

Colombia

A business case for sustainable coffee production



July 2014

The world's second largest Arabica producer

Colombia has a long history of coffee production and, for decades, coffee was Colombia's predominant export. In recent years, oil and other extractives have replaced coffee as the leading export product. However, coffee remains the country's biggest employer and source of livelihood in rural areas, providing income for more than 20% of Colombia's rural population.

Colombia has approximately 560,000 coffee farms, of which 95% of farms have less than 5 hectares of coffee. It is estimated that ~100,000 farms are currently inactive. Colombia's coffee production fell significantly from 2008 to 2012 due to adverse weather and a national tree renovation program to address leaf rust. With more than 50% of total coffee areas now renovated, production is expected to rise again. In 2013, Colombia produced 10.9 million bags of coffee.

Colombia has an efficient supply chain and a strong institutional framework that provides a variety of sector support services, including farmer extension, purchase guarantees, regulatory oversight and sustainability programs. These services are provided by the Federación Nacional de Café (FNC), who is also the country's leading exporter.

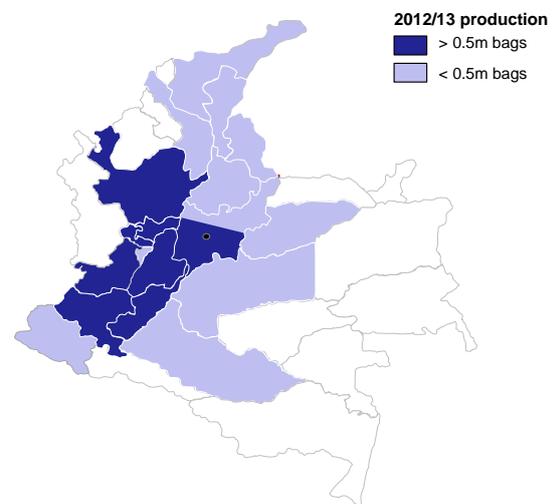
Due to rising labor and input costs, Colombia's cost of production has increased markedly over the past decade, eroding farmer margins. Since 2013, the government has helped farmers by offering a cash price subsidy when the market falls below ~US\$ 1.50 (COP 700,000). In 2013, the government paid more than US\$ 600M in such subsidies to farmers. While coffee prices have rebounded, farmer net incomes remain low and farmers will increasingly weigh the opportunity cost of coffee farming, both in terms of land and time (labor).

Emerging sustainability trends

Colombia is seen to have adequate supply of certified/verified coffee to meet demand in the near future. Roughly 45% of production is under one or more certification or verification and its share of certified/verified coffee sales as a proportion of total exports is estimated at 14%, above the global average of 12.5%. The FNC contributes approximately half to sustainable coffee sales.

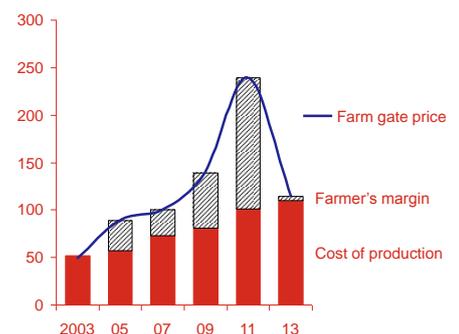
Future expansion of certification/verification programs may face challenges. Early on, most market actors invested in certifying/verifying their supply chains with the expectation of price premiums to offset upfront and ongoing compliance costs. Now, with farmers already facing high production costs, there is a reluctance to create new costs in the supply chain. Moreover, there are economic challenges reaching additional farms that have so far been excluded from certification or verification. Colombia's new environmental laws, particularly regarding wastewater treatment, will make compliance more difficult and costly for individual small farms to pursue in the future.

Colombia has a range of Arabica growing regions and more than half a million coffee farms



Coffee farmers' margins have been eroding

US cents per lb green



Quick facts:

- Farms: 560,000 (~460,000 active)
- Avg. coffee farm size: ~2 ha
- Avg. yield: 14.1 bags/ha*
- 2013 production: 10.9m bags (4th globally but expected to become 3rd largest producer in 2014)
- Share of verified/certified sales: 14%**

* 2013, 15.5 bags for average farm

** Estimate, includes 4C, Fair Trade, Rainforest Alliance and UTZ

Key opportunities

Colombia is a diverse country, with a range of improvement levers.

For some farms, specialty coffee and increased quality differentiation offer great potential. For farms in marginal areas or with higher opportunity costs, income diversification may be needed. For “mainstream” farms, the following interventions are likely to offer the greatest returns for the sector:

Transferring improved agronomy practices, particularly regarding input usage and application, could boost yields by 20t to 30%. A “farmer field school” training approach can be used to reach higher numbers of farmers, including older generations, and maximize the rate of adoption. Innovative strategies to target youth could enhance program’s results.

Production costs could be lowered by helping farms to improve harvesting efficiency and by introducing central wet milling. The activities of harvesting and home wet milling currently comprise 70% of on-farm labor. More efficient practices in these areas could reduce farm labor costs by 10% and bring additional benefits, such as improved quality/consistency and better environmental compliance. However it not be feasible for all farmers to adopt and should therefore be considered on a case-by-case basis.

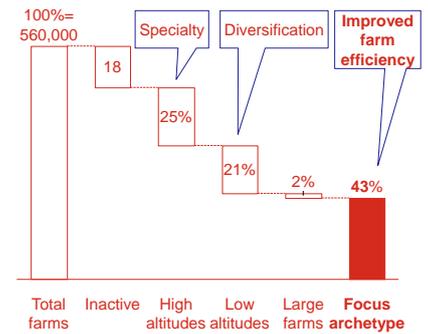
A strategy for co-investing in sustainability

An ambitious program focused on improving competitiveness and sustainability in the “mainstream” segment could reach up to 230,000 farmers, or half of Colombia’s active farmers. Improvements in yield could increase national production by 1.5M bags and raise annual coffee export revenues by US\$ 260M. Improvements in harvesting efficiency and the introduction of central wet milling could eventually achieve annual cost savings of over US\$ 75M for the sector. By adopting these changes, average farmer net incomes from coffee could be increased by 50%.

The cost of such a program, funded over 10 years, is estimated at US\$ 200M and would require co-investments from private and public actors. For private exporters, returns include higher availability of high quality coffee and cost savings for technical assistance and certification/verification programs. For the government, returns include higher incomes for farmers, the potential to reduce direct subsidy payments, and environmental compliance. The sector may also consider going beyond farmer-level interventions to opportunities on the demand-side, for instance, local value addition and promotion of domestic consumption.

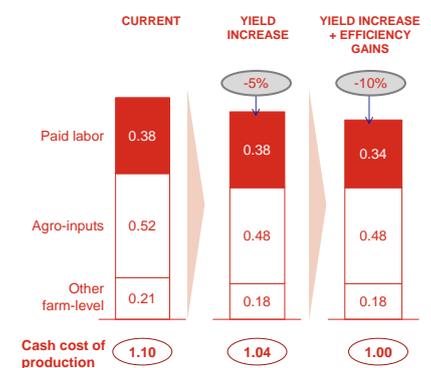
While existing public funding for the coffee sector may be sufficient to finance this work, the international coffee industry can play a role in catalyzing new approaches and helping bringing them to scale.

Different opportunities for different farmer archetypes



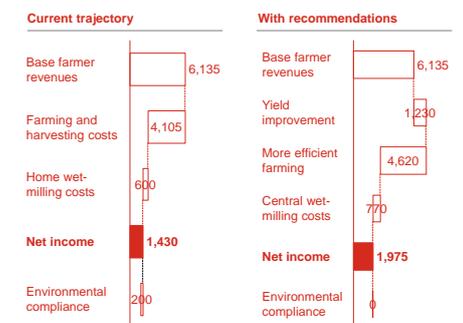
Overall on-farm costs could be reduced

US\$ per lb



Farmer cost/benefit of recommendation, post 2024

US\$ (per crop year)



Jenny Kwan
Program Manager
coffee@idhsustainabletrade.com
www.sustainablecoffeeprogram.com



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