

QUARTERLY REPORT

Quarter II 2003
April 1, 2003 to June 30, 2003

CADR QCP Central America and Dominican Republic Quality Coffee Program

USAID/G-CAP
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Implemented by the Chemonics RAISE Consortium
Chemonics International Inc.
PRIME International, J.E. Austin Associates, NCBA/CLUSA,
and Sistemas Empresariales de Mesoamérica (SEM)

USAID/G-CAP/Chemonics International
CENTRAL AMERICA AND DOMINICAN REPUBLIC
QUALITY COFFEE PROGRAM

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I. Introduction

This is the second quarterly report for the Central America and Dominican Republic, Quality Coffee Program, covering the period of April 1, 2003 to June 30, 2003. The main thrust of program implementation continued to focus on preparing the ground work for the upcoming 2003/4, and to a lesser extent the 2004/5, coffee harvests. During the past quarter focus has been given to questions of coffee quality, business development and, primarily, potential markets.

II. Progress in Activities Planned for this Period

The activities programmed for this quarter, as indicated in the previous quarterly report, have evolved as follows:

2.1 Submit First Year Work Plan: The work plan for the region and for each country was submitted to USAID/G-CAP in June. The CTO has indicated that the regional and country-specific plans were distributed to each Mission and that there have only been minor comments. We will review and respond to those comments when received and as appropriate.

2.2 Organize a Private Sector Forum on Regional Marketing Strategies: A one-day Forum was held on June 26, in El Salvador. There were approximately fifty attendees and speakers including representatives from many of the leading international coffee trading companies provided participants with background on global market trends and current roaster requirements. Participants concluded the event with a commitment to a collaborative regional action plan for Central America that will link marketing strategies to the market opportunities. The major themes and message were:

- The market sees much of Central American as a substitutable product, thus, the position of “Centrals” should constitute a portion of regional marketing strategies;
- The growing competitiveness and interchangeability of coffees in much of the world market requires that origin be more proactive and creative in marketing and promotion of its product.

2.3 Evaluate and Analyze the Auction-Based Events Held in the Region: A technical team, comprised of Jim Evans and Robert Stephen, began the evaluation on July 23. The evaluation will examine the auction mechanism from three aspects:

- Technical: including, cup evaluation criteria, selection criteria of the international cupper panel, specific market focus;
- Market: including, as a mechanism for identifying quality coffees and producers;
- Origin: including, commercial-level impact on volumes and prices, expectations, benefits and costs, participation of origin in event planning and execution.

2.4 Evaluate Opportunities and Strategies for Internal Market Development in the Dominican Republic: Steve Aronson, founder of Café Britt, has accepted to conduct the evaluation and identify alternatives for expanding the sale of national and/or regional coffees in the tourist and local markets. The activity will begin during the second half of July and the final report is scheduled for the first semester of September.

2.5 Conduct Management Analyses in Six Cooperatives in the Region: Complete management and quality analyses have been completed for seven cooperatives. These cooperatives are located in Guatemala (5), Costa Rica (1) and El Salvador (1), and represent over 100,000 bags of export coffee. The results of the analyses were varied. Each of the cooperatives demonstrated potential for quality coffee; however, each also revealed areas of weakness, ranging from non-functional administrative structure, to quality control problems for guaranteeing a consistently high quality product, to marketing difficulties. If selected, the problems identified would be targets for assistance from the CADR program,

2.6 Star Cupper Training at Regional Level: CADR has coordinated with CQI, PROMECAFE and origin countries in establishing formats for identifying the course curriculum, candidates and implementation schedule of the training program. An 18-month program will train, to international standards, eight to ten star cuppers from each country. The program will be consistent with criteria and procedures contemplated for the SCAA/CQI-sponsored Q Contract. Training is programmed to begin in October 2003.

2.7 Evaluation and Technical Assistance to Wet Milling Operations: Inspections and recommendations were made for the seven wet mills operated by potential CADR producer group clients. It was determined that each is capable of producing excellent coffee, though each would benefit from modifications in processing and/or quality control. Additionally, an inspection and recommendations were made of a cooperative wet mill operated in Honduras under a FUNDER project. Those recommendations were implemented by the cooperative and FUNDER, resulting in improved coffee quality and the sale of a container to specialty roaster Allegro Coffee.

2.8 Market Advisory Group (MAG), Second Meeting: The second meeting of the MAG was held in Boston in conjunction with the annual SCAA conference. Based on a consensus at the first meeting, that a concerted program for promoting Central American would be a necessary and recommended addition to individual CADR country strategies, Hill Holliday, the marketing firm MAG member, presented initial ideas for a Central American coffee campaign in US markets. A third meeting is scheduled to be held in November in Costa Rica, concurrent with SINTERCAFE, to further advance the element of a regional market plan.

2.9 Formalize Relationships with Certifying Organizations: The terms of reference have been defined for a sub-contract between CADR and Rainforest Alliance. Signature is pending the latter's submission of the regional budget.

2.10 Work Plan for Incrementally Funded Activities in El Salvador: An initial two-year plan and \$1.5M budget were submitted to USAID/El Salvador. The Mission responded detailing observations and modifications in activities, plan format and budget level. These changes and clarifications are currently in preparation, to be resubmitted by August 11th.

2.11 Work Plan for Incrementally Funded Activities in Nicaragua: The Work Plan and \$1.7M budget for Nicaragua is in preparation and will be presented to the USAID Mission in early August. The Plan incorporates coffee quality and marketing activities for the three Faith-Based Organizations identified by the Mission.

2.12 Three Major Buyers to the Region: During the quarter, buyers from Royal Coffee, Atlantic Specialty Coffee and Volcafé Specialty Coffee were brought to origin to provide continued exposure to regional and specific coffees and/or producers and producer groups. The CADR technical team also met with and/or accompanied buyers from Elan Coffee and Green Mountain Coffee Roasters during their visits to origin. In addition, team members met with over 20 major buyers from the US and Europe; many of which expressed interest in CADR coffees and the program. Generally, there is great concern regarding the plight of the coffee growers as a result of the on-going price crisis; contrasted with a high-price, high-quality consumer market. However, the apparent opportunities in that market are off-set by the deteriorating quality of the region's coffees, especially the difficulties in obtaining consistently high quality coffees from small producers. Many of the buyers see the program as an impartial link to producers who must improve their coffee quality and reliability and to provide assistance and oversight to potential suppliers while they meet industry standards in those areas.

2.13 Investigate Alternative Market Mechanisms for CADR Quality Coffees: During the past year some origin countries, especially Guatemala and El Salvador, expressed interest in examining possible alternatives to the C-Contract as the basis for pricing quality coffees. Contacts were established with individuals capable of evaluating such alternatives. However, since that time, plans for some mechanisms have been put forth, including the SCAA Q-Contract proposal and the CQI Alternative Market Mechanism, including

another “Cup-of-Excellence” type auction system. The major proponents for discovering alternatives to the C-Contract have adopted a wait and see position, as the SCAA and CQI ideas develop. Our proposed investigation of possible alternatives has been placed into the same holding pattern.

2.14 Policy Constraints and Opportunities in the CADR Region: The project has taken steps to identify a consultant to review the policy constraints in the area and make recommendations for actions. As a result of timing conflicts the consultant has not been available during the past reporting period and this assignment will be carried out during the next quarter. In addition, activities during the next quarter will look to elicit collaboration and leadership in the private sector to examine the feasibility of policy and/or policy-like initiatives in favor of the quality coffee industry.

2.15 Development of Project Communications Strategy: The project developed Terms of Reference and hired a consultant who traveled to Guatemala to assist with the development the Projects overall communications approach. Since the project is a high-visibility project with a wide range of audiences and stakeholders it is necessary to be able to communicate our progress in an effective manner. Outcomes of the consultancy included: identification of target audience groups, what motivates them and how our project can help them; creation of a core message to help the project connect to the bigger picture; and development and production of various communications activities to promote discussion of the project and highlight successes.

III. Significant Problems Encountered

There have been three main problems that have had a negative effect on program implementation:

3.1 Administration: The regional scope of the program, additional country-specific programming and program amendments, including a sub-grant component, have created much greater than anticipated administrative tasks and responsibilities. The CADR team is basically a technical team and has found it difficult to satisfy both technical and administrative demands. Many of the tasks have been met using home-office personnel, but this is not a satisfactory long term solution. Under current staffing, attending to a growing administrative burden may well negatively affect the development and execution of the technical program designed to reach project objectives and targets.

3.2 Country Clearance: There is an inherent incongruity between a private sector oriented regional activity, such as the CADR Program, and the country clearance requirements for each entry into the participating countries. The regional character of the program necessitates frequent travel to each country and the private sector orientation augers for flexibility and agility in responding to opportunities and sequential follow-up.

To obtain country clearance, Missions require that requests be sent with two weeks anticipation; however, experience to date has shown that:

- even with that lead time, clearance is too frequently not received by the proposed travel date; and
- it is often difficult to request clearance two weeks in advance in response to demands from industry members: producers and buyers.
- changes in the travel program result in down periods for members of the technical team since there is insufficient time to reprogram visits to other countries.

3.3 Geographic Code: The 000 geographic assigned to the project precludes access to key short-term technical assistance professionals. Expertise in many areas of coffee processing and non-US marketing is unavailable from regional and U.S. sources. The inability to access this resource pool significantly detracts from the quality of the assistance that can be provided to the program and its beneficiaries.

IV. Actions Taken to Resolve Problems Encountered

4.1 Administration: The project has requested an additional long-term team member to be added to the team to focus on administrative functions, coordination of country-specific activities with bilateral Missions and the sub-grant component. This position was formally requested and approved by the USAID CTO and the Contracting Office and a well qualified candidate was recruited and accepted by the Mission. This individual will begin working with the project in late August, 2003.

4.2 Clearance: In awarding program implementation to Chemonics, the technical team was approved by a regional, multi-Mission selection committee. Thus it has been proposed by the project that this approval serves to “regionalize” the long-term personnel of that team, allowing a standing regional country clearance similar to that long-term technical persons are given under one-country projects. No decision has been taken yet as to how to proceed with this option.

4.3 Geographic Code: Waivers for technical services from outside the 000 geographic code have been successfully requested on an case-by-case basis. Until it is determined that the demand for non-code eligible technical assistance would best be served by a blanket waiver, we will continue to deal with this need on an individual basis.

V. Important Observations Regarding Implementation

The regional scope of the program brings a new orientation to the traditional view of the participating countries regarding the competition that each represents for the other in obtaining markets. A significant part of the challenge to the project is to modify this perception and develop a regional outlook. To that end, the program has undertaken several initiatives which highlight regional collaboration.

5.1 The program sponsored a Regional Forum for Quality Coffee to advance a concept and strategy that the CADR region promote its coffees as an origin; a position consistent with the market view of “Centrals” as basically interchangeable. The message of the speakers, all from the market side of the business, to the participants from origin was that:

- CADR coffee competitiveness lies in its origin as Mild, Washed Arabicas (with country, etc. differentiation as a sub-set of that origin), and
- The region must be more proactive in identifying and satisfying markets.

5.2 The lack of proximity of the CADR office in Guatemala City with six of the participating countries and corresponding difficulties for periodic direct contact have resulted in a revised strategy for communicating activities and results to the several Missions and sector counterparts. The project is in the process of designing and implementing an integrated communications strategy to include production of a web site and monthly newsletter to provide periodic updates to a broad spectrum of recipients.

5.3 To coordinate the regional effort and country specific programs in El Salvador, an advisory group was established. This group is well informed on and in agreement with the focus of the regional program and will provide guidance for the Salvador program consistent with the overall effort. Once the El Salvador plan is approved and implementation begun, this group will be convened semi-annually and consulted on an *ad. hoc.* basis as required.

5.4 At the end of the Regional Forum a meeting of the national Associations of Specialty Coffee was convened to lay the groundwork for regional cooperation. One preliminary result of that meeting is that the group will investigate the possibility of participation of the CADR region in the 2005 SCAA conference as the Host Origin, instead of the traditional one country origin.

VI. Activities Planned Next Period (July-September, 2003)

General

- 6.1** Present the Work Plan and financial proposal for approval and initiate the El Salvador program
- 6.2** Present the Work Plan and financial proposal for approval and initiate the Nicaragua program
- 6.3** Initiate a monthly newsletter and other e-mail communications of program activities and results
- 6.4** Promote the formation of a Specialty Coffee Association of Central America and the Dominican Republic
- 6.5** CADR region designation as Host Origin at SCAA 2005
- 6.6** Initiate sub-grants to national Specialty Coffee Associations, specifying inputs and responsibilities of the Association and Chemonics

Quality

- 6.7** Initiate Star Cupper training program, in collaboration with CQI and PROMECAFE
- 6.8** Evaluation of wet mill operation in Panama, Guatemala, Honduras, Nicaragua and the Dominican Republic, with recommendations for improvement
- 6.9** Recommendations for wet mill construction and operation in Honduras
- 6.10** Training in wet mill operation in the Dominican Republic
- 6.11** Analysis of the experiences with auction mechanism in Central America
- 6.12** Review FEDECOCAGUA dry milling and cupping as adequate for the European specialty market

Business Practices

- 6.13 Diagnostic evaluations and recommendations in business practices in ten (10) coffee cooperatives
- 6.14 Business plans developed for eight (8) cooperatives
- 6.15 Training events on market mechanisms and strategies for the New York Coffee Exchange in three (3) countries, with participants from all seven CADR countries
- 6.16 Diagnostic evaluations and recommendations for information management systems in two (2) cooperatives: FEDECOCAGUA (Guatemala) and COOPEPALMARES (Costa Rica)
- 6.17 Wet mill feasibility evaluation in Honduras (FUNDER)

Marketing

- 6.18 Three major buyers to origin: Green Mountain Coffee, Elan Coffee and Continental Trade and Commodity Services (CTCS)
- 6.19 Selection of cooperatives and/or producer groups to receive technical and marketing services for the 2003/4 season
- 6.20 Evaluation of Dominican internal coffee market, with emphasis on linking it to the tourist trade

Level of Effort:

The summary of the level of effort used by the project, both cumulative and for the reporting period follows:

<u>Level of Effort (Person Days) Summary</u>	
<u>Chart</u>	
<i>Total Contract LOE</i>	<i>5,649.00</i>
<i>LOE Expended this Quarter</i>	<i>503.00</i>
<i>LOE Expended To Date</i>	<i>809.82</i>
<i>Remaining LOE</i>	<i>4,839.18</i>

Financial/Budgetary Execution:

The project's budget execution both cumulative and for the reporting period is reflected in the following table:

<u>Financial/Budget Summary</u>	
<i>Obligated Amount</i>	<i>\$3,250,000.00</i>
<i>Contract Ceiling</i>	<i>\$8,000,000.00</i>
<i>Expenditures this Quarter</i>	<i>\$499,973.85</i>
<i>Expenditures to Date</i>	<i>\$756,528.90</i>
<i>Remaining Balance</i>	<i>\$7,243,471.10</i>