

COMMON FUND FOR COMMODITIES

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ICO SEMINAR ON THE COFFEE BERRY BORER

Statement by Caleb Dengu – First Project Manager Common Fund for Commodities

The Role of Scientists in the Coffee Sector

*It is a stimulus package and a bailout for Banks but for Farmers it is the ugly word
“Subsidy”*

The Common Fund financed the project termed Integrated Management of the Coffee Berry Borer that was implemented from 1997. The Fund invested USD 3 million dollars to address the following problems.

- How to control Coffee Berry Borer (CBB) pest without increasing input costs?
- How to control CBB pest cleanly so farmers could add value to their products?
- How to improve the efficiency of technological innovation and delivery to farmers

The Common Fund has worked with scientists in a number of projects not only in coffee but in other commodities because we believe that the power of intellectual capital is the ability to breed ideas that ignite value. We are convinced that scientists can provide the intellectual platform to launch the recovery program for the coffee sector if they put their minds together. In fact, I should say you are the players in the coffee sector, if you do not win, you cannot blame spectators for losing the game.

Since we are holding this meeting in London, it may be fitting to quote from Winston Churchill the former and late British Prime Minister. He said **“The further backwards you can look, the further forward you can see”** thus we need to learn from the past in order to reasonably simulate the future. The purpose of today’s meeting is to take stock of what happened in the past,

so that we can avoid the some of the mistakes as we walk into the future. Let me be very clear here, I am not saying you should drive while you are looking in the rear view mirror all the time, you should put on your headlamps and look on the road ahead of you.

As I was going through our old project files, I found some of the problems identified during the project implementation, which affect mostly small coffee producers. This is just a listing of the problems without any ranking or solutions.

- ❖ Smallholders are locked into the free market system but locked out of the transaction infrastructure to exploit the free market system.
- ❖ Trade liberalisation has led to lower farm gate prices but higher consumer prices.
- ❖ Farmers often blame local stakeholders for global problems.
- ❖ Farmer-support institutions continue to be in steep decline when new knowledge is required to respond to threats and opportunities.
- ❖ Smallholder farmers can produce higher quality coffee than most estates but almost always end up with substantially lower prices.
- ❖ Smallholder farmers often borrow money from the same people to whom they sell their coffee.
- ❖ Large coffee estates tend to respond to low prices by intensifying production to remain profitable, locking smallholder producers into a cycle which acts to further lower the prices.
- ❖ Smallholders' responds to low prices by reducing production – which should cause a price rise. But intensification of production by large estates can block the price rise therefore further reducing their income.
- ❖ Most of the Smallholder Farmers do not have legal title to their land hence cannot use their land to borrow.
- ❖ Profitable illegal drug crops sometimes now grow in the shade of coffee, raising the temptation of farmers to break the law.

It was noted that some of the external factors, which affected the coffee sector during the time of project implementation, were beyond the control of the farmers. However some of the developments while very good for the industry they lead to the continued downward trend for the smallholder producers.

- ◆ Exchange Rate Movements in major currencies used for trading coffee.
- ◆ Poor Coffee Marketing and stiff competition from soft-drink and fruit juice producers.
- ◆ Changes in Production Technology – the development of dwarf hybrid varieties whose yields respond vigorously to fertiliser application; rust-resistant varieties that lower input costs; shade removal that stimulates yield increase; and mechanisation of harvest.

- ◆ Changes in Processing Technology – Robusta coffee steaming for roasting and blending method has increased the use of Robusta in the blends.
- ◆ Centralisation of Power with the Coffee Chain – Supermarket chains and Roasting companies have unlimited power over the coffee producer.

We arrived at the conclusion that if the Coffee Enterprise is being efficiently run with good management and technical skills, it can afford to control the Coffee Berry Borer using any of the suggested methods and still remain profitable. The Common Fund has invited Consultants through our website to tender to carry out an impact assessment of this project thereby testing our hypothesis.

The African Coffee Sector

One is bound to ask why are we talking about all these problems when the topic of the meeting is Coffee Berry Borer. The point is there is serious decline in coffee production in Africa that can be attributed to lack of investment in the coffee sector. To put this into context – Do you know that “No country in Sub-Saharan Africa has planted 10,000 hectares in one year of any tree crop (coffee, cocoa, rubber, palm oil, tea, cashew, mango etc) in the last twenty years”. The financing mechanism for plantation crops (tree crops) does not exist in the financial sector that has evolved in Africa post liberalisation. The lack of investment in the coffee sector has a domino effect which leads to lack of investment in coffee research, reduced income for farmers and discouragement of new farmers from joining the sector. The banking sector in Africa is not in a position to advance loans for plantations, which only have cash **outflows** for 4 years before positive cash **inflow** from the 5th year onwards. Thus there are no new plantations to talk about established after the dismantling of the Boards. It is like trying to increase the housing stock without providing mortgage finance to the homebuyers, it will simply not happen. When the mortgage instrument was designed the housing stock in most cities increased tenfold. The financial experts matched long-term investments from Pension Funds and Life Assurance and Mortgage Repayment of 20-30 years and therefore constant income over the period. Thus we need to design suitable financing structures for plantation crops like coffee.

Suitable Financing Structure for Plantation Crops

The Common Fund would like to propose that we mobilise domestic resources to invest in plantation crops like coffee, cocoa, rubber, palm oil, cashew and tea. For example Kenya could issue a 5-year Coffee Bond to raise USD 50 million to invest in a specific coffee programme for a say 50,000 hectares. Thus the farmers are identified and money is provided in local currency to establish the 50 000 hectares of coffee. Income from that coffee can be structured in such a way that it can be used to retire the bond on maturity. The Common Fund is prepared to work out the modalities with the support of the Central Banks to mop up domestic savings for investment in plantations. For this to happen attention will need to be given to the Organisation of Farmers, Development and Investment into Rural Infrastructure, Access to Technology, Inputs, Seeds and Human resources. The building of marketing infrastructure which include trade finance, warehouse receipt systems and price risk management system will enhance the coffee sector.

We are aware that there is no change or growth without action, hence the Common Fund is currently consulting all its stakeholders on “What should be the future role of the Common Fund in the next 20 years?” The market structure and production dynamics have changed since

formation of the Common Fund 20 years ago. We are also required to come up with estimates of our capital requirement to finance projects over the twenty-year period. We will need your support in this capitalisation exercise since you are the beneficiaries. Thus we are expecting input from the International Coffee Organisation directly to the Fund or together with other International Commodity Bodies or through ICO Member Countries with members who sit on CFC decision making bodies.

In discussing the future role, it has been suggested that the Common Fund could take the lead in setting up Financial Advisory Services to help Central Banks and Ministries of Agriculture to mobilise domestic and international finance to build new plantations and rebuild existing plantations. It is recommended that this be done through the issuance of commodity backed bonds like Coffee Bonds, Rubber Bonds, Cocoa Bonds etc with a reasonable maturity time like 5-10 years. The structure of the bond will allow the bonds to be redeemed at maturity with cashflows from the investment. The government can guarantee these commodity bonds. The Farmers should not feel ashamed to seek a government guarantee given what we have witnessed in the last six months. *Bankers received stimulus packages and bailout packages and farmers are only asking for guarantees. These are not subsidies!!!!*

We need your support and we need that support now. There is no better time than now. The time to live is now. The time to dream is now. The time to imagine and forget the past is now. Therefore the time for the coffee sector to determine its future is now.