INTERNATIONAL COFFEE ORGANIZATION

CF 12/14

5 November 2014
Original: English

E

Summary report of the 4th Consultative Forum on Coffee Sector Finance

Background

1. The 4th Consultative Forum on Coffee Sector Finance took place during the 113th Session of the International Coffee Council in London, United Kingdom on 23 September 2014. The Forum was chaired by Mr Juan Esteban Orduz, President and CEO of the Colombian Coffee Federation. The theme of the Forum was “How producing countries can engage effectively with financial multilateral institutions and donors, and ensure that financing from those organizations meets the needs of producers”. The objective was to establish a direct dialogue with multilateral and bilateral institutions, donors and social lenders to discuss and implement concrete plans for poverty alleviation and wealth creation in rural communities which depend on coffee production.

2. The presentations and background documents for the Forum can be found on the ICO website at http://www.ico.org/forum4-e.asp.

SUMMARY REPORT OF THE
4TH CONSULTATIVE FORUM ON COFFEE SECTOR FINANCE

Welcome and opening remarks

1. The Executive Director welcomed participants to the 4th Forum, and noted that the three previous meetings had covered topics such as price risk management and the benefits of aggregation. The main goal of this 4th Forum was to discuss the challenges faced by coffee farmers and to develop plans to tackle these issues. Market volatility was a destabilising factor that has a negative effect on farmers, and it was hoped that access to the tools needed by farmers could be increased.

2. The Chairman extended his welcome to participants, and posed a question to the financial institutions present: how could ICO Members access their services, and how could the ICO best act as a facilitator for delegates to engage effectively with donor institutions? There was a networking session scheduled in the agenda, and Members were encouraged to make the most of this opportunity to have one-on-one conversations with the representatives of financial institutions.

Overview

3. The Head of Operations gave a brief overview of the evolution of the Forum; the first meeting covered more theoretical aspects of price risk management, the second investigated how to make such instruments available to farmers, and the third focused specifically on the issue of farmer aggregation and organization. This 4th iteration of the Forum was designed to be a more practical and hands-on event, and a lively discussion was expected from the panels and networking sessions over the course of the day.

Introduction to joint World Bank/ICO study on risk and finance

4. Mr Roy Parizat, of the World Bank, gave an overview of the study conducted by the World Bank in collaboration with the ICO on risk and finance in the coffee sector. It sought to answer the question: how can finance provision be improved? The focus was mostly on smallholders, but also more generally across the value chain. It contained a number of case studies on risk management provision to facilitate financial services. It was noted that financial institutions were hesitant about providing finance in the coffee sector, because risk was often difficult to quantify. This report aimed to provide more information and fill this gap, looking at what can be done in the coffee sector. There was also an emphasis on what governments could do to encourage investment in the coffee sector, and how the provision of financial instruments could be mutually beneficial and implemented in a sustainable manner. The report had not yet been published, but if approved it was hoped that modern technology could be used to disseminate it and make it as useful as possible.

Presentations by representatives of multilateral institutions

Mr Panos Varangis, International Finance Corporation (IFC)

5. The IFC is the private sector arm of the World Bank. One of its strategic pillars is agribusiness, and it worked by using an integrated value chain approach. The key aim was to reach smallholder farmers and small and medium enterprises through local partners. In terms of coffee, it was clearly a vital commodity for emerging markets, with the majority of production coming from smallholders. Coffee is also an important source of revenue in low income developing countries, and a major source of agricultural revenue for producing countries. The IFC conducted a number of projects in various countries, and the major lesson which had been learned was that it was necessary to form partnerships with actors in producing countries. Financing was not just a means to an end, but needed to be combined with technical assistance and training in order to be effective.

Ms Mona Sur, World Bank

6. The World Bank took a thematic approach to the coffee sector, focusing on raising productivity, linking farmers to markets, reducing risk and enhancing environmental services and sustainability. They mostly engaged directly with governments, providing support for national programmes, although depending on the project, the loan or grants often went to other institutions. In Papua New Guinea, for example, the World Bank was conducting a US$35 million project in collaboration with the International Fund for Agricultural Development (IFAD), and this was being implemented through local partnerships on the ground. A large number of farmers had received training as a result of the project, and a particular focus was placed on engaging with women, who often did much of the farming. The project was therefore tailored towards getting women involved in extension services in coffee.

Ms Naomi Chakwin, Asian Development Bank (ADB)

7. The ADB provided around US$2 billion per year in agricultural finance, with current projects operating in Laos, working with IFAD on value chain development. A key issue was how to make public private partnerships work effectively, using community partnerships to support decentralization. So far, 3,500 coffee-farming households had been targeted, with clear results in terms of improved livelihoods and higher yields. Increased processing and storage facilities had also resulted in a higher farmgate price for farmers, and therefore more cash income. It was hoped that these projects could be extended beyond Laos in order to target more farmers.

Mr Parvindar Singh, Common Fund for Commodities (CFC)

8. The CFC mostly finances small projects, with a heavy emphasis on the recycling of funds. Value chain analysis was conducted on everything they do, and partnerships were always established with local institutions. The CFC used to provide more grant financing, but recently this had changed to loans. The CFC had financed 38 projects in coffee, with a total value of US$106.8 million, of which US$56.8 million had come directly from the CFC. The most important issue was the precise targeting of interventions against any identified constraints.

Mr Ricardo Vargas del Valle, Inter-American Development Bank (IDB)

9. The IDB had approved US$15 billion of loans for agriculture in the Latin America and Caribbean region since 1961. The region as a whole had abundant possibilities for expanding farm production, and 75% of the rural poor depended on agriculture as their main source of income. Yet there were several challenges for the agricultural sector. Growth in agricultural productivity had been slow compared to OECD countries, and the distribution of benefits from growth was unequal. Climate change also posed a significant threat to future growth. The Bank's strategic approach in the region had four areas of intervention: The elimination of obstacles in price-transmission mechanisms; the improvement of effectiveness, coverage and quality of rural public expenditure to foster investment; support for the provision of effective and modern agricultural services and rural infrastructure; and to promote temporary direct support programmes focused on technology adoption.

Panel discussion with representatives of bilateral institutions

10. This session focused on how governments, the private sector and others can engage with bilateral agencies to facilitate financial and technical assistance on coffee sector activities that meet the needs of producers. It included participants from the Spanish Agency for International Development Cooperation (AECID), the Centre for the Promotion of Imports from developing countries (CBI, Netherlands), Deutsche Investitions und Entwicklungsgesellschaft (DEG, Germany), the Dutch Development Bank (FMO), GIZ (Germany), the Istituto Agronomico per l'Oltremare (IAO, Italy), the Instituto Italo-Latino Americano (IILA, Italy) and the US Agency for International Development (USAID).

11. The first question posed was how countries can engage with these institutions. This varied from one institution to the next, but most agencies worked with a combination of public and private sector actors. Public-private partnerships were a common focus in channelling funds to producing countries. The importance of timing was emphasized, and the need for potential recipients to be in close contact with the funding agencies.

12. The panel discussed how the funding in public-private partnerships can be put together, for example in cases where only partial funding has been secured. In many cases, contributions from recipient countries can be in-kind, rather than in cash. Furthermore, there are many different types of partnerships, with different requirements, even within the same institutions. For many donors, it is important that the project be in the public interest, and in line with national developmental priorities.

13. The panel was asked specifically about their gender programmes, and to what extent gender was a consideration in their funding priorities. For many institutions, any lending programme will have specific criteria regarding the impact on gender, and this has to be taken into consideration in any proposal evaluation. This was a particularly important issue for the coffee sector, as many producing countries had suffered violence in the past, with the result that many coffee farms were run by women. Many institutions were therefore undertaking programmes to support women cooperatives and associations.

14. Finally, the panel discussed what they thought the key issues facing the coffee sector would be in the near future. Increasing productivity was considered vital in order to improve farmer income, and this was not something that could be approached from a short-term perspective. There were concerns that average farmers were simply not able to make a living from growing coffee, and this was something that needed collaboration between consuming and producing countries to tackle. One way to approach this was through technical assistance, to increase productivity and quality, as well as encouraging farmers to diversify their income sources. A further concern was the impact of climate change, and the increasing frequency of outbreaks of pests and diseases, for example the current coffee leaf rust crisis in Central America. In order to tackle these various threats, farmers needed access to finance, and so the challenges such as small farmer size, lack of collateral and financial records also needed to be taken into account.

Panel discussion: Social and sustainable funding

15. This session was aimed at answering the question of how governments might work with social and sustainable lenders to assist in the expansion of finance. Furthermore, 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? The panel was moderated by the Progreso Foundation, and included representatives from IDH, Neumann Foundation, Rabobank Rural Fund, ResponsAbility, Shared Interest, Triodos Invesment and FAST.

16. There are many challenges that prevent producer organizations from accessing finance. For example, in order to access trade finance, a producer needs to provide financial records and the necessary documentation to prove their creditworthiness. Some organizations are at this stage of development where they can meet these requirements, but many more are not. For other organizations, the focus is more on demonstrating a commitment to sustainable trade and development, with a focus on smallholder farmers. This is normally done by working with certifying organizations, but identifying producer organizations can still be difficult, and there is more work that needs to be done. It was suggested that the ICO could help funding institutions to identify relevant producer organizations in coffee-producing countries.

17. A further challenge for financial access can also be a lack of cooperation from governments. Government control can make it difficult for social lenders to operate in certain countries. There has also in the past been an issue of mistrust between governments and financial institutions, due to loans not being repaid and collateral being seized. Again, the ICO could play a role in engaging with governments and helping to rebuild trust.

18. Finally, the panel discussed what the ICO should be doing to support smallholder farmers in the market. It was noted that low prices, and therefore low farmer income, was a major issue in the coffee sector. Coffee farmers don't receive enough revenue to reinvest in their farms, and so the ICO should be lobbying for regulation to ensure a transparent market. The ICO could also help farmers to mitigate risk, potentially by establishing a long-term hedging mechanism. The Executive Director confirmed that the ICO was currently in discussions to improve the possibilities of price hedging over the long term.

Discussions on outcomes and next steps

19. It was noted that the ICO could act as a facilitator for putting producing countries in contact with financial institutions, and giving practical advice on how best to communicate. For example, if a producing country is looking to implement a project to help coffee farmers, the ICO can provide information on which institutions to contact, and how the funding process might work. This can become a permanent activity of the ICO's work, and the first step will be a follow-up event in March where donor institutions can present practical information on how to structure a project proposal in order to obtain financing. The ICO's role in this process will be to act as a facilitator.

20. It was emphasized that project proposals need a lot of preparation and analysis, often with very specific requirements. The initiative for the ICO to establish a workshop specifically on the development of projects, with the participation of the development banks and other financial institutions, was therefore roundly welcomed.

Thanks

21. The Chairman thanked all the speakers and panellists for their participation and valuable contributions, particularly given the long distances many representatives had travelled in order to take part. He also thanked the staff of the ICO for their hard work in putting together the Forum.