



International Coffee Organization
Organización Internacional del Café
Organização Internacional do Café
Organisation Internationale du Café

WP Board No. 882/00 Rev. 1

22 August 2000
Original: English

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Projects/Common Fund

Executive Board
25 - 28 September 2000
London, England

Project outline

Short and medium term finance for small-scale farmers in Kenya, Uganda, Tanzania and the Democratic Republic of Congo

Background

1. This document contains an outline for a new project designed to establish a credit scheme to finance small-scale coffee farmers in Kenya, Uganda and Tanzania. The Democratic Republic of Congo (DRC) has expressed its interest in joining the project.
2. It may be noted that the present document conforms only in part to the guidelines for the presentation of projects for consideration by the Common Fund for Commodities and that the project, which has been prepared by Kenya, Uganda, Tanzania and the Democratic Republic of Congo, requires additional work before it is fully developed. In particular, formal confirmation is awaited on identification of an appropriate Project Executing Agency to coordinate activities for the four countries.
3. The Consultative Committee of the CFC has been consulted on this project and has recommended that a workshop be held to further develop the details.

Action

The Executive Board is requested to consider this project outline.

**SHORT AND MEDIUM TERM FINANCE FOR SMALL-SCALE FARMERS
IN KENYA, UGANDA, TANZANIA AND
THE DEMOCRATIC REPUBLIC OF CONGO**

Project summary

The International Coffee Organization (ICO) has submitted the following project proposal with its recommendation for financing through the First Account Net Earnings of the Common Fund for Commodities (CFC). The proposal was approved in principle by the International Coffee Council on 18 May 2000 following the recommendation of the Executive Director of the International Coffee Organization, subject to subsequent consideration of the final project.

Project title: Short and medium term finance for small-scale coffee farmers in Kenya, Uganda, Tanzania and the Democratic Republic of Congo

Duration: Five years

Location: Kenya, Uganda, Tanzania, DRC

Nature of the project: Input and marketing credits to small-scale farmers

Estimated total cost:	Kenya	US\$10,946,266
	Uganda	US\$5,533,743
	Tanzania	US\$5,815,756
	DRC	US\$2,100,900
	Total	US\$24,396,665

Financing from the Fund:	Grant	
	Kenya	US\$2,140,893
	Uganda	US\$1,587,117
	Tanzania	US\$1,397,332
	DRC	US\$1,500,000
	Total grant	US\$6,625,342

Financing from the Fund:	Loan	
	Kenya	US\$
	Uganda	US\$
	Tanzania	US\$
	DRC	US\$1,500,000
	Total loan	US\$

Co-financing:	Kenya	US\$7,705,373
	Uganda	US\$3,496,626
	Tanzania	US\$3,918,424
	DRC	US\$
	Total co-financing	US\$15,120,423

Counterpart contribution:	Kenya	US\$1,100,000
	Tanzania	US\$500,000
	Uganda	US\$450,000
	DRC	US\$600,900
	Total	US\$2,650,900

Project Executing Agency: To be determined

Supervisory Body: International Coffee Organization (ICO)

Collaborating institutions: Kenya: Kenya Planters Co-operative Union
Uganda: Uganda Coffee Development Authority
Tanzania: Tanzania Coffee Board
DRC: Office National du Café

Financing institutions: Kenya: Local banks to be identified
Uganda: Local banks to be identified
Tanzania: Local banks to be identified
DRC: Local banks to be identified

Objective and scope of the project: The central objective of the project is to increase the benefits to smallholder coffee farmers through the creation of a suitable and sustainable inputs credit scheme; to promote their access to credit for their inputs; and to undertake a small-scale farmers survey throughout the country. The project will comprise the following components: (a) development of a system of smallholder survey; (b) development of input credit system to small-scale farmers for their equipment and husbandry; and (c) project coordination, supervision and monitoring.

Estimated starting date: October 2001

Project rationale and objectives

1. In many African producing countries, due to the nature of unpredictability in agricultural production as a result of its highly dependency on exogenous factors, credits from commercial banks are almost non-existent. Banks have chosen to lend their money to other sectors leaving agriculture to finance itself. Even if the credits were extended to agricultural production at equal levels as for other sectors, commercial interest rates which are blind to the nature of agricultural production are a big set-back to the farming community and as such none of the farmers are willing to put their farms on a noose knowing one day their farms will be taken over for failing to repay the loan because of the burgeoning interest rates. In order to promote greater efficiency in coffee production and marketing and ensure adequate returns to farmers measures need to be introduced to promote quality product, enhance farmers' bargaining power when marketing their product and enhance their access to credit. This will also improve the performance of coffee cultivation and above all its profitability and quality.

2. In Uganda, a major obstacle facing these farmers is the limited access to agricultural credit for purchasing inputs. Where they are able to, the farmers do not purchase them in the desirable quantities. The result is poor crop management that translates into low yields and productivity. Hence, an intervention through technical assistance to provide financial support to the farmers to purchase inputs and equipment is necessary. Coffee farmers management techniques will improve thus enabling their productivity to go up. Their well-being and, consequently, that of their families will improve and the national economy will also improve. There will thus be a reduced economic vulnerability for farmers as well as the country at large. With an increased income, the farmer's awareness for consumer requirements for high quality will be heightened and the premium status of Ugandan coffee on the international market will be secured. Within this credit scheme farmers involved in the gourmet project¹ will get necessary equipments to continue to supply the gourmet market.

3. In Kenya, the agricultural credit from commercial banks relative to other sectors of the economy has been very minimal because the traditional commercial banks have opted to lend money to other sectors of the economy perceived to have a lower risk. For this reason, Kenya began a programme where it supports the coffee farmers by providing them with short-term working capital for coffee production. However, these demands have continued to increase and Kenya is unable to finance the credit requirements from its internal sources.

4. In Tanzania, the problems of input supply and credit to smallholder coffee producers have become a major concern to the industry. When proper buying centres are established, input delivery by private traders is likely to improve, provided that a viable credit system is

¹ *The ICO/CFC/ITC project was implemented in Uganda and four other countries.*

found. The Tanzania Coffee Board started a programme where it supports coffee farmers by giving them facilities to market their crop. These efforts are very limited in scope and kind due to lack of sufficient resources.

5. In the Democratic Republic of Congo with a deteriorating macroeconomic base of the country, input use and availability have declined since the coffee sector liberalization in 1976. This has led to producers, even those in the estate sector, adopting a low input production system, which has resulted to low yields and productivity. The shortage of credit is chronic and widespread, both at the importer/exporter level in the major centres as well as in the rural areas. As a consequence agricultural growth has been reduced, increasing poverty in rural areas.

6. The main objectives of the project are:

- (i) to undertake a survey of coffee farmers;
- (ii) to develop a credit system for farmers to get access to inputs market; and
- (iii) to improve the income of smallholder coffee producers and their cooperatives, by increasing their share of export prices and reducing their constraints.

Project logical framework

Narrative summary	Verifiable indicators	Means of verification	Assumptions
<p>Broad goal Poverty alleviation in rural areas through improvement of coffee farmers standard of living.</p>	<p>(a) an increase in annual growth rate in agricultural GDP per capita; (b) an increase in per capita income; (c) an increase in number of farmers engaged in coffee production.</p>	<p>(a) Government reports; IMF & World Bank statistics; (b) national statistics; data on production; (c) demographic data; records of land applications.</p>	<p>- prudent and stable macroeconomic environment; - continuation of policy of poverty eradication and modernisation of agriculture; - political stability in the involved countries; - Government keeps providing supportive policy, legal and regulatory framework.</p>
<p>Specific objectives (a) to undertake a small-scale farmers survey; (b) to promote a revolving agricultural credit for coffee farmers; (c) to improve productivity, yield and quality of coffee; (d) to disseminate a revolving credit system in other producing countries.</p>	<p>(a) identification of the situation and needs of small-scale farmers; data on their size, land title, production; (b) number of farmers receiving input credit; (c) good husbandry of coffee farms; production of quality product; yield improvement; (d) other producing countries implementing similar model.</p>	<p>(a) data bank on farmers; (b) commercial banks reports; data from farmers associations (c) increase in production of good quality coffee; increase in farmers' equipment; (d) monitor actions in other countries.</p>	<p>(a) adequate land policy; (b) prices sufficient to remunerate additional efforts and to allow loan repayment; (c) input and equipment prices maintained at a lower cost; (d) model proves to be economically sustainable.</p>
<p>Outputs (a) technically equipped farmers; (b) sustainable revolving credit system developed; (c) enhanced productivity; (d) increased farmer's income.</p>	<p>(a) number of farms equipped and well managed; (b) number of farmers utilizing credit facilities; (c) increase in production per hectare; (d) increase in farmer's revenue after paying off his debt.</p>	<p>(a) detailed survey on the impact of the project; (b) bank statistics; (c) Government statistics; (d) farmers survey.</p>	<p>- farmers ability to adopt new technologies; - coffee disease is contained to tolerable levels; - improved rural infrastructure.</p>
<p>Inputs and activities (a) carry out baseline survey to identify beneficiaries and critical areas; (b) set up credit points for farmers; (c) purchase inputs (d) carry out training programmes in crop husbandry and credit management; (e) monitoring and evaluation.</p>	<p>(a) development of a system of smallholders survey; (b) promotion of a revolving input credit system; (c) project executing, training and dissemination.</p>	<p>- PEA progress reports - Project evaluation</p>	<p>- availability of funds for monitoring and for purchasing inputs disbursed in time; - adequate supply of planting materials; - Governments remain committed to promote farmer's standard of living; - PEA and collaborating institutions coordinate and execute the project efficiently and effectively.</p>