

# Building a Financial Literacy Toolbox to Enhance Access to Commodity Finance for Sustainable SMEs in Emerging Economies

## Concept Note

Finance Alliance for Sustainable Trade – December  
2011



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# Project Profile – Concept Note

**Project Title: Building a Financial Literacy Toolbox to Enhance Access to Commodity Finance for Sustainable SMEs in Emerging Economies**

**Duration: 15 months**

## **A. Project abstract**

This project aims to facilitate access to finance for developing country Small and Medium Enterprises (SMEs) producing commodities in accordance with internationally recognized practices for sustainable production. The project will develop the core elements of a generic, publicly accessible, financial literacy toolbox and apply the toolbox through a series of training workshops with technical assistance providers and SMEs in the East African region. The project is specifically designed to leverage the knowledge and networks that have been developed within the context of CFC project Number CFC/ICO/45 entitled “Building Capacity in Coffee Certification and Verification for Specialty Coffee Farmers in Eastern Africa” but will also include stakeholders in other commodity sectors and projects to the extent that need and resources permit. The project will be implemented by the Finance Alliance for Sustainable Trade in collaboration with the East African FAST Members such as the East African Fine Coffee Association.

## **B. Project Background**

Finance has long been recognized as a fundamental building block of sustainable economic development. Access to finance for rural commodity production has systemically been underprovided by local and international banks alike creating a long-term stigma for the economic development of many commodity dependent countries. Over the course of the recent financial crisis and ensuing instability, the challenges associated with accessing finance have only worsened with markets offering reduced liquidity to clients with elevated risk.

While markets for financial services over the past several years have become increasingly unstable and constrained, markets for products that can demonstrate compliance with sustainable production practices has been growing at a rapid pace. The markets for sustainable forestry, tea, bananas and coffee have all grown by more than 25% per annum over the past five years<sup>1</sup>. In addition to price premiums, markets for sustainable products tend to be defined by increased differentiation and more stable supply chain relations that can have positive impacts on SME stability and sustainability.

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<sup>1</sup> Jason Potts, Jackie Daitchman and Jessica van der Meer (2010) The State of Sustainability Initiatives Review 2010: Transparency and Sustainability (IISD/IIED)

The Finance Alliance for Sustainable Trade (FAST) was founded in 2008 by a number of cutting-edge financial institutions recognizing a new potential for the delivery of finance to SMEs that have adopted sustainable production practices and therefore have access to sustainable markets<sup>2</sup>. FAST's mandate, since its establishment, has been to improve understanding on the size of the business opportunity presented by sustainable SMEs, as well as to reduce the transaction costs associated with the delivery of finance to sustainable SMEs in the developing world.

Within this context, FAST launched its first Financial Fair in 2010 with the objective of providing a training and matchmaking process to facilitate the efficient delivery of finance among financial institutions and sustainable SMEs. The first Financial Fairs focused on assessing the need and capacity of sustainable SMEs and matching that with the services being offered by FAST members and other local financial institutions.

Additionally, as a result of the development of five FAST Financial Fairs in Honduras, Costa Rica, Tanzania, Nicaragua and Peru in 2010-2011, FAST has more robustly identified and confirmed with its lending members and partners the key criteria and requirements that SMEs need to develop and fulfill in order to successfully access finance. Since the launch of the first Financial Fair in Honduras, these events have become extremely popular among commodity producers and other supply chain partners, and more than US\$ 10 million have been disbursed in loans to sustainable SMEs.

In the meantime, FAST has recognized the value in being able to provide a more robust framework to its Financial Fair © process by building around a more substantive set of training tools. FAST would like to include this essential information in a module to effectively guide technical assistance providers in their capacity building assignment to support SMEs in assessing their needs and accessing finance.

This project will allow FAST to consolidate its existing training materials into a formal "Financial Literacy Toolbox" with modules designed to improve the bankability of sustainable SMEs, but also modules to facilitate the development of financial products that more adequately service the SMEs producing for sustainable markets. The project will include a series of training workshops as a pilot for the consolidated toolbox and will culminate in a FAST Financial Fair as a parallel event to the EAFCA Annual Conference in 2013.

### **C. Project Alignment with Global Commodity Strategies**

By promoting access to finance for sustainable production, this project simultaneously promotes access to finance and sustainable production, generating the core foundation for the development of sustainable commodity economies. The overarching objective of the project is therefore in direct alignment with major international policy directives including, but not limited to:

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<sup>2</sup> FAST currently has 109 members from more than 30 countries, See [www.fastinternational.org](http://www.fastinternational.org).

- Communication From The Commission to the Council and the European Parliament: Agricultural Commodity Chains, Dependence and Poverty and the corresponding EU Action Plan in Support of Agricultural Commodities in Developing Countries calling for “Enhanced Sustainable Corporate Practices and Investments in CDDCs” and “Facilitating producer access to commodity risk insurance and finance”<sup>3</sup>.
- Principle 8 of the Rio Declaration stipulating that, “ To achieve sustainable development and a higher quality of life for all people, States should reduce and eliminate unsustainable patterns of production and consumption and promote appropriate demographic policies.”<sup>4</sup>
- The 2007 International Coffee Agreement establishing the overall objective of the ICA 2007 as the “sustainable expansion [of the coffee sector] in a market-based environment” and the need to facilitate enhanced access to finance (Art. 34(2))<sup>5</sup>

The project also falls under the Common Fund for Commodities objectives of improving reliability and financing for commodity exports of developing countries. This initiative will help raise the profile of commodity producers in the international development community. To finance commodity development falls within CFC projects within the agreed priority areas<sup>6</sup> including:

- Improving competitiveness of commodity producers;
- Supporting sustainable operation of the commodity value chains;
- Addressing vulnerability of export commodity producers and increasing their share in end-product value projects.

More specifically this project is designed to dovetail with the following past and present projects of the CFC by providing a concrete set of tools and processes for ramping up access to finance for commodity producers in Eastern Africa:

- Building Capacity in Coffee Certification and Verification for Specialty Coffee Farmers in Eastern Africa (CFC/ICO/45) - (EAFCA is the project executing agency).
- Access to Finance for the Development of Diversification Crops in Coffee Producing Areas (Burundi and Cote d’Ivoire) (CFC/ICO/30).
- Coffee Quality and Production Improvement in Ethiopia and Rwanda (CFC/ICO/22).

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<sup>3</sup> COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT: Agricultural Commodity Chains, Dependence and Poverty.

<sup>4</sup> Rio Declaration, 1992.

<sup>5</sup> International Coffee Agreement 2007.

<sup>6</sup> CFC Business Plan 2008-2012 - CFC/GC/19/3 – Page V

## D. Project objectives and deliverables

The overall objective of the project is to increase access to finance for sustainable agriculture producers and SMEs by improving producer and SME financial and accounting management capacity. The specific objective of the proposed work is the development of an initial set of training tools presented in a workshop that will address the trainers that work directly with those sustainable coffee producers and SMEs in need.

The essential methodology will include steps to identify the financial and training needs and limitations of the sustainable SMEs in East Africa, through exchanges with technical service providers partners of FAST operating in the region. The identification of these needs will guide the research and analysis of existing, publicly available materials, including FAST systematization on SMEs access to finance through FAST Financial Fairs and the already available financial glossary on the FAST website<sup>7</sup>. From that FAST will be able to produce a concrete and adapted set of criteria and requirements for SMEs to access finance.

The proposed materials will form a “first module” of the FLTBX, which will be suitable for basic financial literacy training in preparation for requesting credit in the frame of FAST Financial Fairs ©, and will be made available in English. The contents will also be tailored and adopted for the particular characteristics of the coffee sector in Africa, with a view of upgrading and adapting the contents to other regions, commodities and languages in the future.

The specific objectives of the project are:

- a) Development of a specific FLTBX “First Module”: **Basic Criteria and Requirements for SMEs in the Coffee Sector to Access Finance.**

This module will also include key requirements, in terms of documentation, that SMEs in the coffee sector need to have properly developed and aligned to their business model in order to present their investment cases to FAST lending members and other financial institutions in FAST Financial Fairs and other business meetings. In particular it will cover the key criteria and requirements SMEs in the coffee sector need to develop and fulfill in order to improve access to finance from FAST lending institutions and other local and international financial service providers.

FAST has developed a core set of parameters that FAST lending members require in order to proceed with offering financial services. These parameters serve as key targets for SMEs seeking finance for the first time, and are the foundation to develop the FLTBX. FAST has also researched existing financial

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<sup>7</sup> <https://marketplace.fastinternational.org/en/resource/glossary>

literacy materials that will be considered for developing the training modules adapted to the coffee sector in East Africa. Based on this and on previous FAST experiences in FFFs, the module will consist of:

- **A Trainers Guide**, with the key tasks for its completion being (tentatively):
  - Contacting key persons/organizations (consultation with farmers and farmer organizations in the coffee sector, service providers, export companies, technical assistance providers) and literature review.
  - Drafting, documentation editing, organization and formatting.
  - Document finalization and peer review.
- **Training Guidelines** to train sustainable producer organizations and SMEs in the coffee sector and propose exercises, with the main tasks for its completion being:
  - Extracting, drafting and synchronization of components adapted to the coffee sector in the region.
  - Formulation of exercises and answers.

This module will provide a fundamental introduction to what are the key criteria and requirements that SMEs in the coffee sector need to develop and fulfill in order to improve access to finance from FAST lending institutions and other local and international financial service providers. It will cover basic criteria and conditions to access finance that FAST has identified with its lending members such as: market position, sales history, trade contracts, certification held, relationship established and position within the value chain, credit history, access to guarantees and financial performance among others.

- b) First implementation of the FLTBX through “Training of Trainers” sessions on the module with trainers working directly with SMEs in the sustainable coffee sector in Africa, using the Trainer’s Guide and Trainee’s Workbook.
- c) Validation and improvement of the training materials through their implementation with a select sample of producers and SMEs in the sustainable agriculture sector in Africa who will be already supported by participating trainers.
- d) The sustainable producer organizations and SMEs that have received training will be potential candidates to participate in subsequent FFFs to be held in 2013 and beyond, through the process developed by this project.

The main deliverables of the project are:

- a) Financial Literacy Toolbox: "First Module": **Basic Criteria and Requirements for SMEs in the Coffee Sector to Access Finance** in English. The training materials will be available online at FAST's website: <http://www.fastinternational.org>.

As the concept and the FAST Financial Fair © and the Financial Literacy Toolbox are its properties, FAST will contribute its copyrighted materials as an in-kind counterpart contribution to the project.

- b) A workshop for trainers in February 2012: The preparatory workshop will take place in Ethiopia during the 9<sup>th</sup> edition of the Eastern Africa Fine Coffee Conference and Exhibition (EAFCA).
- c) FFF in 2013: sustainable agriculture producers/SMEs will prepared by trainers who attended training sessions held in the training workshop in Ethiopia will be matched and meeting one-on-one with socially-oriented financial institutions members of FAST to discuss concrete financing opportunities.

For the Workshop in 2012 and the FFF in 2013, the indicative list of participating socially oriented financial institutions that are FAST members would be the following:

Coffee Development Fund, Root Capital, Rabo Rural Fund (Rabobank), Calvert Foundation, ResponsAbility, Alterfin, Working Capital for Community Needs (WCCN) and Triodos Facet. Other partner financial institutions will also be invited.

**E. Project timeline**

FAST has prepared the following timeline to complete the development of the tool, training workshop, and future FAST Financial Fair © organization within fifteen months. The activities contributing to the project are divided into four components sections to ensure an effective completion of the tasks.

Activities	Month				
	1	2	3	4 -14	15
<b>Component 1:</b> Development of the Financial Literacy Toolbox "First Module": Trainer's Guide and Training Guidelines					
<b>Component 2:</b> Organization of a preparatory workshop at EAFCA 2012: "Training for Trainers"					
<b>Component 3:</b> Training of sustainable SMEs by trainers using FLTBX module, with monitoring from CFC, ICB and FAST					
<b>Component 4:</b> Organization of a FAST Financial Fair © in 2013					

## F. Tentative Project budget

<b>Activities</b>	<b>Cost in USD</b>
Development of a Financial Literacy Toolbox "First Module"	\$15,000.00
CFC and ICB Monitoring	\$15,000.00
Organization of a workshop in East Africa in early 2012: "Training for Trainers" who will train the sustainable SMEs	\$20,000.00
Organization of a FAST Financial Fair © in 2013 in East Africa with the trained sustainable SMEs support by trainers who participated to the 2012 workshop	\$70,000.00
<b>TOTAL</b>	<b>\$120,000.00</b>

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