

Access to Finance: the Key to Increased Productivity and Sustainability

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5th African Coffee Sustainability Forum
Nairobi, Kenya, 11th February 2015



Bridging the Gap Between Farmers and Finance

Key Lessons From



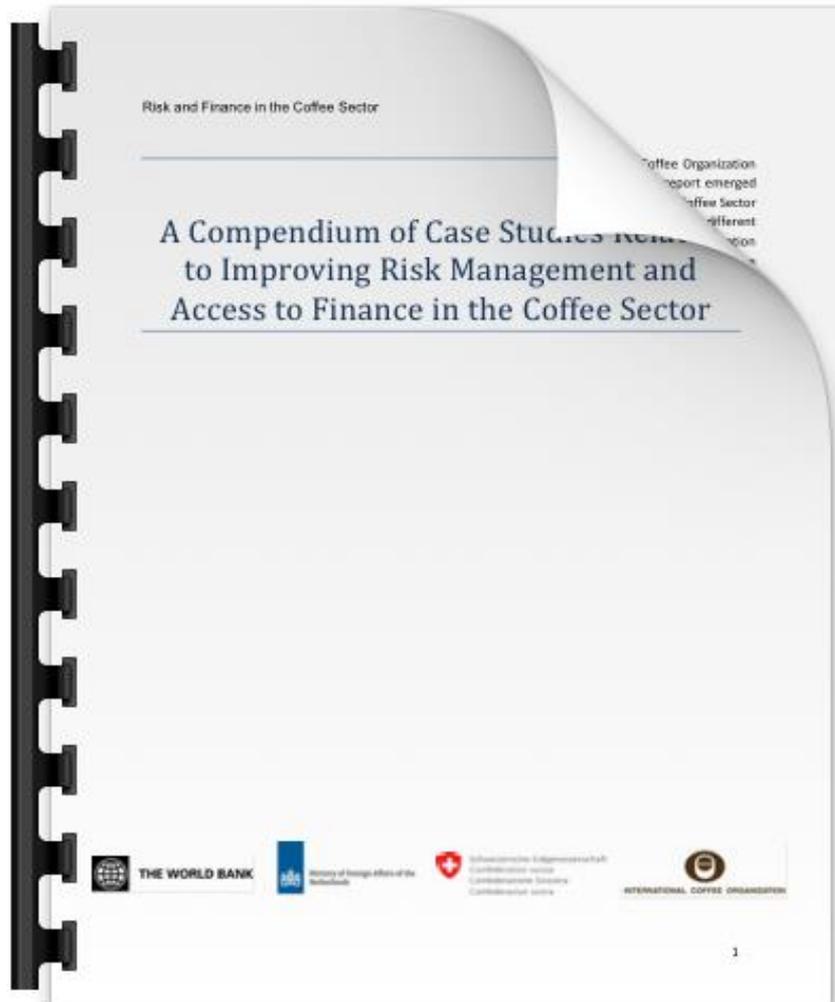
INTERNATIONAL
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Consultative Forum on Coffee Sector Finance

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Key Lessons From



A group of women in traditional attire, including yellow headscarves and orange and red clothing, are walking through a lush green field. They are carrying large woven baskets on their heads. The scene is overlaid with a semi-transparent orange circle containing the text "Where Are We?".

Where
Are We?

Where are we?

Fact: millions of coffee farmers lack sufficient credit



An aerial photograph of a large-scale construction project, likely a water treatment facility. The site is divided into numerous rectangular basins and channels, some of which are filled with dark, granular material. In the lower right quadrant, two workers in yellow safety gear are visible, working on a section of the site. A large, semi-transparent orange circle is superimposed over the center of the image, containing the word "Why?" in white, bold, sans-serif font.

Why?

Why?

High costs due to intrinsic nature of often isolated rural markets



Why?

Inability of farmers to handle risks
keeps risk averse lenders at bay



What to do?

Need to understand those risks and help farmers mitigate exposure



A photograph of a group of people in a coffee plantation. A large, semi-transparent yellow circle is overlaid on the center of the image. The word "Who?" is written in white, sans-serif font across the middle of the circle. The background shows lush green coffee plants with small green cherries, and a hilly landscape with trees in the distance under a bright sky. In the foreground, a woman in a black top and a man in a red and orange striped shirt are visible, along with another person in a plaid shirt.

Who?

Who?

- Main stakeholders in collective action:
 - Producer associations
 - Governments
 - Non-profit organizations
 - Private sector
 - Other intermediaries



ICO's Consultative Forum

- Bridging the Gap Between Farmers and Finance
- Bringing donors, governments and financial institutions to the table to ensure that financing meets the needs of producers
- ICO to act as facilitator to put producers in touch with financiers



Aggregation as a platform to achieve access to finance

- Priorities identified at 3rd Consultative Forum in Belo Horizonte, Brazil
- How to create an enabling environment?



Aggregation as a platform to achieve access to finance

Driving forces	Restraining forces
Market incentives	Lack of female participation
Examples of successful coops	Lack of education about coops
Management and leadership skills	Poor legal framework and corruption
	Risk aversion and risk management





Characteristics of the Coffee Sector

Characteristics of the Sector

Fact: the coffee sector has experienced tightened credit conditions during difficult financial times



Characteristics of the Sector

Often actors within the supply chain have an inadequate appreciation of the risks they face



Characteristics of the Sector

The prevalent lack of confidence in lending to the coffee sector reflects general challenges associated with lending to agriculture

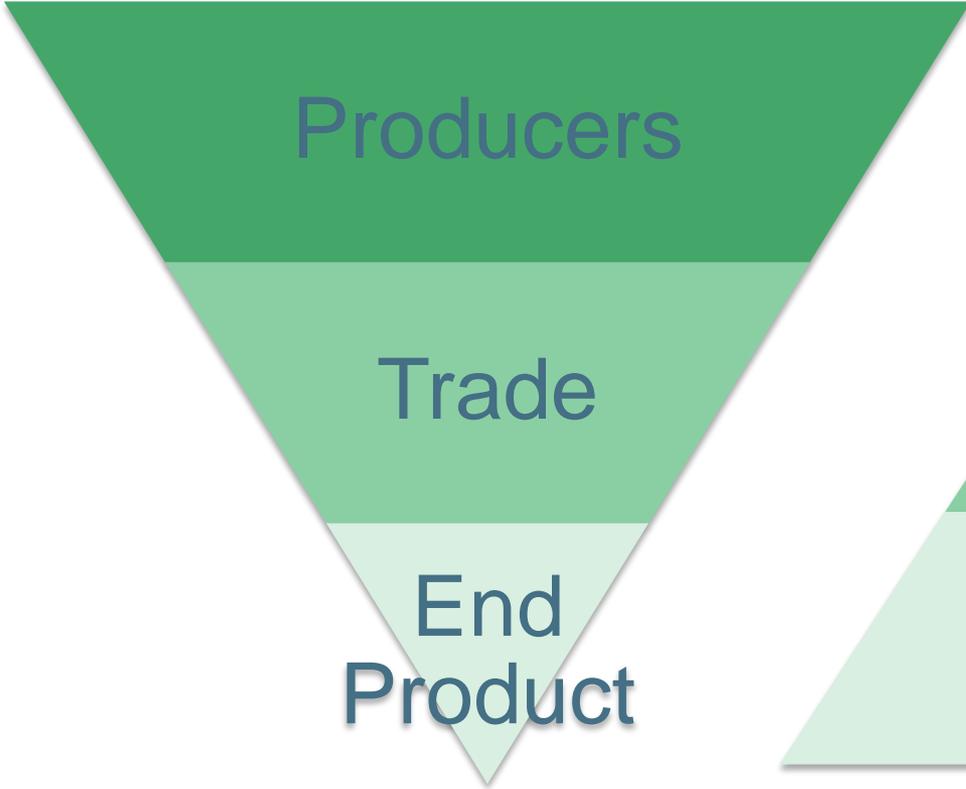


General challenges with lending to agriculture

- Relatively high transaction costs
- Weak credit cultures
- Lack of collateral (and collateral realization on default)
- Frequent climatic events
- Overall ineffectual risk management



**Perceived Funding
Risks**



Producers

Trade

End Product



Access to Funding

Because risk is not the same for everyone...



Access to credit and the ability to manage risk effectively is not equal within the coffee supply chain. The origin end faces the greatest shortage of financing as it generates the lowest value



There is an opportunity here...

Precisely because of its **vulnerability**,
the greatest **potential** for improvement
in risk and finance exists **at origin**



There is a need...

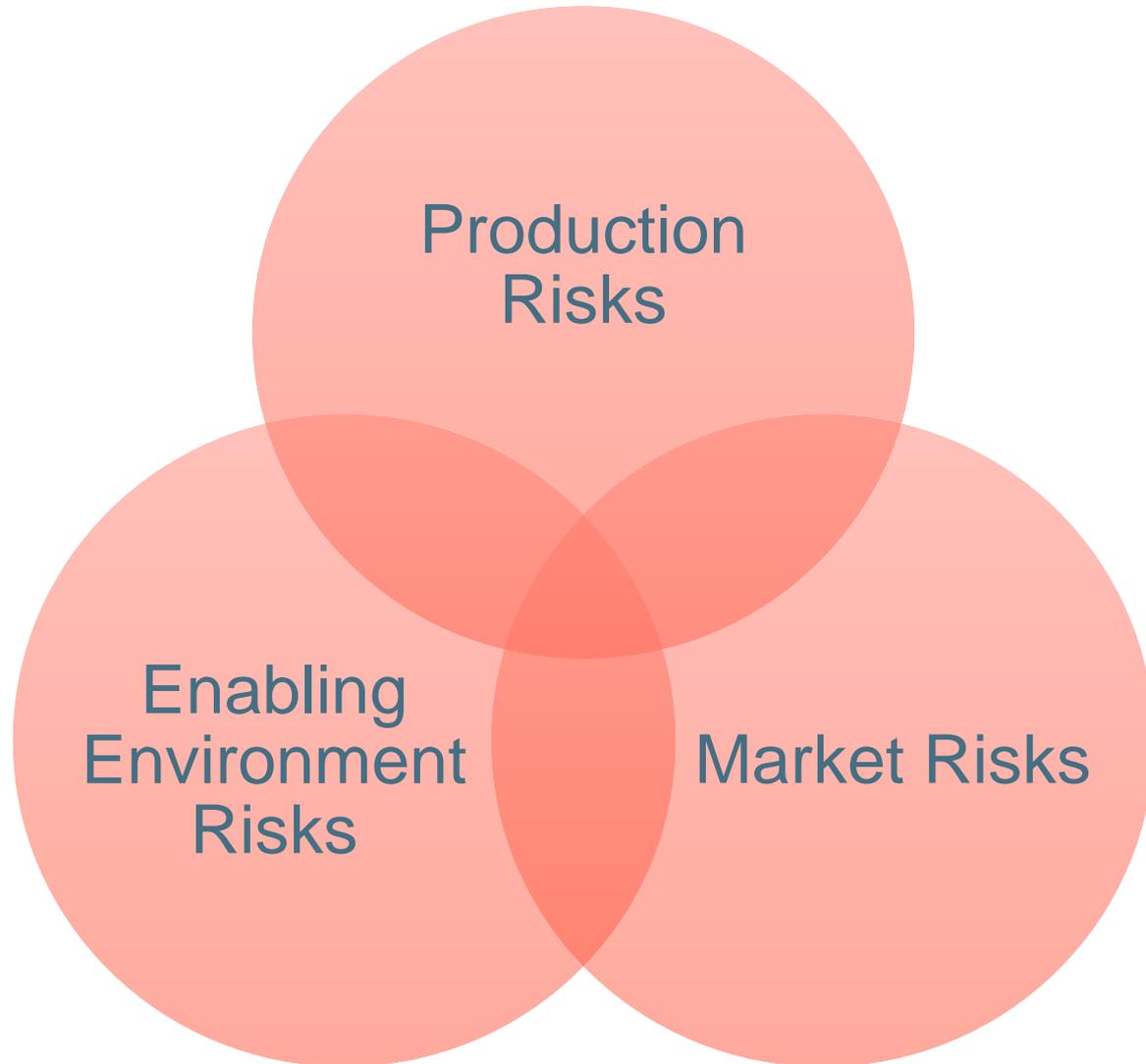
Global unmet demand for smallholder finance (not just coffee) has been estimated at **US\$450 billion** in 2013



The background image shows several large, light-brown burlap sacks of coffee beans stacked in a warehouse. The sacks have some dark text and a logo printed on them. To the right, there is a window with a wooden frame, through which some equipment is visible. A large, semi-transparent red circle is overlaid on the center of the image, containing the title text in white.

Risks in the Coffee Sector

Risks in the coffee sector



Major Constraints in the Sector

Definition: a constraint is an existing condition or bottleneck that hampers smooth functioning of the supply chain and leads to its sub-optimal performance



As derived from case studies, the most prevalent constraints were:

- Limited extension and/or research services, which in turn worsens the risk of pests and diseases
- Poor or inadequate national infrastructure
- Limited financial literacy of potential borrowers
- Lack of borrowing or credit history of borrowers
- Non or limited realizable collateral
- Remoteness of producers with regards to banking services
- High transaction costs and low profitability of lending to small borrowers
- Lack of credible aggregated associations of smallholder farmers



An elderly man with white hair, wearing a blue checkered shirt, is smiling broadly while holding a large, shallow metal bowl filled with coffee cherries. He is standing in a coffee plantation, with coffee branches and leaves visible in the background. A large, semi-transparent blue circle is overlaid on the image, containing the word "Conclusions" in white text.

Conclusions

Conclusions

Only a holistic approach will achieve an expansion of financing as well as a fundamental improvement in risk management



Conclusions

The power of collective action is shown through the case studies where risks have been mitigated and/or transferred between supply chain actors and financing through cooperative arrangements



Conclusions

An integrated value chain is the key to greater productivity and sustainability. Paramount as access to finance is, without a tightened value chain success will remain partial at best





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