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Item 5 (c) of the Provisional Agenda

**Enhancing the Potential of Gourmet Coffee Production in Central American Countries
(CFC/ICO/39)**

Note by the Secretariat

SECRETARIAT OF THE COMMON FUND FOR COMMODITIES

**PROJECT PROPOSAL/PROFILE APPRAISAL FORMAT FOR THE
CONSULTATIVE COMMITTEE**

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| TITLE OF THE PROJECT | : | Enhancing the Potential of Gourmet Coffee Production in Central American Countries. |
| SUBMITTING ICB | : | International Coffee Organisation |
| DURATION | : | Two years |
| LOCATION | : | Costa Rica, Guatemala, Honduras and Nicaragua |
| NATURE OF PROJECT | : | The project seeks to implement development models that could lead to the increased coffee production and improved technical processing facilities for controlling the quality of coffee through the value chain. |
| TOTAL COST | : | USD 1,874,146 |
| CFC FINANCING | : | USD 617,560 (Grant) |
| CO-FINANCING | : | USD 1,256,586 |
| PROJECT EXECUTING AGENCY: | | Istituto Agronomico per l'Oltremare (IAO) of the Italian Ministry of Foreign Affairs (MAE) Florence, Italy |
| COLLABORATING INSTITUTIONS | : | Asociacion Nacional de Café' de Guatemala – ANACAFE Instituto Hondureneo del Café – IHCAFE Instituto de Café de Costa Rica – ICAFE Ministerio del Fomento, Industrial y commercio – MIFIC |
| SUPERVISORY BODY | : | International Coffee Organisation, London, United Kingdom |
| ESTIMATED START DATE | : | July 2007 |

I. BACKGROUND

1. This project is coming to the Consultative Committee for the first time. This project originates from the Coffee Industry that has recognized that the quality of the coffee they are receiving from producer countries is becoming a standard quality. There is very little gourmet quality on the market for the specialty market. In order to enhance the production of gourmet quality coffee the Italian Government started a program in Central America, which is seeking to train farmers on the production, processing and marketing of gourmet coffee. This project is seeking to establish a production system to promote quality coffee from Central America region by establishing units that promote direct participating of coffee producers in the export of gourmet coffee.

A. What is the nature and goals of the project? Are the goals measurable? Can they be evaluated?

Broad Objectives

2. The main objective of the initiative is to improve the standard of living of small coffee producers in rural mountain communities by increasing their income through efficient production and marketing of gourmet coffee. The project seeks to organize the farmers, train the farmers in the production of gourmet coffee and help the farmers to export their coffee directly.

Specific Objectives

3. The specific objectives of the project are:

- (a) To select potential gourmet coffee producing areas.
- (b) To reorganise the coffee production chain with special attention to cultivation and harvesting.
- (c) To identify and transfer new techniques for coffee processing and quality control.
- (d) To set up a new production system and promote quality coffee.
- (e) Good project leadership and management

B. Does the Project fall within the broad ICB strategy for the Commodity?

4. The project objectives are consistent with the broad strategy of International Coffee Organization, which has identified coffee quality as a priority through their Resolution 407 as amended. The project is also in line with the objectives of securing remunerative prices for producing countries and encouraging consumption based on the quality set out in the ICO Development Strategy for Coffee (document EB 3768/01 Rev.3)

C. Does it conform to CFC objectives and policies?

5. The project is consistent with CFC objectives as stated in Article 18.3(a) of the Agreement. It is envisaged that the project will improve and stabilize the income of farmers over the long term. The project will improve and sustain real income of developing countries through increased export earnings and will introduce new pulping and drying technologies which are environmentally friendly.

D. How significant will the impact of the project be on the immediate beneficiaries? On other beneficiaries? The expected situation at the end of the project?

6. The project will have a direct impact on the farmers who are going to be assisted with training, processing equipment and drying equipment. These will benefit from direct investment by the project. Other beneficiaries are the coffee buyers who are going to receive good quality gourmet coffee for the specialty market. This market cannot be supplied with ordinary coffee. At the end of the project it is expected that farmers would be able to export coffee directly. The project will also create market linkages between the farmers and the market in Europe that will hopefully continue after the project.

E. Is the project feasible and sustainable in socio-economic and environmental terms?

7. The project is feasible if the quality produced is better than the coffee quality found on the mass market. Gourmet Coffee is relationship coffee where the Roaster sells his relationship with the producers as a premium to the coffee drinkers. Thus the project feasibility will depend on the marketing skills. The project will improve the income of farmers and will also introduce environmentally friendly technology for pulping which does not pollute the rivers.

F. What are the activities envisaged?

8. The project has five components:

Component 1: Selection of four areas suitable for producing high quality coffee, one for each country, taking into account geographic, cultural and social considerations, represented by small coffee farms and farmer associations.

Component 2: Reorganisation of the coffee production chain with special attention to production and quality control. Developing ways of reorganizing and standardizing coffee production, with particular attention to processing and cultivation techniques, trading, promotion and marketing and strengthening organizational and management skills in the regions.

Component 3: Introducing New Technology for Processing Coffee

Transfer of new techniques for ecological pulping (*beneficiado ecologico*) and mechanical removal of mucilage. The new technology will reduce water consumption and accelerate the processing of coffee cherries. It will involve an area on the second floor for storing bags of coffee, a slipway giving access to the second floor, tanks to collect coffee, discarded material and waste water. On the first floor there will be an area for storing bags of processed coffee, and a reservoir equipped with connections, pipes and various accessories. Reduced water consumption will in turn reduce pollution of groundwater.

Transfer of new techniques for drying coffee - Drying is an important aspect of coffee processing. Controlled and slow drying, temperature monitoring, suspended table dryers, low cost solar powered dryers at the farm level, consistent with the traditional practices and knowledge of producers can improve the quality of coffee beans and reduce spoilage from traditional open air patios, and thus help to increase income.

Component 4: Developing of a website as a trading platform

Electronic vertical integration of all stages of the coffee chain and key stakeholders would be done on the website. The Italian Cooperation Agency will create the website. The network will have to be sustainable in the long term and all those involved will participate in its development and management. The network will create support services, processing all the relevant information, so as to provide updated, relevant and easy to read documents. Marketing and promotion activities will be particular priorities, and participants will be given responsibility for developing these areas.

Component 5: Project Management – Establishment of an efficient and effective technical and financial management team with the assistance of the Italian Embassies in the countries.

G. How will the findings of the project be transferred to potential users?

9. The project has activities involve the beneficiaries directly. The farmers will be trained and will receive direct assistance with processing and drying equipment. The farmer groups will be directly linked to the coffee buyers. The project has a direct impact on the intended beneficiaries.

H. What is the state-of-the-art that the project seeks to augment or use? What are others doing in the same area of activity?

10. This project is seeking to interface the producers with the Roasters in Europe and other major coffee markets and is also seeking to get farmers to produce gourmet coffee instead of ordinary coffee. Most farmers are producing for the regular market therefore they do not get any premium for quality.

I. What are the implementation arrangements made? What institutions are involved and what is the level of competence to undertake the work?

11. The International Coffee Organisation is the Supervisory Body for this project and will carry regular supervision missions. The Project Executing Agency is Istituto Agronomica per l'Oltremare (IAO) of the Italian Ministry of Foreign Affairs (MAE). It is the proponent of the project on behalf of the countries. The Institution is already implementing a larger Italian Government financed program, which is co-financing this project in synergy. The Collaborating Institutions in Central America are Asociacion Nacional de Café' de Guatemala – ANACAFE, Instituto Hondureneo del Café – IHCAFE, Instituto de Café de Costa Rica – ICAFE, Ministerio del Fomento, Industrial y comercio – MIFIC. The National Institutions will ensure that the project is being implemented within the framework of the National Coffee Strategy. While the Common Fund not yet worked with the PEA it has experience will all the National Institutions. The PEA will have to sign a Project Implementation Agreement which set out the role of each institutions to facility smooth implementation.

J. How realistic and complete is the budget of the project?

12. The project budget is modest. The total project cost is USD 1,874,146 and the Common Fund is being asked to contribute USD 617,560 as grant while the Italian Government has committed USD 1,256,586 for the project from July 2007. The budget has been well elaborated.

K. Is the project sustainable after termination of the project?

13. This project is teaching farmers how to produce gourmet quality coffee and is providing the farmers with the required equipment for processing and drying. The critical question is whether the premiums earned over the normal coffee price are sufficient to cover the investment into processing equipment. While the project is providing the equipment free of cost to the farmers, for the pilot to be validated the farmers should earn sufficient returns as if they were paying the full cost of the investment. This will be determined at the end of the project. At least on paper the producers should be able to continue selling gourmet coffee after the project and to maintain the market linkages.

II. SECRETARIAT COMMENTS

14. The Secretariat supports the project concept and the contribution by the Italian Government to support the initiative with a contribution of 70% of the budget. The Secretariat however recommends that formal relationship between the PEA and the National Institutions be established to ensure that the implementation is within the framework of the National Coffee Strategy of the Countries and that implementation can be sustained after the project.