

RAPID APPRAISAL OF THE FINANCING LANDSCAPE FOR THE COFFEE SECTOR IN AFRICA

Locations	Cameroon, Ethiopia, Gabon, Kenya, Tunisia, Uganda
Dates	11/11/2022 - 31/05/2023

Summary

The coffee sector in Africa provides a vital source of income for many smallholder farmers and accounts for a large proportion of export income for many countries. However, access to finance for production, in-country processing and marketing of coffee is one of the main challenges limiting the transformation of the African coffee sub-sector into a vibrant and resilient industry. CABI is undertaking a study aimed at finding ways to overcome these challenges by determining the best models for financing the micro and small to medium enterprises, and individual smallholder producers of the African coffee value chains.

The problem

Coffee is a growing market, as an export and domestic consumption. Opportunities to increase trade are therefore growing for producing countries but also for smallholders who grow much of the commodity and rely on it for income.

The proportion of Africa's population depending on coffee is significant for a number of producer countries including Burundi (38.2%), Tanzania (23.7%), Uganda (22.1%), Côte d'Ivoire (17.2%), Central African Republic (16.1%), Rwanda (14.7%), Ethiopia (14.2%) and Cameroon (13.2%). However, challenges faced across the sector prevent smallholders and others in the value chain from capitalizing on new investments and prospects.

Overall production and the export of coffee in Africa are low due to inadequate application of improved agricultural practices. Farmers lack skills and knowledge due to inadequate access to, and use of, extension services. Many farmers are not able to access and use modern, cost-saving technologies such as improved varieties, efficient pest control methods and mechanized labour. Nor can they diversify into complementary agri-businesses.

This leads to a reduction in the productivity and quality of smallholder-produced coffee, thereby compromising incomes, food and nutrition security.

However, there is also inadequate investment in coffee rehabilitation (replacing dead trees, regenerating farms after prolonged neglect) and expansion (opening new land for coffee farming either by extending hectarage or new coffee ventures) due to a lack of available finance and the high risks perceived at farm level.

All of these factors contribute to a weak coffee value chain in Africa and jeopardize efforts to revamp it.

Technical assistance and partnerships with institutions that can absorb all, or part of, the perceived risks during the initial borrowing phase between smallholders and the lending institution are key to improving coffee production and productivity in Africa.

What we are doing

With the coffee sector's financing landscape key to overcoming some of the challenges faced, this project will be looking at ways that finance can help improve and transform the coffee value chain, from production to marketing and export.

In this project, CABI is conducting a rapid appraisal study to gather information on where gaps exist between the demand for, and supply of, financial investment across the various levels of the coffee value chain, including those serving the large, medium and small enterprises involved in coffee value addition, such as roasters, packers and café chain operators, and those serving smallholder producers and primary processing activities.

Existing information on the types of loan products that are necessary to fill the current gap (the needs and appetite for financing of the coffee value chain actors) will be collected through Key Informant Interviews and analysed as part of the study. This will give further insight into the loan sizes suitable for the various actors who need finance within the value chain – namely, the smallholder farmers and their organizations (the 'last-mile borrowers'), large-scale producers, large roasters and packers, micro, small to medium enterprises and café chain operators (the 'missing middle') and to establish the loan thresholds at which the cost of lending can be recovered by Afreximbank while ensuring acceptable levels of returns on the investment.

Information on the expected annual turnover of loans disbursed will also be collected through the study and corroborated via information collected through field surveys.

Results so far

Tools for collecting information from the identified Key Informants have been developed and used to gather requisite information from the study countries.

The key stakeholder categories consulted during the study include farmer organizations (cooperatives and unions), financing institutions including banks, microfinance institutions and special commodity funds, development partners, particularly those involved in blended finance initiatives, regulatory authorities represented by respective country coffee authorities and micro, small to medium enterprises involved in the coffee value chain.

The accrued information is being examined to give insight into current sources of finance and their adequacy in servicing the requirements of the value chain, the existing loan products, their size thresholds and target beneficiaries, the key risks associated with lending to target value chain actors and the appropriate risk mitigation measures. The partnership arrangements required to effectively roll out blended financing schemes for coffee are likewise being examined.

Donors	African Export–Import Bank
Partners	International Coffee Organisation (ICO), Inter African Coffee Organisation (IACO)
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