COFFEE & COCOA INTERNATIONAL

THE GLOBAL COFFEE FUND: A RESPONSE FROM COSA

July 16, 2019

Professor Jeffrey Sachs' proposal for a fund to help coffee farmers meet sustainable development goals has aroused a lot of debate, but as Daniele Giovannucci* points out, similar mechanisms have been tried before, and haven't worked.

It may be hard to argue with the recent assessments of the coffee sector at the 2019 World Coffee Producer's Forum and some of its speakers – such as Professor Jeffrey Sachs – that it isn't ethical or moral for an industry that is making money to pay producers below the cost of production.

The pain in many coffee communities is real. Funds of the type proposed by Professor Sachs at the forum to solve sustainability issues are laudable in principle but do not address the central economic issue of a farmers earning a living income and can have unintended consequences.

Growing inequalities in revenue distribution are real and are known to reduce sector health. Unless we solve that issue, other issues are likely to remain because most – from child labour to gender inclusion, to climate adaptation – are rooted in poverty and inequality.

Some of the solutions that have been proposed resemble those proposed decades ago, most of which didn't succeed. In fact, history shows us that agricultural funds of the type proposed by Professor Sachs don't work for long. Unlike medicine or petroleum, you cannot simply turn supply on and off. As International Finance Corporation Global Lead for Agricultural Finance Panos Varangis noted, "Commodity stabilization funds or agreements have been tried extensively and when they collapsed, they caused a lot more pain than they solved."

Back in the mid-1990s, Angus Deaton contributed some important work showing that stabilization is not feasible because commodity prices have short-lived spikes and long troughs and they do not revert to the mean, which is a condition for successful stabilization. Theoretical models and empirical evidence have shown that commodity price stabilization through funds or commodity agreements doesn't work.

It is difficult to understand how a fund of the type proposed by Professor Sachs, offering cash injections, to be funded by the coffee industry and governments, will solve what is fundamentally a structural problem, and very few of us believe that industry will donate the billions of dollars needed by the fund every year. There is also no indication that governments will make such a commitment either. The problem is deeper than any fund could address.

In addition to the work of Professor Sachs, other economists such as John Baffes at the World Bank, Bryan Lewin, chief economist at the Association of Coffee Producing Countries and bilateral and multilateral institutions have conducted a lot of research on the structure of the modern coffee industry in recent decades.

Conditions have certainly changed in some respects and new challenges such as climate change have emerged, but the structure has not fundamentally altered except that supply has become more concentrated, as has the number of buyers.

We would be better off in the long run by facing the unpleasant fact that solutions to these very difficult issues will require uncomfortable changes at market level and will not be simple.

The fact is that the market structure of many commodities such as coffee, with the market oversupplied, will only be rectified in one of three ways: regulatory approaches (with their own inherent problems); by consumer demand for a more equitable treatment of producers; or by market recognition of adequate origin-oriented differentiation (unique flavours, characteristics, cultural practices) that reduce the need for producers everywhere to compete with the world's low cost, high volume producers.

There is not much choice. The consumer route is the simplest: a growing number of people prefer to choose products and firms that they perceive as reflecting their values. The industry has little other incentive to alter a very profitable business model, and consumers are the best bet for a solution because – whatever you pay for a cup – it is still surprising for most people to know that farmers typically get less than 5 cents of that. Producers need consumers as active partners and organizations such as the FNC in Colombia had once achieved that direct relationship at scale.

The members of the forum quite rightly stated that they also want to stimulate the development of innovative strategies and mechanisms to help farmers earn a fairer price for their coffee. So they should.

Technology is already available to make information from producers available to consumers and to enable farmers to have a better understanding of many factors that affect them, including climate and market risks.

From Colombia and Nicaragua to Kenya and Indonesia, trials in what we would call data democracy suggest there is real value in directly engaging farmers in a digital ecosystem. In fact, a new proposal being considered by the Gates Foundation intends to address this very issue at scale.

New technology and reliable data from geospatial traceability to blockchain can tell the story and ensure the necessary accountability. If we are serious about solutions, we should be considering how to address the underlying problems of inequality and access and not just treating some of the symptoms.

If we are to solve the thorny problem of structural poverty in the coffee lands – and in other commodities, such as cocoa – we must be bolder and more courageous in our proposals and create a future where farmers themselves are part of the solution.

*Daniele Giovannucci is President at the Committee on Sustainability Assessment and a regular contributor to *Coffee & Cocoa International*.

[photo: CIFOR]

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Coffee & Cocoa International

Office 8, Unit 1-2, Wyvern Estate, Beverley Way,
New Malden KT3 4PH, UK.
Tel: +44 (0) 20 8949 0088
Email: info@coffeeandcocoa.net