



CHEMONICS INTERNATIONAL INC.



***CENTRAL AMERICA AND DOMINICAN REPUBLIC
QUALITY COFFEE PROGRAM (CADR QCP)***

**1ST Annual Implementation Report
January 15 – September 30, 2003**

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Submitted by:

**Chemonics RAISE Consortium: Chemonics International
Incorporated, with Prime International, J.E. Austin
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ACRONYMS

CADR – QCP	Central America and Dominican Republic – Quality Coffee Program
CQI	Coffee Quality Institute
FEDECOCAGUA	Federación de Cooperativas de Café de Guatemala
G – CAP	Guatemala – Central American Program
MAG	Marketing Advisory Group
NCA	National Coffee Association
OCIA	Organic Crop Improvement Association
SCAA	Specialty Coffee Association of America
RAISE IQC	USAID Indefinite Quantity Contract under which the CADR–QCP project is contracted
USAID	United States Agency for International Development

Executive Summary

This first annual report presents the activities conducted and results attained by the USAID Central America and Dominican Republic Regional Quality Coffee Program (CADR-QCP) for the period January 16, 2003 through September 30, 2003. QCP is being implemented under the RAISE IQC mechanism through a Task Order between USAID G-CAP and Chemonics International. This report is a requirement as per Section A.6 of this Task Order Contract, and is submitted in lieu of the quarterly narrative report for the July-September period.

Since its inception, the program has initiated activities under each program component: quality enhancement, business development, markets and marketing, and market-based policy. These activities were planned and implemented through consultation with stakeholders and industry leaders on actual market opportunities for CADR coffee. They included an informal assessment of actual market opportunities, a series of assessments of producer groups to determine the program's client base, and both formal and informal reviews of each participating country's needs and interests.

The program's marketing and production strategy is based on actual market opportunities. These opportunities include high quality specialty coffees linked to responsible social and environmental management systems. The producer diagnostics were used to determine if potential producer groups had the interest, resources and capacity to meet the challenges of the actual market opportunities.

Formal and informal assessments of the needs and interests of individual CADR countries included: (a) a regional forum in the first weeks of the program, with participation from all USAID missions and selected stakeholders; (b) visits to all key players at origin by the entire QCP team over the first two months of the program; (c) a regional seminar in El Salvador for all CADR specialty coffee associations, coffee institutes and other key private and public sector players; and (d) approvals for buy-in funding from the Nicaraguan and El Salvadoran bilateral missions. The key concern of everyone has been the coffee crisis in the region and the search for sustainable solutions.

Given the findings of these assessments, and through subsequent discussions with USAID Missions, we are proposing that the results and indicators of the three components of QCP, their results and indicators as currently appearing in the Task Order, be streamlined and adjusted to reflect those areas in which the program can have greatest impact on value-added sales and the number of producers benefited. Principal activities will remain the same, but streamlined to ensure the best and most efficient use of project resources. Recommended adjustments to results and indicators will appear in our 2nd Annual Work Plan, to be submitted as a separate document.

Based on the results of the diagnostics, long-term program field activities have been initiated in Guatemala and El Salvador. To a lesser extent, activities have also been initiated in Nicaragua, Honduras, Costa Rica, Panama and the Dominican Republic, which will have more complete country programs for the coming year.

These efforts have enabled the program to achieve the objectives proposed in the first Work Plan (Jan 2003 to Sept 2003) and claim early successes for high value coffee sales.

Key Marketing Results through September 30, 2003

1. Five hundred bags of initial trial lots of coffee from Honduras and Guatemala sold at higher prices.

Key Achievements through September 30, 2003

1. Thirty international buyers have demonstrated serious interest in the program
2. Three major buyer have visited origin and potential program producer groups
3. Ten major buyers attended a regional forum in El Salvador organized by QCP for all CADR specialty coffee associations
4. Fifteen major international buyers have committed to serving on the QCP Marketing Advisory Group
5. The Star Cupper Training Program has been initiated in the region.
6. Nineteen producer assessments have been completed and ten small producer client groups were selected to receive technical assistance by QCP.

Section I: Introduction

This Annual Report presents QCP's implementation as it was carried forth in accordance with the scope and terms of the Task Order. Section II of the report focuses on regional activities and on those which do not neatly correspond to any one of the four program components established by the Task Order. In Section III, we provide an overview of the activities carried out under each component of the program, including a summary of results. Section IV of the report concludes by identifying some of the strategic and programmatic challenges that are faced in executing the program.

Background

Over the last decade, Central American coffee has become less competitive as a commodity product due to increased production of other origins with higher quality selling at lower prices. Therefore the challenge to the coffee industry has been to determine which parts of the industry can survive the crisis, what do those parts of the industry need to do in order to survive, and how can the industry emerge from the crisis stronger and more competitive than before. QCP is a response to that crisis and, as such, is designed to play a supporting role to those who are struggling for answers. Given that the market forces will always determine the final result, QCP has focused on those who make the final decisions – the buyers and the producers.

QCP has looked to buyers in the industry to help guide it, and indicate where the real needs and issues lie. QCP's Marketing Advisory Group, comprised of key industry buyers and other experts, was formed in April to ensure that the QCP strategy is closely related to actual market conditions. It is a key component, but QCP has also formed close relationships with other international buyers who have also been quite helpful in its development and thinking.

The three major QCP components are:

Quality Enhancement: QCP is helping producers and producer groups with the potential to produce quality coffee to 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.

Improved Business Practices: Coffee producers and processors can increase profits from the sale of quality coffee by modernizing business and marketing practices. 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, and 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.

Market Identification and Marketing: Some of the best coffees in the world are produced in Central America and the Dominican Republic. Much of this production takes place in a manner that is compatible with the conservation of biodiversity and other ecological objectives. 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 environmentally and socially sustainable manner, today fetch premium retail prices. 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 aimed at correcting those policies that are detrimental to the competitiveness and profitability of quality and sustainable coffees and encouraging supportive actions by public and private elements of the sector.

Section II: Regional Activities

The following activities involved participation and application at the regional level:

A. Regionalization Forum

One of the results of the first meeting of the Marketing Advisory Group (see Section IV.C.1) was the recommendation that the competitiveness of the CADR region could be increased by incorporating elements of a regional strategy to complement those of individual countries. A regional approach was believed to offer the advantages of:

- Increased volumes of similar coffees offered in a coordinated manner
- Uniformity of quality standards defined and utilized
- Economies of scale in marketing and promotion
- Building on the market concept of the “Centrals”
- Coordinate region-wide programs, such as certification and policy

QCP sponsored a forum where various opinions on the advantages, and disadvantages, of regional collaboration. A wide range of industry players presented experiences and projections, all of which pointed to the wisdom of looking to a regional approach for addressing many of the major problems. Invited speakers included major importers and exporters (Atlantic Specialty and Neumanns Koffee Grup), specialty roasters (Royal Coffee and Café Brit), certifiers (Rainforest Alliance) and the keynote speaker relating successful, changing strategies adopted by Brazil.

B. Specialty Coffee Associations

One of the results of the Regionalization Forum was the interest on the part of the Specialty Coffee Associations of each country to form an regional association. Three meetings have been held (in El Salvador, Costa Rica and Guatemala) and all of the CADR countries are participating. Though still in its fledgling stage of development, several activities are being considered (e.g. requesting to be the origin host at the 2005 SCAA Conference) and topics of discussion center on origin becoming more proactive in promotion and marketing activities.

C. Evaluation of the Auction Mechanism and its Results in Central America

Five of the CADR countries have received help in establishing quality coffee auctions to publicize and promote national origins. Three of those auctions were under the auspices of the *Cup of Excellence* program (Nicaragua, Guatemala and El Salvador) and two were sponsored by the respective Specialty Coffee Associations (Costa Rica and Panama).

To date, there has been no systematic analysis of the mechanisms and results, either in origin or in consuming countries. An evaluation of the process was conducted at three levels:

- Technical criteria for coffee evaluation and for the selection of the evaluators (cuppers)
- Reactions and opinions in the market place among major buyers
- Reactions and opinions in origin

A draft of the investigation indicates that the auction mechanism has been successful in publicizing new, excellent coffees from each origin; however, there have been few follow-on benefits in terms of significant increased interest or sales at the commercial level. The results of this investigation have been forwarded to the Coffee Quality Institute (CQI) to provide information that may be useful in the design and implementation of the “Q” Auction to be undertaken next year.

D. Newsletter

A QCP Newsletter was initiated in August for the purpose of disseminating information on the activities of the program to major partners and interested players in the CADR region.

Section III: Summary of Activities in the Four Key QCP Components

A. Enhanced Quality

The main objective of the Maximizing the Cup Profile portion of QCP is to assess the flavor profiles demanded in the market place as well as determine the quality potential and flavor profiles of the coffee produced by the groups to whom assistance is being provided. It was important to determine that what the market demands reflects what the producers we selected could deliver.

Under this component, quality requirements of specific buyers, cup profiles from potential producer groups, and existing quality and milling facilities were assessed. Activities related to each are presented:

1. Defining Cup Profiles at Market

Many buyers, particularly buyers of higher value coffees, are very specific about the types of coffees they prefer and the use of these coffees in their blends. An understanding of the buyers' needs is therefore essential for producer groups who expect to compete for these new markets.

In June, QCP visited nine U.S.- based buyers, ranging from strictly specialty companies, such as Peet's Coffee & Tea, to the largest traders in the world, such as Rothfos. The visits served to provide in-depth information on the coffee qualities that were being purchased to the designated cuppers of the companies. In most instances, the cuppers put ideal representations of Central American coffees on the table to demonstrate the optimal profiles. The information gathered is now being used as an input into general training sessions as well as for specific quality control systems.

2. Defining the Cup Profiles at Origin

Each of the selected cooperatives was chosen based on their potential to produce quality coffee. Each of their coffees underwent an initial cupping test in the laboratory to assess the characteristics in the cup, body and acidity attributes and defects. The coffees from each of the final groups selected are of high quality with minor problems that can be remedied in the milling process.

3. Training on Coffee Quality

QCP is initiating the Star Cupper Training Program in collaboration with the Coffee Quality Institute (CQI), the Specialty Coffee Association of America (SCAA) and PROMECAFE. This program will train ten of the best cuppers in each QCP participating country on all aspects of the specialty and commercial coffee markets in order to become internationally certified cuppers. The program responds to the need to transfer the expert opinion of qualified cuppers from the United States and Europe to origin coffee producing countries. One of the main outcomes of the program will be to standardize cupping procedures throughout the region to reflect international protocols being created by SCAA. The program was presented to the Specialty Coffee Association meeting on July 29 in Costa Rica. A national representative in each country was named and the call for participants was initiated in September. The SCAA

is taking a leading role in providing course materials and technical standards that will be used throughout the training program.

In addition to participating in each of the sessions, the chosen candidates will be required to provide twenty-four hours of community service related to promoting coffee quality in their country of origin. Each country has proposed parallel training programs and laboratory work that will create a multiplication factor of at least forty additional people trained per country.

a. Specific Training for Selected Groups

The larger groups in Costa Rica and Guatemala that have cupping laboratories underwent a diagnostic to assess their cupping procedures and standards. Many of the groups demonstrated the need to create stricter procedures to optimize results obtained in the laboratory and improve transparency. A set of standards will be presented to each group during the upcoming harvest.

In addition, support was given to both the “Best of Panama” and the “Best of Honduras” competitions during 2003. These events invited all producers of high quality coffee to submit samples that would be evaluate and eventually sold at auction. A group of international judges was invited to evaluate and select the best fifteen coffees. This event served to demonstrate the quality potential available in each country as well as give the producers an opportunity to meet coffee cupping professionals and buyers from the United States, Europe and Japan. These events have significantly increased producer awareness regarding creating quality coffee as top coffees are sold at premium prices.

b. Buyer Training

QCP coordinated three major buyer visits to Guatemala. Each buyer visit included a cup training session to demonstrate to FEDECOCAGUA members the specific qualities buyers seek in Guatemalan coffees. A quality control and investment consultancy for three client cooperatives in Guatemala was also arranged. The results highlighted a number of minor problems that could easily be addressed, such as drying the product too quickly, and would provide significant cost savings as well as substantially improve the quality of the final product. Given the results of this consultancy and the potential for improvement, a major European buyer has shown serious interest in investing in these cooperatives.

c. National Cupper Training – Honduras

The first national cupper training was held in Honduras. In collaboration with the Coffee Quality Institute (CQI), thirty cuppers from Honduras and El Salvador were trained on coffee quality, cupping procedures and international coffee profiles. The event presented cuppers with the opportunity to cup samples from Africa and Asia that widened their perspective on the international coffee market.

Summary of Results – Maximizing the Cup Profile

- Nine U.S buyers visited the region and established Central American cup profiles.
- Star Cupper Training Program initiated in all participating CA-DR countries.
- Coffee profiles assessed for twenty-five producer groups.
- Cupping lab diagnostics conducted for six producer groups.
- Thirty cuppers from Honduras and El Salvador trained to international standards.
- Personnel from two FEDECOCAGUA member cupping laboratories and mills trained in optimal norms and standards.
- Support given to “Best of Panama” and “Best of Honduras” evaluations.

4. Improving Wet and Dry Mill Operations

Diagnostics for wet and dry milling facilities have been conducted in all CA-DR countries apart from Nicaragua. Based on these diagnostics, problems were identified with equipment, infrastructure and processing techniques that will adversely affect coffee quality and/or processing efficiency. Suggestions were given that could be implemented immediately to improve quality and efficiency. A milling profile for each group was established to identify problems with equipment, infrastructure and processing techniques. This will be used to determine the optimal milling standards and procedures to be implemented during this year’s harvest (2003-2004). Improving quality while maintaining efficiency made cost calculation and reduction a central part of the milling diagnostic. In Honduras, technical assistance initiated at the request of the buyer and producers led to the sale of two hundred and fifty bags and the buyer’s interest in purchasing additional quantities from the upcoming harvest.

QCP also successfully helped Honduran producers of the cooperative “Café Orgánico de Marcala” make improvements during the 2002/03 harvest. In February, midway into the harvest, QCP conducted training sessions for producers of this cooperative to ensure that correct wet milling and drying controls were in place for buyers. One buyer later commented that there was a marked difference in consistency of product quality.

Summary of results

- Diagnostics on all aspects of milling for twenty potential clients completed
- Specific observations provided and changes implemented with five groups.
- The basis for the standardization of optimal milling procedures created.
- Clear assessment of quality problems to be addressed during upcoming harvest.
- The cost implication of changes required for creating optimal specialty coffee
- Sale of 250 bags at premium prices was achieved through QCP-instituted improvements in quality controls of Honduran organic coffee

TABLE 1: Activities Implemented by Country - Quality Enhancement Component

COUNTRY	FOCUS	OBJECTIVE	ACTIVITIES	RESULTS
<u>Guatemala</u>	FEDECOCAGUA – Federation of small producer cooperatives	Identify five model coops through field diagnostics and strengthen the federation's quality control capacity	- Diagnostics on five member coops for quality control systems, infrastructure and cup profile evaluations. - Diagnostic on cupping laboratory, recommendations made, currently being implemented. - Three major buyers run cupping sessions to communicate needs for premium value coffees. -Consultancy evaluating quality control systems and cup profiles.	250 bags sold to European buyers
<u>Nicaragua</u>	Diagnostics pending.	- Determine if qualities available for high-value market.. - Conduct diagnostics on wet milling infrastructure and quality control.	Planned for year two.	To be reported in year two quarterly reports.
<u>Honduras</u>	Café Organico de Marcala (84 members), La Coordinadora (1,300 members) and Cohorsil (280 members)	- Determine if qualities are available for high - value market. - Conduct diagnostics on wet milling infrastructure and quality control points.	- Diagnostic initiated on cup profiles. - Evaluation of wet milling procedures conducted for 2002 / 03 harvest resulting in buyer purchasing coffee. - Evaluation of new central wet mill for certified organic producers in Marcala. - Information gathering visit to Guatemala made by producers of Marcala, Honduras prior to constructing new wet mill.	250 bags of certified organic coffee sold at premium prices
<u>El Salvador</u>	Cooperative La Majada, Jabali, Ciudad Barrios and Proexcafe	Cup profiles to determine if qualities are available for high value market.	Cup profiles diagnostic initiated	Coffee quality and mills assessed.
<u>Costa Rica</u>	Cooperatives. Palmares (1,600 members), Atenas (1400 members) and Naranjo (2860 members)	Conduct diagnostics on cup profiles to determine if qualities are available for high value market.	- Diagnostics of cup profiles completed. - Diagnostics of cupping facilities completed	- Coffee quality and mills assessed. - Recommendations made and implemen
<u>Panama</u>	Cooperativa de Cafe de Boquete	Recommend actions in wet milling and quality control to maintain the high quality achieved in the Cup of Excellence for commercial quantity	- Support for the “Best of Panama” - Administrative and wet mill diagnostics completed	Diagnostics for three producer groups conducted. - Coffee quality assessed.
<u>Dom. Rep.</u>	To be determined	- Evaluations of potential clients - Identification of potential wet mill facilities to be initiated by the French technical assistance program	- Six wet and dry milling sites and projections evaluated	Evaluations indicated that the groups require considerable assistance and training to successfully transform cherry and/or parchment coffee.

B. Improved Business Practices

The purpose of this component was to identify business practices of the producer groups to determine if they could successfully administer sales agreements and fulfill contractual obligations. This was achieved through nineteen diagnostic assessments of producer groups in four of the seven participating countries, focusing on reviews of financial and administrative systems and procedures. Results of these assessments are used to design technical assistance interventions to improve management capacity. Please refer to the annexes for detailed information on each of the cooperatives assessed; this information includes location of the cooperative, number of members, levels of production, organizational strengths, areas requiring strengthening, and planned technical assistance interventions in response to the identified needs.

1. Producer Diagnostics

Potential producer groups were identified and queried if they were willing to undergo a complete administrative and financial assessment. The diagnostics focused on the institutional strengths and weaknesses related to administrative structure, internal controls, systems and procedures, cost efficiencies in their milling activities, and previous marketing and sales experience. Financial examinations conducted included review of financial statements, costs of production, cash flow analysis, accounts receivable and payable, and business planning. Some of the principle issues yielded by the assessments include cash flow problems, inadequate credit and debt management, weak managerial structures, internal control inadequacies, lack of knowledge about costs of production, and poor accounting practices. These results will form the basis for our technical assistance interventions planned for year two.

Diagnostics for nineteen producer groups were completed. Participants included six FEDECOCAGUA member cooperatives representing 21,000 producers in Guatemala, six Salvadoran cooperatives representing 2,580 producers, three Costa Rican cooperatives representing 5,145 producers and two Panamanian cooperatives representing 738 producers. These cooperatives account for country volumes of coffee of 190,000 qq, 255,000 qq, 171,809 qq and 12,100 qq respectively. In addition, assessments of cooperative management information systems were conducted with Cooperativa Palmares (Costa Rica) and FEDOCOCAGUA (Guatemala).

2. Understanding the New York Coffee Exchange Marketing Mechanism

QCP conducted marketing seminars in El Salvador, Nicaragua and Costa Rica attended by fifty participants from pre-selected program clients representing each CADR country. The objective was to familiarize participants with marketing positions and how the New York Coffee, Cocoa and Sugar Exchange operates in order to enable them to take clearer decisions when marketing their coffees.

TABLE 2: Activities Implemented by Country – Business Practices Component

COUNTRY	FOCUS	OBJECTIVES	ACTIVITIES	RESULTS
Guatemala	FEDECOCAGUA, Cooperative La Voz and Cooperative Beluarte	Conduct administrative and financial management assessments	- Diagnostics completed for FEDECOCAGUA member cooperatives: Acatenango, Trifinio, Renacimiento, and Tajumuco. - Diagnostic completed for El Baluarte - Diagnostics for Manos Campesinas and La Voz were initiated but not completed as producers decided not to continue with the program - Diagnostic completed on improved management systems completed in FEDECOCAGUA.	Assessment results formed the basis for QCP T/A interventions in year two
Nicaragua	To be determined	Identify producer groups	Potential groups identified; all members of CAFENICA representing 5,200 producers and 100,000 bags: - CECOCAFEN; -SOPPEXCCA (Jinotega); PROCOCER (Nueva Segovia); COSATIN (Boaco); Cooperativa de Servicios Solidaridad, Aranjuez, Matagalpa; - Cooperativa San Isidro, Boaco; Unión de Cooperativas Agropecuarias Héroes y Mártires de Miraflores, Estelí-UCA; Central de Cooperativas y de Servicios Múltiples Estela – PRODECOOP Cooperativa de Servicios El Gorrión, Yalí, Jinotega	Producer groups selected for diagnostics in year two.
Honduras	La Coordinadora, COHORSIL, Café Organico de Marcala	Administrative and Financial diagnostics	- Identify cooperatives and potential producer groups. - Support for feasibility study for construction of wet mill in Marcala.	Producer groups to be selected for year two.
El Salvador	Cooperatives La Majada, Ciudad Barrios, Jabali, PROEXCAFE, Samaria and EL Volcan.	Complete administrative and financial management assessments.	- Assessments conducted for eight cooperatives; La Majada, Ciudad Barrios, Jabali, PROEXCAFE, Samaria, and El Volcan - Formed a project advisory group at origin - Supported efforts by the Salvadorian coffee industry to form Salvadorian Specialty coffee association (now a legal entity made up of 50 members including cooperatives, millers, exporters and producers) - Initiated the design of a software system for extracting farm cost of production with PROARCA program.	Results of diagnostics presented to cooperatives
Costa Rica	Cooperatives Palmares, Naranjo and Atenas	Administrative and Financial diagnostics	Administrative and Financial diagnostics completed for all cooperatives One diagnostic on management information systems completed in Cooperative Palmares.	Results of diagnostics presented to cooperatives.
Panama	Cooperativa de Boquete y La Esperanza	Evaluation of management capacity	Business and wet mill diagnostics for: - Cooperative La Esperanza - Cooperative de Boquete Supported the “Asociación de Productores de Renacimiento (APRE)” in their business evaluation to rent and manage a coffee mill for members.	Results of diagnostics presented to cooperatives.
Dom. Rep.	To be determined	Assessment of internal market opportunities	Assessment of internal markets completed	Rent vs. buy assessment for wet mill in process for one cooperative

Summary of Results – Improved Business Practices

- Nineteen producer group diagnostics completed; twenty-two visits to cooperatives conducted.
- Three training sessions conducted for fifty producers from CADR countries on New York coffee exchange mechanisms.
- Coordinated CADR regional coffee congress

C. Market Identification and Marketing

Efforts have been devoted to laying the foundations for successful producer/buyer linkages in the coming year.

1. Marketing Advisory Group (MAG)

The MAG was initially formed to advise the CADR program on opportunities in quality coffee markets, trends and projections of the direction and magnitude of those markets and the requirements at origin in order to meet market specifications. However, in view of the structural and competitiveness changes in consuming and origin countries, MAG members concluded that protecting the Central American position was, rather, a marketing issue and its primary focus needs to be the market, if QCP is to have the desired impact.

MAG members include some of the leading companies in the field, such as Sara Lee, Allegro Coffee, Hill Holliday, and Woodlief Consulting. The first meeting of the MAG took place at the National Coffee Association (NCA) conference in Boca Raton, Florida, in March. The agenda was specifically designed to discuss the QCP response to the current coffee crisis and the level of support a MAG could provide over the life-of-project. The following noteworthy observation and conclusion resulted from the discussions at this first MAG meeting:

OBSERVATION: While access to quality coffees was not perceived as an immediate problem, the competitive nature of the current market has led to an increased use of lower value coffees. Under this model, the wholesale and supermarket businesses are opting for low purchase and sale prices, resulting in declining gross margins and which is counter to the interest of importers and roasters. This led all members to conclude that decreasing access to quality coffees is a long-term problem for the industry. Though the consumer may currently be unaware of these blend changes appearing on the shelves of their supermarkets and groceries, there is great concern in the industry of a repeat of the 1960/1970s experience when deteriorating coffee quality brought on widespread consumer preference for other beverages, in spite of decreasing coffee prices.

CONCLUSION: MAG members indicated that the quality segment of the industry can only overcome this present trend by shifting its focus **from price to quality**, accompanied by increased consumer awareness of higher quality blended coffee, through active product promotion. The focus on quality would emphasize

the comparative value of **Central American** coffees and guide the consumer in the selection of these from among available origins.

To address this issue, members requested that a regional marketing strategy be drafted and presented at the second meeting.

The second meeting of the MAG group was held following the Annual Meeting of the Specialty Coffee Association of America (SCAA) in April in Boston. Members reviewed the draft marketing strategy. While the general reaction was positive, concerns were still expressed that the program had not sufficiently defined what it wants to promote. It was therefore decided that a MAG steering committee would be formed to come up with creative options that addressed the issue of a marketable Central American product. This steering committee would then present its findings to the MAG group at SinterCafe, Costa Rica in November.

MAG members were also surveyed on a proposal that branded high quality Central American coffee with the Rainforest Alliance certification. Given the high interest in Rainforest Alliance certified products in the market place this received a highly positive response by many of the members including Sara Lee, S&D, Volcafe and Atlantic Specialty.

The steering committee has now agreed with Rainforest Alliance establish a brand and proceed with development of a logo that would serve as a major marketing tool for Central American coffee. Three variations on this logo will be developed, and a final decision taken by the MAG at SinterCafe, to be held in San José in November.

Summary of actual results – Market Advisory Group

- Initial Central American coffee consumer marketing strategy drafted.
- Initiated activity for Central American branded product that buyers (MAG) members feel are of real interest and value for roasters and retailers.
- A draft assessment of production costs was presented to MAG members. Members asked for a more detailed summary of all countries.

2. Certification Activities

Given the market interest in the “story” in order to justify value-added coffee, certification programs have become a key component in the producer’s ability to find buyers willing to pay more money. Many buyers are interested in the social and environmental impacts of coffee. The important issues for buyers are the credibility of the certification agent and standards, as well as the potential to use the information to promote the product at the consumer level. QCP is spending an increasing amount of time with certifiers in its efforts to open access to value-added markets. These efforts include technical assistance to comply with standards and marketing to promote the value-added seal. The greatest opportunities for growers at origin currently lie in Rainforest Alliance activities, given the number of new buyers that are expressing serious interest in trials for the coming year, 2004.

In addition, the demand for Fair-trade/certified organic in the U.S. market appears to afford a number of interesting opportunities. Of the small producer clients with which USAID is working, FEDECOCAGUA is already selling 30,000 bags of fair-trade coffee. This can be increased by a further 15% over the next two years given increased demand in certain niche markets.

Rainforest Alliance: The greatest opportunities for growers at origin currently lie in Rainforest Alliance activities given the number of new buyers that are expressing serious interest in trials for the coming year, 2004. Substantial progress has been made relative to marketing of value-added coffee. In May, Rainforest Alliance (RA) launched its coffee certification initiative at a gala in New York, attended by over five hundred well known leaders of the coffee industry. This gala was attended by most of the MAG members as well as numerous other buyers with whom QCP is in discussions regarding CA-DR coffee. Rainforest Alliance currently estimates a total of 40,000 bags of new business for the 2004 harvest. As such, opportunities are open to Central America small producer cooperatives. Whether producer groups can take advantage of this opportunity will depend on their ability to fulfill certification requirements for the right quality for the coming season. QCP has opened the door with Cooperative COHORSIL in Honduras, Cooperative Jabali in El Salvador and groups working with Atlantic Coffee exporters in Nicaragua, all of whom are now pursuing RA certification and the opportunity to supply these new markets for the coming year. QCP is coordinating with RA and buyers, but the final selection of coffees purchased will be made between buyers and producers.

Fair-trade: Progress can also be reported with regard to promoting targeted fair-trade groups in the market place, in particular with FEDECOCAGUA in Guatemala and La Coordinadora in Honduras. New buyers have been identified for both groups and QCP has helped establish direct linkages with the producers. This includes detailed information about the producer groups and detailed knowledge of the coffees available. QCP has helped FEDECOCAGUA develop clearer systems of communication and documentation for Fair-trade certification procedures. In the case of La Coordinadora (a loose alliance of Fair-trade coops that separated from La Central, Honduras last year due to failure to pay fair-trade premiums) QCP is helping the groups find new markets to replace lost sales from previous years.

Utz Kapeh: Utz Kapeh certification is compatible with Europe Gap (a system of measuring food safety in Europe that will become law for all imported products by 2005). This could be of significant importance as Europe contemplates requiring that all products be certified by Europe Gap certified by 2006, implying that coffee producers wanting to continue in the European market will need to comply with these specifications. It is important that QCP remain current on this issue. QCP has maintained a close relationship with Utz Kapeh and will continue to help it develop new supply sources based on market requirements, and to train technicians to advise producers on steps and progress toward Utz Kapeh certification. To date, only one buyer has expressed specific interest in Utz Kapeh certification.

Certified Organics: QCP is finding considerable interest in the U.S. market for certified organic/fair-trade coffees as sales continue to grow. Markets exist for OCIA, Naturland, Mayacert and Bio-Latina. QCP helped Honduran producers from Marcala sell 250 bags to Volcafe/Allegro Coffee during the season 2002. The roaster was

satisfied with the quality presented and is considering an increased order for the coming year. Other buyers have also expressed interest in this coffee. Furthermore, QCP is finding considerable interest in the U.S. market for certified organic/fair-trade coffees. Also in Honduras, QCP has already linked cooperative association La Coordinadora with one U.S. trader that has been unable to source sufficient quantities of the right product. In Guatemala, QCP has been able to introduce FEDECOCAGUA to an importer who has had difficulty in identifying and obtaining sufficient product out of Huehuetenango.

Summary of Results – Certification Activities

- Assessment of market opportunities provides the basis for Year Two Work Plan.
- Producers from Honduras, El Salvador and Costa Rica initiating relationships with certifiers, specifically with Rainforest Alliance and Utz Kapeh.
- Honduran certified organic coffee from QCP clients sold at premium prices.
- Five inquires received for certified coffee for the 2004 season.
- Expressions of interest from fifteen international buyers in QCP as a mechanism to facilitate sourcing of value-added certified coffee from small producers in Central America.
- Progress in developing a Central American coffee brand.

3. Market Differentiation Activities

During the first year, QCP laid the foundations for initiating relationships between buyers and producers, and has focused on how producers can develop the right product and how buyers receive that product and pay a premium price. The long-term relationship with the producers and the premium price to be paid is dependent on the delivery of the right product. QCP has been working with Green Mountain to learn of its needs, and is subsequently helping producers to comply with these needs and capitalize on the market opportunity.

Summary of Results – Market Differentiation Activities

- Producer groups have identified more than twenty international buyers interested in coffees for new markets
- Three major buyers visited producer group installations and organizations, and an additional five buyers have met with producers in origin.
- Five potential long-term producer/buyer relationships developed by participating producer groups, including Allegro/Marcala, Volcafé, and Cooperativa Boquete.
- Honduran certified organic coffee sold at a premium to two of these buyers.

- FEDECOCAGUA making substantial investments in processing and cupping infrastructures to improve quality for new market opportunities initiated through QCP.
- QCP helped producers from Guatemala understand specific market requirements from individual buyers through three major buyer visits and a quality control consultancy.
- Two U.K. roasters expressed willingness to pay value-added prices to Salvadoran coops based on quality and Rainforest Alliance certification. QCP currently helping these coops meet this opportunity.

4. Market promotion

Market promotion activities have focused on two specific areas. First is the promotion of the Central American coffees as a product. QCP has developed contacts with specific buyers interested in working with small producers. Through the MAG group, a marketing strategy for promoting Central American coffees is in the formulation stage. Second is the promotion of individual clients. QCP is helping clients prepare their product sufficiently before presenting materials to new buyers who may be interested. The stronger enterprises such as FEDECOCAGUA have already developed a number of promotional materials, and QCP is assisting them to develop further as new market opportunities arise.

Summary of Results – Market Promotion Activities

- The MAG group has initiated work on a Central American coffee brand.
- FEDECOCAGUA has presented promotional materials to three new buyers, all of whom have expressed interest in developing long-term relationships.
- Work has been initiated in Honduras with all three clients and three principal buyers.
- Evaluation of market opportunities in the internal and tourist markets of the Dominican Republic.

D. Market-based Policies

QCP has yet to initiate specific activities to address the arena of coffee policy. The First Work Plan proposed a survey of obstacles and opportunities in each country which would be subjects for policy change in order to improve the competitiveness of quality coffee export and internal consumption. One of the specific actions contemplated was a study of alternative markets for quality coffee, in lieu of the current “C” Contract system.

Nonetheless, this topic has been subsumed into a program of the Commodity Common Fund and World Bank to conduct a comparative and feasibility study and recommend as to their findings. Further CADR input into this area will await the outcome of the activity already initiated and a clear indication of the role and value of its participation.

Table 3: Activities Implemented by Country – Market ID and Marketing Component

COUNTRY	FOCUS	OBJECTIVES	ACTIVITIES	RESULTS
Guatemala	FEDECOCAGUA (This Federation has over 25,000 small producers throughout coffee regions of Guatemala. It currently exports 165,000 x 69 kg bags of which 17% is either fair-trade or gourmet)	FEDECOCAGUA enters new high quality coffee markets	<ul style="list-style-type: none"> - Three major buyer visits accomplished - Coffee sampling developed with three buyers - Three regions selected from where buyers wish to procure coffees ((Huehuetenango, Acatenango and Esquipulas) - Two cup profiling activities conducted between buyers and FEDECOCAGUA. 	Six new buyer relationships were initiated.
Nicaragua	CAFENICA, Volcafe medium producers, faith based programmed producers	Producers realize production and marketing strategies for socially and environmentally certified coffees from Nicaragua	<ul style="list-style-type: none"> - Evaluations of market opportunities made. - Discussions with three U.S. buyers who are urgently seeking support in Nicaragua 	Areas of opportunity, combination of quality and social and environment certification
Honduras	FUNDER/COHORSIL (both small and medium producer cooperatives, with total of 350 members and 16,000 bags of coffee available)	FUNDER/COHORSIL enters new high quality coffee markets	<ul style="list-style-type: none"> - Relationships established between FUNDER/COHORSIL and two U.S. buyers. - Marketing and production/milling plan designed for 2,000 bags of certified organic coffee. - FUNDER constructing central wet mill to improve quality and efficiencies for coming year. - Two buyers express interest in COHORSIL coffee; relationships still to be initiated. - Basis of a marketing strategy initiated combining promotional material with Rainforest Alliance certification in coming year. 	<ul style="list-style-type: none"> - FUNDER sold 250 bags of coffee to Allegro Coffee through Volcafe specialty. - 2nd container of 250 bags ordered by buyer but it was late in the season so growers were not able to fulfill buyer's request.
El Salvador	Proexcafe/Cuidad Barrios/Coop Jabali, and La Majada)	Proexcafe, Coop Jabali and La Majada enter high value markets	Basic cup evaluations made. Some coffees such as jabali fall into the specialty range, others such as Poexcafe and Cuidad Barrios fall into the potential category of good quality commercial. There appear to be market opportunities for both coffees especially with social and environmental certification programs such as Rainforest Alliance	
Costa Rica	Cafecoop/Cooperativa Palmares	Connect with one international trader. Long-term relationships to depend on coffee availability/quality and certification for the coming year.	<ul style="list-style-type: none"> - Cup profiles match buyers expectations - Relationship initiated with one buyer. - The basis of a marketing strategy formed - Rainforest Alliance conducted initial training for CoopePalmares 	One buyer relationship has been initiated
Panama	Cooperativa de Boquete	Promote more Panamanian coffee in the specialty/ quality high price market.	Identify interest in Panamanian coffee	Expressed interest by Volcafé in Panamanian quality coffees
Dom. Rep.	Internal markets for local consumption and within the tourist trade	Determine where opportunities lie for Dominican coffees	<ul style="list-style-type: none"> - Diagnostics to be conducted on current opportunities for Dominican coffees - Diagnostic to be conducted on current cup profiles and relate these to market opportunities - Support USGS in developing mapping systems orientated to market requirements. 	<ul style="list-style-type: none"> - One buyer expressed interest in DR coffees. - Diagnostic initiated in internal market opportunities.

Section IV: Implementation Problems Encountered During the First Year

This section briefly presents the most salient implementation problems experienced since QCP inception, as well as efforts to overcome them.

A. Task Order activities, results and indicators require greater simplification and focus

QCP needs to intensify its focus to more precisely support objectives relating to an improved capacity to produce and deliver quality coffee in origin and increase sale value generated by increased volume and price. At the moment many of the Task Order's results and indicators require activities that may or may not be beneficial for small producers.

The diversity of activities outlined in the RFP and subscribed to in the Task Order has made it difficult for QCP to develop a coherent strategy toward consistent objectives. A reduction in action areas would enable the program to focus on those activities with a direct impact on the overall project goal, i.e., increased sales of value-added coffee, and would substantially improve its effectiveness. The second annual work plan will propose revised results and indicators designed to address the incongruities between objectives and indicators. It will also present a strategy that redefines activities and expected achievements in a manner consistent with that goal.

B. Unrealistic expectations at origin

There is an expectation that QCP will reverse what the coffee market has defined in the last ten-to-fifteen years. In reality, the success of QCP depends on its ability to support creative initiatives between producers and that market that will allow the region to maximize its comparative advantage in the quality coffee industry. The expectations should focus on strengthening the competitiveness of the region in the quality markets and claim victory where the QCP contribution to these markets is stabilized at acceptable profit margins in origin.

C. High investments for low results

Too often, QCP is being asked to use valuable resources on areas and activities which will have little overall impact on stated goals and objectives. This results in resources diverted from opportunities where the program has the potential for very high return. In large part, the inconformity between investment and results stems from the criteria applied by the bilateral Missions and those of the regional program.

D. Communications involving the seven participating CADR countries have been problematic

Administering a regional activity involving one regional and seven bilateral USAID Missions has been a challenge during the first phase of QCP. Each of the Missions expects to be kept fully informed of activities, and communicating to the various USAID audiences requires considerable logistical and administrative effort. Our CTO has been quite open to helping us coordinate these communications as the point person

within USAID. However, each of the participating countries also has its corresponding share of local partners, cooperatives, associations, and government officials that require similarly intensive communication efforts. The time and effort involved in managing these communications tasks had prevented the COP from concentrating more fully on technical implementation matters. Hence, after consultation with G-CAP, Chemonics decided to bring in a second senior management professional to assume the administrative and communications burden. Given that this individual will serve as the primary liaison with USAID both regionally and bilaterally, the decision was taken to appoint him as the new COP.

ANNEXES

1. Results of Assessments of Producer Groups – El Salvador
2. Results of Assessments of Producer Groups – Guatemala
3. Results of Assessments of Producer Groups – Costa Rica
4. Results of Assessments of Producer Groups – Panama
5. Results of MIS Assessments – FEDECOCAGUA (Guatemala)
6. Results of MIS Assessments – Cooperativa Palmares (Costa Rica)