

Pro-poor Growth Story

Going places: New financing model improves smallholder market connectivity

Access to basic financial services such as banking plays an important role in efficient market supply chains. In PNG, where a large proportion of the population is unbanked, this binding constraint prevents farmers and businesses from growing. MDF's partnership with Kosem Coffee supports a value chain finance model that helps businesses overcome some of these infrastructure roadblocks and unlocks opportunities—and income—for smallholder farmers.

In the remote district of Middle Ramu in Madang Province, it is a daily struggle for farmers to bring their produce to the nearest town to sell, as there are no roads leading into town. The nearest town of Madang is only accessible by small plane, which is an additional cost that the majority of smallholder farmers cannot afford. Some villages along the Ramu River transport their produce via the river, but others in the mountains rely on planes.

Cash is the main trading method in these communities, and small aggregating businesses often run out of money to maintain regular purchasing of commodities such as coffee. When coffee aggregators face cash shortages and cannot buy from smallholders, it slows the supply of quality coffee to exporters. Farmers sometimes have to wait for months to sell their coffee. If they cannot find a buyer who pays them a premium for quality coffee, they opt to sell to roadside buyers at any price offered. This method reduces their incentive to continue applying good agricultural practices and maintain their investment in producing quality coffee.

Samson Kunopol is a coffee aggregator from Tsendiap, a village situated at the border of Middle Ramu, straddling Madang Province and Western Highlands Province. Samson has a network of 1,700 smallholder coffee farmers from whom he sources coffee. He transports the coffee on small charter flights from Middle Ramu into Jiwaka and supplies it to Kosem Coffee, a locally owned coffee export company.

'It is costly for a small business to charter a plane. I have about 20 bags of parchment (coffee) on each flight out. Sometimes I don't have enough cash to buy all the coffee, especially during peak season. Transportation is also a problem—most times, there is no plane available, and we just wait until a plane becomes available,' says Samson.

Financing the value chain

In June 2022, MDF signed a partnership with Kosem Coffee to—among other things—establish a prefinancing system to support Kosem's increased purchase of coffee from its supply chain. The system set up a revolving fund that Kosem could use for its coffee aggregators.

Samson and other coffee aggregators receive a cash advance from the Kosem revolving fund, which enables them to buy more coffee from smallholders. They are also able to charter planes to bring coffee out, and farmers can sell more and earn more for their coffee.

The revolving fund has allowed Kosem to increase its sourcing from these remote communities; the company bought an additional 443 parchment coffee bags (each bag at 55kg) in 2022 compared to 2021. This boost in the supply of speciality coffee has given Kosem the confidence to apply for more funds from a commercial bank to bolster purchases.

'In 2021, we did not have the numbers to export; however, last year (2022), with support from MDF, we had the buying power, and our purchasing increased, especially in our remote supply chains. We were able to export x tonnes of coffee recently,' said Mark Munnell, Director of Kosem Coffee.

Smallholder gains

Smallholder coffee farmers benefit significantly from value chain financing. Nickson Kam, a coffee farmer from Jimi, Western Highlands, explains the difference it makes when farmers have a regular buyer for their coffee:

'We bring our coffee back if the buyer does not have enough cash to buy. It's too far to walk with big coffee bags to sell in town, so we just wait in the village until someone comes to buy. Lately, we have been selling more coffee to Kosem and earning more, which is very helpful to us,' said Nickson.

Nickson and thousands of farmers in PNG rely on coffee for income. Money from coffee supports families with school fees, customary obligations and daily expenses, and it contributes to the overall improvement of life in many rural households in PNG. Nickson has bought a sawmill and has built himself a permanent house. He has also helped build an elementary school in his village with money from coffee.

The revolving fund is expected to support Kosem to increase further the tonnes of coffee it exports, improving market access for more farmers. The innovative value chain financing mechanism ensures that international markets can get a taste of even the remotest-grown PNG coffee.

MDF PNG has replicated the revolving fund model with three other coffee exporters in PNG.



Photo: Samson Kunopol, a coffee buyer from Middle Ramu.



Photo: Farmers carrying coffee bags walk from their village to the main road, where they will catch a local truck into town and sell the coffee.