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PROJECT ON THE IMPROVEMENT OF COCOA MARKETING AND TRADE IN LIBERALIZING COCOA-PRODUCING COUNTRIES

PROJECT COMPLETION REPORT

Note by the Secretariat

The present report is based on project completion reports prepared by the National Project Co-ordinators from Cameroon, Côte d'Ivoire and Nigeria. The summary report was compiled by Dr. Jean-Marc Anga, Head of the Economics and Statistics Division of ICCO, who acted as Regional Project Co-ordinator during the final years of project implementation.

As usual, the final responsibility for the report rests entirely with the Executive Director of ICCO.

PROJECT ON THE IMPROVEMENT OF COCOA MARKETING AND TRADE IN LIBERALIZING COCOA-PRODUCING COUNTRIES

PROJECT COMPLETION REPORT

I. PROJECT SUMMARY

Project Title:	Project for the improvement of cocoa marketing and trade in liberalizing cocoa-producing countries
Location:	Cameroon, Côte d'Ivoire, Nigeria
Project Number:	ICCO/CFC/11
Project Executing Agency:	GtZ, followed by UNOPS
Supervisory Body:	International Cocoa Organization
Project Duration:	January 2000 – September 2005
Project Financing:	US$ 7 million in total US$ 3.6 million grant from CFC US$ 2.3 million co-financing from participating countries US$ 1.1 counterpart contributions

II. INTRODUCTION

1. In the decade between the late 1980s to the late 1990s, the governments of Cameroon, Côte d'Ivoire and Nigeria undertook the liberalization of their cocoa sectors. This process created undesirable effects such as the degradation of cocoa quality and the increase in counter-party risks for banks and international traders. This in turn had several adverse effects such as reduction in trade finance available to small operators, the disappearance of the forward market and the temporary near anarchy in the sector due to the total absence of adequate rules, regulations, structure and discipline to oversee the cocoa trade.

2. Following an analysis of the situation in the three countries and after consultations with stakeholders both within and outside the Organization, the ICCO secretariat formulated a project proposal aimed at tackling the deficiencies identified in the cocoa sector. The project proposal identified the following issues as being the consequence of liberalization:

- **The deterioration of the quality of exported cocoa** was considered the major problem linked to liberalization and privatization, overshadowing all other problems.

- The second problem identified was that of **financing the cocoa campaign**, which was of particular relevance to farmers, local traders and cooperatives.

- The third problem area was related to **market information**, since, in the liberalized markets, operators felt the need to have access to market information.

- The fourth area was that of **trade and price risks**.

- The fifth issue identified was that of **the institutional framework relating to the organization, rules, regulations and procedures in the sector**.

- The last issue identified was that of limitations in **know-how of new market operators**.

III. PROJECT OBJECTIVES AND COMPONENTS

3. The overall objective of the project was to improve the functioning of marketing channels in cocoa-producing countries engaged in the process of liberalization of their cocoa sectors, and to ensure full participation of local operators in the physical trading of cocoa, while reducing trade and price risks. The specific objectives of the project were:

- To improve the functioning of markets and marketing channels in cocoa-producing countries to optimize the benefits to all stakeholders in cocoa production and trade;

- To ensure full participation of local operators, including cooperatives, in cocoa trading, both in national markets and in the export trade, particularly with a view to improving or maintaining quality;

- To provide market information to ensure the efficient functioning of markets by reducing, and aiming at eliminating, the differences among market participants in access to market information relevant to them;

- To reduce trade and price risks associated with cocoa marketing and trade, which increased greatly with liberalization and privatization;

- To improve the legal and institutional framework for cocoa trading and finance, thus ensuring the enforceability of the various measures to be put in place to improve or maintain cocoa quality, to finance production and trade and to alleviate counter-party risk.

4. The project proposal identified a number of activities to be implemented under the following six separate but inter-linked components:

Component 1: Promotion of a privately-run warehousing system

5. The objective of this component was the promotion of a privately-run system of field warehouses and the issue of warehouse warrants for financing purposes.

Component 2: Development of a cocoa marketing information system

6. The objectives of this component were the collection and distribution of price data along the internal marketing chain (farm-gate, traders warehouses, exporters warehouses, international prices) and the collection of data on warehouse stocks (quantity, quality, location, etc.).

Component 3: Development of a quality assurance and certification system

7. The objectives of this component were to develop and test a quality assurance and certification system that would improve returns to farmers, traders and exporters, to train the farmers in the preparation of high-quality cocoa through good harvesting, fermentation, drying and storing techniques and procedures; and to safeguard cocoa quality during transportation and warehousing.

Component 4: Development of a system of commodity trade finance

8. The objective of this component was essentially to use the warrants established under Component 1 to facilitate the financing of stocks of good-quality cocoa produced under Component 3.

Component 5: Project implementation and coordination, at local level

9. This component dealt with the coordination of project activities at local level.

Component 6: Project execution; staff training; and dissemination of project results

10. The objective of this component was to provide supervision and guidance to national coordinators and the dissemination of project results among other countries.

IV. PROJECT MANAGEMENT AND FINANCING

11. The Project Agreement between CFC and ICCO was signed in July 1999 and project activities in the three countries started during the first half of the year 2000. The German Technical Cooperation Agency (GtZ) was appointed as Project Executing Agency (PEA), succeeded in October 2002 by the regional office of the United Nations Office for Project Services (UNOPS) in Abidjan. As in other projects, ICCO took on the role of Supervisory Body (SB).

12. Between December 2001 and December 2003, a Regional Project Coordinator was employed to improve the implementation of project activities. Upon his resignation in December 2003, his duties were taken over by the ICCO Project Manager until the end of the project.

13. In each of the three countries, the set-up of the project was the same: at an operational level, a Coordination Unit led by a National Project Coordinator was put in charge of the day-to-day management of the project. Local experts were recruited to implement activities in each of the project components. A number of cooperatives were selected to participate in the project. At a strategic level, a National Advisory Committee comprising the major stakeholders of the cocoa sector was established in each country to oversee the implementation of the project and provide guidance on policy aspects.

14. The budget of the project amounted to about US$ 7 million in cash and in kind, partly financed by the Common Fund for Commodities (CFC), with contributions from the participating countries and other partners. The Common Fund for Commodities provided a grant of almost US$ 3.6 million. The co-financing and the counterpart contributions by the three participating countries were estimated at approximately US$ 2.3 million while the participating banks and the collateral managers were to provide almost US$ 1 million in counterpart contributions.

V. ESTIMATED BENEFITS AND BENEFICIARIES

15. It was estimated that the benefits of the project would accrue to the private sector participants in the three countries concerned, including producers, traders, processors, financial institutions and, through enhanced export earnings, to the economies of the cocoa-producing and exporting countries. Substantial benefits would also accrue to the international cocoa trade and industry (processors and chocolate manufacturers) in terms of improved consistency in the quality of cocoa imports and in dealing with more professional counterparts and trading partners. A major benefit for the world cocoa economy as a whole would be a more secure supply of good quality cocoa at competitive prices.

VI. SUMMARY OF PROJECT IMPLEMENTATION

16. The first two years of the project (1999/2000 and 2000/2001) were devoted mainly to setting up the national coordination units, national advisory committees, recruiting the project experts and initiating preliminary discussions and selecting the local private sector participants (cooperatives, exporters, warehouse managers, insurance companies, banks, etc) in the project. Work also started on inventories of warehouses, cocoa quality improvement and proper warehousing practices.

17. Towards the end of the third year of implementation of the project (2001/02), it became obvious that it was important to strengthen the exchange of experience at the regional level. To ensure this, a regional co-ordinator was appointed to ensure the smooth functioning of project management and to improve project implementation by enhancing the benefits from experiences in the different countries.

18. At the beginning of the fourth year of project implementation (in the 2002/2003 cocoa campaign) the ICCO secretariat carried out a strategic review of project implementation. On the basis of the findings of the review, it was decided to concentrate efforts and remaining resources on achieving results in three key components, i.e., institutionalization, market information systems and structured trade financing.

19. Subsequently, all efforts were directed at these three components. Towards the end of the 2003/04 cocoa campaign, it was recognized that while certain components had reached their final outcome and would not deliver any better results, others, given a little more time, could deliver substantive additional results. In view of this, it was decided to request a final extension of the project for one additional year, taking its completion to September 2005.

20. The purpose of this extension was to allow project activities to continue for another year in the areas of market information systems and institutionalization in Cameroon, Côte d’Ivoire and Nigeria; and with pilot operations in structured trade financing to be pursued in Cameroon and in Côte d’Ivoire. The request was budget neutral, i.e., that no new funds would be required from CFC and activities would be implemented within the limits of the funds already available for each country. In each country, the national coordination unit was scaled down to a few staff members while the services of the Regional Project Coordinator and UNOPS as the Project Executing Agency were retained.

COMPONENT I: PROMOTION OF A PRIVATELY-RUN WAREHOUSING SYSTEM

21. The objective of this component was the promotion of a privately-run system of field warehouses and the issue of warehouse warrants for financing of trade.

CAMEROON

- An exhaustive inventory of all commodity warehouses (43 in total) was completed. The inventory can be up-dated and followed up thanks to a computerised program designed by the project's IT expert;
- Detailed procedures for collateral management up-country have been devised;
- Training programs for warehouse keepers have been prepared and carried out ;
- A detailed manual on warehousing and collateralisation for operators has been written;
- Two software programmes (REGINE and SENAC) have been created and are available to be used by collateral managers and bankers.
- A comprehensive tripartite agreement has been drafted and has been successfully used by some trade partners;
- A legal text organising the profession of collateral manager has been submitted to the government and is awaiting publication.

COTE D'IVOIRE

- An inventory has been made of the warehouses in the country (517 in total) with a cumulated capacity of almost 115,000 tonnes. Of these, 220 have a minimum capacity of 100 tonnes each.
- A database on the management of the warehouses was designed.
- A consensus was reached by all the stakeholders in the cocoa sector in the country on the legal framework of a new draft law on coffee and cocoa warehousing as well as on a new draft decree on the trade of warehouse manager.
- Amendments have been proposed to existing laws on collateral management in order to improve their security and effectiveness and to reduce the related risks.
- A training manual was formulated on the promotion of a private warehousing system ensuring the quality and safety of the produce and enabling the collateralisation of the cocoa stock.
- 1080 managers of cooperatives received training on how best to stock cocoa and in the proper handling of cocoa from the farm-gate, through buying centres to warehouses at the port.
- 54 000 producers received training on best practices in stocking cocoa at farm level.

NIGERIA

22. Under the supervision of the project's experts, a review of all activities related to warehousing has been carried out and training sessions have been organized for the relevant stakeholders in the cocoa sector. In addition, a number of documents/manuals have been produced, covering the following topics:

- Warehouse operations: Evacuation, forwarding and Shipment Agreement.
- Collateral Management Services Operations
- Warehousing Conditions in Nigeria

- A computer programme called “The Stock Manager: A Commodity Warehousing Information, Control and Management System”.
- Tripartite Collateral Management Agreements
- Insurance Guidelines for cocoa Traders and Exporters
- An Insurance Technical Training Manual on Cocoa Marketing and Trade in Nigeria

COMPONENT 2: DEVELOPMENT OF A COCOA MARKETING INFORMATION SYSTEM (MIS)

23. The objectives of this component were the collection and distribution of price data along the internal marketing chain (farm-gate, traders warehouses, exporters warehouses) and international prices; and the collection of data on warehouse stocks (quantity, quality, location, etc.). The component benefited from the very positive involvement of an International Consultant, Professor Eric Tollens, who analyzed the cocoa market information systems in use in all three countries and made appropriate recommendations for their improvement. This led to the following results:

CAMEROON

- A new and improved MIS has been put in place thanks to the project. The new system now collects the international prices, the Douala CAF and FOB prices and the prices on internal markets. These prices are then processed using computer software called SIM Cacao and published in the following media and other vehicles: press, radio, television, regional CICC committees, cooperatives, NGOs, extensions and other services operating in rural areas. Recently, the dissemination vehicles have been expanded to include an internet server and an SMS server.

- Two training manuals have been prepared and a training session has been organized for users of the new MIS system.

- Two new legal texts have been published, one establishing a Monitoring Committee of the Coffee and Cocoa Information System, and another one amending the existing law on coffee and cocoa trade.

COTE D’IVOIRE

- A new, more reliable and harmonized system for the collection, processing and dissemination of market information was designed and tested with ten cooperatives, using the internet as means to disseminate the information.

- An option to disseminate the information by SMS has been finalized and is awaiting launching.

- The new system has allowed cooperatives to negotiate better prices with their interlocutors.

NIGERIA

24. A new system has been put in place including the collection of cocoa prices in three production regions, the processing of price information at the Cocoa Market Information System (CMIS) Unit in Abuja using dedicated data software and the dissemination of the final information in local and national newspapers and through the website of the CMIS.

COMPONENT 3: DEVELOPMENT OF A QUALITY ASSURANCE AND CERTIFICATION SYSTEM

25. The objectives of this component were to develop and test a quality assurance and certification system that would improve returns to farmers, traders and exporters; to train farmers in the preparation of high-quality cocoa through good harvesting, fermentation, drying and storing techniques and procedures; and to safeguard cocoa quality during transportation and warehousing.

CAMEROON

26. A training programme in Quality Assurance and Certification has been organized for the stakeholders in the cocoa sector. Four manuals have been produced: three for Producers and extension agents, Bankers and Quality Controllers, and another one on Quality Procedures.

27. Amendments have been formulated to improve existing laws by incorporating into them the new principles of quality assurance and certification.

28. Adding to the above results, the following has also been achieved:

- A new text has been approved on legal and regulatory aspects of cocoa marketing practices;
- New regulations on conditioning and marketing of cocoa beans have been adopted;
- New proposals have been submitted related to a phytosanitary code and to cocoa arbitrage procedures.

COTE D'IVOIRE

- Two types of activities have been carried out: training programmes and the production of technical manuals.
- A manual was drafted covering the procedures to be followed in sampling, quality assurance and certification and arbitrage.
- A manual was produced on the steps to be followed in order to produce a good quality cocoa including pre- and post-harvest practices.
- A Quality Control Scheme adapted to the post-liberalization context was proposed.
- A total of 1,080 delegates, warehousing agents and managers from 27 cooperatives were trained on the following four modules: pre-harvest techniques and their influence on quality; post-harvest techniques, quality analysis and assessment methods; primary warehousing and large scale warehousing.
- 29 extension service workers from ANADER received further training on the techniques of production and preparation of good quality cocoa. They were in turn to train more than 5,400 cocoa producers.
- Quality control equipment was donated to four cooperatives participating in the project.

NIGERIA

- Cooperative and extension staff were trained in quality cocoa production from farm to export warehouse, at two cooperatives;

- Quality control equipment and computers were donated and used at the cooperative warehouses in the pilot areas of two cooperatives in Ife and Akure;

- Several cocoa nurseries were established under the supervision of the project's agronomist. The producers were introduced to sources of high yielding, disease resistant cocoa seedlings to rehabilitate old farms in both cooperatives.

- Technical documents/manuals were produced covering the following fields: Cocoa Quality Assessment; Training Manual for Extension Workers; Phytosanitary code; Effective Cooperative Management; and Agronomic practices and Extension Impact Points and Messages for Cocoa Farmers.

COMPONENT 4: DEVELOPMENT OF A SYSTEM OF COMMODITY TRADE FINANCE

29. The objective of this component was to use the warrants established under Component 1 to facilitate the financing of stocks of good-quality cocoa produced under Component 3.

30. Structured Trade Financing was to operate with three partners: the cooperative (or an exporter receiving cocoa from a cooperative), a collateral manager and a bank. During the lifetime of the project and because of the negative experiences of the past, a great deal of time, efforts and resources were spent consulting and reassuring the stakeholders, in particular the collateral managers and the banks, that Structured Trade Financing could be efficient and safe, despite negative experiences in the past. However, and despite all efforts made, this component encountered mixed fortunes during implementation.

CAMEROON

31. The project identified two producing areas and the cooperatives operating in these areas to implement trade financing operations: SOCACEN in the Centre-North and SOWEFCU in the South-West. After extensive consultations, the following partners were identified to take part in the tripartite agreements: Amity Bank and Union Bank as participating Banks, and SGS and CAMTAINER as collateral managers. However, it proved impossible to involve private traders in the project. By the end of the second year, it was established that empowering cooperatives was the only way to try to implement the pilot operations. Consequently, efforts, resources and time were channelled in that direction.

32. In the fifth project year (2003/2004), it was possible to carry out trade transactions based on a tripartite agreement between Amity Bank Cameroon, SGS and SOCACEN cooperative with back up by CAM-AFRI-FOODS. However, in the sixth and final year of the project, SOCACEN could not find a partner to back its operations and therefore could not implement another tripartite agreement.

33. Lessons learnt from the participation of cooperatives in this component were that:

- they must be self reliant (warehouse, transportation logistics, funds for prefinancing) ;
- they must be well managed ;
- they must become exporters ;
- they should be able to find foreign partners.

34. Results achieved with regards to institutionalization of this component, were:

- Elaboration of a training manual on commodity trade;
- Training sessions for bankers and other actors of the internal marketing chains ;
- A software named BASCOMPT has been created for the use of bankers and collateral managers

COTE D’IVOIRE

35. As in Cameroon, the project suffered from the reluctance of financial institutions to embrace collateral management financing. To relieve their fears, several meetings were held followed by an international seminar and a national workshop on the concept of structured trade financing. However, results could only be achieved with substantial support from the Government and sector agencies.

36. In the context of strengthening the capacity of local operators, a feasibility study had suggested that cocoa conditioning plants would be profitable when installed in the producing regions to the benefit of cooperatives. On that premise, a programme was launched to create large cooperative enterprises with their own conditioning plants and involved in producing, collecting, processing, conditioning, stocking and exporting their own cocoa beans.

37. The first such cooperative enterprise with a conditioning plant was SOCATENE in the Centre-South of the country. This cooperative society received substantial technical support from the project and very substantial financial support from the government of Côte d’Ivoire. With the financial assistance from a local government-supported bank (BNI) and of a collateral manager (ACE), SOCATENE has in recent years mobilized on average US$8 million per year and exported between 15,000 and 25,000 tonnes of cocoa annually.

38. However, the establishment of conditioning plants was never an objective of the project and, therefore, the experience could not be pursued for other cooperative enterprises established under the project, including SOCOPHAS (Daloa), SOCAÏS (Soubré) SOCAGNEBY (Agboville) and SOCAE (Abengourou). Despite some initial success by SOCAIS, these cooperatives could not establish operational links with banks to implement structured trade financing operations.

39. A positive effect of the project was that it spurred several cooperatives into seeking export status. Thus, for the past three years, most of the cooperatives that participated in the project such as SOCATENE, SOCOPHAS, SOCAÏS, KAVOKIVA, ECOOPAM and COOPRADEG fulfilled the necessary required criteria and were granted export licenses.

NIGERIA

40. In Nigeria, the context was not conducive to structured trade financing as local cooperatives were not sufficiently equipped to become involved in this scheme. Despite the involvement of the National Export-Import (Nexim Bank), the results were not satisfactory. On the other hand, exporters who had been co-opted in the project and received funds at preferential rates from Nexim Bank did not always purchase cocoa from the project's cooperatives or pass on the savings to them. Therefore, pilot operations in structured trade financing did not really take off in Nigeria and it had to be concluded that local realities made such a prospect improbable in the current state of affairs.

41. However, a number of documents/manuals have been formulated dealing with the following topics: Cocoa Credit Development Training Programme, Structured Commodity Finance, Credit Support, Risk Management, Guidelines for evaluating Exporters for Pre-Export Credit Financing in Nigeria, Documentation of the system of collateralized Trade finance. The project also developed Credit Information System software.

42. A striking fact that came to light in Nigeria was the extreme reluctance of the Cooperatives to take up loans from banks other than their own Cooperative Bank. However, as a result of the project, credit support consultancy became available to the cooperatives willing to correct existing deficiencies and to improve their financial affairs. This approach already paid off for the Akure cooperative that was able to reschedule and then pay off its existing substantial debt to its bank.

COMPONENT 5: PROJECT IMPLEMENTATION AND COORDINATION, AT LOCAL LEVEL

CAMEROON

43. The coordination of the project in Cameroon has been satisfactory. The Coordination Unit was located in offices in the ONCC building. Regular meetings of the Unit with the project's experts were held and issues of relevance were discussed which helped to take the project forward. The reports by the Project Coordinator and the experts have mostly been comprehensive and punctual.

44. The National Advisory Committee met every quarter as scheduled and attendance of meetings by Committee members has been satisfactory. The Committee has reviewed several texts submitted by the project's experts and made recommendations for improvement or given its approval for transmission to the appropriate authorities for action.

COTE D'IVOIRE

45. Of the three countries participating in the project, Côte d'Ivoire was the first to start activities. A Project Coordination Unit was established and quickly embarked on establishing the project on solid ground.

46. The National Advisory Committee met regularly and discussed several draft texts produced by the project's experts. These texts now form the core of a comprehensive review of coffee and cocoa trade waiting to be enacted by the government.

NIGERIA

47. The Project Coordination Unit started its work in Lagos where most of the project experts and stakeholders were based and in the final two years of the project, moved its office to Abuja. During this period, activities were implemented without much hindrance except the occasional delay in funds disbursement.

48. The National Advisory Committees met regularly to review the status of project implementation and to provide guidance on relevant matters. The project experts carried out considerable and important work as exemplified by the numerous documents/manuals produced.

COMPONENT 6: PROJECT EXECUTION; STAFF TRAINING; AND DISSEMINATION OF PROJECT RESULTS

49. At the start of the project, the German Technical Cooperation Agency (GtZ) was recruited as Project Executing Agency (PEA) in charge of providing supervision and guidance to the national project coordinators and acting as interface between the countries, ICCO and CFC. In October 2002, the United Nations Office for Project Services (UNOPS) was appointed as the new PEA to replace GtZ. Between December 2001 and December 2003, the project employed a Regional Project Co-ordinator to provide technical support to the national co-ordinators in the implementation of the project.

50. These arrangements did not yield the results expected, mainly because the successive PEAs did not play a substantive role in providing the technical support required by the national project co-ordinators. GtZ and UNOPS limited their role to receiving funds from CFC and passing them on to the countries. The recruitment of the regional co-ordinator improved matters for a while. However, the regional co-ordinator resigned in December 2003, leaving the ICCO secretariat to become the "de facto" regional project co-ordinator and supervisory body for the project. This involvement of the ICCO secretariat could only be secured at the expenses of other duties assigned to it by its member countries. Nevertheless, the ICCO secretariat managed to steer the project until its end.

51. At the end of project implementation, two manuals were commissioned and produced by a consultant, one dealing with Cocoa Quality Production and the second one covering Structured Trade Financing, based on the work and experience in the three countries participating in the project.

52. Implementation of project activities was completed in September 2005 in Cameroon, Côte d'Ivoire and Nigeria. A final workshop was organized on 2 and 3 November 2006 in Douala, Cameroon. Fifty-two participants from Cameroon, Côte d'Ivoire, Belgium, Democratic Republic of Congo, Gabon, Ghana, Nigeria and Uganda, as well as representatives from international organizations (CFC, COPAL, ICCO, UNOPS and the World Bank) attended the event.

53. The workshop was opened by the Secretary of State for Commerce representing the Prime Minister of Cameroon. Participants followed 14 presentations covering the following topics: Market Information Systems, Cocoa Quality Improvement, Structured Trade Financing and Warehousing and

finally Institutionalization. Each of these presentations was followed by a session of Questions and Answers during which participants exchanged information extensively on the topics at hand.

54. A Drafting Committee from the National Coffee and Cocoa Board (ONCC) in Cameroon will incorporate all the presentations given during the workshop into a comprehensive final report that will be made available to all interested parties.

55. It was the general view of participants that the workshop had been a resounding success and it was hoped that some of the results of the project would be seized upon by the relevant authorities and stakeholders to improve the functioning of the cocoa markets in producing countries.

VII. CONSTRAINTS AND OBSTACLES ENCOUNTERED

56. The project was, in its objectives and design, an ambitious one and from the start, not unexpectedly, it encountered a number of problems and constraints, both of a substantive and of an organizational nature. The first constraint was the reticence of some local stakeholders to become fully active in the project. Local private banks, in particular, adopted a very cautious approach to the project and to commodity trade financing in general. They had to keep a close watch on their credit portfolios and were generally adverse to the risk inherent in cocoa trade financing. As a result, collateral managers, exporters and local cooperatives, which had participated in the early stages of the project, terminated their relationship with the project. The major causal factors for this attitude were negative experiences in the past, in which some stakeholders had lost substantial amounts of money because of fraudulent practices of market participants.

57. The second constraint was that the project aimed at bringing about structural change in the functioning of the cocoa sector. That was not only difficult, but also conflicted with some vested interests. In an environment where market parties had benefited from a lack of transparency and inefficiency, it was not easy to implement a project that aimed to correct these very deficiencies.

58. A third important factor was that, as it turned out, the project could not be implemented with traders in the cocoa sector. Those traders were, by tradition and rationality, not interested in keeping cocoa up-country for the implementation of structured trade financing transactions. It was gradually realized that, in practice, only co-operatives could be interested in the core mechanism of the project, particularly when they could be involved in getting the cocoa ready for export in their warehouses up-country.

59. The most serious substantive problem encountered in the project has been that the project could not succeed in getting private banks to finance pilot operations as defined by the project. It had been assumed that with the right level of consultations, reassurance and training, private banks would agree to be fully involved in the project. The failure to secure this has also been related to the fact that, for cooperatives in general, pre-financing for buying of cocoa from their members turned out often to be a more serious problem than trade financing, after the cocoa had been purchased. For instance, once an exporter had advanced the pre-financing, there was subsequently no pressing need for trade financing, as the exporter would take possession of the cocoa, after purchase from the farmers.

60. In this connection, it has been argued by most participants that the fact that Afreximbank did not provide trade credit lines to private banks was a major cause of the failure in structured trade financing.

61. This view is not shared by the ICCO. Instead, we argue that while it is true that local banks lack expertise and experience in commodity financing and therefore do not seem capable to seriously consider this field as profit-generating, the overriding factor is that in previous years, private banks have lost considerable amounts of money in collateral management operations, mainly due to fraudulent actions by market participants and their agents. In these conditions, it is only prudent that private banks are, therefore, very reluctant to take financial risks. The banks, in the absence of profound knowledge in commodity trade could only provide financial support to applicants on the basis of their balance sheet, guarantees provided and the reputation of the applicants. Unfortunately, in most cases, cooperatives did not satisfy either of these criteria. In addition, local banks had to refer all transactions in this area to their head offices outside the country. This did not necessarily make things easier for everyone.

62. The second major reason for the great difficulties encountered in the implementation of trade financing is that there is not much need for it, in the case of cocoa. As indicated above, cooperatives are in great need of pre-financing for buying cocoa from the farmers. On the other hand, if a cooperative can buy from the farmers with its own funds, its major interest, after buying the cocoa is to sell it onwards to the exporter, as quickly as possible. There is not only money tied up in the cocoa, the cooperative also runs a substantial price risk for cocoa in its possession. In other words, the cooperative is more interested in rapid turn-over than in the financing of stocks.

63. The situation only changes when cooperatives become exporters themselves. In that case, they become interested in pre-export financing of stocks and they become capable of hedging price-risks. The emphasis in policies and actions of national authorities should, therefore, be placed on strengthening of cooperatives and on establishing a cocoa trading system in which banks can have confidence. Only in this way countries can establish a cocoa chain in which cooperatives can compete with large local exporters and with affiliates of foreign companies.

64. Another substantive problem in the project has been the undue attention paid in Côte d'Ivoire, up till the beginning of 2002, to the establishment of conditioning plants, in particular the plant for SOCATENE in Oumé. Although the establishment of conditioning plants was not part of the original project design, considerable manpower resources in the project have been devoted to this objective. This was, temporarily, at the cost of efforts in Côte d'Ivoire to establish working relationships with private banks for structured trade financing and to forge ahead with other equally important project activities. Although this was later rectified, the damage had been done and expectations had been raised with other cooperatives, which could not be met.

65. From an organizational point of view, a key problem in the project has been the poor performance of the Project Executing Agencies, first GtZ, and then UNOPS. Both institutions were not adequately acquainted with the background, objectives and activities of the project and, therefore, were never involved in the technical implementation of the project. The fact that there had not been, on the part of GTZ, any involvement in the technical content of the project, seriously hampered the efficient running of the project. The situation did not improve with UNOPS, the second PEA which also limited its involvement almost exclusively to disbursements of funds. As a result, ICCO was obliged to function as the "substantive" PEA of the project, even before it formally took on the function of "regional co-ordinator". As the ICCO secretariat had no manpower available for this job, the work was done at the cost of its normal activities of preparation for new projects.

66. The most striking example of the dysfunction of these so-called PEAs was the nightmare surrounding every request for replenishment of CFC funds by the countries. Because of the particular arrangements between CFC and the respective PEAs, the project encountered major delays in the replenishment of funds. It is noted that in some instances, delays of several months in the transfer of funds from CFC to the PEAs and from thereon to the countries, resulted in considerable frustration, anger and resignation, in certain cases bringing project activities to a complete standstill during relatively long periods of time.

VIII. OVERALL ACHIEVEMENTS OF THE PROJECT

67. Despite the constraints outlined above, the project achieved several of its practical objectives and envisaged outputs. The project comprised four substantive components: Promotion of a privately-run warehousing system; development of a cocoa marketing information system; development of a quality assurance and certification system and development of a system of commodity trade finance. From these four, it is fair to say that the project achieved its objectives in the first three, giving a success rate of 75%. Taking into account the scale of the tasks involved in the components on Project implementation and coordination, at local level and Project execution, staff training and dissemination of project results at regional level, this overall achievement rate could well be increased to 80%. Bearing in mind the difficulties that had to be overcome to implement this project, this seems a very satisfactory rate of success.

68. The project has succeeded in establishing and improving market information systems, warehousing up-country, quality assurance and quality enhancement, and a system of structured trade financing as indispensable components of a viable, efficient and transparent cocoa trade and marketing chain. More specifically, the project has achieved the following results:

- In all three countries, a cocoa market information system has been up and running and could be improved to reach more stakeholders and even be expanded to other commodities.

- Documented analyses and descriptions of the situation, issues and problems, as related to cocoa warehousing, quality issues, including quality control, and financing of the cocoa trade (the campaign) geared towards suggestions how existing problems could be tackled by the project;

- Inventories and databases on cocoa trade and warehousing (including databases on cocoa warehouses in the countries concerned);

- Descriptions of “best practices”, procedures and draft contracts, recommended to be applied in the sector, taking into account the specific situation in each country. Best practices and procedures were incorporated in manuals for different categories of actors. In each country tri-partite agreements for structured trade finance were drawn up, taking into account local practices and laws and regulations. Where applicable, tailor-made software was developed to help actors to implement best practices;

- Training guidelines and brochures were developed for different categories of actors, ranging from farmers (best practices in harvesting and post-harvesting) to bank staff (all aspects of structured trade financing);

- Extensive training has been provided to market participants, in particular to staff of cooperatives (quality and warehousing), to warehouse keepers (collateral management and warehouse keeping) and to staff of banks (structured trade financing).

IX. CONCLUSIONS AND RECOMMENDATIONS

69. The final workshop of the project was an opportunity for participants from the three countries and invited experts to thoroughly discuss the project, its background, implementation, obstacles, achievements and prospects. Presentations and extensive discussions took place on the key issues raised in the project. The findings and conclusions of the final workshop, therefore, constitute the final section of this report.

70. It was noted that the liberalization and privatization of the cocoa sector in the three participating countries had been very poorly prepared and that most of the substantive difficulties encountered during project implementation stemmed from this factor. Studies and reviews had long before the start of the project, highlighted the deficiencies and weaknesses of liberalization. However, nothing concrete had been done to address these issues. As a result, although the agreement of all relevant stakeholders had been secured in advance of the implementation of the project, converting this agreement into concrete action had proven more difficult than envisaged.

71. A major conclusion of the workshop was that all countries needed a strong network of farmers' organizations, with competent managers who could take advantage of the opportunities on the world market. This would place producers in a better position to bargain a more remunerative price for their produce. Strong farmers' organizations competently managed would also be the appropriate vehicle through which issues of relevance to producers could be discussed and through which outside assistance, whether financial, technical or administrative could effectively be provided. Sustainable cocoa production could likewise, it was argued, be implemented through farmers' organizations.

72. It was also argued at the Workshop that structured trade financing, could, at least to a certain extent, work in the participating countries. If all relevant stakeholders would agree to do so, they could cooperate in creating the right conditions for the local private banks to provide trade financing to cooperatives and other stakeholders. Before embarking upon such an initiative, previous negative experiences would have to be thoroughly analysed and measures would have to be proposed to prevent their re-occurrence, thus allowing *bona fide* cooperatives to gain access to trade financing.

73. In some countries, existing laws on cooperatives were considered inadequate and to contain major loopholes that enabled unscrupulous players to stifle and muddle the field and deprive legitimate farmers' organizations from improving the social and economic well-being of their members. A comprehensive review and improvement of these laws was strongly recommended.

74. Workshop participants all recognized the benefits of efficient and transparent Market Information Systems for cocoa, as established or improved upon by the project. It was recommended to Governments to take decisive measures establish new systems or improve existing ones. The objective should be to establish national or regional commodity market information systems, covering more products than cocoa.

75. The component on institutionalization of the project was another source of satisfaction for participants in the Workshop. It was recommended that the numerous legal and regulatory

recommendations made by the project's experts be carefully studied by the relevant authorities and that, where applicable, the necessary laws, decrees and decisions be taken to enact them and improve the institutional framework for the cocoa trade in the countries.

76. It was further noted that, from an administrative point of view, the project had suffered from the poor coordination and guidance it had received from the two Project Executing Agencies (PEAs). The PEAs had not become involved in the technical aspects of the project. Being remote from project activities, they could not anticipate any problems or address occurring problems in a timely manner. It was recommended that, in future, multi-country projects would be coordinated by a regional or international coordinator, preferably with the linguistic ability to speak to all concerned in their own language. The PEA should preferably have experience in cocoa and certainly in tropical tree crops.