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**Summary of progress reports submitted by
the Project Executing Agencies (PEAs) on
projects currently being implemented**

Background

The ICO, as the designated Supervisory Body (SB) for the Common Fund for Commodities (CFC) coffee projects, assists with monitoring the implementation of projects, including reviewing the attainment of objectives, identifying constraints and checking expenditure. This document summarizes individual progress reports submitted by each PEA for the following projects which are currently being implemented (see Section IV of document EB-3922/07 Rev. 2) and includes at the end a list of acronyms used in this document. Copies of the full reports are available on request from the Secretariat.

- Annex I:** Coffee market development and trade promotion in Eastern and Southern Africa – CFC/ICO/03FA (PEA: UNOPS)
- Annex II:** Improvement of coffee production in Africa by the control of coffee wilt disease – tracheomyces – CFC/ICO/13 (PEA: CABI)
- Annex III:** Integrated white stem borer (WSB) management in smallholder coffee farms in India, Malawi and Zimbabwe – CFC/ICO/18 (PEA: CABI)
- Annex IV:** Improving coffee quality in East and Central Africa through enhanced processing practices – CFC/ICO/22 (PEA: CABI)
- Annex V:** Robusta quality and marketing improvement by optimal use of coffee terroirs – CFC/ICO/05 (PEA: ACRN)
- Annex VI:** Pilot rehabilitation of the coffee sectors in Honduras and Nicaragua – CFC/ICO/11 (PEA: PROMECAFE)
- Annex VII:** Pilot rehabilitation of neglected coffee plantations into small family production units in Angola – CFC/ICO/15 (PEA: INCA)
- Annex VIII:** Diversification of production in marginal areas in the State of Veracruz, Mexico – CFC/ICO/32 (PEA: Fundación de la Universidad Veracruzana)
- Annex IX:** Short and medium term finance for small-scale coffee farmers in Kenya – CFC/ICO/20 (PEA: UNOPS)

Action

The Council is requested to note this document.

**COFFEE MARKET DEVELOPMENT AND TRADE PROMOTION
IN EASTERN AND SOUTHERN AFRICA
(CFC/ICO/03FA)**

Period covered by this report: January – June 2007

Status of project implementation

This report covers the first two quarters of 2007, following the one year extension of this project to 30 September 2007 which was based on remaining funds. The final report submitted by the NRI is currently being reviewed by the PEA and, if satisfactory, a final payment will be issued as per the signed contract.

Work plan and way forward

This year extension is based on implementing activities from the previous work plans, which is mainly constituted by activities that would support the sustainability of the Warehouse Receipt Systems (WRS). To do so approximately US\$200,000 was allocated for each country.

Project completion report by NRI

The 2006 work-plans prepared by the NRI were largely inoperative and an appointed CFC consultant reported that technical assistance provided by the NRI had not completed certain deliverables, in particular Market Information System (MIS) reports and training manuals were pending.

However, the NRI expressed interest in continuing with the project through the extension period and on 4 March 2007 submitted a draft completion report. MIS training manuals were also provided. A review of these was conducted, with the following observations made:

- Manuals appeared to be more like reports than training manuals. They were generally hard to digest as they comprised only text and were not user-friendly.
- In the case of the Zimbabwean coffee training manual, for example, the audience may not know what mealy bugs are “scientifically”, but probably have seen the effects on the coffee tree. The use of pictures was suggested to cater for audiences who may not have a high level of literacy. This training manual should also provide a way to deal with each pest, and use pictures as much as possible.
- The coffee quality assurance manuals were generally not very clear.
- Some modules appeared to be missing from some of the manuals.
- The warehouse inspection report was very informative, however, supervised inspections were referred to but not elaborated upon. Procedure checklists should be included in the inspection procedures in the training manual.

The NRI was asked to incorporate the above comments on the final version of the report submitted in March 2007 and it is still awaited.

Status of project implementation

The following tables show a brief outline of the components to be pursued by country over the one year extension period.

Uganda: Legislation has already been passed to govern formation of a Warehouse Receipts Board.

| Component | Description |
|-------------------------------------|--|
| 1 | Promotion of privately-run Warehouse Receipt Systems |
| 2 | Development of basic marketing information system (MIS) for cotton and coffee |
| 3 | Development and testing of a Quality Assurance and Certification system |
| 4 | Development of a system of commodity trade and finance based on inventory collateralization using WRS and testing the system through trade financing |
| 5 | Project co-ordination, supervision and monitoring |
| 6 | Operational costs LMU |
| 7 | Staff salaries |
| 8 | Duty travel |
| Total cost/budget: \$183,333 | |

Tanzania: Tanzania is awaiting constitutional direction from its Parliament on the proposed formation of the Warehouse Receipts Board before it can fully embark on the outlined project activities.

| Component | Description |
|-------------------------------------|--|
| 1 | Promotion of privately-run Warehouse Receipt Systems |
| 2 | Development of basic marketing information system (MIS) for cotton and coffee |
| 3 | Development and testing of a Quality Assurance & Certification system |
| 4 | Development of a system of commodity trade & finance based on inventory collateralization using WRS and testing the system through trade financing |
| 5 | Project co-ordination, supervision & monitoring |
| 6 | Operational costs LMU |
| 7 | Staff salaries |
| 8 | Duty travel |
| Total cost/budget: \$185,037 | |

Zimbabwe: The outstanding balance of the Zimbabwean component stood at about US\$40,202.76. As the accounts at UNOPS had already been reorganized for the extension, this could only be drawn (if at all) from the pre-extension coffee account.

Conclusion and recommendations

UNOPS welcomed the extension of the project for a further year, based on observations made in the consultant's report. However, it stressed that it was important to ensure the full support and commitment of the ICBs, and all other stakeholders involved. If parties were not fully committed, UNOPS advocated closure of the projects, suggesting that if need be, a new project could be devised addressing the bottlenecks faced within the WRS project.

There are still funds available in each of the component budgets. In the case of Uganda, the balance has been reduced by the US\$100,000 replenishment in March 2007. In order to continue replenishing country accounts, this issue will need to be sorted out as soon as possible. This is because, even though there are budget balances, the cash balance in the project is in deficit, and UNOPS cannot advance funds.

**IMPROVEMENT OF COFFEE PRODUCTION IN AFRICA
BY THE CONTROL OF COFFEE WILT DISEASE – TRACHEOMYCOSIS
(CFC/ICO/13)**

Period covered by this report: January to June 2007.

Status of project implementation

Most of the planned project activities for the period were implemented well, with slight delays reported in Uganda and Tanzania, which arose from delayed disbursement of funds.

Around 300,000 assorted dissemination materials (posters, leaflets, booklets, calendars, pens, T-shirts, coasters) carrying messages on coffee wilt disease (CWD), in particular identification and management, in addition to general coffee management were disseminated. Millions were reached with information on CWD through radio, television, and newspapers, creating great awareness among farmers, extension workers, scientists and policy makers.

Facilitation of existing Farmer Field Schools (FFSs) was carried out successfully during the period with backstopping services from the Project Implementing Agencies (PIAs) and the PEA, CABI. More farmers were trained and reached through the conversion of former on-farm CWD trials into additional FFSs in countries where trials were sited. The process has increased the dissemination of findings from the trials and other sources to the farmers and extension workers. Most findings were carried on to FFSs from the trials including mulching, use of herbicides and stem paint with copper based fungicides.

A total of 11 new FFSs were created through the conversion process. This activity was not implemented in Rwanda because trials were not sited there because CWD is not present. However, monitoring of CWD in Rwanda along its borders was carried out, backed with dissemination of leaflets and posters depicting CWD symptoms to aid identification by people along the border if CWD crosses into Rwanda.

Assessment of project coordination and management

Project coordination included carrying out visits to all collaborating countries and institutions to supervise and facilitate implementation of project activities. This included taking part in facilitating some project activities, advising on implementation procedures and direct training such as in the case of the accountants in Rwanda, Tanzania, and Uganda.

Implementation of the project has improved tremendously in the DR Congo due to the fact that the National Project Coordinator and the Project Accountant (National Project Coordinating Team) were moved from Kinshasa to Beni where the project activities are based.

Assessment of resource utilisation

Budget utilization during the period accounted for 44%, and remaining 56% is expected to be used in the second semester of the year. It will also include activities which were planned but not implemented during this period, to ensure all activities are accomplished as per the work plan for 2007.

Social and environmental effects of project implementation

Being a perennial crop, the death of each infected coffee tree is a loss of long-term investment by the farmer. In a number of countries CWD is being referred to as the AIDS of coffee, implying the devastating nature of the disease. However, implementation of the project has both financial benefits through improvement of the livelihoods of smallholder farmers in the affected countries, and also environmental benefits. Any green plant, such as coffee, helps in reducing carbon dioxide in the atmosphere.

Forward planning of project implementation

Major activities planned include writing up project activities, including the CWD book and the final technical report, backstopping FFSs, initiation of propagating CWD resistant materials in Uganda, farmer training, dissemination of CWD information and management, carrying out CWD related policy workshops and meetings (Ethiopia, Rwanda, and DR Congo), and the concluding workshop in 2008.

Conclusion

Activities in all countries are continuing as planned, with some minor delays in Uganda and Tanzania. A large number of farmers and extension workers have been trained and sensitised to CWD. The project has also helped to raise the profile of coffee as a cash crop in a number of countries. Following discussions with the CFC, the concluding workshop will be held in February 2008 in Uganda. This will involve spending some of the 2007 financial allocation in 2008. It is therefore recommended that the CFC should allow the PEA and the PIAs to spend the funds allocated for the workshop beyond the permitted end date for spending.

**INTEGRATED WHITE STEM BORER MANAGEMENT IN SMALLHOLDER
COFFEE FARMS IN INDIA, MALAWI AND ZIMBABWE
(CFC/ICO/18)**

Period covered by this report: January – June 2007

Status of project implementation

| Planned Activities | Target Set | Present status | Remarks |
|--|---|--|--|
| Component I: Development of new control methods within an IPM and farmer participatory research framework, and Component II: Optimization of currently available technologies | | | |
| All activities: completion of technical activities, analysis and writing of reports | To be completed during the six month period | All technical activities have finished and individual reports from the countries are now complete. | The writing up of the activities has taken the countries longer than planned but all have now submitted a number of reports covering the various components of the project. |
| Component III: Extension and dissemination of project results and economic assessment of benefits of the use of improved WSB management technologies. | | | |
| Final workshop in India (involving India, Malawi, Zimbabwe, Nepal, ICO, CFC, CABI and NRI) | 19-20 June 2007, Mysore India | Completed | The workshop enabled the countries to come together and compare their results and experiences, facilitated future planning by the countries and considered what actions need to be taken and prioritised. Discussions on policy implications in the countries featured prominently. Follow-on national workshops were recommended. |
| Component IV: Project Management (Execution, Monitoring, Financial, Administration) | | | |
| Activity 4.4. Final Technical Report (FTR) and Final Management Report | June 2007 | These are now being written as individual country information has only just finished coming in. | The PEA aims to get the draft FTR by end of August/early September. |

Assessment of resource utilization

The project has been taking advantage of a no-cost extension. The budgets for each country for the 6 month seemed to be adequate and have been used optimally. Final accounting for the project is currently underway.

Assessment of technical progress

All countries: final activities were completed successfully during the six month extension period.

Assessment of project co-ordination and management

All countries: generally this has been adequate but the writing of the final reports on the project activities has been very slow. Many of these were received by the PEA in late July. This has held up the compilation of the final technical report.

Social and environmental effects of project implementation

India: As before, farmers appear to be adopting management practices recommended by Extension and the debt situation that has developed over the last few years has not been a major obstacle during the project trials.

Africa: No new elements reported for the six month period.

Forward planning of project implementation

Not applicable.

Conclusions and recommendations

The PEA will now compile the project final reports and will try and get these to the ICO and CFC as soon as possible.

**IMPROVING COFFEE QUALITY IN EAST AND CENTRAL AFRICA
THROUGH ENHANCED PROCESSING PRACTICES
(CFC/ICO/22)**

Period covered by this report: January – June 2007

Status of project implementation

This project is aimed at empowering smallholder coffee farmers in Ethiopia and Rwanda with requisite skills and knowledge for the sustainable production of high quality Arabica coffee with a high market value.

The results obtained on improved processing practices and liquor quality assessment will help to demonstrate further the benefits of using the improved processing practices promoted by the project as well as for market promotion purposes.

Given the achievements of the project, the demand to scale up the results of the pilot phase has been considerable. Five additional districts have been identified in Rwanda for future activities. Ethiopia has similarly identified an additional eight districts to expand good processing practices. The rationale is to have adequate ground coverage to catalyse spontaneous scaling up of good processing practices.

As viable farmer groups are necessary to ensure consistent production of adequate quantities of good quality coffee, the project facilitated the formation of farmers' groups in both Ethiopia and Rwanda through awareness raising and training. Two farmers associations participating in the project obtained legal status as cooperatives in Rwanda

Skills and knowledge development for factory managers is crucial in ensuring that processing factories are managed efficiently to achieve high quality products. Detailed training on improved processing practices was given to farmers and extension workers in Ethiopia. Managers of small scale coffee washing stations (SSCWS) in Shyorongi and Kibuye in Rwanda received expert training on the management of coffee factories, good book-keeping practices and labour management from personnel recruited from Kenya.

Final analysis of the economic viability of the improved processing practices giving information on the payback period under various capacity utilization scenarios was undertaken. The economic viability of the improved processing practices was demonstrated. This indicates that farmers can effectively invest in improved processing facilities through commercial loans and pay the loans back within acceptable periods of time, assuming no adverse external factors.

Linkages between producers and consumers of coffee produced using improved processing methods was facilitated through the EAFCA conference and exhibition in February 2007. Coffee from the project was promoted during the gathering. Coffee produced in Rwanda using improved processing methods was ranked second in its category during the African Taste of Harvest competition, further demonstrating the superiority of the processing methods promoted through the project.

Awareness activities for local traders on the goals of the quality coffee project and their expected role in promoting production of superior coffees progressed well in Ethiopia and Rwanda.

Representatives from Burundi and the DR Congo visited SSCWS sites in Rwanda in May 2007. This was the first step towards scaling up the positive results, experiences and lessons learned during the pilot phase of the project in the two countries.

Effective communication between the PIA and PEA continues as part of the project management, monitoring and evaluation. Supervision and monitoring missions by the ICO/CFC to project areas were undertaken and a mid-term evaluation of the project was successfully completed.

Assessment of resource utilization

Overall expenditure during the reporting period is 37% of the total budget. The budget balance of 63% will be utilized in the subsequent period. At individual country levels, Ethiopia utilized 29%, Rwanda 48% and the PEA 38%. The observed expenditure shortfall was due firstly to the time lag at the beginning of the year awaiting the approval of no-cost extension of the project and that the national co-ordinator in Ethiopia resigned from the partner organisation resulting in a gap which has currently been resolved.

The theft of important processing equipment in Rwanda interrupted operations in one of the more progressive societies in Rwanda. The PEA urged the steering committee to find a solution, which was eventually done through budget reallocation.

Assessment of project co-ordination and management

A new national coordinator was assigned to the project in late June 2007.

A key challenge is the timely financial reporting by the PIAs. Due attention and backstopping will continue to be given to this issue to facilitate compliance.

Social and environmental effects of project implementation

The social and environmental effects of the project are so far positive. Significant mindset change among farmers, traders and other actors regarding improved coffee processing and quality has been achieved. A savings culture is evolving among the resource-poor smallholder farmers in Ethiopia and the formation of viable interest groups is evolving. Concerning the environment, the use of water saving technologies for coffee processing is expected to minimize river pollution through processing waste.

Forward planning of project implementation

Project implementation will continue as per the time frame for implementation within the current year's workplan. There may, however, be a need to request permission to carry forward the end of project workshop to February 2008 to enable the workshop coincide with the EAFCA conference and exhibition.

Conclusions and recommendations

From the progress observed, the project seems set to meet all its objectives. A solution to the problem of financial services for the farmers in Rwanda needs more attention in the coming reporting period to develop more sustainable funding mechanisms for them. Demand to scale up the good results of the project is high in both Rwanda and Ethiopia. It is therefore recommended that the proposal to scale up the pilot project be developed as a priority.

**ROBUSTA QUALITY AND MARKETING IMPROVEMENT
BY OPTIMAL USE OF COFFEE TERROIRS
(CFC/ICO/05)**

Period covered by this report: January - June 2007

Status of project implementation

| Activity | Current Situation | Comments |
|--|---|--|
| 112: Evaluation workshop | Organization of project launch workshop, June 2005 | Participation of more than 50 official representatives |
| 121: Identification of terroirs | Four terroirs were selected in terms of climate, soils and coffee production: Abengourou, Aboisso, Divo and Man | Characteristics of Aboisso, Abengourou and Divo established as from October 2005 except in the case of Man. |
| 122 : Survey of varieties grown | Completed together with Activity 131 in three terroirs: Ivorian coffee farms planted with the Robusta variety in 1950. | Activity in the Man terroir not completed because of the socio-political situation |
| 131/132: Choice and agronomic characterization of farms | <ul style="list-style-type: none"> - 9 farms per terroir, making a total of 27 farms in 3 terroirs, - 98 soil samples collected with soil descriptions, - 27 farmers interviewed, - Coordinates of plots of land. | Technical report available |
| 211: Collection of varieties | Completed in 3 terroirs: 11 selected clones identified and 397 genotypes collected in the form of cuttings | Cuttings reproduce the parent characteristics better than seeds |
| 212: Establishment of nursery and creation of field collection | Completed using cuttings and grafts rather than seeds | CNRA station in Divo |
| 221/222: Characterization of genotypes | Survey of coffee leaves in Divo for characterization in the CNRA biotechnological laboratory | Activity not completed. INCO project molecular markers not available |
| 311/312: Training of researchers and technical assistance in chemical analysis and cup-tasting | - Chemical analyses, biometrics and cup-tasting completed: 3 CNRA researchers and 1 IACO researcher trained at CIRAD in Montpellier. Technical assistance in cup-tasting | <ul style="list-style-type: none"> - Biometrics: June - July 2006, - Chemistry: July - August 2006, - Cup-tasting: November 2006, - Technical assistance: 26 February - 16 March 2007 at IACO, Abidjan. - Reports available |
| 321: Harvesting of coffee berries, preparation of samples | Completed in three 3 terroirs except Man. Dry and wet-processing methods used at the CNRA research station in Divo: 90 samples in 2005 and 171 samples in 2006 | Samples forwarded to IACO, CIRAD, and CNRA for cup-tasting and chemical analyses |
| 322: Chemical and organoleptic characterization | <ul style="list-style-type: none"> - Cup-tasting and chemical analyses carried out at CIRAD and IACO, - Chemical analyses at the CNRA not yet completed | Delivery of laboratory material and equipment to the CNRA by VWR and SIGMA in progress |
| 331: Evaluation of sample blends | Protocol of sample blends completed | Analyses and cup-tasting completed with Activity 322 |
| 421: Dissemination of results | <ul style="list-style-type: none"> - Presentation of results at the EAFCA - IACO workshop in Abidjan, - Presentation to cooperatives | <ul style="list-style-type: none"> - Addis Ababa, February, 2007 - 12 April 2007 - Mission in three terroirs, June 2007 |
| 511: Project management | <ul style="list-style-type: none"> - Coordination and Technical Steering Committees established. Organisation of meetings, purchase of materials and equipment, - Preparation of technical agreements and reports. - Liaison with CFC, ICO, CNRA and other actors in the coffee chain. | Personnel, vehicles, materials, IACO Coffee Tasting Centre available |

Assessment of resource utilization

Outlays for expenditure paid by the CFC as at 30 June 2007 totalled US\$366,534, comprising US\$170,084 for Year 1 expenditure, US\$99,150 for current Year 2 expenditure, and US\$97,300 for laboratory material and equipment supplied by VWR (France) and SIGMA (Germany), and technical assistance provided by CIRAD. The balance of US\$81,400 dollars is for the project conclusion workshop and activities in the last quarter. The steady fall in the US dollar has been a cause of concern throughout the duration of the project. The counterparts provided decisive support in ensuring the successful progress of the project: services, personnel and salaries, and vehicles for researchers at the CNRA station in Divo, particularly in Year 1.

Assessment of project coordination and management

The Project Executing Agency (ACRN/IACO), the Project Coordinator and the Steering Committee organized a number of periodical meetings to evaluate the progress of the project and to organize the purchase of vehicles, computers and other equipment. Agreements were signed with the CNRA and CIRAD for activities in farms, the training of four researchers, and chemical, organoleptic and statistical analyses. Dissemination of results was organized in the form of workshops and meetings with producers and actors in the coffee chain. Reports on these activities were prepared and are available.

Social and environmental effects of the project

The characterization of different types of coffee in terms of the terroir provides important knowledge for Robusta producers. Characterization of production makes it possible to establish descriptive specifications for promoting these coffees, to target specific markets, and to avoid bulk sales of different origins mixed into one lot. Producers and cooperatives expressed a lively interest at meetings held and hoped for the extension of the project to the country as a whole, with training for producers in good harvesting and post-harvesting techniques, in physical and organoleptic coffee analyses and in wet-method preparation.

Forward planning of project implementation

The pilot stage of the project ends on 30 September 2007. Future activities include: training of experts in beneficiary countries; evaluation workshop from 20 to 24 August 2007; preparation of the marketing catalogue.

Lessons learned

The implementation of the project requires the availability of specialized teams of agronomists, agro-pedologists, geneticists, chemists, biometricians and cup-tasters. The two-year pilot stage was limited, three years would have been required to develop all the results more successfully. Moreover, application of the results of the project will require the creation of a cup-tasting centre to control product quality before export in countries undertaking this commitment.

Conclusions

The project permitted demonstration of the effect of terroirs on the chemical and organoleptic characteristics of Robusta coffee. With the liberalization of the coffee market, the terroir approach offers a promising way for Robusta producers to improve the quality of their product.

Recommendations:

- (i) to use the euro as the currency for the project in countries using the CFA franc (fixed parity);
- (ii) to establish a project based on the terroir approach for harvesting, post-harvesting and wet-processing of Robusta in rural areas, and establishing cup-tasting centres in order to bring about a real change in marketing systems and increase the competitiveness of coffees produced by IACO member countries.

**PILOT REHABILITATION OF THE COFFEE SECTORS
IN HONDURAS AND NICARAGUA
(CFC/ICO/11)**

Period covered by this report: January – June 2007

Status of project implementation

Nicaragua

| Planned Activities | Fixed objectives | Current situation | Observations |
|---|--|--|--|
| Component 1: Construction of new wet processing facilities for coffee | | | |
| 1.1 Technical design study of construction of wet-processing facilities | | | |
| Activity 1.3: Appoint consultants (national and international) to design wet processing facilities. | Analysis and design of wet processing facilities models and its financial & techn. specifications. | A consultant has already been selected to carry out a study to analyse wet-processing facilities in Nicaragua | Pending the design of wet-processing plants, it is expected that this should be concluded in the first week of September 2007. |
| Activity 1.4 To set up the mechanisms to grant credit through financial intermediaries. | To establish mechanisms for granting credit | Credit approaches are being defined with the Rural Credit Fund (FCR). | Some technical approaches are awaiting the design of the wet-processing facilities. |
| Component 4: Training and dissemination | | | |
| 4.1 Training technicians and producers | | | |
| Train 20 technicians and 3,750 producers in better practices of wet-processing, sustainable production and natural resource management. | Successful training completion in wet-processing, sustainable production and natural resource management | 746 producers and 86 technicians have already been trained in: marketing, handling material, coffee quality improvement of the and organic certification | This work is carried out in coordination with coffee organizations and institutions in the Ocotal and Jinotega areas of Nicaragua. |
| Component 5.1: Coordination and Supervision | | | |
| Field visits by the PEA to supervise training carried out by the Ministry of Development and Trade (MIFIC) | Training carried out according to plan. | Carried out monthly visits to follow up and evaluate activities under implementation. | Activities carried out in coordination with officials of the National Implementation Unit. |
| Field visits to follow up implementation by consultants. | Follow up and evaluation of implementation of the working plan. | Activities realized satisfactorily. Fifteen days delay. | Reason: Heavy rains in the coffee regions. |
| Coordination with institutions related to the project: MIFIC, FCR, Ministry of Finance and Public Credit (MHCP). | Activities coordinated with different actors. | Monthly meetings to coordinate and to report on activities. Coordination with the Institute of Rural Development (IDR) is not satisfactory. | Reasons: change of personnel in the IDR. |

Honduras

| PLANNED ACTIVITIES | TARGETS SET | PRESENT STATUS | REMARKS |
|--|--|--|---|
| 1 Rehabilitation of Coffee Processing Facilities | | | |
| Activity 1.3: Appoint consultants (national and international) to revise cost and design of wet processing facilities. | To carry out field studies in the involved coffee growing zones to revise the design of wet processing facilities models and its financial & techn. specifications. It will also include the selection of work sites and smallholders to be involved | With the cooperation of ANACAFE, field visits were carried out on 26-29 March 2007 in Guatemala by IHCAFE & PEA Coordinator. The Honduran firm C-Agroconsultores was selected for the study and revision of baseline technical specifications and costs. Final report and recommendations of the study were accepted, by the PEA, and are being implemented. | Although the Project covers all the coffee territory of Honduras, Central and North – eastern coffee zones have been given priority because their coffee processing is less developed or assisted by IHCAFE. The visit to Guatemala coffee farms was constructive in terms of processing methodology used and effluents management. |
| | Project technical advisors have assisted smallholders with the credit applications. | The credit regulations for the operations by the intermediary bank BANADESA were approved by the project unit and first Loan disbursement made by the CFC (US\$640,000) has been transferred by the government (Secretary of Finance and Central Bank) to BANADESA. | The approved credit regulations are included in the administration agreement signed in December 2006 between SAG, IHCAFE and CONACAFE. |
| 1.2. Restoration and Modernization of coffee processing plants (“beneficios”). | Loan funds available and sub loan operations by the intermediary bank in progress | One workshop was conducted with 25 participants from IHCAFE (February 16) at Campamento research station. | The training workshops and inception meetings for this activity with smallholders are planned for August 2007. |
| 1.3 Construction of New Coffee Processing Plants | Sub loan operations by smallholders and loan intermediary bank are in progress | Administration Agreement with BANADESA and regulations are available to start operations. | |
| | Construction of 63 new coffee processing plants. Civil Works and equipment, all models. (in 2007) | Construction plans and technical designs, for four models of processing plants were prepared by the consulting firm (C-- Agroconsultores). Field operations not started yet. | Construction will begin as soon as the first sub loans are approved by BANADESA. |

| PLANNED ACTIVITIES | TARGETS SET | PRESENT STATUS | REMARKS |
|---|--|---|--|
| II. Natural resources management | | | |
| 2.2 Plant Nursery | IHCAFE to assist coffee growers in plant nursery management and agro-forestry good practices. | Assistance to coffee growers by IHCAFE is in progress for nursery production and setting up of the demonstration plots at coffee farms, two at each of six coffee zones in Honduras. Also Technical information from CATIE is being used for the selection of shade tree species. | Six nurseries of shadow trees (timber, fruit and shadow species) are programmed, for seedling production. The zones of Copan, Comayagua, Santa Barbara and Olancho have been selected for demonstration plots. |
| III. Services for the coffee sector | | | |
| 3.2 Study of the internal coffee marketing system | A consultant was appointed for the study of the marketing system, and proposals for policies and measures to improve the current system. | Awaiting consultant's report. | Recommendations of the report are scheduled for implementation at next semester |
| IV. Dissemination and training | | | |
| 4.1 Inception meetings | Inception meetings between the PEA, IHCAFE, smallholders and bank officials. | Preparations are ongoing for the workshop to be held in August, with IHCAFE and BANADESA technicians. One inception meeting was held on February 16 th . | Documents include the SAG BANADESA loan administration agreement, credit regulations, and the recommendations by the consultants on processing plants and revised costs of civil works and machinery. |
| V. Coordination and supervision | | | |
| | Coordination of activities set in the Work Plan 2007. | Five Project Unit meetings have been held to coordinate activities between IHCAFE, CONACAFE, SAG, and the PEA. | Good relationship has been maintained with the coffee growers authorities too. One executive progress report is sent monthly by the project PEA coordinator to the Executive Secretary of IICA/PROMECAFE. All coffee growing regions of Honduras were visited by the PEA and IHCAFE coordinators. |

Assessment of technical progress

The study carried out by the appointed consultants on the design of wet processing facilities models and its financial & techn. specifications will have important implications in the targets set and goals of the project, as unit prices originally considered (year 2000) have shown significant increases, and some technological changes in processing have taken place.

In Honduras, processing plants for small growers (models 1 and 2), show very low investment returns and are prone to coffee quality losses, according to the consultants report. However, technological design and current cost of five models of processing plants (wet phase) have been discussed, in accordance to coffee quality improvement and environmental protection needs and policies.

Assessment of resource utilization

Nicaragua

The project is behind schedule, due mainly to the late approval of the Loan Agreement and the implementation of conditions required to achieve the first payment of the loan. 51% of the National Treasury resources have been provided and 6% of the grant. In general terms the national resources are insufficient.

Honduras

The first Loan disbursement issued by CFC (USD 640 000) has been transferred to the Project Account at BANADESA, and is being put available for the sub loan operations. The credit regulations document for such operations was discussed with representatives of the four coffee growers associations, and approved by the Unidad Coordinadora Interinstitucional. This steering committee has been of a great support in the appointment of the intermediary bank and the preparation of credit regulations.

The first Grant disbursement by CFC, administrated by the IICA, has been utilized almost totally at the end of semester. The IHCAFE has maintained its contribution in kind to the project. CONACAFE and SAG have also contributed with their operational resources to the project implementation.

Assessment of project coordination and management

Nicaragua

The coordination of the officials of the different institutions involved in the project is satisfactory.

Honduras

The functions of the Unidad Coordinadora Interinstitucional had a key role in the negotiation of the administration agreement SAG-BANADESA and in making the Loan resources available to the smallholders.

The frequent discussion of the credit regulations with authorities of the coffee growers associations have delayed the initiation of the credit operations; however it was good to agree with them on the terms and conditions of the sub loans, and the technical specifications of the processing plant models. Besides, this situation provided a gained experience in negotiating, in the case of other projects based on CFC loans for credit lines.

Social and environmental effects of the project

Nicaragua

Project activities are commencing and there are no social or environmental problems associated with the execution and results of the project.

Honduras

Civil works and equipment installation for the coffee processing plants were not initiated during the semester. There is however great expectancy for the credit line and the beginning of these operations, among the coffee growers, just because they had not been assisted by the country banking system, for a long time, due to the deterioration of coffee prices (1999 – 2005) at the international coffee market..

Government environmental policies and interventions have been started through regulations by the Secretaria de Recursos Naturales y Ambiente SERNA, and the Unidades Ambientales of the municipalities (autonomous) of Honduras. For that reason, technological specifications had been considered by the PEA and IHCAFE in the engineering design for the processing plants to be implemented by the project. These specifications imply some changes in structures, operation, cost and management of water use and process sub products.

Forward planning of project implementation

Nicaragua

The analysis and design of the wet processing models and credit will not be available during 2007. The following activities are planned:

- To build during 2007, one of each wet processing installation to serve as examples for construction in 2008.
- To hire a consultant to follow up, endorse and adjust the proposed designs.
- To increase by 50% the construction of facilities in 2008.
- To increase dialogue with Government authorities to obtain a bigger budget for the national component.

Honduras

The inception meetings with the participant technicians (IHCAFE and BANADESA) are scheduled to continue in August, and for such events all the training material and documents had been prepared. The same is expected in relation to civil works and equipment procurement and installation, as soon as the smallholders credit applications are being approved by BANADESA.

A request to the CFC for a second Grant disbursement has been placed by the PEA in order to have the necessary funding for the acquisition of equipment, consultancy and supervision of field operations in Honduras. Activities follow the Work Plan 2007 presented to the CFC and ICO by the PEA.

Lessons learned

Nicaragua

- Separate handling of financial resources increases transparency.
- The use of IICA's electronic bulletin is essential for dissemination of information about the project. It reaches 10,000 people and institutions in the country and the region. The national press receives information from the Bulletin and reports it systematically.

Conclusions and recommendations:

Nicaragua

The project is behind schedule for the 2007 work plan and budget, mainly because the loan agreement has not been approved. There has been a significant advance in training producers and technicians. Information has been widely disseminated to small and medium producers. The development of mechanisms to grant credit to small producers is well-advanced. The following actions are recommended:

- Speed up cooperation agreements between the Ministry of Finance and Public Credit and Fund for Rural Credit, the Ministry of Development, Industry and Trade and the Institute for Rural Development.
- Disseminate the results of the studies of wet processing facilities.
- As the loan has now been approved by the National Assembly, the use of grant funds now needs to be expedited.

Honduras

- 1 The steering committee has been of great support in coordination of activities, and the administration of the Loan funds.
- 2 Planning of the natural resources management activity has been achieved, with the participation of IHCAFE.
- 3 Good support was received from CONACAFE executive secretary and from SEFIN (Crédito Público).
- 4 A supervision mission to Honduras by CFC and ICO is recommended in order to revise and approve some technological changes and targets set, in view of the current situation, the coffee policies of the country; and the cost changes observed since the time the Project Agreement was signed (2001) by the parties.
- 5 A second CFC Grant disbursement is needed promptly, for the normal progress of the project implementation.

**PILOT REHABILITATION OF NEGLECTED COFFEE PLANTATIONS
INTO SMALL FAMILY PRODUCTION UNITS IN ANGOLA**
(CFC/ICO/15)

Period covered by this report: January – June 2007

Status of project implementation:

Component 1: Production/rehabilitation of coffee

Produce coffee seedlings: Production of high quality seedlings as a crucial activity in the rejuvenation of the coffee sub-sector of Angola has occupied a major part of the activities in the field, despite the heavy rains which ended in May. Due to the renewed interest brought about by the project, additional farmer groups (in addition to the 4,000 identified as collaborators in the project) have set up their own nurseries. The project encouraged this and provided the necessary materials and technical support to some 15 groups. Six million planting bags were paid for and 1.85 million delivered and distributed to farmers. Nurseries are managed jointly by farmers groups, with each member aiming to produce at least 1,000 seedlings.

Undertake analysis of soil: Soil sampling and analysis kits were procured. Soil samples collected during the previous reporting period were analysed in South Africa and in Luanda, Angola. Results show that the soils are very acidic (pH as low as 3.1) and generally lack Calcium, Magnesium and Phosphorus, among other elements. Based on these results a South African Company OMNIA has recommended a formulation of fertilizers appropriate for the project area.

Farmers appreciated the farm inputs (hoes, machetes, axes, etc) procured and distributed by the project. Some of these were used for weeding, pruning, shade management, etc all under the supervision of INCA extension workers. Some of the seedlings produced in the project have been transplanted from the nurseries into the fields, to initiate the rehabilitation and renovation of coffee farms.

Component 2: Commercialization of coffee

Introduce coffee quality improvement measures: The project purchased a coffee liquoring unit (composed of a small roaster, huller, grinder, etc.) from Colombia and installed it at the INCA laboratory in Luanda. Although a staff member of INCA was trained on coffee classification and tasting in Brazil in the last reporting period, the Coffee Quality Expert to undertake the consultancy later in the year will give further advice on how to utilise this facility. A Coffee Quality Technical Assistant/Expert was engaged to train local staff on practices which improve the quality of coffee (pre- and post-harvest).

Component 3: Settlement schemes for displaced farmer families

Organize selected settlers into associations: Land was identified in the project area, subdivided and distributed to displaced farmers. INCA signed an agreement with the Cooperative League of the USA (CLUSA) through which this NGO will assist in the formation and registration of farmer organisations, partitioning of land and issuing of title deeds, setting up rural shops where farmers can sell their produce in exchange for food or inputs, training of association officials in planning and managing economic and social activities, developing business plans and soliciting credit from banks, training INCA's extension staff, etc.

Component 4: Support services

Provide support to research and experimentation: A hand-held coffee pulper was procured and delivered to the INCA station of Gabela, to improve the speed and efficiency of producing quality coffee seeds. Preparations were finalized for the evaluation of seven Arabica coffee varieties (Caturra, Red Catuai, Hybrid Timor, Catimor "Line", Icatu, Tupi, and NP1) and one Robusta variety (Amboim) in the field at Gabela. These will be planted in the next reporting period in a randomized block design with spacing of 2m x 2m for all varieties and an additional plot of Amboim planted with the traditional spacing of 3m x 3m. Factors to be evaluated are incidence and severity of pests, diseases as well as yield and bean quality.

INCA staff (scientists, extension workers, etc) are actively involved in all the field activities and acquire important on-the-job training including soil sampling techniques, experimental design, data collection, pest and disease identification, propagation techniques, etc.

Component 5: Institutional support

Establish market information system: An MIS consultant assessed the current MIS capability and use in Angola, developed strategies for information sharing between the producers and buyers, set up a market information system at INCA and trained staff in Market Information to ensure that the system is used sustainably. A detailed report was submitted to INCA for comments.

Establish and use management information system: Together with information learned from the Market Information consultant, Mr Jose Mainga (INCA Agronomist) developed a template to be used in the management of information in the project.

Component 6: International technical assistance

Identify and select short-term technical assistants: Two technical assistants were engaged during the reporting period. The Chief Technical Advisor (CTA) developed specific Terms of Reference for each Assistant, which formed part of the advertisements circulated internationally to acquire the most qualified consultants. The selected consultants were Mr James Erejo Chiria (Market Information System) and Mr Luswata Kanakulya Al-Raschid (Coffee Quality). The CTA supervised the work of these technical advisors.

Component 7: Project management

Establish Project Management Unit to coordinate and organize project implementation:

The Project Management Unit (PMU) should be constituted by the CTA, an accountant, a secretary, driver and a support staff. Since the departure of the accountant and secretary in November 2006, the PMU was compelled to continue functioning without these staff. Identifying and contracting qualified staff in Angola is extremely difficult. An advertisement for the post of accountant was published in the local daily newspaper but only a few candidates applied. These applicants were either not qualified or did not accept the terms (including relocating from Luanda). The CTA performed the duties of the accountant until 21 May, when Mr. Lukoki Ndombaxi Felix was recruited. The CTA also trained the new accountant in the CFC financial and administrative procedures.

Establish and implement effective monitoring and evaluation processes: Monitoring and evaluation (M&E) processes, following the CFC Project Management Manual, have been initiated. It is planned that the internal M&E will be effected by various units including the Management Information System at INCA, PMU, the Project Steering Committee as well as field visits by Luanda-based INCA staff. External M&E will be done by the ICO, CFC and independent consultants.

A supervisory visit was made between 29 May and 4 June by Mr Caleb Dengu (CFC), Dr. Denis Seudieu (ICO) and Mrs. Josefa Sacko (IACO). The visit included meeting the Minister of Agriculture and Rural Development, INCA staff in Luanda as well as INCA staff (scientists and technicians) and farmers based in Gabela. Specific recommendations made by the mission were as follows;

- Counterpart funds from the Government should be made available immediately to enable timely implementation of the project. The project should follow up the Minister's promise to the team to pursue the issue with the Ministry of Finance.
- The Project Steering Committee meeting should be convened as soon as possible. Constraints in the project should be discussed and relevant members charged with finding solutions.
- Pending contracts with CLUSA and Banco de Poupança e Crédito (BPC) should be finalized and signed so that farmers are organized into business groups (associations), trained and prepared to benefit from the micro-credit scheme.
- INCA should read the reports from the consultants and provide written comments to CFC/ICO, within 2 weeks. The role of the consultants should be viewed in its correct context – to help INCA to help farmers and other coffee stakeholders better.
- INCA to develop week-long training courses for field extension workers (with complete training manual). This should aim at both informing extension workers as well as improving their ability to disseminate this knowledge to farmers.
- Project Management to revisit the budget to incorporate (without additional costs) identified additional/modified activities including training of extension workers and motivation of field staff (a percentage of current salary and based on performance). Efforts should be made to increase the number of such extension workers, given the number of farmers that they have to reach.

The mid-term review of the project is scheduled for the first quarter of 2008, when hopefully most project activities will have already commenced.

Assessment of resource utilization

As in the previous reporting period, resource utilization was limited by the non-availability of certain funds. The grant funds were made available since the previous reporting period (with the second claim of US\$104,189.80 disbursed in February 2007), the loan was made available in late June (US\$1,760,000.00) but the Government co-financing has not been received by the project.

Delays in the release, or total lack, of funds made it impossible to acquire project equipment promptly, much of which have elaborate procurement procedures. This led to apparent under-runs in some budget lines. The lack of co-financing from the Government is limiting spending of other funds, e.g. a small truck and generators are to be procured using funds partly from the grant and partly from Government.

The release of more funds, expenditure is expected to be close to what was planned. With the signing of agreements and setting up of implementation structures, expenditure should be as planned from the next reporting period.

Assessment of project co-ordination and management

A lot was achieved in terms of setting up and beginning to use structures that will assist in the implementation of the project. Several legal or administrative hurdles, like those that accompanied the first disbursement of the loan, were overcome. Complying with government regulations with respect to receiving the loan from CFC, although drawn out, was a worthwhile success. Binding agreements with the BPC and CLUSA should now pave the way for more effective operation of the credit system, involving legally established entities (farmer associations).

However, the success was accompanied by several challenges, some of which the supervision mission was alerted to. The frequent unavailability or inability of PEA staff to undertake specific project activities made implementation, and therefore coordination, difficult. The PEA management's inability to monitor staff to ensure that activities agreed upon are actually undertaken further complicated project coordination.

Although the funds from the loan component reached the project in June 2007, those from the Government have not. This delayed procurement of equipment/materials making it impossible to undertake activities on time, leading to the loss of entire years, since certain activities like application of fertiliser and harvesting of coffee must be done only at specific times (seasons) of the year. Further, materials and allowances to enable extension staff to undertake their duties were not therefore made available, leading to loss of motivation.

Finding a qualified accountant for the project was extremely difficult – the few available are already with employers offering better terms. The need for the project accountant to be based in Gabela further discourages candidates as all want to work in Luanda, the capital. The CTA therefore had to undertake the duties of an accountant from November 2006 to May 2007. The performance of the new accountant will be closely observed during the 3 month probation period.

Due to their past experience, the concept of credit and especially repayment of loans is still not fully appreciated by many farmers. They are used to gifts or “assistance” and being expected to repay what they receive is still foreign to them.

Social and environmental effects of project implementation

Although it is too early to assess these, increased returns from the sale of higher quality coffee are expected to improve the income of the coffee farmers. Resettling previously dislocated persons should give them hope and make them more productive and socially more content. No adverse effects to the environment are envisaged.

Forward planning of project implementation:

With the delivery of more planting bags, more seedlings will be raised by the farmers. Transplanting of seedlings into the fields will be intensified. More efforts will be made to secure co financing from the Government. On-farm trials will be initiated using the coffee seedlings raised at the station. The MIS at INCA will be improved and utilised. This together with the MIS will significantly facilitate the running of the project.

Farmers’ associations will be formed and existing ones strengthened. This will be accompanied by training of members on how to manage associations as business entities. Equipment for the coffee processing plant and social buildings (schools, houses, health posts) will be procured, delivered and installed/used, as soon as funds are made available. This will be accompanied by training of farmers, extension workers and/or farm managers on how to operate and manage this coffee processing equipment. INCA scientists and extension workers will be trained in modern coffee production, processing and marketing methods, and more importantly, how to disseminate this information to the end users (farmers and traders). The project will be audited by Deloitte & Touche (January – December 2007 accounts).

Overall coordination of the project will continue including holding Project Steering Committee (PSC) meetings, and providing technical and administrative backstopping. Progress made in the project in 2007 as well as the workplans and budgets for 2008 will be discussed and agreed upon.

Conclusions and recommendations

The Supervision Mission was useful in terms of enabling the members to observe the progress made and appreciating the existing challenges. More active participation by the PEA staff will both improve their skills and make coordination easier. Although the project had a slow beginning, activities will be implemented faster with the acquisition of the project equipment and signing of necessary agreements.

**DIVERSIFICATION OF PRODUCTION IN MARGINAL AREAS
IN THE STATE OF VERACRUZ, MEXICO
(CFC/ICO/32)**

Period covered by this report: September 2006 – March 2007

Status of project implementation

During this period, activities were implemented to correct time frame differences which occurred in the previous period. Re-scheduling activities has enabled us to work towards achieving established goals. The following activities were developed during the period:

Component 1: Development of design and strategies for diversification

| | |
|--------------------------|---|
| Main planned activities: | Integration of agro-ecological and socio-economic information. Definition of the crops which will be integrated into the agro-forestry systems. |
| Targets set | Integration of agro-ecological information from surveys on 1,000 hectares. |
| Present status | The agro-ecological and socio-economic zoning of 80% of the communities where the project is located has been prepared. |

Component 2: Timber forest resource

| | |
|--------------------------|--|
| Main planned activities: | Preparation of land for establishing the plants. Establishment of plantations. |
| Targets set | Establishment of 317 hectares of the forestry component. |
| Present status | Completed. |

Component 3: Coffee plantations diversification

| | |
|--------------------------|--|
| Main planned activities: | Establishment and operation of nurseries. |
| Targets set | Two nurseries in operation which will meet the total requirements of plants. |
| Present status | One nursery is in operation with 100,000 seedlings. |
| Remarks | The second nursery is being installed and will be in operation by the end of April 2007. |

Component 4: Integration of production to marketing

| | |
|---------------------|--|
| Planned activities: | To promote marketing of primary products generated in the participating areas. |
| Targets set | To integrate value networks and to generate options for marketing primary products in the area of influence. |
| Present status | Under implementation. |
| Remarks | A campaign of awareness-raising has been initiated among producers in 11 communities for the creation of formal organizations which will be the basis for their integration as businesses. |

Assessment of resource utilization

During the second semester, 56% of total expenses were used to diagnosis, training, research and administrative tasks through funds received from the Government of Veracruz. Another 62% of the expenses paid for with resources from the CFC, were for the installation of the nurseries.

The loan agreement has not been signed, as authorization by the local Congress has taken longer than expected. On 28 May 2007, the Governor of the State of Veracruz proposed donating \$15,000,000 Mexican pesos (nearly US\$1,500,000), to a trust to guarantee the loan from the CFC, which would mean that the authorization by Congress to accept the loan would not be necessary. On the other hand, this scheme would have the advantage that when the farmers pay their debts to the CFC, national funds would be retained and would facilitate the application of the project in new areas.

Assessment of project co-ordination and management

Project management and coordination focused on the following aspects:

- To present to the University authorities, a proposal for a more efficient internal application of additional CFC funding of the project.
- Make sure that State Government subsidy to the University of Veracruz to have enough funds to service the in-kind payment agreed with the CFC.
- Relationships with federal, state, and local authorities to maintain the flow of counterpart funding, when necessary.
- Negotiations with State authorities to get approval for the use of the loan resources.
- Development of commercial relationships with potential buyers of the products that will be grown in the plots of land.

Social and environmental effects of project implementation

From the results of the socio-economic surveys, in some places we need to reinforce our institutional presence to generate more participation from the farmers. This will be achieved through the development of participative workshops oriented to the formation of legally constituted producer organizations.

In the case of environmental aspects, considerable efforts are still needed to offset the deforestation behaviours. The activities of the forestry component have a direct effect on these habits. In the medium term it is expected that forested areas will increase, as will awareness of the importance of environmental conservation.

Forward planning of project implementation

For the second year, project activities will enable to eliminate the problems of resource management and production of plants. It is planned to start sowing cinnamon, pepper and flowers and to continue with the establishment of timber forest species. It is also expected to establish at least six rural organizations that will market the products that farmers are growing on their land.

Lessons learned

As the project progresses, we have realized the tremendous potential of activities to fight the causes of poverty that traditionally have affected single-crop farmers. We have also realized that in addition to diversification of crops, it is necessary to add value to agricultural products and to find alternatives trading options that guarantee greater participation of farmers in the final price of their product.

The value network approach has enabled us to modify the original approach which focussed on agro-forestry production. The production of pepper and vanilla, for instance, are no longer considered as isolated crops. They are now seen as a whole within the market for aromatics, spices and condiments. This has allowed us to introduce complementary products such as cinnamon, cloves, cardamom and to find specialized consultants to install small industrial enterprises to process these products, giving them added value. A multiplier effect is envisaged in the medium term that will have an impact on other commodities grown in the area and wider surroundings.

Conclusions and recommendations

The difficulties faced at the beginning of the project with the disbursement of Loan financial resources delayed the establishment of crops in parcels. Nevertheless, this was an opportunity to work on a more accurate approach to generate better options for marginal farmers. In this context, workshops will help to generate the full participation and commitment of farmers towards the project. The implementation of the project will require an additional year to set up agro-forestry systems in the 1,500 hectares in the project. The Government of the State of Veracruz agrees with this extension.

The disbursement of resources from the loan is quite urgent, and efforts have focused on obtaining the State Congress's approval. In addition, the proposal of the Governor of the State of Veracruz to donate 15 million Mexican pesos is being followed up. As soon as we have a formal communication about these resources, we will notify participating institutions.

**SHORT AND MEDIUM TERM
FINANCE FOR SMALL-SCALE COFFEE FARMERS IN KENYA
(CFC/ICO/20)**

Periods covered by this report: June – September 2006

Status of project implementation

The objective of the project is to design and operate on a pilot basis an input credit scheme suitable for the liberalized coffee sector which can be replicated in other countries. A pilot project was approved by the CFC Executive Board and structured into 3 phases:

Phase One: A study of the previous experiences on credit input schemes in Kenya.

Phase Two: A study of financing systems in Kenya, and the design of the credit structure.

Phase Three: Pilot project implementation.

Phases I and II of the project were completed by November 2002. The third phase, launched in October 2005, is the subject of this report. Components of this phase include the following:

- 1) To identify and select a suitable bank(s) to participate in the project
- 2) Provision of Technical Support to Coffee Farmers and Co-operatives participating in the pilot project
- 3) Building the Credit Appraisal and Loan Monitoring Capacity of Commercial Banks
- 4) Provision of services for tracing, tracking and securing coffee along the coffee chain
- 5) Provision of Input credit to farmers and co-operatives

A large number of activities relating to these components have been performed, in particular:

- Setting up and operations of the PIA and PIU
- Selection of the pilot coffee growing district
- Selection of target societies and factories in the pilot district
- A sample survey of farmers and selected factories
- Designing of Credit models/products
- Bankers' training
- Formulation of terms and conditions of borrowing by farmers
- Design of user-friendly loan application forms
- Design of required documentation for all loan requests

However, the first loan disbursement did not take place as planned, because US\$1 million from the CFC was not received. In September 2006, a letter to the Treasury by the Ministry of Cooperative Development and Marketing seeking guidance on how the monies from CFC should be applied for received no feedback. However, in a meeting with the Ministry of Finance in December 2006, the Ministry indicated that an MOU had to be prepared for signature between the Government of Kenya and the CFC. A draft was presented to the Ministry of Finance at the beginning of 2007, which in turn forwarded it to the Attorney General's Chambers for clearance as per the rules and procedures for such a matter. The draft MOU was also sent to the CFC for its review and feedback. So far, securing clearance for this draft MOU has been unsuccessful. The response of the Attorney General's Chambers to the Ministry of Finance is still pending.

Another main activity which consists of IT solutions for the provision of tracing and tracking services has not been completed. The success of a large component of the credit scheme will be pegged on an effective IT product. As earlier reported, farmer data was collected, input and analysed using relevant computer packages during 2006 and is available for use in disbursing loan amounts. The aim is to develop a simple appraisal methodology that will encourage each of the parties to maintain a positive (credit-worthy) relationship with each other. In addition, when the system is finally developed it should facilitate the tracking of the coffee, the loan and other important activities affecting coffee production viz. a viz. correct application of input credit. Terms of reference for the development of suitable software to support the scheme have been developed and quotations are currently under review.

The Kenya Commercial Bank (KCB) opted out in October 2006; it was agreed that it was a reasonable move for KCB to make since the CFC funds for the loan component were too low for two banks to be involved. As cited earlier, the US\$1m loan might have been high at the time of signing the contract, but with the passage of time, banks had become very liquid with ample funds for lending.

Assessment of resources utilization

The first replenishment of US\$70,000 was released to the project account in June 2006. The PEA asked the PIU to provide returns for the use of the funds on a monthly basis. Although there were some delays, returns were declared eventually. The PEA has had to work very closely with the PIU to ensure accuracy of returns and in verifying the same.

The budget for 2006 totalled US\$559,959.47 against expenditure of US\$486,473.11, indicating an overall under-expenditure of the set budget of US\$73,486.36. This amount was re-phased to the 2007 budget.

Forward planning of project implementation:

- Review/finalization of the loan product.
- Loan application, processing and disbursement (initially targeted for September – October 2006, and now postponed to a later date dependent on when funds shall become available).
- Development of a price risk intervention component in Kenya.
- Review of the legal framework: When the financing structure has been agreed upon by stakeholders, a full legal review will need to be carried out to identify any legal bottlenecks that may stand in the way of implementation of the product.

Project Management

There were several changes in the composition of the Steering Committee (SC) during 2006; within the PEA, the Portfolio Assistant was replaced in March 2006, the Portfolio Manager was also replaced in March 2007; in the PIU, the Project Economist left in August 2006 and was replaced in September. In addition, the Project Accountant was changed in October/November 2006 and again in May 2007. Around October 2006 a shake-up in the Kenya Planters Cooperative Union led to the departures of the Managing Director, Financial Controller, Auditor and other key personnel; within the PIA, two personnel left within the year, with one replacement in October 2006.

Conclusion

It is hoped that the loan from the CFC will be released in time for the planting season during the current year (2007). The SC has indicated that it is evident that the US\$1 million loan from the CFC is unlikely to stretch very far even when it becomes available. To this end, the project has been reminded of the need to continue considering alternative sources of funding.

Towards the end of 2006, the government launched a fund similar to the CFC pilot project. This is being dispatched to coffee farmers through the Coffee Board of Kenya and part of it covers much the same purposes as the US\$1 million loan from CFC. The fund was rolled out on 14 February 2007. However, the pilot project under the CFC still has features that are unique to it, e.g. the emphasis on a well developed MIS system.

LIST OF ACRONYMS USED IN THIS DOCUMENT

| | |
|-----------|---|
| ACRN | African Coffee Research Network |
| BPC | Banco de Poupança e Crédito |
| CFC | Common Fund for Commodity |
| CIRAD | Centre for International Cooperation in Agronomic Research for Development |
| CLUSA | Cooperative League of the USA |
| CNRA | Centre national de recherche agronomique |
| CTA | Chief Technical Advisor |
| CWD | Coffee wilt disease |
| DR Congo | Democratic Republic of Congo |
| EAFCA | Eastern African Fine Coffees Association |
| FFSs | Farmer Field Schools |
| FCR | Rural Credit Fund |
| FTR | Final Technical Report |
| IACO | Inter-African Coffee Organisation |
| IDR | Institute of Rural Development |
| INCA | Instituto Nacional do Café de Angola |
| IPM | Integrated pest management |
| LMU | Local management unit |
| M&E | Monitoring and evaluation |
| MIFIC | Ministry of Development and Trade |
| MIS | Market Information System |
| MOA | Memorandum of Agreement |
| MOU | Memorandum of Understanding |
| NGO | Non-governmental organization |
| NRI | Natural Resources Institute |
| PEA | Project Executing Agency |
| PIA | Project Implementation Agreement |
| PIAs | Project Implementing Agencies |
| PIU | Kenya Planters Co-operative Union |
| PMU | Project Management Unit |
| PROMECAFE | Regional Program for the Development and Modernization of the Coffee Industry in Central America, the Dominican Republic and Jamaica |
| SB | Supervisory Body |
| SC | Steering Committee |
| SSCWS | Semi-washed coffee processing using small-scale coffee washing stations |
| UNOPS | United Nations Office for Project Services |
| WRS | Warehouse receipt systems |
| WSB | White Stem Borer |