

Enveritas

An analysis of the role of middlemen in  
coffee supply chains  
**Colombia Country Report**

Prepared for:  
**IDH - The Sustainable Trade Initiative**

February 2020



- **Country overview and mapping**
  - Middlemen roles and services
  - Income and sources of capital
  - Business outlook and SWOT analysis
  - Opportunities for engaging middlemen in sector initiatives
  - Methodology

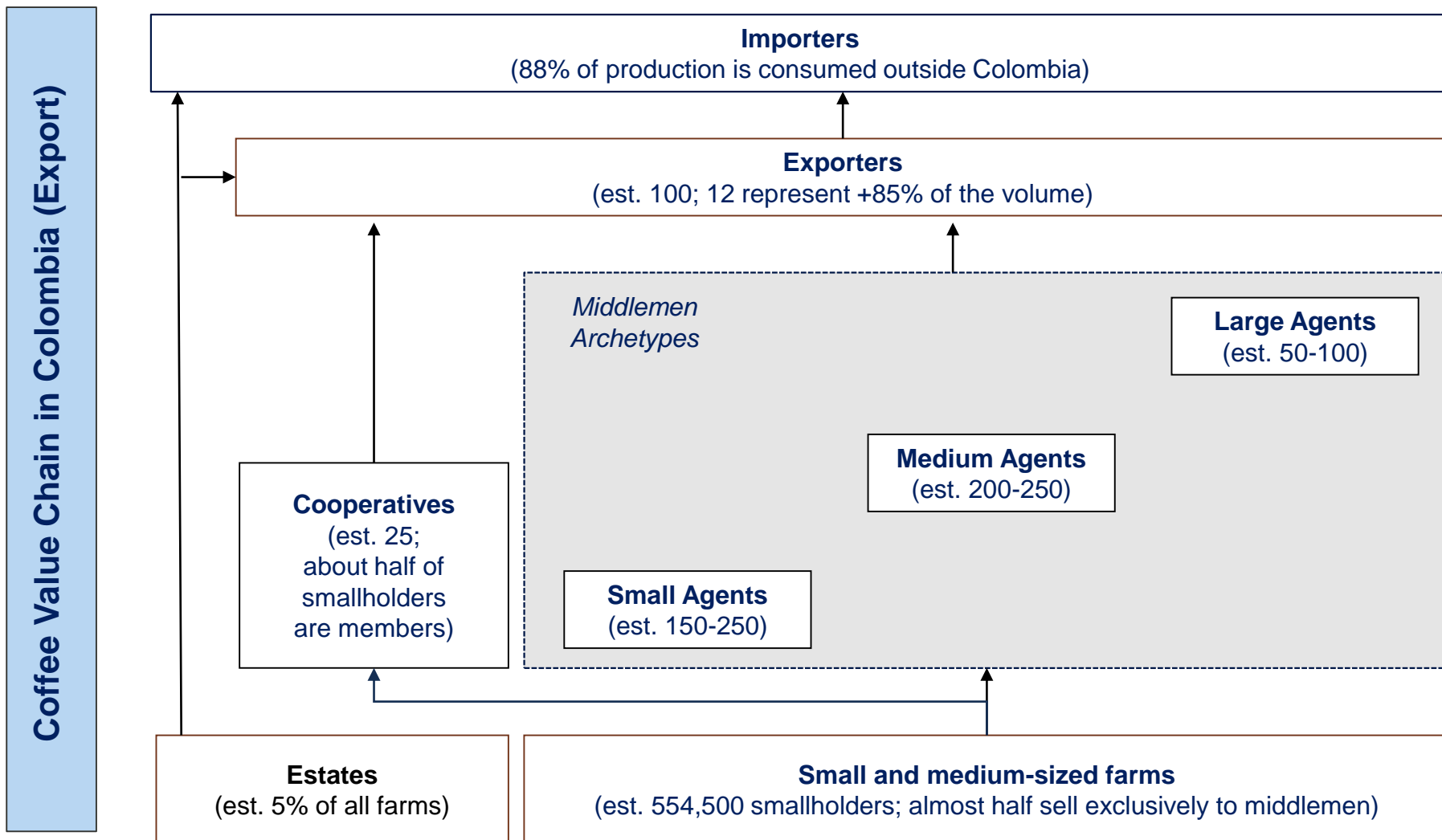
# COUNTRY PROFILE: COLOMBIA



Indicator	Value	Quality of existing data	Remarks
<b>Production volume (4-year avg)</b>	14.2M bags		Third largest coffee producer globally and leading producer of washed Arabicas
<b>Production trend (10-year CAGR)</b>	+5.2% p.a		Production has rebounded to levels at or above the mid-2000s (before leaf rust outbreak / renovation period)
<b>Coffee types</b>	100% Arabica		Nearly all coffee is sold in dry or wet parchment form, with dry parchment most prevalent
<b>Smallholder production share</b>	70%		Smallholders defined as less than 5 ha under coffee; medium (5-10 ha) and large (>10 ha) farms also present
<b>Number of smallholder farms (Enveritas estimate)</b>	554.500		FNC estimates the number of smallholder farms at 640k (out of a total population of 563k)
<b>Farm size (Enveritas estimate)</b>	1.40 ha		FNC estimate of 868,666 ha coffee and 1.35 ha per farm as of June 2019 (farms of all sizes)
<b>Productivity (Enveritas estimate)</b>	731 kg per ha		Yields have increased significantly since the 2008-12 period of leaf rust and renovation

Source: USDA, ICO, GAIN, IDH, IFC-World Bank, COSA, GSO, FNC, Enveritas

# COLOMBIA HAS MORE THAN 500 MIDDLEMEN



Source: USDA, Stakeholder interviews, Enveritas smallholder survey 2018-19; Enveritas analysis

# THERE ARE 3 MAIN ARCHETYPES OF MIDDLEMEN IN HUILA'S SUPPLY CHAIN



## Small Agents

- **10%** of middlemen population
- Trade primarily dry parchment with a few exceptions of wet parchment at the peak of the harvest
- Usually trade **≤ 1,000 tons/year**
- Buy directly from farmers and often sell to Medium Agents

## Medium Agents from small municipalities

- **30%** of middlemen population
- Trade primarily dry parchment
- Usually trade from **1,000 to 3,000 tons/year**
- Buy directly from farmers and often sell to next level of Medium Agents

## Medium Agents from large / medium municipalities

- **35%** of the middlemen population
- Trade primarily dry parchment
- Usually trade from **3,000 to 5,000 tons/year**
- Buy directly from farmer and smaller buying agents, often sell to large buying agents, and occasionally to exporters

## Large Agents

- **25%** of middlemen population in Huila
- Trade primarily dry parchment
- Usually trade **>5,000 tons/year**
- Buy from both medium and small agents, and less frequently from farmers
- Sell directly to Exporters

Farmer-focused

Exporter-focused

# THERE ARE 3 MAIN ARCHETYPES OF MIDDLEMEN IN ANTIOQUIA'S SUPPLY CHAIN



## Small Agents

- **85-90%** of the overall middlemen population
- Trade primarily dry parchment
- Usually trade **≤ 2,000 tons/year**
- Buy directly from farmer and often sell to Medium Agents

## Medium Agents

- **5-10%** of the overall middlemen population
- Trade primarily dry parchment
- Usually trade from **2,000 to 5,000 tons/year**
- Buy directly from farmer and smaller buying agents and often sell to large buying agents, and occasionally to exporters

## Large Agents

- **5%** of the overall middlemen population
- Trade primarily dry parchment
- Usually trade **> 5,000 tons/year**
- Buy from both medium and small agents, and less frequently from farmers
- Sell directly to exporters

Farmer-focused

Exporter-focused

# MIDDLEMEN WITH GOOD EXPOSURE TO BOTH ENDS OF THE SUPPLY CHAIN HAVE MORE INFLUENCE



## Assessment of factors contributing to middlemen and other actors' influence in the supply chain

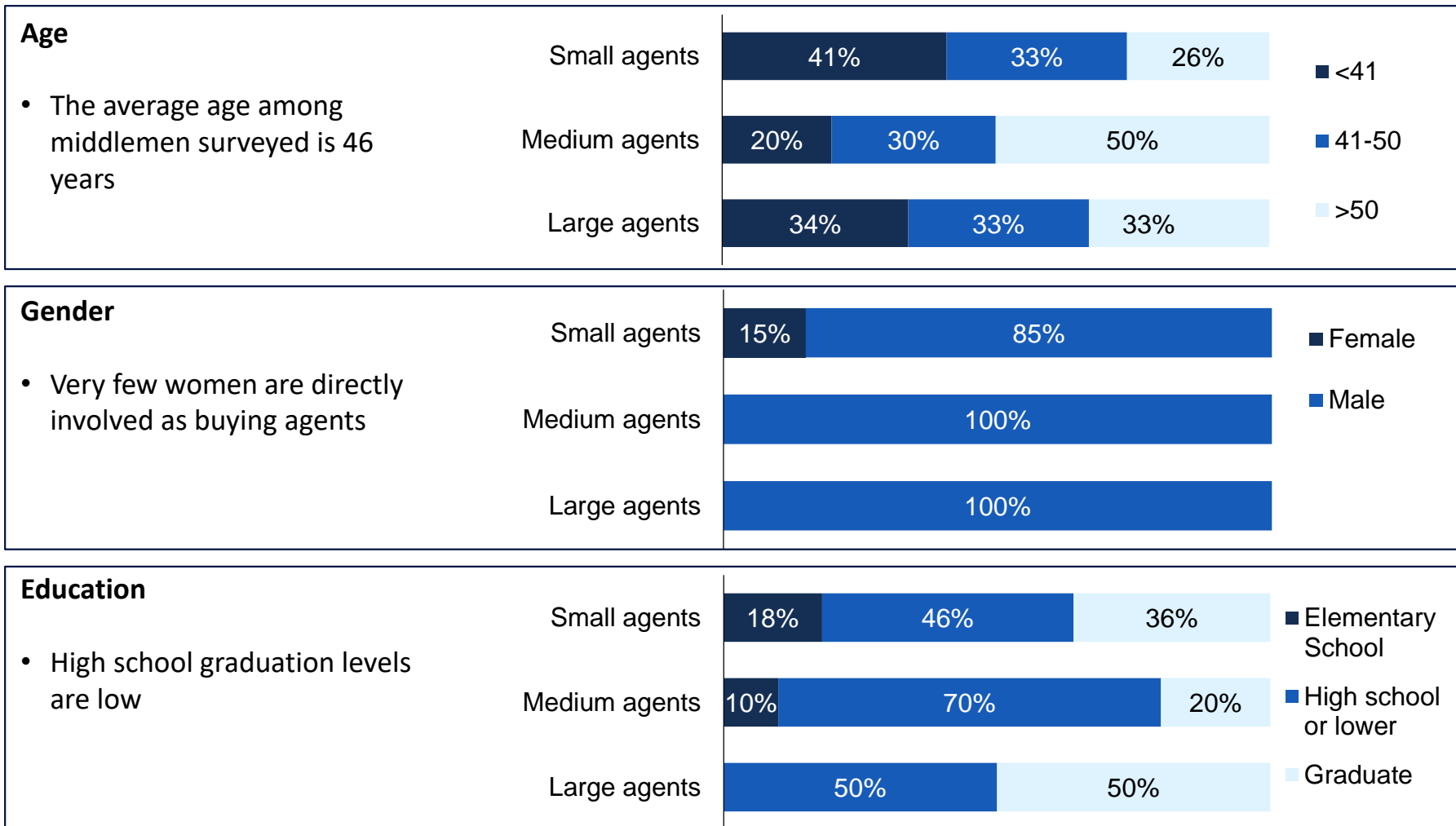
Each factor is assessed on a 1 to 3 scale and the overall score is averaged

Strong	3
Moderate	2
Weak	1

Actor	Sources of Influence	Capital	Farmer Services	Proximity to farmers	Access to processing Infrastructure	Role in influencing local price trends	Replaceability	Operating Economy	Average "Score"
<b>Small Agents</b>	Relationship with the farmers, and farmer services	Relies on medium and large agents: advances	Many extend loans, a few extend inputs	High	Drying facilities and quality grading machines	Influence farm gate prices	High. Opportunities for side-selling	Formal	<b>1.9</b>
<b>Medium Agents</b>	Proximity to both farmers and exporters; Farmer services	Relies on medium and large agents: advances	Majority extend inputs / loans. ½ facilitate training	High	Drying facilities and quality grading machines	Influence farm gate prices	High. Often by small or large agents	Formal	<b>1.9</b>
<b>Large Agents</b>	Scale and proximity to exporters/trading centers; Strong capital base	Financial institutions	Majority extend loans. 1/3 facilitate training	High	Drying facilities and quality grading machines	Influences price, quantity, and quality	Moderate. Often by medium agents	Formal	<b>2.7</b>
<b>Coops</b>	Market access. Large base of providers and infrastructure	Financial institutions	Processing infrastructure, training	Medium	Drying facilities and quality grading machines	Influences markets and price	Moderate. Often by medium agents	Formal	<b>2.4</b>
<b>Specialty</b>	Scale and proximity to exporters/trading centers. Strong capital base	Financial institutions	Services and assessment of quality	High	Drying facilities and quality grading machines	Influences quantity and quality	Moderate. Exporters and other end actors	Formal	<b>2.7</b>

Source: Enveritas analysis based on stakeholder and expert interviews in Colombia

# A “MODAL MIDDLEMAN” IS A 46-YEAR-OLD MALE WITH SECONDARY SCHOOL EDUCATION



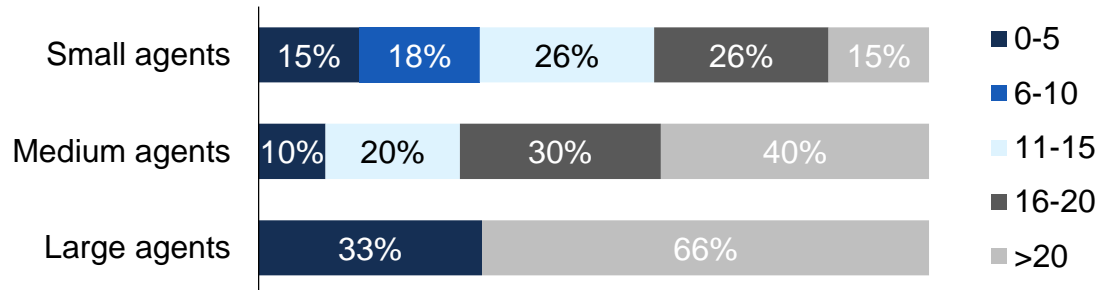


# AGENTS USUALLY HAVE 10+ YEARS' EXPERIENCE, GROW THEIR OWN COFFEE, AND GENERATE INCOME FROM OTHER CROPS



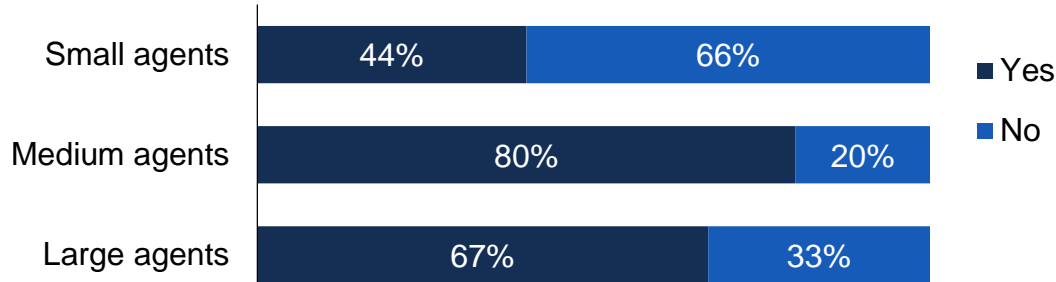
## Years of Experience

- The average middleman has 17 years experience



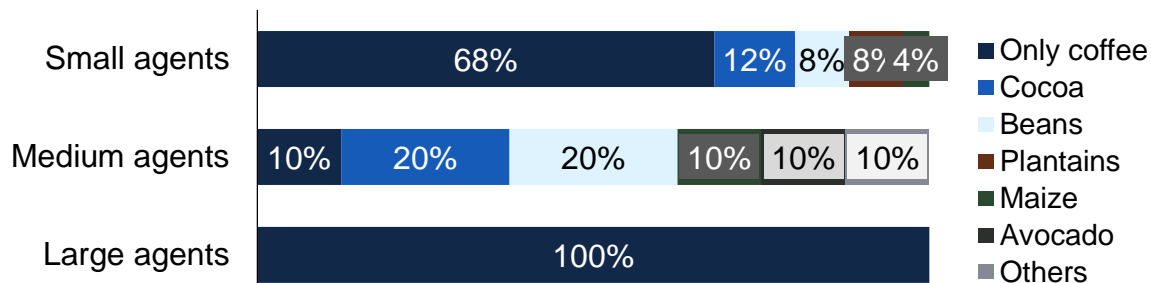
## Also a Farmer?

- Many middlemen surveyed are also coffee farmers



## Other Crops Traded

- Some middlemen trade other crops, specially medium-sized agents
- Coffee is attractive because it can generate income year round for middlemen (unlike maize)



Source: Enveritas middlemen surveys

# MIDDLEMEN BUSINESS CHARACTERISTICS



## Associations

- There is no group or association for middlemen in Colombia.

## Confidence in business

- On average, middlemen ranked their confidence levels at 2.9 (0 = no confidence, 5 = very confident).
- The most confident cited the possibility of having better prices in the future and the coffee culture in the country, as contributing factors to business outlook. Less confident middlemen cited competition and price volatility.

## Middleman prospects

- 55% of middlemen want their children to continue their business. But 58% think their children won't continue in the coffee business.

## Technology

- Almost all middlemen interviewed cited mobile phones with internet as the most used business technology. Mobile phones are the go-to-source to communicate with buyers/sellers.
- Computers (67.5%) and landline phones (12.5%) are also used by middlemen.
- While 95% of the middlemen feel that technology is helping their business by making it easier for them to communicate on real time with their clients, many of them lack computer systems that help them improve their business processes.

Source: Enveritas farmer and middlemen surveys



- Country overview and mapping
- **Middlemen roles and services**
- Income and sources of capital
- Business outlook and SWOT analysis
- Opportunities for engaging middlemen in sector initiatives
- Methodology

# MIDDLEMEN TRANSPORT COFFEE BY RENTING VEHICLES



- Among the middlemen who own a truck, they transport coffee an average of 153 km.
- 7.5% of them are from Huila and 2.5% are from Antioquia.
- 5% of them own 3 trucks and 5% just one truck.
- The average asset value of a truck owned by middlemen is US\$51,000.

## Other findings

- Middlemen transport coffee for an average distance of **80km** (min 1km, max 300km).
- In Antioquia, the average is 93.3km and in Huila it is 66.3km
- Just 10% of the middlemen interviewed own a truck to transport their coffee.
- All who owns trucks are Medium agents.

Source: Enveritas middlemen surveys; \*Exchange rate used for this report for Colombia: \$1= COP 3450

# MIDDLEMEN PLAY A KEY ROLE IN PROCESSING AND USE THEIR OWN WAREHOUSES TO STORE COFFEE



## Processing

- 80% of middlemen process coffee and approximately 4 out of 5 do so using infrastructure they own (mostly quality grading and drying machines)
- There are a wide range of processing steps undertaken by middlemen such as cleaning, drying, and hulling in very few cases

## Blending

- 57.5% of middlemen blend various qualities of coffee before selling it
- This is done to meet the quality requirements of buyers, to ensure homogeneity of the coffee sold, and to avoid large discounts

## Storage

- Middlemen store coffee for nine days on average.
- Middlemen set purchase and sale price almost simultaneously to avoid being affected by price volatility. However, price speculation is a common business practice, mostly driven by tight margins and competition.
- Fresh coffee is available throughout the year as the country has two harvest periods.

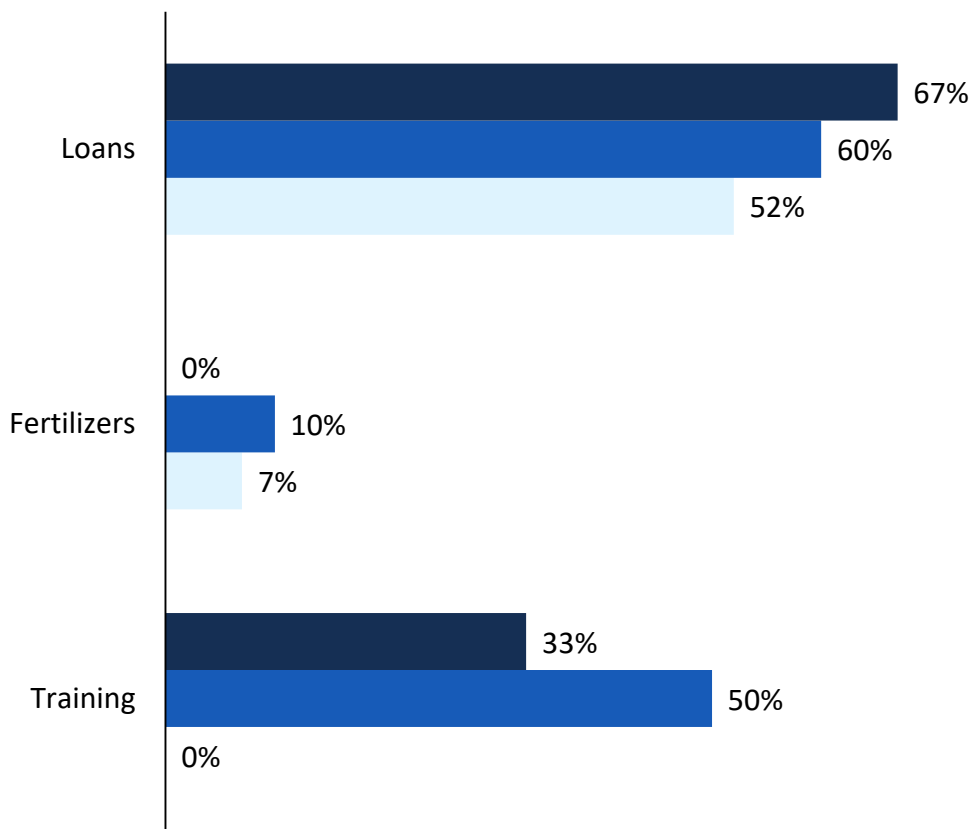
Source: Enveritas middlemen surveys

# MIDDLEMEN OFFER LOANS AND INPUTS TO FARMERS, BUT NOT CONSISTENTLY TO ALL FARMERS THEY BUY FROM



## Services middlemen report offering to farmers

% of middlemen surveyed



18% of farmers report receiving loans from middlemen

6% of farmers report receiving fertilizers from middlemen

Middlemen do, however, mention that they offer ad-hoc advice to farmers

Source: Enveritas farmer and middlemen surveys

# MIDDLEMEN PROVIDE LOANS FOR FARMERS IN EXCHANGE FOR SELLING COMMITMENTS



	Small Agents	Medium Agents	Large Agents
% Providing loans to farmers	55%	50%	67%
Reasons for the loans	Coffee/Fertilizers	Coffee/Fertilizers	Coffee/Fertilizers
Average loan size	\$8,019	\$10,347	\$5,217
Interest rate	Don't charge interest	Don't charge interest	Don't charge interest
% of sales linked to loans	30%	28%	40%
Risks	Default by the producer Crop failure because of weather, pest and disease, etc. Damaging the relationship with the farmer		
USP to farmers	Loans, primarily advances, based on relationship; Simple procedures		
Typical form of loan	93% in cash	100% in cash	100% in cash
Average loan tenure	Min: 1 week Max: 1 year		
Conditions	While many farmers are regular customers, very rarely do farmers sell exclusively to a single middleman. However, if a farmer has borrowed from a middleman, they are usually required to sell coffee to the lender.		

Source: Enveritas middlemen surveys



- Country overview and mapping
- Middlemen roles and services
- **Income and sources of capital**
- Business outlook and SWOT analysis
- Opportunities for engaging middlemen in sector initiatives
- Methodology



# ALMOST ALL MIDDLEMEN RELY ON A COMBINATION OF LOANS AND BANK CREDIT LINES FOR WORKING CAPITAL



## Main findings:

- 65% of middlemen reported they access loans through banks, a good alternative to advances.
- 55% of middlemen interviewed are not aware of any financial service providers who lend to middlemen in their operating regions.
- Reasons for choosing bank loans:
  - Reasonable rates of interest (average 1.5% per month)
  - Simple procedures

## Institutions mentioned by middlemen:



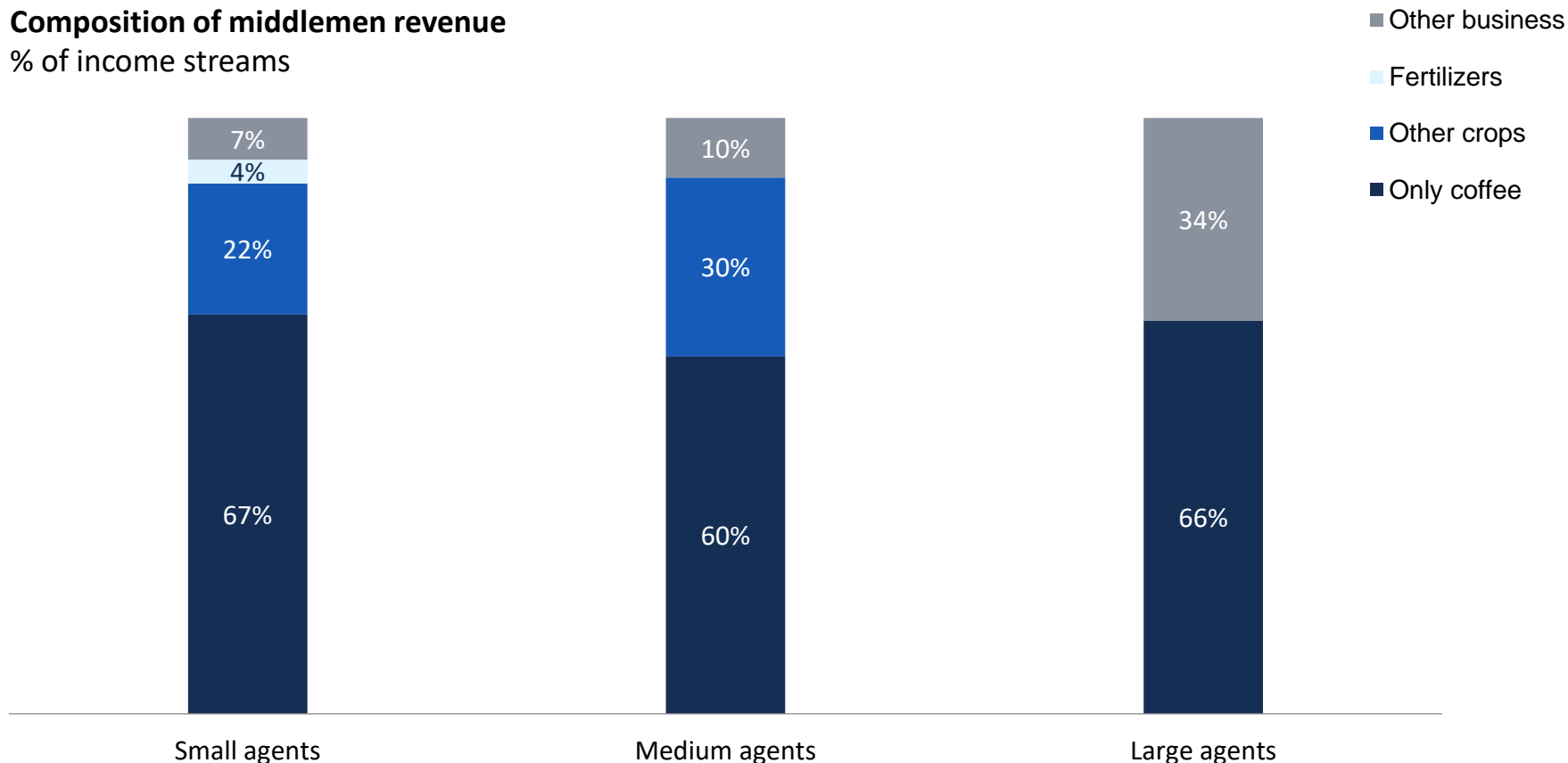
Banco Agrario

Source: Enveritas middlemen surveys

# FOR MOST MIDDLEMEN, COFFEE IS THE LARGEST SOURCE OF REVENUE



## Composition of middlemen revenue % of income streams



65% of middlemen don't have a secondary source of income

Source: Enveritas middlemen surveys



- Country overview and mapping
- Middlemen roles and services
- Income and sources of capital
- **Business outlook and SWOT analysis**
- Opportunities for engaging middlemen in sector initiatives
- Methodology

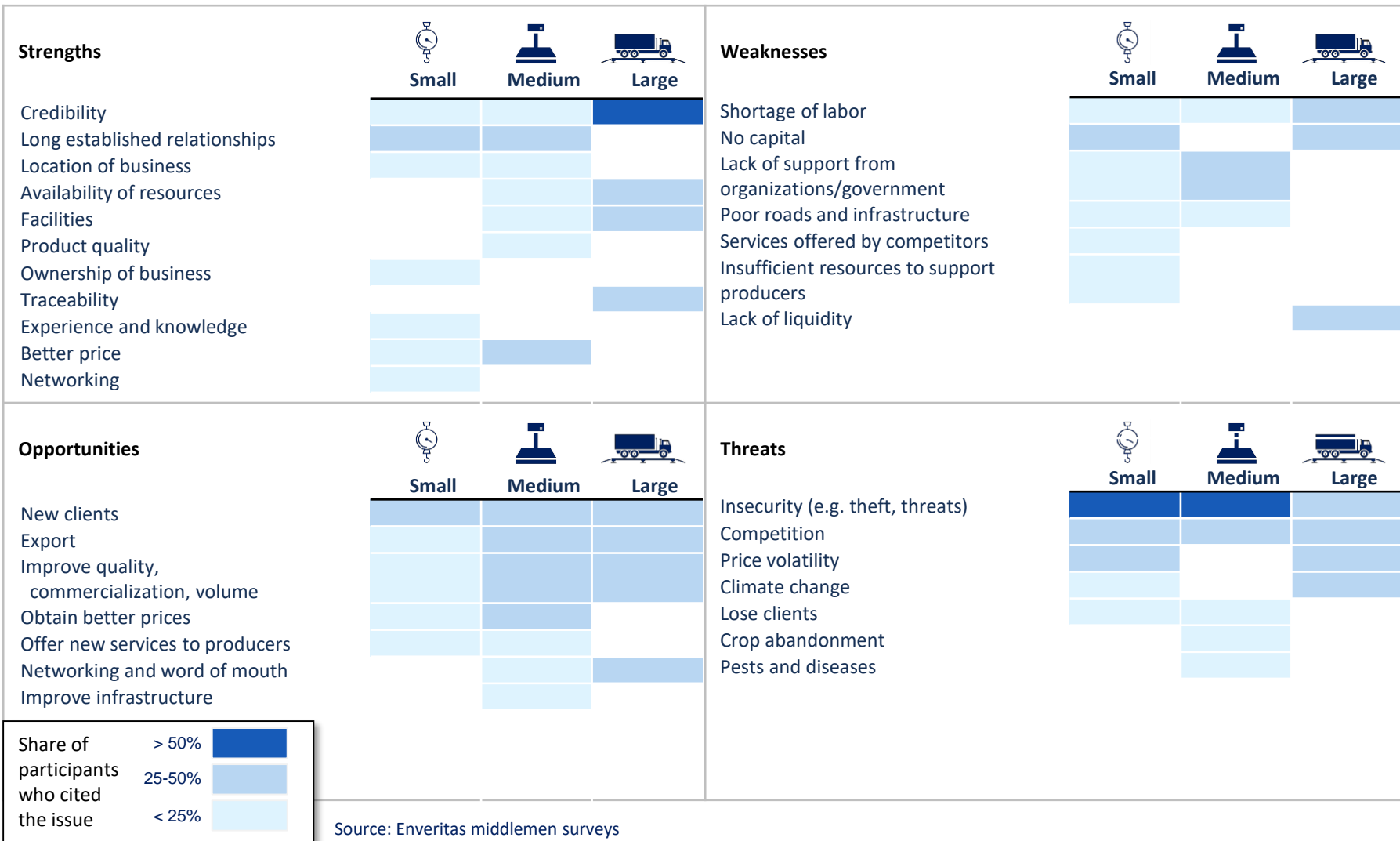
# WHILE VOLUMES TRADED HAVE DECREASED, COFFEE BUSINESS REMAINS PROFITABLE FOR MIDDLEMEN



	Small Agents			Medium Agents			Large Agents		
<b>YOY coffee volume traded</b>	Increasing 26%	Decreasing 44%	Neutral 30%	Increasing 30%	Decreasing 50%	Neutral 20%	Increasing 0%	Decreasing 66%	Neutral 34%
<b>Profits (Coffee)</b>	Profitable 48%	Not Profitable 0%	Neutral 52%	Profitable 60%	Not Profitable 0%	Neutral 40%	Profitable 33%	Not Profitable 0%	Neutral 67%
<b>Most profitable service</b>	Coffee Trading 100%			Coffee Trading 100%			Coffee trading 100%		
<b>Major expenses</b>	Labor; Transportation, Storage			Labor; Transportation, Processing			Labor, Interest on Capital, Transportation		
<b>Barriers to increase MM income</b>	Competition, price volatility & the cost of capital			Competition, barriers to expand to new markets & price instability			Competition		

Source: Enveritas middlemen surveys

# THE SWOT ANALYSIS REVEALS COMMON CONCERNS ABOUT INSECURITY, PRICES, AND COMPETITION



# CONTENTS



- Country overview and mapping
- Middlemen roles and services
- Income and sources of capital
- Business outlook and SWOT analysis
- **Opportunities for engaging middlemen in sector initiatives**
- Methodology

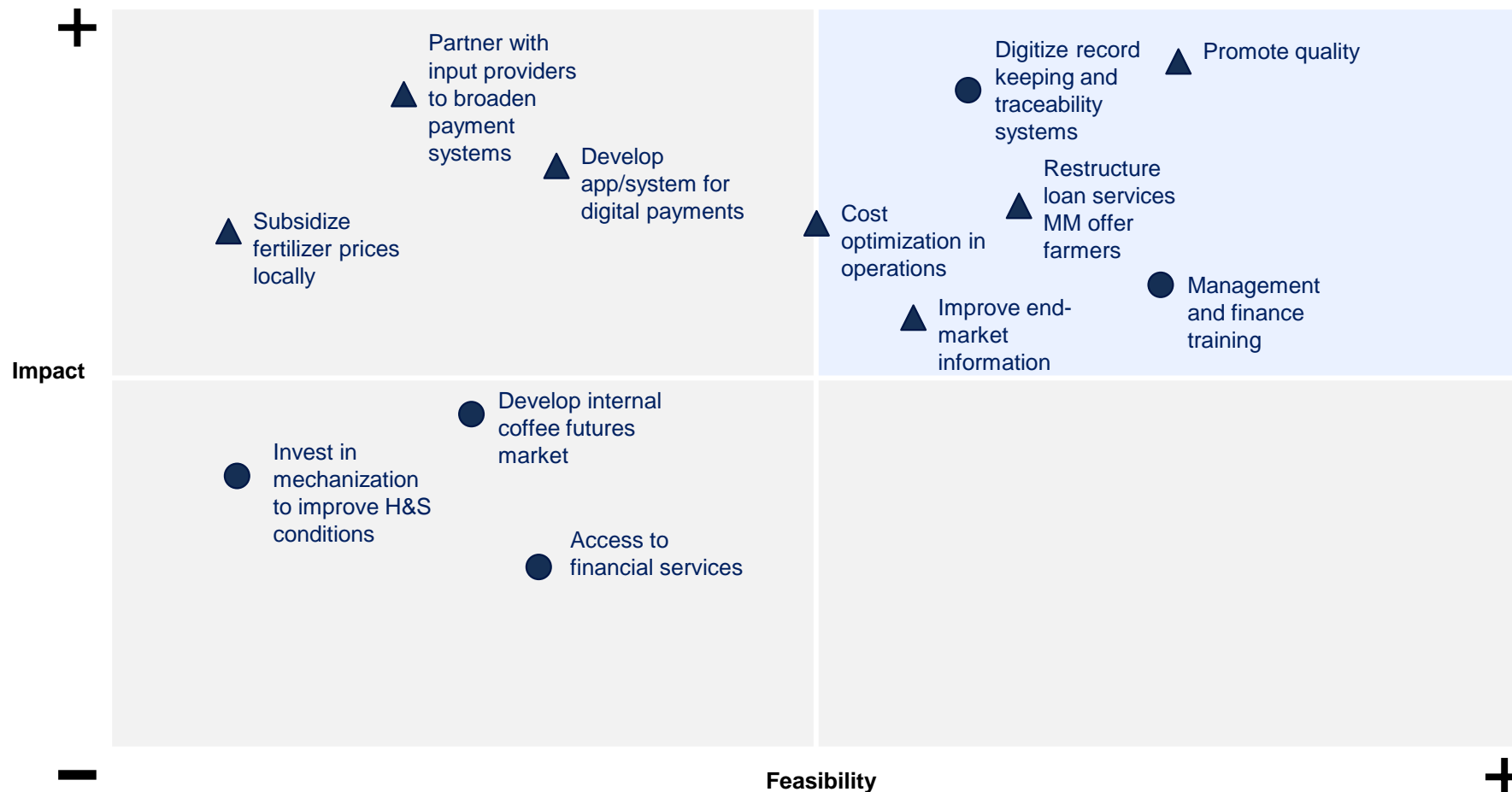
# WE'VE IDENTIFIED SIX IDEAS TO HELP SOLVE CURRENT CHALLENGES OR TO CHANGE BUSINESS AS USUAL



## Selected opportunities to support Colombia's middlemen

Each opportunity was evaluated for potential Impact and Feasibility

- Solve current business challenge
- ▲ Change business as usual



Source: Stakeholder interviews and Enveritas middlemen surveys

# (1) MANAGEMENT AND FINANCE TRAINING FOR MIDDLEMEN



## Concept Summary

- Provide focused training on accounting, business decision-making, and functioning of coffee markets
- Partner with local educational institutions (i.e. Universidad Surcolombiana in Huila or SENA, the National Training center) to design affordable training programs that grant certificates to participants

## Type of Opportunity

- Solve current business challenge

## Current Indicators

- 50% of middlemen say their business is profitable (none say business is unprofitable)
- 73% of middlemen have never received training. Of those who have, 5% have received training on market dynamics
- 40% of middlemen expressed the need for finance and global coffee markets training
- 23% of middlemen expressed interest in learning more about accounting and to have tools to make decisions
- 33% of middlemen have a university degree

## Design Considerations

- Middlemen skill gaps:
- Accounting as a decision-making tool (MA)
- Managing price volatility. Exporters are familiar with hedging and financial tools, but middlemen are not (MA & LA)
- Market analysis and trends (All)
- Pricing and differentials (All)

## Envisioned Outcomes

- Improved business decisions and investments
- Stable business growth
- Sustainable middlemen businesses

Source: Stakeholder interviews and Enveritas middlemen surveys; Middlemen archetypes: SA= Small, MA= Medium, LA= Large



## (2) COST OPTIMIZATION IN OPERATIONS



### Concept Summary

- Design a mobile application that helps middlemen manage the inventory flow in buying and selling
- The application should assign appointment windows during which farmers can deliver coffee at the designated warehouses in a specific date and time
- This tool will also help middlemen set up a better way to rent storage or transportation of excess capacities

### Type of Opportunity

- Change business as usual

### Current Indicators

- 55% of middlemen own their installations (patios, warehouses, etc.)
- 90% of middlemen expressed interest in buying from more producers
- 95% of middlemen said technology helps their business

### Design Considerations

- Cost split: labor (60%), transportation (30%)
- 90% of middlemen do not own trucks and therefore hire transportation services

### Envisioned Outcomes

- Efficient transportation (i.e. grower can spend time on other productive activities rather than waiting to sell coffee at warehouse, particularly at the peak of harvest)
- Improved cash flow for both middlemen and grower
- Improved business competitiveness

Source: Stakeholder interviews and Enveritas middlemen surveys; Middlemen archetypes: SA= Small, MA= Medium, LA= Large

# (3) PROMOTE QUALITY THROUGH CUPPING TRAININGS



## Concept Summary

- Support middlemen to set up cupping quality protocols and facilities
- Launch coffee quality competitions (not just for high-end quality segments) exclusively for middlemen
- Expand the price incentives for quality from specialty to conventional and inferior quality markets

## Type of Opportunity

- Change business as usual

## Current Indicators

- 100% of middlemen say they pay higher price for better quality coffee
- 72% of middlemen buy all coffee which is offered to them
- 57% of middlemen conduct at least one quality check while buying, but none evaluate quality via cupping

## Design Considerations

- Programs may involve the delivery of cupping trainings, the design of loan products to enable the purchase of cupping equipment, and/or mobile cupping stations for more users to benefit

## Envisioned Outcomes

- Incentives for quality and understanding of potential price premiums for various grades
- Improved coffee quality

Source: Stakeholder interviews and Enveritas middlemen surveys; Middlemen archetypes: SA= Small, MA= Medium, LA= Large

## (4) DIGITIZE RECORD KEEPING AND TRACEABILITY SYSTEMS



### Concept Summary

- Support middlemen and farmers set up accounting and traceability systems
- Train middlemen to correctly fill out receipts, including price, volume, date, quality
- Create awareness among middlemen and farmers on the opportunities for unlocking value through traceability

### Type of Opportunity

### Current Indicators

- 65% of middlemen have a loan with a bank.
- 92% of middlemen do not receive any non-financial benefit from their buyers
- 62% of middlemen sell exclusively to just one buyer

### Design Considerations

- Approximately 35% of farmers in Huila and Tolima don't receive proper receipts.
- 6.7% of producers in Huila and Tolima keep records of their sales, profits and/or chemical use.

### Envisioned Outcomes

- Improved transparency to the farm
- Incentives for farmers to keep accurate records with a reward of a reasonable amount per kilo to of volumes bought and sold
- Better transparency between middlemen and farmers on the volume sold and bought.

Source: Stakeholder interviews and Enveritas middlemen surveys; Middlemen archetypes: SA= Small, MA= Medium, LA= Large

# (5) RESTRUCTURE LOAN SERVICES MIDDLEMEN OFFER FARMERS



## Concept Summary

- Partner with local banks to offer coffee farmers access to formal financial services that meet their needs
- Middlemen (particularly small and medium archetypes) are trained to serve as banking agents for a commission, rather than issuing loans directly

## Type of Opportunity

- Change business as usual

## Current Indicators

- 55% of middlemen offer loans to farmers
- 10% of middlemen charge interest rates on farmer loans
- 16% of farmers don't have access to any credit services

## Design Considerations

- Insights of loans middlemen offer farmers: Loans in the form of money advances are a very common business practice along the supply chain. Advances are meant to be repaid with coffee under existing market conditions. Interest rates are not charged for advances and are usually accompanied by price fixing. Though paperwork is less complex for advances in comparison with banks, some collateral is required, such as warehouse / farm's mortgage

## Envisioned Outcomes

- Improved credit profiles
- Reduced default risk
- Increased access to formal financial services

Source: Stakeholder interviews and Enveritas middlemen surveys; Middlemen archetypes: SA= Small, MA= Medium, LA= Large

# (6) IMPROVE END-MARKET INFORMATION



## Concept Summary

- Establish a platform where middlemen get information about potential buyers
- Leverage the platform to disseminate prices, and organize networking events

## Type of Opportunity

- Change business as usual

## Current Indicators

- 62.5% of middlemen sell exclusively to one buyer
- 42.5% of middlemen said competition as the major barrier to increase profits.
- 45% of middlemen feel the commercialization of coffee is decreasing

## Design Considerations

- Relationships: On average, middlemen sell to the same buyer for about 10 years. 100% of middlemen interviewed are planning to sell their next harvest to the same buyers to whom they their last product to.
- Finding new buyers: 32.5% of middlemen find new buyers through other middlemen
- Communication: 100% of middlemen communicate with their buyers via phone calls.

## Envisioned Outcomes

- Improved margins (particularly small and medium archetypes)
- Reduced information gaps

Source: Stakeholder interviews and Enveritas middlemen surveys; Middlemen archetypes: SA= Small, MA= Medium, LA= Large



- Country overview and mapping
- Middlemen roles and services
- Income and sources of capital
- Business outlook and SWOT analysis
- Opportunities for engaging middlemen in sector initiatives

## • Methodology



## Scope of analysis

- A “middleman” is a colloquial term for a small-scale or informal trader that buys and sells raw agricultural products.
- The study focused on middlemen dynamics in the Arabica supply chains of Antioquia and Huila in Colombia.
- The study was carried out between October 2019 and January 2020, and all figures and market data should not be considered representative of future or past conditions.

## Primary data collection

- Middlemen interviews, with a sample size of 40 participants, were conducted in the departments of Antioquia and Huila.
- Antioquia and Huila produce close to 30% of Colombia’s coffee and represent approximately 83,000 and 81,000 smallholder farms, respectively.
- Farmers interviews were conducted country-wide during both the 2018/19 and 2019/20 coffee harvests, with a sample size of over 8,600 farmer participants (combined years).

## Secondary data collection

- The following sources provided reports that were referenced in this study: International Coffee Organisation (ICO), Colombian Coffee Growers Federation (FNC), IDH Sustainable Trade Initiative, and US Department of Agriculture (USDA).
- Interviews were conducted with representatives from the Colombia coffee sector, including traders, exporters, farmer associations, and NGOs in November and December 2019.