

**WP Board No. 850/98 (E) Rev. 2**

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Projects/Common Fund

PROJECT TO STRENGTHEN THE  
COMMERCIAL, MANAGEMENT, FINANCIAL  
AND BUSINESS CAPACITY OF SMALL SCALE  
COFFEE GROWERS/EXPORTERS

Executive Board  
27 - 29 January 1999  
London, England

## **INTRODUCTION**

At its meeting in September 1998 the Executive Board considered the summary of a project designed to strengthen the commercial capacity of small growers and exporters in the Dominican Republic, Mexico, Nicaragua and Rwanda contained in document WP-Board No. 850/98 Rev. 1. The Board, after reviewing various matters relating to the project, requested the Executive Director to prepare a document containing a clearer description of the project (see paragraph 25 of Decisions Adopted number 236, document EB-3686/98). The present document aims to address this request.

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**PROJECT PROPOSAL FOR THE  
COMMON FUND FOR COMMODITIES (CFC)**

**PROJECT SUMMARY**

1. Project title: **Strengthening the commercial, management, financial and business capacity of small coffee growers/exporters**
2. Duration: 3 years
3. Location: Mexico, Nicaragua, Dominican Republic, Rwanda
4. Nature of the project: Trading and marketing, financing and business management for small-scale growers.
5. Brief description:
  - The central objective of the project is to consolidate the enterprises of small-scale coffee growers to develop the capacity to compete in the market, become creditworthy and generate benefits for their communities (employment, greater income, services, development projects).
  - The project aims to achieve its objective through the following components: i) Selecting the participating organizations of small producers: 10-15 organizations will receive direct intensive technical and financial support, to allow them to consolidate their enterprises. With the help of this core group, provide services to and start a similar process with 25-30 other organizations, obtaining a multiplier effect, which will benefit some 30,000 growers (the equivalent of 200,000 people). ii) Market access: Improve access and define specific marketing strategies for the chosen organizations, which will improve their market knowledge, negotiating capacity, and the quality and image of the product. iii) Finance: Develop a credit system for exports and small investments. A revolving fund<sup>1</sup> for direct credits and guarantees, co-finance and leverage of resources. Create track records with the local banks. Study alternative financial schemes. iv) Technical assistance: Strengthen management capacity in accordance with the complexity of the commercial and financial operations and the services the farmers demand. v) Support and mutual services between the producer organizations: Implement a

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<sup>1</sup>Credit fund using a system of revolving loans. The repaid loans and guarantees will be loaned again to the same target group.

system of mutual support and obtain a multiplier effect (advice, providing services, exchanging experiences).  
vi) Administration, monitoring and evaluation of the project: Efficient and transparent use of resources. A clear idea of the impact of the pilot project and the possibility of extending it and reproducing the methodology used into other countries and for other commodities.

The consolidation of this type of organization so they become sustainable companies is a gradual process, which normally takes longer than the three years of the project. Above all this project is a pilot project and will develop a methodology to stimulate a process of business consolidation. At the end the results will be evaluated and the feasibility of extending the project will be examined: grading the organization, increasing the number of organizations, and starting the project in other countries.

6. Estimated cost:	<b>Total</b>	<b>US\$ 7,283,882</b>
	Credit line fund (initial)	US\$ 3,500,000
	Investment loans fund (initial)	US\$ 1,000,000
	Grants	US\$ 2,031,357
	Counterpart contributions	US\$ 752,525
7. Financing sought from the Common Fund:	<b>Total</b>	<b>US\$ 3,671,309</b>
8. Form of financing sought from the Fund:	Loan for credit line fund	US\$ 1,750,000
	Loan for investment fund	US\$ 500,000
	Grant for market access	US\$ 159,863
	Grant for technical assistance	US\$ 1,200,544
	Grant for monitoring and evaluation (CFC-ICO)	US\$ 60,900
9. Co-financing:	<b>Total</b>	<b>US\$ 2,860,050</b>
10. Method of co-financing:	Loans for credit line fund (initial)	US\$ 1,750,000
	Loans for investment fund (initial) (loans & guarantees, Triodos Bank, other co-financiers)	US\$ 500,000
	Grants Twin/Twin Trading	US\$ 106,050
	Grants technical assistance/ mutual support	US\$ 504,000

As the solvency of the organizations improves and track records are created with financial institutions, an increased leverage is expected and the initial amounts reflected will be exceeded.

11. Counterpart contribution	<b>Total</b>	<b>US\$</b>	<b>752,525</b>
	Contribution technical assistance	US\$	200,025
	Costs and expenses revolving fund	US\$	552,500

The organizations benefiting will contribute towards the financial costs and part of the local technical assistance costs in cash and in kind (transport, lodging, food, and own fees).

12. Project Executing Agency: **Twin Ltd.** (charity) and **Twin Trading Ltd.** (commercial company), both registered in the U.K.

13. Supervisory body: **International Coffee Organization (ICO)**

14. Estimated starting date: July 1999.

## **I. BACKGROUND TO THE PROJECT**

### **A. Origin of the project**

The purpose of the project is to help small growers organizations to improve their competitive capacity and offer them an opportunity to gain access to the world market.

Experience has shown that although direct exporting does not necessarily produce better prices for small producers, it may provide an alternative option for those who manage to develop as proper businesses acquiring the capacity and experience gained through direct marketing.

### **B. Consultations carried out and the project design**

Following an initial contact in September 1996, the Executive Director of the Common Fund for Commodities (CFC) invited Twin, in 1997, to present a project outline based on Twin's experience in exporting commodities from small producer organizations. The project outline was presented by Twin in August - September. It was based on the request by producers for support and was discussed with the Executive Director and Chief Operations Officer of the CFC, to evaluate the extent of the project and its requirements. The novelty of the project was firstly that it was a project to be carried out under the coordination of a non-governmental organization (NGO), and secondly that the form of financing requested included a loan component to cover part of the implementation as well as a grant, which was a new form of financing for the CFC.

At the same time, consultations began with potential co-financing sources, in particular with the United Kingdom Government Department for International Development (DfID) and the Triodos Bank.

It was decided that the two commodities involved, coffee and cocoa, should be dealt with separately and consultations initiated in mid-1997 were continued with the two international commodity bodies involved, namely the ICO and the ICCO. In November - December 1997, the project was presented to the ICO for unofficial consultation. The ICO gave technical support and reiterated the need to act in close coordination with the national authorities of the countries chosen for the project.

Ideas for this stage of the project were then discussed with the organizations which will potentially be participating in the project and contacts were established with the relevant national authorities (Mexican Coffee Council, Coffee Department of the Agricultural Secretariat of the Dominican Republic, and the Trade Attaché at the Rwandan Embassy in London). This led to the preparation of a project outline, which was discussed with the organizations involved, the ICO technical team, and the relevant national authorities, who expressed their approval in principle. The present project proposal document was prepared for the Governments involved to present to the ICO Executive Board in May 1998. The Government of Nicaragua, represented by CONICAFE, expressed an interest in participating in the project, and it was duly presented to the ICO Executive Board in September 1998. The Board requested additional information to enable it to take a decision to forward the project to the CFC Consultative Committee.

The present document has been prepared in response to the request of the ICO Executive Board.

#### **IV. PROJECT DESCRIPTION**

##### **A. Project rationale and objectives**

###### **1. Wider objective**

The central objective of the project is to consolidate the businesses of small coffee producers to enable them to improve their management capacity, compete in the market, become creditworthy, and generate benefits for their communities.

###### **2. Immediate objectives**

2.1 To choose a core group of 10-15 organizations in Mexico, Nicaragua, Dominican Republic and Rwanda, with the potential to consolidate themselves as small businesses with the help of the project, and a wider group of 25-30 organizations, which can receive support from the core group.

2.2 To create access to relevant markets, strengthen negotiating power, and develop marketing strategies that will permit greater added value to be generated.

2.3 To develop a credit and financing system designed to:

Provide working capital for exports by organizations which have shown that they have a capacity to export on their own but are not yet considered creditworthy by the traditional sources of finance.

Provide small loans at organization and individual producer level to guarantee and improve operations: pre-harvest credits, drying grounds, pulpers, communications, quality control laboratories, etc.

Improve access to credit and mobilize additional financial resources, study alternative local financing, and initiate a process leading to structural solutions for financing problems.

2.4 To strengthen the management capacity of the chosen organizations by means of a technical assistance programme which will fulfil business demands and design and formulate a strategy for business management and community development.

2.5 To provide services, using the core group of chosen organizations, to a wider group of organizations starting to export coffee, and to prepare the bases for their future organizational and economic consolidation.

2.6 To develop a methodology to improve the management and export of coffee by the small producer organizations, which can be replicated in other countries and for other commodities.

**B. Project design considerations**

The project derives from the existence of a large number of small coffee producers organized in cooperatives producing a commodity that can be traded on the world market. Their first need is to gain sufficient access to the market. Once they have a market for their coffee, the second need is to have adequate credit to finance their processing and marketing operations. Thirdly, they need to have the management and organizational capacity to be able to manage the industrial, commercial and financial operations involved.

The initial ("seed") capital made available by the CFC will be used to provide loans to the organizations and/or to mobilize other financing resources. In taking the primary risk and demonstrating the improved financial record and solvency of the organizations, it is hoped to eventually achieve leverage of the seed capital.

The role of technical assistance is twofold: firstly, it will strengthen the management capacity of the organizations (institutional strengthening); and secondly, the close working relationships with the organizations will make it possible to acquire an in-depth knowledge of these organizations and monitor their performance, as well as to adapt financing to better suit their needs and to better calculate and control the risks. Equally, by involving organizations in providing services to other less developed ones, technical assistance will help to monitor and control the risks inherent in supporting such organizations.

Special attention will be given to the problem through the creation of a revolving fund designed to involve the local financing system in long-term financing for the target group on acceptable and competitive conditions.

The strengthening of the organizations participating in the project and the development of a methodology which can be replicated in other situations will benefit trade as a whole by creating reliable trading and financing partners with whom long-term relationships can be established and through whom support can be channelled to a large number of producers who need it.

**C. Relevant previous work in the field of the project**

Since 1986, Twin has been involved in commercial development (Twin) and in marketing (Twin Trading) both on its own account and on behalf of small producers. Twin and Twin Trading have concentrated on several agricultural and agro-industrial products. At present, the most important is coffee. Cocoa trading is being developed and several other commodity programmes (nuts, cotton, etc.) are in an initial stage.

Twin took the initiative for creating Cafédirect and is a founding partner. Cafédirect sells coffee very successfully through the main supermarkets in the United Kingdom. Apart from being a founding partner of Cafédirect, Twin is responsible for maintaining relations with coffee producers and for commercial and financial operations, ranging from the purchase of coffee to supervision of the final product (roast, ground and soluble coffee). The Cafédirect brand has achieved strong consumer recognition and has won prizes for its innovative marketing.



Outside the United Kingdom, Twin is supporting the introduction into Japan of the first coffee from small producers sold in considerable volume through distribution channels of consumer cooperatives. In the United States, Twin is negotiating with new partners on processing and marketing coffee and cocoa for the gourmet and ecological markets.

By working very closely with producers and by trading various products, Twin is managing a revolving fund of US\$250,000 to provide export credits; this fund complements a fund which finances pre-payments for purchases of coffee for Cafédirect and other clients. The TWINcafé Bulletin is published fortnightly, and for many organizations it provides a reference for negotiating contracts and fixing prices. Twin has helped various organizations to launch themselves on the market and develop a marketing strategy.

One clear example of the success of the Twin approach (establishing a long-term relationship with producers, offering direct and intensive support and organizing the services of third parties) is the role it played in transforming Kuapa Kokoo of Ghana into a solid business organization, making it one of the country's main cocoa marketing companies. Other successful projects which focus on integrated support and long term relationships between organizations and a foreign partner include : UCRAPROBEX (El Salvador), COOCAFE (Costa Rica), and COCLA (Peru).

The examples mentioned demonstrate the success of this approach, but also its main limitation: considerable investment over a long period is needed. Twin does not have its own funds to provide the level of intensive support that the small producers need and request. The NGO sector working in development has financial and conceptual restrictions. This is why support is being requested from the CFC to carry out the project.

The present project has taken these experiences, systematized them and extended them to a wider group of small producer organizations. The project is the result of producers' requests for this type of support, particularly during the bi-annual meetings of Twin-Cafédirect and the FLO in 1997, where the problems of commercial and financial management in present market conditions were discussed. The project design has been discussed with Twin's partner organizations in the countries involved.

For the purposes of this project, Twin's unique position, its contacts and experience in providing technical assistance and offering access to markets as well as in the management of funds, are crucial.

The project is designed to strengthen the capacity of small producers in relation to the world coffee market as a whole, particularly in niches where they can obtain better conditions because of their particular qualities: the gourmet, organic and so-called fair trade markets. It is not solely a question of the so-called fair trade market but rather of strengthening the capacity of small producers in relation to the market as a whole.

## **D. The challenges**

### **D.2 Financing**

The financial resources needed to sustain and expand the level of commercial operations required to satisfy producers' needs and encourage competitive conditions are lacking. Most of the organizations involved have only been created recently; they have few capital assets and little experience in financial management, and they also lack the banking history and prerequisites that would render them creditworthy.

The main challenge in the financial plan is, therefore, to develop a financing system able to satisfy the demand for short-term credits while at the same time laying the groundwork for local structural solutions.

### **D.3 Management, organization and business management development**

The main challenge in this area is how to adapt organizational structures to enable them to meet business demands while maintaining producers' confidence in the organization and their identification with it. Matters requiring special attention relate to:

- Privatization and the cutting back of many services provided by the State.
- Problems inherent in adapting projects to business and investment plans, which have been properly analyzed and adjusted to real capacity, and how to negotiate these projects successfully.
- Leaders and personnel with the necessary skills to manage the business properly.

## **E. Project components**

1. Selection of participating organizations
2. Market access
3. Financing
4. Technical assistance
5. Support and mutual services between producer organizations
6. Administration, monitoring and evaluation of the project