

Coffee production in Nepal: Constraints and Opportunities

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Background

Nepal's economy is distinctly rural, with over 84 percent of the population living in rural areas. Agriculture dominates the rural economy and is mostly the only source of employment. Although the share of agriculture in GDP has fallen from 72 percent in 1975 to 40 percent in 2005, the great majority of rural people continue to rely on agriculture, livestock and forestry for their livelihood needs. Rural poverty is characterised by low literacy rates and families being land-poor. Poverty is concentrated in specific ethnic, caste and minority groups, particularly those of the lowest caste (*Dalits*) and indigenous peoples (*Janajatis*).

The cultivation of high value cash crops for domestic as well as international markets provides a higher income for farmers when compared with cereals. Yet, agricultural exports represent just 14 percent of the country's total exports. The main commodities exported from Nepal are pulses (mostly lentils), cardamom, and to a lesser extent ginger. These crops account for almost 30 percent of Nepal's total agricultural exports. Nepal's main export market is India.

A recent study by International Trade Centre on "Export Potential Assessment in Nepal" (2007) identified numerous high value crops that have an export potential with employment effects in the local economy. Among the 14 sectors examined, the export potential appears highest for cardamom, tea, pulses, silk and pashmina products, and cut flowers, followed by gems and jewellery, hand-made paper, leather, ginger, coffee and medicinal plants and essential oils. Coffee is relatively a new cash crop in Nepal. The cultivation of coffee in the hills dates back little more than 50 years, the first commercial coffee trading started only in the 1980s. Until very recently coffee was a marginal cash crop in Nepal. Utilizing the long experience of Helvetas Nepal on coffee, Coffee Promotion Programme (CoPP) implemented from 2007 to 2009, was able to develop coffee as a commodity with a potential for exporting in the international niche market. Presently, farmers have recognized coffee as a potential cash crop suitable for planting in the mid-hills of Nepal. By now many small farmers generate a significant income from cultivating and selling coffee and they have expanded their plantations in the fertile upland. Government has also started recognizing the potential role of coffee in improving the livelihood of many smallholder farmers and in developing a new cash crop that can earn significant volumes of foreign currency for the country.

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II. Introduction to Coffee Promotion Programme of Helvetas Nepal

The concept of Coffee Promotion Project (CoPP) was developed in 2002 and pilot implementation was done from 2003 AD to 2006 AD. The project activities were implemented in eight districts (Gulmi, Palpa, Syangja, Parbat, Kaski, Sindhupalchowk, Kavre and Lalitpur) and limited activities were implemented in additional three districts (Baglung, Makawanpur and Ramechhap). The project mainly focused on increasing the productivity and quality of coffee through selection and dissemination of appropriate production and processing technology to the growing number of coffee producers and processors. The project also targeted strengthening producer groups and their associations with considerable emphasis on governance, accountability and transparency at all levels of the programme and among all actors. The project showed possibility of developing coffee as a major cash crop in the mid-hills of Western and Central development regions of Nepal for the resource poor small farmers.

After the successful implementation of Coffee Promotion Project (2003-06), Coffee Promotion Programme (CoPP) phase I was implemented from 2007 to 2009 AD. During this phase, Nuwakot district was added as a target district; the programme continued the activities on increasing the productivity and quality of coffee; market promotion; and strengthening the producers and their associations with additional activities on developing the coffee sub-sector as a whole through coordination and collaboration among the stakeholders at the district and central level.

Nepal cannot compete with other coffee producing countries by producing in bulk, it has to produce high quality specialty coffee targeted for niche market fetching higher price. It has also been experienced that market plays a major role in the development of the coffee sub-sector and farmers need to get involved in the marketing for timely payment of the produce at higher price.

Based on the successful implementation of phase I, CoPP phase II (2009-12) is under implementation. The programme is in line with government priorities to strengthen the coffee sub-sector in a sustainable way. Main focus of CoPP Phase II is on capacity building of the producer groups and their association/cooperatives to enable them to produce high quality coffee and market it in domestic and International market in a fair and competitive way through business plan. Focus will also be on strengthening of coffee sub-sector. The programme will contribute to the area of poverty alleviation through increased income of resource poor smallholder farmers. The programme activities will have a positive environmental impact by improving soil conservation, pest management and plantation in the barren slope lands in maintaining the biodiversity and protecting the environment. The programme ensures women's active participation in the coffee industry through promotion of their skills in group mobilization/dynamics, production, processing and marketing.

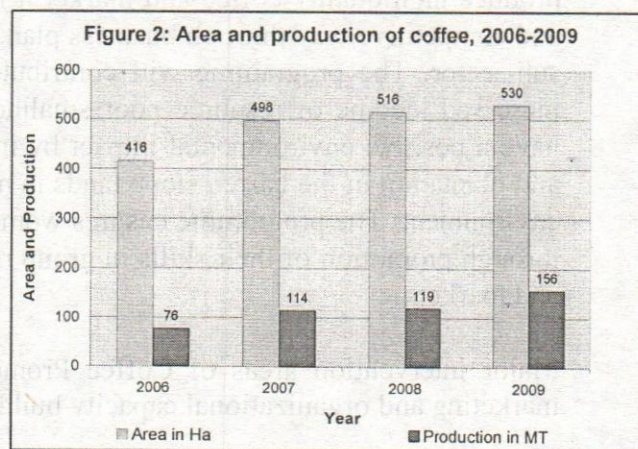
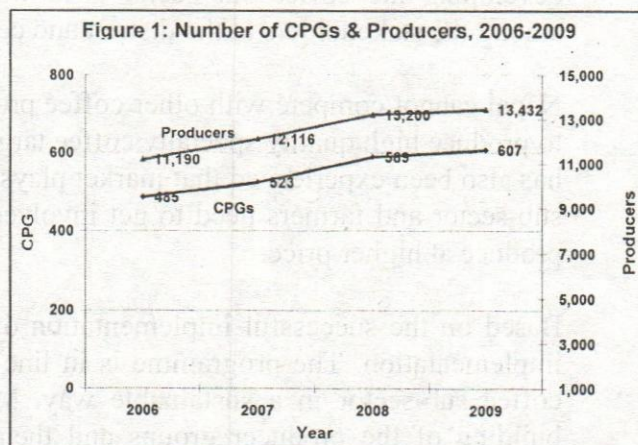
Major intervention areas of Coffee Promotion Programme in production, processing, marketing and organizational capacity building of coffee producers are as follows:

- a) Production
 - Technology dissemination through trainings and demonstrations.
 - Training of JT/JTAs of major coffee growing districts.
 - Participatory technology selection and dissemination.
 - Organic soil fertility management.
 - Quality seed and seedling production
 - ICS implementation for organic certification of producer groups.
 - Coffee pocket area development
- b) Processing
 - On-farm harvest and post harvest quality management.
 - Quality improvement at processing units including pulping centers
- c) Marketing
 - Institutionalization of coffee collection and supply system in a transparent way
 - Domestic market promotion
 - Diversification of access to international market
- d) Organizational capacity building of coffee producers
 - Strengthening of coffee producer groups and their associations
 - LRPs development to disseminate technology at local level
 - Business plan development and implementation

III. Status of Coffee in Nepal with specific reference to CoPP target districts

Coffee is grown in 21 districts from where substantial quantity of coffee is produced and collected by coffee processor/traders. The coffee producing districts are Ilam, Udayapur and Sankhuwashava in the Eastern Development Region; Lalitpur, Sindhupalchowk, Kavrepalanchok, Nuwakot, Dhading, Makawanpur, and Ramechhap in the Central Development Region; and Palpa, Gulmi, Arghakhanchi, Syangja, Kaski, Parbat, Lamjung, Tanahu, Gorkha, Baglung and Myagdi in the Western development Region.

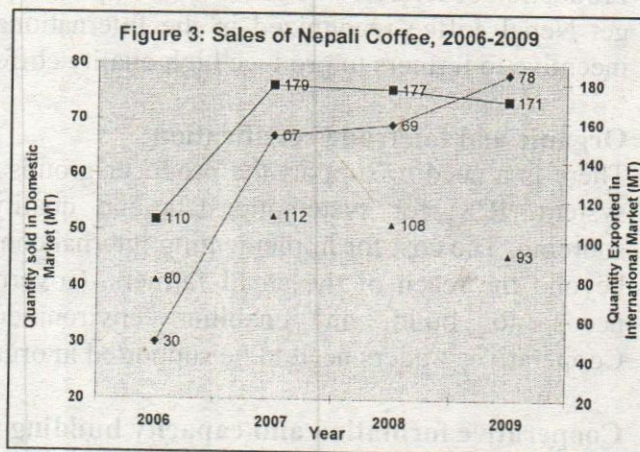
Coffee is a small holder crop in Nepal. CoPP of Helvetas Nepal is working in nine districts (Gulmi, Palpa, Syangja, Kaski, Parbat, Kavre, Sindhupalchowk, Lalitpur and Nuwakot), where approximately 13,500 farmers organized into more than 600 groups (Figure 1) grow coffee, between 50 to 100 plants per household, often



intercropped turmeric and ginger under the short duration temporary shade and long duration permanent shade trees. Coffee, does not require elaborate processing after harvest, and thus lends itself particularly well for smallholder production systems. Since coffee planted in Nepal is all Arabica, superior quality high altitude specialty coffee can be produced at an altitude of 800 to 1600 meter where frost do not damage the coffee plants.

Total coffee produced in the year 2009 in 9 CoPP working districts was more than 190 mt green bean. Where as, 156 mt of green bean was produced by the Coffee Producer Group members. Area and production of coffee over the years within the groups is presented in **Figure 2**. Growth rate from 2006 to 2009 indicates average annual growth rate in production is 21% where as, average annual growth rate of coffee area is 7%. The reason for higher growth rate in production with lesser growth rate in area is due to young plants turning into productive plant after three years of plantation.

Quantity of coffee sold in the domestic market is in increasing trend. However, quantity of coffee exported decreased from 108 mt in 2008 to 93 mt in 2009 due to the lack of organic certification system to guarantee the authenticity of the organic nature of the coffee. Thus, total coffee marketed (domestic and international) in 2009 was 171 mt green bean.



IV. Opportunities in Coffee Sub-Sector

- Unique product outside the coffee growing belt produced by resource poor small farmers
- Soil and environmental condition in the mid-hills of Nepal good for producing high quality coffee.
- Predominance of organic coffee production practice.
- Existence of producer groups/associations at village, district and central levels
- Productivity and production can be increased if planted on commercial scale.
- High Value Crop. Value addition can be done at village level.
- Quality can be improved through adoption of appropriate production and on-farm post harvest technologies.
- Possible to involve women producers in the areas of production, processing and marketing.
- Wet processing to produce dry parchment at farm level is feasible in accessible areas.
- Consumption of Nepali coffee in the domestic market is in increasing trend.
- International Traders interested to buy Nepali coffee at higher price.

V. Key Challenges in the Coffee Sub-Sector

Supply vs. demand

Production of coffee is far below the demand which is one of the reasons for inability to access reliable market. There is a need of identifying pocket areas suitable for organic coffee production and support the producers in those areas to produce high quality coffee in considerable quantity.

White Stem Borer

WSB has become major problem in Lalitpur, Gulmi and Palpa. It is spreading towards Kavre from Lalitpur and Syangja from Palpa. Community/groups need to be mobilized for its management.

Maintaining/improving quality of coffee

Production of reliable and consistent supply of quality coffee needs to be addressed to get Nepal coffee recognized in the International niche market. There is a need of incentive to farmers to produce high quality coffee.

Organic and fairtrade certification

There is a need to support the producer groups in implementing the internal control system (ICS) for systematic data and quality management system with origin sourcing. The cost for implementing internal control system and certification could be beyond the reach of the small farmers. Government of Nepal in particular MoAC needs to build an enabling environment for organic agriculture and Cooperatives/traders need to be supported in organic and fairtrade certification.

Cooperative formation and capacity building

Collection and marketing of coffee produced in Nepal is done by few processors/traders. Price of fresh cherry received by the farmers has not increased since last few years which has de-motivated coffee farmers to improve the quality of coffee produced. Experience shows that involvement of farmers in coffee collection and marketing bring transparency and increase the price received by the farmers. However, there is a need to support the cooperatives, formed with the initiatives of the farmers themselves in the area of cooperative management.

Coffee collection and marketing through cooperatives

Modality of coffee collection and marketing through cooperatives is at two levels 1) village level collection and processing is done by primary coffee cooperatives and 2) marketing is done by coffee cooperative unions. However there is lack of fund with cooperatives for coffee collection. There is a need of low interest loan for the cooperatives for sustaining the cooperatives. There is also need to support cooperatives to link them with international traders and to access domestic market. Proposed supply chain structure is presented in Annex 1.

Role of producers' association

DCPAs has been very effective to disseminate technology for coffee production and strengthening the coffee producer groups. Role of DCPAs and NCPA, at the central level, is commendable to increase the area under coffee and produce coffee under organic management system. The role of DCPAs in coffee marketing is limited to facilitating the collection and supply to the traders without any profit making. With the formation of coffee producers' cooperatives in few districts to market coffee for the benefit of the coffee producers, there is a need of clear roles of both DCPAs/NCPA and cooperatives. Organizational structures and governance of producers' organizations need further strengthening with defined roles of both producers' association and cooperatives.

Role of Traders

Traders have played a significant role in the development of the coffee sub-sector. However, there is a lack of transparency in the marketing channel, thus leading to mistrust among the market concerned stakeholders.

Role of Nepal government

The role of Nepal Government in the coffee sub-sector is still weak. There is a need to develop minimum quality standard of Nepal coffee with quality assurance system through quality monitoring. There is a lack of research to develop and recommend coffee production and processing technologies suitable for the small farmers.

Lack of trained human resources

Lack of trained people in the coffee sub-sector is a big challenge. There is a need to develop manpower trained on coffee production and processing technology. One option could be training of government extension workers, as CoPP has been doing presently in collaboration with Coffee and Tea Development Section. The other option could be including coffee production and processing curriculum in the IAAS and CTEVT.

VI. Conclusion

Coffee has become a potential source of foreign currency and import substitution through export in international market and sale in domestic market. Lack of research and development in coffee is the bottleneck to develop the coffee sub sector into viable industry for producers, processors and traders.

Despite the limitations, coffee industry has so far been able to survive, but urgent support is needed complimented by well defined government policy.

VII. References

1. Coffee Promotion Programme, Helvetas Nepal (2009): Annual Report
2. International Trade Centre (2007): Export Potential Assessment in Nepal.

Annex 1: Proposed Coffee Supply Chain Structure

