Promoting the Coffee Sector to Fight Poverty in Asia

ICO Expert Panel on Coffee Sector Finance
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Michael Barrow
Infrastructure Finance Division 1
Private Sector Operations Department
Asian Development Bank

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Asia is an important and growing player in coffee

- Asia represents 30% of the world’s coffee bean production, against 15% twenty years ago
- Asia’s coffee production has been growing at 5% a year, against -1% in both Latin American and Africa over the last 5 years

Source: ICO, FAO
ADB is a major development partner in Asia

- Vision: Asia and Pacific Free of Poverty
- Founded in 1966
- Owned and financed by its 67 shareholder countries: G7+
- Over 2600 staff from 58 countries
- Rated AAA
- Headquarters in Manila

- 2009 Activity:
  - Loans: US$13.2 billion
  - Grants: $1.1 billion
  - Technical assistance: $267.2 million
  - Private Sector assistance: $1.7 billion

A May 2010 World Bank research study ranked ADB as number 1 among 38 bilateral and multilateral donors for overall aid quality

ADB’s involvement in coffee has been limited so far, but potential for intervention exists

Sector breakdown of ADB’s assistance

- Energy: 23%
- Agriculture and natural resources: 14%
- Water and municipal infrastructure: 10%
- Transport and information: 28%
- Finance: 15%
- Industry and trade: 3%
- Education: 5%
- Health: 3%

Typical agriculture projects

- **Rural infrastructure** (roads, markets, etc.)
- **Irrigation** (water management, flood control)
- **Agri-business** investment and value chain improvement – this could be done for the coffee value chain
- **Trade finance** support
- **Research** (agriculture, stock management, food security and policy research) – today focused on rice, but could be expanded to coffee

A strong traditional focus on infrastructure (“Asian Dams and Bridges”) … but new sectors are emerging
Case Study: Greater Mekong Subregion Agricultural Cooperation

Vision
The Greater Mekong Subregion is recognized as the leading producer of safe food, using climate friendly agricultural practices and integrated into global markets through regional economic corridors.

Pillar 1: Food Safety
Trade Modernization

Pillar 2: Climate
Friendly
Agriculture

Pillar 3: Biomass and
Rural Renewable
Energy

Foundation:
Agricultural Research and Development

Private Sector Involvement

Institutional Mechanisms for Regional Cooperation

- Promotion of high-value crops, including coffee
- Harmonization of custom procedures
- Trade standard harmonization and equivalence

ADB private sector operations are growing fast

Finance

$68m

$196m

$543m

$1,135m

$1,845m

2001 2002 2003 2004 2005 2006 2007 2008 2009

Infrastructure

$267m

$758m

$1,171m

$1,670m

50% CAGR

ADB Strategy 2020: Scale up private sector development and private sector operations in all operational areas, up to 50% of annual operations by 2020
What can ADB private sector operations do for you?

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<tr>
<th>Products</th>
<th>PSOD Focus</th>
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<tr>
<td>➢ Debt (offshore/local)</td>
<td>➢ Infrastructure:</td>
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<tr>
<td>➢ Equity</td>
<td>▪ Power &amp; utilities</td>
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<td>➢ B-loans</td>
<td>▪ Transport</td>
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<td>➢ Political risk guarantees</td>
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<td>➢ Partial credit guarantees</td>
<td>▪ Commodities &amp; agribusiness</td>
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<td>➢ Other cofinancing</td>
<td>▪ Social infrastructure</td>
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<td>➢ Capital Markets:</td>
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<td>▪ Other financial institutions</td>
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<td>▪ SME finance</td>
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<td>▪ Housing finance</td>
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<td>▪ Trade finance</td>
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Trade Finance overview

What is the Trade Finance Program (TFP)?

An ADB program that provides guarantees and loans to banks in support of trade.
TFP: Credit Guarantee (CG) Product
ADB provides guarantees in **24 hours** to Confirming Banks covering up to 100% of non-payment risk.

1. **Issues guarantee (for up to 100%) in favor of Confirming Bank**
2. **Confirms/guarantees Issuing Bank payment obligation (such as L/C)**
3. **Assumes political/commercial risk**
4. **Assumes importer risk**
5. **Requests CG issuance under TFP limit. Request can originate from either Issuing or Confirming Bank**
6. **Requests opening of a payment obligation (such as L/C) in favor of exporter**

**Export activity**
- Signs sales agreement
- Ships goods

**Confirming/Issuing Bank activity**
- Issues payment obligation (such as L/C)
- Assumes importer risk

**Exporter/Importer**
- Requests opening of a payment obligation (such as L/C)
- On-lends to Exporter/Importer

TFP: Revolving Credit Facility (RCF)
ADB provides pre- and post-export financing through local banks.

1. **ADB assumes bank risk, not Exporter/Importer risk**
2. **Submits documentation detailing proposed transaction(s)**

**Borrowing Bank**
- Requests for pre- or post-export funding
- On-lends to Exporter/Importer*

**Export activity**
- Signs sales agreement
- Ships goods

**Local bank activity**
- Submits documentation detailing proposed transaction(s)
- Requests for pre- or post-export funding

*Endorsed limit renewed back to prior arrangements (amount, duration) once loan is repaid, hence ‘revolving’ nature.
Sample transactions supported by TFP

Counter-Guarantee
- Importer: Bangladesh
- Exporter: Hong Kong, PRC
- Confirming bank: Shenzhen, PRC
- Product: Telecommunications equipment
- Value: $16 million USD
- Cover: 50%

Counter-Guarantee
- Importer: Azerbaijan
- Exporter: Germany
- Confirming bank: Germany
- Product: Capital equipment for drying fruits
- Value: $600,000 USD
- Cover: 100%

Pre-Export Financing
- Bank based in Colombo, Sri Lanka
- Revolving Credit Facility: $6 million USD
- On-lend value: $250,000
- Purpose: Pre-export finance
- Beneficiary: Tea producer
- Location: Sri Lanka
- Export markets: Europe, Russia
- Export goods: Tea

Trade Loan
- Importer: Viet Nam
- Exporter: Singapore
- Confirming bank: USA
- Product: Dump trucks and excavators
- Value: $5 million USD
- Cover: 100%

94 Issuing Banks supported in 12 countries

- Uzbekistan
- Nepal
- Mongolia
- Azerbaijan
- Afghanistan
- Pakistan
- Sri Lanka
- Bangladesh
- Viet Nam
- Philippines
- Cambodia
- Indonesia
- Bangladesh
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- Cambodia
- Indonesia
More expected through 2010 expansion plan...

...and through 2011
TFP Program Highlights

- TFP supported nearly $2 billion in trade in 2009; and $1.2 billion 1st half 2010
- # of transactions between developing countries: 200+ in 2009, 40% of 2009
- # of transactions involving SME businesses: 250+ in 2009, 50% of 2009 TFP portfolio
- TFP support for agriculture-related transactions from 2009: $117 million

Visit our website: www.adb.org/tradefinance