

AFRICAN COFFEE MARKET: FINANCING THE SMALLHOLDER IN THE CURRENT WORLD ECONOMIC SITUATION

**A PRESENTATION
TO THE
7TH AFRICAN FINE COFFEE
CONFERENCE AND EXHIBITION**

BY

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EFFECTS OF THE GLOBAL ECONOMIC CRISIS ON COFFEE FINANCING

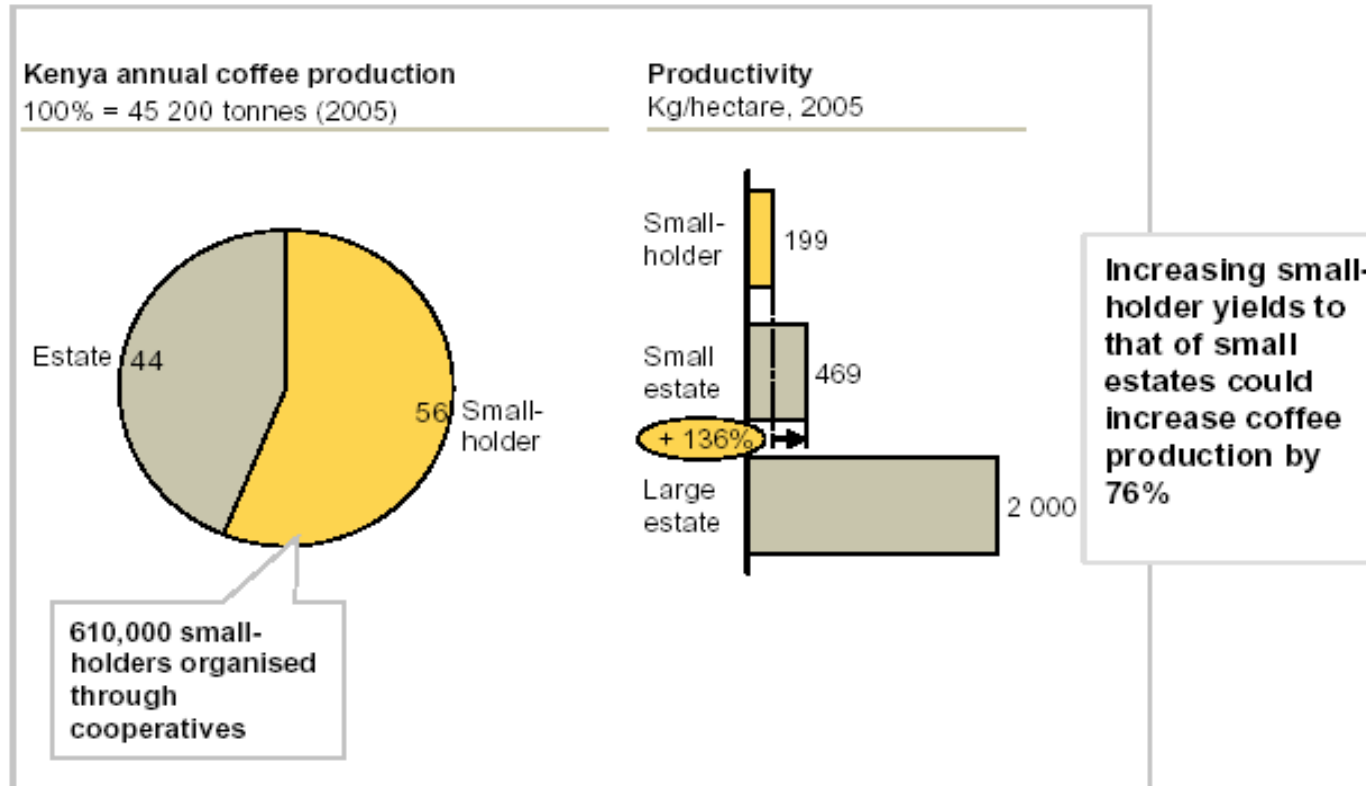
- Reduced Government funding/subsidies;
- Donors/potential partners dealing with changing priorities - food, climate change;
- ‘Halo’ effect by new risk guidelines arising out of global banking crisis;
- Demand/need for credit greater and growing;
- Donors/partners more demanding on risk mitigation.

EFFECTS OF THE GLOBAL ECONOMIC CRISIS ON COFFEE FINANCING

A sustainable short and medium-term coffee farmers loan scheme has been tested and proved viable in East Africa. Critical success factors include:

- Access to affordable finance for small-holder farmers;
- Extension support services;
- A need to scale up proven programmes.

COFFEE PRODUCTION AND PRODUCTIVITY



Source: Coffee Board of Kenya; Ministry of Agriculture (2005)

KENYA: FINANCIAL DEMAND IN THE COFFEE SUB-SECTOR

- High capital outlay to meet the cost of production, processing, marketing and long term investment;
- Financial constraints and lack of adequate and affordable credit has however been identified as one of the main challenges in the sub-sector;
- Demand for credit in the sub-sector is estimated at US\$.100M for farming operations.

COFFEE SUBSECTOR: FINANCIAL SERVICES PROVIDERS

Commercial Banks

- *Co-operative Bank of Kenya, Equity Bank, Family Bank, K-Rep Bank etc.*

-Specialized State Financial Institutions

- *Coffee Development Fund, Agricultural Finance Corporation*

-Cooperative Credit Unions

-Micro Finance Institutions

-Coffee Millers and Marketing Agents

KEY CONSTRAINTS TO FINANCIAL ACCESS FOR SMALL HOLDER FARMERS

- High screening and monitoring costs;
- High charges and minimum balance requirements;
- Travelling costs;
- Lack of traditional collateral;
- Most rely on expensive informal finance and suffer dearth of formal financial markets

EFFECTS OF LIMITED ACCESS TO CREDIT

- Low yields by smallholders-a result of poor farm management practices;
- Failure to observe a complete regimen of farm operations including a fertilizer use and spraying;
- Small-scale coffee farmers are unable to self finance farm operations.

RECOMMENDATIONS

- Promoting diversification in the coffee sub-sector;
- Sector to have diversified financial services providers offering wide range of affordable, reliable, sustainable and accessible financial solutions to different segments of the economy and population;
- Coffee production under irrigation especially in drought prone areas;
- Financial Service Providers can serve farmers more efficiently by forming syndicates and creating synergy;

RECOMMENDATIONS – cont.

- More focus on attracting commercial banks to the coffee industry, particularly coffee farming;
- Strong producer association vs. strong government institution support, e.g.
 - Milk industry in Kenya,
 - Tourism in Kenya,
 - Coffee in Rwanda,
 - Debt waiver in Kenya - 2003;
- Strong Government institutional intervention produces faster results.

CONCLUSION

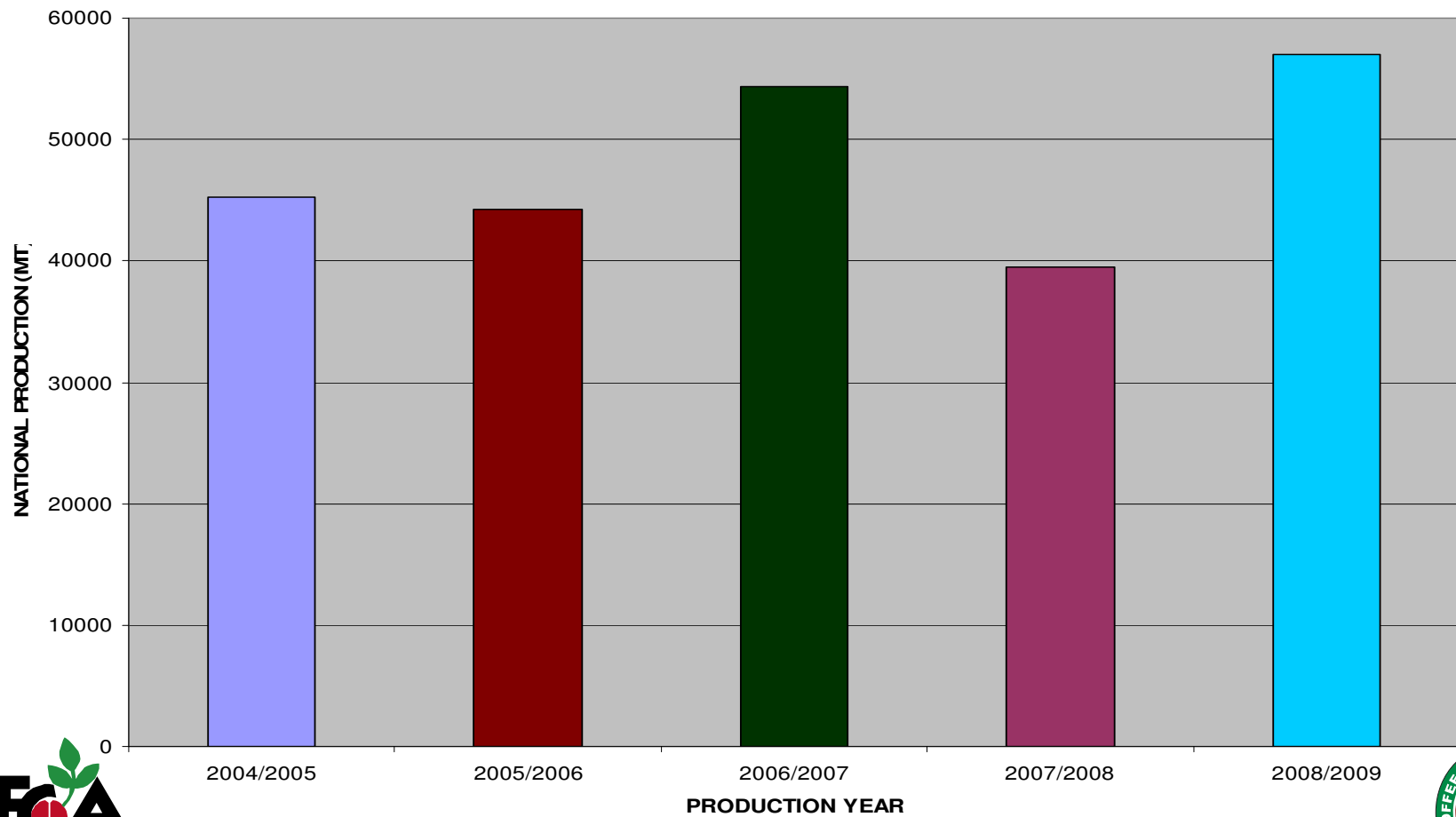
- **The global financial crisis has given us lessons on Government intervention.**
- **Coffee is strategic in East Africa. Let's have massive national stimulus programmes to drive the coffee economy forward.**
- **The Kenya Government has intervened by setting up a national coffee development fund. It's a great beginning but more needs to be done.**

THE KENYAN MODEL

REGION/ PROVINCE	AMOUNT OF FUNDS DISBURSED (US\$)	NUMBER OF FARMERS SERVED TO DATE
Central	6.1M	28,001
Eastern	3.8M	23,289
Rift Valley	1.4M	4,914
Western	0.1M	830
Nyanza	0.68M	7,213
TOTAL	12.1M	64,247

NATIONAL PRODUCTION - KENYA

NATIONAL COFFEE PRODUCTION TRENDS



“The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is credit, savings or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector...together; we can and must build inclusive financial sectors that help people improve their lives”

Kofi Annan - former UN Secretary General