

CASE STUDY

Published November 2021

# NKG Bloom: Building Well-Financed, Resilient Coffee Supply Chains

*Delivering a **just rural transition** by injecting blended finance into sustainable coffee supply chains*



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# A Resilient and Sustainable Sourcing Strategy by NKG

Deploying blended finance and digital solutions to shore up sustainable supply chains

## Location

Uganda, Kenya, Mexico and Honduras

## Context

80% of the world's coffee supply is produced by 12.4 million smallholders worldwide, with over half living in poverty. A mix of problems, from diseases like 'Coffee Rust' to pest control to climate change, means that 60% of wild coffee species are at risk of extinction, with large-scale implications for smallholders and the USD \$70 billion industry as a whole.

## Challenge

Smallholders typically receive low returns for their coffee production, and increasingly face falling yields linked to climate change. Over the long term, these diminishing opportunities threaten to exacerbate urban flight and hollow out coffee communities.

These social and environmental factors impact on the resilience of the coffee supply chain, casting into doubt the continuing viability of NKG's business model.

Coffee farmers struggle to mitigate these risks independently. In order to invest in productivity-boosting inputs, producers require credit. Accessing this credit is difficult, in large part due to the seasonal nature of their financing needs. With only one harvest per year, producers often struggle to keep up with repayments during the growing season, presenting significant risk of default to potential lenders.

**“ Financing is often the core bottleneck faced by farmers. ”**

NKG Bloom

## Solution

To ensure the long-term viability of its green coffee production, the largest coffee trading group in the world set up NKG BLOOM as a sustainable sourcing strategy.

To assist farmers in accessing the credit they need, NKG BLOOM launched an innovative blended finance instrument, called the Coffee Smallholder Livelihoods Facility.

Involving ABN AMRO, Rabobank and BNP Paribas, the USD \$25 million 'revolving credit facility' offers flexible credit access to farmers, who can borrow up to a pre-specified limit during growing season, and pay back their credit at their convenience, generally upon harvest. The partner banks share the risks of farmer default, with USAID and IDH (the Sustainable Trade Initiative) providing further default guarantees.



The credit facility smoothes out finance access for farmers year-round, providing the confidence they need to invest in future harvests, as well as incentivizing partner banks to support farmers in repaying their loans.

The scheme also employs accessible digital innovations, including a smartphone-delivered system (distinct from the loan facility) that allows farmers to access money advances directly from NKG to buy fertilizer, which can then be paid back later with their harvested coffee.

**“ The Smallholder Livelihoods Facility enables us to bring the power of the global financial markets — long the missing piece — to smallholder coffee farmers. ”**

Catalina Eikenbergs, Head of Sustainable Business, NKG

## Impact

Access to NKG BLOOM's Livelihoods Facility has in some cases seen yields increase by 300%, as finance for inputs has led to dramatic increases in productivity. Reliable credit through NKG has also allowed farmers to avoid predatory loans from local 'coyotes'.

Amongst the 7,000 farmers in Uganda provided with mobile money advances, repayment rates by Ugandan farmers to NKG have exceeded 99%, helping to dispel the perceived risk in lending to smallholder farmers once they are provided with sufficient support.

By building stronger trust with smallholders, the Facility has increased supply chain security. Reliable finance access from NKG has led producers to increase the proportion of their sales to the company's local export company from 10% to 70%, improving the security of their supply chain.

This convincing commercial rationale has led to NKG expanding the program. By 2030, NKG Bloom aims to reach 10 countries, financing meaningful livelihood improvements for 300,000 coffee-farming families.

**“ NKG BLOOM is not a marketing strategy; it is not a philanthropic endeavour, or a feel-good project. It's about the way we want to do business in the long term. ”**

David M. Neumann, Neumann Gruppe CEO

