



INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
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**Sustainable input credit for financing the
production end of the coffee value chains
in Kenya, Tanzania and Uganda**

Background

1. This document, submitted by the Uganda Coffee Development Authority, contains the summary of a new project proposal designed to upscale the sustainable input credit scheme for small-scale coffee farmers in Kenya, Tanzania and Uganda. It builds on the positive outcomes of the pilot project on 'short- and medium-term finance to small-scale coffee farmers in Kenya', financed by the Common Fund for Commodities within the framework of project CFC/ICO/20. It aims to adopt a risk-balanced approach in which the revitalization of coffee productivity and quality are the primary impact targets but credit support to other on-farm diversification investments with the highest rates of return are accommodated.

2. The proposal will be forwarded to the Virtual Screening Subcommittee (VSS) for an evaluation and will be considered by the Projects Committee in March 2012.

Action

The Projects Committee is requested to consider this proposal as well as the recommendations of the VSS and, if appropriate, to recommend its approval by the Council.

PROJECT SUMMARY

- Project title:** Sustainable input credit for financing the production end of the coffee value chains in Kenya, Tanzania and Uganda
- Duration:** 3 years
- Location:** Kenya, Tanzania and Uganda
- Nature of the project:** The current project proposal concerns the scaling up of the sustainable input credit scheme for small-scale coffee farmers in Kenya, Tanzania and Uganda. It builds on the positive outcomes of the pilot project on 'short- and medium-term finance to small-scale coffee farmers in Kenya', financed by the Common Fund for Commodities within the framework of project CFC/ICO/20. It aims to adopt a risk-balanced approach in which the revitalisation of coffee productivity and quality are the primary impact targets but credit support to other on-farm diversification investments with the highest rates of return are accommodated.

The proposed project is a direct response to objective three of the Logframe for the pilot project on 'short- and medium-term finance to small scale coffee farmers in Kenya' (CFC/ICO/20) which stipulated scaling up the beneficial results of the pilot project to other countries to ensure wider impact. This objective of the earlier project was not accomplished during the pilot phase. To facilitate faster upscaling, of the results of the pilot phase, the proposed project has incorporated mechanisms to ensure broader geographical and demographic coverage, catalyse rapid reach to the beneficiaries, foster sustainability and provide opportunity for non-discriminatory access by all who require the services and meet the eligibility criteria.

Estimated total cost: US\$2,600,000

Financing from the Fund: Grant US\$2,100,000

Counterpart contribution: US\$500,000

Project Executing Agency: CABI Africa

Collaborating institutions:

- Ministry of Co-operative Development and Marketing
- Ministry of Agriculture
- Coffee Research Foundation
- Uganda Coffee Development Authority
- Tanzania Coffee Board

Supervisory Body: International Coffee Organization (ICO)

Estimated starting date: 1 March 2012

Objective and Scope of the Project

1. The overall goal of the project is 'Poverty alleviation among coffee dependent rural communities through improvement of coffee farmers' standards of living'. The purpose of the project will be anchored on specific objective three of the pilot phase project, i.e. 'sustainable input-credit system up-scaled and disseminated in Kenya, Tanzania and Uganda'. The project purpose will be met by undertaking a number of activities within the framework of the following components:

- i. Robust input credit scheme based on the supervised credit concept refined and scaled up/out.
- ii. Dissemination, sensitization and popularization of the supervised input credit product undertaken in Kenya, Tanzania and Uganda
- iii. Capacity building to harness and/or develop strong credit values support usage of the supervised input credit product undertaken

Related projects and previous work

2. This project concerns the delivery of objective three of the CFC funded pilot project on 'short- and medium-term finance to small-scale coffee farmers in Kenya' (CFC/ICO/20). It complements the project on 'Access to finance for the development of diversification crops

in coffee producing areas' financed by the CFC and implemented in Burundi and Côte d'Ivoire. The project therefore expects to benefit from lessons learned during the implementation of this project. Likewise, the successful execution of this project will provide a tool for implementing the credit component of the project in Burundi and Côte d'Ivoire. Part of the outcome of the project on 'Improving coffee quality in East and Central Africa through enhanced processing practices' (CFC/ICO/22) implemented in Ethiopia and Rwanda was a recommendation to implement a project on credit guarantee scheme to improve investment in coffee by smallholders in the two countries. The project on sustainable credit guarantee scheme for Ethiopia and Rwanda stands to benefit from the supervised input credit system tool proposed in the current project.

Benefits and beneficiaries

3. The major focus and purpose of this project is to improve and stabilize the livelihoods of the smallholder coffee farmers in Africa through sustainable production of high quality coffee. By producing high quality and differentiated coffees, the smallholder coffee farming communities will be able to attract premium prices in the world coffee market. This will lead to positive growth in the overall household income, and at the same time, improve their income, hence reducing the vulnerability of smallholders to coffee price volatility. The additional disposable income at the household level is expected to trickle down throughout the family. Thus all the smallholder coffee dependent family units in the target countries are the primary beneficiaries of the proposed project.

Environmental aspects

4. As a component of sustainable production, the project will endeavour to mainstream production and processing approaches which maintain the quality of the environment. The overall effect of the project interventions will therefore be positive.

Intellectual property rights, publications

5. Technologies, processes and copyrights emanating from this project will be the intellectual property of the Common Fund for Commodities.

Project costs and financing

6. The total budget of the project is US\$2,600,000 of which US\$500,000 is in the form of counter-part financing (Kenya US\$200,000; Tanzania US\$150,000, Uganda US\$150,000). The Common Fund will provide US\$2,100,000 as grant.

LOGICAL FRAMEWORK

Narrative summary	Objectively Verifiable Indicators	Means of verification	Assumptions
<p>Broad goal:</p> <p>Poverty alleviation in rural areas through improvement of coffee farmers' standards of living</p>	<ul style="list-style-type: none"> ▪ An increase in per capita income of coffee farmers participating in the project 	<ul style="list-style-type: none"> ▪ Annual reports of the collaborating institutions in the project countries ▪ Impact assessment reports ▪ IACO reports ▪ ICO reports ▪ National statistical data 	<ul style="list-style-type: none"> ▪ Socio-economic stability prevails ▪ Political commitment to support the coffee sector alleviation and modernization of agriculture
<p>Project Purpose:</p> <p>Sustainable input-credit system mainstreamed in Kenya, Tanzania and Uganda.</p>	<ul style="list-style-type: none"> ▪ Business relationships between commercial banks and smallholder built up and/or strengthened ▪ Loan products targeting smallholder coffee farmers refined and/or rolled out ▪ Proportion of farmers in the targeted project areas practicing good coffee husbandry practices ▪ Increase in production of good quality coffee from the targeted project areas 	<ul style="list-style-type: none"> ▪ Annual reports for the financing institutions participating in the project areas ▪ Annual reports for the coffee regulatory authorities in the project countries ▪ Annual reports for the parent ministries ▪ Project annual reports ▪ End of project report 	<ul style="list-style-type: none"> ▪ Prevailing conditions of the world coffee market remains stable or improves ▪ Input and equipment prices maintained at a reasonable level ▪ Coffee prices sufficient to compensate additional efforts and to generate surplus for loan repayment ▪ Commercial banks willing to develop products targeted to smallholder coffee farmers ▪ Favourable weather conditions prevail

Outputs	Objectively Verifiable Indicators	Means of verification	Assumptions
An IT-mediated robust credit appraisal, disbursement and monitoring made available	<ul style="list-style-type: none"> ▪ Farmer capacity to use IT in managing the loan facility of the members enhanced ▪ Information processing and reporting needs of coffee producer farmers' co-operative societies integrated into the IT system ▪ Smart card system developed, tested and rolled out ▪ Loan disbursement and recovery IT System module upgrade ▪ The backbone access database for the IT component of the Credit Plus software scaled up to an Oracle/MS SQL platform 	<ul style="list-style-type: none"> ▪ Project annual and progress reports ▪ Mid-term review and other external appraisal report ▪ Ministry of Agriculture reports ▪ Reports of financial institutions ▪ End of project report 	<ul style="list-style-type: none"> ▪ Newly enlisted farmers adopt new technologies and new practices ▪ Interest of coffee exporters in the project is sustained ▪ Government policies remain conducive to liberalized coffee marketing ▪ Farmers willing to adopt new technologies and ways of conducting business ▪ Financing from all sources is made on a timely basis in line with proposed activities and Annual Work-plan/Budget ▪ The PEA, collaborating institutions co-ordinate & execute the project efficiently and effectively.
The revamped Credit Plus monitoring tool scaled up in more coffee growing districts of Kenya and the product tested in Uganda and Tanzania on a pilot basis	<ul style="list-style-type: none"> ▪ Baseline review of lending conditions in the scaling up/out areas in Kenya Tanzania and Uganda undertaken ▪ Farmers/farmer groups and the financial service providers to be enlisted in the scaling up/out phase recruit ▪ Database of farmers and their current and potential production and productivity levels documented by end of 2nd quarter of year 1 ▪ Cash flow-based repayment system in the target countries developed in line with the respective coffee calendar 		<ul style="list-style-type: none"> ▪ Commercial banks willing to engage with smallholder farmers
Capacity of the loan providers and loan beneficiaries to participate in the supervised credit system upgraded	<ul style="list-style-type: none"> ▪ Formation of Joint-Liability Groups (JLG) having 15-20 members residing in the same Cooperative and involved in the same project catalysed ▪ Training needs for the various categories of stakeholders in the up-scaling areas and countries identified ▪ Manuals for good production and processing practices developed and made available in local languages to producers by 3rd quarter of year 1 ▪ Capacity building training for loan officers in the banks, farmers and farmer groups undertaken and credit committees formed by 2nd quarter of year 2 ▪ Instruments for good governance and for internal self monitoring of the JLGs and mother cooperatives developed and integrated in the capacity building activities ▪ Commodity dependent early warning system on client compliance developed ▪ Participatory Planning Monitoring and Evaluation (PPM&E) of production and supply system put in place by end of year 1 		
Project effectively executed	<ul style="list-style-type: none"> ▪ Project outputs achieved within agreed budget and timeframe 		Collaborating organisations fulfil commitments