Access to Finance: the Key to Increased Productivity and Sustainability

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Bridging the Gap Between Farmers and Finance
Key Lessons From

Consultative Forum on Coffee Sector Finance

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Key Lessons From
Where Are We?
Where are we?

**Fact:** millions of coffee farmers lack sufficient credit
Why?
Why?

High costs due to intrinsic nature of often isolated rural markets
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
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

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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.
Risks in the Coffee Sector
Risks in the coffee sector

Production Risks

Enabling Environment Risks

Market Risks
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
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.