



International Coffee Organization
Organización Internacional del Café
Organização Internacional do Café
Organisation Internationale du Café

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Competitive coffee enterprises programme

Project proposal submitted by ANACAFE

Background

1. This document contains a summary of a project proposal submitted by ANACAFE to develop a long-term competitiveness programme for coffee on the international market. A copy of the full proposal is available from the Secretariat on request.
2. The proposal was examined by the Virtual Screening Committee (VSC) in November 2006 and the VSC's recommendations (contained in document EB-3923/07) will be considered by the Executive Board at its meeting in January 2007.

Action

The Executive Board is requested to consider this proposal and the comments and recommendations of the VSC and to submit a recommendation to the Council.

PROJECT SUMMARY

Project title:	Competitive coffee enterprises programme
Duration:	3 years
Location:	Guatemala
Nature of project:	<p>Development of a long-term competitiveness programme. Guatemala's coffee sector has urged ANACAFE to accelerate a transition process it began a decade before. Falling market prices, increasing supply and changing consumer tastes and preferences challenged ANACAFE to analyse the options for the future. Our response to that challenge was formalized in 2005 in a Competitiveness Plan, which outlines our long-term strategy for a stable, sustainable coffee sector. The driver of the Plan is the market, underpinned by quality, productivity and efficiency at all levels in the industry.</p>
Brief description:	<p>Following the long period of low prices during the coffee crisis and the oversupply of coffee, Guatemala faces new challenges as a coffee producing country. We see market conditions as an opportunity to strengthen the leadership of the coffee sector. The Coffee Competitiveness Programme was developed with a vision of modernizing activities based on six components: 1) Sustainable development; 2) Income diversification; 3) Marketing intelligence; 4) Marketing; 5) Funding; and 6) Institutional strengthening.</p> <p>1) Sustainable development: this segment recognizes the important role of small and medium enterprises (SMEs) in the transition from a traditional to a modern, competitive coffee sector; and, conversely, the role of coffee in the SME livelihood. We intend to directly increase the SME subsector's participation in the transition to quality and access to alternative income-generating opportunities. Our SME programme is based on a total quality approach to SME coffee production and processing, market integration, business development, social responsibility and safeguarding the environment. We will also undertake supporting activities in technology development and application, focusing, in part, on identifying, and mitigating if necessary, the impact of coffee production on the environment and biodiversity.</p>

2) Income diversification: this component will focus primarily on tourism and forestry, as complementary to coffee production. The coffee, tourism and forestry triumvirate will capitalize on the rustic ambience of coffee, and adjoining forests, as an appropriate setting for our community-based tourism initiative: the Guatemala Coffee Tour. In a third diversification activity, aimed at improving economic opportunities and quality of life, we will pioneer the diffusion of hydro-electric power generation as a means of broadening the range of economic alternatives in rural communities.

3) Marketing intelligence will play a key role in advising and training coffee producers business analysis, market trends, decision-making tools and strategy design for a long-term competitive and sustainable national coffee planning.

4) Marketing activities will enable us to continue our domestic and international programmes to increase awareness and consumption of Guatemala's outstanding coffees. We will expand the activities of our Coffee School and combine forces with local organizations (i.e. INGUAT, INTECAP) to improve the selection, preparation and cup quality of coffees for local and visiting consumers in Guatemala. In the global arena, we will undertake a campaign to increase demand and prices for our Prime and Extra Prime coffees and host the First World Specialty Coffee Conference, convening that whole industry for the first time.

5) Funding is a must for any planning to become a reality. It is necessary to finance specific potential projects for national coffee activities following an orderly and efficient process, and essential for developing a profitable and competitive long-term sustainable coffee industry.

6) Institutional strengthening: this is fundamental to leadership and to strengthening and expanding our organization, based on principles of mutual cooperation, by encouraging processes that will broaden our range of action. This will be subsequent to the mutual objectives previously established with relevant and key players in our sector.

Estimated total cost: US\$6,000,000

Financing sought from the CFC: US\$4,000,000 (grant)

Co-financing: n.a.

Mode of co-financing: n.a.

Counterpart contribution: US\$2,000,000 from ANACAFE (Auditing legal services, professional services, agronomists, field supervision, technicians, supervision, vehicles, fuel, offices and office backup, computers, laboratory services, materials and supplies, and others)

Project Executing Agency: ANACAFE, Guatemala

Supervisory Body: International Coffee Organization

Starting date: October 2007

Overview of the commodity

Guatemala was the 6th largest coffee exporter during coffee year 2005/06 according to ICO figures. World coffee production totalled almost 109 million 60 kilo bags, of which 87.5 million bags were exports with the rest consumed in coffee producing countries. Guatemalan exports totalled 3.35 million 60 kilo bags, representing approximately 4.0% of world coffee exports.

Salient aspects of the Guatemalan coffee sector

In spite of the changing dynamic in the Guatemalan economy, in which industry, commerce and non-traditional agriculture continue to gain ground, coffee remains a key contributor to the rural well-being. In 2002, coffee accounted for only 1.5% of total GDP and its contribution to export earnings dropped from an average of 49% in the period 1985-1989 to 9% in 2005. Nonetheless, coffee plays a critical role in employment generation in fragile rural areas, home to 90% of the country's poor. In those areas coffee accounted for over 31% of jobs created in 2002 and it continues to be the major source of income for more than 65,000 coffee producers, 80% of which are small producers.

ANACAFE recognizes the vital role of coffee for the rural economy and the importance of maintaining small producer viability. In order to increase the competitiveness of our coffee, we have explored various avenues and adopted the positions outlined in our Competitiveness Plan, including:

- Stabilizing the area planted with coffee;
- Increasing production and processing productivity and efficiency;
- Striving for the highest quality in all coffees, from Prime to Strictly Hard Bean;
- Identifying and validating technical criteria and recommendations;
- Maximizing efficiency;
- Increasing domestic and export demand and product value.

A value chain approach

ANACAFE used a value chain analysis to gain critical information and guidance for the formulation of our long-term Competitiveness Plan. That information, coupled with lessons from previous programmes and the experience we gained in launching Guatemala into the specialty market during the 1990s, have guided us in identifying priority areas and actions to resolve constraints to growth in the quality coffee sector. In conjunction with the activities we are proposing, ANACAFE will continue to address other needs of the sector through programmes and activities undertaken with our own resources and in collaboration with partners from the public and private sectors and the donor community.

The value chain approach has enabled us to select horizontal and vertical links vital for realizing project goals and strengthening the industry. Our proposal includes vertical links in the areas of production, processing, marketing and consumption; as well as horizontal links related to technology generation and transfer, training, certification, institutional strengthening and cross-cutting activities that include environment and biodiversity. Within our diversification component in this proposal we link coffee with complementary tourism and forestry value chains.

Programme parameters

The following parameters define the client focus of our proposed project:

- **Industry Cluster:** The focus of our proposal is on the Coffee Cluster. This focus is reinforced by activities in tourism and forestry as options for diversifying income to complement the primary coffee activity.
- **Beneficiaries:** The beneficiaries of the project will be (1) the Guatemalan coffee industry and (2) the SME sub-sector, drawn primarily from our main associated federations (181 member cooperatives and 32,000 small producers).
- **Geographic area:** Project implementation will be concentrated in all seven coffee regions of the country in areas where premium and specialty coffees are produced and which offer opportunities for significant SME participation.

Summary cost table by component (US\$)

Project Component	Total cost	CFC contribution
1. Sustainable development	2,008,050	1,338,700
2. Marketing	2,271,450	1,514,300
3. Income diversification	1,525,500	1,017,000
4. Marketing Intelligence	195,000	130,000
Total	\$6,000,000	\$4,000,000

Logical Framework

Narrative summary	Objectively verifiable indicators	Means of verification	Important assumptions
<p>Programme goal: The strategy is based on implementing a long-term Competitiveness Plan developed in 2005</p>	<p>Measures of goal achievement: 1) Improving institutional capacity 2) creation of more small and medium enterprises 3) Transition from a traditional to a modern competitive coffee sector 4) Improvements to the livelihoods and income of small producers</p>	<p>1) Better coffee yields 2) Better coffee premiums paid to producers 3) Greater income diversification 4) Producers have information for timely decision-making</p>	<p>Long-term value of the project: To provide producers with the knowledge and tools to continue producing and marketing coffee, protecting the environment in a socially responsible way.</p>
<p>Project purpose: The driver of the plan is the market, underpinned by quality, productivity and efficiency, and improving the following: 1) Strengthening the competitiveness of all coffee producers and organizations through better quality practices 2) Integration of small and medium coffee producers in the coffee quality chain 3) Greater price stability 4) Additional income for producers 5) Creating more jobs in the rural areas will reduce poverty 6) Increasing volume and exports of quality coffee</p>	<p>Conditions that will indicate purpose has been achieved: 1) The emergence of more market-oriented private coffee entrepreneurs 2) Improvement in the negotiation capabilities of the coffee sector 3) There will be increased demand for quality coffee from Guatemala</p>	<p>a) More quality control b) Improving the impact of coffee on environment and biodiversity c) Additional income-generating activities related to coffee production: eco-tourism, forestry, hydropower generation d) Lower production costs e) Improving the economy and quality of life in rural communities f) Providing producers with decision-making tools g) Increasing consumption and awareness of Guatemalan coffees h) Expanding activities to improve the selection and preparation of and cup quality for local and visiting consumers to Guatemala</p>	<p>Affecting purpose to goal link: a) Buyers will be willing to recognize higher prices for improved coffee quality b) Banks will be willing to finance coffee activities c) More business activities involving coffee not only as a beverage d) More tourists visiting the country and coffee farms e) Generating extra income for producers</p>
<p>Outputs: Producers will have the tools and information necessary for decision-making</p>	<p>Magnitude of outputs necessary and sufficient to achieve purpose: a) Working plan finished on time b) Financial resources provided on time</p>	<p>Detailed analysis of costs and benefits will be compared at the end of each crop year</p>	<p>Affecting output to purpose link: The coffee community will be willing to recognize coffee for its quality as well as a commodity and will therefore be willing to pay better prices and increase consumption</p>
<p>Inputs: The implementation of six components: 1. Sustainable development 2. Income diversification 3. Marketing intelligence 4. Marketing 5. Funding 6. Institutional strengthening</p>	<p>Level of expenditure for each activity: 1. Sustainable development: US\$2,008,050 2. Income diversification: US\$1,525,500 3. Marketing intelligence: US\$195,000 4. Marketing: US\$2,271,450</p>	<p>PEA project progress reports, Annual audit reports, participation in Advisory Committee, quarterly reports, Monitoring by the CFC on site visits to assess progress in implementing the programmes</p>	<p>As a result of the project, communication with producers will improve since they will obtain adequate knowledge and specific techniques to stimulate the adoption of new production processes based on quality, productivity and efficiency</p>