

Why do coffee farmers stay poor?

Breaking vicious circles with direct payments
from profit sharing

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Abstract

During more than five decades, different initiatives have been launched to improve the livelihoods of smallholder coffee farmers. While knowledge of the constraints for raising smallholder income is widely available, limited results have been reached by structurally strengthening the competitive position of smallholders in international commodity markets. This article provides an overview of current insights on the role of smallholders in coffee production, the organization of coffee transactions, and the distribution of value-added throughout coffee supply chains. Whereas major efforts have been made to increase prices, yields and investments with strategies focusing on certification and/or living incomes, these initiatives largely failed to lift coffee farmers out of poverty. Cash

transfers funded by tax revenues and profit redistribution offer direct payment opportunities for raising coffee farmer expenditures and strengthening their livelihoods. This also requires a fundamental transformation in pre-harvest and post-harvest governance arrangements that shape farmer risk behavior and trust attitudes.

Keywords: coffee; smallholders; value chain; certification; living income; direct payments; cash transfers; insurance

Introduction

Low incomes of smallholder coffee farmers and inequalities of revenue distribution in coffee value chains have motivated initiatives for improving the conditions under which production, processing, distribution, and trade of coffee take place. Most attention is usually given to higher yields and the adoption of good agricultural practices (GAP), better prices and higher margins, and more diversified livelihoods. Results of certification and living income strategies for raising smallholder welfare have been, however, rather limited.

This article reviews the evidence on the structural causes of depressed coffee farmer incomes, and identifies behavioral mechanisms that hinder the improvement of smallholder livelihoods. The main attention is devoted to the relationship between coffee production and household expenditures (i.e., farm-household linkages) and the transactions with coffee traders and markets (i.e., farmer-value chain linkages).

We identify important barriers to raising coffee farmer income based on the unequal distribution of value-added between coffee chain stakeholders and the exclusionary governance mechanism underlying these relationships. Consequently, smallholder farmers at the bottom of the pyramid suffer from uncertainties that limit their prospects for escaping from poverty. Unless substantial changes in farmer risk behavior, time perspectives and bargaining power are introduced no substantial improvement in coffee smallholder welfare may be expected.

Who Are Coffee Smallholders and How Do They Make Their Living?

There are some 12.5 million smallholders (i.e., 2.6% of all the world's farms) involved in coffee production and these are mainly concentrated in 20 coffee-producing countries. Smallholder farms – less than two hectares in size – account for 80% of all coffee farms and contribute about 60% of the total market supply of coffee. The remainder is equally distributed between estates (over 50 hectares) and medium-size farms (5 to 50 hectares). In addition, there are some 100 million laborers employed in seasonal work on coffee farms and in downstream (processing and trade) activities (Enveritas, 2018; Lowder et al., 2016). Approximately 44% of the world's coffee farmers are still living in poverty. At least 5.5 million coffee farmers live below the international poverty line of \$3.20 a day. Surveys provide evidence that one-third of farmers earn less than \$100 per year from coffee production (Enveritas, 2018; Sachs et al., 2019).¹

Smallholder coffee plots are very different in size, ranging from 0.16 hectares in Kenya, 1.04 hectares in Vietnam to 2.6 hectares in Costa Rica and 5.1 hectares in Brazil (Enveritas, 2018). Farmers in Indonesia and Vietnam rely almost exclusively on income from coffee production, whereas Kenyan farmers maintain tiny plots and have many alternative sources of income (Fobelets et al., 2017). Smallholder coffee production usually represents only part of household income. They are also involved in other activities, such as the production of food (maize, milk) and cash crops (bananas, honey) and off-farm employment (Pinard & Aithal, 2008). Other smallholders use agroforestry to reduce coffee production costs, diversify income, and address livelihood needs (Siles et al., 2022).

Costs and revenues of coffee production are distributed unevenly across the agricultural season. Large input purchases (seedlings, fertilizers, etc.) have to be made at the beginning of the production cycle and are frequently financed with loans (from input dealers) or advances (from coffee traders). Cash resources are also needed to pay for hiring labor for coffee maintenance (pruning) and

¹ Only a few studies (Pineda Caro, 2020; Panhuysen & Pierrot, 2020; Sachs et al., 2019) look at the historical evolution of coffee incomes and yields (using panel data). The general tendency is that incomes remain volatile and overall improvements have been limited, even while important modifications in coffee markets took place.

harvesting (picking). Revenues from coffee production are usually received in different tranches: advance payments (before the harvest), first payment (directly after harvest), and final cancellation (after the export contract).

This cash flow pattern implies that an important part of coffee revenues are already “committed” for payments to input providers, landlords, and/or traders. These revenues become available as a lump sum at peak moments after sales, and can hardly be used for household consumption or fixed investments. Baihaqi et al. (2021) find that coffee revenues in Aceh Tengah District (Indonesia) are mainly used for replacements (house repair, car/motorcycle maintenance, cellphones, electronic goods such as fans, tv, etc.) while the share of in-depth investments (coffee tree renovation) remains low.

Under these circumstances, it is no surprise that many coffee farmers remain in debt. Several countries (Honduras, Colombia, Kenya, India) had to create mechanisms for refinancing of loans to coffee producers and traders. Wambua et al. (2021) show that only coffee farmers in Kenya with access to off-farm income and secure land tenure were able to mobilize investments for improving coffee productivity without debt finance. In the absence of pre-finance, coffee farmers need to diversify their income as a “collateral” for borrowing.

Prospects for Higher Coffee Yields

The total world coffee area is 11 million hectares and total production reached 9 million tons in 2020/2021. This implies an average productivity of 800 kg/ha. Several Latin American countries reach yields beyond 1000 kg/ha of high-quality Arabica variety coffee. Current yields of coffee smallholders in East Africa are only 200–400 kg/ha of standard Robusta coffee. The potential yield is estimated between 1000 kg/ha (for traditional varieties) to 3000 kg/ha (for improved varieties). Whereas technical opportunities for improving yields – with tree renovation and input intensification – are widely available, their implementation is costly and returns are highly uncertain (Wang et al., 2015).

Coffee yields depend on many different variables: altitude, soil fertility, and rainfall. Climate change makes rainfall more erratic and with rising temperatures the coffee belt is shifting uphill and encroaching on (protected) forest reserves. Important determinants of coffee yield are tree density and tree age. The coffee lifecycle asks for renovation every 20–25 years, but poor

farmers tend to delay.² Coffee renovation and rehabilitation (pruning, stumping) are costly but can be recovered within 3–4 years (ICO, 2019).

Coffee production requires substantial material and labor inputs. Coffee plants are highly responsive to fertilizer use. In addition, large amounts of labor are needed for pruning, weeding and harvesting activities. Credit-constrained smallholder farmers face difficulties in mobilizing resources for input purchase, whereas labor-constrained family farms prefer to rely on chemical alternatives (pesticides, herbicides). Organic coffee cultivation is growing (now representing almost 6.5% of the global area) due to premium prices up to 20% higher than conventional coffee (Ayalew, 2014). Coffee production also shows increasing returns to community variables, such as education, access to credit, technical assistance or extension services and land consolidation that have a positive and significant effect on technical efficiency (Ngango & Kim, 2019).

While many efforts are made to increase coffee yields, effects have been limited due to the exclusionary focus on (male) coffee activities and the limited access to resources and guarantees (Wambua et al., 2021). Most programs provide fixed packages of resources and assistance, without considering the pattern of cash flow demands for improving household livelihoods. Looking at the overall cost structure of coffee production, smallholders need upfront money to be able to improve coffee yields. Such pre-finance is required to pay cash outlays for (hired) labor costs and to invest in coffee maintenance activities (ICO, 2019). In addition, fixed investments in tree renovation and/or shifts to organic production can only be made if smallholders can count on security for long-term sales prospects. Therefore, contractual arrangements are critical to improving farmer risk behavior.

Coffee Market and Value Chains: Sales, Prices and Margins

World market prices of coffee depend on supply and demand, weather forecasts (projected harvest) and changes in exchange rates. During the 2000–2011 period, coffee prices registered steady growth, but prices have

² In Honduras, for instance, 60% of coffee trees are older than 20 years, while in Eastern and Central Africa more than 50% are over 50 years old.

been declining afterwards and net margins are reduced due to rising input and transport costs. Over the past decade, the increase in costs of production has been greater than prices received (Panhuysen & Pierrot, 2020). During the last four decades, nominal producer prices have been declining, which implies a reduction of up to 80% in real terms (BASIC, 2018).

World market coffee prices always showed high volatility. Coffee futures exhibit great changes due to production and weather risks that influence stocks and prices.³ The volume of future contracts tripled (for Robusta) and increased five-fold (for Arabica) over the past two decades, suggesting that the coffee market is subject to a significant process of “financialization” (Bermudez et al., 2022). Trading by derivatives limits adverse price risks for traders and reduces their cost of searching markets. To gain more profit or avoid obligations, contracts can be passed many times before the expiration date. Since futures trades do not require a full upfront payment, buyers can reap speculative profits with a leveraged commitment. But futures also influence current delivery contracts: higher differentials hold a promise for rising futures prices and farmers might prefer to delay deliveries. When futures prices are rising, this may induce farmers to make more investments.

Less than 60% of the FOB export price arrives in the farmer’s hands, while the remaining 40% covers the costs of in-country transportation, warehousing, wet and dry milling and other non-farm expenses (ICO, 2019). Looking at the price structure of the final product, farmers receive up to 11.5% of what the consumer pays for the price of a cup of (blended) coffee (BASIC, 2018).⁴ When input and labor costs of production are deducted, only 5.5 % remains as gross margin (Figure 1). Certified cooperatives gain a larger share of the value (18.8%) compared to conventional coffee exporters (12.4%). Value-added is

3 FitchSolutions expects persistent production surpluses that depress (arabica) prices. Between 2021/2022 and 2025/2026 the growth of global coffee production will exceed that of global consumption by 0.8% each year. Coffee prices may fall to 1.60 USD/lb in 2025 and decline further to 1.50 USD/lb in 2026, from the estimated price of USD 1.80 in 2024.

4 Consumer’s willingness to pay a premium for certified products is mostly in favour of organic coffee, whereas Fairtrade is only known by a small segment of (better-off) consumers that are usually willing to pay a small extra premium (Abdu & Mutuku, 2021)

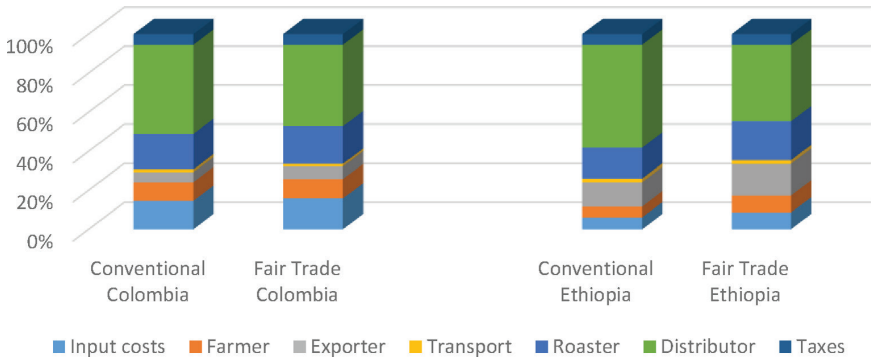


Figure 1 Coffee price structure in Colombia and Ethiopia (conventional and fair trade certified)

Source: BASIC (2018)

especially high in the stages of roasting (18%) and retail (45%). Coffee shops can even make margins of up to 70%.

Over the last 20 years, roasters and retailers have reaped an additional 1.177 billion euros from annual coffee sales, while farmers and traders have earned just 64 million euros more. Over this period the revenue gained by producing countries has gone down from 24% to 16% of value-added (BASIC, 2018). This creates dis-incentives for local investments in the coffee sector. Whereas most initiatives for supporting coffee producers look at prices and costs, it is more important to focus on higher margins and value-added creation. Moreover, since coffee markets are influenced by speculative price formation and carry high risks of price volatility, farmers are interested in long-term contracts – that reinforce quality and support local processing – and crop insurance arrangements that together enable in-depth investments in coffee upgrading. Quality differentiation becomes increasingly important in the coffee market, where prices for delicate, complex and rare micro-lots of speciality coffees rise to more than \$10 per pound.

What Is the Impact of Certification?

Since the 1980s, efforts have been made to improve the position of smallholder farmers in the coffee market. This started with guaranteed minimum price

through Fairtrade (Max Havelaar) certification and subsequently promoted the use of Good Agricultural Practices (GAP) to improve smallholder productivity and quality through sustainability standards (RFA/Utz) and private labels (Nespresso AAA; Starbucks CAFE Practices).

Fairtrade certification is grounded in two basic principles: (a) minimum guarantee price, and (b) premium payments for community investments (Ruben, 2017). In addition, it was foreseen that traders provide pre-finance to producers (to enable the purchase of inputs) and that there are long-term contractual commitments to buy the full harvest. The latter conditions proved to be difficult to comply with: in practice, only 25% of certified coffee production is sold under preferential conditions.

Impact evaluations of certification schemes offer mixed results (Valette et al., 2021). Whereas direct income effects of certification for farmers are fairly modest, positive effects on child education and women empowerment for poorer farmers are widely confirmed (Meemken, 2020). Oya et al. (2018) find that the impact of certification on yields is mixed. Prices for certified products were raised and farmer income from sales of certified products was slightly higher. However, average household incomes and asset ownership of farmers did not increase, because yields stagnated and average workers' off-farm wages were sometimes even slightly lower (Jodrell & Kaoukji, 2020). A longer or deeper engagement with Fairtrade correlates with stronger gains in farmer income and better food and nutrition security.

More recently, attention is shifting to "FairChain" programs that create opportunities for local coffee processing in producers' countries and improve chain transparency (using blockchain). This is seriously constrained, however, by the blending monopoly of coffee roasters and the anti-processing tariff regimes in many importing countries. Another strategy of True Pricing is used to include external social and environmental costs into the coffee price. Paying for such externalities would increase farmgate prices in Colombia by almost 60% (Brounen et al., 2019). Both initiatives advocate for guarantees that a larger share of value added remains in producing countries.

Can Coffee Guarantee a Living Income?

In recent years, strategies increasingly focus on Living Incomes and Living Wages, with the intention to search for opportunities to safeguard the livelihoods of farmers and workers involved in coffee production. Living income benchmarks are calculated that include food, housing, communication, transport, education and health and other essentials. A reference price is calculated that needs to be paid to farmers to be able to invest in sustainable farming practices and achieve a living income. Supporting households to reach a living income can be supported with guarantees for a more continuous future revenue stream.

Cordes et al. (2021) find that in eight of the ten countries, the average coffee farmer income is below the poverty line and even further away from the living income benchmark. Brazil is the only country profiled where smallholders earn a net coffee income that is above living income estimates. The living income gap for coffee smallholders in Colombia has been calculated by different agencies at 20 to 60% below current net revenues. To reach the living income benchmark, conventional smallholders in Colombia (0.5–5 hectares) that represent 70% of farmers need to cultivate at least 12.4 hectares of coffee, with a simultaneous increase in yield from 910 to 1183 kg/ha (30%) and a rise in prices paid at the farmgate from 1.01 to 1.32 USD/lb. (IDH, 2020). Such gaps cannot be closed only with technical assistance and price support.⁵

Transforming Coffee Value Chains with Direct Payments

Improving the position of smallholders in the coffee sector requires fundamental adjustments in coffee value chains. The Coffee Barometer reports that revenues of the top ten roasters – that represent over 35% of global trade in green coffee (for a volume of 3.556.000 MT) – add to USD 56.6 billion in 2019, equivalent to 28% of the world coffee market size (valued at USD 200 billion). This implies that there are considerable opportunities for profit sharing and value-added redistribution along the value chain.

⁵ In many living income calculations, a “viable” farm size is used that supposes full-employment of family labour and that should be able to generate a living income. This condition is hard to meet in practice.

A promising strategy for transforming coffee value chains makes use of direct payments that transfer cash resources (or vouchers) to specific populations with the aim of reducing poverty and supporting a variety of development outcomes. After COVID-19, conditional cash transfers (CCTs) were implemented in 130 low- and middle-income countries reaching over 1.3 billion people. These transfers are paid upon participation in primary health care or education programs, but can also be applied to promote sustainable farming practices and to compensate poorer households for climate change mitigation efforts (Bastagli et al., 2016). Sekha (2021) consistently shows that direct payments are far more effective – and are also easier to implement – than price support measures for raising rural incomes. Moreover, part of the costs of income support programs is recovered through higher tax revenues.

Unconditional cash transfers (UCTs) are increasingly used for poverty alleviation in low-income settings. Recent studies show that small, frequent and reliable cash payments cause structural improvements in multiple domains, such as per capita consumption, savings, nutrition, mental health, teen pregnancies, child marriages and intimate partner violence.⁶ Cash transfers are also used for direct support to coffee smallholders. Cooke et al. (2019) show how cash transfers delivered in three (mobile phone) installments to coffee farmers in Eastern Uganda led to a significant increase in household welfare (e.g., 40% higher expenditures), as well as improvements in production outcomes (e.g., doubling of coffee revenue, coffee investment). Conditional cash transfers for coffee farmers in Mexico proved to be effective in mitigating the negative effects of falling coffee prices on early childhood development (Gitter et al., 2011). Similar studies in Zambia find that cash transfers help households to cope with agricultural production and price shocks and enable them to substantially increase their food consumption and overall food security (Lawlor et al., 2019). Other experiences with monthly cash transfers to cocoa farmers in Ghana indicate that engagement of children in hazardous work strongly declined since households are better protected against adverse

⁶ There is also little evidence of adverse effects, such as cash transfers causing dependency, increasing the consumption of temptation goods, or reducing labour-market participation.

shocks, such as sickness, bereavement in the family, income fluctuations, or loss of agricultural production (ICE, 2022).

A wider assessment of the impact of cash transfers on rural households in Mexico by Gertler et al. (2012) reveals changes in both consumption and investment behavior. For each peso transferred, beneficiary households used 88 cents to purchase consumption goods and services, and invested the rest. The investments improved a household's ability to generate income and employment. By investing in transfers to raise income, farm-households were able to increase their consumption. These results suggest that cash transfers to the poor can raise long-term living standards that are maintained after the program ends.

Similar evidence is found from impact studies on cash transfer programs in Sub-Saharan Africa that report on positive effects for household resilience. Transfer programs increased investment in agricultural inputs and assets (farm implements and livestock), allowed households to save and pay off debts, and generally increased the volume and value of crop production (Lipper et al., 2018). Impact studies show that these programs can increase annual household expenditures up to 0.35 per unit of transfer. Over three years, this implies that increases in household welfare are larger than the initial value of transfers (Kondylis & Loeser, 2021).

By providing a steady and predictable source of income, cash transfers build human and social capital, improve food security, and strengthen households' ability to cope with exogenous shocks.⁷ While programs focusing on higher prices or better yields only change gross returns, direct payments of cash transfers have a direct impact on full household expenditures. Cash transfers are also more predictable to fill gaps in coffee cash flow shortages. Whereas production support activities usually end up with male recipients, cash transfers unequivocally reach female recipients and support gender empowerment. They combine poverty reduction with increased resilience, and have well-documented impacts on school participation, eliminating child labor, and the use of health and nutrition services among mothers and children (Pega et al.,

7 A complementary approach for directly targeting the ultra-poor and supporting them simultaneously with a broader package of interventions that includes a lumpsum cash grant or asset transfer (e.g., a dairy cow) along with complementary small regular cash transfers as insurance device.

2022). Small, frequent and reliable cash payments to poor households have been shown to cause improvements in multiple domains, such as per capita consumption, savings, nutrition, mental health, teen pregnancies, child marriages, immunizations and intimate partner violence (Biscaye et al., 2017).

Improving Coffee Governance Regimes

The practical implementation of cash transfers as a direct payment to support coffee value chains is not without difficulties. Incentives need to be in place so that resources are used to improve smallholder investments (inside and outside coffee production)⁸ and to strengthen their livelihoods. Since resources from cash transfers are at the free disposal of the household, only indirect mechanisms can be used to influence their allocation. If farmers are confident in risk management procedures and exhibit trust in market transactions, more in-depth investments are likely to take place. Therefore, four critical arrangements need to be in place:

First, farmers need pre-finance to enable the purchase of inputs and the payment of wage labor. For tree renovation and shifts to organic farming also longer-term finance is required to cover the transition period. Coffee traders can provide this pre-finance based on harvest foresight and weather insurance. This is a loan (in cash or kind) that can be considered as an advance payment with the commitment to deliver (part of the) harvest to particular traders.

Second, opportunities for reducing risk in the coffee value chains have high priority. Since smallholder farmers are foremost interested in predictable prices (instead of only higher prices), they benefit from crop insurance programs that encourage coffee intensification. A key strategy to support farmer's willingness to invest relies on crop insurance for credit and sales contracts that make them less dependent on price volatility (Naranjo et al., 2019). Index insurance that pays out based on pre-determined levels of extreme weather is nowadays quite affordable and does not require expensive damage assessment (Van Asseldonk et al., 2020). The rapid spread of mobile phones makes digital payments easy and cheap. Insurance uptake requires training, communication and information

⁸ Farmer's engaging in other non-coffee income-generating activities may support indirectly coffee efficiency, since they provide access to liquidity and information that enables farmers to make better investments.

sharing facilitated by cooperatives, village associations, or women's groups. Climate protection insurance is also used for de-risking coffee production in fragile areas (Trærup, 2012).

Third, smallholders are better able to improve their production systems when involved in mid- to long-term contractual arrangements with input providers, traders and processors. Delivery arrangements with local traders and processors precisely define the quantity and cupping quality, the way of delivery, the delivery period and the terms of payment and therefore control speculation (May et al., 2004). Speciality and organic coffees already receive longer-term contracts. If commitments are weak, coffee farmers are tempted to side selling when spot market prices become more attractive (Keenan et al., 2021; Hung Anh et al., 2019).

Fourth, coffee production and trade are embedded in a series of value-chain governance arrangements that contribute to trust, transparency and reliability. Farmer cooperatives are important institutions for reinforcing smallholder investment attitudes and a vehicle for strengthening smallholder bargaining power in the coffee value chain (Ruben & Hoebinck, 2015). On the other hand, part of the revenues are used for investments in community services (schools, health care, drinking water) even while some cooperative members might prefer individual distribution. This social income contributes to household welfare and increases the intrinsic value of the coffee cooperative's membership.⁹ Some cooperatives are also able to engage in local processing and develop new competitive advantages based on the geographic recognition of "origin" branding that gives access to differentiated markets. While this reinforces scale and quality, effects are not always equally distributed: older male members, with more education and larger coffee plantations, tend to receive the highest benefits (Shumeta & D'Haese, 2016).

Finally, Improving the functioning of the coffee value chain cannot be left only to private sector stakeholders. Public investments in infrastructure and social services, legislation (and enforcement) of labor regulations, and tax

⁹ The property rights of cooperative members are not always unambiguously defined, and therefore older members that search for their retirement may be inclined to sell their title in order to obtain a pension. This may eventually lead to the disintegration of cooperatives where members in the retirement age become dominant.

regimes influence the profitability and competitiveness of coffee producers, traders and processors. Public investments are funded from export levies that can be channeled back to smallholder communities to improve their returns to land and labor and enhance the quality of coffee production. Such geographical targeting through regional funds is likely to be far more effective for poverty alleviation than transfers only to selected coffee households. Multilateral loans for regions with a high proportion of poor farmers show high precision in service delivery and limited leakages to non-poor households (Bigman & Fofack, 2000).

Outlook: Profit Redistribution Along the Value Chain as the Only Way Out

Despite many well-intended efforts, a large number of smallholder coffee farmers still remain poor. This is mainly due to the limited understanding of the role of coffee in smallholder livelihoods, and the overestimation of the possible impact of technical, economic and institutional improvement strategies.

Smallholder coffee production is embedded in three realities. First, coffee plots are part of wider farm-household livelihoods that also include engagement in other (on/off) farm activities and search for optimal returns to scarce family resources. Production takes place to satisfy major household objectives of consumption and resilience. Second, the coffee trade is embedded within a market environment and value chain relationships where processors, traders and moneylenders determine to a great extent how production systems are organized. Third, institutional linkages are critically important for risk management and mutual trust and these governance arrangements shape to a large extent farmer's willingness and ability to invest in improved coffee management regimes.

Alternative strategies for strengthening coffee smallholders (see Figure 2) should focus on direct payments through cash transfers as the core element to stabilize household expenditures and to support long-term livelihood perspectives. This can be reinforced with pre- and post-harvest arrangements at the farm and value chain level. Pre-finance is critical to improve farmer input use and tree renovation, whereas insurance programs reduce the risks of these investments. Delivery contracts are required to provide security for sales and

prices, whereas further engagement in local processing contributes to higher value-added and local off-farm employment creation.

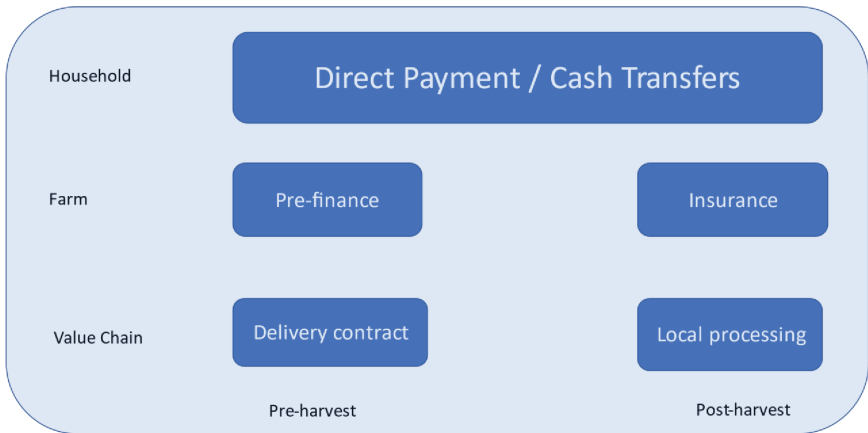


Figure 2 Strategies for improving coffee smallholder livelihoods

Earlier efforts for raising smallholder welfare through certification programs or living income strategies focused on improving coffee production and marketing conditions, without fully understanding how farmers respond to price and information incentives. The real impact of these programs remained limited because disbursed funds were constrained and midstream actors captured a major part. It is therefore important to identify alternative opportunities for improving household welfare through a fundamental transformation of the value-added distribution throughout the supply chain that provides farmers full discretion on the use of funds.

It is argued that part of the downstream profits of international companies could be transferred back to the farmers as direct payment in the form of cash transfers. In addition, tax levies can be used to generate domestic contributions. Such transfers have shown to be remarkably effective for structurally improving livelihoods and providing incentives to smallholders for investing in coffee system intensification and upgrading. Cash transfers – funded by private sector profit sharing and from public tax revenues – are certainly far more efficient than the wide range of separate efforts for

increasing yields or improving prices. They are likely to meet initial political resistance, but at the same time it creates perspectives for higher coffee revenues, better sharing of risks and reducing transaction costs that are beneficial to all value chain partners and can thus reinforce the long-term competitive advantage (e.g., making the cake larger instead of only redistributing a cake with a fixed size).

The starkly contrasting situations of profitable downstream actors and suffering upstream smallholders can only be changed if market governance conditions surrounding the coffee trade are addressed. Long-term contracts that consider the pre-finance of the harvest and avoid speculation on future markets, together with co-investment in local processing are key elements for such a new strategy. This can be further reinforced through additional facilities for crop insurance, investments in infrastructure and communication (ICT), reform of tax regimes, and farmer training and extension programs. Greater transparency about transactions throughout the coffee value chain is critical to convince private and public stakeholders to engage with this new regime that combines justice and efficiency motives.

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