MULTILATERAL INVESTMENT FUND
ABSTRACT

REGIONAL

SEPTEMBER 10, 2002

I. BASIC PROJECT INFORMATION

Project Title	Supporting the Competitive Position of Central American Coffees
Country:	Regional (Honduras, Nicaragua, El Salvador, Guatemala, and Costa Rica)
Project Number:	TC-02-08-02-3-RS
Team:	Team Leader: Juan Carlos Martínez (RE2/EN2); other members: Diego Arias, Bente Christensen, Kleber Machado, Norberto Quezada (RE2/EN2); Daniel Shepherd (MIF); Hugo Zacarías (COF/CHO); Jaime Cofré (COF/CNI); Luis Oberti (COF/CES); Michael I. Collins (COF/CGU); Betsy Murray (COF/CCR); and also collaborated: Silvia Echeverría (RE2/EN2)
Executing agency:	Technoserve-Nicaragua
Financing:	Modality: Grant MIF (Facility II): US$3,000,000 (70%) Local: US$1,300,000 (30%) TOTAL: US$4,300,000
Date of Request:	August 6, 2002

II. BACKGROUND

A. The Nature and Magnitude of the Global Coffee Crisis

2.1 Over the past five years, the world coffee market has undergone important changes in the supply and demand side, which is reflected in the steady increase in world production and export levels and intensified price competition for coffee sold on the commodity exchange market. Over-production has led to the accumulation of inventories in producing and consuming countries and the drop in world prices. The current crisis in prices is not only part of a cyclical phenomenon; but also a direct consequence of the new structure of the market. During 2000 and 2001, worldwide oversupply caused nominal coffee prices to drop to their lowest levels in 30 years—a 100-year low, if adjusted for inflation. Coffee prices have plummeted below the cost of production for many coffee producers, causing a sharp decrease in production and the accompanying decrease in employment, both permanent and seasonal.

2.2 During the 1990s, coffee prices were affected by shifts in Brazilian production (caused mainly by frosts), subsequent adjustments by coffee suppliers responding to price shifts, and a steady expansion of coffee production in Vietnam. By the end of the 1990s, however, Brazilian post-frost replanting, including the opening of new production areas, and new investments in Vietnam led to a substantial coffee surplus.

2.3 Apart from over-supply, the coffee sector has undergone structural changes in world demand. These changes in demand include different roasting practices and processing techniques (steaming methods) that allow buyers to disguise quality imperfections from lower-quality green coffee beans, thus, intensifying the competition of lower quality robusta coffees against washed arabica coffees. Nevertheless, the high quality coffees from Central America remain distinct and with higher potential for differentiation.

B. The Impact of the Coffee Crisis on Central America

2.4 Low coffee prices are causing rural unemployment to reach critical levels in Central America. In the last two crop seasons, seasonal employment for coffee has decreased by more than 20 percent, while permanent employment has plummeted by more than 50 percent. More than half of the permanent coffee labor force is now working at less than half capacity. Wages have also plummeted as producers have suffered lower coffee revenues and the supply of labor has swelled through unemployment.

2.5 The situation is especially critical because, unlike other crops, the majority (85%) of coffee producers[1] in Central America hold small parcels of land and/or processing facilities (see table 1 below). A crisis in the sector creates a general downturn in the rural economy, accelerates migration to urban areas, social imbalances, and instability.

Table 1. DISTRIBUTION OF LAND HOLDINGS

	<14 ha	**14-35 ha**	**>35 ha**	**TOTAL**
	Small	**Medium**	**Large**	
Number of producers	247,900	33,000	10,200	291,100
Total surface (ha x1000)	332	126	434	892
Production (qq x1000)	4,290	2,586	9,434	16,310
% of producers	***85%***	11%	4%	100%
% of surface	37%	14%	49%	100%
% of production	26%	16%	58%	100%

Source: CEPAL 2002

2.6 At the macroeconomic level, national governments and banks are also affected by the loss of foreign exchange earnings. Central American countries have suffered a 44 percent decline in revenue from coffee exports; from US$1.7 billion in the crop year 1999/2000, to US$938 million in 2000/2001. The already low level of exports is estimated to fall further to about US$700 million in 2001/2002. The decrease in exports hurts the balance of payments and significantly affects overall economic activity. The coffee sector debt and past due loans hamper the financial sector, limiting banking activity and financing. As it appears that these changes in the structure of the world

[1] For the purposes of this document, production/producer refers to primary production/producer as well as processing/processor of coffee (see Annex I). Large producers usually are vertically integrated, while small and medium size producers may not necessarily be so. The degree of vertical integration of small and medium size coffee producers in Central America varies by country. For example, in Guatemala most small and medium size producers have some degree of processing (wet milling).

coffee market are not cyclical, the impact of the crisis in Central America could be long lasting, if proper actions are not taken.

C. Coffee Quality: Characteristics and Opportunities

2.7 Central American countries enjoy a unique environment and infrastructure for the production of their coffee in terms of their geography, agroecology, and agricultural practices. Large coffee producers like Brazil enjoy economies of scale advantages and favorable cost structures. Therefore, they will always win the productivity- and cost-reduction- race. Nevertheless, Central American countries have the necessary elements to compete in the market with a higher quality coffee. Many areas have ideal agroecological conditions (altitude, agroclimate, and soil conditions), which gives them a comparative advantage in the production of higher quality coffees[2].

2.8 The region has a tradition of producing coffee and a recent and growing experience in the production of coffee based on high quality and product differentiation[3]. The term high quality refers to coffee with high standards in cup-value and consistency. In turn, high standards in coffee's cup-value and consistency require a low quantity of defects to be present at the cherry and green coffee bean stage. High quality coffees, as well as those produced in an environmentally and socially sustainable manner, fetch premium retail prices. In fact, the segment for such premium-seeking coffees is the only segment of the coffee industry that has shown consistent and notable growth[4].

2.9 According to the International Coffee Organization (ICO) and the Specialty Coffee Association of America (SCAA), specialty coffee markets are far from saturated. Sales of the specialty coffees, as a proxy for the higher quality coffee segment, continue to expand by 5% to 10% per year according to conservative estimates[5]; a trend that is not expected to change in the next years. The demand for, and the volume of transactions of quality coffee in the international market has continue to expand in the middle of the coffee crisis. At the same time, the price differential between high quality coffee and exchange grade coffee[6] has also increased.

2.10 The coffee quality process[7] begins at the farm. At harvest and post-harvest, cleanliness, size, color and uniformity have a defining impact on coffee quality. Once the producer sells his coffee, as cherries or green coffee beans, he cannot claim a share of the price premium that a higher quality commands. Since many producers sell their cherries immediately after harvest, efforts to promote quality improvements should begin with the

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2 For those marginal coffee areas without the potential to produce high quality coffee the strategy is to support a medium term process of diversification. IDB projects in execution, aimed at the development of the rural economy in the region, are supporting this process of diversification.

3 According to the Specialty Coffee Association of America (SCAA) estimates for 2001, 40.6% of the supply of Specialty Coffees is from the Central America and Caribbean region.

4 National Coffee Association (NCA) estimates average annual growth of about 30% for the last five years.

5 SCAA Estimates (T. Lingle). Annual Coffee Report 1998. 1999 ICO. May 2000 ICO updates.

6 This is in reference to the New York "C" market price, that it is at a 100-year low (adjusted by inflation), versus anecdotal prices from recent Internet Auctions where the pound coffee was sold at an average price of US$3.- (US$1.50 the lowest and US$8.45 the highest).

7 For a detailed review of the process that coffee undergoes, please refer to Annex I.

cherries and proceed later towards the milling operations. Classifying cherries at this early stage would allow producers to reap some of the financial benefits of improved coffee quality.

2.11 A number of coffee organizations are promoting direct, farmer marketing of quality green coffee. The Marketing Partners Programs of the SCAA promotes Internet-based green coffee auctions. In addition, based on that Internet platform, the Alliance for Coffee Excellence (ACE) manages an auction of coffees that pass a prior quality threshold. These programs promote coffee quality by internationally recognizing attributes of coffee flavor. In turn, these programs act as marketing channels bringing appropriate value for quality and connecting growers directly to roasters. These experiences demonstrate that as producers improve the quality of the coffee they produce, they are in a position to market coffee at a premium price to the US, Europe, and Asia. The sustainability of the higher quality segment of the coffee industry is dependent upon the continuing availability of quality coffee from origin.

D. The strategic response for Central America

2.12 Roaster and processor industries have shown a remarkable capacity to add value to green coffee beans. In doing so, these actors have been able to create and develop a number of brands and have captured value by targeting increasingly segmented and fragmented consumer markets. At present, there is a real interest of roasters and processors in ensuring a stable supply of high quality coffees from Central American countries due to their business necessities of maintaining the consistency of their blends offered to consumers. However, to participate in increased value generation, producers need to improve processing, develop downstream supply chain linkages and pursue promotion strategies that feature their coffee's competitive advantage.

2.13 Currently, the market incentives for producing quality coffee are not fully transmitted backwards in the chain to the level of the first sale. Coffee producers do not always have incentives to improve the quality of their cherries or green coffee because they are often paid a bulk average price for their product. At the same time, there is not a grading or a coffee quality system in place at this level of the chain, constraining the recognition of quality through price premiums. In order to break this "vicious circle", the project will develop, among other things, technical capacities for classifying, grading and sorting of cherries and/or green coffee while the producer still has ownership of the product.

2.14 Producers must manage a variety of elements to avoid and prevent defects and maintain quality during the production and milling processes. Such a strategy of improving quality should entail managing the entire coffee productive process in an integral way, from the coffee plantation to the harvesting and processing of coffee cherries, to the storage of parchment coffee, and shipping of green coffee.

2.15 The quality-improvement strategy will concentrate on: (i) helping producers in geographic areas with the potential to produce quality coffee (e.g. high altitude), to effectively generate, preserve and extend this quality; develop value-added; and pursue effective promotion and marketing; and (ii) quality improvements that can be recognized

at the first sale by the producer, either when they sell their coffee cherries or when they have their cherries custom-milled while maintaining beneficial interest in the stored parchment and the green coffee finally sold for export.

2.16 The attributes of quality that attract high prices at export markets or auctions are assessed by professional cuppers, looking for desirable flavor (aroma and taste) and texture characteristics. These desirable characteristics in turn, reflect low levels of visible defects. Both desirable and undesirable attributes are manifested and can be identified while the cherries are still on the tree, at the harvester's bags, and during the milling and drying processes. Defects should be removed as soon as possible, as a matter of good processing practice and to improve quality early in the process when producers can reap price benefits. When coffee is processed in mills, producers continue to appropriate quality enhancement at the cherry stage, which is realized at the sale of parchment or green coffee.

2.17 Such a strategy is key for the Central American countries for several reasons: First, roasters are willing to pay more for a reliable and consistent supply of quality coffees. Second, given the agroecological conditions (altitude, soil conditions, varieties, etc.), the Central American countries have the necessary elements to improve the quality of their coffee and compete in the high quality segments of the market. Third, since their competitive advantage lies in producing quality coffees, assisting coffee producers to develop and strengthen their long-term relationships with exporters, importers and retailers, will increase their ability to negotiate prices, including premiums for quality.

III. PROJECT BENEFICIARIES

3.1 The main beneficiaries of the implementation of this project will be small and medium size coffee producers in Guatemala, Costa Rica, Honduras, Nicaragua, and El Salvador. At this stage of project development, it is estimated that about four thousand small and medium coffee producers will directly benefit from the training and technical assistance provided by the project, and about four times this number would directly benefit from the potential expansion in new market mechanisms that recognize quality. The impacts beyond the direct project beneficiaries (demonstration effect) is central to fully realize the potential benefits of the project, which will expand to the rest of small and medium size producers and mills in Central America. In any case, these initial estimates of direct beneficiaries are conservative and will be reviewed during project preparation.

IV. PROJECT OBJECTIVES, COMPONENTS AND ACTIVITIES

4.1 The general objective of the proposed project is to assist small and medium size coffee producers with potential to produce high quality coffees, to improve their competitiveness and profitability through increased quality and market access. The purpose of this initiative is two-fold: (i) to develop and implement a region-wide specific quality management system to improve and maintain coffee quality; and (ii) to provide support to access various existing market segments and niches for coffee and to increase access to new market mechanisms such as Internet-based coffee auctions, among other possibilities.

4.2 This project expects to encompass three components: (i) development of a methodology and system for improving coffee quality; (ii) training and technical assistance for small and medium size producers; and (iii) support of new market mechanisms and promotion of coffee quality.

A. Component I: Development of methodology and system for coffee quality

4.3 This component will seek to create the methodology and procedures (i.e., protocols and norms) of a Quality System to assist small and medium size producers in improving, measuring, and maintaining coffee quality. The component will operate in both the harvest and the processing phase, ensuring the incorporation of environmentally sustainable measures, in areas where there exists potential for quality.

4.4 The component will include a methodology for the implementation of pilot programs introducing innovative quality mechanisms, protocol, and norms for classifying and grading coffee cherries as the last harvest and first post-harvest operations. The objective is to create a demonstrative tool to aid in later introducing the technology to small and medium size producers. The better, more uniform quality of the raw material would allow for faster, more efficient milling, more efficient use of water, soil conservation and improved value of the green coffee beans. The early elimination of defects and foreign matter would result in high scores in green coffee classification standards and quality recognition.

4.5 The methodology will include the results of a benchmarking exercise that will identify current best practices in Central America. The benchmarking exercise will start by identifying small, medium, and large producers that produce high-quality coffee. For each identified producer, each step in the handling process –harvest, wet milling, dry milling, grading, and transportation – will be detailed and the relevant quality indicators defined. The methodology and system for improving and maintaining coffee quality will document these best practices so that they can be shared with other producers.

4.6 This component will also develop the methodology and procedures for strengthening of decentralized testing and cupping facilities, allowing to directly trace the relation between defects at the different levels of production with the ultimate measure of coffee quality: cup value. By supporting international Cupping Standards through these cupping and testing facilities, the program will allow small and medium size producers to “speak the same language” as the buyers. It has been shown that consumers in US, Japan, and Europe have different tastes and uses for their roasts, so the program will teach small and medium size producers how to target those taste differences.

B. Component II: Training and technical assistance

4.7 The specific objective of this component is to assist small and medium size producers with implementing the coffee quality system developed in Component I. The objective of the technical assistance is to facilitate the adoption of new technologies and working methods in order to make optimal use of resources, increase the value-added of the producers’ goods and to analyze and evaluate commercial opportunities for various types

of products. The implementation of these methods will demonstrate that it is possible for small and medium size producers to improve competitiveness through quality management techniques.

4.8 This component will implement the pilot programs described in paragraph 4.4. The establishment of a series of pilot programs will demonstrate how coffee cherry quality can be assessed and/or improved through sorting, as a necessary condition to provide market incentives for improving quality of small and medium size producers. By identifying coffee defects early on in the production chain, it is possible for producers to correct the problem more efficiently. Consequently, the producers will have a better opportunity and incentives to control the quality of the product and subsequently fetch a better price.

4.9 This component will also include training and technical assistant in strengthening the testing and cupping facilities referred to in Component I. By being able to directly demonstrate the effect of various process defects to the final coffee quality, small and medium size producers will be able to directly respond to consumer demand.

4.10 Given that this quality system will include aspects related to both business organization (such as project management, information technology, planning and new market opportunities) and best management practices (e.g. new technologies, strategies for harnessing market opportunities), the project anticipates the inclusion of assistance in both areas. Participants will be expected to pay a fee to receive the training and technical assistance services contemplated within this component. The mechanism and the amount of such payment will be decided during project preparation.

4.11 As a means to reduce costs over time, part of this component will include specific training of trainer activities in order to develop the capacity of professionals formally trained in implementing the coffee quality system. It is expected that by increasing the local supply and capacity of consulting services, the average cost for small and medium size producers to implement this system will diminish substantially, allowing for expanded coverage beyond the producers encompassed within this initiative.

C. Component III: Coffee quality promotion and market development

4.12 The program will assist producers to target new coffee markets both within their own countries and in other regions of the world. One way to increase the quality coffee awareness of traders, roasters and consumers is by supporting competitions and auctions. These incipient market mechanisms fully recognize coffee quality, open up and solidify the relationship between the small and medium size producers and roasters, and opens-up the possibility to develop long-term partnerships.

4.13 Alternative market mechanisms will be supported through this initiative. In those areas and countries where alternative market mechanisms do not exist, such programs will be put in place to give producers other options to access high quality coffee markets. This component is key to ensure that the efforts undertaken in Component I and II to increase

coffee quality are recognized by the market and that small and medium size producers have access to them.

4.14 In Guatemala, Costa Rica and Nicaragua, countries that have already hosted the coffee quality competitions and auctions, the project will aim to consolidate and/or expand these new market mechanisms. In other countries, the project will work with the local trade associations to launch such competitions and/or auctions. The project will also work with current organizers of such competitions and auctions (such as the Alliance for Coffee Excellence) to determine whether the event can serve as a sales channel for a larger volume of coffee without compromising the event's reputation.

4.15 In order to raise awareness among small and medium size producers throughout Central America as to the business benefits of implementing this coffee quality management system, the project will facilitate awareness-training program sessions in each of the countries regions during the three-year period of the project. These sessions would be structured to articulate the opportunity for increasing price margins through improved coffee quality among various producers.

4.16 As a means to ensure that the local small and medium size producers are continuously responding to the needs of the market, the program will seek to improve the dialogue between importers/exporters with representatives of producer groups. Therefore, part of this component will seek to improve the relationship and contacts between small and medium size producers and traders. Developing a few key industry partnerships can assist small and medium size producers tremendously, since the coffee traders and roasters are highly concentrated, with a handful in control of most of the global trade and roasting aspects of the supply chain.

V. PROJECT COST, FINANCING, AND EXECUTION TIME

5.1 It is estimated the cost of the project will be US$4,300,000 over three years. The MIF will finance US$3,000,000, approximately 70% of the total cost. The counterpart funds will be the responsibility of Technoserve-Nicaragua (TSN), of which at least half will be in cash. This operation will be implemented over a period of three years.

Component	MIF (US$)	Local (US$)	Total (US$)
I. Development of methodology and system for coffee quality	300,000	300,000	600,000
II. Training and technical assistance for producers and mills	1,450,000	650,000	2,100,000
III. Coffee quality promotion and market development	600,000	200,000	800,000
Administration	400,000	150,000	550,000
Financial Audits	15,000	--	15,000
Evaluation	50,000	--	50,000
Contingencies	185,000	--	235,000
TOTAL	3,000,000	1,300,000	4,300,000

VI. EXECUTING AGENCY

6.1 The executing agency for this project will be TSN, a local subsidiary of Technoserve. Technoserve is an international nonprofit business development organization providing market-driven solutions to foster sustainable economic growth in poor rural areas of the developing world. With over 30 years of experience, TechnoServe believes that profitable, competitive businesses are the key to creating jobs, incomes and higher standards of living. With a staff of 350 business professionals, TechnoServe currently operates in four Central American countries: El Salvador, Honduras, Nicaragua and Panama.

6.2 TechnoServe has been involved in different aspects of coffee production and marketing for over 25 years. The focus of its work has been on improving the productivity, quality and profitability of small coffee producers in Africa and Latin America. Technoserve's work with small coffee producers has spanned many countries including Guatemala, El Salvador, Costa Rica, Panama, Peru, Nicaragua and Tanzania.

6.3 TSN has experience as an executing agency for a MIF project. During the second trimester of 2001 it completed a project entitled Training for Agricultural Business Development in the Departments of León and Chinandega (ATN/MH-5611-NI). The objective of the project was to increase the income of the producers by introducing changes in their prevailing production practices and culture, so that their income can be improved on a sustainable basis in an increasingly competitive market. This objective was to be achieved through a training process, applying a methodology and providing a package of services to improve the business capacity and productive competitiveness of traditional small-scale producers. Despite some initial setbacks at the initiation, the overall results and outcomes of this project were considered to be satisfactory.

VII. EXPECTED PROJECT RESULTS AND JUSTIFICATION

7.1 This project will assist small and medium size producers in the areas with potential to produce high quality coffees, to enhance and maintain a consistent and reliable supply of quality coffees; develop value added; and develop new market mechanisms as well as effective promotion and marketing tools and skills. The program will assist Central America countries in designing and implementing a quality control system that will serve as the main instrument to provide the incentives needed to increase and maintain coffee quality. This system, coupled with training and technical assistance, and the strengthening of the local capacity to assess and evaluate quality, will assist in improving the competitive position of Central American coffees in international markets.

VIII. ENVIRONMENTAL AND SOCIAL IMPACTS AND PROPOSED ACTIONS

8.1 The traditional way of producing coffee in Central America, using naturally growing trees as shade, not only conserves soil and water like a forest, but also supports a variety of plants and animals and serves as a natural moderator of the microclimate. However, over the past five decades, coffee production has intensified and "technified" in an attempt to compete with low cost/high volume producers worldwide. The environmental

issues are common to all levels of technification, regardless of scale. The traditional processing process requires large amounts of water also regardless of size of mill and produces large amounts of waste products from the milling process (i.e. pulp and contaminated water).

8.2 The project team will in each component evaluate negative and positive indirect and direct impacts of the activities to be financed by the project, including the implementation of sorting methods, i.e. water and soil conservation, use of environmentally sound technology for processing, waste management etc. (which will also be reflected in the price premium). The project's aim is to promote and/or maintain high quality coffee, resulting in positive direct and indirect impacts correlating to the traditional production methods, which improve the environmental conditions, soil and microclimate and the biodiversity in general. In addition, the producers who have potential for production of high quality coffee are located in higher altitudes using shade management and other environmentally sound management methods (i.e. water and soil conservation methods) and a very limited amount of agrochemicals, if any at all. The development of protocols and standars for quality, as well as the criteria for selection of producers will consider and include environmentally sustainable measurements.

8.3 On the social side, the challenge for the project is to adequately engage the participation of producer households and women in particular in all the program activities. The coffee crisis has caused unemployment for the seasonal and permanent labor force and wages to decrease due to lower coffee revenues. By improving the quality of coffee produced, hence increasing the marked price, the project indirectly aims to improve the livelihood of the small and medium size producers. The project will not directly deal with the social impacts of the coffee crisis in terms of creating new employment opportunities for the temporary and permanent labor force. By assisting small and medium size producers with potential to produce high quality coffee in creating new market mechanisms and opportunities and facilitate awareness-training sessions, the project indirectly helps to improve the producerssocial situation as well as the labor force in general.

IX. RELATION WITH OTHER ORGANIZATIONS AND PROJECTS

9.1 In response to requests made by the various governments in Central America, the IDB, World Bank and USAID formed a joint working group that undertook assessments of the coffee industry situation in order to develop specific recommendations for a competitive transformation of the coffee industry. The three organizations funded the costs of a series of consultancies that produced analytical reports about the nature and the specific obstacles confronting the coffee sector in Central America. These findings were synthesized into a discussion document that was prepared for the regional workshop on *The Coffee Crisis and its Impact on Central America: the Situation and Courses of Action*, which was held in Antigua, Guatemala from April 3-5 of 2002. Participants included Ministers of Agricultures from the various countries, coffee producers, coffee purchasers and roasting companies, NGOs and coffee industry experts.

9.2 The same organizations that funded the regional workshop are also active in supporting the small-scale producers in Central America. Thus, this initiative will coordinate its

efforts with those of the World Bank and USAID, among others, ensuring the non-duplication of efforts. In particular, USAID is preparing a US$6 million project based on the strategy discussed on the Antigua workshop (mentioned in paragraph 9.1). While this MIF project would focus on quality improvements at the initial stages of the production chain (see Annex I) and the development of new market mechanisms recognizing quality, the USAID project is focused on developing the links between roasters in the US and coffee producers in Central America, and in conducting studies on the coffee trade regime as a means to define potential trade related policies.

9.3 Moreover, during the design and preparation of this initiative, the project team will hold discussions with other organizations, agencies and institutions to ensure that these activities complement other ongoing efforts and as a means to dimension the project appropriately. Finally, the project team will define the participation of other entities in each of the participating countries including public sector agencies, NGOs and other private sector organizations.

9.4 The MIF currently has an approved project (ATN/ME-6540-RG) in Central America focusing on business services, integrating the small coffee producers' cooperatives and helping them in the processing and commercialization aspects of the coffee business. The objective is to improve productivity and competitiveness of small coffee producers in El Salvador, Honduras and Nicaragua, through vertical integration. The project provides, through a three-year pilot program, technical and managerial assistance to small-scale coffee producers' organizations. The project was approved in 1999 and the first of two components was implemented successfully[8]. However, the second component was not implemented due to problems encountered before implementation began.

9.5 In addition, there are several IDB projects that are financing or that will finance activities that benefit coffee producers, specifically for environmentally sustainable coffee production, and providing incentives to diversify away from coffee production. Of particular importance are: Program for Natural Resource Management in Upper Watersheds (GU-0133), Program for Rural Production Reactivation (NI-0159), Retooling Agro-Enterprise (ES-0119), Trinational Program for Sustainable Development in the Upper Lempa River Basin (CA-0034), Revitalization of the Rural Economy (HO-0144), and currently under preparation, Program for Support of Sustainable Agricultural Production (CR-0142).

9.6 Furthermore a study "Assessing the Social Consequences of the Coffee Crisis in Central America" (ATN/FW-7985-RS) will provide information on the nature, dimension and social effects of the coffee crisis on small producers and agricultural workers and their households. The results will allow the Bank to develop policy and programmatic strategies in order to combat the social consequences of the coffee crisis.

[8] The first component ("Improvement of Cooperatives Management") included providing technical assistance to second-tier cooperatives on various areas; while the second component ("Regional Coffee Marketing Initiative") intended to create a Regional Marketing Facility as a trading company.

X. RECOMMENDATIONS

10.1 This operation will maintain ongoing coordination efforts with other stakeholders currently involved in the coffee sector of Central America, such as international multilateral organizations (World Bank), bilateral organizations (USAID), producer and consumer coffee organizations (national specialty coffee associations, SCAA, ACE, NCA, etc.), coffee institutes (Quality Coffee Institute, national institutes, etc.), and national coffee organizations like Instituto Costarricense del Café (ICAFE), Fundación Salvadoreña para las Investigaciones del Café (PROCAFE), Asociación Nacional de Productores de Café (ANACAFE), Instituto Hondureño del Café (IHCAFE), Unión Nicaragüense de Cafetaleros (UNICAFE), among others.

XI. ESTIMATED PROJECT PREPARATION AND ANALYSIS TIME

11.1 It is expected that the project design will be ready in the first trimester of 2003. The implementation of this operation could commence in the second trimester of 2003.

Approved by:

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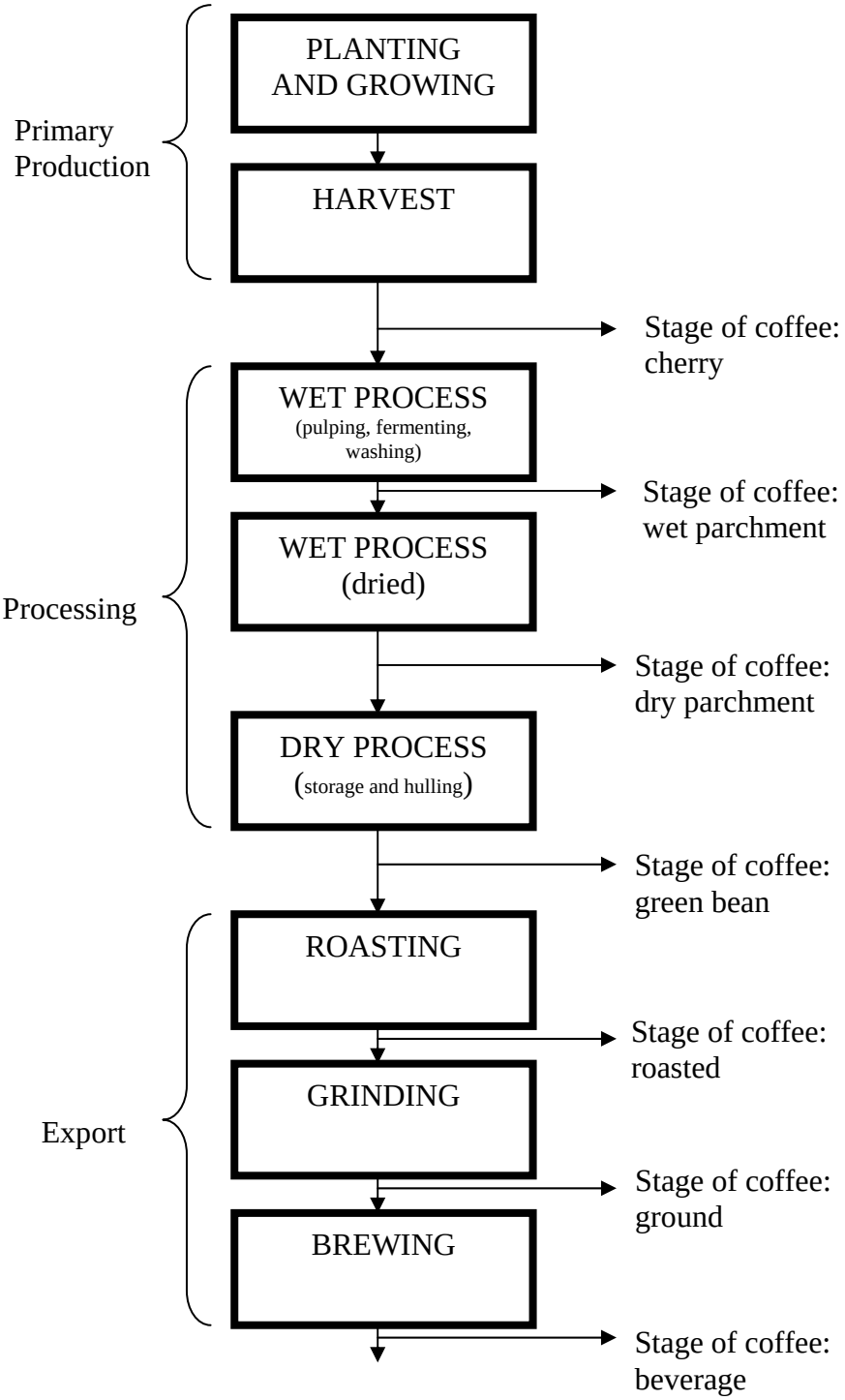
Jairo Sánchez, RE2/DEP

Date:

ANNEX I: COFFEE PRODUCTION CHAIN IN CENTRAL AMERICA



Note: The domestic production process usually ends at the green bean stage when the coffee gets finally exported.