

## IT'S POSSIBLE RETURN TO ANGOLA IN THE INTERNATIONAL COFFEE MARKET? CASE STUDY: ANGOLA, PROVINCE BIÉ. ARE MICROCREDITS THE RIGHT CHOICE?

VÝBORNÁ M., SRNEC K.

*Institute of Tropics and Subtropics, Czech University of Life Science, Prague, Czech Republic*

### **Abstract**

*Coffee is one of the most important commodities in the agricultural markets in developing countries. In many developing countries the main income of the poorest people is coffee-growing. At the colonial period Angola has been one of the largest producers and exporters of the commodity in the world. Many years of fighting and instability in a country nearly destroyed most of the natural wealth of this country, among which is undoubtedly a high quality production of agricultural commodities. Currently Angola is in the overall reconstruction. To the country returns the time of relative peace and stability and there is starting support by the government in the agricultural sector through the government-controlled programs that include the program for the rehabilitation of coffee cultivation. This program is based on the principles of microfinance in the form of small microcredits and transfer of know-how. The question remains whether these efforts will lead Angola to the top of coffee production from past years. To obtain data and information were used structured questionnaires and guided interviews with representatives of local communities, government workers and NGOs.*

**Key words:** Angola, coffee production, microfinance, coffee market, International coffee organisation

## INTRODUCTION

### **Situation on the international coffee market**

Coffee and its importance is characterized by the International Coffee Organization as a: Coffee is a tree crop which became an important commodity in international trade during the nineteenth century. Since then it has suffered from long periods of oversupply and low prices followed by relatively brief periods of short supply and high prices.

ICO is still trying to remember the importance of this commodity and links that appear on this commodity existentially dependent: The importance of coffee in the world economy cannot be overstated. It is one of the most valuable primary products in world trade, in many years second in value only to oil as a source of foreign exchange to developing countries. Its cultivation, processing, trading, transportation and marketing provide employment for millions of people worldwide. Coffee is crucial to the economies and politics of many developing countries; for many of the world's Least Developed Countries, exports of coffee account for a substantial part of their foreign exchange earnings in some cases over 80% (ICO, 2009).

### *Price control and World Trade*

Coffee price declines can be devastating for farmers abroad, but in the United States, the world's largest consumer of coffee, such fluctuations are barely noticed. The world coffee market is dominated by four multinational corporations: Kraft General Foods (owner of Maxwell House and other brands), Nestle, Proctor & Gamble (owner of Folgers and other brands) and Sara Lee (owner of Chock Full O'Nuts and Hills Brothers).

In an unregulated market, such large corporations were able to control the price of coffee as they purchased more products, prices skyrocketed. Today, large-scale coffee importers and roasters purchase coffee futures and options in order to protect their stocks' worth through the Coffee, Sugar and Cocoa Exchange in New York City (originally established as the New York Coffee Exchange in the 1880s), which sets coffee prices according to the New York "C" contract market. The price of coffee fluctuates dramatically. Weather is often a factor, as a forecast of droughts or frosts in Brazil might also forecast a coffee shortage, thus increasing the price. Most coffee is traded by speculators in New York City, who trade up to ten times the amount of coffee that is actually produced each year.

*The coffee crisis*

In more recent times, during the period of severe economic depression in the 1930s and during the Second World War from 1939 to 1945, supply increased, demand fell and prices were low. In the immediate post-war years, however, demand increased and supplies were inadequate to satisfy this rising demand. Between 1950 and 1953 stocks reached levels below the minimum needs for normal trading purposes, a situation which was exacerbated by the outbreak of the Korean War and a serious drought in Brazil, which was followed by a frost. Prices rose to unprecedented heights in 1953 (Cilliers, 2001). This gave rise to a substantial increase in planting throughout the world and over-production followed. Stocks increased and, in the second half of the 1950s and early 1960s, prices fell drastically. This led to an inter-governmental initiative to attempt to stabilize the market and to halt the fall in prices which had had serious economic and political consequences for a large number of coffee producing countries in Latin America and Africa (Bond, 1983).

By 2001, coffee prices had fallen to their lowest levels ever, totalling less than one third of their 1960 levels. This fall in prices has impacted more than 25 million households in coffee-producing countries and has undermined the economic sustainability of countries. Several factors can be blamed for the decline in coffee prices: the dismantling of the International Coffee Agreements' price regulation, a fluctuating market, the exploitation

of market power by roasters and retailers, rapid supplier growth with not enough demand and policies implemented by the World Trade Organization (WTO) and the International Monetary Fund (IMF).

**Historical background of the coffee production in Angola**

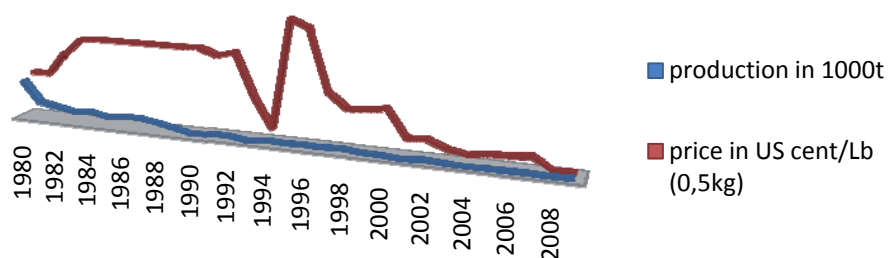
Angola was till the 1970s the world's fourth largest producer of coffee. Production was 200 000tons by year. The first commercial venture at coffee growing in Angola was by an expatriate Brazilian farmer in 1837 in a forested region of the north. The roots of Angola's coffee industry lie backs in the 1830s, although its major periods of prosperity and growth were the 1890s to 1950s. The Angolan coffee industry was once dominated by large plantations, which supplied about 70% of the annual coffee harvest. These plantations had their own processing facilities and were mostly run by Portuguese settlers supported by a sophisticated road infrastructure. After independence the majority of the plantations were nationalised but, with the departure of the Portuguese, the experience of new farm managers was limited and a combination of mismanagement, loss of labour and poor supply of essential inputs led to a significant decrease in yields. Privatisation of the state farms during the 1990s led to the plantations being subdivided. But most owners found rehabilitation of their coffee farms increasingly difficult as insecurity and civil strife continued to

**Tab. 1:** Prices and production of coffee in the years 1980–2009 and historical events

	Coffee production (1 000 t)	Price*	Historical events
1980	43.26	48.52	The head of MPLA and state jointed Eduardo dos Santos
1981	20.58	48.52	
1982	17.4	73.28	
1990	3	93.54	Began the peace process between the Unita and MPLA
1992	4.68	91.12	First election- won MPLA, Unita launched the new phase of the war
1994	4.62	11.87	
1995	3.72	131.23	
1996	4.26	122.74	
1998	5.1	41.81	
1999	3.3	43.48	The government offensive against Unita
2001	1.26	17.37	
2002	3.42	18.61	Assassination of opposition leader, ended of civil war
2004	0.9	6.61	
2007	2.16	12.98	
2009	2.28	60	

\*Price of coffee paid to growers in US cent per Lb (0.5 kg)  
Source: International Coffee Organisation (2009)

**Figure 1:** Development of the Angolan prices and quantities of coffee production after independence



Source: International Coffee Organization (2009)

grip the country. In the Table 1 you can see fluctuation in prices, depending on historical events.

Many of the larger farms were consequently abandoned during the war and some remain landmined. As a consequence, large areas of coffee grow unattended and the berries are never harvested. Most plantations are also old, pests and disease seriously constrain yields, crop husbandry is poor, and inputs are either unavailable or too expensive. In addition, essential support services, including research, extension and credit facilities, no longer exist. Compared to more than US\$180 million at its peak in 1974, coffee exports currently amount to only around US\$250 000. During the harvesting season, the flow of coffee to exporters is often erratic and coffee frequently has to be blended from different sources and stored for long periods in order to accumulate sufficient volumes for shipping. In order to rehabilitate the coffee sector, and for its export potential to be realised, significant investment is needed. However, after so many years of civil unrest, the banking system in Angola remains risk-averse. With only four exporting companies working in a difficult environment, reviving the coffee sector has so far proved a challenge.

The Figure 1 shows the trend in prices and production from the 1980 to present time. The price of Angolan coffee is influenced not only by situation within the state but also by a large part of the situation on the international market.

**MATERIALS AND METHODS**

The field analyses in the survey took place in Angola, province Bié in the frame of running two developing projects managed by the Institute of Tropics and Subtropics, which is part of the Czech University of Life Sci-

ence Prague. The project *Centre of Agriculture education in Bié province* is financed by the Ministry of Education, Sports and Youth of the Czech Republic in the frame of the Czech Official Development Assistance.

The first part of the survey was provided by questionnaires intended for small holders producing coffee. This part is not finished yet. On this part of survey are still working students from CEAB and Czech coordinators of the developing project. Complementing information was acquired from personal interviews with project coordinators of Non-Governmental organizations operating in Kuito which are CARE, Africare, and Concern and with employees of Ministry of agriculture in province Bié from October to December 2008.

**RESULTS**

As was already mentioned, due to its climatic and geographical conditions Angola has a very good background for the renewal and development of coffee production. Due to the altitude of the province the main grown variety is Arabica coffee. According to the representatives of the Angolan government exist 4 main coffee centres in province Bié. There are Catabola, Nieringa, Chipeta, Andulo. These 4 areas are the traditional coffee-growing areas. However, never belong among the main producers. Major production centers were and are in the north of the country. During the time of research was visited only one of these centres, Andulo. Despite the efforts and interest was unable to establish contact with local residents, and even discover coffee plantations. The appearance of the plantation was also consulted with the leadership of State high school of agriculture, they were not able to unequivocally say, where coffee plantations are located. In the province Bié, the traditional agricultural area operates

**Tab. 2:** Prices paid to growers in 2009

	Price paid on international coffee market	Fixed price paid by FLO	Price paid by Angolan government
Coffee beans prepared	60	121	60
Adjusted coffee	100	150	130

\*Price of coffee paid to growers in US cent per Lb (0.5 kg)  
Source: Vyborna

several non-governmental organizations focused mainly on agricultural support and its restoration. From interviews conducted with representatives of NGOs emerged several important obstacles preventing NGOs focus their agricultural projects on coffee production:

- Not existing support from the Angolan Government.
- Lack of interest from local farmers (complexity and time-consuming process)
- Inability to purchase production from government companies

**Other obstacles preventing development of coffee production in the province Bié**

Based on research using structured interviews and questionnaires with smallholders emerged main obstacles complicating the development of coffee production among smallholders:

- The complexity of the coffee-growing.
- Lack of knowledge of the entire process of coffee-growing.
- High initial investment.
- Seeds are often attacked by disease.
- Lack of knowledge of the processing procedures.
- Lack of buyout and processing companies.
- High percentage of land-mined areas .The inability establishment of the large plantations.

**Use principles of Microfinance in coffee program**

The efforts of private individuals or farmers is often accompanied by great effort and a small result. Angolan government decided to respond to this situation, by creating a government program to restore of coffee production by promoting small farmers. The chief representative of this program is Mr.Donga, representative of government of province Bié.

*Characteristics of the program*

- begining of realization: February 2008
- duration 2 years
- includes 320 farmers (the number is not definitive, the new farmers are still recruiting)
- farmers employed to 0.5 ha of land

– varieties of Arabica (reclamation of indigenous plants from the province Bié, prohibited the importation of seeds due to disease infection)

The aim of this government program was to start coffee production. This program is based on the principles of microfinance in the form of small microcredits and transfer of know-how. Therefore, trying to create the best conditions for local farmers and responds to the main obstacles. Farmers are mostly from the already mentioned traditional areas such as Andolo, Catabola, Nieringa, Chipeta. To the cooperating farmers are distributed seeds of indigenous plants reclaimed in province Bié. It put a ban on imports of seed from other provinces or countries because of frequent attacks of seeds diseases. The farmers receive from the state for two years, each year a hundred dollars. After two years is required to go two hundred dollars back. Are not distributed only seeds, but also know how to grow coffee, take care of it and process and technical assistance.

This program also remember to another obstacle and that is the purchase of processed or unprocessed coffee beans. Government workers buyout up from cooperating farms coffee beans prepared for 50 kwz (0.6 US \$) per kg and adjusted coffee for 100 kwz (US \$ 1.3)/kg. The purchase prices are comparable to prices paid by International Coffee Organization from the year 2009. For comparison, the purchase price in the market for Fair Trade products is around US \$ 2.4 per kg of processed coffee. Comparison is available into the Table 2.

Coffee is then sent to a single state-owned coffee processing company Cofangol and distributing it throughout the World. Somewhat surprising information is that this project does not work with any non-governmental organizations and even does not consider the possibility of cooperation. It is somewhat amazing depending on the fact that most of the NGOs operating in the province Bié are specially targeted for the rehabilitation of agriculture in a number of specific projects.

**CONCLUSION**

Given its current situation, Angola became a major power on the African continent. It is primarily through a

large amount of mineral wealth and willingness to invest by the Angolan Government in the overall reconstruction. Mineral wealth is not the only treasure hidden by Angola. As was mentioned above, Angola is due to good soil, sufficient river network and climatic conditions, has the potential to be great power on the market for agricultural commodities such as coffee. The reality of the assumptions is somewhat different, or at least in the province Bié. Based on the results of research in the province Bié exists only one government program that is addressed to the rehabilitation of coffee production. It works with 320 farmers only, employed approximately at 0.5 hectares, in a traditional agricultural area. This is insufficient number! In multiple interviews with representatives of NGOs in agricultural sector was found that none of these NGOs has not a specific project for a coffee. It is understandable. As an output of consultation with government officials was clear that the Angolan government does not and will not cooperate with NGOs. If this really is not one of the elements obstructs all socio-economic development, which could result from the possible cooperation of these two parties. Two different views of experts and transfer of know-how could leads to faster and more efficient introduction of coffee production and hence development of the whole region and the local population.

Economists posit that increased supply control, price regulation and fair trade initiatives could help solve the current coffee crisis. Fair trade guarantees farmers a fixed minimum price for their coffee, which can equal nearly two or three times the unsubsidized market price. Fair trade also eliminates the middlemen exporters involved in the coffee trade, who often pay farmers below market rates and then sell at the rates set by the New York Coffee Exchange, pocketing the excess money for them.

In appreciation of all the listed options can be concluded that it will be several years before Angola will play an important role in the international market. Trying Angolan government is insufficient. But still there is a

possibility that the Angolan government will support international institutions and investors entering to the country trying to control coffee production. However, without intervention from outside, it is clear that the quantity and quality of coffee production Angola has never overcome their golden years.

*And what about use of microcredits in rehabilitation program? Are microcredits the right choice?*

If we want to evaluate this program based on microcredits, we must take into account its relatively short duration and the fact that program currently covers only a small number of farmers on a very small area. Without question, this effort is a step in the right direction. But if Angola wants to influence the international market, should rather consider to the restoration of large coffee plantations, which were located in the north. Microfinancial form of assistance should have a chance of success if it was managed by a formal microfinancial institution or through NGOs. Angolan government itself has no idea what they wants to achieve. Threatened is also a risk of corruption, which is part of nearly every government action.

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*Corresponding author:*

**Ing. Magdalena Výborná**

Czech University of Life Science Prague  
 Institute of Tropics and Subtropics  
 Kamýcká 129, 165 21 Prague 6-Suchdol  
 Czech Republic  
 e-mail: [vyborna@its.czu.cz](mailto:vyborna@its.czu.cz)