

Coffee Diversification – Honduras and Nicaragua Case Study

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Coffee Production and Exports

	Honduras	Nicaragua
Production (2004)	2.58 m bags	1.13 m bags
Coffee area (99/00)	260,000 ha	100,000 ha
Producers (99/00)	90,000	30,400
Farm size (99/00)	2.9 ha (average)	3.2 ha (average)
Export earnings (1999/2000)	345.2 m US\$	194.7 m US\$

Production Characteristics and Farmers' Livelihoods

- Predominantly arabica production
- Mainly high and strictly high grown
- Majority of farmers are smallholders
- Hurricane Mitch (1998) led to major destruction
- Recent coffee price crisis has severely affected coffee producers and labourers
 - e.g. 35,000 permanent and more than 100,000 seasonal coffee workers may have lost their coffee related jobs in Nicaragua → social consequences

Examples of Organisations Involved in Diversification Initiatives

- Governments through Ministry of Agriculture, Livestock and Forestry, Family Ministry, etc
- USAID, World Bank, CIDA, FAO, etc
- NGOs such as CARE, Technoserve, etc
- CFC and the Governments of Honduras and Nicaragua are funding a new coffee rehabilitation project focussing on coffee processing facilities (quality improvement); ICO is supervisory body and IICA/PROMECAFE are managing the project

Examples of Horizontal Diversification

- Agro-forestry (e.g. fruits, vegetables and wood)
- Cooperative support (e.g. horticultural prod.)
- Tourism industry (e.g. eco-tourism in areas with shade-grown coffee production)
- Dairy production (i.e. support for farmers and dairy firms)
- Rural non-farm employment, although the poor often lack the assets to benefit from the more knowledge and capital intensive options

Examples of Vertical Diversification

- Improving quality (e.g. certification, gourmet market)
- Increasing value added (e.g. brand development)
- Promotional strategies for coffee
- Market information services
- Increasing domestic promotion and consumption
- Promotion of shade-grown coffee in view of its environmental benefits

Lessons Learned

- Improved quality of output is no less important than quantity produced
- Quality-based competitiveness takes time and match-making arrangements with private sector are important
- Governments can facilitate foreign and joint venture investments; incl. new types of financial and marketing arrangements

Lessons Learned, ctd.

- Adding value to a familiar crop has been more successful
- Farmers cannot assume all risks involved with new crops; government incentives required.
- Strong institutional capacity within cooperatives and farmer organisations is important; private firms were more successful with diversification

Lessons Learned, ctd.

- Important to identify comparative advantages of areas where diversification is to take place
- Enthusiasm for diversification from coffee is inversely related to the income from coffee: long-term commitment is required
- Government has to provide enabling environment (macro-economic policy, infrastructure, etc)

- Thank you for your attention !