



**INTERNATIONAL
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**African Coffee Facility –
Summary of the concept note**

Background

This document, submitted by the InterAfrican Coffee Organisation (IACO), contains the summary of a concept note to create a coffee development fund known as the African Coffee Facility to mobilise resources to bring sustainable solutions to unlock the potential of the African coffee industry.

Action

The Projects Committee is requested to consider this proposal as well as the recommendations of the VSS and, if appropriate, to recommend its approval by the Council.

AFRICAN COFFEE FACILITY – SUMMARY OF THE CONCEPT NOTE

I. Background

1. In view of Africa's young and growing population, labour-intensive sectors must play a larger role in the continent's transformation. The African continent has the largest number of coffee producing countries and the industry is essential to many countries as it is a primary source of income for more than 12 million households, and contributes a significant proportion of tax income in a number of these countries. Indeed, the coffee sub-sector will continue to offer opportunities for growth, raising earnings and transforming lives of the farming communities. Africa holds a great potential for catalysing private sector development, creation of jobs and generation of income for both public and private sectors — including farmers, processors, cooperatives, exporting firms and governments among others.

2. However, as in the case of many other agricultural sectors, the development of the coffee sector in Africa faces a number of challenges closely dependent on each individual situation of the 25 coffee producing countries. It is against this background that within the framework of the 4th Consultative Forum on Coffee Sector Finance of the International Coffee Organization and under the leadership of the Secretary General of the InterAfrican Coffee Organisation (IACO), various partners in the coffee value chain have approached the African Development Bank to request the creation of a coffee development fund known as the 'African Coffee Facility'. With the goodwill and understanding of the Bank, it is expected that this Facility will mobilise resources to bring sustainable solutions to unlock the potential of the African coffee industry.

II Rationale and objective

3. The proposed Facility shall identify and support interventions to integrate small scale coffee producers in the coffee value chain, hereby providing the target group access to markets and technologies that will improve their competitiveness. The Facility will also make use of and further promote the sharing of experiences, knowledge and more important opportunities (investments) of all participants in their activities in the region. The purpose is a systematic sectoral (agriculture) and commodity (coffee sub-sector) approach which will increase (economic) growth and reduce poverty of communities in rural areas through public-private sector initiatives.

4. The main objective is to create a non-reimbursable (grant¹) investment facility to fund ongoing and planned initiatives with the specific objective to expand production and market access of quality African coffee. This is to occur at national and regional levels, so as to take full advantage of growing market demand for coffee. This objective will be achieved by implementing activities tailored to the needs of beneficiary groups and specific conditions in each focus country, as well as activities having a multinational scope.

III. Components

5. This objective will be met through the implementation of four components:
- (a) Building a regional sustainable coffee supply chain.
 - (b) Building demand, market linkages and investment.
 - (c) Promoting climate change adaptation and environmentally responsible practices.
 - (d) Dissemination of information, and communication of lessons-learned, sharing of experiences and tools, and building partnerships.

IV. Benefits and beneficiaries

6. The benefits of this proposed Facility are three-fold:
- (i) Achieve economies of scale in developing materials, thus allowing training methodologies and materials to be disseminated more broadly than in individual project by project.
 - (ii) Strengthen intra-regional exchanges of methodologies for producing high-quality coffee.
 - (iii) Take the lessons learned by the different pilot countries on producing and marketing quality coffee and use them in other countries in the region.
7. The direct benefits for the beneficiaries targeted through this Facility include:
- (i) Increased volume and value of high quality coffee trade with global partners.
 - (ii) Increased producer income.
 - (iii) Increased participation and engagement of the youth and women in coffee production.
 - (iv) Improved food security through balanced and diversified farming systems.

¹ *The grant component will also be important as a stimulus—a possibility to link it with loans that will support investments in the coffee value chain, which will require the presentation of credible business plans or feasibility studies that can be financed by the Facility.*

- (v) Improved environmental sustainability.
- (vi) Improved climate adaptation and mitigation measures.
- (vii) Improved relationship between the producers, traders and financial institutions.
- (viii) Increased knowledge of the producers in improved coffee management and processing practices, credit management and organising and managing farmers cooperatives.

8. The general benefits to Africa's Coffee Sub-sector are:

- (a) Employment creation, food security, and rural poverty reduction in Africa.
- (b) Improvements and efficiency gains in the Coffee Value Chain in Africa.
- (c) Gender & youth empowerment and employment opportunities (job creation).
- (d) Implementation of adaptation technologies for mitigating adverse environmental factors, which will benefit the agricultural sector.
- (e) Major boost in foreign exchange earnings for the producing countries and improvement in the livelihoods of the smallholder coffee producers.

9. The benefits to coffee roasters and trade houses are:

- (a) Consistent supply of quality coffee in required volumes.
- (b) Improved relationship between African coffee producers and traders/roasters.
- (c) Joint identification to pursue up-stream green and/or brown field investments in coffee producing areas.
- (d) Priorities for the coffee traders to buy the required quantities of high quality coffee from the projects or beneficiary countries.
- (e) Recognition that Africa is serious about rehabilitating its coffee sector.

V. Cost and financing

10. The Facility expects to start with a total of at least US\$50 million (minimum size of the fund), with a target to reach of US\$150 million to be completed over the next 18 months. This size is appropriate to attain the critical mass necessary for the Facility to make high impact investments in line with its overall objective. A significant part of the Facility's capital will come from the bank, to be agreed with the bank management, and will furthermore be raised from private sector, foundations and other donors. The facility will have a lifetime, to be advised by the bank's systems and procedures, but for instance could be 10 years².

² In line with Bank's Ten year strategic planning (2013-2022), from inclusive growth to sustainable green growth.

VI. The role of the private sector in contributing to co-financing the Facility

11. Multinational companies are already operating in all coffee producing countries, and have allocated millions of dollars of intervention at various stages of the value chain. This is demonstrated by their commitment to invest over US\$3.5 billion through the WEF/Grow Africa Initiative on agriculture, targeting key commodities like cassava, coffee, cocoa and palm oil. Preliminary discussions indicate that they are also willing to partner with IACO and African Development Fund (AfDB) to enhance coordination, sharing of knowledge and experiences and deepen impact of their respective development interventions. A notable example of the private sector involvement is the pilot project in Burundi spearheaded by Sucafina, a Swiss trading company. The company raised funding from various stakeholders to build coffee farmers' capacity in improving coffee quality and yield as well as involving women in the industry. The project — known as 'Promoting a sustainable coffee Sector in Burundi' was designed in collaboration with the International Coffee Organization. Kahawatu, a non-for-profit organisation, was set up to manage the project and to continue to raise funds.