



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

WP Board No. 884/00

22 August 2000  
Original: English

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Projects/Common Fund

Executive Board  
25 - 28 September 2000  
London, England

### **Project outline**

**Coffee price risk management  
in Eastern and Southern Africa (Ethiopia,  
Kenya, Tanzania, Uganda and Zimbabwe)**

### **Background**

1. This project proposal is a follow-up to the coffee market development and trade promotion project in Eastern and Southern Africa that has just started and to the work carried out by the International Task Force on Risk Management coordinated by the World Bank. This document contains an outline for a new project designed to establish a coffee price risk management system in Eastern and Southern Africa to assist farmers in accessing commodity price insurance and to exploit the synergies between the two projects.

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 still requires additional work before it is fully developed. The CFC has agreed to cooperate to this effect.

### **Action**

The Executive Board is requested to consider this project outline.

## **COFFEE PRICE RISK MANAGEMENT IN EASTERN AND SOUTHERN AFRICA**

### **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 by the Executive Board of the International Coffee Organisation on .....following the recommendation of the Executive Director of the International Coffee Organization.

<b>Project title:</b>	Coffee price risk management in Eastern and Southern Africa
<b>Duration:</b>	Three years
<b>Location:</b>	Ethiopia, Kenya, Tanzania, Uganda and Zimbabwe
<b>Nature of the project:</b>	Input and marketing credits to small-scale farmers
<b>Estimated total cost:</b>	US\$1,500,000
<b>Financing from the Fund:</b>	Grant: US\$1,500,000
<b>Co-financing:</b>	World Bank: Local banks: to support the programme by providing trade and input finance to producers and exporters
<b>Counterpart contribution:</b>	In kind contribution
<b>Project Executing Agency:</b>	United Nations Office for Project Services (UNOPS)
<b>Supervisory Body:</b>	International Coffee Organization (ICO)
<b>Collaborating institutions:</b>	Ethiopia: Coffee and Tea Authority Kenya: Coffee Board of Kenya Tanzania: Tanzania Coffee Board Uganda: Uganda Coffee Development Authority Zimbabwe: Coffee Mills
<b>Financing institutions:</b>	Local banks to be identified

**Objective and  
scope of the project :**

The central objective of the project is to provide a suitable and sustainable price risk management scheme to reduce the exposure of coffee farmers to fluctuations in world market prices and secure better incomes from coffee growing. The project will promote their access to risk management instruments and will address two types of price risk including the price risk for the farmer during the period before he can harvest and sell and the price risk for the local exporter for the period between buying and selling. Although the first type of risk is the main focus of the project, addressing the second one could, however, have a positive impact on the incomes of farmers and is, therefore, also largely covered in the project. The project will comprise the following components: a) survey of the current marketing chain in each participating country to identify potential users; b) selection of risk management instruments and providers; c) development of a training programme on the application of risk management strategies and instruments through a series of awareness-raising seminars and workshops; d) development of a system of price insurance using price risk management instruments selected; and e) dissemination of project results and project management.

**Estimated starting date:**

January 2001

## **Project rationale and objectives**

1. In interviews with producing countries the message which comes out clearly is that farmers want to be assured of a floor price during any one season. The price will allow the producers to plan and budget for the necessary farming activities. The hedging strategy which is followed by the traders is of no interest to producers, what is of concern is the price of risk insurance which is incorporated in the selling price of the commodity. Price risk insurance provides liquidity in the commodity market because it enables banks to provide input credit and trade finance. The objectives of this project proposal are necessary for the post liberalization period because Marketing Boards are no longer providing the comfort of guaranteed floor prices.

2. The overall objective of this project is therefore to help coffee growers in exporting countries to manage price risk and provide them with a financial safety net that will enhance commodity trade and protect against commodity price volatility. The practical aim of the project is to introduce and test the feasibility of the use of various risk management instruments by farmers' cooperatives, as well as coffee traders. It should be noted that the present project is a logical follow-on to the coffee market development and trade promotion in Eastern and Southern Africa project and will, to some extent, use the infrastructure and the experts engaged in that project.

3. The main objectives of the project can be summarized as:

- (i) to undertake a survey of the current marketing chain in each participating country to identify potential users;
- (ii) to select suitable price risk management instruments and providers;
- (iii) to develop a training programme on the application of risk management strategies and instruments through a series of awareness-raising seminars and workshops;
- (iv) to design a system of price insurance using price risk management instruments selected; and
- (v) dissemination of project results and project management.

## Project logical framework

Narrative summary	Verifiable indicators	Means of verification	Assumptions
<p><b>Broad goal</b> Reduction of the exposure of coffee farmers and small buyers to world price fluctuations, therefore, better security of income from coffee production.</p>	<p>(a) awareness of cooperatives, farmers and local banks; (b) an increase in per capita income.</p>	<p>(a) number of farmers and cooperatives engaged in this scheme; (b) volume and number of transactions under the scheme.</p>	<p>- existence of real interest by cooperatives and farmers in reducing prices instability; - Government maintains supportive policy, legal and regulatory framework.</p>
<p><b>Specific objectives</b> (a) test a suitable price risk management system for farmers and small operators; (b) facilitate access to credit for farmers; (c) promote a market-based approach to reduce price instability for coffee farmers; (d) develop awareness of risk management tools; (e) disseminate experience learned in other producing countries.</p>	<p>(a) prices received by farmers under the scheme compared to prices without the scheme; (b) use of the scheme as credit support by banks; (c) other producing countries implementing similar model.</p>	<p>(a) data bank on farmers; (b) commercial banks reports; data from farmers associations.</p>	<p>- farmers are willing to pay a premium to participate in the scheme; - farmers' price volatility makes the strategy attractive; - model proves to be economically sustainable.</p>
<p><b>Outputs</b> (a) report on existing marketing chain; (b) price risk management scheme with appropriate instruments suitable for farmers and small buyers; (c) practical training of participating banks, farmers, cooperatives.</p>	<p>(a) participants for test case; (b) system for contract compliance designed; (c) price volatility with and without the project; (d) staff capable of handling the use of price risk management instruments.</p>	<p>(a) detailed survey on the impact of the project; (b) bank statistics; (c) Government statistics; (d) farmers survey.</p>	<p>- project becoming fully operational.</p>
<p><b>Inputs and activities</b> (a) carry out baseline survey to identify users and providers; (b) set up suitable contract for price risk management for farmers; (c) Carry out training programmes for participants.</p>		<p>- PEA progress reports - Project evaluation</p>	<p>- availability of funds for monitoring and for purchasing inputs disbursed in time; - Governments remain committed to promote farmer's standard of living; - PEA and collaborating institutions coordinate and execute the project efficiently and effectively.</p>