Risk: a model for its mitigation
(a Producer Perspective)

What is Risk?,
A producer perspective...

- Who will receive my crop (less 24 hrs) after picking?
- How to secure the best price for my crop?
- How to assure my payment will be done?
  - I need money now!...to pay the pickers.
  - How to finance agronomic needs for the next crop?
  - Agronomists!.....very welcome!
  - How do I keep informed of the best agronomical practices?
  - Climate Change?!
  - Among others...
We Grow a Unique Sustainable Model

Equitable

LAW N° 2762

Promotes a unique model of fairness among the members of the coffee sector:

- Producers,
- Mills,
- Roasters,
- Exporters.

50,631 producer families

92,3% produce less than 75 bags.
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**Equitable**

1. Producer delivers cherry and gets advance payment.
2. Mill must report to ICAFE (every 15 days) the total Coffee received.
3. **Volume not weight**

**Advance payment: Producer**

**Picking**
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Advance payment: Producer

Agronomic issues
- Pruning
- Soil Analysis
- Field Maintenance
- Coffee renovation
- Pest and diseases
- Controlled Fertilization

Advance payment: MILL

How does the mill funds?
- Bank Loan (USD $)
- Register loan in a financial mechanism, Currency Hedge.

Producer

Bank

Mill

ICAFE

($ ≠ $)

Producer

¢
We Grow a Unique Sustainable Model

**Equitable**

1. Producer delivers cherry and gets advance payment.
   **Volume not weight**

2. Mill must report to ICAFE (every 15 days) the total Coffee received.

3. Green Coffee sales (Mill to Exporter or Roaster), MUST be reported to ICAFE, to be approved according International prices and differentials. Every transaction has a contract registered in ICAFE.

4. Mills, by law, must make payment adjustments every 3 months, according sales advancement.

5. **Sales begin**

   - Sales are checked (ICE-differentials)
   - Sales are registered
   - Price / Exchange rate vigilance to be consider in the final payment to the producer
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**Equitable**

1. Producer delivers cherry and gets advance payment.
2. Mill must report to ICAFE (every 15 days) the total Coffee received.
3. Green Coffee sales (Mill to Exporter or Roaster), MUST be reported to ICAFE, to be approved according International prices and differentials.
4. Every transaction has a contract registered in ICAFE.
5. Mills, by law, must make payment adjustments every 3 months, according sales advancement.

**FINAL payment:** Total Sales - Expenses Approved by ICAFE - Mill Utility (Fixed by Law 9%).

**FINAL payment prices:** Must be published in Costa Rica’s main Newspapers, and the Mill must pay the producer within the next 8 days the balance due.

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**Currency Hedge**

Protection against exchange rate

- As contracts were set
- And final payment calculus are done.
- Coopepalmares can use the Currency Hedge, to protect the producer.
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Equitable Trade

Producers receive **80%** of the price per bag sold.

- **14.9%** for Producer
- **3.3%** for Mill (Process Costs + Utility)
- **1.2%** for Exporter
- **0.5%** for ICAFE (Model Sustainability)
- **80.1%** for FONECAFE

2010-11 Crop
ICAFE DATA

We Grow a Unique Sustainable Model

Coopepalmares R.L

- 50 Years (1962-2012)
- 1300 Producer Families
- 35% female, 65% male
- Farm supply store
- Social programs
- Grocery store (1970)
- Medical service

- Full time Agronomist
- Finance and Credit
- Roaster
- Organic fertilizer
- Special Coffee program
- Environmental Program
- ISO 14001 – 9001, certified.
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Costa Rica - Coopepalmares

- Advance payment
- Payment Adjustments (every 3 months)
- Utility margins (Mill – Exporter) presetted by the model
- ICAFE take part on the control over
  - Price
  - Milling costs and
  - Throughput analysis (volume – weight)
- Final payment
- Final payment
- Includes all sales,
- Average of prices.
- Fixed deductions

How is the producer protected?

We Grow a Unique Sustainable Model

Equitable Trade

Crop runs APRIL - MARCH
ICAFE DATA
We Grow a Unique Sustainable Model

Conclusions

• Coffee grows on a fertile grown based on an institutional equitable-legal frame.

• Café de Costa Rica model achieves the objective of reducing risk based in two main variables: Price and Exchange Rates

• Efficiency proveed of over 80 years.

• Final Payment system is unique in the world, giving the producer the best and right price for his crop, as well, in a parallel way, an equitable participation to the other partners of the coffee chain.

• Risk is mitigated due to the Monitoring, Registry and Verification during all phases by ICAFE.

Life is a gift, and it offers us the privilege, opportunity, and responsibility to give something back by becoming more.

-Anthony Robbins-