



CHEMONICS INTERNATIONAL INC.



Central America and Dominican Republic Quality Coffee Project (QCP)

**2nd Annual Work Plan
October 1, 2003 – September 30, 2004**

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**Chemonics RAISE Consortium: Chemonics International
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EXECUTIVE SUMMARY

This second annual workplan for the Central American and Dominican Republic Quality Coffee Program (QCP) covers the period October 1, 2003 through September 30, 2004. QCP is financed by USAID/G-CAP under the RAISE IQC. The task order under this IQC was awarded to Chemonics International on January 16, 2003 and has an estimated completion date of September 12, 2005.

Year one activities covered the period from project inception through September 30, 2003. These activities are presented in our Annual Implementation Report submitted to USAID/G-CAP on September 30. During this initial period, activities centered on establishing contacts with prospective specialty and commodity buyers, assessing coffee quality and milling practices, and performing diagnostics on producer group financial systems, internal controls and management structure. Nineteen producer groups representing approximately ten thousand producers and annual green coffee production of 625,000 qq. were included in the assessments. Despite the fact that these groups are among the most sophisticated in the region, results of the assessments indicate the need for significant improvements in milling and financial/administrative practices.

The assessment results will serve as the basis for QCP technical assistance and training activities in the coming year. Fourteen of the nineteen producer groups will be selected as the focus of our technical assistance, based on cup profiles, expressed market demand, capacity for producing quality coffee in volume, and business and management proficiency.

The following is a summary of expected year two achievements:

- 50 containers of high value coffee sold at premium prices.
- 3 buyers purchase premium coffee from QCP-assisted producer groups.
- 3 business arrangements, contracts and/or joint ventures established.
- 500 producers meet market-based quality standards and receive certification.
- 5 environmentally-friendly wet mills constructed or modified.
- 5 wet mill alliances formed between producers, wet mill operators and roasters.
- 250 producers trained in wet milling practices and quality control.
- 20 producer groups trained in wet milling practices and quality control
- 50 “Star Cuppers” train 500 national cuppers.
- Brand promotion program initiated in two countries.
- 14 producer groups have business plans in place.
- Auction systems supported in four countries.
- Value-added certification or designation in five producer groups.
- Promotional campaigns launched in two countries.
- 50% increase in SCA membership in five CADR countries.
- Marketing Advisory Group recommends two export policy changes in the region.

The Quality Enhancement component will feature the “Star Cupper” training program, which was initiated earlier this month. This program will train cuppers in each CADR country in coffee quality, its creation and maintenance on the basis of internationally-established standards. The program will serve to professionalize the cupping function through SCAA certification. Technical assistance interventions will also focus on improving wet and dry milling practices in each of the targeted producer groups.

In the Improved Business Practices component, diagnostics on financial and management practices will be extended to producer groups in Honduras and Nicaragua, countries not included in the first year’s diagnostics. Business plans will be developed with each of the fourteen targeted producer groups from the year one diagnostics, with particular emphasis on the buy-in countries of El Salvador and Nicaragua.

The Marketing component will focus on development of promotional materials, strengthening linkages between buyers and suppliers, market intelligence and strategic guidance from the Marketing Advisory Group, value-added certification through programs such as Rainforest Alliance, Utz Kapeh, and organic certification. QCP will assist producer groups and roasters to enhance quality and strengthen communication with consumers to ensure a market-based approach to all program activities.

SECTION I: INTRODUCTION

A. The Context

Today’s coffee market is oversupplied, with serious detrimental effects to the CADR countries whose economies rely so heavily on this commodity. For example, Brazil’s production for 2004/2005 is projected at 65 million bags, while Vietnam’s is projected to be 13 million. Furthermore, the quality of Brazilian semi-washed coffees has so improved that they are now seen as a credible replacement for the more expensive “washed milds” grown at higher altitudes, such as those grown in Central America. It is also well known that Colombia has a strong brand position and highly competitive stance in the marketplace. These factors have resulted in a shrinking market for “washed milds,” with CADR countries struggling to compete.

Current High Grown and Strictly High Grown coffee prices, the kinds grown in Central America, are significantly below costs of production and have been so for three consecutive years. As such, any strategy for increasing competitiveness must address the need for greater cost of production efficiencies and/or increased product value to attract premium prices. Producers have been forced to cut production costs by reducing inputs, which negatively impact yields and quality, which affect the competitiveness of the region’s coffees. We are now seeing abandoned farms or opportunistic restructuring of loans throughout the CADR region. For example, the Honduran legislature has approved a bill for a US\$100 million loan fund for restructuring coffee producer debts in that country. This fund will be repaid through a US\$4.46/qq/yr. tax over the next ten years. This strategy, while supportive of the banking community which is facing large scale defaulting, will effectively increase costs of production.

Greater potential for improving competitiveness lies in increasing the product value and subsequent market opportunities from:

- Specialty coffee operations such as Starbucks and Green Mountain, both of which have aggressive expansion plans over the next five years; and
- Commercial trade houses and retailers such as Procter and Gamble, Nestle, Kraft, Sara Lee and Dunkin' Donuts, who want high profile products that attract customers or protect them from potential public criticism of business practices.

Underlying these expansion plans are customers willingness to pay more for a product, image or lifestyle appealing to them.

Recovery of the coffee industry in CADR countries will require a clear focus of interest on two elements: quality and credibility. What constitutes a premium coffee varies with the buyer and roaster and their needs. However, the concept of **QUALITY** is constant; it *is the ability of origin to reliably and consistently deliver the right cup profile to the market*. This requires both quality control and the ability to blend different coffees correctly. In today's markets, credibility places an increasing emphasis on demonstrating the congruency between supply and demand: if the buyer is getting what the market demands. Formerly, the romance associated with coffee often sufficed to sell coffee in quality markets; now buyers and consumers are demanding that the coffees be attested to by credible certifiers, such as organic, fair-trade, Rainforest Alliance, Utz Kapeh, etc., as required by the buyer.

During the first eight and one-half months of the QCP considerable time has been spent with both specialty and commodity buyers, large and small, discussing their needs and conditions for which they would be willing to pay premiums. The message has been clear: buyers are concerned about the crisis and want to work with origin to find solutions. Key lessons learned are that trends in the quality markets increasingly require that coffees must:

- be of the right quality,
- have credible certification, and
- be consistent and reliable.

Those producers and processors who have the capacity to learn and integrate these lessons into their operations will be better positioned to share the success of the specialty and high quality roasters as they expand or move into new products. For example, the producers of QCP client "Café Orgánico de Marcala" in Honduras have already discovered this to their benefit as they supply certified organic coffee to Allegro coffee, via Volcafé Specialty, at a premium price.

B. Overview of QCP

The CADR area includes: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. The CADR/QCP project is one of several field activities that contribute to the USAID/G–CAP Strategic Objective (SO) 596-009, “Increased Diversification of the Rural Economy.” QCP is designed to build the capacity in CADR countries to sustainably compete in the quality coffee market. This is being accomplished by focusing on increasing the competitiveness of small- and medium-scale producers of high quality coffee, increasing the value and market share of CADR exports, and domestic consumption. Specifically, QCP technical assistance and services are helping to increase the capacity of the CADR countries to:

- produce high quality coffees,
- improve business and marketing practices for quality coffee, and
- support market-based policies to enhance the competitiveness of quality coffee.

The *purpose* of QCP is, “Increased competitiveness and sustainability of higher quality coffee exports by small and medium producers.” In the medium term, QCP will increase the competitiveness of small- and medium-scale producers of higher quality coffee, and support the competitive transformation of the coffee sector in Central America, Panama and the Dominican Republic.

The expected QCP **Key Results, Indicators and Activities** presented in Section III, below, will be achieved through concentration on the following program components:

1. Market Identification and Marketing: Market access is one of the most difficult steps for the small grower to achieve. QCP is striving to level the playing field for those producers and their associations through the following strategies:
 - Technical assistance in meeting buyers’ and markets’ requirements,
 - Facilitating contacts with buyers in origin and in consuming countries,
 - Integrating marketing tools into their marketing program, such as certification,
 - Providing appropriate information and market intelligence,
 - Education and training in market concepts and mechanisms, and
 - Assisting in alliance building.

The activities of the marketing component, indeed all QCP components, are guided by **identified** market needs and/or buyers, thus will give preference to the coffees and producers with the greatest opportunity to satisfy those needs. The marketing component is working to improve producer conditions in the areas of price, market stability and terms of trade. Producers and processors can take advantage of the higher prices available in the quality coffee market through product and market differentiation, value added, promotional strategies, market intelligence and linkages with buyers and roasters. Enhancing the reputation and

raising awareness about the quality of coffees grown in the CADR will make producers and associations better able to enter the growing high revenue markets in the United States, Europe, and Japan.

Increasing value added and profits requires producers, producer groups and processors to promote efforts to achieve vertical integration between coffee processing and marketing. Producers and processors can increase their share of total value by developing downstream supply chain linkages and pursuing promotion strategies that highlight their quality coffee lines. Consumers will continue to define the quality of coffee they demand among the variety of products offered. Producers, roasters and buyers need to respond to these market trends in order to stay profitable. Since the market is demanding higher quality and premium coffee, producers and roasters need to improve quality and improve communication with consumers using business practices such as certification, regional labeling and branding. Increasing the volume of quality coffee in domestic markets could also lead to increased local consumption and market opportunities for high value coffee. The opportunity exists for coffee producers, roasters, associations and buyers to access this market. However, quality information is needed to assess and access markets and business skills need to be strengthened for producers, small businesses, associations, and cooperatives.

2. Enhance Quality: Meeting quality requirements in premium price markets involves a process of education and training to allow origin to understand, identify and produce and deliver specific coffees. The quality-market mentality is not prevalent among producers, processors and exporters, who have long been supplying the commodity market. QCP has initiated activities to raise the awareness of coffee quality: what it is, how to produce it and how to evaluate it.

QCP is helping producers and producer groups with the potential to produce quality coffee to effectively generate, preserve and extend this quality, add value and effectively promote and market their product. The strategy for improving quality entails integrated management of the post-harvest coffee production-marketing chain, including harvesting, processing, storage and shipment. Starting with the minimum necessary agro-ecological conditions, particularly altitude, producers and processors must manage a variety of elements to avoid defects and maintain quality during production and milling.

3. Improve Business Practices: Coffee producers and processors can increase profits from the sale of quality coffee by modernizing business and marketing practices. Competitiveness depends on efficient cost management and responsiveness to market demands for quality and service. A well run business enterprise is the best guarantee for satisfying markets requirements and maximizing profits. Most coffee enterprises focus on obtaining higher prices and generally neglect the advantages to the bottom line that result from production efficiency.

Good management is a scarce commodity among cooperative enterprises, and often among medium size farms. QCP is working with those organizations to develop best business practices and effective management. Primary attention is given to developing these skills among small-producer cooperatives and associations which have a high-percentage potential for achieving good management and producing quality coffee.

4. Market-based Policies Favorable to Specialty and Premium Coffee Supported by Reliable Data: Some of the best coffees in the world are produced in CADR countries. Much of this production takes place in a manner that is compatible with the conservation of biodiversity and other ecological considerations. This is particularly true of small-scale production systems where increased labor input substitutes for inputs of other categories of production factors, such as machinery, pesticides and chemical fertilizers. High quality coffees, particularly those produced in an environmentally and socially sustainable manner, fetch premium retail prices in today's market.

Current export procedures in some of the CADR countries are disincentives and reduce competitiveness and profitability. In addition, positive actions can be initiatives by origin countries to increase competitiveness and marketability. Activities under this component are designed to correct those policies that are detrimental to the competitiveness and profitability of quality and sustainable coffees and encourage supportive actions by public and private elements of the coffee sector. Perhaps more importantly, the QCP program is endeavoring to catalyze the private sector of the seven countries to become more proactive in harmonizing production and export practices with market preferences.

SECTION II: PROGRAM FOCUS

QCP will not be able to resolve the coffee "crisis" in Central America; rather, it seeks to assist in establishing competitiveness models for its coffees and its producers. Given its time and resource limitations, QCP will focus on coffee enterprises and complementary regional activities to help maintain the CADR's position as the leading quality coffee origin. There are many very successful and profitable coffee enterprises in the region. However, few of these are found among QCP's principal target group: small and medium producers. A major element of our strategy is to develop in small and medium growers' businesses the same proven conditions and capacity found in currently successful coffee enterprises.

The QCP operates on both regional and national levels. Program objectives and targets are defined on a regional basis. Yet, implementation is undertaken primarily on producers, hence on a national level. The complexity of working in seven very different countries, each with wide range of coffee profiles and quality, makes it necessary to focus on the coffees and the activities which will provide the greatest benefits over the two years remaining in the program. The resulting benefits will be reflected in immediate

returns from sales of coffees in new, better and sustainable markets as well as long-run improved regional competitiveness.

Unfortunately, unlike human beings, all Coffees and Origins are not created equal. If the legacy of QCP is to develop sustainable, replicable models, it must choose enterprises and origins with the greatest potential for competing successfully in quality markets. On the belief that those models can then be repeated in any of the CADR countries, given sufficient resources and time, the Quality Coffee Program will focus its activities and attention on enterprises that can be sufficiently upgraded to be competitive and origins of greatest demand in quality markets. We will identify and work with the B+ enterprise and raise it to an A; we will emphasize the origins that quality coffee buyers request.

A. The Regional Level

QCP is undertaking various activities to strengthen the position of Central American coffee *vis-a-vis* its primary competitors, including Brazil, Colombia and Africa. The focus of these activities is on creating a greater competitive posture of the region through supporting quality coffee organizations, improving its capacity to identify and market quality coffee, accessing value added mechanisms and providing market intelligence.

- **Specialty Coffee Associations:** Each country in the region has a functioning specialty coffee association. Given their emphasis on coffee quality and, in most cases, a formal relationship with SCAA, it is believed that these associations offer a logical and promising conduit for the QCP to access and support national efforts in producing and promoting quality coffees. The QCP will give a regional dimension to these efforts by supporting, through a small grants program, the formation and operation of a Central American Regional Specialty coffee Association.
- **Star Cuppers:** The many fine coffees of the region and their comparability to the world's other excellent coffees is not matched by the quality of the cuppers who evaluate these coffees and present them to world markets. The limited experience of most of the regions cuppers places them, and the region's coffees, at a great disadvantage when looking to place specific origins with corresponding market opportunities. The Star Cupper Training Program will look to level the playing field among international and regional cuppers and strengthen the ability in the region to cup-for-market rather than the traditional cup-for-defects.
- **Value Added:** The notion that significant value added can be gained only through marketing coffees roasted in origin is seen as both untrue and extremely difficult, even for small volumes. When coffee sells for \$8 to \$20/lb. of whole bean and \$3/cup, it is obvious that there has already been substantial value-added created for coffee in consuming countries.

Competing with roasters in those countries is a high-risk strategy with a low probability of success. Partnering with those same roasters to provide the

consumer with greater satisfaction is a more feasible route to access value added. QCP views certification as one of the mechanisms to best ally origin with the market, and has developed close relationships with Rainforest Alliance and Utz Kapeh to certify the product of its clients and to foster relationships with buyers looking for those certifications.

- **Market Intelligence:** The good news is that the internet provides an almost unlimited amount of information on coffee and the market; the bad news is that:
 - It is overwhelming for the “average” user,
 - It is in English,
 - Much of it is information that is not appropriate, not analytic and generic rather than specific.

The QCP will establish a website dedicated exclusively to market information and intelligence that is tailored to the needs of the quality coffee industry in origin and is oriented toward decision making. The focus will be on how to use the wealth of information available and what it means; what the other players (e.g. exporters, roasters, etc.) are planning; and latest trends, news and opportunities.

B. The National Level

Improved quality in origin has not proved to be, in and of itself, a guarantee of market access and higher prices. In large part, the quite successful campaign in origin to improve quality has not been paralleled with enterprise and market development programs to ensure adequate returns to investment in producing quality.

QCP’s approach during year two will balance *identifying potential buyers and markets* and *complementary improvements in business capabilities* in origin. The latter will allow for a competitive response to real opportunities. The success of this approach will call for:

- **Matchmaking with Origin and Buyers:** Matching cup profiles demanded in significant markets with those of producer groups are an important step in focusing our activities. The broad range of market demand and coffees produced in the CADR region allow us great flexibility in the matchmaking process. Already several buyers have expressed specific interest in CADR origins, often indicating that certifications are also required. In addition to the question of market access being resolved, matchmaking with several of the buyers opens the door to joint venturing, either with QCP or with the producers themselves.
- **Identifying Winners:** The measure of tangible impact attributable to QCP is couched in terms of sales volumes and price premiums. To achieve these, the Program will focus on producer groups/farms that produce good coffee and are well organized. Through a process of cup evaluations and business diagnostics, the most promising groups will be identified and selected as QCP clients. The

aim of QCP is to leave each group with strong market contacts and a strengthened business organization. In this context, the large majority of producer groups in each CADR country will not be selected for participation in the program.

- **Technical Assistance:** QCP is a technical assistance program. Nevertheless, the core technical team is inadequate to provide the intensity of assistance that most clients will require. In part, the limitations of the core team will be compensated for by selecting competent client groups. However, the level of assistance that will be required by the majority of the groups, in one area or other, can only be provided with a permanent technical presence on the ground. With few exceptions, this permanent presence under QCP can only be established and maintained where bilateral USAID Missions provide support through a national coffee program with additional funding.

SECTION III: KEY RESULTS AND INDICATORS

Section A.4.3 of our Task Order, entitled “Performance Standards and Indicators” states that results and indicators are “preliminary” in nature. This section of the Task Order also states that Chemonics “... is encouraged to provide input to these results and indicators, and recommend modifications based on expertise and knowledge of the sector.” The experience of the first eight and one-half months of implementation and discussions with bilateral missions, government personnel, producer organizations, buyers, exporters, private businesses and NGOs have led us to conclude that the results and indicators currently stated in the Task Order are overly complex, are diffused and fractionated, and intermingle results and means.

On the basis of this experience, it is believed that the **Performance Standards and Indicators** described in the Task Order can be improved to more accurately and feasibly reflect the objectives and capability of QCP:

- Increased sales of premium coffee from and within the CADR region, and
- Improved business environment that enables changes in the coffee industry that would result in increased sales to be sustained over the longer-term.

Each of these objectives is consistent with USAID/G-CAP’s Intermediate Result #1 under SO 596-009, “Improved Competitiveness and Sustainability of Quality Coffee Exports.” Given that the Task Order describes the results and indicators as preliminary, this 2nd Year Annual Workplan proposes a streamlined set of expected outcomes and indicators that are more focused on these two key outcomes of QCP. The **Indicators** and **Activities** below will sharpen the focus of the Program and contribute toward achieving the **Key Results** of QCP:

Key Result #1: Increased Sustainable, Profitable Sales of Premium Coffee

LOP Performance Indicators for Key Result #1:

- Twenty-five percent (25%) increase in net sales margins of premium coffee among QCP-assisted producer groups.
- Twenty-five percent (25%) increase in volume of export and domestic sales of premium coffee among QCP-assisted producer groups.

Targets for Achieving Key Result #1:

- One hundred (100) containers of high value coffee sold at premium prices through QCP-assisted contacts.
- Ten (10) buyers purchase premium coffee from QCP-assisted producer groups.
- Six (6) business arrangements, contracts and/or joint ventures implemented among producers, exporters and specialty coffee companies.
- Five hundred (500) producers meet market-based quality, social and environmental certification standards.
- Five (5) environmentally-friendly coffee wet mills constructed or modified.
- Fifty (50) cuppers participating in the Star Cupper Program, utilizing standardized cupping practices and who, in turn, will train five hundred (500) national cuppers.

Key Result #2: Improved Business Environment

LOP Performance Indicators for Key Result #2:

- Brand promotion program established in two (2) countries.
- Fifteen (15) cooperatives and/or other enterprises have business plans in place and demonstrate greater cost efficiencies.
- Auction systems (CQI, Cup of Excellence and/or national auctions) supported in four (4) countries.
- Quality coffee advocacy groups strengthened in each country and at the regional level.
- Value-added certification or designation for five (5) producer groups.
- Quality and specialty coffee promotional campaigns launched in two (2) countries.

Year Two Targets for Achieving Key Result #2:

- Fifty percent (50%) increase in membership in specialty coffee associations in five CADR countries.
- Promotional activities undertaken by regional and national specialty coffee associations.
- Marketing Advisory Group (MAG) recommends two policy changes that would improve quality coffee export climate in CADR region.
- Conduct analysis related to coffee policy reform.

SECTION IV: SUMMARY OF ACTIVITIES AND RESULTS TO DATE

Activities implemented in the eight and one-half months since program inception were focused on identifying and nurturing prospective coffee buyers, assessing coffee profiles that are considered desirable in the marketplace, diagnosing institutional needs of producer cooperatives and specialty coffee associations in the region, and evaluating wet and dry milling capacity and providing technical assistance for quality improvements.

Marketing Identification and Marketing: Considerable effort has been expended toward facilitating market contacts with large and small specialty and commodity buyers, learning about their needs and their willingness to pay premium prices. More than thirty international buyers were contacted with messages regarding how QCP can support their efforts to develop the right coffees for the market at improved prices to producers. Two of these purchased specialty coffee from QCP clients during the reporting period, and another has expressed serious interest in investing in one of our producer groups at origin. Four others are in price negotiations for the coming 2003-2004 harvest.

Coffee Quality: Visits were made to nine (9) predominantly specialty companies, or those with specialty divisions, in the United States to research the cup profiles currently being used and others that may be of interest in the future. Buyers advised us of the eminent threat posed to Central American coffees from origins in Africa and Asia that can produce high-quality coffees with desirable characteristics at lower prices than those currently available in Central America. Numerous cupping sessions were conducted during the reporting period to assess coffee quality and milling practices, and the changes required to improve coffee quality. Work is set to begin on the Star Cupper Training Program, designed to train the best cuppers in each of the QCP countries and develop norms and standards for cupping coffee throughout the region. In addition, assessments of wet and dry milling capacities were conducted in each participating country, with training and technical assistance provided for improvement of wet and dry milling processes.

Improved Business Practices: Through the end of September, nineteen (19) assessments of financial management and administrative practices were conducted for producer organizations in four participating countries. These groups represent 1,200 producers in Guatemala, 2,580 in El Salvador, 5,145 in Costa Rica and 738 in Panama. MIS needs assessments were also conducted with Cooperativa Palmares in Costa Rica and FEDECOCAGUA in Guatemala.

The combined volume of production represented by these groups exceeded 625,000 qq. of green coffee last year. The assessments reflect varying weaknesses in each organization, that include cash flow problems, faulty or nonexistent procedures for succession of boards of directors, weak or absent internal controls, lack of information about production costs, accounting deficiencies and overall poor planning. These results will drive our technical assistance services in the business development component for the coming year.

Please refer to the first QCP Annual Report, covering the period from mid-January through September 30, 2003, for a more detailed presentation of activities and results to date.

SECTION V: CLIENT PRODUCER GROUPS TARGETED FOR YEAR TWO

On the basis of cup profiles, expressed market demand and business and processing diagnostics, the following producer groups have been identified as the most probable clients for the 2003/2004 harvest:

El Salvador

- Cooperativa Ciudad Barrios
- Cooperativa La Majada
- Cooperativa Las Lajas
- PROEXCAFE

Nicaragua

- PRODECOOP
- CECOCAFEN
- SOPPEXCA

Guatemala

- Cooperativa Acatenango
- Cooperativa Baluarte
- Cooperativa Renacimiento
- Cooperativa Tajumuco
- FEDECOCAGUA (Cooperative Federation)
- ACODIHUE (Cooperative Association)

Honduras

- Café Orgánico de Marcala
- Cooperativa Cohorsil

Costa Rica

- Cooperativa Palmares
- Cooperativa Atenas
- Cooperativa Naranjo

Panama

- Cooperativa de Productores de Café de Boquete

Dominican Republic

- To Be Determined

For each of these groups, the next steps will be to prepare a business plan and provide technical assistance to correct the weakness identified in the cup, business and processing diagnostics. These were presented in the First Year Annual Report.

SECTION VI: WORKPLAN COMPONENTS AND YEAR TWO BENCHMARKS

A. MARKET IDENTIFICATION AND MARKETING COMPONENT

Overview

QCP starts with the market. The market establishes where the opportunities are and what the buyers require in order for producers to meet the challenges these opportunities present. The buyer is advised where the program is working and which producer groups may be able to fulfill these opportunities. The resulting commercial relationship is strictly between the buyers and sellers. Our role is to support both parties in the nurturing of the relationship and development of the product.

The marketing function is facilitated if the quality of the producer's coffee is maximized, and the processor's business practices are professional and modernized. Unless these combined elements of quality and business practices are in place, CADR producers cannot expect to compete in today's market. QCP is assisting coffee producers, processors, associations and cooperatives to increase profits from the sale of quality coffee by professionalizing and modernizing business and marketing practices.

Once the buyers are identified and marketing opportunities established, producers are challenged to produce the quality required by the buyer. QCP provides the necessary technical assistance to help producers develop the right product on a consistent basis. Since the market is demanding higher quality and premium coffee, the QCP focus during the coming year is to assist producers and roasters to enhance quality and improve communication with consumers using business practices such as certification, regional labeling, and branding. Increasing the quality and marketing of coffee in domestic markets are also expected to lead to increased local consumption and additional market opportunities for high value coffee. As such, quality information is essential to assess and access domestic and international markets.

Expected Year Two Achievements – Market Identification and Marketing Component

- Five (5) buyers initiate long-term relationships with QCP clients and present producers with opportunities for trial containers of coffee.
- Three (3) buyers purchase coffee from QCP-assisted producer groups.
- Three (3) business arrangements/contracts/joint ventures implemented between producers, exporters and specialty coffee associations.
- Fifty (50) containers of high quality coffee sold at premium value prices.

Key Year Two Activities – Market Identification and Marketing Component

- Marketing and promotion focused on the development of promotional materials, strengthening contacts between buyers and suppliers; market intelligence and strategic guidance from MAG.
- Adding value through improved quality by training of national cuppers, national training programs for quality and certification, and improving milling practices.
- Adding value through certification: Subcontracting with Rainforest Alliance for regional certification programs;
- Coordination with USAID partners: Closely coordinating activities with CQI’s Coffee Corps Program, TechnoServe’s small producer program, and other USAID-supported activities in the coffee sector including Conservation International, U.S. Geological Survey (USGS), and CATIE.

TABLE 1: MARKETING OPPORTUNITIES AND STRATEGIES

Regional Marketing Opportunities	Actions to Meet Opportunities	QCP to Meet these Opportunities by:	QCP Producer Group Strategies
<p><u>Specialty coffees w/ social/environmental standards determined by the buyer:</u> Regional coffees actively sought by U.S. and European buyers.</p> <p><u>Certified Organic/Fairtrade Coffees:</u> Current shortage of coffees with these characteristics and the right quality in the U.S. market, an expanding one for specialty coffees. Actively sought by U.S. and European buyers.</p> <p><u>Certified Fair-trade:</u> Large U.S. and European retailers expanding supply sources for these coffees.</p>	<p>(a) increased supply of specialty grade coffees;</p> <p>(b) improved systems of control for social and environmental standards; and</p> <p>(c) increased availability of specialty coffees with organic certification.</p>	<p><u>Marketing and promotion:</u> development of promotional materials, strengthening contacts between buyers and suppliers; market intelligence and strategic guidance from MAG.</p> <p><u>Adding value through improved quality:</u> training of national cuppers and national training programs for quality and certification; improving milling practices.</p> <p><u>Adding value through certification:</u> Subcontracting with Rainforest Alliance for regional certification programs;</p> <p><u>Coordination with USAID partners:</u> Closely coordinating activities with CQI’s Coffee Corps Program, TechnoServe’s small producer program, and other USAID-supported activities in the coffee sector including Conservation International, U.S. Geological Survey (USGS), and CATIE.</p>	<p>-Assist groups to actively pursue relationships with large buyers.</p> <p>- Improve quality control and blend coffees for high-value roasters and retailers.</p> <p>- Improve systems for product traceability and financial transparency.</p> <p>- Review and update certification materials to help ensure compliance with int’l certification agencies.</p>

C. QUALITY ENHANCEMENT COMPONENT

Overview

The first eight and one-half months of QCP were devoted to assessing coffee profiles that considered desirable in the market place. Consultations with approximately thirty prospective buyers were initiated, ranging from large commercial roasters to smaller exclusively specialty companies. Each of the companies provided information on the profiles they are currently using and would be seeking in the future. The buyers warned of the numerous other origins in Africa and Asia that can produce a high quality coffee with very desirable characteristics at prices lower than those of Central America. The potential switch in origin that companies may begin to consider, if they already have not, will become commonplace in the next two years. However, changing origin blends is a time consuming process so that the consumer may not notice the change and the establishment of new purveyor chains. This represents a window of opportunity for CADR to demonstrate its irreplaceable qualities at a competitive price. Buyers would prefer to continue with the familiar rather than change from the advantageous opportunities of remaining in Central America. Improving quality at lower cost is therefore crucial to the survival of the CADR coffee industry.

Expected Year Two Achievements – Quality Enhancement Component

- Five (5) environmentally-friendly coffee wet mills constructed or modified.
- Fifty (50) cuppers following standardized cupping practices who, in turn, will train five hundred (500) coffee producers in quality enhancement throughout the CADR region.
- Five (5) wet mill alliances formed between producer associations, wet mill operators and roasters.
- 250 producers trained in wet milling practices and quality control.
- Twenty (20) producer groups adopt improved wet milling practices to obtain better coffee quality and maximize milling efficiencies.

Key Year Two Activities – Quality Enhancement Component

- **Quality Enhancement - Cupping**

During QCP's second year, coffee qualities will be reassessed in order to develop and hit the profiles buyers are seeking. This will be achieved through training on coffee quality, wet and dry milling and the subsequent supervision of the milling process. Final evaluations will be performed in the cupping laboratory where coffee from targeted producer groups can be compared with last year's quality, with the coffee milled under optimal conditions versus the regular milling processes. Significant improvements in the coffee quality will be achieved that will allow for establishment of optimal cup profiles, as well as consistency that will hit the established profiles over time. Substantial training on creating and maintaining coffee quality will also be conducted for each of the producer groups

throughout the region. The Star Cupper Training Program, initiated during the first year, will be increasing the knowledge of seventy cuppers in the region, ten in each country. They will be fully trained on international standards to be provided by the Specialty Coffee Association of America (SCAA).

- Creation of Optimal Cupping Norms and Standards

Establishment of a cupping laboratory: QCP will install a cupping laboratory at its regional offices in Guatemala City early in the project year. The laboratory will allow us to continually assess the coffee of each of the producer groups with whom we work, develop the specific profiles and ensure fulfillment of the profiles the buyers demand. The lab will also be used as a training facility to train cuppers throughout the region in cupping norms and standards.

Technical assistance for producer group cupping laboratories: Some targeted producer groups have cupping labs while others do not. For those that do have labs, QCP will provide optimal norms and standards for cupping that reflect international protocols. For those without labs, QCP will encourage a minimum investment of US\$300 to create a small rudimentary laboratory to assess quality. A universal instrument for assessing cup quality consistent with that used by SCAA will be produced and disseminated for the use of all laboratories.

- Training in Cupping Practices

Producer groups will be trained in the optimal cupping norms and standards that are developed. Those that are establishing new labs will need additional training to be conducted either on-site or in QCP's new cupping laboratory. Participants will be trained in qualities considered desirable in the market place. Through cupping, QCP will assist each group to establish the profiles of their coffees and to identify optimal market channels.

The Star Cupper Training Program will train ten of the best cuppers in each of the CADR countries on all aspects of the international coffee market. The program is comprised of eighteen sessions in four countries in collaboration with CQI. SCAA will provide essential support to the training curriculum and will administer the final test to qualify participants as "Q" Graders. This will provide successful participants with a respected international credential allowing them to evaluate coffees to enter the "Q" Auction system and subsequently to the "Q" Contract.

Each of the candidates will be selected based on experience, cupping knowledge and ability to become trainers for less experienced cuppers. Each country has assigned a contact person associated with the respective national coffee association in order to ensure compliance with industry protocols. The

application is open to anyone that fulfills basic minimum requirements. The testing period for selecting the ten participants in each country was initiated in early October and the training itself is scheduled to begin in early-November.

- Monitoring and Evaluation: Creating and Maintaining the Optimal Cup Profiles for each Participating Producer Group

Based on established market place profiles, QCP will match the coffees of each producer group with buyer requirements. Once optimal profiles have been established, we will work closely with participating producer groups to mill specific lots to determine the best milling practices needed to hit the profiles. QCP will periodically conduct assessments of producer group coffees in our own cupping lab to ensure consistency and to offer advice on quality issues. This will allow us to properly channel the coffees to the appropriate market and facilitate the relationship between producers and buyers. The cupping lab will be an important stop between the producer and buyer to ensure that the coffee being offered maintains its quality during through the milling, warehousing and pre-shipment processes.

- **Quality Enhancement - Milling**

Initial contacts with producer groups during QCP's first year reveal that virtually all, in varying degrees, require improved efficiencies in their coffee milling practices. Some are failing to achieve economies of scale due to low volumes caused by poor harvests (lack of inputs, land converted to production of alternative crops, etc.), inefficient use of processing equipment, and in some cases poor maintenance because of lack of resources. Technical assistance in improving wet mill efficiencies is critical if producer groups are to increase their competitiveness in the specialty coffee market. Such technical assistance can help the groups improve cost efficiencies, reduce losses from poor milling practices, and achieve overall improvements in quality.

- Assessments of wet mills: These activities will include verification of wet milling norms and procedures that affect production of quality coffee. This includes physical analysis of the bean itself to include assessment of color, size, weight, aroma, and acidity of the bean. Quality controls will be assessed in each producer group for all post-harvest phases, from receipt of the beans into the mill to depulping, fermenting, washing, drying, storage, and milling the coffee at a reasonable cost without compromising quality. It also involves maximizing efficiencies in utilizing the milling machinery to be able to establish the desired cup profile in each of the groups to be assisted.
- Improving wet milling practices: Activities will include oversight of the construction or renovation of five wet mills during project year two. Most of the client groups already have operating wet mills and are producing

good quality coffee. The modifications to be recommended will focus on changes in infrastructure, usually for improved drying, and processing technique and technology.

- Cupping facilities: In order to enable the producers groups to constantly monitor the quality of their coffees that leave the mill, each mill must have the ability to check quality. Most of the larger mills have cupping labs in operation; those will be evaluated and necessary improvements indicated. The smaller mills usually have neither the installations nor the skills to cup their coffees. QCP will assist all mills to establish or improve their capacity to monitor quality.

D. IMPROVED BUSINESS PRACTICES COMPONENT

Overview

During the first year, nineteen administrative/financial diagnostics were completed for pre-identified producer groups; two Management Information System (MIS) analyses were conducted as well. The results of these evaluations indicated that the groups were, for the most part, solid business organizations, but with weaknesses that need to be corrected to improve their competitiveness. The quality and transparency of these organizations are particularly important to QCP in view of the increasing emphasis that the market is placing on certification and traceability. Second year activities to improve business practice will build on the diagnostic results and implement a program of assistance and services to strengthen client organizations.

Expected Year Two Achievements – Improved Business Practices Component

- Training
 - Five (5) management development seminars for producer group managers and boards of directors
 - Five (5) seminars directed toward public and private sector policy makers
- Technical Assistance
 - Ten (10) administrative/financial diagnostics conducted
 - Seven (7) Business Plans formulated and implemented
 - Three (3) feasibility studies for infrastructure investment
 - Fifteen (15) work plans implemented with client groups
 - Ten percent (10%) reduction in costs in six (6) client groups that follow the business and work plans
 - Business plans for the Regional and each national Specialty Coffee Association

- Management Tools
 - One (1) Guide to Improved Management for coffee cooperatives and associations developed and in use in all targeted producer groups
 - Establish an internet Market Intelligence Service
 - Two (2) MIS designed and installed (FEDECOCAGUA and Cooperativa Palmares)

Key Year Two Activities – Improved Business Practices Component

- **Diagnostics:** QCP will continue to perform Administrative/Financial Diagnostics on additional producer groups. The diagnostics will be extended to Honduras and Nicaragua, which were not covered in the first year. Each diagnostic requires a week for field work and document preparation.
- **Technical Assistance:** Assistance will be provided to client groups to improve their management systems. This assistance will be delivered directly by core and SEM staff, as well as by short-term consultants to extend the outreach of the core staff and cover appropriate specialty areas such as market intelligence, market mechanisms, etc.
- **Business Plans:** A minimum of seven plans will be developed with client producer groups. Even most of the better managed producer enterprises do not operate under a well-designed and executed business plan. In developing a good plan, much of the information needed for longer range planning will be obtained, which will permit the organizations to accurately identify cost and income centers and make decisions on the basis of competitiveness criteria. One of the promising strategies for escaping the “C” Contract is to negotiate price on the basis of product costs. An accurate and convincing presentation of costs will strengthen the position of the producer and place price determination on a business basis.
- **Transparency:** It is essential that the completeness and transparency of business plans be consistent with the requirements of certifiers and buyers of certified coffees. The models to be developed will carry transparency from the producer group through processing and marketing intermediaries and on to the buyer. The principal challenge is to assure traceability within the primary cooperative among cooperative federations and associations. Focus will be placed on developing the internal systems in the primary cooperative to enable it to provide complete information required regarding physical coffee and payment distribution.

D. MARKET-BASED POLICIES FAVORABLE TO SPECIALTY AND PREMIUM COFFEES

The Chemonics Task Order includes a policy component that requires the provision of technical assistance to help correct policies detrimental to the competitiveness and profitability of the specialty coffee sector in the region. While QCP did not initiate any policy studies during the first year, consultations were held with a variety of prominent

policy-making and policy advisory organizations in each CADR country. This includes the Council of Central American Agricultural Ministers (CAC), the Costa Rican Coffee Institute (ICAFÉ), Instituto Interamericano de Cooperación para la Agricultura (IICA), Secretaria Ejecutiva de Planificación Sectorial Agropecuaria (SEPSA), ANACAFÉ in Guatemala, ICAFÉ in Nicaragua, the Specialty Coffee Associations in each CADR country, PROMECAFE, and others. During the second year, we will actively seek input from these sources to determine how QCP resources can best be used to address the policy environment. ICAFÉ of Costa Rica has requested consideration of a study on the reforms needed to align policies regarding farmer delivery to wet mills and the method of payment consistent with the production quality coffee. At question is whether producers and beneficios that produce higher quality coffee can calculate their costs differently as a means of getting differentiated payments from producers of conventional coffee. This is an example of the kind of policy study QCP will perform this year.

SECTION VII: PROGRAM COMMUNICATIONS

A. Newsletter

QCP initiated a monthly newsletter during the first project year. This newsletter will continue to be published on a monthly basis. Content will include brief descriptions of project activity, with a particular focus on the impact QCP interventions are having on sales, producer group competitiveness and quality improvements. The audience for this newsletter includes bilateral USAID missions, participating government ministries, coffee associations and producer groups in the region, prospective buyers, and the general public interested in how QCP is supporting premium coffee production and sales in the region. While this will continue to be distributed as an electronic publication, QCP will professionalize this newsletter early in the second year with improved editorial content, layout and photographs. It will be sent as an e-mail attachment to our contact base, and also be posted onto the QCP website.

B. Website

QCP is in the process of establishing a website that will serve as the public face of the program. The website will include background information on QCP, current events, upcoming training programs, issues of general interest in the coffee sector, interviews with key individuals, a forum for debate of important issues facing the sector, market information, the QCP newsletter, and other information of interest. As with the newsletter, the website will be professionalized and updated periodically to reflect the sophistication required to present the program in a positive and attractive format for a USAID and coffee-sector audience.

C. Periodic Updates to Bilateral Missions

Managing communications with seven bilateral USAID Missions as well as the regional program has proven to be considerably more complex than originally planned. Bilateral Missions have the right to expect to be maintained fully-informed about QCP activities

on a regular basis, and how these activities are affecting the coffee sector in their respective countries. This is especially true given the advent of the large buy-ins from the El Salvador and Nicaragua Missions. Indeed, frequent requests for information and activity updates are already being received from both these Missions. The newly-appointed QCP Chief of Party will devote a substantial portion of his time to the buy-in Missions through monthly site visits, as well as frequent telephone and electronic communications, to ensure they are regularly updated about project activities, impacts, issues and problems.

D. Coordination and liaison with other USAID-supported programs in the coffee sector

QCP has been asked by G-CAP to play a coordinating role for all USAID-supported organizations implementing regional activities in the coffee sector. This group includes Rainforest Alliance, Coffee Quality Institute, Conservation International, U.S. Geological Survey, CATIE and TechnoServe as well as Chemonics. The first coordination meeting will take place on November 20 in San José, Costa Rica following the SinterCafé Conference. This first meeting will involve presentations of individual workplans, followed by a planning for such coordination in the future. This coordination could include periodic meetings, exchange of newsletters and other materials, combining activities to leverage resources, or other such coordination mechanisms.