

DOCUMENT OF THE INTER-AMERICAN BANK  
MULTILATERAL INVESTMENT FUND

**REGIONAL**

**PRICE RISK MANAGEMENT FOR COFFEE COOPERATIVES IN LATIN  
AMERICA**

**(RG-T2840)**

**DONORS MEMORANDUM**

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## **PROJECT SUMMARY**

### **REGIONAL**

#### **PRICE RISK MANAGEMENT FOR COFFEE COOPERATIVES IN LATIN AMERICA**

##### **(RG-T2840)**

Extended droughts, higher temperatures in coffee producing areas and the outburst of plagues among other climate change impacts, make price volatility one of the most significant risks that small coffee farmers face. Even small variations in coffee prices can have huge consequences for small farmers who depend on coffee sales for their livelihoods. Farmers are also dependent on the performance of their cooperative: at the end of each harvest, farmers can earn a dividend or “second payment” from their cooperatives that can range from 5-30% of the total price received per pound of coffee. If cooperatives end up with a loss at the end of the harvest, second payments are reduced or absorbed to cover the organization’s losses, resulting in less income for farming families. To confront the heightened volatility caused by climate change and to enable the implementation of adaptation measures among the farmer base (pest-resistant seedlings, improved water/soil management, integration of diversification strategies), coops in the region need more stable revenue sources as well as the ability to forecast their financial situation accurately. Case studies developed by Fair Trade USA demonstrate that coops have been able to increase farmer incomes by over 20% over a one-year period when adequate price risk management (PRM) strategies are put into place.

PRM is not common for coops in the region: even among the most mature coops, as few as 6 possess sophisticated and actionable understanding of PRM: most of them can’t offer long-term rate contracts, thereby decreasing their market competitiveness. In addition; PRM training programs have either been one-day trainings focused only at the operational level or one-off programs led by an importer to work directly with their client. Synergies and coordination achieved through the Sustainable Agriculture, Food and the Environment (SAFE) Platform of the MIF, bring together a diverse group of organizations for the creation of a unique PRM project that aims to transform the profitability, credit-worthiness, and competitiveness of 16 selected cooperatives from Honduras, Guatemala, Nicaragua, Colombia, and Peru over a three-year period.

The project includes the development of a PRM training process under a multi-year approach to refining the fundamentals (cash flow, inventory management and governance among other topics) and learning about PRM with a strong evaluative component that engages the cooperative’s Board and Management with tools tailored to the coffee cooperative context. A simulation-based program and a PRM toolkit will be created to provide experiential learning in the use of hedging instruments. Finally, through Oikocredit, the executing agency, the project will have a pre-approved lending facility that will provide liquid, flexible, unsecured PRM financing to cover all costs related to PRM implementation (options, payments of margin calls requested by NYSE, and related broker fees).

This project is led by Oikocredit in partnership with Catholic Relief Services (CRS), an international humanitarian agency with broad experience in coffee programs, Fair Trade USA, the leading nonprofit, third-party certifier and promoter of Fair Trade Certified™ products in North America, and Keurig Green Mountain, a leader in specialty coffee and the top purchaser of Fair Trade Certified coffee in the United States.

## **ANNEXES**

ANNEX I	Results Matrix
ANNEX II	Budget Summary

## **APPENDICES**

Draft Resolution

## **AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF MIF PROJECT INFORMATION SYSTEM**

ANNEX III	Detailed Budget
ANNEX IV	Diagnostic of Needs of the Executing Agency (DNA) [includes Integrity Due Diligence Analysis]
ANNEX V	Reporting Requirements and Compliance with Milestones and Fiduciary Arrangements
ANNEX VI	Procurement and Contracting Plan
ANNEX VII	Operative Regulations for Innovation

## ACRONYMS AND ABBREVIATIONS

<b>AC</b>	Advisory Committee
<b>AOP</b>	Annual Operating Plan
<b>CRS</b>	Catholic Relief Services
<b>CSA</b>	Climate-Smart Agriculture
<b>CSAF</b>	Council on Smallholder Agricultural Finance
<b>DNA</b>	Diagnostic of Executing Agency Needs
<b>EC</b>	Execution Committee
<b>FT USA</b>	Fair Trade USA
<b>IDB</b>	Inter-American Development Bank
<b>ICT</b>	Information and Communication Technologies
<b>IIC</b>	Inter-American Investment Corporation
<b>KGM</b>	Keurig Green Mountain
<b>LAC</b>	Latin America and the Caribbean
<b>MEAL</b>	Monitoring, Evaluation, Accountability and Learning
<b>MIF</b>	Multilateral Investment Fund
<b>OR</b>	Operating Regulations
<b>PCU</b>	Project Coordination Unit
<b>PRM</b>	Price Risk Management
<b>SAFE</b>	Sustainable Agriculture, Food and the Environment
<b>SCAA</b>	Specialty Coffee Association of America
<b>TOR</b>	Terms of Reference

**PROJECT INFORMATION**

**REGIONAL**

**PRICE RISK MANAGEMENT FOR COFFEE COOPERATIVES IN LATIN AMERICA**  
**(RG-T2840)**

<b>Country and Geographic Location:</b>	Honduras, Guatemala, Nicaragua, Colombia, and Perú		
<b>Executing Agency:</b>	Oikocredit International Support Foundation (ISUP).		
<b>Focus Area:</b>	Climate Smart Agriculture (CSA)		
<b>Coordination with Other Donors/Bank Operations:</b>	The IIC (Financial Markets Division) has expressed interest in being closely aligned with project roll out. In addition, the project results will be shared with the Council on Smallholder Agricultural Finance (CSAF) and with the members of the Sustainable Agriculture, Food and Environment (SAFE) Platform.		
<b>Project Beneficiaries:</b>	16 coffee cooperatives in LAC (representing about 5,000 mostly smallholder farmers (about 80% men / 20% women))		
<b>Financing:</b>	Technical Cooperation:	US\$ 1,085,560	43%
	Equity:	US\$ 000,000	
	Loan:	US\$ 000,000	
	Other (explain):	US\$ 000,000	
	<b>TOTAL MIF FUNDING:</b>	US\$ 1,085,560	
	Counterpart:	US\$ 1,463,540	57%
	Co-financing (if available; include a separate line for IDB Co-financing if applicable):		00%
	<b>TOTAL PROJECT BUDGET:</b>	US\$ 2,549,100	100%
<b>Execution and Disbursement Period:</b>	36 months of execution and 42 months of disbursement.		
<b>Special Contractual Conditions:</b>	<p>Special conditions precedent to first disbursement will be: (i) Submission to the MIF of the Project Execution Plan; (ii) Selection of the Project Manager; (iii) Agreement between Oikocredit and ISUP clearly stating the coordination / accounting and procurement arrangements for project implementation.</p> <p>Special conditions precedent to second disbursement will be: (i) Agreement between Oikocredit and the rest of the organizations involved (CRS, FT USA and KGM) detailing contributions and coordination arrangements.</p>		
<b>Environmental and Social Impact Review</b>	This operation was screened and classified as required by the IDB's safeguard policy (OP-703) on September 15. Given the limited impacts and risks, the proposed category for the project is C.		
<b>Unit responsible for disbursements</b>	MIF / CCR		

## **I. The Problem**

### **A. Problem Description**

- 1.1 Coffee is a major export commodity that is consistently ranked in the top 10 largest agricultural exports by value worldwide. Further, green (unroasted) coffee is one of the most-traded agricultural commodities. Between 2006 and 2009, the Latin America and the Caribbean (LAC) region represented about 45% of the coffee world production spread among various countries, among them: Brazil, Colombia, Peru, Honduras, Mexico, Nicaragua and Guatemala.
- 1.2 Coffee cooperatives in LAC play three important roles in the coffee chain: (i) they ensure delivery of information and services (advisory, agronomic, financial and other); (ii) they deliver high-quality coffee to companies seeking certified coffee, including some of the largest coffee companies in the world and (iii) they are increasingly providing much needed credit to farmers. The more advanced and stronger the cooperative is, the more able it is to provide long-term credit needed to implement a wide range of climate resilient coffee farming strategies. Over the past 15 years, the more advanced coffee cooperatives have become important players in the specialty coffee market, obtaining various certifications and investing to comply with a rising number of private standards while at the same time implementing climate-smart agricultural practices with and for their members.
- 1.3 Extended droughts, higher temperatures in coffee producing areas and the outburst of plagues among other climate change impacts, make price volatility one of the most significant risks that small coffee cooperatives and their farmers face. Even small variations in coffee prices can have huge consequences for small farmers who mostly rely on income generated from coffee sales to cover their annual basic needs. Farmers who sell under Fair Trade certification are offered a minimum market price which helps to mitigate risk but that pales when compared to the amount received by a farmer who is better able to hedge his/her stocks in tandem with daily price fluctuations. Case studies developed by Fair Trade USA (FT USA) and others<sup>1</sup> demonstrate that coops have been able to increase farmer incomes by over 20% over a one-year period when adequate hedging strategies are put into place.
- 1.4 Based on MIF estimations, there are some 20 large and medium sized coffee cooperatives in the region whose combined volume of business reaches almost \$500 Million, serving mostly small producers with an average of 3 hectares of coffee production. Even among the most mature coops, as few as 6 possess sophisticated and actionable understanding of PRM<sup>2</sup>; from the rest, most of them

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<sup>1</sup> World Bank Group Report Number 93923-GLB, "Risk and Finance in the Coffee Sector: A Compendium of Case Studies Related to Improving Risk Management and Access to Finance in the Coffee Sector", February 2015.

<sup>2</sup> Based on conversations with the project partners, cooperatives that are currently implementing PRM strategies are: Aldea Global (Nicaragua), Cooperativa de los Andes (Colombia), Cooperativa de Caficultores y Servicios Múltiples de Tarrazú (Costa Rica), Red Ecolsierra (Colombia), Compañía Cafetera La Meseta (Colombia), Cooperativa Valle Uiriki (Perú) and Sol y Café (Perú).

can't offer long-term rate contracts, thereby decreasing their market competitiveness. Farmers in cooperatives have the ability to earn a dividend at the end of the harvest after their cooperative sells its coffee to the exporter/importer. Dividends or "second payments" from the cooperative can be significant, and can range from 5-30% of the total price received per pound of coffee. However, if cooperatives end up with a loss at the end of the harvest, second payments are reduced or absorbed to cover the organization's losses, resulting in less income for farming families.

- 1.5 For these reasons, it is critical that farmer cooperatives have an understanding of price risk and develop the in-house capacity and empowerment needed to directly implement strategies in price risk management (PRM). A better coop performance will allow for more stable year-over-year profits and overall greater income for their affiliated smallholder farmers. Access and implementation of PRM practices will buffer coffee producers from market shocks associated with climate-induced supply volatility and will also enable coffee cooperatives to keep supporting providing much needed finance and technical support for implementation of climate resilience strategies at the farm level.
- 1.6 **The main project beneficiaries** will be 16 coffee cooperatives (including Board Members and people in management positions, financial and commercial managers, financial staff) from Honduras, Guatemala, Nicaragua, Colombia, and Peru that represent about 5,000 mostly smallholder farmers (about 80% men / 20% women). The typical smallholder coffee farmer has up to 5 hectares under cultivation and produces less than 300 kg of coffee per year. The average gross income earned by the poorest farmers is less than \$2500. Based on a preliminary assessment, the beneficiary coops have an average of 1,300 members and an exported production level of 3,200 tons (2015).

## II. The Innovation Proposal

### A. Project Description

- 2.1. The **project objective** at the impact level is to mitigate the price volatility faced by smallholder farmers organized in cooperatives in Latin America. The project objective at the results level is to increase the capacity of 16 cooperatives to implement and manage effective strategies in price hedging for their members.
- 2.2. **Model / Solution Proposed:** Even though some coffee coops in the region already have an understanding of the mechanics of puts, calls, and futures, much of the knowledge is concentrated at the coop management level and possibly even with some coop board members. Few are managing their own PRM strategies since PRM is considered too complex to take on independently. Many also don't have the basic accounting/inventory management systems in place to effectively manage cash flows and coffee stocks. At the farmer level, knowledge and understanding of the benefits of implementing PRM is also very limited since lessons learned from trainings do not trickle down.
- 2.3. Oikocredit as the Executing Agency, CRS, FT USA and KGM seek to build a unique and integral PRM project (technical assistance and options financing) that aims to transform the profitability, credit-worthiness, and competitiveness of 16



beneficiary cooperatives over a three-year period. The 3-step training project will be based on a pre-assessment of each coop's PRM capacities. Options financing will be offered to each coop that goes through the training. Also, ongoing PRM advisory services will be offered on a cost- shared basis during 6 months after trainings have finalized. Finally, potential for developing a PRM Institute specialized in the provision of options financing, PRM training and advisory services will also be assessed as part of this project.

- 2.4. **Coop Selection Process:** The project is aimed at developing capacities of the most advanced coops in the region that already have a solid governance structure and access to markets secured. The participants will be selected based on a criteria jointly developed by MIF, Oikocredit, CRS, FT USA and KGM that includes: (i) minimal annual production of 25,000 quintals and sales of US\$ 4Million; (ii) a minimum of 5 years under Fair Trade certification both in the USA and elsewhere without ever being de-certified<sup>3</sup>; (iii) well-functioning governance structure with basic to intermediate financial management capacities; (iv) excellent reputation with buyers and lenders; (v) willingness to commit the resources (personnel, time, minimal counterpart contribution) for the entire length of the project, and (vi) preferred (but not required): existing commercial relationship with KGM and/or Oikocredit and prior exposure to PRM trainings.
- 2.5. A list of around 100 potential participants that has been narrowed down to a pre-selected group of 28 coops<sup>4</sup> that will undergo a rigorous selection process that will be made between Oikocredit, CRS, FT USA and KGM to obtain the final group of 16 participant coops. An application process will be established whereby interested cooperatives will have to fill in data and present a Letter of Intent expressing their rationale and objectives for participating in the project. The final selection of these and/or other coops will depend on the interest and commitment expressed by each cooperative. For the training workshops and peer-to-peer activities, the participants will be grouped in two cohorts: one for Central America and a second one for South America.
- 2.6. **Innovation.** PRM is not common for coops in the region; historically, training programs have either been one-day trainings focused only at the operational level or one-off programs led by an importer to work directly with their client. Synergies and coordination led by the MIF and achieved through the SAFE Platform have brought together two different proposals into one unified program that goes beyond just training to the development of a unique strategy that includes the development of a PRM toolkit and access to financial resources. Established in 2015 under the leadership of the MIF and the most important

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<sup>3</sup> To obtain Fair Trade certification, producer organizations are required to comply with environmental standards including, among other topics: integrated pest management; proper use of pesticides and other hazardous agrochemicals; soil erosion control and planning (including crop rotation, intercropping, agroforestry); watershed conservation and restoration; and biodiversity protection (including establishment of protected areas and buffer zones).

<sup>4</sup> The preliminary list of coops has been included in the Operating Regulations annex.

coffee actors in the world, the SAFE Platform<sup>5</sup> was the natural confluence of various parties interested in this program, including some of the trading companies which will also benefit greatly from the implementation of these PRM strategies with the coops they work with. The result is a unique program that has not yet been tried by any other donor or organization in the region to date. Another distinctive feature of the project is its multi-year approach to learning about PRM tools and refining the fundamentals (cash flow and inventory management, governance, etc.) with a strong evaluative component that engages all levels of the organization and that is tailored to the coffee cooperative context. The direct link to Oikocredit's options financing facility is also unique and provides further incentives for cooperatives to continue to invest in PRM tools. By providing this imbedded incentive, the project aims to create a virtuous cycle that allows cooperatives to pay for their own trainings moving forward as they receive longer-term financing and catalyze self-sustaining change.

- 2.7. **Component I: PRM Organizational Strengthening** The objective of this component is to build the capacities of 16 coffee cooperatives in areas critical to direct implementation of effective PRM strategies. Current trainings offered in the region by local consultants and international brokers have been packaged and more focused on establishing a general understanding of derivatives financing. Through this component, the program will sponsor the design of a three-step training process that will provide a clear understanding of the fundamentals that managers and board members need in order to implement PRM strategies (place puts and calls and establish open positions, calculate appropriate financing for derivatives, etc.).
- 2.8. The three-step training process includes: (i) PRM Basic: Aimed at cooperative board members and management covering topics such as introduction to price volatility, risk management and its importance to the cooperative, understanding financial statements, managing inventories, etc. (ii) PRM Intermediate: Geared towards coop management, admin/finance and commercial staff, the course will cover market volatility, options and futures, management and understanding of sales contracts, etc. (iii) PRM Advanced: Geared towards coop management, admin/finance and commercial staff; the course will cover practical applications of risk management, options and futures with analysis of real cases and their practical applications. FT USA will also introduce a new Price Risk Simulator model in this course.

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<sup>5</sup> SAFE was approved under RG-M1269. Its founding members are Keurig Green Mountain Inc., ECOM Trading, Starbucks Coffee Company, Hans R. Neumann Foundation (part of the Neumann Kaffe Gruppe), Root Capital, Catholic Relief Services, Solidaridad Network, Rainforest Alliance, S&D Coffee & Tea, Farmers Brothers Co., Hivos, the Grameen Foundation, the Coalition for Coffee Communities (CCC), the Sustainable Commodity Assistance Network (SCAN), and the Committee on Sustainability Assessment (COSA).

- 2.9. The component will include: (i) the creation of a coop assessment tool<sup>6</sup> to score the coops, and place them in the most appropriate level for the training program; (ii) development of the PRM course curriculum by external consultants, who will use existing tools<sup>7</sup> as a basis for the teaching manuals, training materials and methodology that will be created; (iii) training workshops that will be organized around the cop cycle<sup>8</sup> grouping participants in regionally-based cohorts: the workshops will include the participation of the coops' board which has been deemed a critical success factor to ensure consistent understanding, acceptance, and promotion of PRM strategies within the coop; (iv) 6-month subsidized PRM advisory and counseling on an as-needed basis: coops that complete the training program will receive up to 6 months of ongoing advisory services from an independent broker or other service provider of their choice. The expectation is that after this period of time, coops will be able to take on direct implementation alone.
- 2.10. **Component II: PRM Toolkit.** The objective of the component is to support coffee cooperatives to access and use a PRM toolkit that includes training materials<sup>9</sup>, a risk assessment tool and a web-based Price Risk Simulator. Fair Trade USA will lead the development and publication of this guide.
- 2.11. The PRM Simulator is a web-based technology that will be presented as a simulation-based game to practice the use of hedging instruments (e.g. futures and options). The simulator will be translated into Spanish and will be aimed at commercialization Managers or other practitioners responsible for PRM execution as well as for Board representatives and farmers interested in deepening their understanding of PRM. To develop this technology, FT USA is working in partnership with the Woodard Lab at Cornell University's Dyson School of Applied Economics. In addition a PRM Evaluator - an interface derived from the simulator tool – will also be developed and used to analyze and optimize risk management strategies. The evaluator is based on user-defined inputs such as a cooperative's individual financial and business structure as well as risk exposure and will be targeted to cooperative staff.
- 2.12. The complete development of the simulator includes: (i) the Back End of the tool: real-time data feed to current market information, hedge and option costing, and volatility indexing as well as the integration of performance scoring and

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<sup>6</sup> Dimensions measured will include financial performance (operational sustainability, solvency, financial planning and liquidity cash flow adequacy), governance and supervision capacities; organizational structure, practices and functionality; management capacities (including inventory management and financial administration); market experience; use of information for decision making (including the use of IT systems); service provision; and gender equity.

<sup>7</sup> Under the SAFE Platform, the MIF-approved project RG-M1285 included the development of a basic PRM training course that will be used for this project. The PRM course will also leverage other materials created by Oikocredit and the rest of the organizations involved (CRS, FT USA and KGM).

<sup>8</sup> Central America starting in July 2017 and South America starting around February/March 2017

<sup>9</sup> Training materials refer to the training modules developed in Component I, documentation of lessons learned and best practices in the form of Learnings Briefs, an executive summary plus individual cooperative case studies of experiences in the PRM program, lessons learned from Component III, and detailed descriptions of cooperative assessment tools and other outputs designed for the PRM program.

evaluation, based on the indicators defined in the project's M&E framework; (ii) the Front End of the tool: wire-frames of UX and functional design, back-end functionality, access and hosting, and ongoing support needs; (iii) FT USA will lead design of the product's look, feel and functionality based off of research into the unique user needs and culture represented by Latin American cooperatives; (iv) online hosting and maintenance needs and strategy to support the tool for the duration of the project and beyond and (v) coordinated development of a learning agenda with Oikocredit, CRS, FT USA and Keurig<sup>10</sup>.

- 2.13. **Component III: Peer to Peer Learning Apprenticeship Program.** The objective of this component is to expose the cooperatives to hands-on experiences of peers who are implementing PRM strategies directly. This learning methodology will complement the more formal trainings provided in Component I. It is expected that 2 people per cooperative (one board member and one senior staff) participate in the apprenticeship program that will be hosted by two best in class cooperatives that have considerable experience in implementing PRM strategies: Cooperativa de los Andes (Colombia) and Aldea Global (Nicaragua). Geographic distance, as well as the needs and interest of the participants will determine the cooperative that will be visited.
- 2.14. The peer visits will take place over a 3-day period and will include the following activities: (i) individual and focus group sessions with board and management staff; (ii) formal presentations made by host cooperatives on history and motivations for engaging in PRM; (iii) practical exercises using experiences from host coops; (iv) review of financial and inventory management control systems, among other relevant systems; (v) visit to cooperative members, to learn their perspectives on the impacts that PRM has had on their lives; and (vi) the refining of an Excel-based inventory management system that one of the hosts uses in order to plan their open positions on a regular basis. The tool will be completed and be made available through the PRM toolkit.
- 2.15. **Component IV: Options Financing.** The objective of this component is to fill a financing gap to cooperatives ready for direct PRM implementation. MIF's contribution to this component will be for a business plan to create a PRM Institute for sustained services capability, while Oikocredit with its own resources will provide liquid, flexible, unsecured PRM financing to producer associations and cooperatives through a unique product<sup>11</sup>. A critically important feature of the project is the complementarity offered by this Oikocredit PRM financing targeted to covering all costs related to options, payments of margin calls requested by NYSE, and related broker fees
- 2.16. The characteristics of the Oikocredit PRM product will include the following: (i) Purpose: cash flow to cover costs for financing options and futures; (ii) Amount: up to US\$300,000 in hard currency; (iii) Tenure: funds can be used up to 1 year at which time full repayment must be made; (iv) Loan Structure: line of credit that

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<sup>10</sup> See Scalability section for more details.

<sup>11</sup> To date, no other impact investor or financial institution is providing this type of financing. As cooperatives start graduating from the training program, it is expected that demand for this type of financing will increase with others offering similar products.

can be used several times over the 1-year period, renewable based on good performance; (v) Guarantee: unsecured; (vi) Rate: based on level of risk and market factors. Discounts could be offered to coops that demonstrate high social impact

- 2.17. After approval of this project, Oikocredit will manage the internal approval of a lending facility valued from a minimum of US\$ 500,000 to US\$4.5 Million for PRM financing. This pre-approved facility will allow for faster loan lead- time once cooperatives are deemed eligible for financing – that is, after they have completed the 3-step training process and they have successfully passed Oikocredit's loan due diligence. Some cooperatives that are assessed at the advanced level from the start could be eligible for financing during year 1. Others may require further training before meeting the basic requirements. Repayments will be made directly to Oikocredit accounts in the Netherlands. Lending will be available during the entire 36-month period of project execution. Cooperatives can choose the financing partner that best matches their needs.
- 2.18. The Oikocredit-financed PRM loan product will be complemented with the development of a study financed by MIF to evaluate the feasibility of a PRM Platform. This Latin America- based entity would specialize in the provision of options financing, training and advisory services for cooperatives and other entities dealing in other traded commodities such as cocoa. If feasible, the expectation is that the entity could be established during Year 2 of this project's implementation. Oikocredit would seek other investors in this company which could include the MIF, other social investors, FT USA, FTI, and/or others.
- 2.19. Oikocredit will share its experience with its options lending product with other social investors through its participation on the Council on Smallholder Agricultural Finance (CSAF). CSAF is an alliance of social lending institutions, also referred to as impact-first agricultural lenders, targeting agricultural businesses in the “missing middle”<sup>12</sup> in low- and middle-income countries. CSAF members include: Alterfin, Oikocredit, Rabobank, ResponsAbility, Root Capital, Triodos and Shared Interest.

## **B. Project Results, Measurement, Monitoring and Evaluation**

- 2.20. The project will design and establish a monitoring, evaluation, accountability and learning (MEAL) system under the lead of Catholic Relief Services (CRS). The project will engage project participants, leveraging existing capacities, knowledge management systems, and information sources of Oikocredit, the rest of the organizations involved in the project, coffee cooperatives, and other stakeholders to monitor project performance in a programmatically effective and cost-efficient manner. The project results Matrix, presented in Annex I was designed as the basis for the MEAL system design. The key indicators for this project are: (i) net market margin after cost of goods, variable, fixed and financial costs (US\$/bag of coffee); (ii) percentage of total

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<sup>12</sup> Missing middle for CSAF refers to businesses that require financing in the US\$25,000–US\$2 Million range (and sometimes higher), which is too large for microfinance and often does not qualify for loans from local commercial banks.

traded volume covered by price risk management strategies, disaggregated by type of strategy (open positions, financial); (iii) number of cooperatives that are effectively and sustainably managing price risk, disaggregated by type of strategy (open positions, financial); and (iv) total value of lending received by cooperatives used to adopt financial instruments for price risk management (US\$/per commercialization cycle).

- 2.21. The monitoring system and process will be based on: progress reports and on the development of three tools that will be used as part of program implementation, and will also serve to collect the data needed to assess the project indicators, creating synergies between project implementation and M&E activities:
  - The CSAF M&E Tool to track all the financial data; specifically, inventory, price and contract-level financial information, relevant to this project.
  - A Cooperatives' Assessment Tool, developed in Component I, will be used to facilitate a diagnosis process with key and representative cooperatives' staff and members to assess key areas for effective price risk management. This diagnosis will lead to the design and implementation of action plans based on the identified opportunities for improvement.
  - A Competencies' Assessment Tool that will be developed based on the Competency Models designed as the basis for the training curriculum development and implementation.
- 2.22. The system will use information and communication technologies (ICT) through CRS' e-Valuate system, an ICT-supported system comprised of a library of standard forms designed in iFormBuilder for digital data collection that allows tracking of indicators in or near real –time, increasing data integrity within routine monitoring and assessment.
- 2.23. **MEAL Workshop:** Upon project approval and as part of the start-up activities, a workshop will be conducted to design a detailed MEAL Plan with all project actors. This workshop will be facilitated by CRS and the resulting MEAL Plan will include, among others: a stakeholder analysis, the Theory of Change, detailed definition of the final list of indicators along with milestones, etc. Based on the MEAL Plan developed, CRS in conjunction with the PEU, will set up of data collection and reporting processes, periodic analyses and assessment of program outcomes against initial targets (including whether program milestones have been achieved), and providing support to Cooperatives in maintaining adequate records.
- 2.24. **Reports:** Standard reports will be designed based on a project stakeholder analysis in collaboration with all project actors and investors, who will be able to see progress on the project indicators in a project dashboard that will be designed and made available on-line. These reports will also be included in biannual, annual, midterm and final reports and evaluations. Reports will also be presented during Executive and Advisory Committee meetings – described in the Implementation Structure and Mechanism Section - to assess progress in implementation, identify limitations, and determine necessary adjustments to

ensure successful project implementation. As such, data collected via MEAL processes will be used to cultivate learning, inform decision-making, and ensure accountability.

### **III. Alignment with IDB Group, Scalability, and Risks**

#### **A. Alignment with IDB Group**

- 3.1. This project aligns with the strategic IDB framework: (i) IDB Country strategies: the topics of productive development, access to finance and innovative financing are recurring issues in the IDB country strategies for the 5 countries involved. (ii) IDB Climate Change Sector Framework Document: in the area of promotion of innovative financial instruments as key elements to enable adaptation and mitigation investments; and (iii) Renewed Vision for the IDB Group Private Sector Merge-Out; the priority business areas of increasing MSME's access to finance and supporting innovation and technological development are both the document are relevant to this project.
- 3.2. The project also aligns with the climate smart agriculture (CSA) focus area in two important ways: by supporting existing climate smart farming practices that FT certified participants are already implementing, and by buffering coffee producers from market shocks associated with climate-induced supply volatility. The participating cooperatives comply with FT standards related to sustainable farm and ecosystem management, watershed conservation and restoration, water efficiency measures, reduction in fossil fuels and carbon sequestration. Successful implementation of PRM strategies will assure the economic viability of these important climate smart practices. Better performing coops will also have a heightened ability to carry out important investments (for example, purchase of equipment, pest-resistant seedlings) that boost productivity and have a direct impact on the environment.

#### **B. Scalability**

- 3.3. Sustainability, replicability, and expansion of PRM skills and capacities will be achieved at different levels as a result of this project. At the industry level, the project will produce and make readily available a replicable approach documented in a PRM Toolkit that will help to further move other cooperatives towards direct PRM implementation. The organizations involved in the project—through their own networks, which include CSAF, the Sustainable Coffee Challenge, an importer working group, and the SAFE Platform – will disseminate the Toolkit to other relevant stakeholders, among them financial institutions, impact investors and even local service providers.
- 3.4. At the coop level, the project is designed to effectively empower the participant cooperatives in the implementation of hedging and trading instruments that help them: (i) to realize the value of these risk-coverage strategies and increase the coops' willingness to invest in the technologies and services needed to maintain and improve PRM implementation; (ii) to become stronger, more predictable businesses that can contribute increased dividends to farmer members over time and become financially thriving businesses with the ability to access multiple sources of lending (iii) to connect with other peers who have practical

experience in the implementation of these tools and create a support network that can boost PRM replicability. Oikocredit expects that demand for options financing will rise over the coming years as more cooperatives take the leap towards direct implementation.

- 3.5. Following distribution of the Toolkit, Oikocredit, FT USA and KGM aim to adapt and replicate the trainings in other countries and coffee supply chains in which they operate. It is the goal of both entities to turn this pilot into a project that can be replicated across Fair Trade supply chains, and made available for industry-wide adoption across coffee supply chains. Fair Trade USA currently works with over 300 coffee cooperatives representing hundreds of thousands of farmer members across Latin America, Asia and Africa. Oikocredit has over 50 coffee coop partners worldwide and expects that network will double in size over the coming years.
- 3.6. **Learning:** Results and learnings from the project's activities and products will be disseminated to strategic audiences (including partners, funders, and broader industry stakeholders such as Importers, Social Lenders, and policy makers) in relevant events and venues, such as the Specialty Coffee Association of America (SCAA) Conference.
- 3.7. In addition to assessing progress in the project indicators, intentional learning processes will be designed and conducted to respond to the following learning questions: (i) What is the minimum level of competencies required to successfully design and implement price-risk-management strategies in smallholder focused coffee cooperatives and what are the most effective means to develop them? The design of a competencies model for different types of trainees, the development of a competencies assessment tool and semi-structured interviews will be conducted with trainees to better understand the barriers and incentives to further improve their competencies. (ii) What organizational practices, staffing and governance structures will ensure the effective and sustainable implementation of price-risk-management strategies? In addition to the Cooperatives' Assessment Tool, an emergent M&E approach, which combines the richness of qualitative methods with the robustness of quantitative methods called SenseMaker®, will be used to interview cooperatives' members to better understand and assess organizational practices and skills from their perspective and not only from the cooperatives' staff and board members. (ii) How do coffee farmers who are members of cooperatives benefit from the design and implementation of price-risk-management strategies? This question and sub-questions will also be responded using SenseMaker® that will be applied at the project baseline and end line.

## C. Project and Institutional Risks

- 3.8. While the ultimate measure of success for the program would be that participating cooperatives implement PRM strategies on their own at the end of the three-year project, the training process accompanied by PRM financing is a model that has never been tried before. The following risks have been identified: (i) Methodology Risks: Participants do not adopt the proposed methodology. This risk should be reduced through the proposed strategic selection process of



participating cooperatives. Oikocredit will closely monitor training results and also engage in ongoing follow-up with board and staff, as well as buyers and lenders, to identify lags in real time and ensure meaningful buy-in from institutions and stakeholders. (ii) Organizational Risks at the Cooperative Level: There are high rates of coop personnel rotation that could affect the project's execution. The coop assessment tool will look at governance issues as a decision factor. It is also expected that the PRM training will strengthen cooperative leadership and that the training program becomes an incentive for staff and board members to invest more deeply in their organization, resulting in higher immediate retention. (iii) Desertion: Participants leave the program or cannot attend all of the required trainings. There are several means of mitigating this risk built into project design; 1) selecting cooperatives who demonstrate demand for these trainings and tools through the selection process; and 2) scheduling trainings in the off season to avoid conflicts with coffee harvests. These two measures ensure cooperatives are able to attend trainings and that they indicate a strong demand to attend.

#### IV. Instrument and Budget Proposal

- 4.1. The project has a total cost of US\$ 2,549,100 of which US\$ 1,085,560 (43%) will be provided by the MIF, and US\$ 1,463,540 (57%) by the counterpart of which US\$ 779,300 by Oikocredit, US\$ 400,000 by FT USA and KGM, US\$ 200,000 by CRS and US\$ 84,240 by the participating cooperatives.
- 4.2. Given the novelty of the project and the fact that all of the final products that will be developed for PRM implementation will be publicly available, the instrument to be used is a grant.

NO.	CATEGORIES	FOMIN In US\$	Counterpart In US\$	TOTAL In US\$
1	COMPONENT I: Price Risk Management Organizational Strengthening	480,200	231,900	712,100
2	COMPONENT II: PRM Toolkit	223,500	328,000	551,500
3	COMPONENT III: Peer to Peer Learning Apprenticeship Program	53,760	6,840	60,600
4	COMPONENT IV: Options Financing	30,000	500,000	530,000
5	Execution and supervision of the project	240,600	291,800	532,400
6	Baseline, Monitoring and Evaluation System	30,000	70,000	100,000
7	Knowledge Management	2,500	12,500	15,000
8	Contingencies	25,000	22,500	47,500
	<b>Total</b>	<b>1,085,560</b>	<b>1,463,540</b>	<b>2,549,100</b>
	<b>%</b>	<b>43%</b>	<b>57%</b>	

## **V. Executing Agency (EA) and Implementation Structure**

### **A. Executing Agency(s) Description**

- 5.1. Oikocredit International Support Foundation (ISUP) will be the Executing Agency of this project and will sign the agreement with the Bank. Oikocredit ISUP is an international cooperative based in Amersfoort, the Netherlands. Oikocredit is one of the leaders and pioneers in social investing lending to small farmer cooperatives and microfinance organizations since the early 1970s. It currently provides debt and equity financing to 40 coffee organizations in Latin America, which exported over 250 million pounds of coffee in 2014. The active portfolio of the organization is 1 Billion Euros and in coffee alone at the end of 2015 was US\$50M. Oikocredit also offers institutional strengthening services for coffee cooperatives in: governance, financial management, strategic planning, inventory control and price risk management. Over the past 3 years, Oikocredit has partnered with organizations to offer basic and advanced training programs in price risk management for over 20 cooperatives in Latin America.
- 5.2. Other organizations involved in the project include:
  - CRS, an international humanitarian agency founded in 1943 CRS has more than 5,000 people, working in 91 countries and serving more than 100 million people annually. CRS will take on the role of M&E Advisors and will be responsible for designing the MEAL Plan (including the Competencies Assessment Tool and implementation of the SenseMaker@ study) as well as for the continuous evaluation of the Project against targets and milestones.
  - Fair Trade USA (FT USA) is the leading nonprofit, third-party certifier and promoter of Fair Trade Certified™ products in North America. FT USA has longstanding relationship with cooperatives in the region and the visibility into supply relationships that makes it uniquely positioned to convene partners across the entire value chain, from producers and traders to manufacturers and retailers. FT USA will participate coordinating and co-leading project implementation as per the Operating Regulations created.
  - Keurig Green Mountain, a leader in specialty coffee, coffee makers, teas, and other beverages. As the top purchaser of Fair Trade Certified coffee in the United States, KGM is committed to more sustainable and transparent coffee supply chains. The company will not only make cash contributions but will also support the program through its ongoing trade with participating cooperatives. KGM will participate in the project implementation as per the Operating Regulations created.

### **B. Implementation Structure and Mechanism**

- 5.3. Oikocredit International Support Foundation (ISUP) will establish an executing unit and the necessary structure to execute project activities and manage project resources effectively and efficiently. Oikocredit International Support Foundation (ISUP) will also be responsible for providing progress reports on project implementation. Details on the structure of the execution unit and reporting requirements are detailed in the Operating Regulations in the project technical files.

- 5.4. The project will be executed by Oikocredit through its International Support Foundation in the Netherlands in close collaboration with CRS, FT USA and KGM. Oikocredit will establish a Project Execution Unit (PEU) to be based in its Regional office in San Jose Costa Rica. The Unit will be staffed by a Project Manager, a Training Coordinator, and a Project Officer. The Project Manager will be responsible for the implementation of the work program and management of project staff. Oikocredit's current Regional Agri Business Specialist for South America Northern Region and Mexico, Central America & Caribbean will serve as Project Manager based on proven expertise and skills, and the MIF contribution will partially fund this contract. The project unit will be supported by the extensive network of staff based in the Oikocredit country offices throughout Latin America.
- 5.5. An Execution Committee (**EC**) will be composed of Oikocredit, FT USA, KGM and CRS. The main purpose of the EC is to jointly plan project activities, coordinate joint actions, and monitor implementation of plans on a regular basis. The EC under the leadership of Oikocredit will prepare a Project Execution Plan (PEP) for the execution period listing planned dates for performing tasks and activities to meet project milestones and objectives. The PEP should have the level of detail to help determine the cash flow projection for each disbursement and will include a project schedule, an annual plan for use of funds allocated for knowledge and sharing, a cash flow forecast and the contractual obligations for each year. The EC will have a very proactive role during the life of the project and will meet on a regular basis. Meetings will take place either in person or in real time through web based technology. Oikocredit will be responsible for ensuring that decisions reached at the EC level are implemented on a timely basis. Oikocredit will also liaison with the IDB staff in Costa Rica directly responsible for project results.
- 5.6. An **Advisory Committee (AC)** will be coordinated between Oikocredit and MIF and will contribute in the process of general strategic decisions of the Project. Oikocredit, CRS, FT USA, KGM and the Executive Committee members of the SAFE Platform will have a chair in this AC. The AC will meet on an as-needed basis at the start of the project and twice a year whether in-person or virtually (resources permitting) afterwards. Some of the strategic decisions include: participating in revising the strategic vision and definition of the Theory of Change (of PRM Project); reviewing and providing feedback on the progress of the PRM project; becoming active participants in PRM actions, strategy implementation and positioning; channeling relevant key information of the sector and their organization activities in regards to sustainable supply chain developments. COSA and other potential technical providers will act as Technical Advisors for the Project, providing technical advice and, when needed, guidance on specific strategic issues. They will be called to participate in the AC meetings on an as needed basis

## VI. Compliance with Milestones and Special Fiduciary Arrangements

- 6.1. **Disbursement by Results, Fiduciary Arrangements.** The Executing Agency will adhere to the standard MIF disbursement by results, Bank procurement

policy<sup>13</sup> and financial management<sup>14</sup> arrangements as specified in Annex V and VI.

## **VII. Information Disclosure and Intellectual Property\*\***

- 7.1. This document will be made available to the public in accordance with the Bank's Access to Information Policy.
- 7.2. Intellectual Property developed through this Project may be made available to project-related parties and to the general public depending on the product. To the extent possible, especially if replication or scale can be achieved, products developed will be disseminated broadly.

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<sup>13</sup> Link to the Policy: [Procurement of Works and Goods Policy](#)

<sup>14</sup> Link to the document [Financial Management Operational Guidelines](#)