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Strengthening the commercial, financial, management and business capacity of small coffee producers/exporters in Mexico and Nicaragua

Final report: Executive Summary

Background

This document contains the Executive Summary of the final report for the project entitled “Strengthening the commercial, financial, management and business capacity of small coffee producers/exporters in Mexico and Nicaragua” which was submitted by the Project Executing Agency, Twin Trading Ltd. The project commenced in Nicaragua and Mexico on January 2002 and ended on 30 June 2005. Copies of the full report are available on request from the Secretariat.

Action

The Council is requested to note this document.

Strengthening the commercial, financial, management and business capacity of small coffee producers/exporters in Mexico and Nicaragua

(CFC/ICO/Twin/16)

Executive Summary

This project was designed to consolidate the export business of smallholder cooperatives in Mexico and Nicaragua operating in the international coffee market, and through that to enable them to improve the livelihoods of their members and communities. It was also intended to further develop a methodology in which a selected group of producer organisations spread the benefits of the project to a wider group of organisations by providing them with support together with the provision of commercial services.

There were some problems at the start of the project, which caused delays and limited the project activities during the first year, which were covered entirely by the PEA, leading to some desertion among the target group. To compensate for this the project execution period was extended by six months, so that the project could also cover the 2004-2005 harvest. A special loan fund which was an important component of the project could not be implemented, but this was compensated for by external funds, linked to the successful marketing activities of the core group cooperatives.

The core group consisted of seven producer organisations with almost 11,000 members and servicing a total of 35 peripheral organisations.

A total of 312 activities were undertaken, varying from workshops and training sessions to sales promotion tours and international exchanges. Almost 6,000 people participated, of which 19% were women. The methodology was developed gradually, systematising the experiences to enable these to be shared and included in a manual after the completion of the project.

Because of low world market prices during most of the period covered by the project, emphasis was placed on increasing access to premium markets (fair trade, organic, gourmet), and providing assistance in meeting standards, improving internal controls, improving quality and marketing, apart from general issues of management, organisation, finances, logistics, etc.

Exports increased by 52%, although they decreased during the last year (2004), and rose from 70% to 83-84% of total sales, while the percentage of off-grades decreased from 20% to 12-13%. Quality was improved, and this was reflected in the good results obtained in the Cup of Excellence contest in Nicaragua. Sales to premium markets doubled from 80,000 to 160,000 46-kg bags. This permitted the organisations to obtain a price premium of

almost 60 cts/lb on average, almost double the commercial value, and to pay farmers at least 70 cts/lb on average, which covered the costs of production, even when the world market was at its lowest in 2002, with prices under 50 cts/lb.

The aggregated premium generated was almost US$30 million dollars during the four harvest seasons, which the cooperatives used to secure a good farm gate price, to invest in infrastructure, capacity building, and community development projects

Although the loan component could not be implemented, the working capital was expanded from 4.3 to 12.2 million dollars per year and the cooperatives secured a total of US$33.6 million in credit to finance their commercial operations. Most of these loans were directly linked to marketing activities, using premium market contracts as a guarantee.

In spite of the problems with the loan component, which represented 75% of the budget of US$5.3 million, 91% of the target was achieved. Of the CFC's US$910,000 budget US$894,000 had been spent by the end of the project. The PEA invested a total of US$509,000 against a budget of US$193,000.

Important lessons learned from the project are:

1. The dynamics of the market and the business, as well as the internal dynamics of the producer organisations do not easily match those of international bodies such as the ICO, the CFC and governments. This affected the project particularly at the start, detracted from its effectiveness and obliged the PEA to invest much of its own resources in order not to lose too much momentum.
2. There was a contradiction between the policy that the selection process of project beneficiaries could only take place after the approval and the start of the project and the methodology of the project. Few organisations met the criteria for the core group and they should have been involved from the beginning in the design and management of the project in which they had an important role to play by providing support and services to the rest of the beneficiaries.
3. A period of three years is too short for the kind of changes that the project wanted to achieve. There are start up problems and many uncertainties (market and weather conditions, rotation of key staff, etc.). It takes time to build trust between the organisations and the PEA. The seasonal character of the coffee business means that the impact of changes is often only felt the following year. This is particularly the case with organisations that have to build up their capacity first, before they can start operating.
4. The project has proved very successful and the methodology is worth replicating, but there are limits to the capacity of organisations to support other producers, particularly when they are expanding their business or when they are going through a difficult stage in their own development cycle. The best match was a combination of

the core group cooperatives supporting the peripheral organisations and a small team complementing this with specialised technical advice, training and follow up. Where organisations lack the latter, an external group of specialists is needed. It is important though to link the training to the actual business.

Many of the experiences and materials produced have been systematised into a manual that is currently being finalised. Options for its dissemination are being explored such as using an open internet based system, which producer organisations and other interested groups can access and so continue to improve it and add materials from experiences elsewhere.