

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COLOMBIA

INNOVATIVE INTERVENTION MODELS FOR THE COFFEE SECTOR

(CO-L1009)

LOAN PROPOSAL

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| Electronic Links and References | |
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| Basic socioeconomic data | http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata |
| Status of loans in execution and loans approved | http://portal.iadb.org/approvals/pdfs/COen.pdf |
| Tentative lending program | http://opsgsl/ABSPRJ/tentativelending.ASP?S=CO&L=EN |
| Information available in the RE3/EN3 technical files | http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=609562 |
| Procurement plan | http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=643269 |
| Project performance monitoring report (PPMR) | http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=607467 |

ABBREVIATIONS

| | |
|----------|---|
| AWP | Annual work plan |
| BAC | Banco Agrario de Colombia, S.A. |
| Cenicafé | Centro Nacional de Investigación del Café [National Center for Coffee Research] |
| CESI | Committee on Environment and Social Impact |
| CFBU | Coffee Farming Business Unit |
| ESMR | Environmental and Social Evaluation Report |
| FNC | Federación Nacional de Cafeteros [National Federation of Coffee Producers] |
| FoNC | Fondo Nacional del Café [National Coffee Fund] |
| ICAS | Institutional Capacity Assessment System |
| IRR | Internal rate of return |
| NDP | National Development Plan |
| NPV | Net present value |
| PCU | Project Coordinating Unit |
| SSEA | Monitoring, Evaluation, and Lessons Learned System |
| UNODC | United Nations Office on Drugs and Crime |
| USAID | United States Agency for International Development |

PROJECT SUMMARY

COLOMBIA INNOVATIVE INTERVENTION MODELS FOR THE COFFEE SECTOR (CO-L1009)

| Financial Terms and Conditions ¹ | | | | |
|--|----------------------|----------|---------------------------------|--|
| Borrower: Banco Agrario de Colombia, S.A. Guarantor: Republic of Colombia ² Executing agency: Federación Nacional de Cafeteros [National Federation of Coffee Producers] (FNC) | | | Amortization period: | 20 years |
| | | | Grace period: | 4 years |
| | | | Disbursement period: | 4 years |
| Source | Amount (US\$) | % | Interest rate: | LIBOR-based option |
| IDB (Ordinary Capital) | 6 million | 100 | Inspection and supervision fee: | 0% |
| Local: | 0 | 0 | Credit fee: | 0.25% |
| Total: | 6 million | 100 | Currency: | U.S. dollars from the Single Currency Facility |
| Project at a glance | | | | |
| <p>Project objective: The goal of the project is to make Colombian coffee growers more competitive through the adoption of sustainable institutional intervention models to improve access to productive resources, particularly for young farmers, and to attract resources to Colombia's coffee-growing sector.</p> <p>Special contractual conditions:</p> <ol style="list-style-type: none"> 1. Precedent to the first disbursement: <ol style="list-style-type: none"> a) The credit and guarantee agreement between Banco Agrario de Colombia, S.A. and FNC is signed (paragraph 3.2). b) Comité Nacional de Cafeteros [National Committee of Coffee Producers] accepts the FNC as the project's executing agency (paragraph 3.2). c) The project coordinating unit is activated (paragraph 3.7). d) The Operating Regulations are put into effect (paragraph 3.33). e) The executing agency presents the annual work plan for the first year (paragraph 3.42). 2. Two years after project completion, the executing agency will present an ex post evaluation of the project (paragraph 3.52). <p>Exceptions to Bank policies: None.</p> <p>Project consistent with country strategy: Yes [X] No []</p> <p>Project qualifies as: SEQ [X] PTI [X] paragraph 4.12 Sector [] Geographic [] Headcount [X]</p> <p>Verified by CESI on: 30 September 2005 (meeting 40/05) Environmental and social review: See paragraphs 4.17 to 4.20. Procurement: See paragraphs 3.34 to 3.38.</p> | | | | |

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

² Signature of the loan contract and guarantee contract is subject to authorization by the Council of Ministers for granting the guarantee of the Republic of Colombia, in accordance with policy OP-303.

I. FRAME OF REFERENCE

A. Socioeconomic framework

- 1.1 Colombia's agriculture sector accounts for a relatively high percentage of GDP, compared to other countries in the region. Nevertheless, between 1990 and 2002 agriculture's share of GDP dropped from 16.5% to 14%. Furthermore, agricultural exports have remained stagnant for the past eight years, even though Colombia's total exports have increased by 40%.
- 1.2 The rural sector is largely made up of small producers: 73% of the coffee plantations range in size from 0.1 to 5 hectares, and of these, 34% are under one hectare. Half of the small-scale farmers depend wholly on income produced on these small plots.
- 1.3 Low levels of schooling among Colombian coffee growers (an average of 3.7 years) and their steady aging are just two of the major roadblocks to substantially improving their competitiveness.

Table 1.1
Socioeconomic features of producers, by property size

| | Up to 1 hectare | 1.1 to 3 hectares | 3.1 to 5 hectares | 5.1 or more | Total |
|---|-----------------|-------------------|-------------------|-------------|---------|
| I. Coffee growers | | | | | |
| Number of growers | 193,411 | 133,419 | 60,293 | 137,068 | 524,191 |
| Number of family members, per grower | 4.5 | 4.7 | 5.0 | 5.1 | 4.9 |
| Resident growers (%) | 35.1 | 60.9 | 66.9 | 64.3 | 53.0 |
| Growers with no education (%) | 17.0 | 20.0 | 20.2 | 20.3 | 19.0 |
| Growers with elementary education (%) | 71.9 | 68.8 | 67.1 | 61.1 | 64 |
| Growers with no outside income (%) | 41.4 | 52.6 | 60.5 | 65.8 | 52.8 |
| Farmers with day-wage income (%) | 42.8 | 31.4 | 22.4 | 13.0 | 29.8 |
| II. Crop features | | | | | |
| Specialize in coffee (%) | 84.1 | 54.6 | 41.6 | 18.1 | 24.0 |
| Number of coffee lots per property | 1.3 | 2.3 | 3.5 | 5.8 | 2.2 |
| Age of sun (or "technified") coffee (years) | 6.5 | 6.5 | 6.4 | 5.4 | 6.2 |
| Productivity (arrobas/hectare) | 77.9 | 67.4 | 66.7 | 67.1 | 61.0 |

B. Colombia's coffee sector

- 1.4 Coffee production is important to Colombia as a source of income, for its effect on rural employment, and for its social and regional prominence. Coffee production accounts for 1.6% of the nation's GDP and 12.5% of its agricultural GDP. In 2004, Colombia exported nearly US\$1.1 billion in coffee, which is roughly 6% of the value of total exports. The coffee sector creates two million direct and indirect jobs,

and accounts for 27% of agricultural jobs. In Colombia, coffee is grown on 870,000 hectares, made up of 668,000 farms. Coffee producers are distributed among 590 municipios—over half of those in the country.

- 1.5 In 2001, international coffee prices fell to the lowest levels ever recorded, in constant dollars. Despite the fact that sharp pricing cycles are characteristic of the international coffee market, the crisis was a structural collapse of the market, mainly due to the impact from the breakup of global supply control mechanisms that had prevailed until 1989. Although prices have recovered from those levels, they will tend to be, on average, lower than they were in previous decades. In 2005, the average price of coffee has hovered around US\$1 per pound.
- 1.6 The two major types of coffee produced in the world are Robusta and Arabica. The former is of lesser quality, whereas the latter, which is Colombia's specialty, is considered smooth coffee and is priced at a premium. Nevertheless, against the current backdrop, and given that growth in production has been primarily in Robusta, coffee processors and markets have developed several blend schemes that allow for more of the lower quality coffees to be used. This has meant that countries such as Colombia, which are known for above-market-quality products have seen higher substitution elasticity with the substitutes.
- 1.7 Even with the current surplus in supply, and with average coffee quality dropping, niche markets have grown for specialty coffees. The specialty coffee market emerged for various reasons related to product differentiation, based on changes in consumer habits. This differentiation can be in terms of flavor based on appellation of origin or on attributes unrelated to taste, such as field production and processing practices (i.e., organic coffee, rainforest coffee, coffees processed using artisanal methods), producer groups (i.e., indigenous groups, youth), or the economic benefits to the coffee farmer (i.e., fair trade). The market for specialty coffees has been characterized by increasing sales, higher prices paid to producers, and a significant number of brands. Although there are no precise figures on the evolution of the specialty coffees market, demand for specialty coffee has shown the highest rates of growth, and the price is expected to hold its premium over the medium term.
- 1.8 Production unit intervention modalities have proven to be only a partial solution, by tending to address, albeit insufficiently, the necessary aspects of coffee producer competitiveness. Research and technical assistance have been partially adopted by coffee producers. Government land access programs have been unsuccessful despite their subsidies, because of a lack of business plans and complementary assets and services, as well as a lack of support for social organization. There is also a lack of willingness to allocate funds to the sector, especially long-term capital.
- 1.9 Colombia's coffee-growing sector faces several hindrances to increasing its productivity. They include high, rigid production costs, especially the high cost of

- labor; the gradual aging and low education levels of growers; restricted access to long-term credit, which impedes modernization and sustainability of crops; and poor business management of coffee farms, especially small ones.
- 1.10 Coffee farms have become fragmented, draining capital and losing economies of scale and diversification. The involvement of business associations in the production phase is minimal. The average age of Colombia's coffee growers has increased to over 50, and 22% are over 60. The over-60 age group has adopted new varieties of coffee at a rate 15% to 30% below the 18 to 24-year-old age group.
- 1.11 Colombia ranks third among 22 exporter countries in highest production costs at the farm level. According to research and recommendations by the Centro Nacional de Investigación del Café [National Center for Coffee Research] (Cenicafé), Colombia could significantly increase its coffee production.¹ These savings would result from better farm management, especially in logistical aspects; improved human resource management; mixing crops on the farm according to the age of the coffee and the other crops; and the adoption of best farming practices. These measures also contribute to quality differentiation which, in addition to being the only viable strategy for maintaining Colombia's production, has also shown positive results, making Colombia the second ranked country in the production cost/producer price indicator. All told, this would mean an average increase in land productivity, from 1.12 to 1.75 metric tons per hectare. For specialty coffees, productivity would increase to 1.5 metric tons per hectare.
- 1.12 Colombia's coffee sector has established institutions that provide public goods and common services to coffee producers in order to increase the long-term profitability of coffee and to achieve distributive effects in rural areas. The system is spearheaded by the Federación Nacional de Cafeteros [National Federation of Coffee Producers] (FNC). The FNC was founded in 1927 as a private nonprofit organization, and its primary objective is to protect the interests of producers and particularly their income. The FNC administers the Fondo Nacional del Café [National Coffee Fund] (FoNC) through a contract with the Colombian government, which has been renewed continually. The current 10-year contract was signed in 1997. The FoNC is an account of the public treasury and receives special export levies, called the "coffee tax," and the net earnings of commercial coffee transactions.

¹ The technical file about technological supply lists the bases for these increases. In summary, the major recommendations are based on: (i) stabilizing maximal constant farm production; (ii) sowing the Colombia variety; (iii) utilizing pulp in nurseries; (iv) increasing the per-hectare plant density; (v) integrating weed management; (vi) producing seedlings on farms with certified seeds and with appropriate bags; (vii) basing fertilization on soil analysis; (viii) applying broadcast fertilization; (ix) adopting integrated pest management; (x) adopting environmental services; (xi) harvesting ripe beans only; (xii) interspersing coffee with other crops, such as corn, beans, bananas, and tomatoes.

- 1.13 In 2001, the government and the FNC jointly began to implement policy and institutional management reforms in the sector, based on recommendations presented primarily by the Comisión de Ajuste a la Institucionalidad Cafetera [Committee to Adapt the Institutional Framework of the Coffee Sector].
- 1.14 The FoNC funds the purchase guarantees policy for producers and the provisions of public goods to the coffee sector. The FNC implements the purchase guarantee system through a network of cooperatives that administer outlets throughout the country. This system also guarantees a daily benchmark market price, based on international prices. The system provides technological research services and technical assistance through an extension service, monitors the quality of export coffee, and runs promotional campaigns.
- 1.15 The coffee sector uses the following structure in its organization and representation: coffee producers elect members who serve on departmental and municipal committees of coffee growers. Members of the departmental committees also serve as delegates to the Congreso Nacional de Cafeteros [National Congress of Coffee Producers], the FNC's highest authority, which elects eight union representatives to serve on the National Committee of Coffee Producers, and the FNC's general manager. The National Committee of Coffee Producers was created by the executive branch and consists of representatives of the government and of the FNC. Its overarching objective is to orchestrate agreements between the private sector and the State. Currently there are 15 departmental committees, each divided into six districts with six representatives. There are 371 municipal committees and three coordinating offices located in departments that do not have a departmental committee but that warrant an organization that performs those functions.
- 1.16 The institutional commercial network is made up of: (i) a network of storage facilities (Almacafé) with 13 warehouses, logistical services, and threshing facilities; (ii) 39 cooperatives in which the FNC and producers are majority shareholders, with 492 outlets; (iii) exporters such as the FNC itself, and the cooperatives' export agency (Expocafé); (iv) the Freeze-dried Coffee Plant that produces and exports instant (or soluble) coffee; and (v) Juan Valdéz coffee retail outlets. Other FNC agencies are Cenicafé and the Fundación Manuel Mejía agricultural education center.

C. Colombia's strategy for the sector

- 1.17 In order to adjust to the new international environment, Colombia is implementing an action plan that involves the coffee sector's institutions, producers, and the national government. The policies of change that have been undertaken focus on welfare programs for coffee producers, increasing competitiveness by restructuring production in order to improve quality and reduce costs, enhancing trade policy, and generating value added.

- 1.18 The current government has validated the sector's importance. The National Development Plan (NDP) for 2002 to 2006 states, regarding business development, that the government will promote rural business projects through mechanisms such as partnership systems, production-related alliances, and rural microenterprises. These mechanisms will be committed to the business sector and to rural farmers—large, medium, and small—in developing processes that are successful, competitive, and that generate production and create jobs. The NDP upholds its commitment to continue supporting the coffee sector, specifically through: (i) direct incentives to the sector; (ii) programs affording access to credit; (iii) cofinancing technical assistance and scientific research programs; and (iv) social development and restructuring programs. Furthermore, this plan states that funding from multilateral banks will be sought in order to support restructuring of Colombia's coffee sector.
- 1.19 Between 2001 and 2005, the government invested approximately US\$250 million in the sector through direct price incentives, coffee farm renewal programs, credit programs, and programs aimed at improving the well-being of coffee producers. The government and the FNC supported the reentry of the United States into the International Coffee Organization (ICO) in 2004 in order to involve the world's largest consumer in agenda items related to quality, economic development, and the sustainability of the coffee sector.
- 1.20 The value added by the Bank through this project is based on: (i) the demonstration and catalytic effect that will encourage and secure new investment into the private coffee sector; and (ii) greater development effectiveness resulting from implementation of a system for evaluating and monitoring the benefits of public goods provided by the FNC. The Committee to Adapt the Institutional Framework of the Coffee Sector, which was created to recommend ways to overcome the crisis in the coffee sector, recognized that the sector did not have a system for evaluating the net benefits of projects involving public goods.

D. The Bank's strategy in the sector

- 1.21 The core objectives of the Bank's country strategy with Colombia (document GN-2267-1) are: to revive the economy and jump-start growth, promote social development, and strengthen governance. This project will contribute to those objectives by making the coffee sector more competitive, which in turn will raise the quality of life of the people in the coffee sector, while improving governance in the country by consolidating a legal economic base for households in coffee-growing regions.
- 1.22 The Bank is currently funding three operations in the agriculture sector: (i) the Alternative Development Program (loan 984/OC-CO), which supports the national government in urgent activities to rekindle sustainable production and social development in municipios where illicit crops are being eradicated; (ii) the National

Land Improvement Program (loan 863/OC-CO), which funds irrigation, drainage, and flood protection activities; and (iii) the Program for Land Titling and Modernization of the Registry of Deeds and Cadastre (loan 1027/OC-CO). All three operations are expected to end in 2005. Generally speaking, execution of these operations was not normal, mainly because the budgets for the counterpart contributions were cancelled and the disbursement period was extended, which meant that proposed targets were lowered. Additionally, there were institutional weaknesses in execution.

- 1.23 The current Rural Development Policy (OP-752) proposes the following major fields of activity: (i) capacity building for better programs and projects; (ii) activities that organize, train, and educate rural populations; and (iii) funding productive projects for low-income producers and integrated rural and agricultural development projects. The current policy for the agricultural sector (OP-721) sets forth the following fields of activity that are relevant to the project: (i) marketing and agroindustry; (ii) research and extension; (iii) credit; and (iv) farmer organization and training.
- 1.24 Major lessons learned in the Bank's technology transfer programs suggest that its exploratory work should continue with mechanisms that increase private participation and increase the decision-making power of producers, especially in the startup phases. The execution of these programs, particularly the investment in the technological equipment component requires that procurement mechanisms be included that reflect the high level of specificity and limited degree of supply competition.

E. Coordination with other donors

- 1.25 Together with the Spanish government's Development Assistance Fund, a US\$13 million loan operation is being administered for developing coffee quality and traceability programs. The United Nations Office on Drugs and Crime (UNODC) promotes alternative development programs, with coffee being one of the alternative crops. With funding from the United States Agency for International Development, the FNC is executing a project for specialty coffees, along with the Specialty Coffee Association of America and its Coffee Quality Institute. Currently a project to protect watersheds is being executed, with 17 million euros in funding from the Government of Germany. Those operations complement this project, because they build capacity that can be used in the intervention models proposed herein.

F. Project strategy

- 1.26 The drop in real prices of commodities such as coffee is a long-term trend. Although in labor-intensive crops such as coffee, Colombian producers tend to lose comparative advantage to new actors whose labor costs are lower, Colombia has

some relevant strategies related to coffee sector institutions, quality guarantees, scientific and technological resources, and intangible assets that allow it to adapt to an environment of lower prices. Sectors that face decreasing prices can show positive financial returns only through productivity gains all along the supply chain.

- 1.27 The project's strategy focuses on: (i) promoting adoption of technology; (ii) facilitating generational succession by providing young farmers with greater access to factors of production and by making more resources available to the sector; (iii) introducing new intervention models on coffee farms, to remove hindrances to access and adoption of technology and to generate lessons learned; and (iv) encouraging partnerships among beneficiaries.
- 1.28 The project will promote innovation as a means to increase productivity that includes coffee products, production processes, and business models, in response to the new international coffee market. Productivity, is defined not merely as it relates to the technical efficiency of land resources, but rather to all factors of production, given the importance of other factors in Colombia's coffee economy. This productivity is also related to value, increasing coffee prices through differentiation, as in the case of specialty coffees, and through potential cost savings on inputs.
- 1.29 There is a positive correlation between the likelihood of Colombia's coffee sector adopting technology and the education levels of its coffee farmers, farm size, the degree to which a farm specializes in coffee, and access to credit. On the other hand, there is a negative correlation between technology adoption and a coffee farmer's age.
- 1.30 The relative performance of farms will improve through greater access to specialty coffee markets, technology, land, credit, and human capital. This project aims to attract and secure resources for the coffee sector in order to facilitate the innovation process.
- 1.31 By encouraging partnerships, the strategy seeks to obtain the potential benefits available to Colombia's coffee sector, such as: (i) economies of scale in business and asset management, both in the field phase and in some cultural activities; (ii) indivisible coffee processing assets; (iii) greater specialization of labor on larger farms; (iv) greater economies of diversification in other crops; (v) better conditions for selling coffee and purchasing inputs; and (vi) increased access to credit.
- 1.32 **The intervention models.** The project's intervention models consist of a series of attributes geared to young people with business aptitude, so as to allow them to resolve weaknesses in the factor markets and provide access to and secure resources for the coffee sector, thus increasing productivity.
- 1.33 The intervention models will integrate factor and product markets in coffee-growing areas. This market integration will occur as follows: (i) prospective young

- coffee growers, following an open selection process held by the FNC, will form small business partnerships; (ii) the FNC will create a business incubator, which can own a share of the partnerships and will provide business management services, technical assistance, and real estate contract services and manage access to funds; (iii) the business incubator will enter into contracts with the financial system to obtain funds for access to land, investment, and working capital. The financial institutions will obtain collateral through a combination of assets, such as land and coffee supply contracts. In this way, the FNC will leverage its intangible assets, such as its reputation, performance data from its partners, and its organizational capacity, benefiting the young farmers by enabling them to gain access to land and financial markets; (iv) the FNC will, in advance, identify available land suitable for the project; (v) the coffee growers will select business plans from the business model and farm intervention plan options developed by the FNC; and (vi) young farmers will increase the equity of their small businesses as they meet their financial and business management obligations to the business incubator.
- 1.34 The intervention models vary according to the specifications of their attributes. These attributes have to do with: (i) the level of partnering among farmers; (ii) the technological/commercial package; (iii) a farm's modality for access to financing; (iv) beneficiary profiles; and (v) farm characteristics, such as size and the existence of contiguous lots.
- 1.35 The partnership attribute is also related to the physical location of the farms and to which value chain activities are conducive to partnerships. The farm characteristics/partnership attribute has the following variants: (i) farms with physically contiguous lots managed in partnership, where the entire farm is planned as a single production unit; (ii) contiguous farms or farms with scattered lots that are managed in partnership, with lot ownership assigned at the outset in such a manner as to anticipate the probability that the farm will be divided in the future. This modality retains the option of continuing in partnership even after the long-term credit is paid off; and (iii) farms with scattered lots in the same area, on which production is managed individually, but partnerships of young farmers are formed for other, nonproduction-related activities in the value chain, such as processing and marketing.
- 1.36 The financial attribute involves exploring mechanisms and conditions for obtaining funds for the business incubator, such as rural leasing, mortgage credit, and third-party venture capital. The technological/commercial attribute will explore the recommendations of Cenicafé, with and without specialty coffees.
- 1.37 Because it is still unknown which intervention models are most appropriate, the project plans to implement a pilot program with a representative sample of farms, in order to determine which attribute combinations are most suitable and then replicate it on a larger scale, based on the findings. The suitability of the models' attributes

will be determined through a monitoring and evaluation system, which could lead to further modifications and adjustments during program execution.

II. THE PROJECT

A. Objective

- 2.1 The goal of the project is to make Colombian coffee growers more competitive. Its purpose is to adopt sustainable institutional intervention models to improve access to productive resources, especially for young farmers, and to attract resources to Colombia's coffee-growing sector.

B. Components

- 2.2 The project has two components. The first will strengthen coffee sector institutions in order to execute the intervention models. The second will implement the intervention models on farms in 10 departments. Implementation includes issuing the call for prospective beneficiaries to apply for the program, gaining access to the farms, adopting business plans, and fulfillment of the management and financing contracts between the small business partnerships and the business incubator.

1. Strengthening of complementary institutions (US\$2.6 million)

- 2.3 The project will fund the implementation of intervention models, for which support will be required to strengthen the following coffee-sector institutions and the services they provide: (i) a business incubator; (ii) small business partnerships called Unidades Cafeteras Empresariales [Coffee Farming Business Units] (CFBUs); (iii) special support units; and (iv) a monitoring and evaluation system.
- 2.4 **Business incubator (US\$800,000).** This will be a holding company for small business startups that share common services. Its objective is to promote business activities and minimize obstacles to starting a business, especially in areas requiring technical know-how. The FNC will be the major shareholder and administrator of the business incubator throughout the project.
- 2.5 This activity will fund the legal costs of forming the business incubator, hiring its management, legal services, consulting, promotion, training, and office equipment and furnishings.
- 2.6 **Coffee Farming Business Units (US\$200,000).** These business units will be the project beneficiaries, made up of young people in free-will partnerships. The outcomes of the intervention in these units will be observed.
- 2.7 The investments in this activity will cover the beneficiary selection process (promoting the project, group workshops, testing applicants), the land selection process (research on available land, topography studies, call for applicants, legal

expenses, designing a market data system), studies for developing business plans, and the legal and administrative expenses of incorporating the CFBUs.

- 2.8 **Special support units.** The FNC's departmental committees of coffee producers will be strengthened by creating special support units that will render technical and business management services to the CFBUs.
- 2.9 This activity will cover legal advice, training, and equipment for 10 departmental committees.
- 2.10 **The project's monitoring, evaluation, and lessons learned system (US\$1.5 million).** A monitoring, evaluation, and lessons learned system will be implemented under the program. Its objectives are to: (i) monitor key successful events during project execution in order to adopt corrective measures in a timely manner; (ii) identify changes to intervention modality attributes during their execution; (iii) garner the lessons learned from the pilot program; and (iv) establish the baselines for project replication among the target population, if viable. This activity will provide financing for the system's director, an information system, studies, software licenses, consultation and workshops for adjustment of intervention modality attributes, and dissemination of outcomes.

2. Implementation of the institutional models on a pilot basis (US\$2.7 million)

- 2.11 This component will consist of the gradual implementation of the intervention models, through a number of advisory services rendered to CFBUs. Technical and environmental advice will be given during preparation and execution of the farm intervention plan. Social support will help strengthen the farmers in the CFBUs as a group. Business advisory services will provide administrative and technical support for coffee trading nationally and internationally. Financial advice will assist in structuring the projects so that these might qualify for financing, by defining and negotiating the required guarantees with the financial sector. Legal advice will be provided throughout the project, particularly for forming the CFBUs. This component will fund training, consulting services, and field visits.

C. Cost and financing

Table 2.1
Cost and financing (in thousands of U.S. dollars)

| Categories | IDB | (%) |
|--|----------------|--------------|
| A. Project administration and coordination | 772.1 | 12.9 |
| 1. PCU operations | 708.1 | 11.8 |
| 2. Independent environmental monitoring | 40.0 | 0.7 |
| 3. External financial audit | 24.0 | 0.4 |
| B. Direct costs | 5,227.9 | 87.1 |
| 1. Strengthening of complementary institutions for the coffee sector | 2,615.4 | 43.6 |
| 2. Implementation of institutional models on a pilot basis | 2,612.5 | 43.5 |
| Total | 6,000.0 | 100.0 |

- 2.12 The operating costs of the project coordinating unit cover hiring the general coordinator, three specialists, a secretary, and a legal adviser. Transportation and offices expenses are also included in these costs.
- 2.13 **Local counterpart contribution.** This project adheres to the Bank's policy regarding the proportion of counterpart funding, and to the criteria of the respective operational guidelines (documents AB-2358 and GN-2331-5); therefore it is feasible to finance up to 100% of the cost of the project requested by the Government of Colombia, as established by the country financing parameters for local contributions. The project expenses are incremental and necessary to achieving its objective; they have an impact on the sustainability of FoNC revenue, because production generated by the project will contribute to coffee tax revenue.
- 2.14 The FNC will provide additional funds to complement funding of the project, to cover the expenses of the FNC support units, the PCU, the business incubator, financial expenses, and the project's credit fee. These funds will come out of the FoNC's annual administrative budget.

III. IMPLEMENTATION

A. Borrower, guarantor, and executing agency

- 3.1 The borrower will be Banco Agrario de Colombia, S.A. (BAC) and the executing agency will be the Federación Nacional de Cafeteros [National Federation of Coffee Producers] (FNC). The Bank has evaluated BAC as the borrower and concluded that it complies with the Bank's policies to be eligible as a borrower.² The Government of Colombia will be the guarantor of the loan operation. Signature of the loan contract and guarantee contract is subject to authorization by the Council of Ministers for granting the guarantee of the Republic of Colombia, in accordance with policy OP-303.
- 3.2 Colombian law requires a counter-guarantee arrangement through which BAC and the FNC, in its capacity as administrator of the Fondo Nacional del Café [National Coffee Fund] (FoNC), will guarantee fulfillment of its obligations to the State. The loan contract to be signed by BAC and the FNC-FoNC will establish that BAC will transfer the funds to the FoNC under the same terms as the IDB loan, plus a spread for administrative expenses. In addition, the FNC will enter into a guarantee contract with Fiduagraria—a company controlled by BAC—for which BAC and the State/Ministry of Finance will be the beneficiaries. The guarantee contract includes advance deposits and pledges of the FNC's income. The Bank financing will not be used to grant loans to the beneficiaries. Furthermore, the FNC commits to BAC that it will comply with the contractual obligations and performance indicators set forth in the loan contract between the IDB and BAC related to project execution, which will also be reflected in the loan contract between BAC and the FNC. **The following are conditions precedent to the first disbursement: (i) Banco Agrario de Colombia, S.A., and the FNC have signed the loan agreement;³ and (ii) the National Committee of Coffee Producers have accepted the FNC's role as project executing agency and its assumption of contractual obligations established in the loan contract, regarding the execution and performance of the project. This acceptance will be communicated to the Bank, with an attached copy of the record of that acceptance.**

B. Project management and coordination

- 3.3 Execution of the project will be the direct responsibility of the FNC, which will exercise control over each element of the execution structure, and will be supported

² The diagnostic study of Banco Agrario de Colombia, S.A. is in the project's technical files.

³ The draft of the loan contract between Banco Agrario de Colombia, S.A. and the FNC can be found in the technical files.

by a project steering committee and a project coordinating unit (PCU), which will perform support activities in programming and monitoring, administration and finance, and procurement that are necessary for the FNC to carry out all technical activities using its current institutional structure.

1. Project steering committee

- 3.4 The project steering committee will involve participants from outside the FNC in guiding the project and promoting its replication in other subsectors. The PSC will be responsible for approving: (i) the annual work plans and the project's semiannual reports; (ii) modifications to the specific project regulations; (iii) eligibility proposals for CFBUs; (iv) project evaluation and environmental assessment reports; (v) appointment or removal of PCU staff; and (vi) project plans and reports; and for receiving (vii) annual audit reports.
- 3.5 The project steering committee will be made up of the FNC technical manager, the FNC financial manager, the government advisor for coffee sector affairs of the Ministry of Finance (MHCP), the executive director of Corporación Colombia Internacional, the manager of the Instituto Colombiano de Desarrollo Rural [Colombian Rural Development Institute], a representative of coffee producers, and the director for sustainable rural development at the National Planning Department.
- 3.6 The PCU will serve as technical secretariat of the project steering committee.

2. Organization and duties of the PCU

- 3.7 The PCU will be subordinate to the FNC's technical management office and will be organized into three units: technical, administrative/financial, and monitoring and evaluation, each of which will report to the PCU coordinator. **The creation and start-up of the PCU, the selection and hiring of the PCU coordinator, as well as of the technical, administrative/financial, and monitoring and evaluation specialists, are conditions precedent to the first disbursement.**
- 3.8 The PCU will have the following duties: (i) to prepare annual work plans; (ii) to monitor and supervise execution, and coordinate evaluations; (iii) to support environmental audits; (iv) to execute procurement and hiring processes; (v) to request, through Banco Agrario de Colombia, loan disbursements, prepare and present supporting documents on the use of the funds; (vi) to allocate funds to the business incubator and to the FNC departmental committees; (vii) to receive and consolidate CFBU projects presented by the FNC departmental committees and present them to the business incubator; (viii) to supervise fulfillment of the project's conditions and targets; and (ix) to prepare reports for presentation to the project steering committee.
- 3.9 The area of the PCU responsible for the monitoring, evaluation, and lessons learned system will: (i) maintain an information system on the progress of project

execution; (ii) periodically evaluate the pertinence and impact of results against the pre-established objectives; (iii) coordinate midterm and final project evaluations; (iv) propose changes to specific project regulations; and (v) carry out the studies necessary to identify lessons learned from the project.

3. Departmental committees and special support units

- 3.10 The FNC departmental committees of coffee producers will be in charge of: (i) executing the beneficiary selection process, farm selection, and selection of CFBU project proposals, together with the beneficiaries, to submit these to the PCU for consideration and approval; and (ii) providing business advice and technical assistance to the project beneficiaries, according to the management contracts with the business incubator, for which special support units will be created in each departmental committee.
- 3.11 The main elements of the support service mechanism are: (i) the CFBU business plans define the indicators of fulfillment of coffee production targets and the services required by the young farmers in the CFBUs. The business plan and production targets are contained in the partnership contract between the business incubator and the CFBUs, whereas the support service requirements are contained in the contract between the business incubator and the FNC, and it is on the basis of the latter that each CFBU's budgetary needs are estimated; (ii) the administrative costs for access to financing provided to the CFBUs by the business incubator will be recovered by the business incubator, though the project does not plan to charge the beneficiaries for support services rendered by the departmental committees, because they are funded through levies from the coffee sector; (iii) to ensure the quality of the support services, a mechanism will be implemented for periodic evaluations by the PCU and satisfaction surveys taken among the beneficiaries as part of project execution; (iv) to facilitate identification of critical issues and the sharing of successful experiences, the project will fund tours, for CFBU members to visit beneficiaries in other project regions; and (v) given that the FNC operates as a trade group with representation and participation of its members in decentralized venues, the young beneficiaries will have access to these venues in order to discuss eventual weaknesses revealed during project execution.

4. Coffee Farming Business Units

- 3.12 The duties of the CFBUs will be to: (i) fulfill their commitments in the management contract with the business incubator; and (ii) supply information for project monitoring and evaluation.
- 3.13 The project intends for the CFBUs to be structured as community-based companies under Colombian law. Each CFBU is expected to have six partners, on average. Characteristics of a community-based company include: (i) broad corporate objectives, not restricted to the field phase; (ii) a minimum of two partners;

- (iii) partners must not have owned land before; (iv) partners may enter into a limited liability arrangement; (v) partners may organize themselves internally as they see fit, and there is no labor relationship between the company and the partners; (vi) ease of partner substitution; (vii) tax benefits, such as exemption from income tax; (viii) ability to switch into any other corporate structure allowed by Colombian law; and (ix) the possibility of profit sharing among members.⁴
- 3.14 The capital contribution from each of the young farmers chosen for the CFBUs will be an admission fee established by the bylaws of each small business and will not exceed a number of the daily legal minimum wage in effect at that time.⁵ The company is recapitalized based on a percentage of the monthly minimum wage in effect. The General Assembly is the supreme body in a community-based company and is responsible for its management. The General Assembly will be made up of all the partners, and decisions will be made by majority vote of the partners present. The community-based company will be run by a Management Board made up of the partners who obtain the most votes in the corresponding elections of company executives.
- 3.15 The CFBUs will sign:⁶ (i) partnership contracts with the business incubator; (ii) farm purchase option contracts with the business incubator; and (iii) a tripartite contract with the business incubator and the local coffee producers' cooperative.
- 3.16 The objective of the partnership contracts will be the joint development of a business plan for coffee farm properties owned by the business incubator, based on the work done by the CFBUs. The business incubator will deliver the land for the full use and enjoyment of the CFBU. The CFBU will pay the financial obligations and may exercise the option to purchase at any time, with 30 days' notice. The CFBU will deliver the totality of the coffee under an irrevocable agency in the name of the business incubator, on any sale that takes place at the outlets of the local coffee producers' cooperative. The coffee producers' cooperative will credit the total value of the coffee to the account of the financial institution that provided financing. The business incubator will receive from the financial institution the value of the sale, minus interest and amortization of the loan taken out with the financial institution. The CFBU will receive from the incubator payment of its share under the partnership contract, corresponding to the profits of the coffee sold, minus its financial obligations, administrative and operational costs, and the business incubator's share.

⁴ The document entitled "Opciones de Sociedades de Empresas Agrarias" [Options for Agrarian Corporate Structures] in the technical files analyzes corporate structure options, and determines that the most appropriate structure for project startup is the community-based company.

⁵ The document entitled "Estatutos de Empresa Comunitaria" [Bylaws of Community-based Companies] in the technical files presents a draft of the bylaws for the companies in the project.

⁶ Three model contracts can be found in the project Operating Regulations.

- 3.17 For execution, the intervention models are divided into three systematically integrated phases: startup, development, and consolidation and autonomy. In the startup phase, the beneficiaries, properties, and intervention models will be selected and the CFBUs formed; in the development phase, the business management of CFBUs will be strengthened; and in the autonomy phase, their equity will be gradually built up as they repay their financial obligations.

Table 3.1
Development phases for the first CFBUs

| Phases | Activities |
|---|--|
| 1. Startup Average time: four months | 1.1 Identification and evaluation of properties 1.2 Promotion of the project and call for applicants 1.3 Selection of beneficiaries 1.4 Introduction 1.5 Selection and negotiation of properties 1.6 Incorporation of the CFBU (Bylaws and Operating Regulations) 1.7 Technical, financial, and corporate planning 1.8 Definition of the farm intervention model 1.9 Application of the economic model |
| 2. Development Average time: 12 months | 2.1 Operation of the business incubator 2.1.1 Contractual arrangements 2.1.2 Financial resources management 2.2 Installation of production-related projects 2.3 Strengthening of the social fabric 2.4 Implementation of the environmental plan 2.5 Organizational strengthening 2.6 Business strengthening |
| 3. Consolidation and autonomy Average time: 32 months | 3.1 Monitoring and support 3.2 Measurement of technical and economic impact 3.3 Measurement of social and environmental impact 3.4 Preparation for transfer of property to beneficiaries based on the progress in repayments |

- 3.18 The project will be promoted through the media traditionally used by the departmental committees of coffee producers, using extension workers and their constant contact with coffee producers and development agents in the region, and using the network of municipal coffee producers' committees to identify candidates. The call for applicants will have a broad scope and will be highly publicized in the various municipios, through the mayors' offices, provincial agribusiness management centers, parishes, and offices of the municipal coffee producers' committees.
- 3.19 The process of beneficiary selection aims to reduce the risks inherent in the intervention models. To reduce the risk in adoption of technology, and to fulfill one of the project's objectives—bringing new human capital into the coffee sector— young farmers with a vocation for agriculture will be selected. Furthermore, because productivity and education are closely linked, preference will be given to those persons who have an education beyond the ninth grade and who, preferably, have previous coffee know-how. Lastly, to reduce the risk that the intervention models would be unsustainable—i.e. CFBUs and their partnership arrangements

would not be lasting—the beneficiaries selected will have roots in the region where the farm is located. This will reduce the likelihood of the project being abandoned due to a lack of ownership.

- 3.20 The project will be promoted among young graduates of farm management courses taught in specialized training centers, such as the Fundación Manuel Mejía, the agriculture centers of Servicio Nacional de Aprendizaje [National Learning Service] (SENA), high school agriculture programs, and participants in business projects connected with school and coffee programs, and in management groups.
- 3.21 Beneficiaries will apply through the coffee producers' committees, by filling out an application form that will be used to pre-select candidates, who would then undergo the required interviews and psychotechnical examinations.
- 3.22 To be selected, beneficiaries must: (i) be between 18 and 35 years of age; (ii) have at least a ninth grade education, preferably more; (iii) demonstrate willingness to work in groups; (iv) preferably have coffee farming know-how; (v) have a sense of ownership in the area where the farm is located; (vi) be of low income; and (vii) be willing to make a commitment to a partnership with other similar young farmers. The selection process also includes psychotechnical examinations, family visits and interviews, interviews with the spouse or nuclear family, and workshops to identify aptitude for teamwork and getting along with others.
- 3.23 Once the beneficiaries and the property or properties to be worked have been selected, several workshops will be conducted to prepare the beneficiaries technically and socially for the partnership project. The workshops will include topics such as: (i) group dynamics; (ii) commitment; (iii) production of a manual on working together; (iv) business plans and financial management; and (v) dispute resolution.
- 3.24 The departmental committees will enlist real estate companies in the region to identify properties for sale and their prices, to supplement the information in the land data bank generated by the departmental committee as part of preparation of the operation.
- 3.25 The criteria for selecting land will be: (i) ecological suitability for growing coffee; (ii) no land tenure problems; (iii) presence of water sources; (iv) acceptable public infrastructure and housing infrastructure; (v) the presence of similar farms in the area; and (vi) a law and order situation that does not hinder the running of the business. As for size, two types of property will be sought: properties of more than 30 hectares for implementation of one type of intervention model, and smaller properties that could be part of the project under another intervention model. The Operating Regulations will state the specifications of the process to ensure transparency and openness.

- 3.26 The young beneficiaries will actively participate in the final farm selection process and in developing the economic and financial model, with assistance from the special support unit. They must agree on the price to be paid for the farm, and this price should fall within the ranges of local land market prices. Lastly, the business will be legally established and will draw up its Operating Regulations.

5. The business incubator

- 3.27 The duties of the business incubator will be to: (i) enter into management contracts with the CFBUs; (ii) administer short- and long-term funds from the financial system on behalf of the CFBUs; (iii) procure the properties to be used in the project; (iv) procure business management services and technical assistance for the departmental committees; and (v) be a shareholder in the partnership structures formed by CFBUs, if appropriate.
- 3.28 **Demand and initial activities.** In order to calculate the number of CFBUs for the project, first the universe of comparable coffee producers that meet the eligibility criteria, such as age and level of education, was defined. The next step was to determine a size that would ensure statistical representation of this universe of coffee producers. The comparable universe contains 29,000 coffee producers. The size of the pilot project sample group is 960 coffee producers, which means there would be 160 farms, assuming an average of six farmers per farm, with another 160 farms as a control group against which to evaluate project outcomes. These farms will be covered gradually in accordance with the targets in the logical framework.
- 3.29 Ten departmental committees of coffee producers have expressed interest in participating in the project,⁷ and have identified 103 farms with adequate land that could take part in the project's land selection process.
- 3.30 Young people have shown an interest in the project, according to the preliminary results of inquiries made by the departmental committees, and according to the successful, though limited, prior experience of the departmental committee in Valle del Cauca, executed between 1997 and 2003,⁸ involving 20 farms and 113 beneficiaries. The ratio of candidates to those selected for this experience was 3:1.

⁷ The committees from the departments of Antioquia, Caldas, Cauca, Cundinamarca, Huila, Quindio, Risaralda, Santander, Tolima, and Valle del Cauca. The document entitled "Áreas Potenciales para Jóvenes Rurales" [Potential Areas for Rural Youth] in the technical files contains the lists of properties identified.

⁸ One feature shared by this project was the call for young applicants to develop farm intervention plans. They did not have: (i) a formal legal structure for establishing companies and for gaining access to the farms; (ii) a proposal to involve the financial system; and (iii) a structure of contractual incentives. The project's technical files contain the socioeconomic characteristics of that experience.

- 3.31 The strategy for solidifying the interest of financial institutions in order that they might participate through the business incubator consists of: (i) presenting the business plans, the corporate structure of CFBUs, the mechanisms and areas for management services to the CFBUs, and the business incubator's incorporation plan; and (ii) the guarantees for projects that would be financed during the execution of this operation. The expectation is that at least one financial institution will solidify its interest during the development phase of the first CFBUs.⁹
- 3.32 **Revolving fund and disbursements.** For project disbursements, a revolving fund will be established with up to 5% of the Bank loan. For this, a bank account will be opened for the project and administered by the FNC. The PCU will deliver to the Bank periodic reports on integrated review of procurement and disbursements.
- 3.33 **Operating Regulations.** The project's Operating Regulations contain administrative, operational, and financial procedures for the project, as well as beneficiary eligibility criteria. They also describe the organizational structure, the PCU technical and support staff included in the professional profile, and their relationships with the beneficiary entities. While preparing the project, an initial draft was prepared and has been revised and agreed to with the executing agency. **As a condition precedent to the first disbursement, the Operating Regulations must take effect, to the satisfaction of the Bank.**

C. Procurement

- 3.34 The FNC will assume responsibility for procuring the goods and consulting services specified in the procurement plan, which support the execution activities of the business incubator and the CFBUs.
- 3.35 Goods will be procured in accordance with the Bank's policies as expressed in document GN-2349-4. International competitive bidding will be mandatory for procurement of goods financed partially or fully with loan proceeds in amounts exceeding the equivalent of US\$250,000. Goods for between US\$50,000 and US\$250,000 will be procured through national competitive bidding, in accordance with national law, provided it does not contravene Bank policies on the matter. Goods valued at less than US\$50,000 will be procured through shopping based on three quotes. Goods will be procured in accordance with the procurement plan approved in advance by the Bank.
- 3.36 Consulting services will be selected and engaged in accordance with Bank policies as set forth in document GN-2350-4. Consulting services valued at US\$200,000 or more will be announced in an international publication, inviting expressions of interest. Consulting services hired using Bank funding must be included in the procurement plan approved in advance by the Bank.

⁹ The technical files show the current status of negotiations with financial institutions.

- 3.37 In accordance with Bank policies (documents GN-2349-4 and GN-2350-4), the procurement plan agreed to with the executing agency for the first 18 months of execution, appears in Annex II. The executing agency will update the procurement plan annually as needed, or whenever substantial changes arise, but always covering the subsequent 18 months of project execution. Any proposal to revise the procurement plan must be presented to the Bank for its approval.
- 3.38 The procurement plan (Annex II) contains: (i) analysis of the FNC's institutional capacity for procurement; and (ii) the threshold amounts that would require prior review of procurement of goods and consulting services. Based on the FNC's institutional capacity, the threshold for goods procurement is US\$100,000 and for consulting services, US\$200,000.
- 3.39 **Recognition of expenditures and retroactive financing.** Upon acceptance by the Bank, up to the equivalent of US\$100,000 in expenses incurred by the project while creating the business incubator and for consulting services during preparation of the project can be financed retroactively out of loan proceeds, provided the funded activities were undertaken within 18 months prior to loan approval and adhered to procedures compatible with those established in the loan contract.

D. Execution period and disbursement schedule

- 3.40 The project falls within the framework of the FNC's strategic plan, with execution and disbursement planned over a 48-month period that starts when the loan contract enters into force. The annual schedule of disbursements of project funds appears below:

Table 3.2
Schedule of disbursements per year of execution (in thousands of U.S. dollars)

| | Total | 2006 | 2007 | 2008 | 2009 |
|--------------|----------------|-------------|-------------|-------------|-------------|
| 1. IDB | 6,000.0 | 1,464.6 | 1,452.6 | 1,554.6 | 1,528.2 |
| TOTAL | 6,000.0 | 1,464.6 | 1,452.6 | 1,554.6 | 1,528.2 |

E. Monitoring and evaluation

- 3.41 The executing agency will gather, store, and keep under its control all data, indicators, and parameters, including the annual plans, the midterm review, and the final evaluation, needed to assist the Bank in preparing the project completion report.
- 3.42 The executing agency commits to present, to the satisfaction of the Bank, the following reports: (i) the successive annual work plans within 60 days prior to the start of each calendar year; (ii) semiannual progress reports; (iii) a progress report for the midterm evaluation, which will be delivered no earlier than 18 months into

the project and after at least 80 CFBUs have begun their production projects; (iv) the final evaluation report, which will be prepared when 90% of the funding has been committed; and (v) the ex post project report, two years after completion. **As a condition precedent to the first disbursement, the executing agency will present the annual work plan for the first year. As special conditions for execution of the project, the executing agency will deliver the midterm and final evaluation reports in a timely manner.**

- 3.43 **Description of the monitoring, evaluation, and lessons learned system:** At the outset of project execution, the system will be designed and have methodological guidelines, staff, and the capacity to begin monitoring program indicators. The system¹⁰ will have three interrelated components or subsystems: (a) a subsystem for monitoring the project's critical events and processes; (b) a subsystem for evaluating socioeconomic and environmental impacts; and (c) a subsystem for lessons learned on intervention models.
- 3.44 The **monitoring of the project's critical events and processes** is aimed at generating relevant, timely information for decision-making by those in charge of managing the project. This includes such information as the number of young people responding to calls for applicants, the number of departmental committees that adopt the project, the number of CFBUs formed and operating, agreements signed between the business incubator and financial institutions, the number of farm transactions under the project, the satisfaction levels of young people with services rendered by the support units and the business incubator, and the number of loan contracts entered into.
- 3.45 The **impact measuring system** aims to generate quantitative data about project impact and outcome indicators, such as partial and total factor productivity, net present value (NPV) of the businesses started, and the well-being of beneficiaries compared to a control group. In order to calculate change in total factor productivity, price-weighted indices of product quantity and of use of coffee sector factors of production are compared with similar indices for the rest of the economy.
- 3.46 The **evaluation and lessons learned system** for the intervention models will determine the factors that cause some intervention models to work better than others, and help to better understand the contextual elements of CFBUs that influence their overall and relative performance. The core tools to be used in this process are various specific studies designed to identify and capitalize on lessons learned from project execution.

¹⁰ Details on the system are contained in the document entitled "Diseño e Implementación de un Sistema de Monitoreo, Evaluación y Aprendizaje" [Design and implementation of a monitoring, evaluation, and lessons learned system] in the technical files.

- 3.47 Each of these subsystems will have specific analysis units, which are described in the table below:

Table 3.3
Analysis Units for Evaluation Subsystems

| Subsystem | Analysis unit |
|--|---|
| Monitoring critical events and processes | CFBUs, business incubator, units supporting contracts among parties |
| Impact measurement | Young people's households, farms |
| Evaluation and lessons learned | Intervention models |

- 3.48 **Instruments and indicators.** The system will use the following instruments and indicators:
- 3.49 **Subsystem for monitoring critical events and processes.** The following indicators are proposed for monitoring this subsystem in each of the analysis units:

Table 3.4
Critical event and process indicators

| 1. Monitoring the support units | | |
|--|------------------|-----------------------------------|
| Indicator | How often | Data gathering unit |
| Number of calls for applicants | Monthly | Support units |
| Number of candidates | Monthly | Support units |
| Number of young participants | Monthly | Support units |
| Number of CFBUs (through the project and autonomously) | Monthly | Support units |
| Number of departmental committees | Monthly | PCU |
| Number of farm transactions | Monthly | Support units |
| Degree of CFBU satisfaction with support units | Every 6 months | Evaluation system survey |
| 2. Monitoring the CFBUs | | |
| Indicator | How often | Data gathering unit |
| Entry of new partners | Every 6 months | Support units |
| Contracts adopted by CFBUs | Every 6 months | Support units |
| Coffee area intervened by CFBUs | Every 6 months | Support units |
| Percentage of specialty coffee areas | Every 6 months | Support units |
| Percentage of CFBUs that have adopted CENICAFÉ recommendations | Every 6 months | Support units |
| Coffee production in CFBUs | Every 6 months | Support units |
| Production inputs usage | Every 6 months | Support units |
| CFBU loan delinquency | Quarterly | Support units, business incubator |
| CFBU coffee sales | Monthly | Support units |
| CFBU financial indicators | Every 6 months | CFBU accounting system |
| 3. Monitoring the business incubator | | |
| Indicator | How often | Data gathering unit |
| Level of CFBU satisfaction with the business incubator | Every 6 months | Evaluation system survey |
| Contracts generated by business incubator | Quarterly | Business incubator |

3.50 Impact measurement subsystem. This subsystem has three tools for generating data needed for evaluating the project's social, economic, and environmental impacts: (a) baseline survey¹¹ taken of young beneficiary families and a control group, with another taken of participating farms and a control group of farms; (b) 18 months into the project, a midterm impact survey will be taken of

¹¹ The baseline survey will be taken of young beneficiary families and a control group of young people. Surveys will also be taken of participating farms and a control group. Because of the nature of the project, one part of the survey will be taken in the second 6-month period after the program has been started and the remainder will be taken during the first two years of the project, when over 70% of the CFBUs will have been created.

participating farms only; and (c) 42 months into the project, a final evaluation survey will be taken of participating farms and a control group of farms.

- 3.51 The variables to be measured by these surveys will generate three types of core indicators for the economic evaluation of the project: (a) changes in well-being of beneficiary families; (b) changes in productivity of coffee factors of production; and (c) changes in net present value of CFBU productive activities. Furthermore, the tools will include indicators for measuring the project's potential environmental impact as well as events and indicators associated with the highest risk areas.
- 3.52 **Subsystem for evaluation and lessons learned.** For this subsystem, the following tools are proposed:
- a. Initial evaluation of the models, two years into the project, in order to evaluate the differentiated effects of the models and to perform studies that provide more comprehensive explanations of overall effects (comparing the participants and a control group) and relative effects (comparing models). This survey will use inputs from the midterm impact evaluation, as well as focus groups, interviews of project participants, and supplemental data.
 - b. Studies that provide more comprehensive explanations will generate explanatory information about the different outcomes obtained by the models, in accordance with the recommendations and terms of reference generated by the initial evaluation of the models.
 - c. Final evaluation of the intervention models, during the final six-month period of the project. This evaluation will use the results of the final evaluation survey and supplemental data in order to explain differing results of the models based on all information gathered by the three subsystems. The following factors will be distinguished and identified in particular in potential explanations of overall and relative outcomes: CFBU management factors, technological factors, market factors, and organizational and institutional factors.
 - d. Ex post evaluation of the project. This evaluation will use previous evaluations and generate additional data in order to draw conclusions about the best intervention models and the replicability and scalability of this type of project in all of Colombia's coffee-growing complex. The manual for the monitoring, evaluation, and lessons learned system spells out the required data, the steps to be taken to execute the ex post evaluation, its budget, and its schedule. The FNC will fund this evaluation. **The executing agency's timely presentation of the ex post evaluation report, two years after the project is completed, will be a special condition for execution of the project.**

- 3.53 **Project accounting and audits.** The FNC will be accountable to the Bank for: (i) maintaining accounting, financial, and internal control system records, in order to manage the project's resources in accordance with the provisions of Article 7.01 of the General Conditions of the loan contract. This system will allow for identification of how project funds were administered, separately from other funds administered by the FNC; (ii) preparing and presenting semiannual reports to the Bank on the revolving fund, as well as other financial reports, as requested; (iii) presenting the Bank with requests for disbursement and supporting documents for advances; and (iv) proper filing of all support documentation for contracts and disbursements using project funds.
- 3.54 The project's annual financial statements will be presented to the Bank within 120 days following the close of each fiscal year. Annual audits will be performed by an independent auditing firm chosen in accordance with Bank policies, and based on terms of reference previously approved by the Bank. These audits will be performed throughout the execution period and will include a final project audit. Costs for audits will be financed with the Bank loan proceeds.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 In order to analyze the institutional capacity of the Federación Nacional de Cafeteros [National Federation of Coffee Producers] (FNC) guidelines for quality-at-entry for investment projects were applied (document GN-2282), as was the Institutional Capacity Assessment System (ICAS). The FNC currently has an institutional strategic plan in effect, in which it defines its vision, mission, and particularly its action plan and policies for engaging in business and social projects. This project is a part of this effort.
- 4.2 The FNC has proper incentive for execution of the project because it is an organization of coffee producers and its members are the project beneficiaries. It has a decentralized decision-making structure, in which members elect the board of directors. The executing agency's interests and the objectives of the project are closely aligned. The FNC-FoNC (Fondo Nacional del Café [National Coffee Fund]) is willing to take on debt to execute the project, guaranteeing repayment by collateralizing revenue it administers primarily from the coffee tax. This self-imposed levy is formally a tax, created by initiative of the coffee producers themselves, who manage the funds through the FNC.
- 4.3 The project intends to introduce new coffee sector institutions under the intervention models, such as the business incubator, coffee farmer partnerships, support units, and the monitoring, evaluation, and lessons learned system. The FNC has experience in: (i) managing new rules and institutions in Colombia. For example, in 2003 it jointly introduced, with the Bolsa Nacional Agropecuaria [National Agriculture Commodities Exchange], forward contracts for coffee, to facilitate working capital financing for coffee producers; (ii) managing and executing projects with international donor agencies; and (iii) executing public projects on behalf of the government, such as the recovery of the coffee-producing region following the 1999 earthquake, the Integrated Regional Program of Investment for Alternative Development and Institutional Strengthening in the Colombian Massif, and Community Management–Works for Peace, these latter projects having been funded by the Office of the President of the Republic.
- 4.4 The FNC-FoNC has a history of executing projects in the coffee sector, having executed a World Bank loan for US\$50 million with a guarantee from the State, to partially fund the 1984–1988 five-year coffee diversification plan. It executed a forgivable loan with the Government of Italy, for the fruit-processing plant in Chinchiná. It also executed the Sowers for Peace Program with cooperation from Spain, the objective of which was to improve education levels, boost income, and improve housing in order to build a culture of peace.

- 4.5 Currently, the FNC is applying the concept of “organization by processes” to administrative and financial support. The FNC, not counting Almacafé, has 89 employees who work in human resource, procurement, information technology, accounting, treasury, and tax processes. Information technology services are supplemented with services from a specialized company.
- 4.6 The FNC’s system of internal controls is made up of three subsystems: strategic control, management control, and evaluation. The control mechanisms for handling of funds from levies are established in the FNC’s management contract. In accordance with the first and subsequent articles of Decree 2025 of 1996, the FNC uses an internal audit to monitor the administration, handling, investment, and accounting of FoNC funds from levies, and for verification of the correct assessment, proper payment, collection, and allocation of the coffee sector’s levies. Fiscal control over FoNC funds and over funds from levies that are executed by the departmental committees of coffee producers are exercised by the Office of the Comptroller General of the Republic, under Articles 267 and 268 of the Constitution, and under Law 42 of 1993.
- 4.7 FNC has agreed to the ICAS institutional-strengthening matrix. Furthermore, the project provides for the monitoring, evaluation, and lessons learned system to ensure that know-how and experiences gained from implementation of the intervention models can be replicated on a larger scale once their benefits are proven. The system will also build the FNC’s project impact assessment capacity.

B. Socioeconomic viability

- 4.8 In the economic evaluation,¹² the benefits are the difference between the economic value added generated by the CFBUs with and without the program. Production increases attributable to the project were calculated in order to determine the benefits, and the costs of interventions required by the project were quantified and appraised, with estimates based on economic farm models using coffee sector census data to establish the parameters. Both the project’s benefits and its costs, were estimated using prices adjusted by conversion factors and spread out over a period of 15 years, which is the time frame covered by the business plans.
- 4.9 The value added is the amount that exceeds the economic costs of income generated by the CFBUs, attributable to the program as a result of: (i) product mix (specialty and undifferentiated coffees); (ii) improvements in productivity by adopting technology packages, best practices, and coffee farm renovation; (iii) economies of scale resulting from partnerships; and (iv) supplemental diversification with other crops. For inclusion in the analysis, program costs were organized into the following categories: consulting services, goods, services, and

¹² The economic and financial evaluation appears in the project’s technical files.

transportation. These were then converted into economic costs using accounting price ratios.

- 4.10 The project is viable economically, with a return of 14.4% and a net present value (NPV) of US\$5.4 million, using a 12% discount rate. It is worthy of emphasis that the results obtained in the evaluation represent a conservative scenario, given that they do not take into consideration the impact of the project through potential replication of CFBUs as a result of the demonstration effect of this pilot program, nor does it include the multiplier effect on other sectors that supply inputs or products or on the resulting creation of indirect jobs.
- 4.11 The sensitivity analysis was performed on coffee prices, the area worked per coffee producer, average agronomic yield, and the presence of crops interspersed with coffee. The results of this analysis demonstrate that the estimates are robust, though coffee prices showed the greatest sensitivity. In this regard, a 15% drop in coffee prices would result in an impact on the internal rate of return (IRR) of from 4% to 15%, depending on whether or not the farm had alternative crops such as corn.¹³ The design of each business plan for project farms offers the option of mitigating a possible drop in coffee prices (by interspersing corn crops) for those coffee producers who are more risk averse.
- 4.12 According to the 1997 census of coffee producers, 59% are poor, with 28% of these classified as extremely poor according to the unmet basic needs criterion. This operation therefore qualifies as a poverty-targeted investment (PTI), because over 50% of the target population is poor.¹⁴ This operation qualifies as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (documents AB-1704 and GN-1964-2).

C. Financial viability

- 4.13 The financial viability analysis is two-tiered: support for the coffee sector and cost-benefit analysis for small businesses.
- 4.14 As regards the sector, the Government of Colombia has specifically supported the objective of undertaking the project, and supported the coffee sector in particular, as is described in the section on the country's sector strategy. The government's budget expenditure breakdown shows US\$48 million in average annual support for the period 2001–2005. Of that amount, US\$12.5 million per year has been allocated to programs in areas related to this project's development objectives.

¹³ The statistical probability of a 15% drop in price is approximately 13%, assuming that historical price distribution remains the same.

¹⁴ The analysis performed appears in the project file entitled, "Calidad de Vida y Pobreza en la Zona Cafetera Colombiana" [Quality of Life and Poverty in Colombia's Coffee-Growing Region].

- 4.15 The FoNC had average income of US\$377 million per year for the period 2002–2005, which includes its commercial and non-commercial activities. It receives a permanent contribution of 5% of the free-on-board value of coffee exports, which amounted to US\$57 million in 2004. For the period 2003–2005, the FoNC allocated approximately US\$40 million on average to direct costs for projects that support the coffee sector.
- 4.16 To determine the program's financial viability, the financial flows of one CFBU were simulated, with its respective income and expenditures resulting from adoption of the intervention models. Using these models, estimates were made of the effect changing the attributes would have on the NPV and the IRR of the business, assuming that all models were successful. The cash flow categories for each production type are based on the intervention plan for each farm. Results on all intervention models analyzed ex ante were positive, and superior to current results achieved growing coffee using traditional technology. Thus, the resulting NPV is US\$20,000 for a six-hectare farm using Centro Nacional de Investigación del Café [National Center for Coffee Research] (Cenicafé) technology, whereas the farms in the partnership achieve a NPV of US\$35,000.

D. Environmental and social viability

- 4.17 In order to determine the environmental and social viability of the project, key impacts were analyzed, as were the measures required for preventing, minimizing, or mitigating these impacts. The results of this analysis are contained in the environmental and social management report (ESMR), which is part of the project's Operating Regulations.
- 4.18 In summary, the analysis identified four key environmental and social impacts associated with the project: (i) the slopes and the rainfall index in the project area promote runoff of sediments, nutrients, and pesticides that could eventually reach surface waters or infiltrate groundwater; (ii) cultural practices used by the project's beneficiaries tend to affect the degree of erosion, the structure and complexity of the ecological architecture, the variety of species, and the physical, chemical, and biological condition of soils; (iii) the use of pesticides, herbicides, and fertilizers, in addition to having environmental impacts, presents potential occupational health and safety risks; and (iv) processing harvested coffee can have a significant environmental impact through organic waste, water usage, and energy usage. The ESMR tells how to prevent, minimize, or mitigate the potential negative impacts identified through the careful selection of beneficiaries and farms, technical and environmental advice, and the inclusion of environmental and sociocultural considerations in the business plans.
- 4.19 Furthermore, because of its design, the project is expected to have a positive impact, by alleviating poverty and helping the rural youth population. It has been determined that the project will not impact areas that are of cultural or ecological

importance, will not promote a significant construction of new infrastructure, will not discriminate against women or indigenous and Afro-descendant populations, and will not require or promote involuntary resettlement.

- 4.20 The FNC will be responsible for applying the environmental and social measures contained in the ESMR. When the FNC's institutional capacity was analyzed, particularly that of CENICAFÉ and Fundación Manuel Mejía, it was concluded that the executing agency had the capacity and mechanisms required to apply the identified measures in a consistent, systematic, and satisfactory manner.

E. Benefits and beneficiaries

- 4.21 The benefits of the project, through scalable intervention models, are the following: (i) greater value added in the coffee-growing sector; (ii) young campesinos are able to become landowners and small business owners in the formal sector; (iii) increase in resources secured for the coffee sector; (iv) sustainable access to factors of production; (v) increased vitality, depth, and efficiency in land markets and in financial services for the sector; and (vi) greater institutional capacity for the coffee sector.
- 4.22 Beneficiaries of the project are categorized in the following two groups:
- 4.23 **Young farmers.** The 960 young farmers and their families in the coffee-growing region who desire to build their lives around the coffee industry will be the direct beneficiaries of the project. These young farmers will form 160 CFBUs.
- 4.24 **The FNC and its departmental committees of coffee producers.** The FNC's institutional capacity will expand, which will enable all coffee producers to adopt its existing wealth of technological know-how and will provide access to its business services. At least 10 departmental committees of coffee producers will be strengthened by supplementing their traditionally held capacities with new ones, through social, legal, financial, and business advisory services.
- 4.25 The project has established indicators that reflect its objectives, which include: an increase in total productivity of coffee sector factors of production; a percentage increase in the financial NPV of the business models implemented by the young partners, compared to control groups; and the number of hectares improved through the adoption of technology under parameters recommended by Cenicafé.

F. Risks

- 4.26 The major project risk, in terms of high probability of occurrence and high impact, is a potential lack of support from private entities in the financial system for granting long-term financing to the project's beneficiary businesses. This lack of support could arise, not only because of potential risk aversion by the financial institutions, but also because of the scale and the pilot nature of the project. This

risk is mitigated by the technical assistance the project will provide to its beneficiaries, as well as assistance in gaining access to sources of financing.

- 4.27 The risks of creating and starting up partnership businesses with potentially high transaction costs among partners will be mitigated by employing teamwork techniques and training programs and through the business structure itself, which allows proper involvement of the partners. This is precisely one of the attributes of the intervention models (partnership rather than individual involvement) that are to be evaluated as a project outcomes, prior to replication.
- 4.28 International price analysis of a product such as coffee depends on the following: (i) the product's long-term trend; (ii) structural changes to the market; and (iii) price changes due to the long-term trend. There was a structural collapse in coffee prices in 1989, which has impacted the industrial structure of the global market for the past 15 years. No structural collapse in prices is expected during the life of the project. Though the long-term trend, which ultimately depends on technical change and increased global demand, is expected to be downward, no significant or abrupt shocks are forecast.
- 4.29 The monitoring, evaluation, and lessons learned system will monitor the events and indicators associated with the highest-risk areas.

Table 4.1
Outline of responses to project risks

| Highest-risk areas | Risk rating | | | Recommended mitigation measures |
|---|--|------------------------|-------------------|---|
| | Probability of occurrence (P) ¹ | Severity of impact (S) | Risk rating (PxS) | |
| Country and sector | | | | |
| 1. Macro instability | 1 | 3 | 3 | FNC maintains institutional position on the importance of macroeconomic stability |
| 2. Rural insecurity | 2 | 4 | 8 | FNC continues to participate in providing public goods on behalf of the government, or of its own initiative |
| 3. Low coffee prices | 2 | 3 | 6 | Complement the project with tools such as: (i) purchase price guarantee; (ii) forward contracts in commodities market; (iii) trade policy |
| 4. Extreme weather | 2 | 2 | 4 | Timely information system and appropriate cultural practices |
| 5. Increased opportunity cost of employment in illegal activities | 2 | 3 | 6 | FNC supports alternative development program |
| Institutional and organizational | | | | |
| 1. Lack of support from the financial sector | 3 | 4 | 12 | Technical assistance in accessing sources of financing |
| 2. Contracts are not honored | 3 | 3 | 9 | Good contract design, as regards incentives and the use of arbitration clauses |
| 3. High transaction costs among partnering coffee producers | 3 | 3 | 9 | Training programs, teamwork techniques, and appropriate business structures |
| Fiduciaries | | | | |
| 1. Inadequate procurement | 1 | 2 | 2 | Implement administrative and control systems |
| Social and environmental | | | | |
| 1. Adverse local impacts | 2 | 2 | 4 | Apply the recommendations in the ESMR |

1 = Very low
2 = Low
3 = High
4 = Very high

INNOVATIVE INTERVENTION MODELS FOR THE COFFEE SECTOR (CO-L1009)

LOGICAL FRAMEWORK

| Narrative summary | Performance indicator | Means of verification | Assumptions |
|---|---|---|---|
| Goal | | | |
| To make Colombia's coffee-growing sector more competitive by improving access to factors. | <p>Two years after program completion:</p> <p>1.1 Growth in total productivity of factors of small farm businesses in the program increases to 3%.</p> <p>1.2 The ex post financial net present value (NPV) of the business models implemented by the young partners in the small farm businesses increases from US\$920/hectare to US\$2,180/hectare, compared to control groups.</p> | <p>Socioeconomic baselines for the program and ex post evaluation</p> <p>Statistics on Colombia's coffee-growing sector</p> <p>Ex post financial evaluation of the program</p> | <ul style="list-style-type: none"> Stable macroeconomic and sociopolitical environment. Weather events during project execution are not extreme. Average internal yearly price trend is maintained at least at US\$0.58 per pound. |
| Purpose | | | |
| To adopt sustainable institutional intervention models to improve access to productive resources, particularly for young farmers, and attract resources to the coffee-growing sector. | <p>By program completion:</p> <ul style="list-style-type: none"> The departmental committees of coffee producers will have autonomously replicated at least 30% (48) of the 160 pilot experiences called for in the program. Colombia's coffee-growing sector will receive US\$11.4 million in long-term credit for land purchases. Land transactions for coffee-growing rise by 15% per year: 75 purchase/sale transactions per year. | <ul style="list-style-type: none"> Final program evaluation Report from departmental committees of coffee producers, consolidated by the project coordinating unit. Statistics from financial sector institutions that have allocated long-term funds to the coffee sector. Data on productivity and purchase/sale of land in the sector. | <ul style="list-style-type: none"> The financial sector continues to support the program. |

| Narrative summary | Performance indicator | Means of verification | Assumptions |
|---|---|---|---|
| Components/Outcome | | | |
| <p>1. Adjustment, validation, and dissemination of coffee sector institutional models</p> | <p>One year into the program:</p> <p>Monitoring and evaluation system implemented according to the degree of progress specified in the Operating Regulations.</p> <p>Two years into the program:</p> <p>1.1 480 young farmers are partners in 80 Coffee Farming Business Units (CFBUs).</p> <p>1.2 Management and technical assistance services implemented in six departmental committees of coffee producers, as specified in the Operating Regulations.</p> <p>1.3 The coffee sector has at least one business incubator that has been able to connect the financial sector and the management services of the departmental committees of coffee producers with the program's CFBUs.</p> <p>1.4 The participating departmental committees of coffee producers have generated specific lessons learned for replicating the intervention models and their processes.</p> | <ul style="list-style-type: none"> External report by a specialized consultant <p>1.1 Copy of corporate documents of the CFBUs, and project coordinating unit report on the incorporation of farming business units</p> <p>1.2 Midterm evaluation of technical assistance services</p> <p>1.3 Contracts between financial sector institutions and the business incubator and new CFBUs</p> <p>1.4 Midterm evaluation of the intervention models and their processes; and departmental committee reports on lessons learned on program design and implementation in their jurisdictions</p> | <ul style="list-style-type: none"> Contracts between the parties are enforceable by the pertinent authorities. |
| | <p>Forty-eight months into the program:</p> <p>1.1 At least four intervention models are validated and widely replicated in the coffee sector, with different attributes in terms of technology, business models, and sources of financing.</p> <p>1.2 960 young farmers are in partnerships in 160 CFBUs.</p> | <ul style="list-style-type: none"> Final economic evaluation of the business models implemented by the CFBUs. | <ul style="list-style-type: none"> There are various sets of optimal attributes in the intervention models. |

| Narrative summary | Performance indicator | Means of verification | Assumptions |
|---|---|---|--|
| | <p>1.3 The business incubator is able to channel long-term financing from the financial sector to at least 40 CFBUs that are not associated with the project.</p> <p>1.4 Program information and dissemination system for the coffee sector is implemented according to the Operating Regulations.</p> | <ul style="list-style-type: none"> Statistics from institutions in the financial sector that have allocated long-term resources to the coffee sector Final program evaluation | <ul style="list-style-type: none"> Coffee farms not connected with the program are properly managed. |
| <p>2. Implementation of the institutional intervention models pilot program</p> | <p>Two years into the program: 1,260 applicants apply to participate in the program. By program completion:</p> <p>2.1 100 new CFBUs, under the promoted institutional models, are economically and financially replicable, according to net present value and liquidity criteria.</p> <p>2.2 70% of the committees of coffee producers (7), offer technical and management assistance to the new CFBUs, with positive results.</p> <p>2.3 The business incubator is able to secure US\$7.7 million in long-term financing from the financial sector for the coffee sector, for the CFBUs participating in the program.</p> <p>2.4 960 young people involved in coffee production.</p> <p>2.5 Program interventions in 3,200 hectares, with improved technology adoption under the parameters recommended by CENICAFÉ.</p> <p>2.6 300 land transactions in the program's area of influence.</p> | <p>Database of young applicants to the program</p> <p>2.1 Project coordinating unit report based on visits to departmental committees of coffee producers</p> <p>2.2 Evaluation of perception of services rendered among farmers in the CFBUs</p> <p>2.3 Statistics from financial sector institutions on long-term financing allocated to the coffee sector.</p> <p>2.4 Database of young program participants</p> <p>2.5 Reports by the Sistema de Información Cafetera [Coffee Information System] and by the departmental committees of coffee producers, on the levels of adoption achieved by the program, compared to the baseline and control groups</p> <p>2.6 Information system operational. Specialized evaluation report, with baseline and control group data</p> | <ul style="list-style-type: none"> Opportunity cost of working in illicit crops remains the same. <p>2.1 Low transaction costs among partners</p> <p>2.2 The Fondo Nacional del Café's [National Coffee Fund's] policy on the coffee tax for the departmental committees remains the same.</p> <p>2.3 The credibility and intangible assets of the business incubator are sufficient to attract the financial sector.</p> <ul style="list-style-type: none"> Coffee producers access working capital loans. Illegal crops in zones remain at least as they are. |

| Narrative summary | Performance indicator | Means of verification | Assumptions |
|-------------------------------|--|--|--|
| | 2.7 100% of the young people (960) organized as partners in the small businesses gain access to land, technology, and financial resources | 2.7 Report on land transactions recorded by the program's information system 2.8 Annual report on the CFBUs' ratio of long-term debt to equity 2.9 Annual report on the financial reserves of CFBUs to exercise the purchase options on the land, under a financial leasing arrangement. | <ul style="list-style-type: none"> • Expectations for land prices in the intervention area remain the same. • Young people are selected who have a vocation to be small business owners. |
| Activities | | | |
| 1. Selection of properties | 1.1. At the outset of the program, the departmental committees of coffee producers have identified, evaluated, and selected the properties required for establishing 56 CFBUs. 1.2. 12 months into the program, the departmental committees of coffee producers have identified, evaluated, and selected the properties required for forming an additional 52 CFBUs. 1.3. 24 months into the program, the departmental committees of coffee producers have identified, evaluated, and selected the properties required for forming an additional 52 CFBUs. | <ul style="list-style-type: none"> ▪ Annual report on program activities | |
| 2. Selection of beneficiaries | 2.1. At the outset of the program, the departmental committees of coffee producers have called for applicants and evaluated and selected 336 young families who will make up 56 CFBUs. 2.2. 12 months into the program, the departmental committees of coffee producers have called for applicants and evaluated and selected 312 young families who will make up 52 CFBUs. | <ul style="list-style-type: none"> ▪ Annual report on program activities | |

| Narrative summary | Performance indicator | Means of verification | Assumptions |
|---|---|--|-------------|
| | 2.3. 24 months into the program, the departmental committees of coffee producers have called for applicants and evaluated and selected 312 young families who will make up 52 additional CFBUs. | | |
| 3. Incorporation of the CFBUs | <p>3.1 At the outset of the program the departmental committees of coffee producers have formed 56 CFBUs.</p> <p>3.2 12 months into the program, the departmental committees of coffee producers have formed an additional 52 CFBUs.</p> <p>3.3 24 months into the program, the departmental committees of coffee producers have formed an additional 52 CFBUs.</p> | <p>3.1 Annual report on program activities</p> <p>3.2 Legal documents of incorporation of the CFBUs</p> | |
| 4. Implementation of the monitoring, evaluation, and lessons learned system | 4.1 Six months into the program, the project coordinating unit has designed and launched the system. | 4.1 Report from the first six months of program activities | |
| 5. Incorporation of the business incubator | 5.1 Six months into the program, the business incubator is in place and fully operational. | <p>5.1 Report from the first six months of program activities.</p> <p>5.2 Legal documents of incorporation of the business incubator</p> | |
| 6. Definition of the farm intervention models | <p>6.1 Three months into the program, the special support units of the departmental committees of coffee producers have defined the intervention models for farms that make up the first 56 CFBUs.</p> <p>6.2 12 months into the program, the special support units of the departmental committees of coffee producers have defined the intervention models for farms for an additional 52 CFBUs.</p> | <p>6.1 Report from the first six months of program activities</p> <p>6.2 Annual report on program activities</p> | |

| Narrative summary | Performance indicator | Means of verification | Assumptions |
|--|---|---|-------------|
| | 6.3 24 months into the program, the special support units of the departmental committees of coffee producers have defined the intervention models for farms for an additional 52 CFBUs. | 6.3 Midterm evaluation report on technical assistance services | |
| 7. Implementation of production-related projects | <p>7.1 Three months into the program, the first 56 CFBUs have begun production-related projects on their respective properties.</p> <p>7.2 12 months into the program, an additional 52 CFBUs have begun production-related projects on their respective properties.</p> <p>7.3 24 months into the program, an additional 52 CFBUs have begun production-related projects on their respective properties.</p> | <p>7.1 Report from the first six months of program activities</p> <p>7.2 Annual report on program activities</p> <p>7.3 Midterm evaluation of technical assistance services</p> | |
| 8. Financial and business management | <p>8.1 Three months into the program, the business incubator has negotiated with the financial sector to secure funds for procuring land and financing for the production-related projects of the first 56 CFBUs.</p> <p>8.2 12 months into the program, the business incubator has negotiated with the financial sector to secure funds for procuring land and financing for the production-related projects of an additional 52 CFBUs.</p> <p>8.3 24 months into the program, the business incubator has negotiated with the financial sector to secure funds for procuring land and financing for the production-related projects of an additional 52 CFBUs.</p> <p>8.4 48 months into the program, the business incubator has negotiated with the financial sector to secure long-term funds for at least 40 CFBUs not associated with the program.</p> | <p>8.1 Report from the first six months of program activities</p> <p>8.2 Annual report on program activities</p> <p>8.3 Midterm and final program evaluation</p> | |

| Narrative summary | Performance indicator | Means of verification | Assumptions |
|---|--|--|-------------|
| 9. Support for CFBUs | 9.1 Ongoing support is given to the CFBUs, every year of execution, for technical, financial, commercial, environmental, and social matters, according to the guidelines contained in the program's Operating Regulations. | 9.1 Annual report on program activities 9.2 Evaluation of the perceptions of producers in the CFBUs regarding the services rendered 9.3 Midterm and final program evaluation | |
| 10. Systematization of the lessons learned from the program | 10.1 48 months into the program, the differentiated effects of the intervention models have been evaluated, through specific in-depth studies that explain the differences, and the strategies for the potential scaling of the program have been established. | 10.1 Midterm and final program evaluation 10.2 Studies on deepening the monitoring, evaluation, and lessons learned system | |

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/05

Colombia. Loan ___/OC-CO to Banco Agrario de Colombia S.A.
Innovative Intervention Models for the Coffee Sector

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Banco Agrario de Colombia S.A., as Borrower, and with the Republic of Colombia, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of a program on innovative intervention models for the coffee sector. Such financing will be for an amount of up to US\$6,000,000 from the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

LEGIII/CO-642815-05
CO-L1009