



INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
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ADDRESSING RISKS ASSOCIATED WITH TRADING COFFEE AND OTHER COMMODITIES

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Coffee is one of the world's most important agricultural products. One hundred and twenty million people depend on coffee for their livelihoods worldwide, the vast majority of whom are smallholders living in developing countries. The economic importance of the product is underlined by the fact that exports of coffee reached a record US\$23 billion dollars in 2011, making it a significant source of foreign exchange income for many countries.

The International Coffee Organization (ICO) is the main intergovernmental organization for coffee and its mission is to strengthen the global coffee sector and promote its sustainable expansion in a market-based environment for the betterment of all stakeholders.

After a profound drop in prices at the turn of the millennium, coffee prices have recovered and the sector now faces a much more promising outlook than a decade ago. Nevertheless, many challenges must be overcome to ensure the long-term health and sustainability of this commodity, many of which relate to risk management.

The ICO therefore welcomes the emphasis on risk management of agricultural products in the agenda of the G20, as exemplified by the Action Plan on Food Price Volatility and Agriculture, and in particular by its fourth main objective: 'improve and develop risk management tools for governments, firms and farmers in order to build capacity to manage and mitigate the risks associated with food price volatility'.

The ICO has taken concrete steps in the field of risk management that could be useful for G-20 members. Specifically, the ICO has established a dedicated forum – the Consultative Forum on Coffee Sector Finance – to address topics related to finance and risk management in the coffee sector, with a particular emphasis on the needs of small- and medium-scale producers and local communities in coffee producing areas.

This Forum has met on two occasions, in September 2011 to examine mechanisms, tools or strategies to help small- and medium-sized producers manage the risk of green coffee price volatility and in March 2012, focussing on the role that producer associations, governments and other entities play in making risk management and financing tools more accessible, and more workable, for small- and medium-sized growers. Important issues highlighted include:

- measures to raise small- and medium-scale growers' understanding of, and access to, risk management tools, and the institutions or mechanisms that should be engendered or improved to develop the activities required;
- the need for further study of mitigation mechanisms, particularly those supported through producer associations and government action;
- the need for strong institutional frameworks and enabling policies, which can take many forms but must be tailored to local conditions;
- the importance of effective communication in overcoming financial literacy and communication barriers; and
- the recognition that all participants in the value chain benefit when growers manage risk more effectively.

As in the case of the Action Plan on Food Price Volatility and Agriculture, discussions within the ICO have emphasized the need for a holistic approach that goes beyond risk management and covers other major issues, such as: improved transparency and market information throughout the supply chain, especially in regard to derivatives markets; enhanced research and development to improve quality and yields, as well as to mitigate the effects of climate change and reduce the impact of pests and diseases; diversification of farmers' income in order to reduce dependency on a single crop; and the necessity for programmes in the area of promotion and market development to build future demand. Initiatives such as those outlined above are greatly welcomed by the world coffee community, including the private sector, which has worked successfully with the ICO in the past on such activities.

Greater recognition is needed by multilateral financing institutions and donor governments on the importance of addressing risks associated with commodity markets. There are considerable funds in multilateral and national institutions earmarked for development projects but not always readily available for initiatives targeted at specific commodities. Supporting international commodity bodies, such as the ICO, is a unique opportunity to address this issue. The ICO is a genuine partnership between developed and developing countries, representing a forum where all stakeholders are represented on an equitable

basis and where the needs and priorities of the major players can be taken into account. The ICO is an example of an effective instrument to channel resources for projects in areas such as value added, quality improvement and dissemination of technological advances.

Recommendations to the G-20:

- Encourage governments and international agencies to cooperate on developing a holistic strategy and mechanisms to assist with risk management, improve access to credit and sources of finance, develop financial tools and services that are more accessible by small- and medium-scale growers and increase transparency.
- Urge multilateral financing institutions and donor governments to allocate funds for initiatives targeted at helping poor farmers reduce their risks in coffee and other commodities.

Useful links:

Consultative Forum on Coffee Sector Finance – report and presentations:

http://www.ico.org/forum2_e.asp?section=Meetings/Documents

ICO website:

<http://www.ico.org/>

World coffee market reports:

<http://dev.ico.org/documents/wsiteenglish/edletter-11-e.htm>