



INTERNATIONAL COFFEE ORGANIZATION
ORGANIZACIÓN INTERNACIONAL DEL CAFÉ
ORGANIZAÇÃO INTERNACIONAL DO CAFÉ
ORGANISATION INTERNATIONALE DU CAFÉ

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Projects Committee/
International Coffee Council
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London, United Kingdom

**Financial mechanisms for sustainable
coffee in Colombia and Honduras**

Background

1. This document, submitted by the United Nations Development Programme (UNDP), contains the summary of a new project proposal designed to increase income of small-scale coffee farmers through productive practices that help maintain ecosystems.
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

1. **Project title:** Financial mechanisms for sustainable coffee in Colombia and Honduras
2. **Duration:** 24 months
3. **Location:** Colombia and Honduras
4. **Nature of Project:** To increase the income of small-scale coffee farmers through: a) increased productivity per hectare after replanting of coffee produced adopting Best Agriculture Practices (BAP); b) increased access to markets and price premiums for small scale producers who source certified sustainable coffee; c) helping countries foster long term partnerships with international buyers willing to pay differentiated prices for sustainable coffee; and d) new credit mechanisms, to be built into the existing credit services of the National Federation of Coffee Growers of Colombia (FEDECAFÉ) and the Honduran Coffee Institute (IHCAFE), to allow for an institutionalization of enhanced credit schemes for small-scale producers in both countries.
5. **Brief description:** The project will generate financial incentives for small-scale coffee producers using sustainable practices as a benchmark to access coffee rehabilitation credit. By establishing BAP as a criterion to qualify for the coffee rehabilitation credit lines, small-scale farmers will be able to increase productivity and access to new markets of certified sustainable coffee.
6. **The estimated total cost:** US\$4,900,850
7. **Financing sought from the Fund:** US\$1,500,000 (grant)
8. **Co-financing:** US\$3,000,000
(GEF Grant implemented through UNDP)
9. **Counterpart contribution:** US\$200,000 (FEDECAFÉ) + US\$200,850 (IHCAFE)
10. **Project Executing Agency (PEA):** United Nations Development Programme (UNDP)
11. **Supervisory Body:** International Coffee Organization (ICO)
12. **Estimated starting date:** November 2012

LOGICAL FRAMEWORK

Narrative summary	Objectively verifiable indicators	Means of verification	Assumptions
<p>Broad goal: Increase income of small-scale coffee farmers through productive practices that help maintain ecosystems.</p>	<p>Increased net earnings as a result of:</p> <ul style="list-style-type: none"> ■ Increased farm productivity after renovation, certification of sustainable practice and ecological restoration of farms in both countries. ■ Increased of price premiums paid for certified coffee (Rainforest Alliance Certified (RAC), Utz, 4Cs, Fairtrade Labelling Organizations International (FLO), International Federation of Organic Agriculture Movements (IFOAM), US Organic). ■ Increased access by farmers to credit for production in both countries. 	<ul style="list-style-type: none"> ■ Annual reports of statistical institutions in Colombia and Honduras. ■ Impact assessment reports. ■ Ministries of Agriculture and Rural Development. ■ Federation of Coffee Growers of Colombia (FEDECAFÉ). ■ Annual reports by financial institutions. 	<ul style="list-style-type: none"> ■ Socio-economic stability prevails. ■ Political commitment to support the coffee sector.
<p>Project Objective: Generate financial incentives for sustainably produced coffee by small producers in Colombia and Honduras.</p>	<ul style="list-style-type: none"> ■ Increase in availability of funding for sustainable production of coffee by small farmers in Colombia and Honduras. ■ At least 50% increase in productivity of sustainable coffee plantations that undertook renovation in both countries. ■ Increased percentage of producer organizations undergoing practices boosting productivity and sustainability. 	<ul style="list-style-type: none"> ■ Project annual reports. ■ Certifying organizations (RAC, Utz, 4Cs, FLO, IFOAM, US Organic) reports. ■ Mid-term evaluation report. ■ End of project report. 	<ul style="list-style-type: none"> ■ Prevailing conditions of the world coffee market remains stable or improves. ■ Consumers and large buyers maintain willingness to pay premiums for sustainable coffee. ■ Commitment of the farmers and exporters to the project sustained throughout the project period. ■ Coffee production is adaptive to climate change.

Outputs	Objectively verifiable indicators	Means of verification	Assumptions
<p>1. Financial Tools for Sustainable Coffee.</p> <p>1.1 New credit schemes tie technical assistance for BAP with coffee renovation funding.</p> <p>1.2 National Fund for Technical Assistance to support sustainable coffee production (TA Fund).</p> <p>1.3 National platform of financial institutions improve lending services to boost sustainability in coffee.</p>	<p>1.1 A new credit line within existing coffee renovation credit schemes in both countries ties renovation funding to adoption of BAP for sustainable coffee sourcing.</p> <p>1.2 Loan disbursement and recovery procedures for smallholder farmers and cooperatives of new credit lines developed and agreed upon.</p> <p>1.3 A fund established in each country to mobilize resources from supply chain stakeholders to finance Technical Assistance required by small scale producers to supply sustainably produced coffee.</p> <p>1.4 Operational manuals for each of the new TA Funds established in each target country.</p> <p>1.5 At least 50% of financial institutions providing credit services to producers will have updated guides of credit analysis that support BAP for sustainable production tied to renovation.</p>	<ul style="list-style-type: none"> • FEDECAFÉ and IHCAFE Financial Reports. • Project progress reports. • Mid-term review and other external appraisal report. • TA Fund operations manual. • Training tools for Financial Institutions (FI). • Audits and reports of FI. 	<ul style="list-style-type: none"> • Interest of coffee exporters in the project is sustained. • Investors and coffee buyers interested in credit schemes for sustainable coffee sourcing. • The collaborating institutions co-ordinate & execute the project efficiently and effectively. • Coffee buyers interested in supporting increased TA to secure sustainable coffee sourcing. • Commercial banks willing to develop products targeted to smallholder coffee farmers.
<p>2. Technical assistance grants tied to new credit line for coffee renovation.</p>	<p>2.1 Number of TA grants tied to renovation credits provided to small scale coffee producers undergoing renovation and BAP for sustainability.</p> <p>2.2 Number of Hectares within pilot landscapes undergoing renovation tied to BAP for sustainable coffee.</p>	<ul style="list-style-type: none"> • FEDECAFÉ and IHCAFE reporting. • TA Fund reports. 	<p>Grant based TA attracts producers to new credit line for coffee renovation conditioned to adoption of BAP.</p>
<p>3. Coffee extension systems strengthened to support sustainable Best Agricultural Practice (BAP).</p> <p>3.1 Review coffee extension systems to support adoption of BAP.</p> <p>3.2 Development of Training Materials for renovation plans tied to the adoption of sustainable practices.</p> <p>3.3 Training extension workers from FEDECAFÉ, and IHCAFE on the use of toolkits for renovation plans tied to the adoption of sustainable practices.</p>	<p>3.1 Improved skills of extensionists to train producers on renovation tied to BAP and sustainable landscape and watershed management, and ecological restoration of farms.</p> <p>3.2 Extension officers' advice on renovation tied to TA for BAP as an attractive option to producers within selected landscapes.</p> <p>3.3 80% of extension workers inform FEDECAFÉ and IHCAFE on renovation plans tied to the BAP for sustainable coffee.</p>	<ul style="list-style-type: none"> • FEDECAFÉ and IHCAFE capacity building plan reporting. • Extension services registry of field reports. • New training toolkits, workshop reports. 	<p>Newly enlisted farmers adopt new technologies and practices for boosting productivity and sustainability.</p>
<p>4. Development of international partnerships for sourcing of sustainable coffee from Colombia and Honduras.</p> <p>4.1 Partnership development with coffee buyers.</p> <p>4.2 Resource mobilization for TA Fund for sustainable coffee.</p> <p>4.3 Support the capitalization of the sustainable renovation credit schemes.</p>	<p>4.2. Number of new roasters of varying sizes buying certified coffee from Colombia and Honduras.</p> <p>4.3. MoU between international coffee buyers FEDECAFÉ and IHCAFE.</p> <p>4.4. Capitalization strategy for TA Fund agreed by participating partners.</p> <p>4.5. Number coffee buyers willing to contribute with TA Fund.</p> <p>4.6. Credit Renovation scheme presented in at least 3 international events to donors.</p>	<ul style="list-style-type: none"> • Official Trade data. • Purchasing reports by roasters. • Letters of Intent (LOI) signed by Company representatives. • BTOR of responsible promoter. 	<p>Large buyers and donors maintain willingness to invest in renovation tied to BAP for sustainable coffee as to secure future sourcing.</p>

BUDGET – BY COMPONENT AND SOURCE OF FUNDING

Component	CFC	Co-financier A	Co-financier B	Counterpart Contribution		Total Cost US\$
		Project Cambio	GEF Project Colombia	Honduras	Colombia	
Component 1 Adapting coffee renovation credit schemes to foster Best Agricultural Practices (BAP) as a tool for increased productivity.	360,000	1,000,000				1,360,000
Component 2 Strengthening lending from financial institutions to coffee productivity and sustainability.	300,000	500,000				800,000
Component 3 Coffee extension systems strengthened to support sustainable practice adoption.	170,000	250,000	750,000			1,170,000
Component 4 Development of partnerships with international buyers to incentivize purchasing of sustainably produced coffee.	186,000	250,000	250,000			686,000
Project Management	484,000			200,850	200,000	884,850
Total	1,500,000	2,000,000	1,000,000	200,850	200,000	4,900,850