



International Coffee Organization
Organización Internacional del Café
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ICC 95-2

12 April 2006
English only

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Projects/Common Fund

International Coffee Council
Ninety-fifth Session
22 – 25 May 2006
London, England

**Coffee market development and trade
promotion in Eastern and Southern Africa**

**Project progress report
(January – December 2005)**

Background

The attached document contains extracts from the progress report for the project “Coffee market development and trade promotion in Eastern and Southern Africa”. The report covers the period from January to December 2005. A copy of the full report is available on request.

Action

The Council is requested to note this report.

**United Nations Office for Project Services
UNOPS REGIONAL OFFICE FOR EASTERN AND SOUTHERN AFRICA**



**COFFEE MARKET DEVELOPMENT AND TRADE PROMOTION IN
EASTERN AND SOUTHERN AFRICA
IMPROVEMENT OF COTTON MARKETS AND TRADE SYSTEMS IN
EASTERN AND SOUTHERN AFRICA**

ANNUAL PROGRESS REPORT

2005

Country : Kenya, Uganda, Tanzania & Zimbabwe
UNOPS Project Numbers : RAF/00/R71, UGA/00/R71, URT/00/R71
ZIM/00/R17, RAF/99/R71,UGA/99/R71 &
URT/99/R71

Report Date : March 2006

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**Project Report for
Coffee Market Development and Trade Promotion in Eastern and Southern Africa and
Improvement of Cotton Markets and Trade Systems in Eastern and Southern Africa**

Project Summary

Project Title	:	Coffee Market Development and Trade Promotion in Eastern and Southern Africa		
Number	:	CFC/ICO/03		
UNOPS Project Numbers	:	RAF/00/R71, UGA/00/R71, URT/00/R71 & ZIM/00/R71		
Project Executing Agency (PEA)	:	United Nations Office for Project Services (UNOPS)		
Location	:	Uganda, Tanzania and Zimbabwe		
Starting Date	:	1 October, 2000		
Completion Date	:	31 September, 2006		
Financing	:			
Total Project Cost	:	US\$ 9,101,301		
of which				
CFC Financing (Loan/Grant)	:	Grant:	US\$	3,711,542
		Loan:	US\$	1,300,511
		Total	US\$	5,012,053
Co-financing	:	International Banks:	US\$	1,736,891
		Local Banks:	US\$	787,500
		ICO:	US\$	15,750
		Total	US\$	2,540,141
Counterpart Contribution	:	Government of Tanzania:	US\$	606,732
		Government of Uganda:	US\$	538,503
		Government of Zimbabwe:	US\$	403,872
		Total	US\$	1,549,107

Period Reported

From : January 2005

To : December 2005

EXECUTIVE SUMMARY AND BACKGROUND

In 2004, at the request of the Common Fund for Commodities (CFC), the recruitment of a Trade Finance Consultant was conducted by the United Nations Office for Project Services (UNOPS). This process was initiated in April 2004 and finalised on 31 August 2004. The selected consultant, the Natural Resources Institute (NRI), started work on 1 September 2004.

Around the same period, the UNOPS office underwent an internal restructuring process that saw it established as the Regional Office for Eastern and Southern Africa with effect from 1 September 2004. In line with this, a new Regional Portfolio Manager was appointed with effect from 1 October 2004 to oversee the CFC projects.

The successful appointment of the NRI as the Project Implementing Agency was followed by a mission visit to the three respective countries by Mr. Gideon Onumah, the team leader, NRI and Mr. Sandeep Khapre of DCDM. The first mission visit to the three countries was undertaken from 13 to 29 October 2004 and carried out the following:

- i. Reviewed the existing situations in the three participating countries with respect to the project implementation and relevant country/commodity sector conditions;
- ii. Identified major implementation challenges and determined how these could be addressed;
- iii. Determined technical support and resources needed to achieve project objectives;
- iv. In consultation with relevant stakeholders, formulated viable plans and strategies that would ensure delivery of project outputs and objectives within the timeframe agreed in the sub-contract between UNOPS and NRI/partners, and;
- v. Upon completion of the mission, discussed the observations made, project implementation plans and challenges; resource availability and allocation; and project management and reporting issues with UNOPS.

In general the mission revealed that there was still considerable project support from both the Governments and private sectors in the respective countries. The specific country observations were described in detail in an inception report provided by NRI to UNOPS in December 2004 and summarised in the 2004 annual report to CFC.

This was followed by a “start-up” mission undertaken by CFC, NRI and UNOPS to the respective project countries between 9 and 19 January 2005. The purpose of this mission was to chart the way forward for project implementation as well as to clearly define the responsibilities of each of the respective project partners in view of moving the project forward to active implementation.

Various other visits were made during the year, for example in April - May 2005, the International Cotton Advisory Committee (ICAC) visited the project countries and UNOPS also made visits in June and July to Uganda in preparation for the Uganda audit by PriceWaterHouseCoopers.

A meeting was also held in Nairobi in October 2005 between UNOPS and the NRI to review progress on the implementation of the project. There was general consensus and satisfaction expressed regarding the implementation of project activities especially in Uganda and Tanzania. In the former, there were concerns raised with regard to the cotton sector where peculiarities were noted.

At the PEA level, in addition to engaging the Trade Finance Consultant and signing Addendums 3 and 4 for the Coffee and Cotton Warehouse Receipt Systems (WRS) projects respectively, the project was extended to 30 September 2006.

Objectives of the project

The objectives of the projects as set out in the Appraisal Reports prepared in 1997 have remained largely unchanged, and were to:

- Improve and increase the potential benefits from coffee/cotton production and marketing to countries in the region within the framework of a liberalised global market;
- Increase export earnings from coffee/cotton production and marketing in the participating countries;
- Improve the income of smallholder coffee/cotton producers and small-scale traders in the coffee/cotton trade, by increasing their share of export prices and limiting their risk exposure;
- Develop and test systems of coffee/cotton financing, marketing and trade that can be replicated in other developing/producing countries; and
- Strengthen public and private institutions and improve local human resource capacities to operate effectively in a liberalised market.

Financial status of the projects at the beginning of 2005

At the end of October 2004, the residual total balance of funds for the projects was compiled in order to establish what was available for implementation of the remaining project activities. A provisional balance of US\$1,453,000 was identified. This amount was exclusive of the US\$1,309,225 contract amount for NRI, which was subtracted from the PEA coffee and cotton balances.

Details of the balances per project were provided in the annual report for 2004. In summary the provisional balances as provided in that report were as follows:

Project	Percentage balance
PEA Coffee	11%
PEA Cotton	6%
Zim Coffee	0%
Uganda Cotton	39%
Uganda Coffee	12%
Tanzania Cotton	22%
Tanzania Coffee	10%

From the above balances, work plans and budgets for the period January 2005 – September 2006 were developed. These work plans and budgets, which were presented to UNOPS and CFC in December 2004, were further discussed during the mission of 9 – 17 January 2005. Participants in this mission included the NRI, the CFC, UNOPS, Local Management Units (LMUs) and the respective project stakeholders in the three countries. The work plans and budgets were finalized in the week of 18 February and forwarded to UNOPS, which in turn forwarded them to the CFC and the ICBs for approval. They were subsequently approved.

During the first quarter of the reporting period, the main activities undertaken were inception visits to the participating countries. In the following sections, activities relating to the period Jan – Dec 2005 are reported in detail.

Activities during the year

The first quarter mainly focussed on carrying out inception visits to the participating countries, the agenda for the second quarter was set at a challenging notch following the rather slow beginning in the first quarter. During the second quarter the focus was on activities that would ensure that the basic elements of the warehouse receipt systems were in place for piloting trade financing based on inventory collateralisation at agreed locations by June 2005. For Uganda this was for coffee, for Tanzania this was aimed at coffee and cotton while for Zimbabwe the focus was on coffee and soy beans. Most of the second quarter activities were successfully undertaken. The NRI, LMUs and commodity bodies contributed substantially to this success.

The priority was on activities under components I and IV. In addition, efforts were made to implement activities for components II and III contained in the approved work-plans to the extent that these were required to support the trade finance system.

During the third quarter the focus of activities was on maintaining the momentum gained during the initial piloting of the WRS in participating countries. The concentration was on monitoring and improving systems for the WRS pilot during the harvest period beginning in June 2005.

The fourth quarter concentrated mainly on monitoring deposits and other activities planned to promote the WRS. As at the end of this quarter, annual work plans were completed for all three participating countries by the end of the first week of December 2005. This followed the preparation of drafts by NRI and consultations with the LMU's, which occurred in November 2005.

Forward plans for 2006 (with specific reference to January plans)

Tanzania:

- Preparation of warehouse regulations and operational manual
- Development of the project website
- Monitoring of coffee deposits and cotton ginning under the pilot
- Preparation to launch WRS pilot for cotton in the Western cotton growing areas
- Printing of warehouse receipts
- Visit by NRI staff

Uganda:

- Lobbying for promulgation of the Warehouse Bill
- Continuing discussions on cotton WRS
- Initiating work with groups likely to participate in pilot WRS for coffee in Central Uganda
- Launch market information system (MIS) for the coffee sector

Zimbabwe:

- Follow up warehouse legislation with Agricultural Marketing Authority (AMA)
- Continue sensitisation programme for soybean WRS
- Visit by NRI staff

CONCLUSION

The prospects for successful implementation of trade finance systems for coffee and cotton in all three participating countries were quite good at the end of 2005, particularly because of the strong private sector demand for the WRS and support from Government. In Uganda and Tanzania, good progress has been made in the coffee sector. Cotton activities in Tanzania have improved following the installation of the new gin stands at Moshi. The challenge is to extend the success in the Eastern cotton growing area to the West. In Uganda, the WRS system has not been as successful in cotton. This is mainly due to the fact that at the moment there are no independent cotton ginneries in the country. The existing ginneries who are also the exporters have formed a cartel making it difficult for farmers to organise themselves into groups.

In Zimbabwe, project implementation could be hampered by macroeconomic instability and uncertainty in the financial sector as well as by the continuing decline in coffee production.

Promulgation of supportive warehouse legislation could also be delayed because of the political environment and its effects on legislative programmes in Uganda and Zimbabwe. Delays in passing the warehouse bills will, however, not be fatal to the development of the trade finance systems.

Effective implementation of the planned activities for 2006 will be critical to the success of the pilot programmes at the closure of the project. Of crucial importance is the resolution of the budget revisions which are at the moment the subject of close discussion and scrutiny. All in all, it is likely that with funding availability, the project could achieve very positive outcomes in Tanzania and Uganda, however, the main chance for demonstrating the viability of the WRS in Zimbabwe may lie in the soybean sector in 2006.

To reiterate, and as stated in the text, following start up visits to the participating countries, the NRI in collaboration with the respective LMUs prepared work plans and budgets. These were based on major conditions found in the respective countries and the commodity sectors which were likely to affect the project outcomes. They aimed at providing a strategy for setting up a viable WRS in each of the projects. The activities required the sequence to achieve these, the responsible parties, the time frames and the costs associated with each of these were identified. Once finalised these were presented to UNOPS, which in turn forwarded them to the CFC and the International Commodity Bodies for approval.

On the basis of these budgets and work plans the project has recorded good successes in the past year. In addition, working within these work plans and budgets, a successful finish is expected for the project in the last few months before its closure during 2006. This is dependent on how fast the issue of revised budgets which has been the subject of debate in the first months of the year can be resolved. Indeed, the nine months to completion of the project in the year 2006 are seen as critical to consolidating all the lessons learnt in the time it has taken to implement the project. A successful conclusion during this time will also facilitate the replication of similar schemes once the project has come to an end. It is hoped that the resolution of this issue will be expeditious in order to provide the funds necessary for the final activities lined up towards the end of the project.