GLOBAL COFFEE PLATFORM
for a sustainable coffee world

HONDURAS

A Quick Scan on Improving the Economic Viability of Coffee Farming

OBJECTIVES OF STUDY

Overall objective

- Identify opportunities for potential benefits to coffee farmers from improved farm profitability and increased efficiency along the supply chain

Detailed objectives

1. Understand overall farm-level financial benefits for the dominant farmer type in each country and how they compare to other countries

2. Describe the main green coffee supply chain in each country at a high level to understand supply chain efficiency

3. Highlight key opportunities to increase farmer profitability in each country and explore next steps to increase value add for farmers and the industry

ANALYTICAL PROCESS TO DEVELOP A BUSINESS CASE FOR COFFEE FARMING

GLOBAL COFFEE PLATFORM
for a sustainable coffee world

Approach	Model Inputs	Model Outputs
1 Define producer types	• Farm size • Coffee yields • Coffee quality metrics • Production volume • Number of growers	• Farmer types
2 Establish farmer financial benefits	• Coffee price premiums • Potential increase in yield • Incremental changes to costs	• Potential increase in net income for farmer
3 Describe value chain structure	• Key actors in value chain • Costs and margins • Share of value captured	• Map of supply chain • Supply chain overview
4 Present recommendations	• Selected opportunities to optimize business case	• High-level recommendations for priority opportunities • Potential partners to address gaps

Note: Assumes that demand for coffee will increase as coffee supply increases, thus maintaining static coffee prices

POTENTIAL ANNUAL VALUE CREATION OF $54M ACROSS 96K FARMERS

GLOBAL COFFEE PLATFORM
for a sustainable coffee world

Potential for yield improvements

- There is modest potential for value add through yield improvements
- Honduras has seen an increase in production in the past several years, but there is potential to improve yields by 44%. Prior to the outbreak of La Roya, Honduras was on track to become a top Arabica producer
- Key issues facing farmers are mitigating the risks of coffee rust and climate change, as well as improving access to finance to do so

Price premiums from improved processing

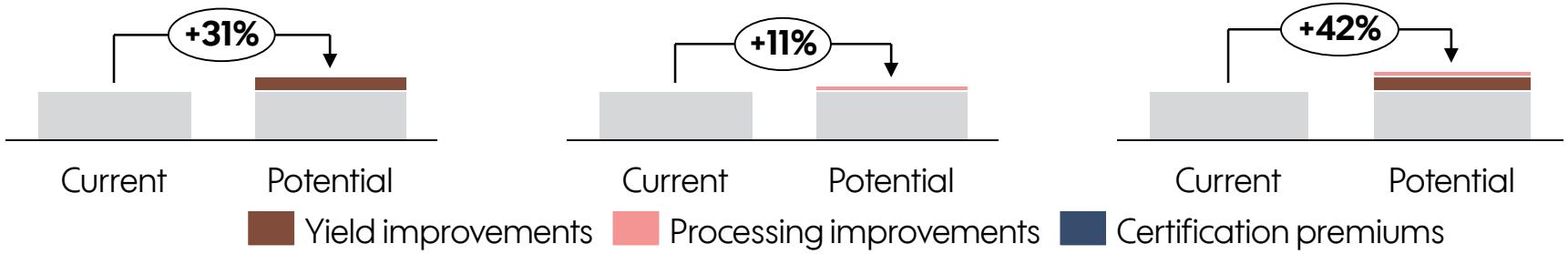
- There is limited potential for value add through improved processing
- Most of Honduran coffee is grown at altitudes of 880m above sea level or higher and is well-placed to access the specialty coffee market
- Because the majority of farmers sell their coffee in wet parchment and sell to intermediaries, they are not able to capture premiums for higher quality

Supply chain efficiency

- Farmers receive 75% of the FOB price. By selling in dry parchment and/or selling directly to exporters, farmers are able to capture a greater share of the margin
- Intermediaries play a significant role in the supply chain. Improving the supply chain can result in more reliable and improved quality

POTENTIAL REVENUE INCREASE FROM HIGHER YIELD AND PRICE PREMIUMS

Net income from yield improvements ($ / ha) + **Net income from price premiums ($ / ha)** = **Total net income increase ($ / ha)**



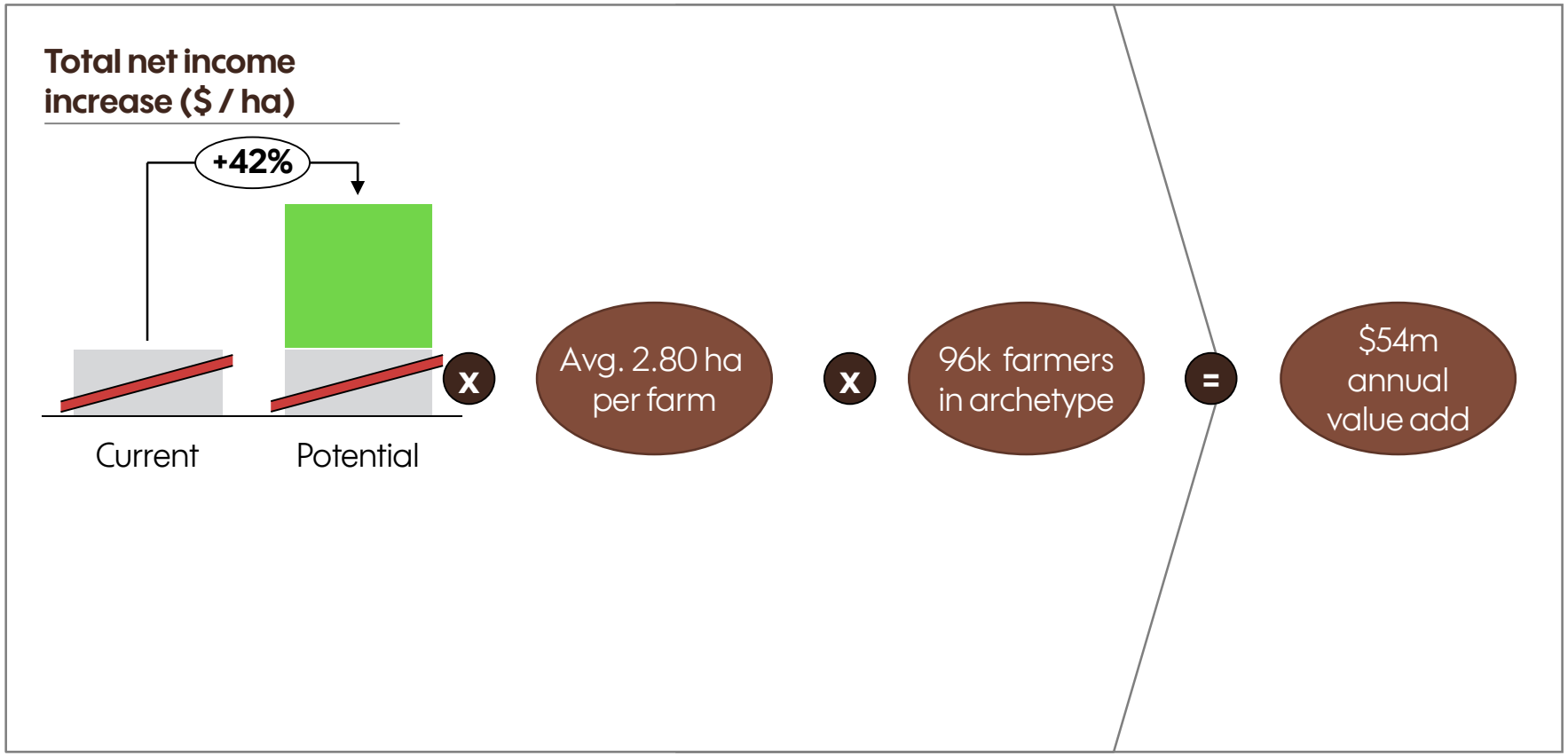
- Honduras has seen an increase in production the past several years, but there is still potential to improve yields by 44%
- Managing risks of coffee rust and potential droughts will be key in protecting future farmer livelihoods

- Most Honduran coffee (~70%) is grown at altitudes of 880m above sea level or higher and is well-placed to access the specialty coffee market
- Farmers often sell coffee as cherry or wet parchment, which prevents them from capturing premiums for higher quality, even if not specialty coffee

- There is potential to increase farmers' net income through yield improvements
- By drying coffee on farm and selling as dry parchment, potentially directly to exporters, farmers will be able to capture a greater share of the margin

Note: assumes that three interventions are separate and independent.
Source: See appendix.

$54 MILLION OF POTENTIAL INCREMENTAL VALUE ANNUALLY

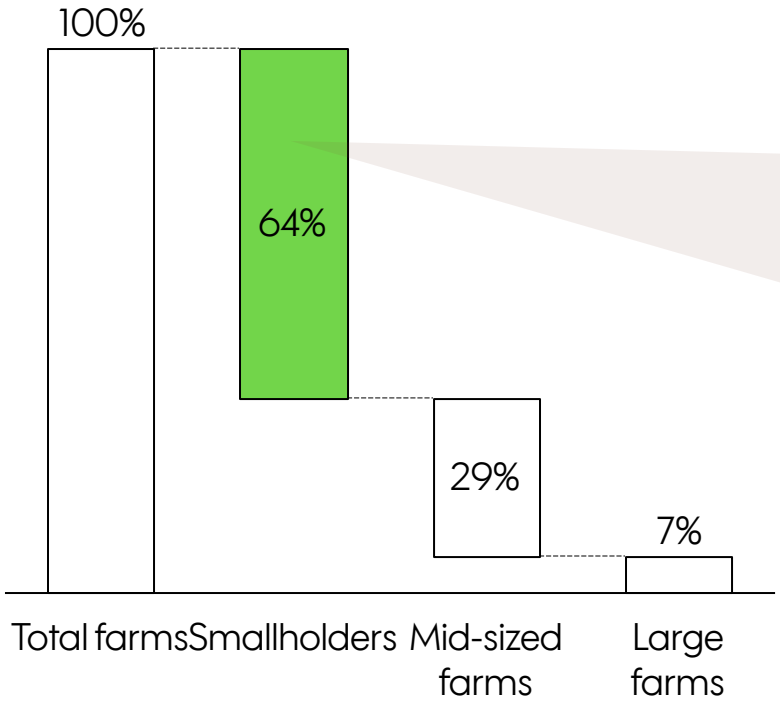


- There is an opportunity for a 42% increase in profitability for farmers, which translates into estimate $54m annual potential value across the 96k farmers in this archetype (Arabica smallholders under 7 ha)

Note: Extrapolated estimate annual value; improvements in profit for individual farmers may vary.
Source: See appendix.

IDENTIFYING FARMER TYPE WITH HIGHEST POTENTIAL IMPACT

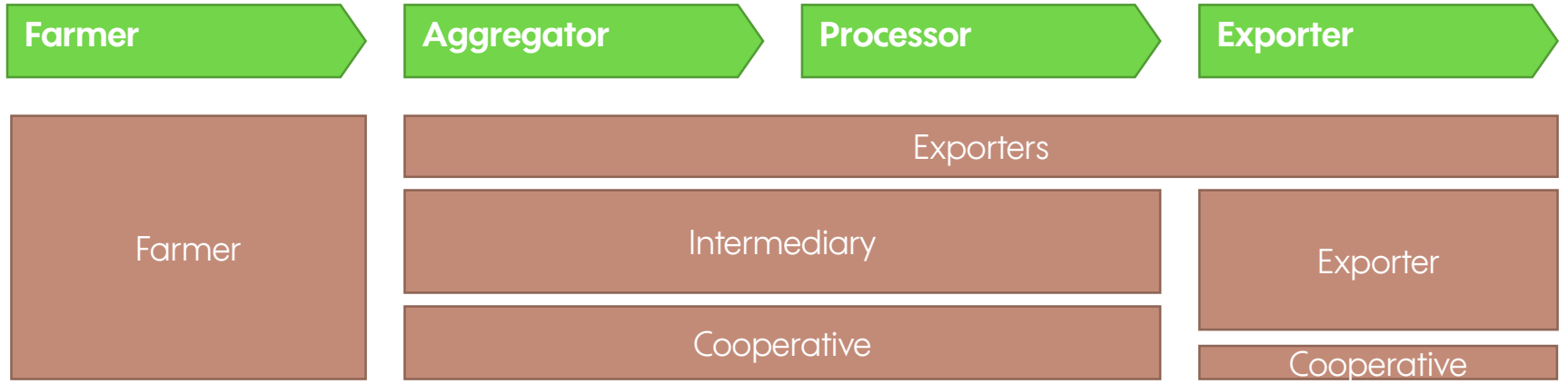
Farmer types by share of volume



- 95% of the farmers in Honduras are smallholders with 7 ha of coffee or fewer
- These smallholders produce 64% of total coffee volume

Source: IHCAFE (2016)

SUPPLY CHAIN OVERVIEW



- Most smallholder farmers sell in wet parchment, though some farmers sell cherry
- Though less common, some farmers also sell dry parchment, by drying on farm or in their communities

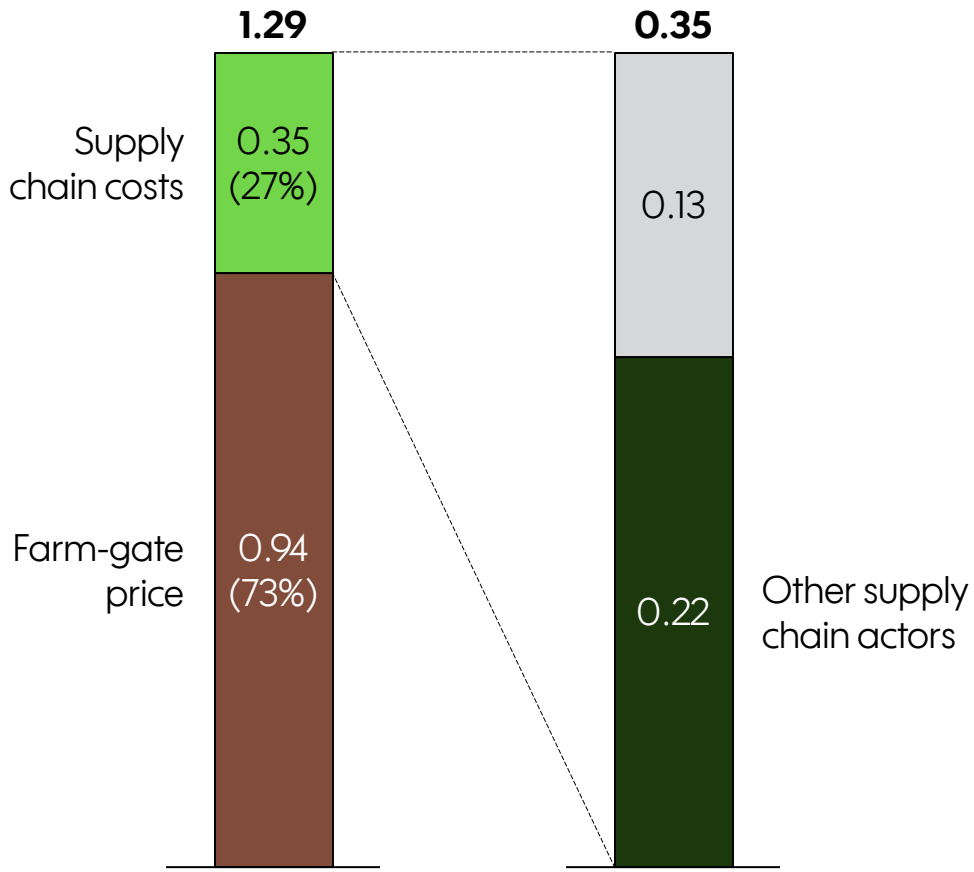
- Intermediaries are the most common buyers of coffee produced by smallholders in Honduras
- Intermediaries often mix various batches of wet parchment during processing, which may harm quality
- A small portion of farmers process on farm sell in dry parchment, which allows farmers to capture the most value from their coffee

- As exporters cannot test the quality of coffee in wet parchment, they cannot pay premiums to farmers. Any quality premiums for coffee sold by farmer in wet parchment is captured by processor once dried

Source: TNS (2017), stakeholder interviews (2017)

SUPPLY CHAIN COST BREAKDOWN FROM FARM TO EXPORT

Supply chain cost breakdown (US $ per lb green)



- Farmer share of the export price is around 75%
- Local intermediaries play a significant role in the supply chain. Farmers would be able to capture a greater portion of the supply through group marketing to exporters
- There is a $13.25 / 46 kg exportable bag tax to exporters($0.13/lb). If the farmer is registered with IHCAFE, $9.00 should go back to the farmer

Source: TNS (2017), USDA (2017), stakeholder interviews (2017)

GLOBAL COFFEE PLATFORM
for a sustainable coffee world

APPENDIX

DETAIL ON FARMER TYPES

Type	Region	Farm size (ha)	Variety	Number of farms
Smallholders	N/A	Under 7 ha	Arabica	96,000
Mid-sized farms	N/A	7-35 ha	Arabica	6,000
Large farms	N/A	Over 35 ha	Arabica	300

Source: TNS (2017), USDA (2017), IHCAFE (2016), stakeholder interviews

DETAILED DATA APPLICABLE TO SELECTED FARMER TYPE

GLOBAL COFFEE PLATFORM
for a sustainable coffee world

Data point	Unit	Data
Farmer data		
Average coffee farm size	*ha*	2.80
Number of farmers in type	*#*	96,000
Assumptions		
Exchange rate	*USD to LCU*	23.2
Market Data		
Farm-gate price	*cts / lb*	94
Average FOB export price	*cts / lb*	129
Yield		
Average coffee yield	*lb / ha*	2,400
Potential yield increase	*%*	44%
Price		
Potential quality premium	*cts / lb*	19
% of production eligible for quality premium	*%*	30%
Potential certification premium	*cts / lb*	3
% of production eligible for certification	*%*	5%

Data point	Unit	Data
Production costs		
Operations	*$ / ha*	42
Inputs	*$ / ha*	650
Labor	*$ / ha*	768
Incremental costs of increasing yield	*$ / ha*	845
Processing costs		
Paid processing labor	*$ / ha*	144
Drying service	*$ / ha*	120
Other	*$ / ha*	53
Incremental costs of improving processing	*$ / ha*	12
Third-party costs		
Other	*$ / ha*	0
Incremental costs of certification	*$ / ha*	6
Outputs		
Current revenue	*$ / ha*	2,262
Potential increase in net income from:		
Yield improvements	*$ / ha*	151
Processing improvements	*$ / ha*	56
Certification premiums	*$ / ha*	-3

Note: Costs of production updated to 2016 exchange rates. All volume units are for green coffee equivalent.

SOURCES

Organization	Data inputs	Detailed references
TechnoServe	Farmer data, market data, yield, price, costs	Stakeholder interviews (2017); Project implementation data(2017)
Global Coffee Platform	Farmer data, yield	Stakeholder interview (2017)
Hanns R. Neumann Stiftung	Farmer data, market data, yield, price, costs	Stakeholder interview (2017); Project implementation data (2017)
Fair Trade USA	Farmer data, market data, yield	Cost of Sustainable Production: An overview of farm-level production analyses in Latin America (2017)
Enveritas	Farmer data, costs	Stakeholder interview (2017)
Other	Farmer data, price	USDA, GAIN Report: Coffee, Honduras (2017)
	Farmer data, price data	IHCAFE statistics (2017)
	Certification	ICO, The State of Sustainability Initiatives Review 2014 – Standards and the Green Economy (2014)

LIMITATIONS OF METHODOLOGY

GLOBAL COFFEE PLATFORM
for a sustainable coffee world

This scan is intended to initiate conversations between coffee origins, rather than to be an exhaustive study of farmer economics. It seeks to provide a synthesis of existing databases, studies, and reports as well as a comparative analysis across origins. However, given wide variation in methodologies, regions, and characteristics of available information, there may be credible and important data sources not incorporated into this study.

Since national averages of production indicators do not represent real farmers, our scan focuses on one farmer type within each origin. These farmer types are not representative of the national averages and opportunities may not be uniform within each farmer type.

This scan is not meant to evaluate certification schemes, but rather assesses incremental contribution of certification premiums to farmers' incomes. Impacts of certification achieved through the promotion of best practices and improved access to markets are outside the scope of the scan. Prices are assumed to be static and therefore the scan does not account for volatility of coffee prices and exchange rates, both of which have a significant impact on farmer incomes. Climate change, droughts, and diseases such as coffee leaf rust also pose risks for farmers, but are outside the scope of this scan. Intercropping and other household incomes are also outside the scope of this scan.

Acknowledgements
Enveritas, Hanns R. Neumann Stiftung, Fair Trade USA, Nespresso, Bernhard Rothfos, UTZ, JDE Coffee

GLOBAL COFFEE PLATFORM
for a sustainable coffee world

About the Global Coffee Platform
The GCP is the leading facilitator of the coffee sector's journey towards sustainability. The GCP improves the livelihoods, ecosystems and resilience of coffee farming communities and the sector as a whole by enabling producers, international roasters, governments, traders, and NGOs to align and multiply their efforts and investments, collectively act on local priorities and critical issues, and grow and scale successful sustainability initiatives across the coffee world.

About TechnoServe
TechnoServe works with enterprising men and women in the developing world to build competitive farms, businesses and industries. A nonprofit organization operating in 29 countries, TechnoServe is a leader in harnessing the power of the private sector to help people lift themselves out of poverty. By linking people to information, capital and markets, we have helped millions to create lasting prosperity for their families and communities.