Africa’s Challenge of Creating a Resilient and Sustainable Coffee Value Chain

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Introduction

The Economist magazine of 24th Nov 2018 featured an article titled “God wants Ethiopians to Prosper” to which my quick response was “yes of course!” Indeed, I also believe it is the desire of God for Ethiopians, and by extension “all Africans” to prosper. However, this prosperity will not come from prophesies or lengthy prayer sessions; it will decidedly come from exceptional leadership, entrepreneurial innovations, hard work and being proactively responsive to every opportunity that is presented to us as Africans.

While I do not believe there is any specific magical formula through which we will achieve this desired prosperity, I would like to borrow Geert Hofstede’s metaphor of “software of the mind” and emphasise that it is critical that we adopt a change of mindset. Our approach, which has not worked up till now, definitely needs a critical review. There has to be a paradigm shift! The world is consuming more and more coffee, and the coffee value chain in developed countries is growing in leaps and bounds, with values in hundreds of billions of dollars, while African smallholder farmers are getting poorer, if we can generalise it that way. What can be done? That is one of the questions that should be addressed during our discussions at this forum.

Coffee in Africa

On 7th December 1960, African heads of state and government created the Inter-African Coffee Organisation (IACO), the purpose of which was to bring African coffee producing countries under one entity to negotiate the sale of their coffee, identify common challenges, find solutions to common problems, and collect statistics on the performance of the industry. With the collapse of the ICO quota

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system, IACO’s role became one of support to the countries in coordinating joint actions, addressing production and productivity issues, in order to improve market access, and providing the forum to deal with cross-cutting issues in the African coffee sector. In many countries, the coffee industry was liberalised to varying extents, and more responsibility was progressively given to the private sector. Today, IACO’s role is to facilitate policy dialogue, research coordination, partnership development and institutional development for the efficient functioning of the African coffee sector.

Owing to the liberalized global coffee economy, coffee farmers all over the world are greatly exposed to the various factors that influence the performance of the value chain, where forces of demand and supply reign. Producers, however, are suspicious of manipulation against them through interventions in the commodity exchanges, particularly by speculators and big money. On the other hand, it should be acknowledged that entrepreneurial innovations in developed markets keep creating more and greater value, while farmers receive the least of the proceeds from global coffee value chain transactions. In fact, the real earnings to the producers have dropped to the extent that what in macro-economic terms is known as unfavourable terms of trade, at the micro-level of the farmer, it has been a case of deteriorating value of earnings so that the farmer has to sell a lot more coffee today, about 300% more, to buy manufactured goods that he or she could buy with the proceeds from the sale of coffee, say 25 years ago.

It is also true that the coffee value chain in the developed countries generates billions of dollars that far outstrip the earnings of the farmers who grow the crop, because of all the value adding nodes in their value chains. According to the National Coffee Association of the USA, “The total economic impact of the coffee industry in the United States in 2015 was $225.2 billion. Coffee-related economic activity comprises approximately 1.6% of the total U.S. gross domestic product. Consumers spent $74.2 billion on coffee in 2015.” According to The World Factbook, the purchases of coffee, in terms of global imports amounted to US$32.9 billion in 2017. This report also stated that between 2013 and 2017, there was an increase of 13.9% in the value of coffee imports for all importing countries having increased from $28.8 billion. In one year alone, the value of global imports increased by 9.4%, between 2016 and 2017. The US Department of Agriculture reported in June 2018 that US coffee imports would increase by 2.4 million bags to 27.0 million.

Innovation; The Key Driver for Transformation
As our focus today is on Ethiopian coffee and its untapped potential on the global market as well as a catalyst to be a driver for tourism, I will focus my observation within this context. I would like to point out that innovation is what is driving the transformations that we see in the value chain in developed countries. What we need today are innovators—people who will think outside of the box, use unconventional thinking to develop new products and services. It means Ethiopian coffee needs to be presented to the market in a completely different way than is being done today.

Ethiopia on its own can become a significant magnet of coffee tourists. But the product itself, as coffee tourism, must be developed significantly. Exposure to what potential consumers of the product are looking for is a starting point to identify the opportunities, then innovation must go into creating suitable packages. No entrepreneurial leader will admit that this is an easy venture. One must find out from the proprietor of Kaldi’s Coffee that this is not a walk in the park, yet Addis Ababa is now dotted everywhere with Kaldi’s Coffee shops or restaurants. The Coffee Safari to Kenya became a big hit in the 1990s, apparently an off-shoot of many years of investment in the promotion of Kenya coffee, which drew so much curiosity that people wanted to walk the coffee trail. Colombia, in like manner, has invested significantly in the promotion of its brand, Cafe de Colombia, and Africa must follow suit.

**The African Coffee Market**

There are facts we need to be cognisant of as we examine the prospects for our coffee. First of all, it is evident that there is significant coffee consumption in Africa, as many African countries are currently importing substantial amounts of coffee from Europe, the Middle East and Asia. This, by all estimations, should be a great market opportunity for African producers.

In my recent meeting with the Commissioner for Trade of the African Union, he indicated that Africa’s middle class, currently estimated at around 320 million, already constitutes a substantial market for African coffee. Africa therefore longer needs to look elsewhere to sell its coffee. Secondly, we also know that there is much cross-border trade as well as internal trade within the countries that is are not documented. IACO therefore would like to establish the baseline by collecting data on the current status of coffee trade on the African continent. IACO has been in discussions with the African Union Commission (AUC) regarding the status of coffee within the Commission, which was previously non-
existent. The process is currently underway to include coffee as one of the strategic crops under the programme of the AUC’s Department of Agriculture.

**The African Continental Free Trade Area**

With the launching of the African Continental Free Trade Area, it is believed that coffee will be one of the flagship products to be traded under that arrangement. In order for the AfCFTA to benefit coffee producers, consideration will be made for geographical indicators so that specific Ethiopian origins, such as Yirgacheffe, Sidama, Limu, and others, as well as those from other countries will be specifically identifiable. Thus, we have to put in place rules of origin as well as the sanitary and phytosanitary regulations that ensure that food safety and health concerns are fully addressed.

I do not see the AfCFTA immediately resolving all the problems, because individual governments will have to address specific challenges in their respective business environment, including services, utilities and infrastructure, as well as expertise and upgrading of skills to deal with the new challenges. IACO is working with partners to create a special facility that will provide support in the transformation of the African coffee value chain. It will focus on how to attain the sustainable development goals, promotion of domestic consumption, development of capacity among smallholder producers to adopt a more entrepreneurial orientation, and to build, strengthen or help in the establishment of farmer associations or cooperatives.

**The Call to Action**

In conclusion, I would like to state that the development of a granular value chain for coffee will have many backward and forward linkages that will definitely contribute to the economic transformation of African countries. What needs to encourage us is the fact that others have accomplished what we are trying to do and have been successful. There are models that we can study and learn from. There is also a lot of experience to share with others. Public-Private Partnerships, that are mutually beneficial to all parties, will be the way to go. So, if others have done it, why can’t Africa do it?