



Projects Committee
8th Meeting
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London, United Kingdom

**Guidelines on the submission of projects to
be submitted for financial support for
activities related to coffee**

Background

This document, entitled 'Guidelines on the submission of projects to be submitted for financial support for activities related to coffee', provides basic information on the submission of project proposals for financing. The document is a revised version of the information contained in document EB-3573/96 Rev. 4 and takes into account changes in the financing modalities of the Common Fund for Commodities as well as the need to diversify financing sources for projects.

Action

The Committee is requested to approve this document.

GUIDELINES ON THE SUBMISSION OF PROJECTS TO BE SUBMITTED 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 new version of guidelines on the submission of projects for financing by the Common Fund for Commodities (CFC) and other funding providers. This document takes into account recent changes in the financing policy of the Common Fund and the need to diversify financing sources for projects related to coffee activities.

2. It should be noted that during the last nineteen years financing facilities provided mainly by the CFC enabled the Organization to carry out 38 projects in Member countries at a total cost of US\$104 million, mainly in the form of grants. On the basis of the Common Fund Manual for the preparation and management of projects the Organization prepared its own guidelines providing basic information for Members on the submission of projects. The present document provides guidelines on two forms of project financing, namely financing in the form of reimbursable loans for profit generating activities and financing in the form of grants, mainly from donors or in the framework of bilateral aid for Member countries. In both cases, this document aims to facilitate the analysis of proposals, 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 CFC for consideration of project proposals.

3. The document is in three sections:

- I. Criteria established by the Common Fund for Commodities for access to CFC resources for financing projects.
- II. Role of the ICO in the context of development projects.
- III. Recommendations to be taken into account by countries submitting projects.

I. CRITERIA ESTABLISHED BY THE COMMON FUND FOR COMMODITIES FOR ACCESS TO CFC RESOURCES FOR FINANCING PROJECTS

4. The CFC is an autonomous intergovernmental financial institution established within the framework of the United Nations for the purpose of fostering the economic development of commodity producers and contributing to the development of society as a whole. In accordance with its market-oriented approach, the Fund concentrates its activities on value-added commodity projects financed from its own resources.

5. Despite changes in the form of support to favour loans rather than grants, the CFC continues to be the main provider of funds for financing commodity development projects. The Fund has clearly specified the forms of support it envisages providing and the shares of financing it provides in accordance with the type of project involved. It also indicates the type of project it can support and the nature of its intervention. The CFC now provides financing in the form of loans with a very small share in the form of a grant to support loan activities. Project proponents should seek to provide counterpart contributions representing at least 50% of the total cost of the project.

6. Financing by the Fund aims to support commodity production potential, processing and marketing with a view to reducing poverty in rural areas and fostering entrepreneurship among rural communities. Projects should also be commercially viable and capable of generating financial resources to ensure sustainability. Annex I provides details of the new criteria for the submission of projects for financial support by the CFC.

7. Another important innovation in the form of CFC intervention is that projects may be submitted directly by any entity or structure, particularly non-governmental organizations, producer organizations, and public or private enterprises. It is advisable, however, to go through international commodity bodies in order to benefit from their expertise and have every chance of submitting viable projects. In the case of projects related to coffee, the ICO can act as intermediary in order to maintain control of project proposals submitted to the CFC.

8. Finally, project proposals must be drafted in simple terms and respond to the twenty questions in the Application Form (Annex II). Once the project proposal has been received in accordance with the timetable established by the CFC, the approval process is carried out in two stages. A preliminary evaluation of the proposals is carried out by the CFC Consultative Committee (CC) on the basis of the replies to the twenty questions contained in the Application Form. A detailed submission is then requested for selected projects in order to obtain final approval. In this second stage, the CFC can assist the proponent to improve the presentation of the proposal. Final proposals are then submitted to the CFC Executive Board for decision.

9. In contrast with the process followed previously, the period of analysis for project proposals does not exceed one year. It should be noted that the CFC decision-making bodies meet twice a year, the Consultative Committee in January and July and the Executive Board in April and October. Project proposals are submitted in response to open calls for proposals published by the CFC Secretariat, twice yearly (usually in April and October).

II. ROLE OF THE ICO IN THE CONTEXT OF DEVELOPMENT PROJECTS

10. The ICO is the focal point and facilitator of coffee economy development activities in Member countries. In the previous formula for the intervention of the CFC, the ICO was the designated International Commodity Body (ICB) for coffee and, as such, responsible for formally submitting projects to the CFC. In its capacity as ICB, the ICO was also responsible for prioritization, formulation and supervision of projects.

11. From now on intervention by the ICO concentrates in three main areas for all matters related to coffee. These areas include technical evaluation of project proposals or conceptual notes, technical assistance in the preparation of project proposals, and seeking funding sources for projects.

A – Technical evaluation of project proposals or conceptual notes

12. The ICO Secretariat is responsible for carrying out a preliminary technical evaluation of project proposals in order to provide precise guidelines for the Virtual Screening Subcommittee. This technical evaluation should take into account the criteria of the Common Fund, as the major financial stakeholder, as well as those of other financial stakeholders.

13. The ICO Secretariat suggests project evaluation criteria and Terms of Reference to be used by the Virtual Screening Subcommittee and ensure periodic revisions in accordance with conditions established by financial stakeholders.

B – Technical Assistance in the preparation of project proposals

14. The ICO Secretariat works with Member countries to formulate projects once the conceptual note has been approved by the Council/Project Committee or whenever the drafting of project proposals requires improvement.

C – Seeking funding sources for projects

15. The ICO Secretariat helps identify sources of finance for projects, particularly projects that cannot be taken into account by the CFC, namely projects for providing training for producers, or targeted at the struggle against coffee pests and diseases, improvement of productivity and quality, etc. Projects of this nature do not generate any immediate financial and commercial profitability to benefit from CFC financing. The ICO will establish close relations with financial and development institutions.

III. RECOMMENDATIONS TO BE TAKEN INTO ACCOUNT BY COUNTRIES SUBMITTING PROJECTS

16. Project proposals should obtain official commitment and be submitted by the Government of a sponsoring Member country. Proposers can be Governments or public institutions of Member countries, trade or consumer associations, international organizations or NGOs, producer organizations, scientific authorities or other experts, or any other type of organization in the coffee value chain.

17. Project proposals should clearly indicate financial profit-generating activities for financing by the Common Fund or other funding sources in the form of reimbursable loans.

18. Proposals should be targeted at promoting sustainability of the coffee sector. They should also be integrated into the national strategy for poverty reduction or development of the coffee sector.

19. The project proposal should identify the person to be contacted for providing assistance to the ICO Secretariat in seeking financing as well as for acting as the communication channel between the Secretariat and the Government or coffee authorities of the proponent country. The person nominated as the communication channel may when necessary, provide any appropriate responses to the concerns of financing stakeholders.

20. In conclusion, it should be noted that regular contact should be established between representatives/delegates of proponent countries in the governing bodies of international development financing institutions. In the case of the Common Fund, for example, contact should be maintained with governors or alternates.

Annexes

21. Annex I and II are taken from documents published by the Common Fund for Commodities and may be obtained from the CFC site: www.common-fund.org

PROCEDURE FOR SUBMISSION OF PROPOSALS FOR FINANCIAL SUPPORT BY THE CFC

Application process

Timelines

1. The applications received will be subjected to a two stage approval process. The timeline for receipt of applications is []¹. Any applications received after this date will not be accepted.

2. Applications meeting pre-determined criteria will be submitted for consideration by the Technical Committee of the CFC, i.e. the Consultative Committee (CC). The CC will decide and prioritise the applications that will progress to the second stage, to be studied and recommended for formal approval by the Executive Board of the CFC. Successful candidates, i.e. those whose applications for financial support by the CFC are recommended by the CC, will be notified that their proposals will be considered during the second stage. They will be required to submit a more detailed proposal, in the formats prescribed by the CFC, for the proposed intervention together with accompanying documentation, for consideration by the Executive Board of the CFC.

The CFC approach

3. The aim of the CFC is to realize the potential of commodity production, processing manufacturing and trade for the benefit of the poor. The CFC supports implementation of interventions that:

- (i) are innovative and target new opportunities in commodity markets leading to commodity based growth, employment generation, increase in household incomes, reduction in poverty and enhancement of food security;
- (ii) are scalable, commercially viable² and financially sustainable³;
- (iii) have a measurable positive socio-economic impact on the stakeholders in commodity value chains;

¹ Information to be provided by the ICO at the time of submitting the project proposal.

² A commercially viable intervention consistently generates sufficient revenues to cover the costs. Grants or donations, even those provided on a recurring basis, do not qualify as commercial revenue.

³ Financial sustainability is demonstrated by obtaining commercial financing (equity or debt) and being current on all repayments.

- (iv) develop stronger connections with existing markets or create new markets along the value chain;
- (v) increase financial services to commodity producers and commodity based businesses; and
- (vi) enhance knowledge generation and information dissemination.

Objectives of CFC project financing

4. The objectives of CFC supported interventions are:

Social

- (i) Create employment, particularly for youth and women, increase household incomes, reduce poverty, and enhance food security.

Economic

- (ii) Enhance production and productivity, achieve higher local value addition; improve competitiveness of producers, producer organizations and small and medium sized industries; support financial sector development.

Building partnerships

- (iii) Build effective and cost efficient collaboration between producers, industry, governments, civil society organizations and other stakeholders for commodity based development.

Type of Projects

5. The CFC supports all innovative commodity based interventions along the entire commodity value chain which extend across local, national, regional and international markets. The proposed intervention should have a positive impact on stakeholders in the commodity value chains, i.e. generate employment, increase incomes, reduce costs, and/or improve productivity. The CFC favours interventions that promise commercial and financial viability and provide evidence that the organizations involved have the necessary technical, managerial and financial capacity to execute the intervention and reach the targeted goals in the stipulated time.

6. The CFC targets the 'missing middle' both in technology and knowledge transfer and in financing modalities, i.e. providing linkages for the transfer of technology and technical information to fill the gaps in financing and risk capital.

Areas of support

7. The CFC targets its support at each link in the commodity value chain, i.e. increasing production and productivity, enhancing value addition, increasing access to markets, and reducing risks by financing innovative measures and actions. Specifically targeted areas are:

- Production, productivity and quality improvements
- Processing and value addition
- Product differentiation
- Diversification
- Marketing
- Technology transfer and upgrading
- Introduction of measures to minimize physical marketing and trading risks
- Facilitation of trade finance
- Risk management

Partner institutions

8. The CFC supports organizations and enterprises involved in commodity value chains. Through financial support, the CFC seeks to promote innovation to encourage established organizations and enterprises to extend their core activities in ways that create additional opportunities for stakeholders in commodity value chains.

9. CFC partner organizations can be bilateral and multilateral development institutions, cooperatives, producer organizations, small and medium enterprises, processing and trading companies, and local financial institutions that:

- operate in commodity value chains or provide financial services to small business operators, small and medium enterprises (SMEs), cooperatives, producer organizations;
- have a clear plan focussing on developing and/or diversifying their production/services;
- have the ability to invest in the value chain to reduce transaction costs or increase revenues of producers/processors/storage/marketing;
- have a clear plan for expanding their markets at local, national, regional and international level; and
- have the technical, managerial and financial capacity to implement the intervention effectively and efficiently.

Financing instruments

10. The CFC finance will be mainly in the form of loans, equity and quasi-equity investments, lines of credit and guarantees. Limited amounts of grants are provided, where necessary, to support specific new activities or to support loan-financed projects and are directed towards complementary activities such as capacity building, technical assistance, etc.

Amount of financing

11. Financial support for individual interventions can be in the range of US\$60,000 to US\$1,500,000, targeted mainly at for-profit organizations and social enterprises operating in the commodity sector. The CFC finance will normally be for seven years (two years for disbursement of CFC funds and a further five years for repayment of debt /loans/ reimbursable grants, etc.). The duration of equity investments can be tailored to the specific needs of the project.

Expected impact

Specific development impact indicators for individual engagement

(i) Beneficiaries and incomes:

- Number of low income earners that will benefit as a result of the intervention
- Benefit per person in additional cash income or savings, by the end of the proposed intervention compared to *ex ante*, i.e. if the intervention had not been implemented.

(ii) Impact on value chain:

- New relationships/links between different stakeholders in the value chain created
- How many small businesses in existing supply chain affected and what benefits have they received
- Extent and impact of replication of intervention elsewhere and by others.

(iii) Impact on the market system

- Wider availability of market information
- Improvements in physical infrastructure
- Increase in services (including access to finance) either from the private or public sector
- Development of skills – technical, business and management.

Selection criteria

12. The CFC has limited resources, and hence each application will be assessed to determine its impact and effectiveness. The quality of the proposal and not the financial outlay is the overall guiding principle for assessment of suitability of the intervention for support from the CFC. The intervention should accelerate growth, increase employment, enhance livelihood opportunities and income, and reduce poverty. The main criteria for selection are quality, potential impact, beneficiary focus, replicability, sustainability, cost effectiveness, manageability and dissemination. The objectives must be achievable within a specified period of time. The applicant's past track record is an important consideration in selection.

13. Specifically, each intervention is assessed with respect to the following criteria:

- Innovation
- Commercial viability
- Financial sustainability
- Development impact
- Scalability and potential for growth, including replication in other areas and markets
- Environmental and social sustainability

14. The CFC will select the best applications based upon the proposed intervention that contributes most towards the CFC aims and objectives.

Contribution by the applicant organization

15. The applicant organizations must provide matching funds from their own resources (and those of their partners or third parties, e.g. bank loans) for an amount at least equal to, or greater than 50% of the total cost of the project. The matching funds provided by the organization should be auditable and at least half must be in cash; the

remainder can be in the form of measurable and verifiable in-kind contributions. In-kind contributions may include staff salaries, equipment, vehicles and other items that are already owned by the organization and specifically dedicated for the proposed intervention.

Approval procedure

Stage I: Initial application

16. The submitted proposal must include a description of the intervention and applicant organization. The proposal should contain information on: a) economic viability, b) potential development impact and impact of the proposed intervention, and c) the role of the CFC in achieving the proposal's objectives. The initial application will be assessed internally by the CFC Secretariat to verify whether it is complete and meets the basic criteria prescribed for such applications. The applications meeting these criteria will be subjected to a detailed approval process commencing with an evaluation by the CC.

Stage II: Detailed proposal

17. This stage requires preparation and submission of a detailed proposal by the selected organization. During this stage the CFC may engage with the organization and assist in preparing the detailed proposal which may include visits to the proponents and intervention sites. Engagement of the CFC in the process does not guarantee funding of the proposal by the CFC, but aims to improve the quality and alignment of the proposal. The final proposals will be submitted to the Executive Board for a decision.

Evaluation

18. A suitable monitoring and evaluation system to assess the impact of CFC supported interventions will be an integral part of CFC financing. The baseline data for each intervention should be available, i.e. should be collected to demonstrate the effectiveness and impact of the interventions. At the completion of the intervention an assessment of the outputs and development impact will be made.

APPLICATION FORM FOR SUBMISSION OF PROJECTS TO THE CFC

General Guidelines for filling out the Application Form

The CFC provides a range of financial instruments to support interventions in the fields of mining and agriculture in developing countries that, besides a sound financial return, also provide for a measurable social return.

This set of questions has been compiled in order to enable the CFC Secretariat to make a general assessment of the proposed intervention, its financial viability and its social relevance, as well as of the implementing organization and its ability to implement the intervention. In your responses to the questions, please focus on the information required and limit your replies to information that is relevant for such an assessment.

Please note that at this stage you are not required to provide information in detail. However, if your application reaches Stage II of the selection process, you may be asked to substantiate all information provided and submit a detailed business plan, financial data, etc.

Please provide all information in the English language.

- 1) **Title of the proposed intervention for which finance is being sought, and place of implementation** (The CFC funds activities in its Member countries only. The List of Member countries can be accessed on the CFC website).
- 2) **Name of organization and contact details / Type of incorporation (company, cooperative, NGO, etc. Please specify)/ Indicate year of establishment / Location / Number of years in business.**
- 3) **Describe the core activities of the organization (500 words maximum) and specifically enumerate achievements of the last three years in quantitative and financial terms.**
- 4) **Amount of financing sought in USD (Please specify funding requirements from the CFC, total financing requirements for the proposed intervention and how these will be met)**

The applicant organization must provide matching funds from its own resources (and those of its partners or third parties, e.g. bank loans) for an amount at least equal to, or greater than, 50% of the total cost of the project. The matching funds provided by

the organization should be auditable and at least half must be in cash; the remaining part can be in the form of measurable and verifiable in-kind contributions. In-kind contributions may include staff salaries, equipment, vehicles and other items that are already owned by the organization and dedicated specifically for the proposed intervention.

Total funds needed for intervention	US\$
Of which :	
CFC funds	
Organization's own funds	
Co-financing	
In-kind contributions	
Total	

5) Type of financing sought (loan, equity, any other form of financing)

Total CFC funds requested	US\$
Of which:	
Loan	
Equity	
Grant	
Other form of financing	
Total	

6) Summary description of proposed intervention

- (i) What business opportunity is being addressed?
- (ii) Describe the intervention and its main purpose.
- (iii) Provide brief explanation of the proposed business model.
- (iv) What will be the major impact on your business – increase turnover, reduce costs, enlarge supply base or increase technology transfer? Any other? Please specify;
- (v) List the key activities that will be undertaken;
- (vi) Breakdown of projected costs by major categories
- (vii) Target product and market
 1. Which products are produced for which markets – basic market orientation: local, national, regional, global?

2. Which is the potential market for your product/service and how large is that market? Who are the customers?
3. Potential uses of the project and distribution channels you propose to use?
4. Past performance of the organization – volume of sales, number of customers, etc.
5. Present sources of supply of the product. Who is currently and who will be the main competitors for your product/service?

(viii) Operations

- (a) Brief description of operations
- (b) Stability of availability of inputs: whether inputs for production processes are available
- (c) What are the applicable/relevant social and environmental regulations covering the proposed intervention? Please provide details
- (d) Potential environmental issues that may arise. Please provide a description of these and the mitigation plans you have in place.
- (e) How will the project use the funds to deliver financial and socio-economic returns?
- (f) Why will the proposed intervention work? How is your business model better than those of your competitors?
- (g) Indicate a timeframe including proposed start date (the maximum engagement of the CFC is normally 7 years; 2 years for disbursement + 5 years for repayment).

7) **Provide the historical and projected financial performance of your organization**

- (i) Provide information on the organization and (i) balance sheets of the last three years and (ii) bank references and bank statements for the last three years showing annual debits and credit.
- (ii) Specific information on projected impact of proposed intervention on financial performance, including projected return on investment, repayment period.
- (iii) Provide projected cash flows for the proposed interventions. Please specify assumptions and basis for projections. Market research, etc.
- (iv) List critical factors determining profitability and measures that will be undertaken to address them.
- (v) What assurances / guarantees can be provided by your organization for repayment of the financing being sought? Please give details.

8) **Organization and management**

- (i) Operational capacity and experience of the company and management.
- (ii) Size of proposed operations in comparison to current operations.
- (iii) What are the proposed growth plans of the proponents with CFC involvement?

9) **Please provide an organogram, including details of management and ownership structure of your organization.**

Please annex the relevant diagrams

- (i) Background information on project sponsors and management team. Specify number and education level of employees; full time/part time involvement. Include temporary staff.
- (ii) What relevant experience does your organization/staff have for the implementation of the proposed intervention?

10) **Tariff protection or import/export policy affecting products that will be produced. Any other relevant information on possible impediments to operations due to trade restrictions?**

11) **Regulations regarding external borrowing in foreign exchange and government policy regarding repatriation of interest and principal of borrowings.**

12) **Commodity sector relevance**

Please provide details of the relevance of the project proposal to the development of the commodity sector (at national level).

13) **Coordination with national policies and international actions**

What are the national policies affecting/encouraging your business? Please specify.

14) **Innovation and development impact**

What is innovative about the proposed intervention?

“Innovation” means a new product, service or business model in an existing country and /or an existing product, service or business model being introduced into a country or to a target group where it has not been tried before.

15) **Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis**

What are the risks/threats to the success of the proposed intervention? How are they being addressed?

16) **Sustainability of operations and Exit strategy**

How will the business intervention remain profitable and be sustainable when CFC funding/involvement comes to an end?

17) **Up-scaling and multiplier effect**

How will the project be up-scaled or replicated?

18) **What is the potential development impact of the proposed intervention? How does the company plan to realize an impact on:**

- (i) Economic development
- (ii) Social development, and
- (iii) environmental sustainability

Description should include category of beneficiaries, projected number of beneficiaries and the precise relationship of your organization with these beneficiaries (number of farmers reached, estimated productivity gains, expected benefits to small holders, etc.)

Please note that information for 18(a) below is obligatory. The CFC will not consider applications in which this information is not provided.

18(a) *Essential development impact indicators:*

- (i) *Beneficiaries and Incomes, e.g.:*
 - Number of low income people that will benefit as a result of the intervention, and/or
 - Present income levels and expected benefit per person in additional cash income or savings, by the end of the proposed intervention compared to ex ante, if the intervention would not have been implemented.

(ii) *Impact on the environment:*

- identify, predict, evaluate and mitigate (if required) the environmental effects of proposed intervention,
- compliance with the local environmental laws and standards.

18(b) *Additional development Impact Indicators, as applicable for the proposed activity*

(i) *Impact on value chain:*

- New relationships/links between different actors in the value chain created;
- How many small businesses in existing supply chain affected and what benefits have they received;
- Extent and impact of replication of intervention elsewhere and by others.

(ii) *Impact on the market system*

- Wider availability of market information,
- Improvements in physical infrastructure,
- Increase in services (including access to finance) – either from the private or public sector,
- Development of skills – technical, business or management competencies.

Indicate your willingness to record, monitor and report certain social performance indicators throughout the intervention.

19. **State reasons why the proposed intervention cannot be implemented without CFC support or why specifically support from CFC would lead to maximum result of the proposed intervention**

Please give reasons why the proposed intervention is not being funded by banks/governments/other agencies? (Make clear that without support of the CFC the activity will not be feasible)

20. **Provide any other information that you consider useful and relevant towards assessing your organisation or the proposed intervention**