Coffee Sector Risk Management

Marc Sadler
Team Leader
Agricultural Finance and Risk Management Unit
Agriculture and Rural Development Department
The World Bank

Presentation to the
International Coffee Organization
2nd Consultative Forum on Coffee Sector Finance
6 March 2012

About ARMT

• The Agricultural Risk Management Team is part of the World Bank’s Agriculture and Rural Development Department

• ARMT focus on assisting clients in identifying and managing agricultural risks

• ARMT Clients include:
  • Macro – Governments
  • Meso – Banks, Insurers, Farmer Associations, Exporters
  • Micro – Traders, Cooperatives, Farmers

• Funding of ARMT comes from Swiss SECO and the Dutch government
Risk – more than just price…….

- Price risk is just one of many risks facing the coffee sector
- Risk identification, assessment and prioritization are vital steps in developing an appropriate risk management strategy for each country
- Failure to prioritize risks can result in inappropriate focus being made on only some risks

For example:
- Weather – *Weather events ranging from droughts to floods can generate substantial losses for the entire supply chain*
- Pest & Disease – *Outbreaks of pests and disease may result in heavy losses to producers and the wider coffee sector*

Relationship between Risk and Finance

- Tackling the “financing gap” requires a comprehensive understanding of all sector risks and the means for prioritizing and dealing with them
- Major risks affecting coffee sectors across the world:

<table>
<thead>
<tr>
<th>Production</th>
<th>Market</th>
<th>Enabling Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drought</td>
<td>Intra-seasonal Price Volatility</td>
<td>Reputational</td>
</tr>
<tr>
<td>Pest &amp; Disease</td>
<td>Long Term Price Collapse</td>
<td>Theft</td>
</tr>
<tr>
<td>Erratic Rainfall</td>
<td>Input Price Volatility</td>
<td>Logistics</td>
</tr>
<tr>
<td>Quality</td>
<td>Counterparty</td>
<td>Regulatory Changes</td>
</tr>
<tr>
<td></td>
<td>Exchange Rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Rate</td>
<td></td>
</tr>
</tbody>
</table>
Developing a Sectoral Risk Management Strategy

- ARMT have conducted supply chain risk assessments for the coffee sectors of Haiti, Cameroon, Vietnam and Uganda
- The risk assessments identified, quantified and prioritized key risks facing the sectors and the stakeholders
- Risks vary by country in terms of importance, impact and significance
- Only once risks are understood and prioritized can a comprehensive risk management strategy for the sector be developed
detailing actions and responsibilities

<table>
<thead>
<tr>
<th>3 Tasks</th>
<th>3 Risks</th>
<th>3 Layers</th>
<th>3 Stakeholders</th>
<th>3 Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify</td>
<td>Production</td>
<td>Idiosyncratic</td>
<td>Macro</td>
<td>Mitigation</td>
</tr>
<tr>
<td>Assess</td>
<td>Market</td>
<td>Covariate</td>
<td>Meso</td>
<td>Transfer</td>
</tr>
<tr>
<td>Manage</td>
<td>Enabling environment</td>
<td>Catastrophic</td>
<td>Micro</td>
<td>Coping</td>
</tr>
</tbody>
</table>

Risk Layering - Roles & Responsibilities

A risk management strategy involves assigning and layering risk, ensuring that levels of risk are dealt with in an appropriate way by the most suitable stakeholders

- Improved agronomic practices; Water-use efficiency and irrigation; Drought resistant varieties; Improved forecasting.
- Savings; informal coping strategies.
- Catastrophic risk pooling; (ARC) Safety Nets/Humanitarian Assistance.

Farmers & Cooperatives | Cooperatives | Government
Next Steps /Going Forward

• ARMT aims to collaborate with ICO to undertake an exercise which examines coffee sector risk and access to finance

• Research will consider how risks vary across the industry and consider how they can best be prioritized and managed

• A better understanding of how unmanaged risks restrict finance, and how improved risk management releases finance, will be the goal of this exercise

Thank You!

For more information, please visit:

www.worldbank.org/agrm

www.agrisktraining.org

www.agriskmanagementforum.org