



IFC'S INVOLVEMENT IN COFFEE

A PRESENTATION TO THE ICO
LONDON, SEPTEMBER 2014



IFC

**International
Finance Corporation**
WORLD BANK GROUP

IFC CREATES OPPORTUNITY AND IMPROVES LIVES BY PROMOTING PRIVATE SECTOR DEVELOPMENT IN EMERGING MARKETS

- **IFC:** established in 1956 as private arm of World Bank
 - **Role:** to support private companies in emerging markets
 - **Clients:** Private companies in member countries
 - **Products:** Equity/Quasi-Equity / Long-term Loans / Risk Management/ Advisory Services
 - **Presence:** present in every region with 100+ offices and active in almost all sectors
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- **Sound Financials:** AAA rated and US\$ 62 Billion Portfolio (Agribusiness is 10%)
 - Annual Agribusiness Program: US\$ 4.5+ Billion
 - 900+ Financial Institutions leveraging reach in emerging markets



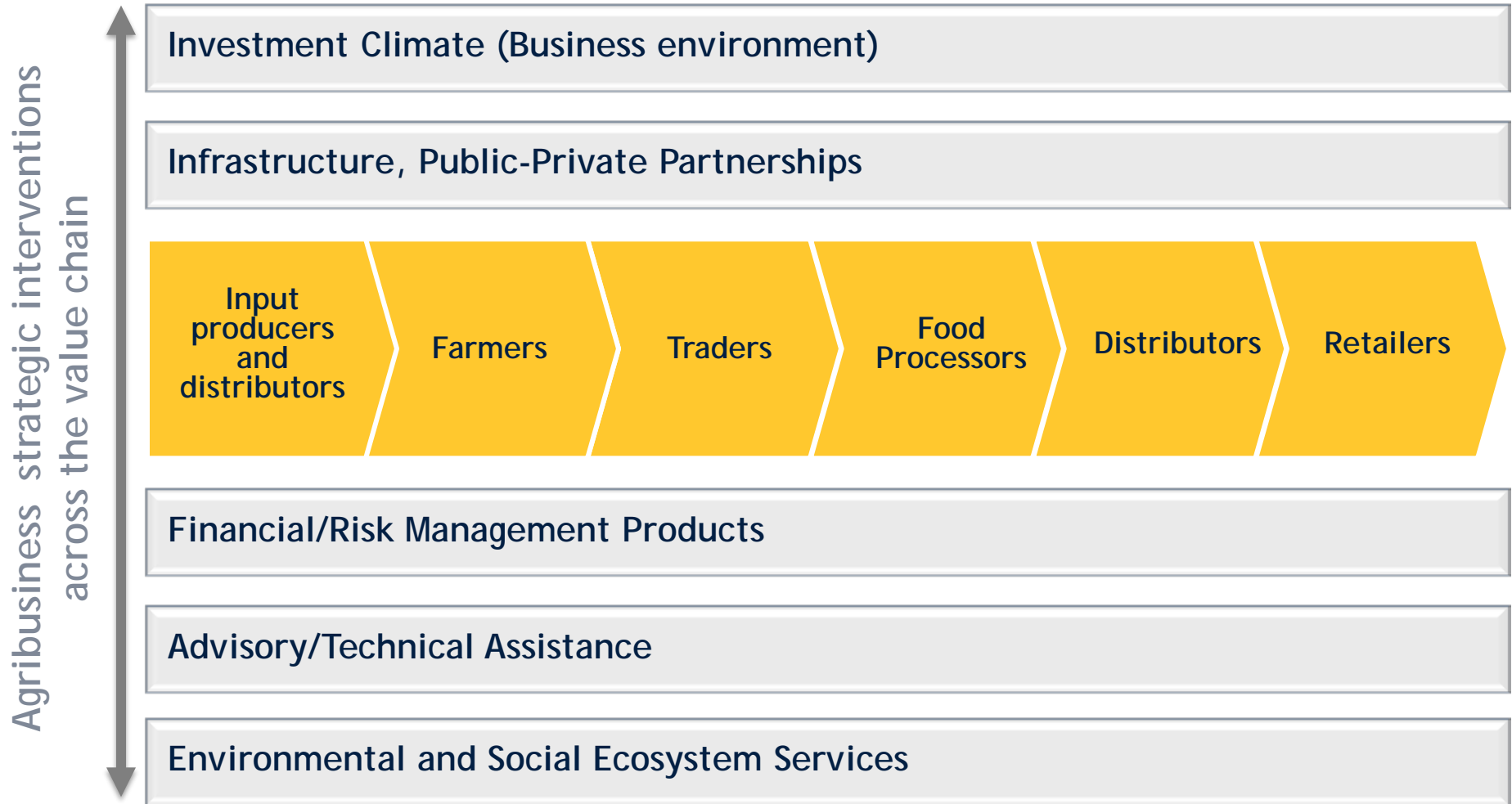
AGRIBUSINESS - ONE OF IFC'S STRATEGIC PILLARS

We make a difference by:

- **Enhancing Productivity and Efficiency:** focus on food security via increased production, waste reduction, and income enhancement
- **Promoting Inclusive Development:** focus on small holders, women, nutrition and risk management
- **Supporting Environmental & Social Sustainability** and reduce the sector's future footprint



IFC Supports an Integrated Value Chain Approach as Key Part of its Agribusiness Strategy...



AGRIBUSINESS INVESTMENT APPROACH

Corporate & Project Finance

- Provide seasonal and longer term financing – equity and loans – that is not otherwise available
- Share risks and provide partial credit guarantees for local intermediaries to be able to reach unserved or underserved segments of agricultural supply chain
- Focused products for irrigation and clean tech (in production and processing)
- Promote best practice for corporate governance, sustainability, Environment & Social standards
- Implement “further reach” programs to support individual farmers and smaller agribusinesses
- Provide Technical Assistance as “added value” in IFC’s financing package (see below)

Wholesaling through Traders and Financial Institutions (FIs)

- Majority of farms and local agribusiness SMEs are too small for IFC reach but are essential to the sector
- Channel financial and technical assistance to end users via intermediary
- Intermediaries include:
 - Local and international Agribusinesses/Traders
 - Local and international Financial Institutions, such as banks, microfinance, leasing companies, etc

Advisory Services

- Capacity building to Financial Institutions to improve lending to farmers and agri SMEs
- Technical assistance to farmers and agri SMEs to improve productivity, management/financial skills
- Capacity building to producer organizations
- Promoting E&S standards for agribusiness and farmers

WHY IFC IS INTERESTED IN COFFEE

- **Vital commodity** in global and increasingly regional commerce
- Vital commodity for several of **East African and Central American** economies
- Production is overwhelmingly **smallholder** based
- **Value adding opportunities along sustainable supply chains**
- Need for **replanting finance/technical assistance** in Central America but also elsewhere: Asia and Africa
- Good potential **for improving yields, quality, traceability and certification**

COFFEE IS AN IMPORTANT SOURCE OF REVENUES IN LOW INCOME DEVELOPING COUNTRIES

GLOBAL

2010

	Agricultural Commodity	Exports in billions
1	Soybeans	\$39.7
2	Wheat	\$32.6
3	Palm oil	\$29.9
4	Wine	\$27.9
5	Cheese	\$23.8
6	Soybean Cake	\$22.7
7	Maize	\$22.7
8	Rubber Natural	\$21.4
9	Rice	\$19.5
10	Green Coffee	\$17.9

2000

	Agricultural Commodity	Exports in billions
1	Wheat	\$14.2
2	Wine	\$12.7
3	Cheese	\$9.4
4	Soybeans	\$9.2
5	Maize	\$8.8
6	Green Coffee	\$8.5
7	Soybean Cake	\$6.8
8	Rice	\$6.5
9	Cotton Lint	\$6.4
10	Tobacco	\$5.7

1990

	Agricultural Commodity	Exports in billions
1	Wheat	\$16.0
2	Maize	\$9.8
3	Cotton Lint	\$8.4
4	Wine	\$8.1
5	Sugar Raw	\$7.9
6	Cheese	\$7.7
7	Green Coffee	\$7.0
8	Soybeans	\$5.9
9	Soybean Cake	\$5.3
10	Sugar Refined	\$5.0

1980

	Agricultural Commodity	Exports in billions
1	Wheat	\$16.8
2	Green Coffee	\$12.1
3	Maize	\$12.0
4	Sugar Raw	\$9.6
5	Cotton Lint	\$7.8
6	Soybeans	\$7.1
7	Rice	\$5.0
8	Sugar Refined	\$4.9
9	Wine	\$4.4
10	Soybean Cake	\$4.2

LEAST-DEVELOPED COUNTRIES

2010

	Agricultural Commodity	Exports in billions
1	Tobacco	\$1.4
2	Green Coffee	\$1.3
3	Sesame Seed	\$0.7
4	Cotton Lint	\$0.7
5	Beans, dry	\$0.5
6	Sugar Raw	\$0.4
7	Cocoa Beans	\$0.4
8	Tea	\$0.3
9	Palm Oil	\$0.3
10	Rubber Natural	\$0.3

2000

	Agricultural Commodity	Exports in billions
1	Green Coffee	\$0.7
2	Cotton Lint	\$0.6
3	Tobacco	\$0.4
4	Beans, dry	\$0.3
5	Sesame Seed	\$0.2
6	Cashew	\$0.2
7	Tea	\$0.2
8	Sugar Raw	\$0.1
9	Groundnut Oil	\$0.1
10	Rubber Natural	\$0.1

1990

	Agricultural Commodity	Exports in billions
1	Cotton Lint	\$0.8
2	Green Coffee	\$0.7
3	Tobacco	\$0.3
4	Groundnut Oil	\$0.2
5	Tea	\$0.1
6	Beans, dry	\$0.1
7	Jute	\$0.1
8	Sesame Seed	\$0.1
9	Raisins	\$0.1
10	Vanilla	\$0.1

1980

	Agricultural Commodity	Exports in billions
1	Green Coffee	\$1.6
2	Cotton Lint	\$0.6
3	Jute	\$0.2
4	Tobacco	\$0.2
5	Tea	\$0.1
6	Cocoa Beans	\$0.1
7	Raisins	\$0.1
8	Rubber Natural	\$0.1
9	Cloves	\$0.1
10	Sorghum	\$0.1

... AND THE MAJOR AGRI REVENUE SOURCE FOR COFFEE PRODUCING COUNTRIES

COFFEE-PRODUCING COUNTRIES

2010

	Agricultural Commodity	Exports in billions
1	Palm oil	\$27.3
2	Rubber Natural	\$19.7
3	Green Coffee	\$15.6
4	Sugar Raw	\$12.9
5	Soybeans	\$12.7
6	Rice	\$11.8
7	Soybean Cake	\$7.5
8	Cocoa Beans	\$6.9
9	Sugar Refined	\$6.7
10	Tobacco	\$6.4

2000

	Agricultural Commodity	Exports in billions
1	Green Coffee	\$7.6
2	Palm oil	\$4.0
3	Rice	\$3.7
4	Rubber Natural	\$3.2
5	Bananas	\$2.8
6	Soybeans	\$2.6
7	Sugar Raw	\$2.5
8	Tobacco	\$2.4
9	Soybean Cake	\$2.3
10	Cocoa Beans	\$1.9

1990

	Agricultural Commodity	Exports in billions
1	Green Coffee	\$6.2
2	Sugar Raw	\$6.0
3	Rubber Natural	\$2.9
4	Soybean Cake	\$2.3
5	Bananas	\$2.1
6	Palm oil	\$2.0
7	Cotton Lint	\$2.0
8	Cocoa Beans	\$2.0
9	Rice	\$1.8
10	Tobacco	\$1.7

1980

	Agricultural Commodity	Exports in billions
1	Green Coffee	\$11.1
2	Sugar Raw	\$7.1
3	Rubber Natural	\$4.0
4	Cocoa Beans	\$2.5
5	Rice	\$2.0
6	Soybean Cake	\$1.5
7	Palm Oil	\$1.5
8	Cotton Lint	\$1.4
9	Tea	\$1.3
10	Tobacco	\$1.2

Source: FAO, includes re-exports

IFC MAIN CLIENTS AND PARTNERS INCLUDE TRADERS, INPUT SUPPLIERS, BANKS AND TA PROVIDERS



Key to success

- Competitive production cost
- High quality product
- Loyal supplier base
- Experienced management, trading & efficient logistics
- Leaders in sustainability practices
- Innovation in farmer finance & TA

Selected examples of partners

Field production	Processing	Warehouse and supplier financing	Trading	Roasting & distribution
Technoserve Ecom	Ethiopia Coffee	Techcombank NIB Ethiopia CRDB Tanzania	Ecom	CCL Ngon Coffee Procafecol

COFFEE SECTOR ISSUES AND POTENTIAL AREAS FOR IFC

Issue	Potential area for IFC
Aging small holder plantations	Financing replanting
Working capital needs	Short term capital, supplier finance
Low farmer productivity	Technical assistance, working capital for better inputs/production practices, irrigation
Disease issues	Technical assistance, credit for replanting, currently focusing on La Roya
Seasonal & cyclical markets	Inventory finance, GWFP, hedging facility
Demand for increase traceability and certification	Technical assistance, standards, E&S risk management systems
Fragmented supply and high costs of reaching individual farmers	Aggregation models, Technical assistance to producer organizations
Environmental issues in production and processing	Water saving technologies, reduction of pollution, use of residues, energy savings

IFC IS RAMPING UP ITS PRESENCE IN THE SECTOR: SAMPLE OF PROJECTS



Techcombank
Vietnam

Loan

Warehouse financing for agri-commodities (including coffee)



Ethiopian Coffee
Ethiopia

Guarantee

Renewable guarantee facility to finance equipment and working capital of coffee farmers.



Kongo Coffee
Papua New Guinea

Guarantee

Credit guarantee for coffee sourcing and working capital.



Ecom
Global Facility
C. America, Africa, Asia

Loans

Finance farmer training programs for sustainable practices and certification



Juan Valdez
Café

Procafecol
Colombia

Equity

Coffee retail outlets in Colombia and select international markets.



CCL – Ngon Coffee
India - Vietnam

Equity

Instant coffee manufacturing in Vietnam by Indian coffee company (CCL).

West Africa coffee & cocoa
Global - Africa

Loan and Syndication

Finance sustainable sourcing programs for coffee and cocoa, primarily in West Africa.



CRDB
Tanzania

Line of credit

To support coffee and cashew nut exports

LESSONS LEARNED FROM EXISTING COFFEE PROJECTS

- Form the right partnerships with various stakeholders: traders, roasters, farmers/farmer organizations, providers of TA, and relevant government bodies: leverage skills and experiences
- Seek strong linkages between participants in the value chain
- Combine financing with provision of technical assistance to improve productivity, quality, and better farming and post harvest practices: higher income for coffee farmers
- Banks need to have the skills, capacity and proximity to lend to farmers
- Look for competitive production costs and high quality product that could possibly command some premium in the market
- Ensure/support high standards for sustainable production practices
- Existence of good producer organizations increase the efficiency and the effectiveness in spreading benefits to many small farmers
- Ensure good logistics and efficient trade processes and procedures

EXAMPLE FROM A CURRENT PROJECT:

ETHIOPIA COFFEE INITIATIVE

RISK SHARING FACILITY – ETHIOPIAN COFFEE INITIATIVE

Coffee is Ethiopia's main crop, and accounts for about 35% of export earnings. Yet, many Ethiopian coffee farmers struggle to take full advantage of their crop. IFC has stepped in to provide farmers with access to finance, which will help them turn coffee farming into a sustainable livelihood.

IFC Role

- IFC's participation allows the commercial banks to exceed exposure limits and reach more smallholder farmers.
- IFC's expertise guides participating banks on how to mitigate risks in the coffee sector
- Environmental and social best practices

Transaction

- IFC provides a 3-year, up to \$10 million guarantee facility on bank loans to coffee farmer cooperatives in Ethiopia
- Bank loans will help cooperatives to process coffee and meet working capital needs
- Currently, IFC is working with Nib International Bank S.C. for the program.

Development Impact

- Make Ethiopian coffee sector more competitive.
- Establish credit worthiness of approx. 70 Ethiopian farmer cooperatives, expected to generate about \$17 million export revenues.
- Develop a sustainable model of long-term and short-term financing for the Ethiopian coffee supply chain, with potential for expansion to other countries/sectors

RISK SHARING FACILITY TO INCREASE SMALL FARMERS REACH

ETHIOPIAN COFFEE INITIATIVE



- IFC provides a 3-year, up to \$10 million revolving guarantee facility on the selected banks' portfolio of loans to coffee farmer cooperatives in Ethiopia
- The bank loans will assist the cooperatives to (i) acquire efficient wet mills for processing “cherry” coffee into “washed” parchment coffee, and (ii) meet their working capital needs

Illustrative Structure

