



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

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**Coffee network: strengthening
the capacities of small coffee producers
in the Dominican Republic**

Project proposal

Background

1. This document has been submitted by Ucodep, an Italian non-governmental organization (NGO), and contains a summary of a project proposal to promote activities aimed at developing the local economy, and improving the whole socio-economic coffee chain, with private and public sector participation. This project is supported by the Government of the Dominican Republic.

2. The proposal has been circulated to the Virtual Screening Committee (VSC) for assessment and will be considered by the Executive Board in May 2007. A copy of the full project proposal is available in English upon request.

Action

The Executive Board is requested to consider this proposal together with the recommendations of the VSC and, if appropriate, to recommend approval by the Council.

PROJECT SUMMARY

- Project title:** Coffee network: strengthening the capacities of small coffee producers in the Dominican Republic
- Duration:** 3 years
- Location:** Dominican Republic. Specifically in the areas of Monseñor Noel (area of Bonaó); Hermanas Mirabal (area of Salcedo) and Neyba
- Nature of the project:** The project will promote activities aimed at developing the local economy and improving the whole socio-economic coffee chain, with private and public sector participation. Activities will include improvement of post-harvest tools for the beneficiaries and their associations, agricultural inputs, technical and commercial assistance and training. A network approach will enable good practices to be shared and weaknesses and strengths to be identified.
- Brief description:** The activities will take place in three areas of the Dominican Republic where Ucodep has been working since 2000 to promote improved production and marketing of coffee. The project activities are aimed at improving the following processes:
- i) production and post-harvesting of coffee; ii) crop diversification and reforestation; iii) quality control; iv) marketing. This will reduce the economic vulnerability of 2,000 small coffee producers, by increasing income (through improved coffee quality), and diversifying income through promoting new products (avocados, lemons, vegetables) for the local market and their own consumption.
- The project will have, as an added benefit, a network approach, in order to i) share between the three producer associations good practices in the coffee chain; ii) identify and apply shared methodologies and strategies for a more efficient and equitable market approach for small producers; iii) create a shared database of actual and potential national and international buyers and their requirements, etc.; iv) contribute to the creation of a network of local associations with better negotiating capacities to market coffee; v) systematize and share at the international level the experiences of improvements to the coffee chain.

The estimated total cost: US\$1,063,987

**Financing sought
from the Fund:** US\$621,225

Mode of financing: Financing sought as grant

Co-financing: At present, no co-financing agencies are committed, however Danida (the Danish International Development Agency), has indicated its interest in co-funding projects and activities to improve the coffee chain, in the framework of public-private partnership for fair trade coffee promotion.

Mode of co-financing: n.a.

Counterpart contribution: n.a.

Project Executing Agency: Ucodep, an Italian NGO

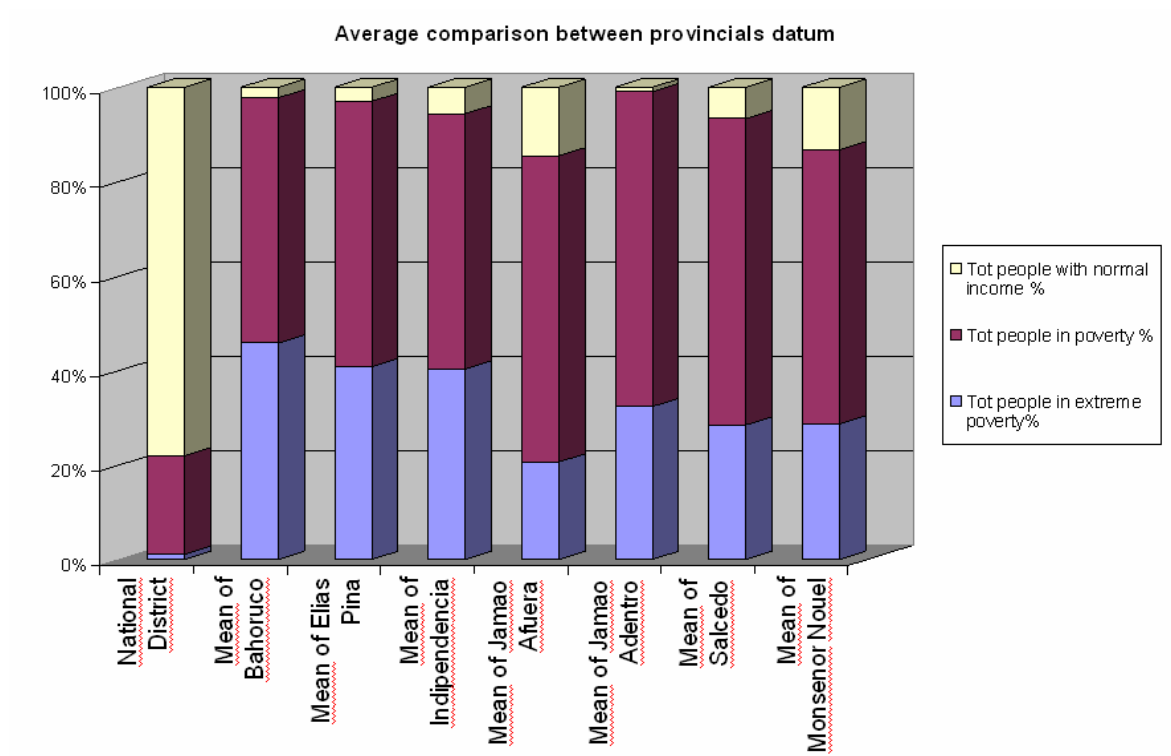
Supervisory Body: International Coffee Organization (ICO)

Estimated starting date: tbd

A. Project background

1. The areas of Bonao, Salcedo and Neyba are amongst the poorest in the Dominican Republic, with a disorganized and fragmented rural economy, characterized by many small producers who are excluded from international markets because of the lack of a market oriented and organizational culture.

2. The following graph compares the poverty of the three areas, with the National District (Source: Instituto Nacional de Estadística, 2005).



3. Coffee is the main product in the local economy. During the last 10 years the world coffee crisis has caused a large increase in rural poverty.

4. Since 1997 the price of coffee has fallen by 70% and is currently the same as it was in the 1970's.

5. This rural poverty has caused high levels of migration towards cities and abroad, contributing to increased urban marginalization. It has also caused environmental problems because coffee plantations have been abandoned and replaced by pasture, making the land vulnerable to erosion and hidrogeological difficulties.

6. The origin of low incomes for small coffee producers is not only due to exogenous problems (the international price crisis, natural disasters, etc.), but also endogenous: the local economic system is weak and is unable to guarantee effective management of natural resources, and adequate added value in processing and marketing of coffee.

7. This situation is due to the following factors:

- (a) The lack of an environmental culture oriented towards quality production, that guarantees conservation of soil fertility and sustainable production.
- (b) The lack of an organizational structure for market access. The lack of grassroots organization (cooperatives) related to processing, distribution and marketing processes constrains small producers from increasing their incomes.
- (c) Local associations such as Coscafé, Coprocacine and Asocain still lack a medium-term vision and planning capacities, especially related to financial and economic aspects (investment planning, credit management, etc.).
- (d) Furthermore they lack the capability to create a network between associations, to share experiences and marketing practices, and to improve their capacity to negotiate with possible buyers, activating economies of scale in the process. This situation reflects the lack of advocacy and lobbying capacities of national small farmer associations.

8. The selected areas, in spite of their high poverty levels¹, have the potential for the proposed activities to be implemented. Strong community collaboration and a tradition of producer associations will facilitate work with organized groups through a participatory approach, and enhance social sustainability.

9. A network approach is proposed to promote activities aimed at improving the economic and environmental aspects of the coffee chain.

10. Activities will be directed towards improving the following processes:

- (a) **coffee production and crop diversification;**
- (b) **coffee transportation and processing;**
- (c) **quality control and traceability;**
- (d) **marketing; and**
- (e) **exchange of information.**

¹ *The percentage of poverty between the 36 communities involved in the project is about 93% (Onaplan, Focalización de la Pobreza en la República Dominicana, 2005) (Oficina Nacional de Planificación).*

11. Special emphasis will be placed on creating a stable network between the three associations involved, in order to share experiences, develop common marketing strategies, create economies of scale in the marketing process (i.e. sharing marketing staff, creating a unique network brand, etc.). We will also stress the importance of disseminating the experience of coffee chain improvements at local and international levels.

12. The activities will contribute to reducing economic vulnerability, increasing incomes for small producers and differentiating their income sources through the promotion of new products (avocados, lemons, etc.).

Capacity Building

13. Training activities will be based upon international coffee quality standards and market requirements (particularly with the European market, thanks to Ucodep's and Kaffeklubben's contacts with the European market). Training will also be aimed at improving diversification of production and reforestation. This is in line with local development plans and priorities, identified by local governments and associations, that recommend diversification of production in order to increase income for small producers and to improve their diet.

Organizational strengthening to improve the co-operative capacities of local producer associations

14. This will create a medium-term vision for financial aspects, such as credit management and financial planning.

Improving coffee transport and warehousing

15. Due to a lack of adequate transport infrastructure and services, transport from the farm to the associations' warehouses is expensive and slow, thus affecting the quality of coffee because of the early fermentation processes, as most producers lack basic post-harvesting tools.

16. For these reasons, many producers are obliged to sell the coffee cherries to brokers, with a very low contractual capability because of the risk of fermentation.

17. Furthermore, the processing units ("beneficios") of the associations need to be improved and maintained.

18. Improving the post-harvest phase will reduce post-harvest losses and low quality, enhance quality and reduce costs, adding value to the product: the value for wet processed coffee on local markets is 200% higher than the price paid by brokers for cherry coffee at the farm level.

Internal quality control system definition

19. The strategy focuses on defining a production system that establishes technical rules for a quality product. At the same time an internal control body, that will manage a quality control system, will be created for each association, in order to prevent errors in the critical points of the coffee chain. The quality control system will allow the traceability of coffee, ensuring that every bag of coffee meets the quality standards; at the same time it will permit each producer to be paid for the quality of their coffee, providing incentives for producers to improve quality.

Development of a commercial strategy

20. This will strengthen the capacities of the associations to identify and apply a common diversified commercial strategy. A diversified strategy is needed, because the quality of coffee varies, and a differentiated strategy for the various local and international market levels is required. All this will be reinforced through the identification of a shared business plan.

Publication and dissemination of the results

21. With the partnership of Kaffeklubben and other Ucodep stakeholders, the strategy applied by Ucodep in the Dominican Republic will be disseminated and reviewed at the international level. For instance, Danish NGOs which are members of KaffeKlubben may adapt the results to promote local products from Bolivia and Nicaragua. Likewise, their experience will allow them to give feedback on the experiences of Ucodep, and identify possible improvements.

B. Costs and Financing

22. Financing from the Common Fund for Commodities (CFC) will be complemented by contributions from Ucodep and other partners (both cash and in kind), and CODOCAFE (in kind).

TABLE 1

Component	CFC requested contribution	PEA cash counterpart	Partners cash counterpart	Partners in kind counterpart	Beneficiaries in kind counterpart	Total
1	124,238	25,003	20,125	37,350	342	207,057
2	163,449	23,016	19,125	38,956	111	244,657
3	115,138	35,515	35,063	34,675	369	220,759
4	128,325	31,765	19,125	23,938	2,631	205,784
5	90,074	36,166	28,500	18,828	12,162	185,730
Total	621,223	151,465	121,938	153,747	15,614	1,063,986

TABLE 2

Component	PY1	PY2	PY3	Total Cost
Component 1	89,094	65,969	51,994	207,057
Component 2	90,527	86,127	68,002	244,657
Component 3	73,874	74,849	72,036	220,759
Component 4	67,028	70,378	68,378	205,784
Component 5	56,710	59,310	69,710	185,730
Sub-Total	377,233	356,633	330,120	1,063,986
Contingency	6,000	6,000	6,000	18,000
Grand Total	383,233	362,633	336,120	1,081,986

TABLE 3

Category	Total Cost	CFC Contribution
I Vehicles, Machinery and Equipment	159,594	53,625
II Civil Works	140,705	75,125
III Materials and Supplies	56,250	43,751
IV Personnel	132,975	83,581
V Technical Assistance and Consultancy	434,312	224,990
VI Duty Travel	44,250	44,250
VII Dissemination and Training	21,650	21,650
VIII Operational Costs	63,000	63,000
PEA Sub-total	1,052,736	609,973
IX Supervision, Monitoring and Evaluation	11,250	11,250
X Contingencies	18,000	18,000
Grand Total	1,081,986	639,223