stated that the CFC supported the following strategic areas which are equally relevant to the project proposal: value addition, diversification, and market access and development. All these categories are fully addressed.

The project proposed is highly relevant to the strategic areas for action proposed by the ICO's development strategy for coffee.

Results to be achieved

The results to be achieved by the project are:

- an increase in domestic coffee sales;
- an increase in per capita and total domestic coffee consumption;
- an increase in the types and variety of coffee products offered on the local market;
- diversification of coffee qualities and products available to importers;
- an increase in the number of outlets that sell and/or serve coffee;
- an increase in the percentage of coffee that remains in the country (vis-à-vis coffee that is exported); and
- most importantly, an improvement in prices received by coffee growers, especially small growers.

The achievement of the above results will be verified by means of:

- national data on coffee consumption,
- coffee trade statistics,
- surveys of coffee consumption patterns and demand,
- surveys of retail markets and data from retail associations, and
- national data on coffee production, inventories and exports.

Table 1: Summary Cost Table by Component

Development of the domestic coffee markets in India, Indonesia and Mexico

Project Component	Total Cost	CFC Contribution
1. Use of existing positive coffee and health resources	US\$ 1,204,100.00	US\$ 189,000.00
2. Transparency in Labeling Campaign	US\$ 1,910,420.00	US\$ 469,950.00
3. Coffee Awareness and Industry Training	US\$ 1,233,000.00	US\$ 1,233,000.00
4. Surveys of consumption patterns and perceptions	US\$ 393,000.00	US\$ 0.00
5. Project coordination and integration	US\$ 238,050.00	US\$ 238,050.00
TOTAL PEA BUDGET	US\$ 659,000.00	US\$ 659,000.00
TOTAL SUPERVISION	US\$ 56,650.00	US\$ 56,650.00
CONTINGENCIES	US\$ 299,695.79	US\$ 149,771.05
TOTAL	US\$ 5,993,915.79	US\$ 2,995,421.05

1. LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
<p>Broad Goal</p> <p>To develop the domestic coffee market in India, Indonesia and Mexico in order to create a reliable additional market for growers, specially the small ones, to generate an increase in overall quality, and to prepare the local industry to export value-added products, leading to better economic return for farmers.</p>	<ol style="list-style-type: none"> 1. An increase in domestic coffee sales. 2. An increase in the types and variety of coffee products offered in the local market. 3. An improvement on prices received by growers. 	<ol style="list-style-type: none"> 1. Coffee trade statistics. 2. Retailing statistics and surveys. 	<ol style="list-style-type: none"> 1. Growing income of population. 2. Union and commitment of stakeholders, private and public, to develop the market. 3. Growers are able to sell their coffee to the local industry.
<p>Project Purpose</p> <p>To develop domestic demand for coffee in India, Indonesia and Mexico by means of:</p> <ol style="list-style-type: none"> (1) consumer education about coffee consumption and its benefits, and about the range of products available in the market; (2) a program to increase coffee awareness in the target public; and (3) capacity building along the coffee production and marketing chain; <p>with the aims of:</p> <ul style="list-style-type: none"> - vertical diversification: to establish additional channels for coffee growers as a means of increasing farmers income and spreading risk; - value addition: to increase sales of roast-and-ground and soluble coffee locally and abroad; - preparation of industry to export value-added products (improved technology, packaging, marketing and coffee quality). 	<ol style="list-style-type: none"> 1. Consumers perceptions about types and variety of coffees offered, quality and benefits of consumption. 2. Coffee exposition in electronic and printed media. 3. Improvement of consumers' image and awareness of coffee in relation to competing beverages 	<ol style="list-style-type: none"> 1. Yearly surveys with consumers. 2. Yearly surveys with health professions 3. Media clippings. 	<ol style="list-style-type: none"> 1. Domestic market sensitive to educational themes / subjects proposed. 2. Positive perception of coffee and greater product availability translate into more consumption and willingness to pay more for coffee . 3. Greater coffee awareness increases consumption and attracts new consumers. 4. A strong domestic market paves the way for exports of value-added coffees.
<p>Outputs</p> <ol style="list-style-type: none"> 1. Increase in per capita and total domestic coffee consumption. 2. Stronger and sustainable domestic coffee market. 3. Greater variety of coffee products offered to domestic consumers and exported. 4. Improvement of quality of coffees available in domestic market. 5. Better returns to growers, specially small ones, in periods of low international prices (local market can pay better prices and offer opportunities for vertical diversification and value addition). 	<ol style="list-style-type: none"> 1. An increase in per capita and total domestic coffee consumption. 2. Diversification of coffee qualities and products available to consumers and importers. 3. An increase in number of outlets that sell and/or serve coffee. 4. Increase in percentage of coffee that remains in the country (vis-à-vis exported coffee). 	<ol style="list-style-type: none"> 1. National data on per capita consumption of coffee. 2. Surveys of coffee consumption patterns and demand. 3. Surveys of retail market and data from retail associations. 4. National data on coffee production and exports 	<ol style="list-style-type: none"> 1. Removal of misconceptions about coffee and health increases consumption and attracts new consumers. 2. Better knowledge of products available increases consumption and attracts new consumers. 3. Product awareness and consumer education lead to higher retail prices. 4. Industry interested to introduce new coffee products. 5. Retailers interested to sell more coffee.
<p>Inputs: Activities</p> <ol style="list-style-type: none"> 1. Use existing positive coffee and health resources such as: <ul style="list-style-type: none"> - information directed to health professions; - information directed to consumers; - public relations. 2. Transparency in Labeling Campaign: <ul style="list-style-type: none"> - development of labeling approach; - launching of campaign; - materials; - monitoring / verification; - public relations. 3. Coffee Awareness and Industry Training: <ul style="list-style-type: none"> - public relations aimed at consumers; - industry, business and government relations; - capacity building: <ul style="list-style-type: none"> - products, marketing, etc.; - exports. 4. Surveys of consumption patterns and perceptions. 5. Project coordination and integration 	<p>Level of effort/ expenditure</p> <p>Component 1: US\$ 1,204,100</p> <p>Component 2: US\$ 1,910,420</p> <p>Component 3: US\$ 1,233,000</p> <p>Component 4: US\$ 393,000</p> <p>Component 5: US\$ 238,050</p>	<ol style="list-style-type: none"> 1. PEA Project Progress reports. 2. Annual audited accounts and reports. 3. Mid-term evaluation and project completion review. 4. Periodic reports from PIA's. 	<ol style="list-style-type: none"> 1. Financing from all sources is made on a timely basis in line with the proposed activities and work plans. 2. The PEA and collaborating institutions coordinate and execute the project efficiently and effectively. 3. The project participants remain committed to the project.