



Organización Internacional del Café
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Basic information on the submission of applications to the Common Fund for Commodities for financial support for activities related to coffee

Background

A revised version of the document “Basic information on the submission of applications to the Common Fund for Commodities for financial support for activities related to coffee” is attached.

Action

The Executive Board is requested to approve this document.

BASIC INFORMATION ON THE SUBMISSION OF APPLICATIONS TO THE COMMON FUND FOR COMMODITIES FOR FINANCIAL SUPPORT FOR ACTIVITIES RELATED TO COFFEE

Introduction

1. Building on the experience gained since 1995, the International Coffee Organization (ICO) decided to provide Members with a fourth revision of basic information on the preparation of projects submitted for financing by the Common Fund for Commodities (CFC). This document complements the other documents already issued by the Organization on this matter¹.

2. The document should be used together with the Manual for the preparation and management of projects to be financed by the Common Fund for Commodities² to provide guidance for the formulation of projects. It aims to facilitate the analysis of proposals while at the same time reducing the costs and time required for their preparation by ensuring that project proposals are in the format required by the Fund and are submitted in accordance with the optimum processing sequence and timing established by the ICO and the Fund for consideration of project proposals.

3. The document is in three sections:

- I. Nature of the Fund and of International Commodity Bodies involved in development projects;
- II. Criteria established by the ICO and the CFC for access to the resources of the Fund for financing projects; and
- III. Recommendations to be taken into account in order to expedite the process of evaluation and approval of project proposals submitted for financing. Annex II to this document provides information on the establishment of a Virtual Screening Committee for new project proposals.

I. NATURE OF THE FUND AND OF INTERNATIONAL COMMODITY BODIES INVOLVED IN DEVELOPMENT PROJECTS

I.1 COMMON FUND FOR COMMODITIES (CFC)

4. The Common Fund for Commodities (CFC) is an autonomous intergovernmental financial institution established within the framework of the United Nations for the purpose

¹ Document ED-1837/02, WP-Board No. 838/97, ED-3652/97, EB-3835/02 and EB-3768/01 Rev.2.

² The 5th edition of the Manual for the preparation and management of projects to be financed by the Common Fund for Commodities was published in May 2003. The most recent version of the Manual can be found, in English, on the CFC website: www.common-fund.org, under Publications. Versions in Spanish and French will be available later in the year. In the present document reference will be made to page numbers in the English version of the 2003 Manual in order to avoid unnecessary repetition.

of fostering the economic development of commodity producers and contributing to the development of society as a whole. In line with its market-oriented approach, the Fund concentrates its activities on commodity development projects financed from its resources.

5. The Fund has clearly specified the forms of support it envisages and the shares of financing it provides in accordance with the type of project involved. It also indicates the types of project it can support and those which it will not support in accordance with the areas for action established for each Account, and specifies the loan policy it follows (Sections 6 and 7 of the Manual). The CFC provides finance in the form of loans and grants or in the form of so-called “investment grants”. The CFC may be the sole source of financing for a project but as a general rule prefers to finance not more than 40 to 50 percent of the total cost of the project, inviting the applicant and the International Commodity Body (ICB) to undertake to seek co-financing and counterpart contributions.

6. During the first twelve years of operation the Fund concentrated its activities on grant-financed projects but it is now proposing to gradually increase the proportion of loan-financed projects in order to recycle over time scarce financial resources. Grants are given mainly for commodity projects important to less developed countries (LDCs), to poorer people in other developing countries, and to support loan-financed projects.

7. The Fund gives priority to small to medium sized projects (between one and five million US dollars) and to projects which are particularly well suited to the low absorption capacity of LDCs.

8. The Fund has established mechanisms to permit it to use its resources before the project proposal is approved. The first of these mechanisms is the Project Preparation Facility (PPF), which seeks to assist ICBs, regional organizations and developing countries lacking the resources required for the preparation and formulation of projects in conformity with the requirements of the Fund. The administration of this facility is the responsibility of the Managing Director of the Fund. Annex XIII of the Manual contains more detailed information.

9. A second mechanism is the Fast Track Facility (which was increased from US\$60,000 to US\$120,000 per project in the latest Five-Year Action Plan). This procedure enables Member countries to submit project proposals which, once endorsed by an ICB and the CFC Consultative Committee, may be approved directly by the Managing Director of the Fund, thus avoiding the need for approval by the Executive Board, which is a requirement in the case of regular projects. Most fast track projects are studies, pilot projects or workshops, paving the way for more far-reaching projects once they have been completed. For more detailed information see Section 4.3 of the Manual.

10. By 1 December 2002, the Fund had approved 114 regular projects and 43 fast track projects costing a total of US\$342.9 million. Of this, the Fund financed 48 percent; other donors financed 26% and the institutions involved provided 26% in the form of counterpart

contributions. Of the amount financed by the Fund, US\$140.5 million was provided in the form of grants and US\$26.4 million in the form of loans. The average cost of projects was US\$3 million and the duration was between two to five years. To date, 32 projects have been completed.

I.2 International Commodity Bodies (ICBs)

11. The International Coffee Organization is the designated International Commodity Body (ICB) for coffee and has responsibility for formally submitting projects to the Common Fund for Commodities (CFC). As an ICB, it is also responsible for prioritization, formulation and supervision of projects and for seeking stakeholder, and most particularly target beneficiary participation.

12. The ICO is currently supporting coffee development projects costing a total of more than US\$100 million. The ICO portfolio includes 16 projects costing more than US\$61 million and 11 projects in the process of implementation at a cost of US\$47 million. Additional information can be obtained from the ICO website www.ico.org under the Section on “Activities” related to “Projects”.

II. CRITERIA ESTABLISHED BY THE ICO AND CFC FOR ACCESS TO RESOURCES OF THE FUND TO FINANCE PROJECTS

II.1. Criteria established by the ICO

13. All proposals should be submitted to the CFC through the relevant International Commodity Body (ICB) which, in the case of coffee, is the ICO, officially designated for the submission of project proposals to the Managing Director of the Fund. For this purpose, the following conditions have to be fulfilled: (a) official commitment and submission of the proposal by the Government of a sponsoring Member country; and (b) the Government concerned must be a member of the CFC. However, countries which are Members of the Fund but not of the ICB can submit project proposals directly to the Managing Director of the Fund, who will make arrangements for submitting it for approval to the ICB concerned.

14. Proposers can be Government of coffee-producing countries, trade or consumer associations, international organizations or NGOs, scientific authorities or other experts, or any other type of organization with expertise in the field of coffee. It must be emphasized that project proposers need not necessarily be responsible for the execution of the project, whether by their own decision or because they do not fulfil the requirements of the Fund or the ICO. However, the entity chosen must have experience in the implementation of development projects and should be able to assume full responsibility for execution. (See

document EB-3573/96 Rev. 3 Add.2. Such responsibilities include, in particular, technical and financial obligations to the Supervisory Body (SB) and the Fund in accordance with the obligations undertaken on signing the Project Agreement (PA)³.

15. Proposers other than Governments or government bodies should contact the Governments involved in the project proposal in order to arrange for it to be presented to the Executive Director by the official delegations of the countries concerned as confirmation of their support. Whenever the Executive Director receives a proposal not submitted in this way, he will, if he considers the idea reasonable, forward the proposal to the Member countries involved with the request that they consider the possibility of proposing the project to the Executive Board.

16. The ICO, in consultation with the Common Fund Secretariat, will make an assessment of the preliminary proposal, concentrating on determining whether it conforms with the policies of the Common Fund and fits into the priority areas for coffee set out in the ICO strategy document (EB-3768/01 Rev.2). Reference should also be made to Section 5.1 and Annex VIII on pages 6 and 66-67 of the Manual. The project proposal must reach the Executive Director eight weeks before the start of the meetings of the Executive Board in order to allow time for the draft proposal to be prepared for circulation to Members in the four official languages of the ICO, namely English, French, Portuguese and Spanish⁴. (See Annex I.)

17. The ICO, as Supervisory Body (SB), will be responsible for a full scientific, technical, financial, economic and managerial review of project proposals. If deemed necessary, it may use consultancy services from external sources. Support for this purpose may be provided from the resources of the Project Preparation Facility (PPF) as indicated in paragraph 8 above. When consultants are used, their selection will depend on the nature of the project involved, with an appropriate spread of expertise among consultants from both producing and consuming countries. (See document EB-3573/96 Rev. 3 Add. 2.)

18. The possibility of creating a **Virtual Screening Committee** is currently under consideration. Such a Committee would permit the ICO Secretariat to carry out interactive consultations with Committee members to assess the suitability of new proposals. The Committee, which would be composed of delegates with expert knowledge of coffee matters, would help to identify more clearly any points of potential concern, since they would be fully informed on the most pressing problems in their areas or countries of origin. They could thus contribute towards improving preliminary project proposals. (See Annex II.)

³ *The Project Agreement is a legal instrument which establishes the obligations of each of the parties concerned in the financing, execution and supervision of the project in order to clarify the role of each party in developing the approved technical and financial activities to be carried out within a given time period.*

⁴ *In the interests of economy, it is proposed that the project proposal be translated only into the languages of countries directly affected by the project.*

19. Following a positive assessment by the ICO, the sponsoring Member Government, on behalf of the proposing entity, as indicated in paragraph 13, may submit to the Organization a full project proposal presented in accordance with the guidelines in Section 8 (pages 21 – 30) and Annexes II and III (pages 38 – 46) of the Manual.

20. In order to improve the chances of acceptance of the project by the Fund, it is important that the full proposal should include a specific indication of counterpart contributions to be made by the countries and institutions involved in its execution, as well as the proposed source of co-financing. Where co-financing is proposed, it is important to specify conditions established by donors for their contributions in terms of guarantees and other requirements. To date, coffee development projects have received co-financing contributions from the World Bank, the European Union, the European Coffee Industry, the United Kingdom Overseas Development Agency (ODA), and the United States Department of Agriculture (USDA). However, given the policy of the Fund in relation to co-financing (paragraph 5), the ICO is currently seeking to extend participation in the co-financing of projects to other multilateral, regional and national institutions concerned with development matters.

21. The Executive Board, in considering approval of the project, will also take into account the status with respect to voting rights of the Member country submitting the proposal.

22. Once the proposal is found to be satisfactory, the Executive Board, and in the second instance the International Coffee Council, will authorize the Executive Director to submit it to the CFC in order to initiate the process for it to be considered for financing by the Fund.

23. It should be noted that the procedures to be completed before the full project is presented to the Fund include a process of continual informal consultations between the ICO and the CFC Secretariat, which is the body responsible for the initial selection of proposals. In the case of new project ideas that may not fall within the strategic priorities of the Fund, the ICO will also reserve the right to submit them informally to the CFC Consultative Committee with a view to obtaining preliminary recommendations on whether it is worth proceeding to further consideration.

II.2 Criteria established by the CFC

24. Once the full proposal has been received by the Fund, it is reviewed by the Consultative Committee of the Fund, the body responsible for evaluating the project's technical and economic suitability. The Committee often offers suggestions for the reformulation of the project before recommending its approval as suitable or, if the initial opinion is favourable, recommending that the Managing Director submit it to the CFC

Executive Board for final approval. It should be noted that recommendations for approval by the CFC Consultative Committee in January and July will be submitted by the Managing Director of the Fund to the Executive Board of the CFC in April and October respectively.

25. In order to reduce to a maximum the period which elapses between the initial submission of the proposal and final approval of financial support from the CFC, the process indicated above must be followed in the order established by the CFC (See Figure 1, page 7 of the Manual). A schedule for the presentation of project proposals in 2002/03 is set out in Annex I of this document. The ICO website may be consulted for the updating of this schedule under the Section on “Activities” related to “Projects”.

26. It should be borne in mind that in the initial appraisal the Consultative Committee usually recommends that the proposal be reformulated and only after a second appraisal – when all the suggested amendments have been incorporated in the proposal – does the CC endorse it for approval by the CFC Executive Board.

27. The CFC has recently published its Five-Year Action Plan for 2003/07, reconfirming the particular attention given to less developed countries (LDCs), the poorer strata of the population in other developing countries and countries with economies in transition, thus broadly maintaining the criteria established in the previous Plan. However, it does incorporate a number of new aspects which must be taken into account. Among the main aspects of the new orientation it is worth highlighting the following:

- Strengthening the human resource base of the Secretariat;
- Underlining the importance of the concepts of sustainable development and diversification;
- Encouraging the ICBs to incorporate the chain management concept and poverty reduction as essential elements in the design, execution and supervision of projects;
- Strengthening the dissemination component of projects, emphasizing the development of an exit strategy;
- Greater involvement of the Fund in project design, maintaining close contact with the countries involved. As part of this measure the Fast Track Facility has been increased from US\$60,000 to US\$120,000 per project (See paragraph 9 above);
- Concentration of projects in Member countries, having regard for the fulfilment of their financial obligations and their previous involvement in projects financed by the Common Fund
- Seeking strategic partnerships with other institutions, the private sector and civil society.

28. Details of the financing modalities which the Fund offers for projects, the procedures to be followed for the submission, review and approval of projects and additional criteria for projects considered eligible for loan-financing are given in the Manual. (See Sections 5, 6 and 7.)

29. With regard to the standard format for submission of project proposals, as already mentioned in this document the Manual provides details of the two types of format to be used, namely the project summary and the fully formulated project submission. (See Section 8 and Annexes I to III of the Manual.)

III. RECOMMENDATIONS TO BE TAKEN INTO ACCOUNT IN ORDER TO EXPEDITE THE PROCESS OF EVALUATION AND APPROVAL OF PROJECT PROPOSALS SUBMITTED FOR FINANCING

30. The selection of the expert responsible for formulating the project should be carried out as strictly as possible, paying particular attention to the cost-quality relationship, in order to avoid delays in the approval of the proposal. In principle, the proposer could be the best candidate for the selection of the Project Executing Agency (PEA) and confirmation could be the responsibility of the Virtual Screening Committee.

31. It is suggested that in submitting a new project, the Government involved should designate a delegate to provide liaison designed to facilitate the exchange of technical and institutional information between the Government and Donor bodies involved in the preparation of the project as well as to provide the ICO with information and clarifications on matters of a national order which could be required for the preparation and formulation of the legal documents necessary for initiating the execution of the project once it has been approved.

32. This Delegate may also use his good offices to seek co-financing, which is a determining aspect for approval by the Fund.

33. The Consultant responsible for formulating the project proposal should present a technical summary to the Executive Board for endorsement by the ICO, to the CFC Consultative Committee for technical approval of financing, and to co-financers as necessary. This will facilitate obtaining the financial support required by the Fund before giving final approval for financing.

34. Finally, it should be noted that at its meeting in January 2003, the Executive Board took note of the suggestion that countries should use the CFC Governing Council to draw the attention of the Fund to the priorities of the ICO so that these could be included among the priority development areas for projects (paragraph 42 of document EB-3840/03).

SCHEDULE FOR PRESENTATION OF PROJECT PROPOSALS

Date of ICO and CFC meetings in 2003/04	Action
17-19 September 2003 Meetings of the International Coffee Council and ICO Executive Board	31 July 2003: Deadline for receipt of project proposals for consideration by the ICO Executive Board in September 2003
CFC Executive Board meeting in Amsterdam (13-15 October 2003)	Notification of approval by the CFC Executive Board to be sent by the ICO, in English, to Members which have submitted project proposals
29-30 January 2004 ICO Executive Board	28 November 2003: Deadline for receipt of project proposals to be analysed by the ICO Executive Board in January 2004 15 December 2003: Report of the Virtual Screening Committee (*)
CFC Consultative Committee meeting in Amsterdam (26-31 January 2004)	Comments of the CFC Consultative Committee to be sent by the ICO, in English, to Members which have submitted projects
CFC Executive Board meeting in Amsterdam (19-21 April 2004)	Notification of approval by the CFC Executive Board to be sent by the ICO, in English, to Members which have presented project proposals
18-21 May 2004 Meetings of the International Coffee Council and ICO Executive Board	23 March 2004: Deadline for receipt of project proposals from Members for consideration by the ICO Executive Board in May 2004 6 April 2004: Report of the Virtual Screening Committee (*)
CFC Consultative Committee meeting in Amsterdam (12-17 July 2004)	Comments of the CFC Consultative Committee to be sent by the ICO, in English, to Members which have submitted projects
21-24 September 2004 Meetings of the International Coffee Council and ICO Executive Board	27 July 2004: Deadline for receipt of project proposals by Members for consideration by the ICO Executive Board in September 2004
CFC Executive Board meeting in Amsterdam (11-13 October 2004)	Notification of approval by the CFC Executive Board to be sent by the ICO, in English, to Members which have submitted project proposals

* Subject to approval by the Executive Board at its meeting in September 2003.

VIRTUAL SCREENING COMMITTEE

1. The Committee would provide support for the Executive Director in evaluating new project proposals, opening up new channels of communication among Members of the Organization. In considering new proposals it is necessary to determine: (i) if they involve a problem previously addressed, in which case it would be a question of disseminating results; (ii) if they are related to a project already being executed, in which case the new proposal could be an extension of the existing project; or (iii) if they involve a new problem which needs to be reconsidered as a new project and, if necessary, also as a new area for action within the framework of priorities for coffee development.
2. With the creation of the Committee, new project proposals would go through a joint review stage, making it possible to identify any similarities and synergies with projects already approved.
3. The Committee is called “virtual” because of Internet technology. There would be no problem if the Committee could not meet physically since it could operate in the same way as a virtual discussion group. The project would be placed on a restricted-access web page and access would be available only to Committee members and ICO staff directly involved in the project.
4. Once Committee members had read the new project proposals, there would be a fixed time limit (see Annex I) for comments, after which there would be no further deliberations. The next step would be to establish priorities for the proposals submitted, based on the selection criteria established by the Fund and the ICO, to determine the aspects indicated in paragraph 1 above. In the case of proposals which do not get beyond this preliminary stage, detailed reasons would be given for their rejection with a view to their reconsideration by the proposing country. The Secretariat would inform the Executive Board of the results of this process.
5. Criteria to be considered for the composition of the Committee:
 - Representation: It is of vital importance to ensure equal participation of producing and consuming Members. It is proposed that there be four representatives of producing countries (possibly one for each region) and four representatives of consuming countries. The countries represented may delegate responsibility to technical experts if this is deemed necessary.
 - It is assumed that anyone wishing to be part of the Committee would be fully informed on all projects already carried out, in process of implementation, or under review and discussion by the Fund.
 - It is also assumed that members of the Committee will have adequate access to the Internet.
 - It is proposed that the Executive Director act as Chairman of the Committee.