



**Report of the Core Group on the
Consultative Forum on the meeting
held on 25 September 2012**

1. The Core Group, chaired by Ms Amy Karpel of the USA, met in London on 25 September 2012 for the second time under the International Coffee Agreement 2007.

Item 1: Adoption of the Agenda

2. The Group adopted the agenda contained in document CG-3/12 Rev. 1.

Item 2: Introductions

3. The Chairperson introduced the remit of the Core Group and the outcomes of the first two Consultative Forums. The Group welcomed the four advisors who had been appointed by the Council for September 2012 and 2012/13 and experts in risk management and finance attending the Group for the first time: Mr Marc Sadler, World Bank; Ms Noemí Pérez, Finance Alliance for Sustainable Trade (FAST); Mr Silas Brasileiro, National Coffee Council (CNC), Brazil; and Mr Nicolas Tamari, Sucafina SA.

4. The Group noted the interest of advisors and experts in issues including consolidating global experiences of what worked well or not in coffee, what the problems and solutions were, and the applicability of lessons learned to the coffee sector. Other risks to production, such as pest and soil management, were as important as risk management *per se* and affected all those in the chain. It was important to take a broad view of risk management. Considerable research had been undertaken in the past and, rather than reinventing the wheel, the key was effective implementation and to ensure that what the Forum offered was accessible to farmers. There was concern to develop practical ways to improve access to finance, to work with information available in countries and to create tools to allow governments to share this with financial institutions and bridge gaps. Another challenge was to find out why it was so difficult for producers to access risk management

tools and then identify ways to improve access. Other issues included the volatility of prices caused by the activity of funds, which hampered the access of producers to the market, and the complexity of the market. Studies should be carried out to develop proposals that would enable producers to understand how the market worked, how to access it, as well as to examine ways in which to improve the liquidity of risk management instruments, especially put options. Consideration of how low income households managed risks and addressed needs at the household level so that producers did not have to divert their energy from the product should be kept in mind. Finally, the Group welcomed several speakers from previous Forums and took note of an invitation to Members to attend the Association for Science and Information on Coffee (ASIC) meeting in Costa Rica to see at firsthand what research had been done in this area.

Item 3: 2nd Consultative Forum

5. The Group noted that the 2nd Forum in March 2012 (see document CF-2/12) had provided an excellent opportunity for collaborative discussions on coffee sector finance and risk management to take place. Farmers need access to risk management tools and finance, to help them to continue to produce quality coffee, and others in the supply chain need a reliable supply of quality coffee. There was an opportunity for producers and others in the supply chain to work together to address both needs and it would be beneficial in the long-term to develop stronger links on these issues. Financial institutions needed to understand the needs of growers, so that they could provide tools which would be of most assistance while farmers needed to understand what financial institutions could and could not provide.

Item 4: Finance and Risk Management Challenges

6. The following points were raised in discussions on the challenges faced by producers, particularly smallholders, in connection with finance or risk management and strategies or programmes that could be effective in addressing those challenges.

Finance and risk management from broad and supply chain perspective

- Risk management and finance are often high priorities but farmers face other constraints such as access to inputs, land tenure and infrastructure. A holistic view of all the risks facing farmers is needed. Risk management should not be tackled in isolation without addressing issues such as good practices in sustainability or pests, access to markets, competitiveness, certification, etc.

- Finance and sustainability are closely related. Sustainability should be included in the discussion of access to finance and risk management.
- There is a need to look at finance from a supply chain perspective as there are risks throughout the supply chain, not just at the production stage.
- Industry has a vested interest in improving yields and quality and can best do this by working together with smallholders, in a pre-competitive space.
- There is a need to build trust between producers and the financial sector. United States Agency for International Development (USAID) has had success with projects that bring together various supply chain actors through value chain workshops to share information and build trust.
- Agricultural and financial institutions, traders, producers and other actors in the value chain could be brought together to ensure that finance is available for production inputs and other needs.

Relationship between finance, cost of production and productivity

- Countries face different situations and are at different levels of development. The issue of productivity is important as yields can vary from an average of five to over 25 bags per hectare. It is critical to raise productivity and yields; it is not enough to introduce finance and risk management.
- Access to finance is critical to producers' ability to increase yields, for example, through financing for crop renovation. A cooperative in Guatemala that was able to gain access to financing was able to increase its Members' yields significantly. Raising productivity and minimum average yields is crucial to increase the competitiveness of growers and improve incomes.
- Understanding the cost of production is critical. If producers understand their production costs, and how to reduce them, they can increase yields and will be better positioned to repay loans.

Knowledge and education

- Knowledge is key, and different from information. Knowledge is information that is understandable, accessible and delivered in a practical way. A key element of delivering knowledge is ensuring effective training of local trainers who can work directly with producers and associations, such as capacity-building by the World Bank, supported by the Swiss and Dutch Governments, where local people have been trained in price risk management and now train others locally.
- Financial education is a key component in expanding producers' access to finance. Farmers need help with understanding their production costs, investments that can improve productivity, the financial instruments available to meet their needs, the criteria for obtaining a loan, the terms of repayment, etc.

- Culturally, producers often tend not to see the benefit of protecting themselves against risks associated with price volatility. More needs to be done to explain to producers the costs and benefits of strategies and instruments to mitigate risk. Governments could help growers by developing programmes and incentives to participate in risk management strategies, such as the programme in Brazil to encourage farmers to take out insurance against volatility in prices. Financial institutions have sophisticated systems, however small producers need to access finance and risk management tools through uncomplicated systems. Education and information in accessible language are needed to help farmers to understand the market and the different financial products and mechanisms available to them.
- Governments can play a role in working with cooperatives and producers to help them improve quality and obtain a good price for their coffee, such as the programme operated by Kenya that includes the use of mobile phones to disseminate price information to producers.

Limited access to finance and risk management tools

- Often financing and risk management are available to the processor but not the producer. More focus needs to be on how to expand producers' access to credit and risk management.
- Smallholders do not have access to risk management and financial instruments; in lieu of agriculture finance, producers turn to microfinance where the costs and risks are high and producers are vulnerable to losing their land if they cannot repay the loan.
- Microfinance is available to the sector, but not always affordable, and is not a substitute for agricultural finance.
- Insurance premiums are usually too expensive for small farmers but costs could come down if volumes of sales were higher. More agents need to be encouraged to provide this option.
- Short-term seasonal and trade finance is more accessible than medium- or long-term finance required for replanting and other capital investments. Often the only source of financing for crop renovation is the government sector. The lack of financing for medium- or long-term investments is in part because lending institutions lack an understanding of the risks and needs involved. For example, in the case of replanting, the credit period should be for a minimum of seven years, while in other cases a year might be sufficient to ensure farmers do not fall into debt.
- When producers default on contracts, it is not because they want to, but because of price volatility. If producers take out loans on the assumption of prices rising and prices fall, they cannot repay the loans.

Educating financial institutions about the coffee sector

- More could be done to provide accessible information to banks and traders to help them better understand the needs of coffee growers, the purpose of the financing needed (e.g. seasonal, for renovation or other investments) and the variety of risks involved (e.g. price but also pests, climate, etc.). This would allow these financial institutions to develop specific products and services tailored to specific needs and risks. FAST is working in this area and has seen a range of models, some that work better in some countries than others. Technology also has a role to play in this, with FAST citing, for example, the work it has done in Costa Rica to make use of technology to facilitate access to information for financial institutions about the coffee sector.

Other points

- Lower risk leads to lower rates, and therefore, if risk can be reduced, access to credit at lower rates becomes available. Income guarantees for producers is one of the best ways to reduce risk, however these guarantees are expensive and supply of these guarantees is constrained. A key challenge is to determine how to attract agents that are willing to provide these guarantees.
- It is important to review the role of governments: what their role is and is not and how they could act as a catalyst in broadening access to risk management schemes.
- Issues such as sustainability, traceability and the value chain could be addressed at a future meeting.
- The cooperative movement plays a valuable role in helping small farmers negotiate good prices for inputs and accessing microfinance and information. The International Cooperative Alliance could encourage countries where there are few cooperatives to develop these.
- Showing farmers the end result of a product produced using different methodologies had been effective in a number of commodities and could be useful with coffee.

7. ICO Role

- The ICO could assist in addressing challenges in finance and risk management in three ways: (1) disseminating knowledge and acting as a conduit to get information to the people who needed it, including by packaging information in a way that is applicable and understandable to producers; (2) providing a forum to identify and discuss challenges and solutions and packaging it in a way that is practical to farmers; and (3) continuing to develop knowledge (as opposed to information).

- The ICO's role is different from that of other financial agents: to make recommendations to government on policies in finance and risk management that could be implemented to benefit the coffee sector. Solutions can be developed in the short- and medium-term.
- The ICO could identify elements that would broaden confidence and trust between producers and financial institutions so as to mitigate risk and expand access to credit, for example, technical assistance to producers on what is needed to obtain a loan, focus on a supply chain perspective, examination of production costs, traceability of finance, etc.
- Global best practice in risk management across several production types could be evaluated and a simple typology of best practices developed based on size of farms, yields and production system, targeted at different audiences: governments, commercial interests and producers. The ICO could partner with the World Bank to develop this typology.
- The ICO could assist in studying and calculating production costs.
- The ICO could carry out studies on access to finance to determine the level and type of finance that is accessible for producers, the gap between what is needed and what is available, and the financial institutions providing finance to different actors. This information could be disseminated to producers, governments, financial institutions and other stakeholders.
- The ICO could undertake a study of existing initiatives, such as those shared by Brazil, Mexico and Costa Rica during the 2nd Consultative Forum on Coffee Sector Finance, to assist growers in accessing risk management and finance. The study could provide more detailed information about the costs involved in developing and maintaining these initiatives, the institutions needed to develop these, and the practical steps required to replicate these in other countries. The study should also examine how much these existing initiatives are driven by the scale of production in the respective countries and other factors.
- The ICO could expand this role to act as a clearing house for information on coffee sector finance and risk management, such as on projects undertaken by development agencies and others in improving farmers' access to finance and risk management. The existing website could be developed to share user-friendly information about what was taking place and provide links to other sources of information and work in this area.
- The ICO could provide information on the coffee value chain in different countries and work with the World Bank, USAID and other organizations to hold workshops to enable smallholders to better understand the value chain, including constraints and opportunities, which would in turn help the flow of finance.

- The ICO and Members could capitalize on coffee events to share knowledge and experiences on finance and risk management issues. For example, the ICO Head of Operations and the Chairperson of the Consultative Forum participated in an event on access to finance hosted by Sustainable Harvest in Portland alongside the Specialty Coffee Association of America's annual coffee conference, which provided an opportunity to raise awareness about the Consultative Forum with several social investment funds, traders and other institutions.

Item 5: 3rd Consultative Forum on Coffee Sector Finance

8. The Group noted that Brazil would host the 50th anniversary meetings in September 2013. This would provide an excellent opportunity for a producing country to host the next Forum and include supply chain participants in the discussions. It was hoped that the conference facilities would allow for greater flexibility in terms of the format that could be used for the Forum, for example for round table discussions or break out groups.

9. In discussions on this item, it was suggested that a different format be used for the next Forum: a force field problem-solving model. Small break-out groups could identify driving and restraining forces and practical solutions to a broad problem. The representative of the National Coffee Association of USA (NCA) offered to facilitate the discussions. Members noted the need for practical deliverables, including priorities and relevant and accessible information for different constituent groups. It was also suggested that a set of goals for the short-, medium- and long-term should be defined. In the case of the next Forum, a short-term goal could include providing information on existing tools. The ICO could collaborate with other partners, such as in the area of dissemination by developing a dissemination strategy applicable to the work of initiatives such as FAST.

10. The Group identified two deliverables for the 3rd Forum: (i) a typology of best practices aimed at governments, the commercial sector and producers respectively and (ii) a declaration or statement setting out priorities and recommendations. Regarding the first, the Group agreed to accept the World Bank's offer to work with Members to develop a typology of global best practices on agriculture finance and risk management relevant to coffee, drawing on their experiences and existing tools and initiatives. This would be presented in different formats and language to meet the needs of the target audiences (governments, the commercial sector and producers). The World Bank and the ICO would need to work together to develop the terms of reference, including the structure and audience. The Group would review progress and gather additional information from Members at its meeting in March 2013, the typology could be presented at the 3rd Forum. Members agreed to work intersessionally to submit information as early as possible to ensure that the World Bank had the necessary input to ensure the success of this initiative.

11. Regarding the second deliverable, the Group further agreed that the format of the next Forum should include a force field problem-solving model that would generate specific recommendations and identify priorities. The outcomes of the discussion could be issued in the form of an ICO declaration or statement. The Group would prepare for the 3rd Forum at its next meeting including identifying a broad problem for discussion. It would continue to work intersessionally to ensure the success of and practical results from the March and September meetings.

12. The Group also noted the utility of producing an inventory of existing sources and types of finance and risk management instruments available in the coffee sector as well as strategies and initiatives aimed at facilitating producers' access to finance and risk management.

13. Finally the Group took note of document CG-4/12 Rev. 1 containing information to assist Members in considering preparations for the 3rd Consultative Forum.

Item 6: Dissemination

14. The Group agreed to consider at its next meeting ways of disseminating the results of the Forum and positioning it, as well as developing materials and information in a more accessible way such as through factsheets, recommendations, and ideas on additional information. It was suggested that a short profile or promotional piece with information about the purpose, benefits, and key outcomes of the Forum could be prepared, written in a way that would generate widespread interest and broaden participation. The language and content of the document could vary depending on the audience targeted, for example financial institutions, producer organizations or governments.

Item 7: Considerations for future Forum events

15. This matter would be discussed further at the next meeting.

Item 8: Core Group

16. The Group noted that the meeting had been very productive and Members were invited to continue to contribute ideas and suggestions on how to improve future meetings.

Item 9: Next steps

17. The Group noted that the Chairperson would report to the Council on the meeting.

Item 10: Other business

Financial Literacy Tool Box

18. The representative of FAST made a presentation on the development of this project. A copy of her presentation is available on the technical presentations section of the ICO website (<http://www.ico.org/presents/1112/core-september-fast.pdf>).

19. In discussions on this item the Group noted that some financial institutions placed stringent conditions on access to finance. It would be useful to find ways of helping them understand and meet the needs of producers and facilitate access by small producers who did not have the capacity to prepare business plans. The point was made that it was easier to present a package of requirements to an institution for a number of producers than for an individual. Once banks were aware of the potential for investment, they could develop specific services. It was essential to have detailed and local knowledge of producers to assist with making recommendations. This had proved opportune in Costa Rica where the Government had been convinced of the advantages of facilitating access to long-term credit for replanting for both the coffee growers and the country as a whole.

Item 11: Date of next meeting

20. The Group expressed its appreciation to the four advisors and experts for attending the meeting and noted that its next meeting would take place during the 110th Session of the Council in London from 4 to 8 March 2013.