

Coffee Sector Marketing Risks

This table has been prepared as part of the [World Bank's Agriculture Global Practice Discussion Paper](#) on improving the risk management and access to finance in the coffee sector. It provides an overview of the major risks facing coffee sector marketing, along with an assessment of the frequency and impact of risk.

Potential risk or constraint	Probability	Impact	Potential Mitigation	Support Environment	Links	Value Impact
Domestic Collection Marketing						
Erratic quality Adulteration	Possible to probable	Moderate	Quality control Trained Staff Reward 'quality'. Extension Services	Sector regulation Standards Farmer training	State supportive Sustainability Programs	Reduced values. Risk of rejection.
Unseasonal rainfall - drying	Probable	Moderate	Early Warning Systems Extended drying surface, drying trays, covered drying beds, mechanical drying equipment	Weather stations Investment finance	Informed banking system. Final buyer/exporter support	Lower quality. Risk of rejection.
Excessive (farm gate) competition	Occasional	Variable	Reward 'quality'. Honest weighing and pricing. Farmer training. Supervision/monitoring.	Extension Services	Good Sector organization. Sustainability Programs	Quality destruction. Risk of grower default.

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Poor roads/lack of transport	Occasional to Probable	Moderate to considerable	Infrastructure improvement. Up-country collection centres. Grouped transport by farmer organizations	Good Sector and Farmer organization. Investment finance	State intervention Final buyer/exporter support	Higher costs Limits market access.
Inadequate storage	Occasional to Probable	Moderate	Trained staff GAP. Suitable storage facilities Training	Investment finance	Informed banking system. Final buyer/exporter support	Damage and/or loss of quality, ingress of pests. Higher insurance and finance costs or, inability to raise finance.
Poor intermediate processing	Occasional to Probable	Variable to considerable	Trained staff Good supervision Understand 'quality' Avoid poor quality cherries and wet parchment.	Sector regulation. Good Sector and Farmer organization	Final buyer/exporter support. Sustainability programs.	Quality and value destruction. Unnecessary losses.
No, or not transparent MC/quality/weight assessment. No, or not transparent bonus/penalty policy	Possible to probable	Variable to considerable	Standards. Communication Training of farmers/collectors/traders, i.e. in cupping	Good sector and Farmer organization. Formal structures for complaints and mediation	State and regulatory support	Mistrust. No interest in 'quality'. Declining interest in coffee farming.

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Poor or no traceability	Possible to probable	Variable but in time can become considerable	Training. Good Farmer organization. Good storage facilities	Good Sector organization. Extension Services.	Trade support. Sustainability programs.	No feedback to farmers. No recognition by buyers and end users. Eventually value destruction.
Theft	Occasional	Variable to considerable	Secure storage Insurance	Good Sector organization Trade controls	State intervention	Direct loss. Possibly inability to insure/raise finance.
Day to day (external) price volatility	High	Considerable to critical	Trained staff 'know' coffee... Decent communications. Risk management training	Links with final/export buyers. Access to (neutral) market information	Informed banking system. Final buyer/exporter support	Trading back-to-back least risky but, not always possible, lower margins. Alternatively take more risk. Needs discipline, limits etc..
Lack of market information/inability to interpret market behaviour	Probable	Moderate to considerable	Trained staff 'know' coffee... Decent communications	Links with final/export buyers. Access to market information	Informed banking system. Final buyer/exporter support	Trading 'blind' equals speculation. Also if firm has no internal discipline and exposure limits.
Major price moves	Probable	Considerable	'Know' your growers and your buyers.	Links with final/export buyers. Access to	Sector regulation	Growers and/or buyers default on

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				market information		earlier commitments.
Prolonged external price falls	High	Considerable	Specialize on 'quality' Diversification... Join sustainability standards	Links with final/export buyers. Access to market information	Informed banking system. Final buyer/exporter support	Low prices = lower margins. Increased quality problems. More risk if stock holdings increase
Lack of working capital	Probable	Variable to Considerable	Well organized, disciplined trading Audited accounts Track record	Security pledges that can be exercised.	Informed banking system. Final buyer/exporter support	High cost of funding. Unable to attract volumes =less buyer interest=lower prices/margins.
Interest rate risk	Probable	Moderate to considerable	Strong industry representation Increase turnover speed. Improve efficiency	Good Sector organization Final buyer/exporter support.	State supportive Informed banking system	High domestic interest rates increase costs and reduce turnover/buying capacity =lower farm gate prices. Can also disadvantage domestic operators.
Non-payment or buyer default = counterpart risk	Possible	Moderate	Valid contracts. 'Know' your buyers	Good Sector organization Credit insurance	State and Regulatory support	Fewer traders can mean reduced competition at farm gate

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Export Marketing Environment						
Erratic quality Inferior quality Adulteration Unfit for human consumption	Possible to Probable	Moderate to considerable	Know your domestic counterparts. Quality Control Reward 'quality' through transparent purchasing procedures. Refuse to accept substandard coffee. Employ qualified staff.	Good Sector organization Standards	Sector regulation Sustainability Programs	High cost of processing. Reduced to producing bulk or commodity quality = lower value, higher risk. Possible export default if suppliers deliver sub-standard coffee.
Inefficient export Processing	Possible	Variable	Trained staff who 'know' coffee and keep proper records Adequate equipment Monitor...	Good Sector organization Standards Self-regulation Investment finance	Sector regulation	Excessive weight loss and quality destruction. Can hide fraud/theft. Limits markets. Loss of value.
Inadequate shipping opportunities. Port congestion	Possible to Probable	Moderate to considerable	Infrastructure investment Competitive port charges	Good Sector organization. Decent port structures. Investment finance	State supportive	Shipping delays, transshipment = higher costs. Puts off buyers, especially roasters. Limits markets and reduces flexibility

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Overregulation - Bureaucracy	Occasional	Moderate	Strong industry representation. Streamline procedures. Self-regulation	Good Sector organization. Sensitization programs.	State intervention	Limits competition. Adds indirect or 'invisible' costs that in the end reduce farm gate prices.
Counterpart cum Reputational risk Defaults	Occasional , both internal and external	Moderate	Know your domestic counterparts. Good Sector organization.	Sector regulation. Formal dispute resolution procedures	State supportive. Appropriate, effective legal framework offering redress	Quality claims and defaults put off many buyers, especially roasters. Increases cost of doing business. If severe lowers price potential.
Theft and Fraud	Occasional	Moderate to Considerable	Know your domestic counterparts. Good internal monitoring. Insurance	Sector regulation.	State supportive Appropriate, effective legal framework offering redress	Increases the cost of doing business and reduces farm gate prices.
Excessive export costs and taxes	Occasional	Moderate	Strong industry representation. Open monopolies to competition. Follow best practices	Good Sector organization. Regulation Lobbying	State intervention	In the end all coffee is priced 'landed roasting plant'. Deducting all costs and margins gives the farm gate price...

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Corruption	Occasional	Variable	Strong industry representation	Good Sector organization. Regulation	State intervention	See above...
Lack of affordable trade finance	Possible to Probable	Variable	Well established Audited accounts. Acceptable balance sheet. Security... Collateral management	Good Sector organization. Final buyer support.	State supportive. Informed banking sector.	Limits competition and can lower farm gate prices. Can disadvantage domestic operators.
Interest rate risk	Possible	Moderate to considerable	Strong industry representation Increase turnover speed. Improve efficiency	Good Sector organization Final buyer support.	State supportive. Informed banking system Access to external financial markets	High domestic interest rates increase the cost of doing business =lower farm gate prices. Can also disadvantage domestic operators.
Currency risk	Probable	Moderate to considerable	Access to risk management instruments. Monitoring Discipline	Good Sector organization. Enabling regulatory regime.	State supportive Informed banking system Access to external financial markets	Inability to manage currency risk requires higher margins = lower farm gate prices. In worst case scenarios can eliminate some actors thereby reducing

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						competition. Can disadvantage domestic operators.
Country Risk	Possible	Moderate	Strong industry representation	Good Sector organization Long-term policy	State intervention. Informed banking sector	Increased country risk raises the cost of finance = lower farm gate prices
Insufficient clarity on contractual rights and obligations	Possible to Probably	Variable	Training, seminars etc.	Good Sector organization.	State supportive. Informed banking sector	Impact can range from simple errors and inconveniences to almost catastrophic losses
Inadequate, inefficient or non-existent Sector Organization/representation	Possible to Probable	Variable to considerable	Understand and promote the common interest. Demonstrate the impact 'invisible costs' have...	Good Sector organization, able to analyze constraints and make strong representations	State supportive. Informed banking sector. Enlist help of final buyers	Without credible representations the revenue impact of constraints remains hidden.
Export Marketing - Price Risk						
Day to day external price volatility	High	Considerable to critical	Trained staff who 'know' coffee... Good communications.	Good sector organization. Access to affordable risk management	Informed banking sector. Possible State support and help from final buyers.	Often no link with domestic market situation. Increases risk. Complicates purchase and sales

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			Trading limits and discipline. Risk management	solutions. Enabling regulatory regime.		decisions. Hedging means margin calls... Options not always the answer... Lack of access to risk management instruments disadvantages domestic operators.
Basis or Differential risk	High	Considerable	Trained staff who 'know' coffee... Good communications Trading limits and discipline. Understand local markets and how PTBF contracts work. ¹	Good sector organization. Training and information sources.	Informed banking sector. Possible State support and help from final buyers.	Cannot be 'managed' other than by limiting exposure = internal discipline. Impact can be severe.
Speculative risks	Possible to Probable	Moderate to Considerable	Trained staff. Trading limits. Position reports. Unfortunately it is possible to 'hide' short sales until the coffee has to be bought... ²	Training and information sources.	Informed banking sector.	Over-trading or speculative positions can lead to defaults and bankruptcy.

¹ PTBF = Price To Be Fixed contracts = at the time of sale only the differential is set with the applicable futures price left open for 'fixing' at a later date through an agreed arrangement. Combining the two then provides the final sales price.

² Short = enter into the sales commitment now and purchase the required coffee later. Long = buy coffee now and resell at a later date.

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						Affects sector reputation.
Quality and Value risk	Possible	Moderate to considerable	Quality control. Does quality of purchases, arrivals or stocks match sales?	Sector regulation. Standards.	Informed banking sector. Collateral management	Incoming quality doesn't match what is sold or, is unusable. Can mean having to buy new stock and sell unfit stock = huge losses.
Counterpart risk Domestic	Possible	Variable	Know your suppliers. Set individual exposure limits for forward commitments. Daily reports on everything!	Sector regulation.	Informed banking sector. Enabling legal environment.	Default by domestic suppliers can in turn result in defaulting on sales commitments.
Counterpart risk External	Possible	Variable	Know your buyers. Set individual exposure limits on both forward sales and outstanding payments. Daily reports on both. Look for changes in payment behavior. Documents via bank etc.	Access to information sources (although credit reports not always helpful or even accurate).	Informed banking sector	Default by end users is rare but can happen. Potential impact huge as no payment and now unsold coffee afloat or in an overseas port.