



INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
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**Expert Panel on Coffee Sector Finance
(21 September 2010)**

Summary report

Background

1. A meeting of an Expert Panel on Coffee Sector Finance took place on Tuesday, 21 September 2010 at the ICO headquarters in London, chaired by Mr David Brooks, Director for Natural Resources Policy and Environmental Reviews, Office of the US Trade Representative, USA. The programme for the event was circulated as ED-2093/10 Rev. 1.
2. The Chairman made a summary report to the Council at its 105th Session from 21 to 24 September 2010, a copy of which is attached. Copies of the presentations were disseminated to Members electronically and are available on the ICO website (www.ico.org/workshop.asp).

SUMMARY REPORT BY THE CHAIRMAN OF THE EXPERT PANEL ON COFFEE SECTOR FINANCE

The aim of the Panel was to promote an exchange of views, experiences and ideas on issues related to the financing of the world coffee sector, focusing on the possible roles of the Organization in this field, especially with regard to preparing for the activities of the Consultative Forum on Coffee Sector Finance. Brief presentations were made by the following speakers from multilateral development institutions, public sector financial institutions of coffee producing countries, private sector financial institutions and NGOs on the work of their organizations in the context of financing of the world coffee sector and the Forum. This was followed by an exchange of views among Panel members and with all ICO Members on issues such as opportunities and impediments to providing finance in the sector.

- **World Bank** – Marc Sadler, Team leader, Agricultural Risk Management Team (ARMT), Agriculture and Rural Development Department
- **Asian Development Bank** – Michael Barrow, Director, Infrastructure Finance Division, Private Sector Operations Department
- **Fideicomisos Instituidos en Relacion con la Agricultura, Mexico** – Rodrigo Sánchez Mújica, Director General
- **Ministry of Agriculture, Livestock and Food Supply (MAPA), Brazil** – José Gerardo Fontelles, Executive Secretary
- **Finance Alliance for Sustainable Trade (FAST)** – Noemí Pérez, Executive Director

Summary of the discussion

- There are three main types of finance required: short-term (for seasonal financing needs, such as harvesting), medium-term (structured trade financing) and long-term (for planting, renovation etc.). The latter two are more difficult for producers as they require guarantees. Three major groups of risk need to be managed: production risks (weather, pests etc.), market risks (prices) and other risks.
- A holistic approach is needed that takes into account factors that go beyond finance per se. There are no ‘one size fits all’ solutions – the differences and characteristics of each country must be taken into account.
- There is a need to look at what has worked and what has not worked, and in the case of successful initiatives, to identify what conditions enabled them to succeed. Even in a difficult financial climate, there are opportunities to do business.
- Providing finance to individual farmers can be complex and expensive as, although small farmers have excellent repayment rates, the amounts involved are small, providing collateral can be difficult, and the time and effort involved in assessing loans in rural areas is considerable. There is a need to organize producers and

undertake capacity-building in financial literacy, and to consider other solutions such as making use of new technology. Examples were given of cooperatives and organizations which managed their credit and built up guarantee funds. Governments need to be involved and coordinate this area on behalf of smallholder farmers.

- In many countries, banks do not understand agricultural risk fully and there is a need to inform the banking sector about coffee. There is currently a lack of programmes to train loan officers to enable them to understand price risk and opportunities in coffee.
- There is a need to distinguish between credit for long-term financing such as for renovating plantations etc., where concessionary interest rates may be needed, and working capital, which should be close to market rates.
- Five issues are taken into account by institutions for the concession of financing: the characteristics of the producer, capital, capacity to pay, collateral and conditions of credit.
- It can be useful to create contingency funds such as a Reserve Fund which can be used by producers during periods of crisis to help them with loans etc.
- The issue of increasing price volatility is one faced by many commodities, and what happens in one market often has repercussions for another. Existing models about the impact of volatility are not working well and regulation alone may not be the answer. It is a problem for the entire supply chain, and affects countries throughout the world. A paradigm shift is needed, with a multi-stakeholder approach.
- The apparent divergence between the physical and futures market is of great concern to producers, making it difficult to hedge their risks and making it necessary to look for other ways of managing price risks.
- In addition to price volatility, climate change is an area where risks are increasing, and weather insurance and other tools are needed to manage risks. Index products, although complex, also provide an opportunity.
- ICO Member Governments have considerable experience and there is great potential to learn from each other. Examples of work in providing finance to the coffee sector include the Coffee Development Fund in Kenya, the Development Fund for Coffee and Cocoa in Cameroon, warehousing receipts system in Indonesia, weather-risk insurance in Jamaica, a diversification and self-financing project in Ecuador, the highly integrated system in Guatemala, and the financing system in Honduras, in addition to examples provided by the Expert Panellists.
- Facilitating connections between producers and a variety of financial institutions is important – the FAST online marketplace is an example of a tool that can provide services to coffee farmers.
- In the case of multilateral institutions, policy-driven work responds to the priorities of Member Governments, which in turn are influenced by the priorities of internal ministries.
- Farmers need a stable policy environment and to be enabled to concentrate on growing quality crops rather than trading.

Thanks

The Chairman thanked all the presenters for their valuable contributions, expertise and flexibility and also expressed his appreciation to Members for engaging in the debate and sharing their experiences which would help to inform discussions on the implementation of the Forum by the Council.