

INTERNATIONAL
COFFEE
ORGANIZATION

4th Consultative Forum
On Coffee Sector Finance:
**Bridging the Gap Between
Farmers and Finance**

Programme & Background

23 September 2014

London, United Kingdom

 [#CoffeeSectorFinance](https://twitter.com/CoffeeSectorFinance)

ICO Reference: CF-11/14
4th Consultative Forum on Coffee Sector Finance
23 September 2014
English only

Foreword

**Juan Esteban Orduz,
President & CEO, Colombian Coffee Federation**

When people around the world drink a cup of coffee, what do they think? Some see it as a warm start for their day; others as a familiar way to end a meal on a good note; perhaps as an energy source during a hard-working day, or as a way to connect with friends and family. Some see their coffee and think of it as an art; others fancy themselves experts and some truly are.



But how many of us sip on our cup of coffee and think of the men and women who dedicate their lives to growing the beans needed to make this delicious drink? How many of us understand the challenges that our coffee farmers may be facing? More than 125 million people all over the globe make their living, directly or indirectly, from this industry. Coffee is grown in more than 50 developing countries worldwide where communities still confront underdevelopment, poverty, and a lack of access to financial resources.

Faced with these problems, how are farmers to improve their livelihoods, enhance the quality of their coffee, or find new markets for their crop?

This is precisely what the 4th Consultative Forum on Coffee Sector Finance, “*Bridging the Gap between Farmers and Finance*”, will address in London on September 23rd, 2014, where the representatives of producing and consuming countries will gather with 22 organizations, including financial and lending institutions, foundations and government development agencies. The 4th Forum will unite for the first time many of the relevant actors in the coffee world together to identify the actual needs of coffee communities in the different producing countries and, in an effective manner, understand how they can best work together to identify, design or execute actual development projects, with the ICO as a facilitator.

Welcome

**Robério Oliveira Silva,
Executive Director, International Coffee Organization**

Welcome to the 4th Consultative Forum on Coffee Sector Finance. At the three previous meetings of the Forum, we have covered topics such as farm risk management and the benefits of aggregation. In this fourth iteration of the event, the ICO is focused on gathering representatives of coffee-producing countries and funding agencies from around the globe to enable discussion and inspire cooperation. Our main goal is to discuss the challenges faced by our coffee farmers and develop plans to tackle these issues together.



The coffee industry is going through changing and unpredictable times. For farmers who depend on their crops to survive, this unpredictability can potentially threaten their ability to continue running their farms, send their children to school, and put food on the table.

10 years ago, we witnessed one of the greatest crises in coffee history as prices were at their lowest levels in decades. Today, the panorama has changed radically. Instead of a surplus of supply over demand, we are heading into a global supply deficit, and while it is imperative for coffee producing and consuming countries not to lose sight of the need for global balance, we must keep in mind that the free market is inherently unstable.

The recurring market volatility continues to be a destabilising factor that makes financial planning and risk management difficult for farmers to achieve. But there is hope — and it is our responsibility as the representatives of producers to do everything in our power to increase their access to the tools they need to run productive farming enterprises.

On behalf of our Members and our staff, I want to thank the representatives of the various bilateral, multilateral, private, and public institutions who have travelled to London to meet with the delegates of our coffee producing countries. I truly believe that the conversations we have at this 4th Forum will guide us on a path towards bridging the gap between farmers and finance.

Programme

Tuesday, 23 September (09:00 – 18:00)
Council Chamber, ICO Headquarters, 22 Berners Street, London

- 08:30 – 09:00 **Registration and coffee**
- 09:00 – 09:10 **Welcome and opening remarks:**
International Coffee Organization: Robério Oliveira Silva, Executive Director
Chairperson, Consultative Forum: Juan Esteban Orduz, President, Colombian Coffee Federation, Inc.
- 09:10 – 09:25 **Overview**
International Coffee Organization: Mauricio Galindo, Head of Operations
- 09:25 – 09:40 **Introduction to joint World Bank/ICO report on risk and finance:**
World Bank: Roy Parizat, Senior Economist, Agricultural Finance and Risk Management Team
- 09:40 – 11:00 **Presentations by representatives of multilateral institutions:**
Assistance to coffee producers, including examples of what has worked and what has not worked, how finance is accessed and availability of assistance for different stakeholders (governments, private sector and others).
- **[World Bank Group](#)** – presentation showing the activities of both the World Bank and the International Finance Corporation (IFC) across the public and private sectors in coffee producing countries:
 - **IFC:** Panos Varangis, Head, SME Finance Advisory
 - **World Bank:** Mona Sur, Lead Agriculture Economist
 - **[African Development Bank](#):** Aly Abou-Sabaa, Vice-President, Operations II, Sector Operations
 - **[Asian Development Bank](#):** Naomi Chakwin, Resident Director General, European Office, Frankfurt
 - **[Common Fund for Commodities](#):** Parvinder Singh, Managing Director a.i.
 - **[Inter-American Development Bank](#):** Ricardo Vargas del Valle, Senior Specialist
- 11:00 – 11:15 **Coffee break**
- 11:15 – 12:30 **Panel discussion with representatives of bilateral institutions:**
How can governments, the private sector and others engage with bilateral agencies to facilitate financial and technical assistance on coffee sector activities that meets the needs of producers?
- Moderator: Consultative Forum Chairperson, Juan Esteban Orduz**
- **[Spanish Agency for International Development Cooperation \(AECID\) \(Spain\)](#):** Carles Puigmartí Borrell, Programme Officer, Office for Technical Cooperation
 - **[CBI \(Netherlands\)](#):** Femke de Jong, Programme Manager Team Latin America

- [CBI \(Netherlands\)](#): Renee Boelaars, Region Manager Team Latin America
- [DEG \(Germany\)](#): Ian Lachmund, Project Director, Coffee Partnership for Tanzania
- [FMO \(Netherlands\)](#): Anton Timpers, Senior Investment Officer, Agribusiness
- [GIZ \(Germany\)](#): Eberhard Krain, Advisor, Sustainability and Standards in Agricultural Value Chains
- [Istituto Agronomico per l'Oltremare \(IAO\) – Italian Cooperation, Foreign Office Ministry \(Italy\)](#): Massimo Battaglia, Programme Officer, Coffee Projects in Central America
- [Istituto Italo-Latino Americano \(IILA\) \(Italy\)](#): José Luis Rhi-Sausi, Socio-Economic Secretary
- [USAID \(USA\)](#): Curt Reintsma, Partnership Specialist, Bureau for Food Security

12:30 – 13:00 **Discussions and questions with all participants**

13:00 – 14:30 **Lunch**

14:30 – 15:45 **Panel discussion: Social and sustainable funding:**

How might governments work with social and sustainable lenders to assist in the expansion of finance?; how can private sector exporters and traders collaborate with social lenders to facilitate financing to their producer partners?; and how can producer organizations access the services of such lenders directly?

Moderator: [Progreso Foundation](#): Ángel Mario Martínez García, Executive Director

- [IDH](#): Ted van der Put, Programme Director
- [Neumann Foundation](#): Pablo García Camacho, Trustee
- [Rabobank Rural Fund](#): Peter Veening, Investment Manager
- [ResponsAbility Investments AG](#): Gaëlle Bonnieux, Head, Agriculture Debt Financing
- [Shared Interest](#): Elisabeth Wilson, Business Development Manager
- [Triodos Investment Management BV](#): Nelleke Veenstra, Senior Investment Officer Trade Finance
- [FAST](#): Noemí Pérez, President and CEO

15:45 – 17:25 **Coffee and networking with Forum presenters and panellists and representatives of producing countries (without interpretation)**

17:25 – 17:50 **Discussions on outcomes and next steps:** all participants

17:50 – 18:00 **Concluding remarks:** Forum Chairperson

18:00 – 20:00 **Reception**

Background

What is the Consultative Forum?

The ICO Consultative Forum on Coffee Sector Finance was developed in 2010 to facilitate consultations on topics related to finance and risk management in the coffee sector, with a particular emphasis on small to medium scale producers, and local communities. It was designed to promote coordination among national governments, non-governmental organizations and the private sector, and to promote the exchange of information and coordination of activities between development assistance agencies and ICO Members. In the discussions surrounding the creation of the Forum, ICO Members emphasised the difficulty producers find securing finance, particularly in the medium and long term, due in large part to the complexity and cost of providing finance to smallholder farmers in rural areas.

The ICO, as the forum where producing and consuming countries gather at the governmental, as well as the private level, has the infrastructure to channel the dialogue amongst its Members and other actors in the coffee sector, to design and implement solutions and projects that will benefit coffee communities around the globe.

What progress has been made?

The first Consultative Forum was held in London in September 2011, and focused on managing the risk of green coffee price volatility, and specifically whether it is possible to create a strategy or mechanism which realistically provides both buyers and sellers with an affordable means of protection against volatility in coffee prices. It became clear during this Forum that the most effective instruments against price volatility (for example hedging on the futures markets) are only really available to larger-scale producers. In addition, emerging threats such as climate change are increasingly affecting the coffee value chain and will require finance to be addressed. The second Forum built on these topics by examining what role producer associations, governments and other actors in the coffee sector could play in making such risk management and financing tools more accessible for small and medium sized growers.

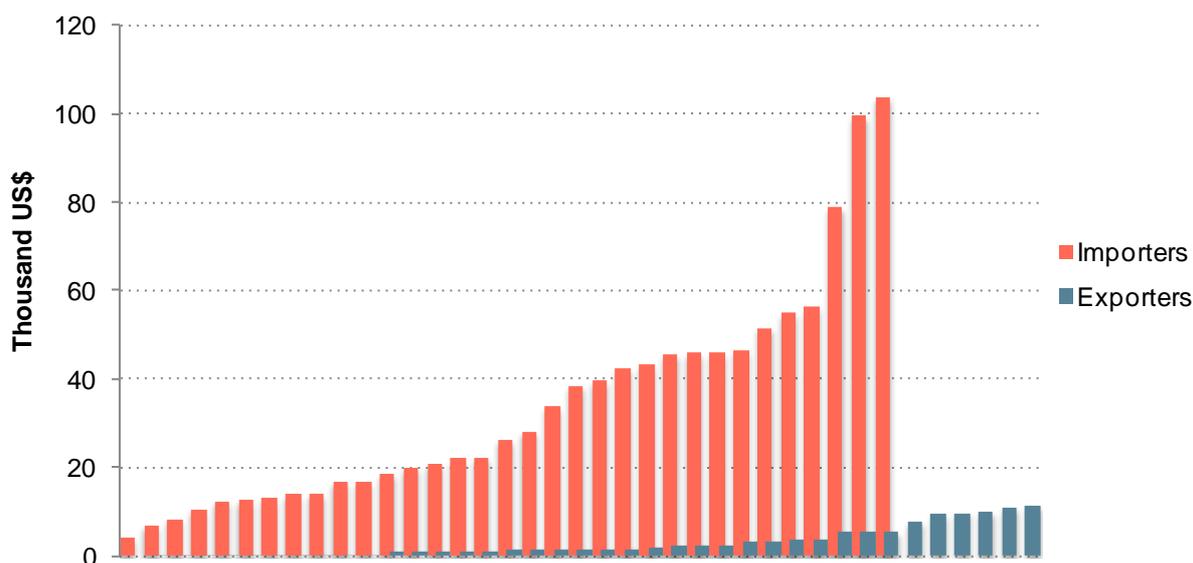
In September 2013, in Belo Horizonte, Brazil, the third Consultative Forum focused on the specific issue of aggregation, and how farmer organization can facilitate access to finance. During this event, it became clear that the potential opportunities associated with farmer aggregation, such as economies of scale and access to credit, are not always realised. While there are 'Driving Forces' which help to create an enabling environment, such as market incentives, examples of successful cooperatives, and management and leadership skills, there are also 'Restraining Forces' which create barriers; these were identified as a lack of female participation, a lack of education about cooperatives, a poor legal framework and corruption, and the presence of risk aversion.

Why is finance needed in the coffee sector?

The concept for the 4th Forum is to look at the global situation of coffee farmers more broadly, and directly examine concrete plans to focus on poverty alleviation in coffee communities. Coffee is still a commodity which is predominantly produced in developing

countries, and largely consumed in advanced economies. This can be clearly illustrated by looking at the respective per capita incomes of ICO Member countries, where there is a clear disparity between exporting and importing Members.

Graph 1: Per capita income of ICO Members



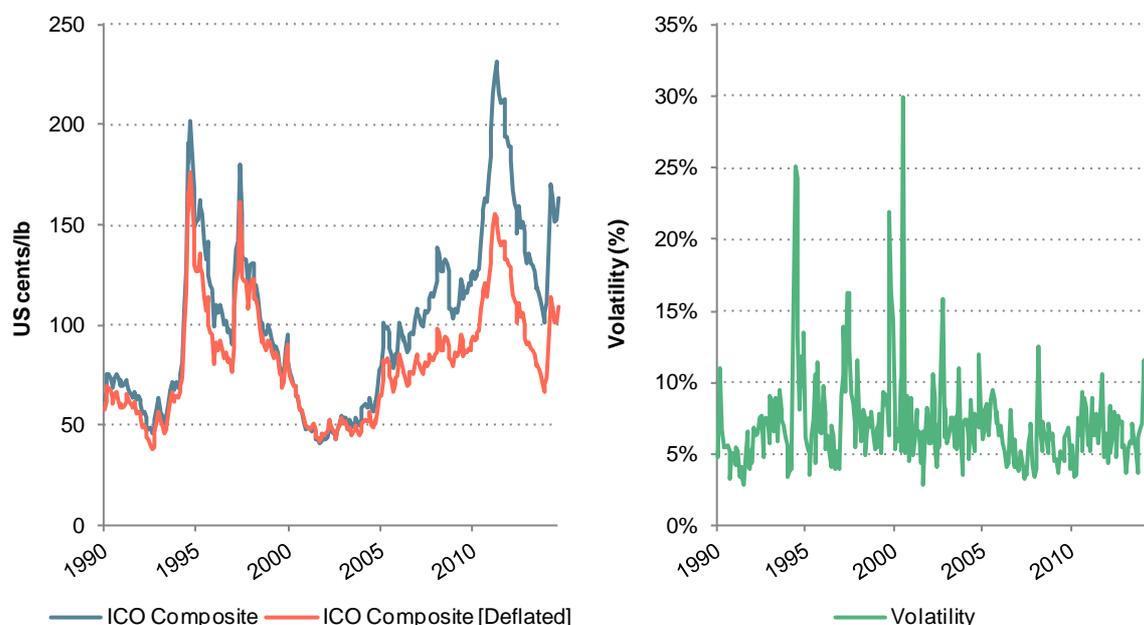
© 2014 International Coffee Organization (www.ico.org)

Furthermore, in many exporting countries, coffee provides a significant proportion of national GDP, accounting for over 50% of the export earnings of both Burundi and Timor-Leste. Yet productivity in these countries is often well below average, with yields in Burundi estimated at around 300kg/ha, compared to around 1,400kg/ha in Brazil. A series of studies by *USAID COMPETE* on the coffee value chain in East Africa in 2010 identified increasing productivity as the single most effective way of boosting farmer income. However, there is an input cost associated with increasing productivity, and farmers require access finance facilities in order to meet this cost.

It has long been known that coffee producers struggle to access formal financial instruments, for a number of reasons. Smallholder farmers often lack the necessary collateral and pre-requirements which formal financial institutions demand in order to supply credit. The amounts involved are often very low, yet have a high associated cost for the financial institution, which leads to either prohibitively high interest repayments, or simply the removal of the credit facility. Besides, the rural and geographically disparate location of many coffee farmers makes it harder for financial institutions to reach them, and vice-versa, particularly given the underdeveloped financial sectors of some countries. As a result, the availability of finance in the coffee sector is often lacking, or inappropriate.

And yet the need for access to such risk management instruments has never been greater. In 1989 the global coffee market moved from a regulated, quota-controlled system to a 'free market' scenario. In the 25 years since the economic clauses of the International Coffee Agreement collapsed, coffee prices have fluctuated significantly, from a lot of 41.17 US cents/lb in September 2001 to over 230 in April 2011. Price volatility has also been significant in the last 25 years, with monthly levels peaking at 29.9% in July 2000, and exceeding 10% for four consecutive months in 2014.

Graph 2: Monthly prices and volatility of the ICO composite indicator



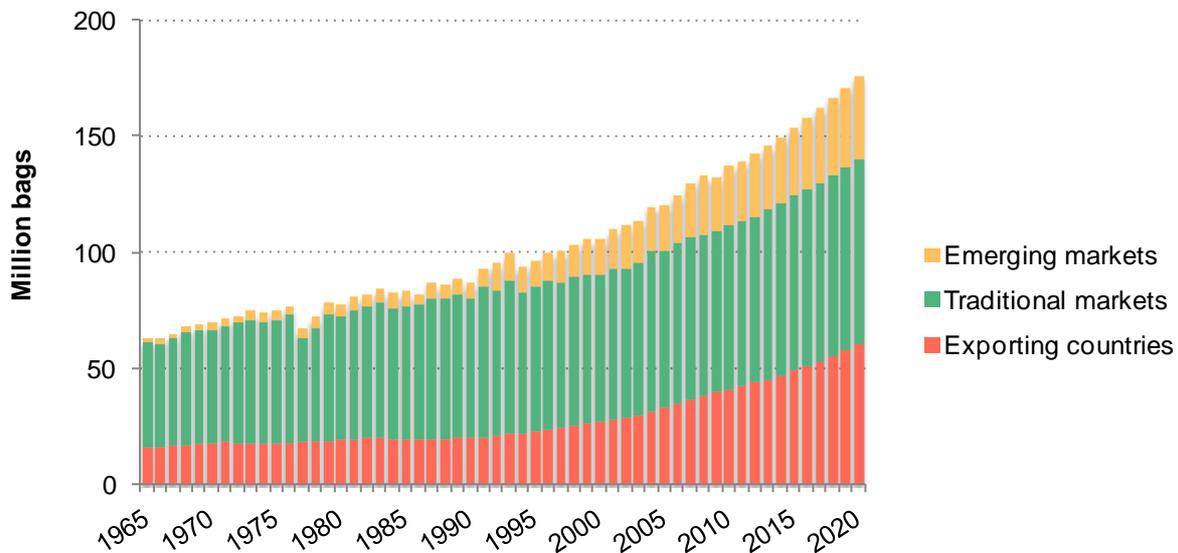
© 2014 International Coffee Organization (www.ico.org)

In the 1990s, many exporting countries underwent domestic liberalisation programmes which largely resulted in the dismantling of national coffee institutions, such as state-controlled marketing boards or *caisses de stabilisation*, which often increased farmers' exposure to international price volatility, although the share of the export price paid to farmers generally increased. It is clear that there is a strong need and demand for farmers to have access to financial and risk management instruments, yet availability is often limited.

In any case, it is not just in the coffee sector where there is a disconnect between the demand for finance and its supply. In agricultural value chains more generally, it is recognised that there is frequently a lack of availability of finance, particularly for smallholder farmers. A 2012 report by Dalberg estimated that the global demand for smallholder agricultural finance was around US\$450 billion, and largely unmet. The chief obstacle to accessing the significant opportunities available in the agricultural value chain was cited as the unrequited need for formal value chain finance. In the coffee market more specifically, the addressable demand for finance was estimated at approximately US\$1.7 billion, of which some US\$170 million, or 10%, was supplied.

This is increasingly important for two reasons. Not only is there a moral imperative to consider the wellbeing of coffee producers, ensuring that the suppliers of one of the world's favourite drinks are paid a remunerative and commensurate price. There is also the need to guarantee that the market remains supplied with a sustainable and consistent source of coffee. In the near future, it is likely that coffee production is going to face mounting disruptions from threats such as climate change, adverse weather events and outbreaks of pest and disease. Yet coffee demand is likely to continue increasing in a consistent, linear fashion, particularly as the world population grows. A rough estimate of coffee consumption prospects suggests that global demand could increase to 175 million bags by the year 2020, requiring an extra 30 million bags compared to current annual production levels (see graph).

Graph 3: World consumption outlook (1965 - 2020)



© 2014 International Coffee Organization (www.ico.org)

Given that the land available for coffee production will also be under pressure (from urbanisation, competition from other crops and also climate change), the most realistic way to satisfy this projected demand is through increasing productivity. Yields in many parts of the world, particularly the poorest countries, are well below their potential, so there is a clear opportunity for improvement. The low-hanging fruit have not yet been picked. But for this opportunity to be realised, the necessary investments will require financing, from covering input costs to providing stronger extension services. Smallholder farmers are a crucial component of a sustainable coffee supply chain, and this needs to be recognised.

Conclusions

It is clear that there is both need and opportunity for a significant increase in the scale of finance provision in the coffee sector, but how is this goal to be achieved? Recent initiatives that promote precompetitive collaboration and a broad umbrella of stakeholders, such as the IDH Sustainable Coffee Program, show great potential. It is in that spirit that the 4th ICO Consultative Forum aims to involve actors from a variety of contexts, from multilateral financial institutions, along with national development agencies and social lenders, to promote collaboration and better inform all participants on the current environment, to ensure that the financial initiatives which are available meets the specific needs of coffee producers. We can do this by bringing everyone to the table, so that producing countries and financial bodies can educate each other in their own needs and priorities. It is hoped that through this Forum, we can secure very practical outcomes and actions moving forwards, such as financing community projects in producing countries, in a way that the livelihood of coffee farmers all over the world is improved.